

**RHODE ISLAND CLEAN WATER
FINANCE AGENCY**

**FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2013 and 2012**

RHODE ISLAND CLEAN WATER FINANCE AGENCY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rhode Island Clean Water Finance Agency
Providence, Rhode Island

Report on the Financial Statements

We have audited the accompanying financial statements of the Rhode Island Clean Water Finance Agency (the Agency), as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013 and 2012, and the respective changes in financial position and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 – 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2013, 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* in considering Rhode Island Clean Water Finance Agency's internal control over financial reporting and compliance.

September 30, 2013

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, 2013. 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, 2013 were \$1,478,749,753, which is an increase of \$117,495,156 or 9% over June 30, 2012.
- The Agency's operating revenues for the fiscal year ended June 30, 2013 were \$33,396,103, which is a decrease of \$3,623,761 or 10% below the fiscal year ended June 30, 2012.
- The Agency's operating expenses for the fiscal year ended June 30, 2013 were \$34,472,729 which is a decrease of \$298,919 or 1% below the fiscal year ended June 30, 2012.
- The Agency's net position for the fiscal year ended June 30, 2013 was \$489,446,122, which is an increase of \$29,424,553 or 6% over the fiscal year ended June 30, 2012.

INVESTMENT HIGHLIGHTS:

- For the fiscal year ended June 30, 2013, the Agency had an unrealized loss on investments of \$1,984,574. The loss was due primarily to 40% of the Agency's investment portfolio, which is comprised of fixed income securities, the price of which will fluctuate inversely with the general level of interest rates. Because interest rates increased between June 30, 2012 and June 30, 2013, the fair value of these investments decreased.
- 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.

2013 FISCAL SUMMARY:

In other activity, the Agency has assumed \$192,500,000 in new bond indebtedness along with a Water Pollution Control Senior Refunding totaling \$65,860,000 and a Safe Drinking Water Senior Refunding totaling \$38,790,000. The above activity has created additional assets by issuing new loans to Rhode Island borrowers totaling \$150,115,000.

- November 8, 2012, the Agency issued a \$65,860,000 Series 2012B Bond Refunding Issue. This refunding bond issue refunded three selected series in the Clean Water State Revolving Fund. The following is a list of refunded series and amount:

Series 2003A (all)	\$ 8,735,000
Series 2003B (partial)	18,205,000
Series 2004A (partial)	<u>46,010,000</u>
	<u>\$72,950,000</u>

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

2013 FISCAL SUMMARY (Continued):

- May 14, 2013, the Agency issued a \$35,780,000 Series 2013A DW Bond Issue. This bond issue was part of a total loan pool of \$69,045,000 made to four borrowers in the Drinking Water State Revolving Fund. The following is a list of the borrowers and their loan amount:

Newport	\$31,000,000
Pawtucket	8,645,000
Providence WSB	25,000,000
Woonsocket	<u>4,400,000</u>
	<u>\$69,045,000</u>

- June 6, 2013, the Agency issued a \$52,070,000 Series 2013A CW Bond Issue. This bond issue was part of a total loan pool of \$81,070,000 made to seven borrowers in the Clean Water State Revolving Fund. The following is a list of the borrowers and their loan amount:

Bristol	\$ 2,600,000
Coventry	2,400,000
NBC	25,000,000
Providence WSB	4,200,000
RI Airport Corp.	33,500,000
Smithfield	3,370,000
Woonsocket	<u>10,000,000</u>
	<u>\$81,070,000</u>

- June 26, 2013, the Agency issued a \$38,790,000 Series 2013B Bond Refunding Issue. This refunding bond issue refunded two selected series in the Drinking Water State Revolving Fund. The following is a list of refunded series and amount:

Series 2004A (partial)	\$24,205,000
Series 2005A (partial)	<u>17,280,000</u>
	<u>\$41,485,000</u>

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

2013 FISCAL SUMMARY (Continued):

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

- November 15, 2012, the Agency issued a Drinking Water Direct loan to Bristol County Water Authority in the amount of \$500,000.
- January 10, 2013, the Agency issued a CSSLP loan to the Town of Tiverton in the amount of \$300,000.
- March 1, 2013, the Agency issued a CSSLP loan to the Town of North Kingstown in the amount of \$300,000.
- April 3, 2013, the Agency issued a CSSLP loan to the Town of Charlestown in the amount of \$300,000.
- May 1, 2013, the Agency issued a Drinking Water Direct Loan to the Town of Smithfield in the amount of \$227,000.

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 Position – This statement presents information regarding the Agency's assets, liabilities and net position. Net position represents the total amount of assets less the total liabilities. The statement of net position classifies assets, liabilities and net position 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 position 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 POSITION

The Agency's net position at June 30, 2013 was \$489,446,122, which is an increase of \$29,424,553 or 6% over June 30, 2012. Components of the Agency's statement of net position was as follows at June 30:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Other assets	\$ 1,478,724,249	\$ 1,361,224,502	\$ 1,281,437,517
Capital assets	<u>25,504</u>	<u>30,095</u>	<u>29,101</u>
Total assets	<u>1,478,749,753</u>	<u>1,361,254,597</u>	<u>1,281,466,618</u>
Current liabilities	225,321,412	198,300,115	185,406,058
Non-current liabilities	<u>763,982,219</u>	<u>702,932,913</u>	<u>665,851,469</u>
Total liabilities	<u>989,303,631</u>	<u>901,233,028</u>	<u>851,257,527</u>
Net position			
Net investment in capital assets	25,504	30,095	29,101
Restricted for debt service	449,723,662	425,208,667	399,829,509
Unrestricted	<u>39,696,956</u>	<u>34,782,807</u>	<u>30,350,481</u>
Total net position	<u>\$ 489,446,122</u>	<u>\$ 460,021,569</u>	<u>\$ 430,209,091</u>

The increases noted above in the Agency's total assets and liabilities are the confirmation of the Agency's steady growth. The 2013 increase results from the Agency closing a \$35.78 million Drinking Water issue in May and a \$52.07 million Clean Water bond issue in June, along with several smaller loans issued during Fiscal Year 2013. Total assets increased by 9% from \$1,361,254,597 at June 30, 2012 to \$1,478,749,753 at June 30, 2013. Current liabilities increased from \$198,300,115 at June 30, 2012 to \$225,321,412 or 14% at June 30, 2013. The growth over the past year also relates to non-current liabilities totaling \$763,982,219 which is an increase of \$61,049,306 or 9% over June 30, 2012. 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**

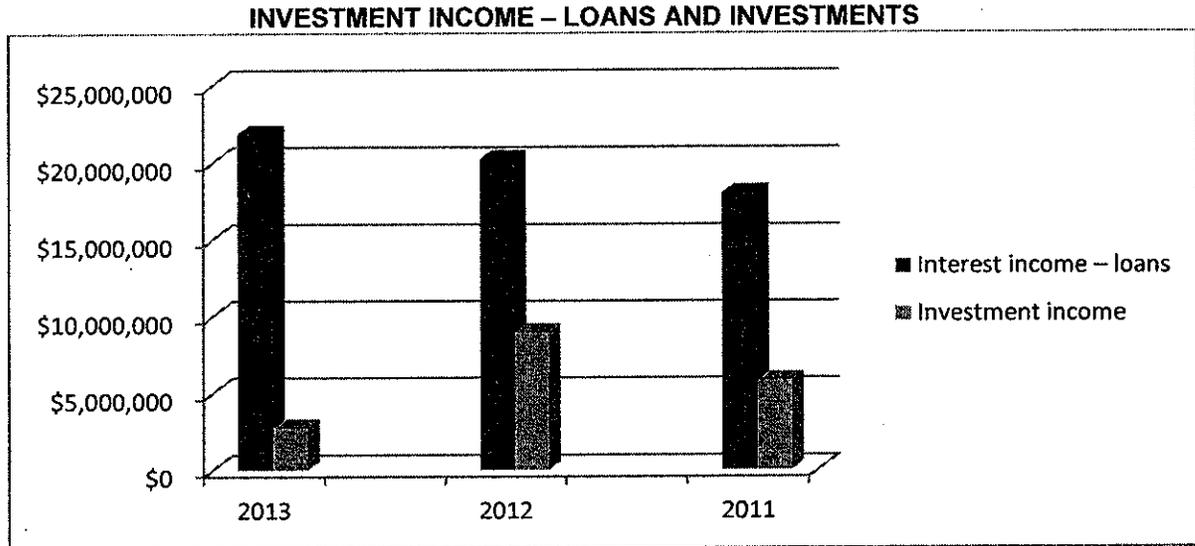
CHANGES IN NET POSITION

The Agency's change in net position for the fiscal year ended June 30, 2013 was \$29,424,553 or an increase of 6%. The increase results from the following: increase in Federal Capitalization Grant Funds and an increase in interest income (due to new loans) at June 30, 2013.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Interest income – loans	\$ 21,885,290	\$ 20,243,192	\$ 18,032,532
Investment income	2,782,770	8,970,388	5,818,927
Grant income - DEM & DOH	3,574,257	3,093,664	2,496,008
Grant income - federal and state	30,501,179	27,564,262	48,862,674
Other operating revenues	<u>5,153,786</u>	<u>4,712,620</u>	<u>4,387,096</u>
Total income	<u>63,897,282</u>	<u>64,584,126</u>	<u>79,597,237</u>
Interest expense	28,198,005	29,183,407	29,447,926
Other operating expenses:			
Consulting fees: DEM & DOH	3,574,257	3,093,664	2,496,008
Loan principal forgiveness	894,241	803,813	163,156
General administration	1,416,163	1,268,656	1,224,676
Professional fees	<u>390,063</u>	<u>422,108</u>	<u>356,360</u>
Operating expenses	<u>34,472,729</u>	<u>34,771,648</u>	<u>33,688,126</u>
Increase in net position	29,424,553	29,812,478	45,909,111
Net position, beginning of year	<u>460,021,569</u>	<u>430,209,091</u>	<u>384,299,980</u>
Net position, end of year	<u>\$ 489,446,122</u>	<u>\$ 460,021,569</u>	<u>\$ 430,209,091</u>

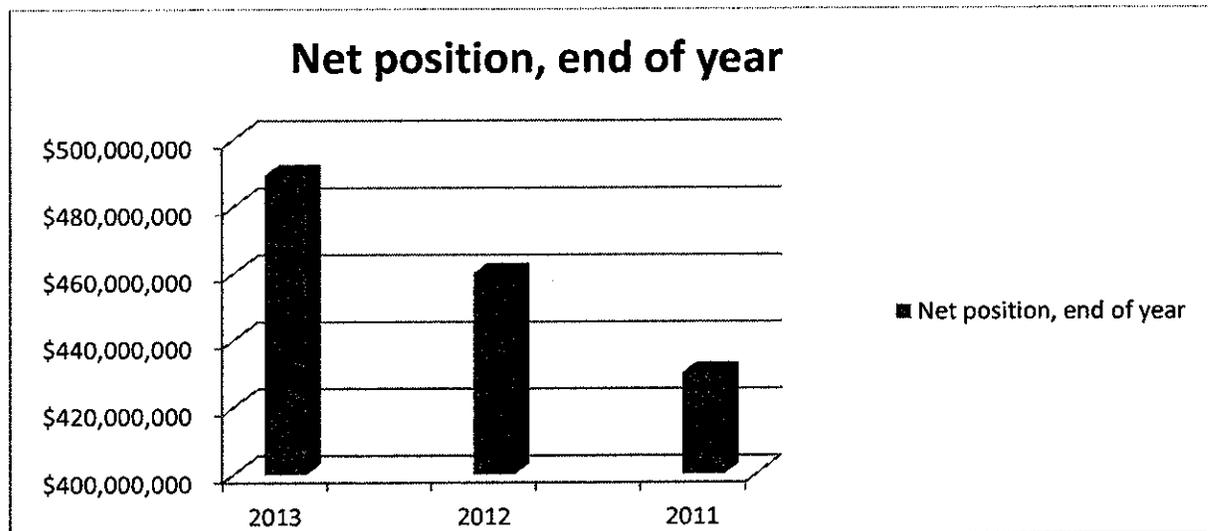
**Rhode Island Clean Water Finance Agency
Management's Discussion and Analysis**

As graphically portrayed below, the increase in interest income-loans is related to the growth in the Agency's portfolio. Interest income was \$21,885,290 at June 30, 2013 an increase of 8% over June 30, 2012.



As graphically shown above and discussed earlier, investment income decreased to \$2,782,770 at June 30, 2013 from \$8,970,388 at June 30, 2012 representing a 69% decrease. The majority of this decrease was due to an unrealized loss on investments at June 30, 2013.

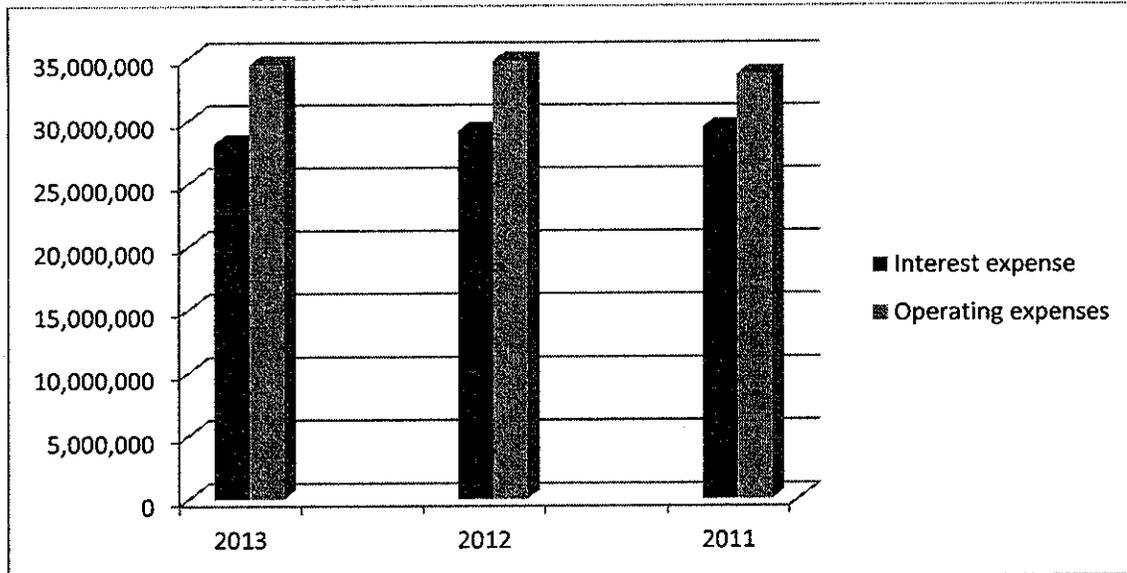
Total net position at June 30, 2013 was \$489,446,122 which was an increase of 6% over fiscal year June 30, 2012.



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

Interest expense was \$28,198,005 at June 30, 2013 a 3% decrease from fiscal 2012. The decrease was due to the Agency closing two bond issues late in the last quarter of the Agency's fiscal year (June). Operating expense were \$34,472,729 at June 30, 2013 a 1% decrease over June 30, 2012.

INTEREST EXPENSE AND OPERATING EXPENSES



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, 2013, 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, 2013, the Agency had \$746,959,000 of bond indebtedness, an increase of 6% from the \$706,985,000 outstanding at June 30, 2012. 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 proactive 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, 2013 the Agency made a total of \$35,003,785 of Principal Forgiveness Loans and has forgiven \$1,861,210.

FACTORS AFFECTING FUTURE OPERATIONS:

1. The unlimited deposit insurance for non-interest bearing accounts expired as of December 31, 2012.
2. Guaranteed investment contract provider ratings are shown on page 33 and are stated as of June 30, 2013. 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.
3. The Agency will implement GASB Statement No. 65 - Items Previously Reported as Assets and Liabilities for the fiscal year ending June 30, 2014. The implementation of this Statement changes the Agency's beginning net position due to the change in accounting for deferred bond issuance costs and loan origination fees. Bond issuance costs will now be expensed as incurred and loan origination fees will be recognized as revenue in the period received.

**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 2013. 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 POSITION
JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
Current assets:		
Cash equivalents and investments:		
Unrestricted:		
Cash equivalents	\$ 33,211,928	\$ 30,611,671
Total unrestricted cash equivalents	<u>33,211,928</u>	<u>30,611,671</u>
Restricted:		
Cash equivalents	203,978,510	155,541,076
Investments	108,723,144	134,750,248
Total restricted cash equivalents and investments	<u>312,701,654</u>	<u>290,291,324</u>
Restricted loans receivable, net	56,373,306	58,518,483
Accrued interest receivable:		
Loans	7,310,071	6,801,555
Investments	1,182,309	1,467,660
Accounts receivable – service fees	1,422,816	1,319,904
Prepaid expenses and other receivables	185,354	176,025
Total current assets	<u>412,387,438</u>	<u>389,186,622</u>
Noncurrent assets:		
Restricted loans receivable, net	1,058,344,067	964,567,061
Bond issuance costs, net of accumulated amortization	7,992,744	7,470,819
Total noncurrent assets	<u>1,066,336,811</u>	<u>972,037,880</u>
Capital assets:		
Property and equipment, net of accumulated depreciation	25,504	30,095
TOTAL ASSETS	<u>1,478,749,753</u>	<u>1,361,254,597</u>
<u>LIABILITIES</u>		
Current liabilities:		
Project costs payable	180,252,850	146,352,880
Bonds payable	36,987,000	38,091,000
Accrued interest payable	7,521,978	7,807,190
Accounts payable and accrued expenses	559,584	944,045
Bond anticipation notes	0	5,105,000
Total current liabilities	<u>225,321,412</u>	<u>198,300,115</u>
Noncurrent liabilities:		
Bonds payable, net of current portion	762,503,107	701,648,823
Accrued arbitrage rebate	1,479,112	1,284,090
Total noncurrent liabilities	<u>763,982,219</u>	<u>702,932,913</u>
TOTAL LIABILITIES	<u>989,303,631</u>	<u>901,233,028</u>
<u>NET POSITION</u>		
Net investment in capital assets	25,504	30,095
Restricted	449,723,662	425,208,667
Unrestricted	39,696,956	34,782,807
TOTAL NET POSITION	<u>\$ 489,446,122</u>	<u>\$ 460,021,569</u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS.

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Investment income	\$ 2,782,770	\$ 8,970,388
Interest income - loans	21,885,290	20,243,192
Grant income - operating	3,574,257	3,093,664
Service fees	4,159,174	3,792,086
Direct loan fees and other	249,302	254,780
Loan origination fees	745,310	665,754
Total operating revenues	<u>33,396,103</u>	<u>37,019,864</u>
Operating expenses:		
Interest expense	28,198,005	29,183,407
Consulting fees - D.E.M and D.O.H.....	3,574,257	3,093,664
Employee expense	701,916	638,471
Insurance expense	13,576	14,002
Legal fees	117,712	118,916
Loan principal forgiveness	894,241	803,813
Office expense	93,820	93,226
Accounting and auditing	42,531	40,591
Depreciation and amortization expense	571,813	491,863
Trustee/bank fees	182,298	178,237
Promotional expenses	9,640	8,571
Financial advisor fees	47,522	84,364
Dues and subscriptions	8,510	8,396
Seminars	1,875	1,955
Business and travel expense	10,128	7,662
Miscellaneous expense	4,885	4,510
Total operating expenses	<u>34,472,729</u>	<u>34,771,648</u>
Operating income (loss)	(1,076,626)	2,248,216
Nonoperating revenue:		
Grant income - nonoperating	<u>30,501,179</u>	<u>27,564,262</u>
Change in net position	29,424,553	29,812,478
Net position, beginning of the year	<u>460,021,569</u>	<u>430,209,091</u>
Net position, end of the year	<u>\$489,446,122</u>	<u>\$460,021,569</u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS.

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<i>Cash flows from operating activities:</i>		
Cash receipts for loan repayments.....	\$ 60,756,298	\$ 67,216,937
Cash receipts for operating grants.....	3,574,257	3,093,664
Cash receipts for loan origination fees.....	1,497,808	1,254,093
Cash receipts for service fees.....	4,056,262	3,681,478
Cash receipts for direct loan fees and other.....	249,302	254,780
Cash payments for loan disbursement activities.....	(120,134,895)	(147,245,415)
Cash payments to suppliers.....	(4,500,544)	(3,013,186)
Cash payments to employees.....	(701,916)	(638,471)
<i>Net cash used for operating activities.....</i>	<u>(55,203,428)</u>	<u>(75,396,120)</u>
<i>Cash flows from capital and related financing activities:</i>		
Purchases of property and equipment.....	<u>(3,355)</u>	<u>(9,777)</u>
<i>Cash flows from noncapital financing activities:</i>		
Proceeds from bond issuance, net of refunding.....	224,292,026	77,712,370
Repayment of bond principal.....	(38,091,000)	(33,520,000)
Amount deposited to refunding escrow.....	(123,198,475)	0
Nonoperating grants received.....	30,501,179	27,564,262
Interest paid on revenue bonds.....	(30,545,405)	(30,392,516)
Bond issuance costs capitalized.....	(2,275,871)	(962,914)
Proceeds from bond anticipation notes.....	0	5,105,000
Repayment of bond anticipation notes.....	(5,105,000)	(4,037,000)
<i>Net cash provided by noncapital financing activities.....</i>	<u>55,577,454</u>	<u>41,469,202</u>
<i>Cash flows from investing activities:</i>		
Investment income.....	5,247,717	5,949,960
Interest income – loan program.....	21,376,774	19,457,289
Interest rebate paid to US Government.....	0	(1,206,042)
Proceeds from sale of investments.....	24,042,529	11,551,093
<i>Net cash provided by investing activities.....</i>	<u>50,667,020</u>	<u>35,752,300</u>
<i>Net increase in cash and cash equivalents.....</i>	51,037,691	1,815,605
<i>Cash and cash equivalents, beginning of the year.....</i>	<u>186,152,747</u>	<u>184,337,142</u>
<i>Cash and cash equivalents, end of the year.....</i>	<u>\$ 237,190,438</u>	<u>\$ 186,152,747</u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
Reconciliation of operating income (loss) to net cash used for operating activities:		
Operating income (loss)	\$ (1,076,626)	\$ 2,248,216
Adjustments:		
Investment income	(2,782,770)	(8,970,388)
Interest income - loans	(21,885,290)	(20,243,192)
Interest expense	28,198,005	29,183,407
Depreciation/amortization	571,813	491,863
Loan principal forgiveness	894,241	803,813
Increase in loans receivable, net	(59,378,596)	(80,028,478)
Increase in prepaid expenses	(9,329)	(18,005)
Increase (decrease) in accounts payable and accrued expenses	(384,461)	658,913
Increase in accounts receivable – service fees	(102,912)	(110,608)
Increase in deferred loan origination fees	752,497	588,339
Net cash used for operating activities	<u>\$ (55,203,428)</u>	<u>\$(75,396,120)</u>
 Supplemental Cash Flow Information:		
Noncash investing activities:		
Increase in loans receivable issued related to project costs payable	\$33,899,970	\$ 6,733,891
Increase (decrease) in fair value of investments	\$ (1,984,574)	\$ 2,893,599

(CONCLUDED)

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS.

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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 loan fund programs.

The Agency administers the revolving loan fund programs created under Title VI of the Federal Clean Water Act and its State counterpart. The Agency also administers the revolving loan fund created under the Federal Safe Drinking Water Act, as amended. The Agency has established a Community Septic System Loan Program as part of the Federal Clean Water State Revolving Fund and provides non-subsidized conduit loans to municipalities for certain water and wastewater system improvements. The Agency has also established a Sewer Tie-In Loan Program through which communities may borrow funds to address non-point source wastewater pollution abatement issues.

The Agency has no power to raise or collect taxes of any kind or to establish any generally applicable fees and charges, other than administrative fees charged directly to those borrowers that receive the benefit of the Agency's financing programs. The Agency, in its discretion, may charge cost of issuance fees to borrowers.

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

In accordance with the standards for component units as promulgated in GASB Statement No. 61 - The Financial Reporting Entity, the State of Rhode Island has informed the Agency that it does not meet the revised definition of a component unit. As a result, the Agency's results of operations and financial position will no longer be incorporated in the State of Rhode Island's Comprehensive Annual Financial Report.

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 position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows. It requires the classification of net position into three components - net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- *Net investment in capital assets* - This component of net position 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 net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- *Restricted* - This component of net position consists of constraints placed on net position 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 position is restricted by debt covenants and grantor restrictions.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Business Purpose and General Information (Continued)

- *Unrestricted* – This component of net position consists of net assets that do not meet the definition of “restricted” or “net investment in capital assets.” Unrestricted net position may be designated by actions of the Agency.

(b) Basis of Accounting

As the Agency's operations are financed and operated in a manner similar to private business enterprise, where the intent of the governing body is that the costs of providing goods or services is financed through user charges, it meets the criteria for an enterprise fund. Therefore, 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.

(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 are 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.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Investments

The Agency's investments as of June 30, 2013 and 2012 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"; 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".

Should the GIC Provider's rating be suspended, withdrawn or downgraded below AA- by 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 the 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 2013 and 2012 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 on the statement of revenues, expenses, and changes in net position. For the fiscal year ended June 30, 2013, the Agency had unrealized losses of \$1,984,574. For fiscal year ended June 30, 2012, the Agency had unrealized gains of \$2,893,599.

(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.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 2013 and 2012 totaled \$7,946 and \$8,783, 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.

Based on the interim calculations that were performed as of June 30, 2013 and 2012, the Agency had accrued arbitrage rebate liabilities totaling \$1,479,112 and \$1,284,090, respectively. During 2013 and 2012 the Agency paid to the U.S. Treasury Department \$0 and \$1,206,042 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 no later than 60 days after the retirement of the debt issues.

Arbitrage rebate expense, is presented as a reduction in the amount of interest income from investments.

(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 \$7,952,068 and \$7,199,571 and at June 30, 2013 and 2012, 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 2013 and 2012 totaled \$563,867 and \$483,080, respectively.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 \$2,841,977 and \$1,648,071 for fiscal years 2013 and 2012, respectively.

(l) Amount Deferred on Refunding

During periods of declining interest rates, the Agency has refunded certain bond obligations reducing aggregate debt service. The difference between the reacquisition price and the net carrying amount of the refunded bonds is recorded as an amount deferred on refunding and reported as a deduction from or an addition to the new bonds. The deferred amount on refunding is amortized over the remaining life of the refunded bonds, or the life of the new bonds, whichever is shorter.

(m) 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, 2013 and 2012.

(n) 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.

(o) 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.

(p) 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.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) 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.

(r) 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.

(s) Recently Issued Accounting Standards

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

The Agency implemented the following GASB Statements for the fiscal year ended June 30, 2013:

- GASB Statement No. 61 – The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34.
- GASB Statement No. 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This Statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the Financial Accounting Standards Board (FASB) and AICPA pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. This Statement improves financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local government so that they derive from a single source.

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

The Agency also implemented GASB Statement No. 63 - Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. Deferred outflows of resources and deferred inflows of resources are now required to be reported separately from assets and liabilities. The adoption of this Statement resulted in a change in the presentation of the balance sheet to what is now referred to as the Statement of Net Position and the term "net assets" is changed to "net position" throughout the financial statements.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Recently Issued Accounting Standards (Continued)

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

- GASB Statement No. 65 – Items Previously Reported as Assets and Liabilities, effective for the Agency's fiscal year ending June 30, 2014. The objective of this statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. It requires the reclassification of amounts previously reported as assets and liabilities to deferred outflows of resources or deferred inflows of resources or to expenses or revenues. The implementation of GASB Statement No. 65 will change the beginning net position resulting primarily from the change in accounting for deferred bond issuance costs and loan origination fees. Bond issuance costs will now be expensed as incurred. This Statement also requires loan origination fees to be recognized as revenue in the period received. In addition, this Statement requires the amounts deferred on refunding to be reported as a deferred outflow or a deferred inflow of resources on the statement of net position, rather than as an addition to or a reduction from the new bond liability.
- GASB Statement No. 69 - Government Combinations and Disposals of Government Operations, effective for the Agency's fiscal year ending June 30, 2015. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.
- GASB Statement No. 70 - Accounting and Financial Reporting for Nonexchange Financial Guarantees, effective for the Agency's fiscal year ending June 30, 2014. This Statement requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is *more likely than not* that the guarantor will be required to make a payment to the obligation holders under the agreement.

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

(t) Income Tax

The Agency is a related organization of the State of Rhode Island and is therefore, generally exempt from federal income taxes under Section 115 of the Internal Revenue Code.

(u) Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the classifications used in the 2013 financial statements.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) 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 \$180,252,850 and \$146,352,880 at June 30, 2013 and 2012, respectively. Included in these amounts is \$24,730,750 and \$41,241,259 payable to Narragansett Bay Commission, the Agency's largest borrower.

(w) 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 position. The balance of accrued vacation and sick leave was \$176,299 and \$155,963 at June 30, 2013 and 2012, 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 had the following revenue bonds outstanding at June 30:

	<u>2013</u>	<u>2012</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	\$ 15,000	\$ 55,000
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.....	6,180,000	8,210,000
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.....	1,965,000	2,625,000

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

2. BONDS PAYABLE (Continued)

	<u>2013</u>	<u>2012</u>
Water Pollution Control Revolving Fund Revenue Bonds (Continued):		
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.....	1,075,000	1,300,000
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	8,245,000	9,270,000
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.....	5,720,000	6,480,000
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 1, 2020. On May 6, 2010, the Agency advance refunded \$7,430,000 of the outstanding bonds.....	5,905,000	6,585,000
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.....	9,115,000	10,515,000
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	17,680,000	21,350,000
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. On November 8, 2012, the Agency advance refunded \$8,735,000 of the outstanding bonds	0	9,805,000
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. On November 8, 2012, the Agency advance refunded \$18,205,000 of the outstanding bonds. The remaining bonds are due October 1, 2013.....	3,270,000	24,555,000

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

2. BONDS PAYABLE (Continued)

	<u>2013</u>	<u>2012</u>
Water Pollution Control Revolving Fund Revenue Bonds (Continued):		
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. On November 8, 2012, the Agency advance refunded \$46,010,000 of the outstanding bonds. The remaining bonds are due October 1, 2013 through October 1, 2014	6,275,000	55,000,000
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	34,445,000	36,875,000
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	44,430,000	46,930,000
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 through October 1, 2028	34,640,000	36,520,000
2008 Wastewater Revenue Bonds dated April 30, 2008, with serial bonds of \$4,000,000 at 4.85% due annually from March 1, 2009 through March 1, 2028.....	3,315,000	3,465,000
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	39,055,000	41,055,000
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	67,650,000	71,125,000
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	29,945,000	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	38,450,000	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.....	2,399,000	2,400,000
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	25,620,000
2012 Series B Refunding Bonds, dated November 8, 2012, with serial bonds of \$65,860,000 at rates varying from 2.00% to 5.00% due annually from October 1, 2013 through October 1, 2025	65,860,000	0

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

2. BONDS PAYABLE (Continued)

	<u>2013</u>	<u>2012</u>
Water Pollution Control Revolving Fund Revenue Bonds (Continued):		
2013 Series A Bonds, dated June 6, 2013, with serial bonds of \$52,070,000 at rates varying from 1.50% to 5.00% due annually from October 1, 2015 through October 1, 2034	52,070,000	0
Safe Drinking Water Revenue Bonds:		
2003 Series A Bonds, dated December 17, 2003, with term bonds of \$5,840,000 at 5.00% due annually from October 1, 2025 through October 1, 2028 and term bonds of \$13,500,000 at 5.00% due annually from October 1, 2029 through October 1, 2035	19,340,000	19,340,000
2003 Series B bonds (federally taxable), dated December 17, 2003, with term bonds of \$7,655,000 at 6.00% due annually from October 1, 2025 through October 1, 2035	7,655,000	7,655,000
2004 Series A Bonds, dated March 31, 2004, with serial bonds of \$40,170,000 at rates varying from 2.00% to 5.00% due annually from October 1, 2005 through October 1, 2024. On June 26, 2013, the Agency advance refunded \$24,205,000 of the outstanding bonds. The remaining bonds are due October 1, 2013 through October 1, 2014	3,555,000	29,450,000
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. On June 26, 2013, the Agency advance refunded \$17,280,000 of the outstanding bonds. The remaining bonds are due October 1, 2013 through October 1, 2015 and October 1, 2025 through October 1, 2027	12,315,000	32,005,000
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	3,565,000	3,860,000
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 through October 1, 2029	33,615,000	34,615,000
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	9,735,000	9,885,000
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	9,850,000	10,340,000
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	6,325,000	6,640,000

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

2. BONDS PAYABLE (Continued)

	<u>2013</u>	<u>2012</u>
Safe Drinking Water Revenue Bonds (Continued):		
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	34,620,000
2013 Series A Bonds, dated May 14, 2013, with serial bonds of \$35,780,000 at rates varying from 3.00% to 5.00% due annually from October 1, 2015 through October 1, 2034	35,780,000	0
2013 Series B Refunding Bonds, dated June 26, 2013, with serial bonds of \$38,790,000 at rates varying from 3.00% to 5.00% due annually from October 1, 2015 through October 1, 2024	38,790,000	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	<u>28,490,000</u>	<u>28,490,000</u>
Subtotal	746,959,000	706,985,000
Less: amount deferred on refunding	(8,917,405)	(4,008,411)
Add: bond premium (discount) net of amortization	<u>61,448,512</u>	<u>36,763,234</u>
Total bonds payable	<u>\$799,490,107</u>	<u>\$739,739,823</u>

Long-term liability activity for the year ended June 30, 2013 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.....	\$706,985,000	\$192,500,000	\$152,526,000 (1)	\$746,959,000	\$36,987,000
Plus: bond premium (discount), net of amortization and refunding	36,763,234	31,792,026	7,106,748	61,448,512	
Less: amount deferred on refunding	<u>(4,008,411)</u>	<u>(5,688,783)</u>	<u>(779,789)</u>	<u>(8,917,405)</u>	
Total long-term debt	<u>\$739,739,823</u>	<u>\$218,603,243</u>	<u>\$158,852,959</u>	<u>\$799,490,107</u>	<u>\$36,987,000</u>

(1) includes principal repayments of \$38,091,000 and advance refunding of \$114,435,000.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

2. BONDS PAYABLE (Continued)

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 36,987,000	\$ 32,282,049	\$ 69,269,049
2015	40,254,000	31,723,105	71,977,105
2016	41,751,000	29,966,176	71,717,176
2017	42,358,000	28,321,815	70,679,815
2018	43,220,000	26,596,900	69,816,900
2019 - 2023	250,664,000	99,169,177	349,833,177
2024 - 2028	167,795,000	47,516,747	215,311,747
2029 - 2033	101,410,000	15,404,809	116,814,809
2034 - 2036	22,520,000	1,180,931	23,700,931
Total	\$746,959,000	\$312,161,709	\$1,059,120,709

Advanced Refunding of Debt

On November 8, 2012, the Agency issued the 2012 Series B Water Pollution Control Refunding Revenue Bonds. The proceeds from this bond issue were used to fully defease the 2003 Series A Bonds and defease portions of the 2003 Series B and 2004 Series A Bonds. Upon delivery of the 2012 Series B Refunding Revenue 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 2012 Series B Refunding Revenue 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.

The Agency completed the November 8, 2012 refunding to reduce its total debt service payments over the next 13 years by \$11,663,231 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$9,480,801.

On June 26, 2013, the Agency issued the 2013 Series B Safe Drinking Water Refunding Bonds. The proceeds from this bond issue were used to defease portions of the 2004 Series A and 2005 Series A Drinking Water Bonds. Upon delivery of the 2013 Series B Safe Drinking Water 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 2013 Series B 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.

The Agency completed the June 26, 2013 refunding to reduce its total debt service payments over the next 11 years by \$3,691,618 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$3,252,050.

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, 2013 financial statements.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

2. BONDS PAYABLE (Continued)

Advanced Refunding of Debt (Continued)

The outstanding principal of the Agency's defeased bonds is summarized below:

<u>Description</u>	<u>Defeased Bonds Outstanding June 30, 2013</u>
2010 Series A Clean Water	\$ 20,645,000
2012 Series B Clean Water	64,215,000
2013 Series B Drinking Water	41,485,000
Total	<u>\$126,345,000</u>

Bond Anticipation Notes

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

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

Short-term debt activity for the year ended June 30, 2013 was as follows:

	<u>Balance at June 30, 2012</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance at June 30, 2013</u>
Bond anticipation notes.....	<u>\$5,105,000</u>	<u>\$0</u>	<u>\$5,105,000</u>	<u>\$0</u>

3. LOANS RECEIVABLE

At June 30, 2013 and 2012, the Agency had loans receivable of \$1,122,669,441 and \$1,030,285,115 representing 201 and 191 outstanding loans, respectively, which are restricted for payment of bond debt service. At June 30, 2013 and 2012, the current portion of loans receivable (net of loan origination fees) totaled \$56,373,306 and \$58,518,483, respectively. In addition, at June 30, 2013 and 2012, the Agency had outstanding unused commitments (project costs payable) totaling approximately \$180,252,850 and \$146,352,880 for the disbursement of future loans. For financial reporting purposes on the statement of net position, total 2013 outstanding loans receivable of \$1,122,669,441 have been reduced by unamortized loan origination fees totaling \$7,952,068. For 2012, total outstanding loans receivable of \$1,030,285,115 have been reduced by unamortized loan origination fees totaling \$7,199,571.

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.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

3. LOANS RECEIVABLE (Continued)

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 53% of the Agency's total loan receivable balance at June 30, 2013. The Agency had loans receivable to three borrowers representing 59% of the Agency's total loan receivable balance at June 30, 2012.

Principal Forgiveness Loans

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 SRFs. 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, 2013 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, 2013</u>
2009 (ARRA)	\$26,314,600	\$13,157,300	\$13,157,300
2010.....	13,681,000	2,048,980	2,048,980
2011.....	9,915,000	918,782	918,782
2012.....	<u>9,486,000</u>	<u>527,198</u>	<u>527,198</u>
Total	<u>\$59,396,600</u>	<u>\$16,652,260</u>	<u>\$16,652,260</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, 2013</u>
2009 (ARRA)	\$19,500,000	\$ 9,750,000	\$ 9,750,000
2010.....	13,573,000	4,071,900	4,071,900
2011.....	9,418,000	2,825,400	2,775,279
2012.....	<u>8,975,000</u>	<u>1,795,000</u>	<u>1,754,346</u>
Total	<u>\$51,466,000</u>	<u>\$18,442,300</u>	<u>\$18,351,525</u>

The above schedule includes \$10,844,522 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, 2013 AND 2012**

3. LOANS RECEIVABLE (Continued)

Principal Forgiveness Loans (Continued)

Loans made to eligible borrowers under the Clean Water and Drinking Water SRFs 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 totaling \$35,003,785 and \$30,559,362 at June 30, 2013 and 2012, 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 as the related loans are repaid. The total amount forgiven under these programs in 2013 and 2012 was \$894,241 and \$803,813, respectively. The amounts are included in loan principal forgiveness in the statement of revenues, expenses, and changes in net position.

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, 2013, the carrying amount of the Agency's cash deposits was \$6,418,409. The bank balance was \$10,909,358 as of the same period, of which \$250,025 was covered by the Federal Depository Insurance Corporation (the "FDIC") and \$10,659,333 was uninsured and collateralized by securities held by the pledging institution's trust department in the Agency's name.

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") and collateralized by securities held by the pledging institution's trust department in the Agency's name.

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

<u>Description</u>	<u>2013</u>	<u>2012</u>
Cash on hand.....	\$ 100	\$ 100
Deposits with financial institutions	6,418,409	21,282,577
Institutional money market accounts – government portfolio.....	<u>230,771,929</u>	<u>164,870,070</u>
<i>Total cash and cash equivalents</i>	<u>\$237,190,438</u>	<u>\$186,152,747</u>

The institutional money market funds – government portfolio had credit ratings of AAAm/Aaaa-mf and AAAm/AAA-mf by Standard & Poor's and Moody's at June 30, 2013 and 2012, respectively.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

4. CASH EQUIVALENTS AND RESTRICTED INVESTMENTS (Continued)

The Agency's investments consisted of the following at June 30, 2013:

<u>Description</u>	<u>Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Rating Moody's/S&P as of 6/30/2013</u>
U.S. Agency Securities:				
Federal National Mortgage Association.....	\$ 2,204,296	2014 - 2025	4.375% - 5.625%	AAA/AA+
Federal Home Loan Mortgage Corp.....	9,558,005	2014 - 2029	4.875% - 6.875%	AAA/AA+
Federal Home Loan Bank	<u>9,847,909</u>	2014 - 2023	4.375% - 6.160%	AAA/AA+
Subtotal	<u>21,610,210</u>			
Municipal Bonds:				
Texas - College Student Loan Refunding...	1,362,444	2017	5.00%	Aaa/AA+
Washington State	858,805	2019	4.50%	Aa2/N/A
Oregon State	12,675,648	2014 - 2023	3.294% - 5.435%	Aa2/AA
New York State.....	<u>7,145,453</u>	2014 - 2016	3.994% - 4.700%	Aa2/AA
Subtotal	<u>22,042,350</u>			
Collateralized Repurchase Agreements:				
Societe Generale.....	246,400	2013	7.200%	A2/A-
Bayern LB.....	847,066	2016	3.75% - 5.600%	Aaa-/AAA
Portigon (formerly Westdeutsche LB)	<u>5,674,880</u>	2019	6.280%	Aaa/AAA
Subtotal	<u>6,768,346</u>			
Guaranteed Investment Contracts:				
Bayern LB.....	7,387,682	2020	3.75% - 5.330%	Aaa/AAA
FSA Capital Management	7,910,243	2024	4.710%	A2/AA-
FSA Capital Management	11,942,226	2025	4.670%	A2/AA-
FSA Capital Management	6,219,119	2027	4.793%	A2/AA-
FSA Capital Management	824,310	2028	5.060%	A2/AA-
Transamerica	7,891,469	2026	4.770%	A1/AA-
Citigroup Financial Products	10,833,489	2027	4.805%	Baa2/A-**
GE Capital Corp	<u>5,293,700</u>	2029	4.498%	A1/AA+
Subtotal	<u>58,302,238</u>			
Total Investments	<u>\$108,723,144</u>			

**As of June 30, 2013, 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, 2013 AND 2012**

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, 2013 AND 2012**

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, 2013, 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	\$ 21,610,210	\$1,148,369	\$ 7,636,492	\$ 9,397,780	\$ 3,427,569
Municipal Bonds.....	22,042,350	4,020,059	10,507,392	7,027,668	487,231
Collateralized Repurchase Agreements.....	6,768,346	246,400	6,521,946		
Guaranteed Investment Contracts.....	58,302,238			18,343,571	39,958,667
Total	\$108,723,144	\$5,414,828	\$24,665,830	\$34,769,019	\$43,873,467

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

Under Title VI of the Federal Clean Water Act of 1972, as amended by the Federal Water Quality Act of 1987 (together with any regulations promulgated thereunder the "Federal Act"), the General Assembly of the State enacted the Act, which established the Water Pollution Control Revolving Fund (the Revolving Fund) to be administered and maintained by the Agency. Under the Act, the Department of Environmental Management of the State (DEM) is directed to promulgate rules and regulations pertaining to applications by borrowers for financial assistance for water pollution abatement projects. No project is eligible for financing by the Agency until the DEM has issued its Certificate of Approval. The Certificate of Approval specifies, among other things, the estimated project costs that are eligible for financial assistance and other terms and conditions relating to the construction and operation of projects. The DEM and the Agency entered into a Memorandum of Understanding dated December 6, 1990, as amended, pursuant to which the DEM agreed to assume programmatic responsibilities for the Revolving Fund and the Agency agreed to assume the financial and operational responsibilities of the Revolving Fund including the determination of the type of financial assistance to be provided to applicants.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

5. CAPITALIZATION GRANTS (Continued)

In 1996, Congress amended the Safe Drinking Water Act of 1974 (as amended, the "Federal Act") to improve and provide financial support for the nation's public water systems. As required by the Federal Act, the General Assembly of the State enacted under Chapter 12.8 of Title 46 of the Rhode Island General Laws, as amended, a law entitled "The Water Projects Revolving Loan Fund" (the DWSRF Act), which established the Drinking Water State Revolving Fund (the DWSRF) to be administered and maintained by the Agency. Under the Act, the Department of Health of the State (DOH) is directed to promulgate rules and regulations pertaining to applications by borrowers for financial assistance for safe drinking water projects. No project is eligible for financing by the Agency until the DOH has issued its Certificate of Approval. The Certificate of Approval specifies, among other things, the estimated project costs that are eligible for financial assistance and other terms and conditions relating to the construction and operation of projects. The DOH and the Agency entered into a Memorandum of Understanding dated July 13, 2000, as amended, pursuant to which the DOH agreed to assume programmatic responsibilities for the DWSRF and the Agency agreed to assume the financial and operational responsibilities of the DWSRF including the determination of the type of financial assistance to be provided to applicants.

(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.

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, 2013:

<u>Grant Year</u>	<u>Award</u>	<u>Balance Remaining for Drawdown</u>
2010:		
Federal award	\$13,681,000	\$ 28,920
State match	2,736,200	0
2012:		
Federal award	9,486,000	9,208,207
State match	1,897,200	0
2013:		
Federal award (applied for July 2013).....	8,955,000	N/A
State match (applied for July 2013).....	1,791,000	N/A

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

5. CAPITALIZATION GRANTS (Continued)

(b) Drinking Water State Revolving Fund (DWSRF)

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

The following table shows the DWSRF federal awards and remaining balances as of June 30, 2013:

<u>Grant Year</u>	<u>Award</u>	<u>Balance Remaining for Drawdown</u>
2006:		
Federal award	\$ 8,229,300	\$ 598,287
State match	1,645,860	0
2007:		
Federal award	8,229,000	906,454
State match	1,645,800	0
2008:		
Federal award	8,146,000	209,763
State match	1,629,200	0
2009:		
Federal award	8,146,000	1,291,361
State match	1,629,200	0
2010:		
Federal award	13,573,000	3,074,532
State match	2,714,600	0
2011:		
Federal award	9,418,000	5,209,900
State match	1,883,600	0
2012:		
Federal award	8,975,000	8,975,000
State match	1,795,000	0
2013:		
Federal award (applied for July 2013)	8,421,000	N/A
State match (applied for July 2013)	1,684,200	N/A

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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, 2013 and 2012.

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 \$51,161 and \$44,910 for the years ended June 30, 2013 and 2012, 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 \$17,500 (\$23,000 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, 2013 and 2012 were \$23,947 and \$18,859, 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 \$59,891 and \$59,305, during fiscal year 2013 and 2012, respectively. During fiscal year 2013, the Agency renewed its existing lease agreement for a period of 60 months commencing July 1, 2013 and expiring June 30, 2018.

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

<u>Year Ending June 30:</u>	<u>Amount</u>
2014.....	\$ 79,744
2015.....	79,744
2016.....	79,744
2017.....	79,744
2018.....	<u>79,744</u>
Total.....	<u>\$398,720</u>

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

8. PROPERTY AND EQUIPMENT

The summary of changes in property and equipment at June 30, 2013 are summarized below:

	<u>Balance at June 30, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2013</u>
Cost:				
Computers	\$ 58,228	\$ 2,118	\$(8,720)	\$ 51,626
Furniture and fixtures	25,598			25,598
Equipment.....	32,239	1,237		33,476
Leasehold Improvements	29,701			29,701
Total cost	<u>145,766</u>	<u>3,355</u>	<u>(8,720)</u>	<u>140,401</u>
Accumulated depreciation:				
Computers	53,569	2,404	8,720	47,253
Furniture and fixtures	21,961	909		22,870
Equipment.....	27,518	3,148		30,666
Leasehold Improvements	12,623	1,485		14,108
Total accumulated depreciation	<u>115,671</u>	<u>7,946</u>	<u>8,720</u>	<u>114,897</u>
Net capital assets	<u>\$ 30,095</u>	<u>\$(4,591)</u>	<u>\$ 0</u>	<u>\$ 25,504</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, 2013, 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 POSITION

The Agency's Board has designated its unrestricted net position 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 \$31,243,000 at June 30, 2013.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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 continued uncertainty 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. RELATED ORGANIZATION

The Agency is a related organization of the State. The Agency is governed by a Board of Directors consisting of five members, four of whom are members of the public appointed by the Governor, with the advice and consent of the State Senate. The General Treasurer or such officer's designee, who shall be a subordinate within the General Treasurer's department, shall serve on the Board of Directors as an ex-officio member. The State's accountability for this organization does not extend beyond making appointments.

(CONTINUED)

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

14. SUBSEQUENT EVENTS

Management has evaluated potential subsequent events through September 30, 2013, the date the financial statements were available to be issued.

The Agency's Executive Director, Anthony B. Simeone retired as of June 30, 2013. William Sequino, Jr. became the Agency's new Executive Director in July 2013.

Under the "Municipal Road and Bridge Revolving Fund Act of 2013", the Agency, in conjunction with the Rhode Island Department of Transportation, will be responsible for administering a new revolving loan fund for the State. This revolving loan fund will provide subsidized loans to cities and towns for road and bridge projects. On August 8, 2013, the Agency received initial funding of approximately \$6.9 million from the State to fund eligible projects.

The annual financing assistance available in any calendar year shall not exceed twenty million, and the Agency shall not obligate more than fifty percent (50%) of available funding in any calendar year to any one city or town unless there are no other eligible projects on the project priority list.

(CONCLUDED)