

**RHODE ISLAND CLEAN WATER  
FINANCE AGENCY**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEARS ENDED  
JUNE 30, 2014 AND 2013**

**RHODE ISLAND CLEAN WATER  
FINANCE AGENCY**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEARS ENDED  
JUNE 30, 2014 AND 2013**

***Prepared by:***

***The Finance Department of the  
Rhode Island Clean Water Finance Agency***

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013**

**Table of Contents**

Page(s)

**INTRODUCTORY SECTION:**

Letter of Transmittal.....	i – vii
List of Principal Officials, Agency Staff and Technical Advisors .....	viii
Organizational Chart .....	ix

**FINANCIAL SECTION:**

Independent Auditor's Report .....	1 – 3
------------------------------------	-------

**Required Supplementary Information:**

Management's Discussion and Analysis.....	4 – 14
---	--------

**Basic Financial Statements:**

Statements of Net Position – June 30, 2014 and 2013.....	15
Statements of Revenues, Expenses, and Changes in Net Position – years ended June 30, 2014 and 2013 .....	16
Statements of Cash Flows – years ended June 30, 2014 and 2013 .....	17 – 18
Notes to Financial Statements .....	19 – 47

**Supplementary Information:**

Combining Statements of Net Position – June 30, 2014 and 2013 (Schedule 1).....	48 – 51
Combining Statements of Revenues, Expenses, and Changes in Net Position – years ended June 30, 2014 and 2013 (Schedule 2).....	52 – 53
Schedule of Travel and Entertainment Expenses (Schedule 3) .....	54

**STATISTICAL SECTION:**

Net Position by Component – Last Ten Fiscal Years .....	55
Changes in Net Position – Last Ten Fiscal Years.....	56
Operating Revenue Components – Last Ten Fiscal Years .....	57
Ten Largest Payors/Borrowers – Current Year and Nine Years Ago .....	58
Operating Expense Components – Last Ten Fiscal Years.....	59
Bond Issuances – Last Ten Fiscal Years .....	60
Debt Schedule – Last Ten Fiscal Years.....	61
Loan Agreements – Last Ten Fiscal Years.....	62
Schedule of Full-Time Employees by Program and Agency – Last Ten Fiscal Years.....	63
State of Rhode Island Demographics – Last Ten Years.....	64
Schedule of Total Net Debt, Rhode Island Resident Population, and Debt per Capita – Last Ten Fiscal Years .....	65
Employment Sectors – Rhode Island Establishment Employment – Current Year and Nine Years Ago.....	66

**REPORT IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS:**

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	67 – 68
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# ***RHODE ISLAND CLEAN WATER FINANCE AGENCY***

## **INTRODUCTORY SECTION**

*This section contains the following:*

*Letter of Transmittal*

*List of Principal Officers, Agency Staff, and Technical Advisors*

*Organizational Chart*

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James M. Hagerty  
Chairman



William Sequino, Jr.  
Executive Director

October 27, 2014

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Rhode Island Clean Water Finance Agency (the "Agency") for the fiscal year ended June 30, 2014. This year's CAFR is presented on a comparative basis with the fiscal year ended June 30, 2013. This report has been prepared in conformity with generally accepted accounting principles ("GAAP"), thereby satisfying applicable federal and state laws, program regulations, and other Agency agreements.

The data presented is accurate in all material aspects and is reported in a manner that presents fairly the financial position and results of operations of the Agency. All disclosures necessary to enable the reader to gain an understanding of the Agency's activities have been included. The information contained within this report is the responsibility of management.

The CAFR is presented in three sections: Introductory, Financial and Statistical. The Introductory Section contains an overview of current initiatives and summary financial data. The Financial Section contains a Management's Discussion and Analysis (MD&A) section and the Basic Financial Statements. GAAP requires that management provide a narrative overview and analysis to accompany the basic financial statements in the form of MD&A. The Agency's MD&A can be found immediately following the independent auditor's report. The Statistical Section, which is unaudited, contains selected financial and demographic information.

#### *Reporting Entity*

The Agency is reported as a related organization as it pertains to the State of Rhode Island. Pursuant to its enabling statute, the Agency also submits its independently audited financial statements to the State's Senate Fiscal Offices and House Fiscal Offices, the Office of the Auditor General, the Department of Administration, and other interested parties. The Agency's Board of Directors requires the Agency to undergo quarterly agreed-upon procedures that review bank reconciliations, investments, loan receivables, bonds payable, accrued interest payable, and payroll taxes. These procedures are performed by the Agency's independent auditors. Also, as an entity receiving federal funding, the Agency is required to undergo an annual single audit to conform with the requirements of the Single Audit Act of 1984, as amended, and the US Office of Management and Budget's Circular A-133, *Audits of State and Local Governments*.

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 Agency operates under the direction of the Executive Director, William Sequino Jr. A list of Agency management and an organization chart for the Agency follow this transmittal letter.

### *Profile of the Rhode Island Clean Water Finance Agency*

The Agency was created in 1989 as a body politic and corporate and a public instrumentality of the State to administer certain Federal and State programs relating to municipal or community wastewater and drinking water financial assistance. The Agency administers the revolving loan fund 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. During fiscal year 2014 the General Assembly established the Municipal Road and Bridge Revolving Fund for the Agency to administer.

The Agency administers loan programs that provide funding to cities, towns, other governmental units and certain eligible private entities to finance improvements to drinking water, wastewater infrastructure, and road and bridge infrastructure. To qualify for a loan with the Agency, the project must be approved by the Rhode Island Department of Environmental Management (DEM) for wastewater projects, the Department of Health (DOH) for drinking water projects, and the Department of Transportation (DOT) for road and bridge projects.

### *Information Useful in Assessing the Economic Condition of the Rhode Island Clean Water Finance Agency*

The Financial Section of this report provides information on the economic condition of the Agency. Please see Management's Discussion and Analysis in the Financial Section for a presentation of the Agency's financial condition. To assess the Agency's financial condition, it is essential to understand the Agency's loan programs.

### *Loan Programs of the Agency*

The Agency administers four loan programs. The Clean Water State Revolving Fund (CWSRF), primarily finances wastewater infrastructure projects, including the Community Septic Loan Program (CSSLP), which finances improvements to private homeowner septic systems. The Rhode Island Water Pollution Control Revolving Fund (RIWPCRF) primarily finances projects that do not meet the requirements of the federal programs. The Drinking Water State Revolving Fund (DWSRF), primarily finances drinking water infrastructure projects. The Municipal Road and Bridge Revolving Fund (MRBRF) finances municipally owned road and bridge infrastructure. The Agency lends to cities, towns, other governmental units such as water and sewer authorities, and private water system operators. To fund its operations, the Agency charges an administrative fee of 0.5% of the principal outstanding per year on Clean Water, Drinking Water and Municipal Road and Bridge loans.

### *Clean Water Program*

The Clean Water SRF is a subsidized loan program for local governmental units to finance wastewater infrastructure projects. In order for the project to be eligible for funding, the project must be on the Department of Environmental Management's Project Priority List (PPL) and have a Certificate of Approval (CA) from DEM. The PPL is updated on an annual basis. Since the inception of the CWSRF, the Agency has closed over \$1.118 billion in loans to municipalities, Narragansett Bay Commission and Providence Water Supply Board. The CWSRF program provides a subsidy to its borrowers. Currently, the standard loan offer is for a term of up to twenty years at a subsidized loan rate of 66 2/3% of the borrower's market rate.

### *Clean Water Program (Continued)*

The Community Septic Loan Program (CSSLP) provides loans to Rhode Island communities to assist homeowners in repairing or replacing a failed or failing septic systems. The Agency makes zero interest rate loans to communities. Loans made by the communities to homeowners are secured through a lien on the property. This program allows municipalities to provide access to capital for home septic repairs or replacement at a subsidized interest rate. Currently, the standard loan offer is for a term of 10 years at a subsidized loan rate of 2% to the homeowners. The Agency has made 39 CSSLP loans totaling \$10.9 million since the inception of the program.

### *Rhode Island Water Pollution Control Revolving Fund*

The Rhode Island Water Pollution Control Revolving Fund (RIWPCRF) receives state capital contributions before the funds are transferred to the CWSRF or DWSRF programs. The Agency has the authority to use the funds to make loans, issue bonds, and receive interest earnings or other capital from public or private sources. The Fund has been used to finance projects not meeting the requirements of the federal SRF programs. To date the Agency has made nine loans totaling over \$58 million out of this fund.

### *Drinking Water Program*

The Drinking Water SRF supports protection of public health by ensuring that all Rhode Island Public Water Suppliers have the necessary technical, financing, and managerial capacity to maintain compliance with the current and foreseeable Safe Drinking Water Act requirements. The DWSRF projects typically involve construction and, or, rehabilitation of drinking water treatment plants, replacement of aging water mains and the construction of drinking water storage facilities. Since the inception of the DWSRF, the Agency has closed over \$357 million in loans to municipalities, and publicly and privately organized water suppliers. The program promotes the completion of cost-effective projects that maximize protection of public health. Currently, the standard loan offer is for a term of up to 20 years at a subsidized loan rate of 75% of the borrower's market rate.

### *Municipal Road and Bridge Revolving Fund*

The Municipal Road and Bridge Revolving Fund (MRBRF) is a subsidized loan program to provide municipalities with low-cost financial assistance for road and bridge infrastructure projects. In order for a project to be eligible for funding, the project must be on the Department of Transportation Project Priority List (PPL). The PPL is updated on an annual basis. The MRBRF closed nine loans totaling over \$10 million during early fiscal 2015. Currently, the standard loan offer is for a term up to twenty years at a subsidized loan rate of 66 2/3% of the borrower's market rate.

### *Interim Loans*

The Agency makes funds available to eligible projects in both the CWSRF and DWSRF programs. Borrowers can enter into a short term loan to enable projects to proceed prior to the Agency's bond sale. The Agency is capable of funding a project from 30 days to 1 year prior to a bond sale by extending the use of program equity funds as a source of capital. The interest is accrued monthly on the basis of the balance drawn on the construction account.

### *Leveraged Financing Model*

The Agency's SRF loan programs receive funding from the EPA in the form of annual grants, supplemented by state matching funds and the repayment of funds from previous borrowers ("SRF Program Funds"). The Agency's SRF Programs utilize a "leveraged" financing model, under which federal grants and state matching grants are used as a source of security for revenue bonds ("SRF Bonds") issued by the Agency. The proceeds from the SRF bonds are used to fund loans to eligible borrowers for eligible project costs. The leveraged structure of the Agency's program permits the Agency to substantially increase the amounts available to fund eligible project costs. Each federal grant and associated state matching grant dollar contributed to the program results in at least three to four dollars of project cost financing while assuring the perpetual nature of the revolving fund.

The Agency's lending and bond issuance programs are structured in such a way as to ensure adequate cash flows to fund its loans and to repay its bonds to maturity. The Agency's bonds are secured by a combination of pledged sources which include borrower loan repayments, and interest earnings on pledged SRF Program Funds.

Since loan repayments are the primary source of revenue for the Agency's debt service payments, the credit quality of the loan portfolio is important. The Agency loans are secured by either a general obligation pledge of the borrowers, or by a revenue pledge payable from water and wastewater revenues of the related borrowers. The Agency has a large, diverse pool of borrowers with a sound credit quality.

The Agency applies its SRF Program Funds to fund either direct loans, or federal direct loans to eligible borrowers, which are then pledged as a source of payment and security for the SRF Bonds.

Under the pledged direct loan approach, the Agency pledges direct loans and federal direct loans that it has made from its SRF Program Funds to eligible borrowers for water pollution abatement and drinking water projects. The Agency applies the interest payments on these Pledged Direct Loans to pay a portion of the debt service on the related series of SRF Bonds. Principal payments on the Pledged Direct Loans are pledged as further security for the related series of SRF Bonds.

In the past, the Agency has applied a portion of its SRF Program Funds to establish reserve funds to secure a series of its SRF Bonds. Those investment earnings are then applied to pay a portion of the debt service on the related SRF Bonds, thereby supplementing the loan repayment obligations of the borrowers of the Leveraged Loans funded by such SRF Bonds. As of June 30, 2014, the Agency has \$128 million in SRF reserve funds invested in guaranteed investment contracts (GIC) and US Treasury and Municipal Bonds.

The Agency's SRF bonds are rated AAA by Fitch and Standard and Poor's. The SRF bonds issued through 2009 were rated Aaa by Moody's.

### *Federal Capitalization Grants and State Matching Funds*

In order to provide security for its SRF bonds, the Agency pledges the loan interest payments from loans that are funded with federal and state capitalization grants. The Agency has received total combined federal and state support of over \$487 million to date which has provided funding for nearly \$1.5 billion in clean water and drinking water construction projects.

### *Federal Capitalization Grants and State Matching Funds (Continued)*

The Agency's federal capitalization grant awards have included requirements to provide defined levels of subsidization (i.e., principal forgiveness). The Agency has issued over \$35 million in principal forgiveness loans combined in both the Clean Water SRF and the Drinking Water SRF. The Agency recognizes principal forgiveness as an expense as the related loans are repaid. To date the Agency has forgiven \$2,919,814 in loans in both programs.

Rhode Island chose to apply principal forgiveness funds to projects designated as "green" by the Department of Environmental Management or the Department of Health first and then to the borrowers in the pool on a pro-rata basis.

### *Long Term Financial Planning*

Relative to its long-term financial position, one of the most important issues facing the Agency is the status of future federal support for the CWSRF and DWSRF.

If federal funding declines, the Agency's ability to maintain or increase its lending activities will be limited without additional state support. While this does not affect the financial health of the Agency, it will affect the CWSRF and DWSRF programs administered by the Agency. The Agency's financial capacity is not adequate to fund all those projects currently approved by DEM and DOH, however, future growth in capacity of the Agency is dependent on additional state support and or federal appropriations to the State Revolving Fund programs, shown in Note 5 of the Agency's Financial Statements, as "Capitalization Grants."

### *Economic Factors Affecting the Agency*

As a result of the Agency's highly-structured approach to lending and bonding, the finances of the Agency have not been dramatically affected by recent national economic stress. Although there are many current credit pressures affecting our borrowers, primarily municipalities and utilities in Rhode Island, the projects financed are oriented to water supply and wastewater treatment which are primarily supported by water and sewer enterprise systems and their own user-fee or rate-based revenue. As such, they are somewhat removed from the general fiscal and expenditure pressures that can face a municipal government. Furthermore, the Agency benefits from a diversified pool of borrowers which makes it less affected by significant deterioration of any single borrower.

Demand for Agency loans in the Clean Water SRF has been very high and is starting to exceed the Agency's annual capacity. While demand in the Drinking Water SRF was slow during fiscal 2014, we expect an increase in activity during fiscal 2015. Demand on the Municipal Road and Bridge program for 2014 was strong for its first year and the Agency expects a moderate increase in demand for fiscal 2015. DEM's Project Priority List had over \$1.8 billion in Clean Water projects listed and the Agency funded \$90 million during fiscal 2014. DOH's Project Priority List had over \$72 million in Drinking Water projects and the Agency funded \$1.6 million during fiscal 2014. DOT's Project Priority List had over \$19 million in Municipal Road and Bridge projects and the Agency funded over \$10 million in early fiscal 2015. Demand for the Agency's lending programs is expected to remain strong as communities work to meet tightening environmental standards and maintain an aging infrastructure.

### *Economic Factors Affecting the Agency (Continued)*

The current record low interest rate environment has greatly reduced the value of the subsidization resulting from the below market rate being provided to the Agency's borrowers. However, the Agency expects to continue to award additional subsidization in the form of principal forgiveness to its eligible borrowers.

While economic factors have not affected the Agency's current financial position, macroeconomic stresses pose risks to the Agency's long-term investment portfolio. Over the past few years, a number of institutions providing guaranteed investment contracts (GICs) to the Agency have experienced downgrades by various rating agencies. These actions did not result in a downgrade to the Agency as the Agency has multiple providers which reduce concentration risk and contract provisions for collateralization upon credit downgrades. At this time, these factors have had no real effect on the Agency, as the overall credit quality of the Agency's investment portfolio remains strong.

The Agency has been actively managing its GIC portfolio and will continue to take steps to mitigate risks as necessary while preserving the overall cash flows of the program. The Agency has employed a number of mitigation strategies during recent fiscal years such as terminating GICs and receiving portfolios comprised of U.S. Agency securities and other highly rated state municipal bonds that replace the cash flows of the original GICs. Additionally, the Agency shifted its program model from a reserve model structure to a hybrid model structure which uses the federal grant funds that would have been pledged as reserves to originate loans that are pledged to the bonds.

### *Independent Audit*

The Agency's independent auditors, Cayer Caccia LLP, have performed an independent audit of the Agency for the fiscal years ended June 30, 2014 and 2013. The independent auditor's report is located at the front of the Financial Section of this report.

The Agency prepares these financial statements and is responsible for the completeness and reliability of the information presented in this report. To provide a reasonable basis for making these representations, the Agency has established an internal control framework that is designed to protect the Agency's assets from loss, theft or misuse and to compile sufficiently reliable information for the preparation of the Agency's financial statements in conformity with GAAP. The Agency's framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatements.

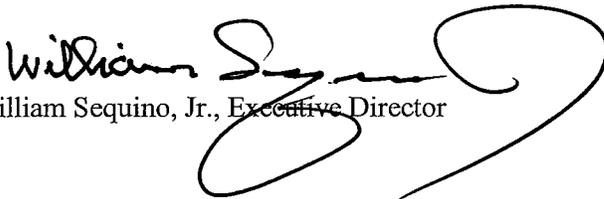
### *Acknowledgments*

The Rhode Island Clean Water Finance Agency works in collaboration with the Department of Environmental Management, the Department of Health, the Department of Transportation, the Department of Administration, the House and Senate Fiscal Offices, and the U. S. Environmental Protection Agency. Without the hard work and strong support of the people in each of these agencies, the work of the Agency could not be accomplished. To them, we extend our deepest gratitude.

*Acknowledgments (Continued)*

The preparation of this report would not have been possible without the hard work of the entire staff of the Rhode Island Clean Water Finance Agency. We must also acknowledge the Chairman and the Board of Directors for the confidence they have put in us, the Governor and the Legislature, and the people of the State of Rhode Island for their continued support.

Respectfully submitted,

  
William Sequino, Jr., Executive Director

  
Michael Larocque, Deputy Director/CFO

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

List of Principal Officials, Agency Staff, and Technical Advisors  
June 30, 2014

**Board of Directors**

James M. Hagerty, Chairman  
Scott D. Lajoie, Vice Chairman  
Joshua Celeste, Secretary  
Lisa Ferrara, Assistant Secretary  
Gina Raimondo, Treasurer (Rebecca Webber, as Treasurer's Designee as of June 30, 2014)

**Agency Staff**

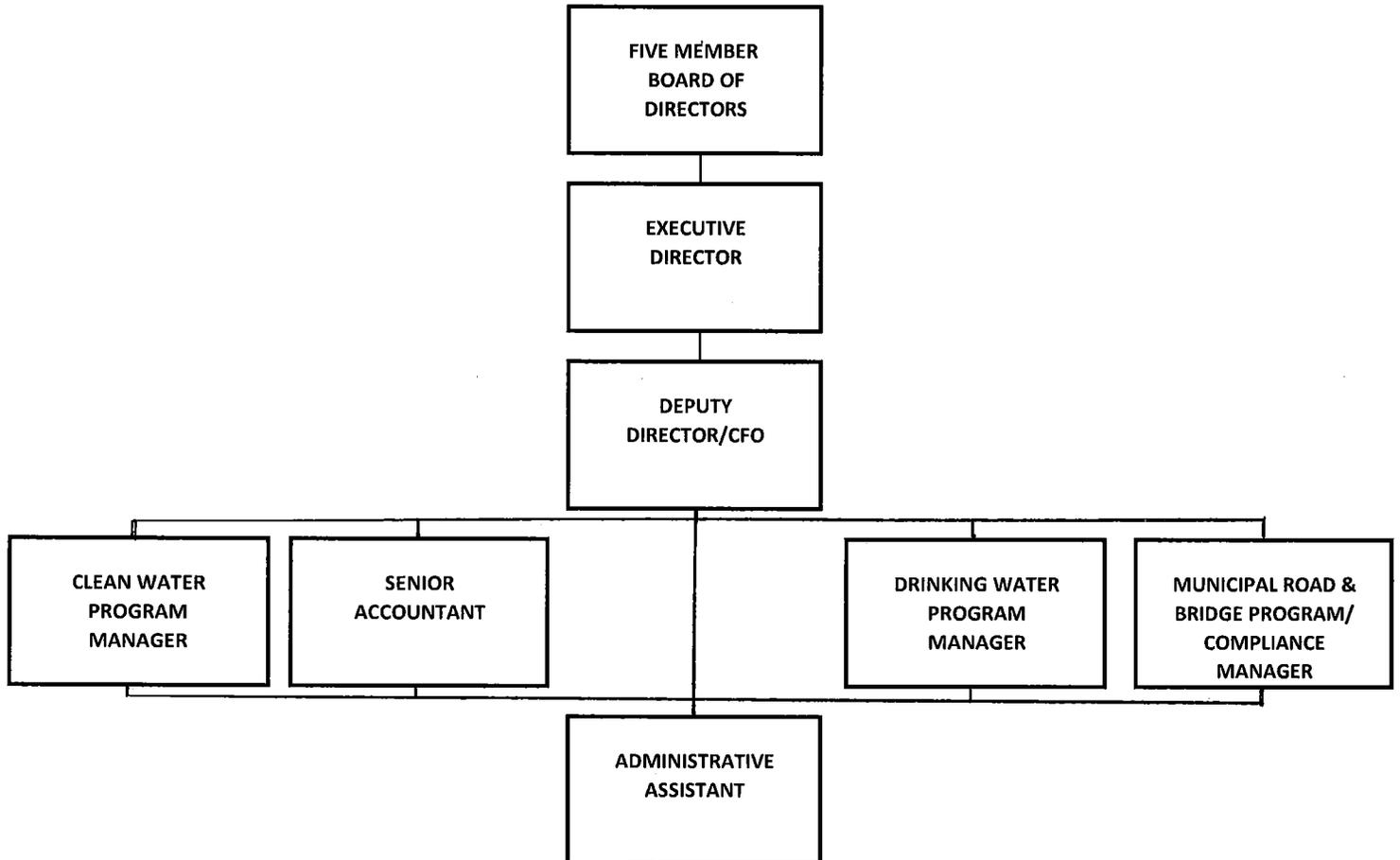
William Sequino Jr., Executive Director  
Michael P. Larocque, Deputy Director/CFO  
Robin K. Hedges, Clean Water SRF Program Manager  
Anna M. Coelho Cortes, Drinking Water SRF Program Manager  
Michael P. Pagliaro, Senior Accountant  
Helen Terra, Municipal Road and Bridge Program/Compliance Manager  
Marcelina Jackson, Administrative Assistant

**Technical Advisors**

RI Department of Environmental Management  
RI Department of Health  
RI Department of Transportation  
Harrington & Vitale Ltd, Legal Counsel  
First Southwest Company, Financial Advisor  
Cayer Caccia LLP, Independent Auditors  
U S Bank & Trust, Trustee  
Nixon Peabody, Bond Counsel

# RHODE ISLAND CLEAN WATER FINANCE AGENCY

## ORGANIZATION CHART



# ***RHODE ISLAND CLEAN WATER FINANCE AGENCY***

## **FINANCIAL SECTION**

*This section contains the following:*

*Independent Auditor's Report  
Management's Discussion and Analysis  
Basic Financial Statements  
Supplementary Information*





**Gerard R. Cayer**  
CPA, MST

**Mark V. Caccia**  
CPA, MST

**Donna T. Caccia**  
CPA, MST, CFP™

## **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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Rhode Island Clean Water Finance Agency's basic financial statements as listed in the table of contents.

### ***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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2014 and 2013, 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.

## **Emphasis of Matter**

As described in Note 1 to the financial statements, in 2014, the Agency adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

## **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 4 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Rhode Island Clean Water Finance Agency's basic financial statements. The introductory section, combining financial statements, schedule of travel and entertainment expenses, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining financial statements and schedule of travel and entertainment expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements and schedule of travel and entertainment expenses are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2014, 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 the Rhode Island Clean Water Finance Agency's internal control over financial reporting and compliance.

*Cayer Caccia, LLP*

October 27, 2014

## **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, 2014. 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 - FISCAL YEAR 2014:**

- The Agency's total assets at June 30, 2014 were \$1,530,141,882, which is an increase of \$51,432,805 or 3% over June 30, 2013.
- The Agency's operating revenues for the fiscal year ended June 30, 2014 were \$36,651,593, which is an increase of \$2,502,992 or 7% over the fiscal year ended June 30, 2013.
- The Agency's operating expenses for the fiscal year ended June 30, 2014 were \$37,259,947 which is an increase of \$1,119,662 or 3% over the fiscal year ended June 30, 2013.
- The Agency's total net position for the fiscal year ended June 30, 2014 was \$521,361,192, which is an increase of \$33,101,376 or 7% over the fiscal year ended June 30, 2013.
- In fiscal year 2014, the Agency continued to receive capitalization grants from the Environmental Protection Agency (EPA) for both the Clean Water and Drinking Water SRF programs. The Agency received \$6 million for the Clean Water SRF and \$15.5 million for the Drinking Water SRF. The continued capitalization of the Agency, combined with the Agency's access to the bond market, has allowed the Agency to provide funding to all qualified borrowers.

### **FINANCIAL HIGHLIGHTS - FISCAL YEAR 2013:**

- The Agency's total assets at June 30, 2013 were \$1,478,709,077, which is an increase of \$117,725,728 or 9% over June 30, 2012.
- The Agency's operating revenues for the fiscal year ended June 30, 2013 were \$34,148,601, which is a decrease of \$3,459,602 or 9% below the fiscal year ended June 30, 2012.
- The Agency's operating expenses for the fiscal year ended June 30, 2013 were \$36,140,285 which is an increase of \$888,803 or 3% over the fiscal year ended June 30, 2012.
- The Agency's total net position for the fiscal year ended June 30, 2013 was \$488,259,816, which is an increase of \$28,509,495 or 6% over the fiscal year ended June 30, 2012.

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

**FINANCIAL HIGHLIGHTS - FISCAL YEAR 2013 (Continued):**

- In fiscal year 2013, the Agency continued to receive capitalization grants from the Environmental Protection Agency (EPA) for both the Clean Water and Drinking Water SRF programs. The Agency received \$9.6 million for the Clean Water SRF and \$17.3 million for the Drinking Water SRF. The continued capitalization of the Agency, combined with the Agency's access to the bond market, has allowed the Agency to provide funding to all qualified borrowers.

**INVESTMENT HIGHLIGHTS:**

- For the fiscal year ended June 30, 2014, the Agency had an unrealized gain of \$191,755 on investments. The gain was mostly due 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 remained relatively consistent between June 30, 2013 and June 30, 2014, the fair value of these investments only increased slightly.
- The fact that interest rates are still at historic lows has limited qualifying investment alternatives for existing cash, bond proceeds and grant funds. The interest rates on secured 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 key criteria for each investment. Agency management is proactive in regularly monitoring investments and investment agreement providers and has taken swift action to address investment agreement provider downgrades.
- Over the past several 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 may request a return of its GIC investment upon rating trigger requirements whenever permitted or by provider agreement. The first priority of the Agency's reinvestment strategy is preservation of principal or safety, followed by liquidity, and finally yield. In most cases, the current investment alternatives do not match the yields on the liquidated investments and in some cases, a cash contribution may be required to match prior cash flows at available investment yields.

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

**INVESTMENT HIGHLIGHTS (Continued):**

- Due to low investment interest rates, 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.

**2014 FISCAL SUMMARY:**

During fiscal 2014 the Agency issued \$55,925,000 in new debt in the Clean Water SRF and \$8,225,000 in the Agency Operating Account. The Agency closed a total of \$108,725,000 of new loans consisting of \$90,900,000 in the Clean Water SRF to seven borrowers, \$1,600,000 in the Drinking Water SRF to two borrowers, \$8,000,000 in Administrative loans to two borrowers and one conduit issue for \$8,225,000. The detail of the Agency's financing for fiscal 2014 was as follows:

- August 1, 2013, the Agency issued a CSSLP loan to the Town of Scituate in the amount of \$300,000.
- August 5, 2013, the Agency issued a Drinking Water Direct Loan to the East Smithfield Water District in the amount of \$600,000.
- August 22, 2013, the Agency issued a Drinking Water Direct Loan to the Greenville Water District in the amount of \$1,000,000.
- September 3, 2013, the Agency issued an \$8,225,000 Conduit Bond Issue to the Town of Coventry. This bond issue/loan financed construction of the Fast Track Sewer Interceptor Project Sandy Bottom Pump Station along with the refinancing of the Tiogue Avenue Sewer Extension Project.
- March 6, 2014, the Agency issued \$55,925,000 in bonds which had a \$6,323,260.25 net premium. The Agency also added \$8,596,800 of the 2013 federal capitalization grants and \$1,791,000 of the associated state matching funds. The Agency used \$17,983,481.37 of revolved federal and state dollars to combine with the funds above to create a \$90,619,541.62 pool of funds. The Agency incurred \$619,541.62 in expenses to close the Agency bond issue which left \$90,000,000 to fund the following loans:

Cranston	\$18,000,000
NBC	45,000,000
Warwick	7,000,000
Woonsocket	<u>20,000,000</u>
	<u>\$90,000,000</u>

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

**2014 FISCAL SUMMARY (Continued):**

- April 10, 2014, the Agency issued an Admin / Operating Loan to the Town of North Kingstown in the amount of \$6,000,000.
- April 21, 2014, the Agency issued a CSSLP loan to the Town of Westerly in the amount of \$300,000.
- May 1, 2014, the Agency issued an Admin / Operating Loan to the Town of Bristol in the amount of \$2,000,000.
- June 17, 2014, the Agency issued a CSSLP loan to the Town of North Kingstown in the amount of \$300,000.

**OVERVIEW OF THE FINANCIAL STATEMENTS:**

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

Statement of Net Position – This statement presents information regarding the Agency's assets, liabilities and net position. Net position represents the total amount of assets plus deferred outflows of resources 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 Position – This statement presents the Agency's operating revenues, operating expenses, nonoperating revenues, and changes in net position for the fiscal years.

Statement of Cash Flows – 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, 2014 was \$521,361,192, which is an increase of \$33,101,376 or 7% over June 30, 2013. Components of the Agency's statement of net position was as follows at June 30:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Other assets	\$1,530,061,696	\$1,478,683,573	\$1,360,953,254
Capital assets	<u>80,186</u>	<u>25,504</u>	<u>30,095</u>
<b>Total assets</b>	<u>1,530,141,882</u>	<u>1,478,709,077</u>	<u>1,360,983,349</u>
<b>Deferred outflows of resources</b>	<u>6,812,889</u>	<u>7,771,775</u>	<u>4,008,411</u>
Current liabilities	217,094,499	225,321,412	198,300,115
Non-current liabilities	<u>798,499,080</u>	<u>772,899,624</u>	<u>706,941,324</u>
<b>Total liabilities</b>	<u>1,015,593,579</u>	<u>998,221,036</u>	<u>905,241,439</u>
<b>Net position:</b>			
Net investment in capital assets	80,186	25,504	30,095
Restricted for debt service	477,557,093	448,629,618	425,023,877
Unrestricted	<u>43,723,913</u>	<u>39,604,694</u>	<u>34,696,349</u>
<b>Total net position</b>	<u>\$ 521,361,192</u>	<u>\$ 488,259,816</u>	<u>\$ 459,750,321</u>

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

**FINANCIAL ANALYSIS (Continued)**

**NET POSITION (Continued)**

June 30, 2014:

The increases noted above in the Agency's total assets and liabilities are the confirmation of the Agency's steady growth. The 2014 increase results from the Agency closing an \$8.225 million Conduit issue in September and a \$55.925 million Clean Water bond issue in March, plus two Admin / Operating loans totaling \$8 million along with several smaller loans issued during fiscal year 2014. Total assets increased by 3% from \$1,478,709,077 at June 30, 2013 to \$1,530,141,882 at June 30, 2014. Current liabilities decreased from \$225,321,412 at June 30, 2013 to \$217,094,499 or 4% at June 30, 2014. The growth over the past year also relates to non-current liabilities totaling \$798,499,080 which is an increase of \$25,599,456 or 3% over June 30, 2013. The increases noted in unrestricted assets, restricted assets and non-current liabilities are related to the increase level of loan activity through the issuance of bonds. The Agency closed over \$108 million in loans during 2014 and over \$151 million during 2013. The decrease in loan activity was due to a decrease in loans issued in the Agency's Drinking Water SRF.

June 30, 2013:

The 2013 increase in the Agency's assets and liabilities is the result of the Agency closing a \$35.78 million Drinking Water bond issue in May 2013 and a \$52.07 million Clean Water bond issue in June 2013, along with several smaller loans that were issued during fiscal year 2013. Total assets increased by 9% from \$1,360,983,349 at June 30, 2012 to \$1,478,709,077 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 \$772,899,624 which is an increase of \$65,958,300 or 9% over June 30, 2012. The increases noted in unrestricted assets, restricted assets and non-current liabilities are related to the increased level of loan activity through the issuance of bonds.

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

**FINANCIAL ANALYSIS (Continued):**

**CHANGES IN NET POSITION**

The Agency's change in net position for the fiscal year ended June 30, 2014 was \$33,101,376 or an increase of 7%. There was an increase of \$3,208,551 in the federal capitalization grants due to an increase in construction draws by borrowers who had federal direct loans. There was also an increase in interest income (due to new loans) at June 30, 2014.

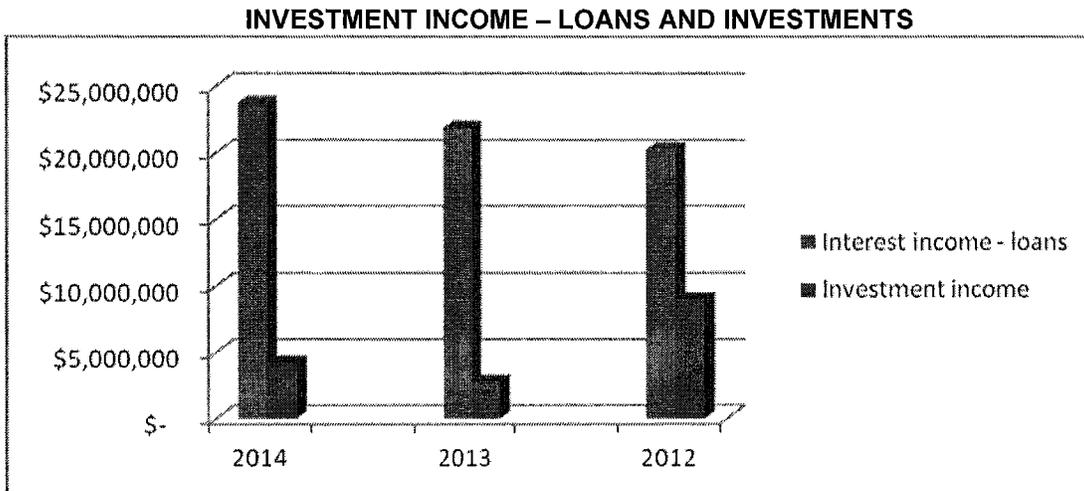
The Agency's change in net position for the fiscal year ended June 30, 2013 was \$28,509,495 or an increase of 6%. There was an increase of \$2,936,917 in the federal capitalization grants due to an increase in construction draws by borrowers who had federal direct loans. There was also an increase in interest income (due to new loans) at June 30, 2013.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Interest income – loans	\$ 23,738,021	\$ 21,885,290	\$ 20,243,192
Investment income	4,215,886	2,782,770	8,970,388
Grant income - DEM & DOH	3,169,330	3,574,257	3,093,664
Other operating revenues	<u>5,528,356</u>	<u>5,906,284</u>	<u>5,300,959</u>
<b>Total operating revenues</b>	<u>36,651,593</u>	<u>34,148,601</u>	<u>37,608,203</u>
Interest expense	30,732,606	28,153,557	29,183,407
Other operating expenses:			
Consulting fees: DEM & DOH	3,545,965	3,574,257	3,093,664
Loan principal forgiveness	1,058,604	894,241	803,813
General administration	1,495,923	3,128,167	1,748,490
Professional fees	<u>426,849</u>	<u>390,063</u>	<u>422,108</u>
<b>Total operating expenses</b>	<u>37,259,947</u>	<u>36,140,285</u>	<u>35,251,482</u>
Operating income (loss)	(608,354)	(1,991,684)	2,356,721
Grant income - federal and state	<u>33,709,730</u>	<u>30,501,179</u>	<u>27,564,262</u>
Increase in net position	33,101,376	28,509,495	29,920,983
<b>Net position, beginning of year, as restated</b>	<u>488,259,816</u>	<u>459,750,321</u>	<u>429,829,338</u>
<b>Net position, end of year</b>	<u>\$521,361,192</u>	<u>\$488,259,816</u>	<u>\$459,750,321</u>

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

**FINANCIAL ANALYSIS (Continued):**

As graphically portrayed below, the increase in interest income-loans is related to the growth in the Agency's portfolio. Interest income was \$23,738,021 at June 30, 2014 an increase of 8% over June 30, 2013. 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 increased to \$4,215,886 at June 30, 2014 from \$2,782,770 at June 30, 2013 representing a 51% increase. The majority of this increase was due to the \$2,176,329 increase in the unrealized gains of the Agency's investments offset by a decrease in the Agency's total investments from \$108,723,144 at June 30, 2013 to \$98,409,206 at June 30, 2014.

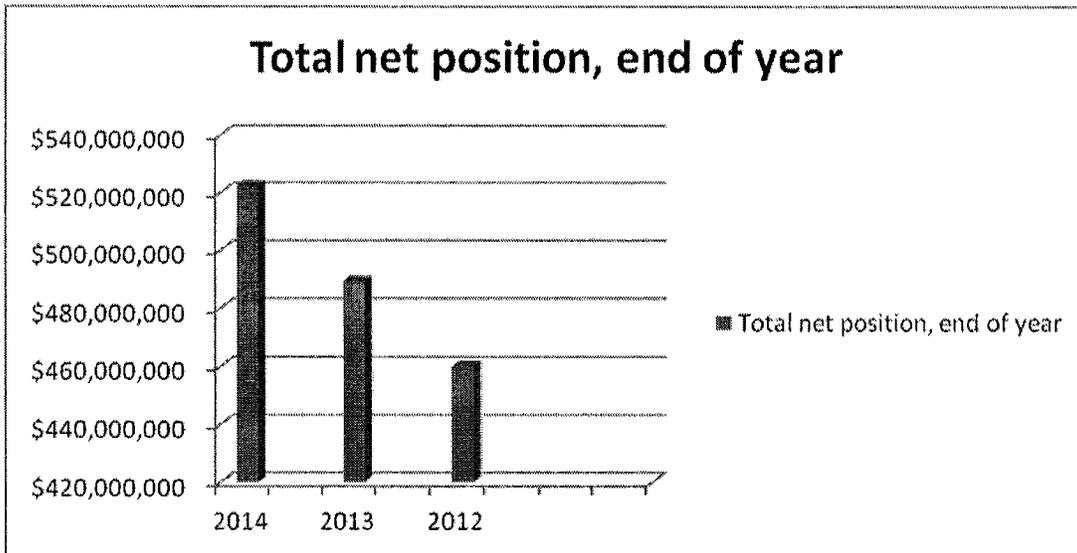
There was a decrease in investment income from fiscal year 2012 to fiscal year 2013 of \$6,187,618 due mainly to the decrease in the Agency's total investments of \$26,312,455 as well as the decrease in the fair market value of the Agency's investments of \$1,984,574.

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

**FINANCIAL ANALYSIS (Continued):**

Total net position at June 30, 2014 was \$521,361,192 which was an increase of 7% over fiscal year June 30, 2013.

Total net position at June 30, 2013 was \$488,259,816 which was an increase of 6% over fiscal year June 30, 2012.

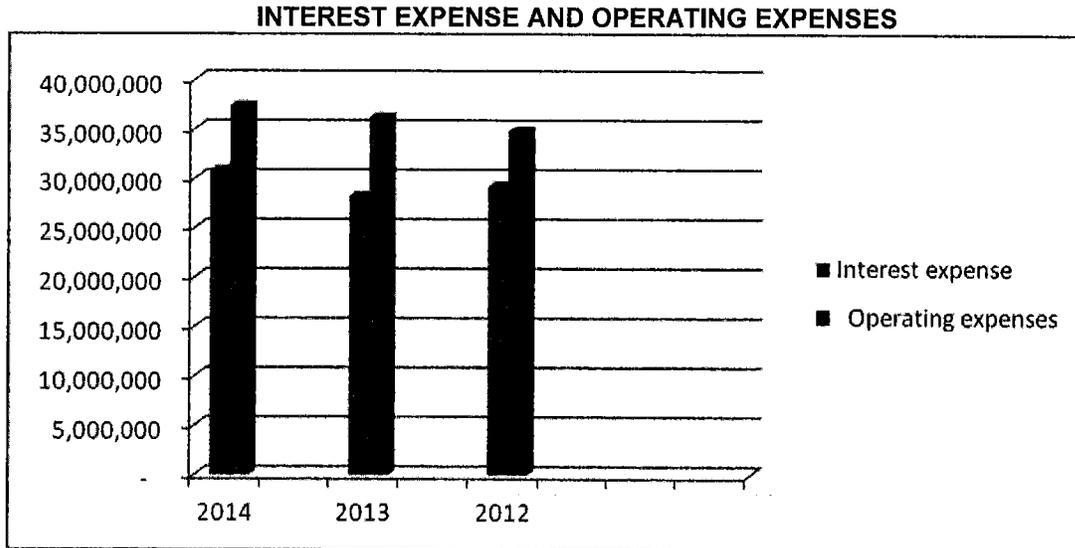


Interest expense was \$30,732,606 at June 30, 2014 a 9% increase from fiscal year 2013. The majority of the increase was due to the Agency closing two bond issues late in the last quarter of the Agency's fiscal year 2013. Operating expenses were \$37,259,947 at June 30, 2014 a 3% increase over June 30, 2013. The Agency saw a large decrease in bond issuance costs during 2014 as compared to 2013. This was a result of the Agency closing four bond issues, two refunding issues and two pooled issues in 2013 as compared to one pooled issue during 2014. The Agency's principal forgiveness expense is increasing from 2013 and will continue to increase as the loans continue to mature and additional loans are added annually.

Interest expense was \$28,153,557 at June 30, 2013 a 4% decrease from fiscal year 2012. The majority of the decrease was due to the Agency closing two bond issues late in the last quarter of the Agency's fiscal year 2013. Operating expenses were \$36,140,285 at June 30, 2013 a 3% increase over June 30, 2012. The Agency saw a large increase in bond issuance costs during 2013 as compared to 2012. This was a result of the Agency closing four bond issues, two refunding issues and two pooled issues in 2013 as compared to two pooled issues during 2012.

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

**FINANCIAL ANALYSIS (Continued):**



**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, 2014 and 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.

At June 30, 2014, the Agency had \$774,122,000 of bond indebtedness, an increase of 4% from the \$746,959,000 outstanding at June 30, 2013. Detailed information related to the Agency's debt is presented in Note 4 to the financial statements.

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

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

Fitch .....	AAA
Standard & Poor's.....	AAA
Moody's.....	Aaa (bonds issued through 2009)

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 for interim, short-term and long-term financing to qualified borrowers.

The Agency's investments are monitored monthly, including GIC contract providers, credit ratings, and maturity dates. The Agency continues to remain pro-active by engaging an Independent Audit firm to conduct quarterly agreed-upon financial procedures.

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 requires that a certain percentage of each Capitalization Grant 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, 2014 the Agency made a total of \$35,594,560 of Principal Forgiveness Loans and has forgiven \$2,919,814.

**FACTORS AFFECTING FUTURE OPERATIONS:**

1. During fiscal 2014 the Agency received state funds to establish the Municipal Road and Bridge Revolving Fund. The state has budgeted \$5.0 million for fiscal 2015 but has not appropriated any additional funds after fiscal 2015.
2. Guaranteed investment contract provider ratings are shown in Note 2 and are stated as of June 30, 2014. Ratings during these uncertain times are subject to change. Readers are encouraged to go to Moody's and S&P's websites to get the most recent ratings.

**REQUEST FOR INFORMATION:**

The financial report is designed to provide a general overview of the Agency's financial activity for fiscal year 2014. 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](mailto:info@ricwfa.com).

# ***RHODE ISLAND CLEAN WATER FINANCE AGENCY***

## **BASIC FINANCIAL STATEMENTS**

*The Basic Financial Statements include:*

*Proprietary Fund Financial Statements*

*In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.*

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**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**STATEMENTS OF NET POSITION  
JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b><u>ASSETS</u></b>		
<b>Current assets:</b>		
Cash equivalents and investments:		
<b>Unrestricted:</b>		
Cash equivalents .....	\$ 38,025,075	\$ 33,211,928
<b>Total unrestricted cash equivalents</b> .....	<b>38,025,075</b>	<b>33,211,928</b>
<b>Restricted:</b>		
Cash equivalents .....	211,815,885	203,978,510
Investments .....	98,409,206	108,723,144
<b>Total restricted cash equivalents and investments</b> .....	<b>310,225,091</b>	<b>312,701,654</b>
Restricted loans receivable .....	62,936,768	57,177,078
Accrued interest receivable:		
Loans .....	7,977,399	7,310,071
Investments .....	1,043,324	1,182,309
Accounts receivable – service fees .....	1,549,701	1,422,816
Prepaid expenses and other receivables .....	129,570	185,354
<b>Total current assets</b> .....	<b>421,886,928</b>	<b>413,191,210</b>
<b>Noncurrent assets:</b>		
Restricted loans receivable .....	1,108,174,768	1,065,492,363
<b>Total noncurrent assets</b> .....	<b>1,108,174,768</b>	<b>1,065,492,363</b>
<b>Capital assets:</b>		
Property and equipment, net of accumulated depreciation .....	80,186	25,504
<b>TOTAL ASSETS</b> .....	<b>1,530,141,882</b>	<b>1,478,709,077</b>
<b>Deferred outflows of resources</b> .....	<b>6,812,889</b>	<b>7,771,775</b>
<b><u>LIABILITIES</u></b>		
<b>Current liabilities:</b>		
Project costs payable .....	166,974,448	180,252,850
Bonds payable .....	40,659,000	36,987,000
Accrued interest payable .....	9,237,085	7,521,978
Accounts payable and accrued expenses .....	223,966	559,584
<b>Total current liabilities</b> .....	<b>217,094,499</b>	<b>225,321,412</b>
<b>Noncurrent liabilities:</b>		
Bonds payable, net of current portion .....	796,963,084	771,420,512
Accrued arbitrage rebate .....	1,535,996	1,479,112
<b>Total noncurrent liabilities</b> .....	<b>798,499,080</b>	<b>772,899,624</b>
<b>TOTAL LIABILITIES</b> .....	<b>1,015,593,579</b>	<b>998,221,036</b>
<b><u>NET POSITION</u></b>		
Net investment in capital assets .....	80,186	25,504
Restricted .....	477,557,093	448,629,618
Unrestricted .....	43,723,913	39,604,694
<b>TOTAL NET POSITION</b> .....	<b>\$ 521,361,192</b>	<b>\$ 488,259,816</b>

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, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>Operating revenues:</b>		
Investment income .....	\$ 4,215,886	\$ 2,782,770
Interest income - loans .....	23,738,021	21,885,290
Grant income - operating .....	3,169,330	3,574,257
Service fees .....	4,511,793	4,159,174
Direct loan fees and other .....	0	249,302
Loan origination fees .....	1,016,563	1,497,808
<b>Total operating revenues</b> .....	<u>36,651,593</u>	<u>34,148,601</u>
<b>Operating expenses:</b>		
Interest expense .....	30,732,606	28,153,557
Consulting fees - D.E.M and D.O.H.....	3,545,965	3,574,257
Employee expense .....	744,882	701,916
Insurance expense .....	13,871	13,576
Legal fees .....	149,016	117,712
Loan principal forgiveness.....	1,058,604	894,241
Bond issuance costs .....	580,952	2,275,871
Office expense .....	111,320	93,820
Accounting and auditing .....	52,918	42,531
Depreciation expense.....	9,027	7,946
Trustee/bank fees.....	181,891	182,298
Promotional expenses.....	7,483	9,640
Financial advisor fees.....	43,024	47,522
Dues and subscriptions .....	9,441	8,510
Seminars .....	1,923	1,875
Business and travel expense .....	10,233	10,128
Miscellaneous expense .....	6,791	4,885
<b>Total operating expenses</b> .....	<u>37,259,947</u>	<u>36,140,285</u>
Operating loss .....	(608,354)	(1,991,684)
<b>Nonoperating revenue:</b>		
Grant income - nonoperating .....	<u>33,709,730</u>	<u>30,501,179</u>
Change in net position.....	33,101,376	28,509,495
<b>Net position, beginning of the year, as restated</b> .....	<u>488,259,816</u>	<u>459,750,321</u>
<b>Net position, end of the year</b> .....	<u>\$ 521,361,192</u>	<u>\$488,259,816</u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS.

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b><i>Cash flows from operating activities:</i></b>		
Cash receipts for loan repayments.....	\$ 63,872,179	\$ 60,756,298
Cash receipts for operating grants.....	3,169,330	3,574,257
Cash receipts for loan origination fees.....	1,016,563	1,497,808
Cash receipts for service fees.....	4,384,908	4,056,262
Cash receipts for direct loan fees and other.....	0	249,302
Cash payments for loan disbursement activities.....	(126,651,280)	(120,134,895)
Cash payments to suppliers.....	(4,413,710)	(4,500,544)
Cash payments to employees.....	(744,882)	(701,916)
<b><i>Net cash used for operating activities.....</i></b>	<b><u>(59,366,892)</u></b>	<b><u>(55,203,428)</u></b>
<b><i>Cash flows from capital and related financing activities:</i></b>		
Purchases of property and equipment.....	(63,709)	(3,355)
<b><i>Cash flows from noncapital financing activities:</i></b>		
Proceeds from bond issuance, net of refunding.....	70,473,260	224,292,026
Repayment of bond principal.....	(36,987,000)	(38,091,000)
Amount deposited to refunding escrow.....	0	(123,198,475)
Nonoperating grants received.....	33,709,730	30,501,179
Interest paid on revenue bonds.....	(32,330,302)	(30,545,405)
Bond issuance costs.....	(580,952)	(2,275,871)
Repayment of bond anticipation notes.....	0	(5,105,000)
<b><i>Net cash provided by noncapital financing activities.....</i></b>	<b><u>34,284,736</u></b>	<b><u>55,577,454</u></b>
<b><i>Cash flows from investing activities:</i></b>		
Investment income.....	4,384,864	5,247,717
Interest income – loan program.....	23,070,693	21,376,774
Interest rebate paid to US Government.....	(164,864)	0
Proceeds from sale of investments.....	10,505,694	24,042,529
<b><i>Net cash provided by investing activities.....</i></b>	<b><u>37,796,387</u></b>	<b><u>50,667,020</u></b>
<b><i>Net increase in cash and cash equivalents.....</i></b>	<b>12,650,522</b>	<b>51,037,691</b>
<b><i>Cash and cash equivalents, beginning of the year.....</i></b>	<b><u>237,190,438</u></b>	<b><u>186,152,747</u></b>
<b><i>Cash and cash equivalents, end of the year.....</i></b>	<b><u>\$ 249,840,960</u></b>	<b><u>\$ 237,190,438</u></b>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS.

(CONTINUED)

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2014 AND 2013**

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	<u>2014</u>	<u>2013</u>
<b>Reconciliation of operating loss to net cash used for operating activities:</b>		
Operating loss .....	\$ (608,354)	\$ (1,991,684)
Adjustments:		
Investment income .....	(4,215,886)	(2,782,770)
Interest income - loans .....	(23,738,021)	(21,885,290)
Interest expense .....	30,732,606	28,153,557
Bond issuance costs .....	580,952	2,275,870
Depreciation .....	9,027	7,946
Loan principal forgiveness .....	1,058,604	894,241
Increase in loans receivable, net .....	(62,779,101)	(59,378,596)
(Increase) decrease in prepaid expenses .....	55,784	(9,329)
Decrease in accounts payable and accrued expenses .....	(335,618)	(384,461)
Increase in accounts receivable – service fees .....	(126,885)	(102,912)
<b>Net cash used for operating activities</b> .....	<u>\$ (59,366,892)</u>	<u>\$ (55,203,428)</u>

**Supplemental Cash Flow Information:**

**Noncash investing activities:**

Increase (decrease) in loans receivable issued related to project costs payable .....	\$(13,278,402)	\$33,899,970
Increase (decrease) in fair value of investments .....	\$ 191,755	\$ (1,984,574)

(CONCLUDED)

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS.

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Organization**

The Rhode Island Clean Water Finance Agency (Agency) was established by the State of Rhode Island Legislature, under Section 46-12.2 of the Rhode Island General Laws (1986) as from time to time amended and supplemented, 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. Pursuant to an Operating Agreement between the United States Environmental Protection Agency (EPA), the Rhode Island Department of Environmental Management, the Rhode Island Department of Health, and the Agency, the Agency administers the State's Clean Water and Drinking Water State Revolving Fund (SRF) programs.

The Agency has also established a Community Septic System Loan Program as part of the Federal Clean Water State Revolving Fund. The Agency also established a Sewer Tie-In Loan Program. In 2013, the Municipal Road and Bridge Revolving Fund (MRBRF) was established by the General Assembly to be administered by the Agency in conjunction with the Rhode Island Department of Transportation.

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. The Agency is not financially accountable for any other 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 is not financially accountable for the Agency even though it appoints a voting majority of the Agency's governing board.

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 determined that the Agency does not meet the revised definition of a component unit. As a result, the Agency's results of operations and financial position are no longer incorporated in the State of Rhode Island's Comprehensive Annual Financial Report.

**(b) Description of Business**

***Clean Water and Drinking Water SRF Programs***

The SRF programs, which were authorized by federal legislation – the Water Quality Act of 1987 for the Clean Water SRF and the Safe Drinking Water Act of 1996 for the Drinking Water SRF – provide low-cost financing to cities, towns, and other eligible borrowers primarily for the construction and improvement of drinking water and wastewater infrastructure. The Agency's SRF program's primary activities include providing low-cost financing for eligible projects funded by the issuance of debt, providing low-cost interim financing for its borrowers, the investment of program funds, and the management and coordination of the programs.

(CONTINUED)

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(b) Description of Business (Continued)**

***Clean Water and Drinking Water SRF Programs (Continued)***

SRF program capitalization grants are issued from the EPA to the Agency, for which the State is required to provide 20% in matching funds. The Agency's program is leveraged by issuing bonds to provide funds for loans. Federal and state grants and other monies available to the Agency are pledged to secure bonds by either financing reserve funds or pledged loans. Earnings on these pledged assets are used to pay a portion of the debt service on the related bonds, thereby reducing the borrowers' loan repayment obligation. The Agency provides loans to borrowers at 67% and 75% of the borrower's current market rate for the Clean Water SRF and Drinking Water SRF, respectively.

The SRF programs are called the State Revolving Fund programs because as borrowers pay down the principal balances of their loans and as the Agency pays principal on its SRF bonds, proportional amounts are released from the reserves and/or loans pledged to secure the related SRF bonds. These funds come back to the Agency and "revolve" or are used to establish new reserve funds or loans to borrowers that are pledged as a source of payment and security, for new SRF bonds or for other eligible purposes.

Funds pertaining to the SRF programs are limited to specific uses by laws and regulations as well as Grant and Operating Agreements entered into between EPA and the Agency. As a result of these limitations on uses, these funds are classified as restricted on the statements of net position.

Included under the Clean Water SRF program, the Agency has established a Community Septic System Loan Program (CSSLP) under the Federal Act through which communities may borrow funds to address non-point source wastewater pollution abatement issues. The CSSLP gives communities the ability to provide their residents whose septic systems are failing, have failed or are substandard with low-cost funds for repair or replacement. Revolved capital funds provide the money for this direct loan program.

***Rhode Island Water Pollution Control Revolving Fund (RIWPCRF)***

This fund receives state capital contributions before the funds are transferred to the Clean Water and Drinking Water SRFs. The Agency has the authority to use the fund to make loans, issue bonds and receive interest earnings or other capital from public or private sources. The fund has been used to finance projects not meeting the requirements of the federal programs. The following programs are included in the RIWPCRF.

***Rhode Island Zero Interest Loan Fund (RIZILF)***

This program was established under the authority of Chapter 55 of the 2000 Public Laws of Rhode Island. The Agency received \$60 million from the State of Rhode Island of which \$3 million was used for the Drinking Water state match and \$57 million was loaned to Narragansett Bay Commission as an investment to provide the corpus of the funding of the zero interest loan program. Narragansett Bay Commission's repayments will be used to provide the additional subsidization provided to borrowers who have received a portion of their loan at 0% interest within the Clean Water SRF. Under this program, borrowers whose rating is investment grade or better may receive 50% of their project costs at 0% interest and 50% of their project costs at the Agency's regular subsidy at 33% below the borrower's market rate. These two rates are blended thereby significantly reducing the borrower's interest payments to the Agency. Those borrowers whose rating is non-investment grade, including those borrowers which were non-investment grade within the twelve months prior to filing a loan application with the Agency, are eligible to receive 100% of their project funds, up to \$25 million, at 0% interest.

(CONTINUED)

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(b) Description of Business (Continued)**

***Rhode Island Water Pollution Control Revolving Fund (RIWPCRF) (Continued)***

***Facility Plan Loan Program (FPLP)***

This program allows the Agency to make low-interest loans to municipalities so facility plan documents, amendments, or updates can be completed. These facility plans are a prerequisite for funding from the Clean Water SRF program. The loans have an interest rate of 1% and cannot exceed \$150,000. Revolved capital provides the money for the direct loan program.

***Sewer Tie-In Loan Fund (STILF)***

This program allows communities to borrow funds to address non-point source wastewater pollution abatement issues. The STILF gives communities the ability to provide their residents low-cost financing for sewer connections. Revolved capital from the RIWPCRF provides funding for this direct loan program.

***Municipal Road and Bridge Revolving Fund (MRBRF)***

This fund was established to provide municipalities with low-cost financial assistance for road and bridge projects. State statute requires the Agency to administer the financial components of this fund and requires the Rhode Island Department of Transportation (DOT) to receive, review, and rank municipal road and bridge projects submitted for funding consideration on an annual basis. Initial funding for this program was provided through State of Rhode Island grants totaling \$10,313,869 through June 30, 2014. No loans have been issued through June 30, 2014. Nine loans in excess of \$10,000,000 will be awarded and disbursed in fiscal year 2015.

**(c) Basis of Accounting**

The Agency is engaged only in business-type activities. 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. The financial statements of the Agency are prepared using the economic resources measurement focus and the accrual basis of accounting as specified by the Governmental Accounting Standards Board's (GASB) requirements for a special purpose entity engaged solely in business-type activities.

During fiscal year 2014, the Agency implemented GASB Statement No. 65 – Items Previously Reported as Assets and Liabilities. 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 changed the Agency's beginning net position as of July 1, 2012, resulting from the change in accounting for deferred bond issuance costs and loan origination fees. Bond issuance costs are now expensed as incurred and loan origination fees are recognized as revenue in the period received. In addition, this Statement requires the amounts deferred on bond refundings 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 bond liability.

**(d) Revenue Recognition**

Operating revenues, including interest income, and expenses are generated through the issuance of loans to governments and other eligible borrowers within the State. All other revenues and expenses are reported as nonoperating revenues and expenses.

(CONTINUED)

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(d) Revenue Recognition (Continued)**

Funding from federal capitalization grants and state matching grants are reported as nonoperating revenue. Federal capitalization revenue is recognized in accordance with funding availability schedules contained within the individual grant agreements. Revenue recognition associated with these grants is based on the standard principles of eligibility, including timing requirements. The Agency recognizes grant revenue upon acceptance of their request for drawdowns by the grantor agency and when qualifying commitments and all other grant requirements have been satisfied.

The Agency's recent federal capitalization grants beginning with the American Recovery and Reinvestment Act of 2009 (ARRA) grant received in 2009, required that a portion of the grant funds be provided as additional subsidization in the form of principal forgiveness, grants, or negative interest loans. The Agency provides the additional subsidization in the form of principal forgiveness, which has been recorded as an operating expense.

**(e) 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 five 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 administrative activities of the Agency, including servicing loan programs and the Drinking Water SRF Set-Aside Program.

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

Municipal Road and Bridge Revolving Fund (MRBRF) – accounts for activity relating to administering the Municipal Road and Bridge Revolving Loan Program.

**(f) Cash and Cash Equivalents**

The Agency's cash equivalents include cash deposits at financial institutions and institutional money market accounts. The Agency's policy is to treat all highly liquid investments with original maturities of three months or less as cash and cash equivalents.

(CONTINUED)

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**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(g) Investments**

Investments are stated at fair value. Fair values are established by quoted market values. The Agency's investments as of June 30, 2014 and 2013 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 2014 and 2013 which required collateralization based on the aforementioned criteria.

**(h) Investment Income**

Interest earned on investments is recognized as income in the fund in which the investments are held. 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, 2014, the Agency had unrealized gains of \$191,755. For fiscal year ended June 30, 2013, the Agency had unrealized losses of \$1,984,574.

(CONTINUED)

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(i) 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 2014 and 2013 totaled \$9,027 and \$7,946, 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

**(j) Bond Issuance Costs**

Bond issuance costs are recorded as operating expenses when incurred. Prior to July 1, 2012, bond issuance costs were capitalized and amortized on a straight-line basis over the life of the bond or to the date at which the Agency had the right to redeem the bond, whichever is shorter. The implementation of GASB Statement No. 65 resulted in the write-off of bond issuance costs as of July 1, 2012.

**(k) Prepaid Bond Insurance Costs**

Prepaid bond insurance costs are reported as an asset and are recognized as an expense over the duration of the related debt using the straight-line method. The Agency did not have any prepaid bond insurance costs at June 30, 2014 and 2013.

**(l) Allowance for Loan Losses**

Management reviews loan receivable balances on a periodic basis for possible uncollectible amounts. In the event management determines a specific need for an allowance, provision for loss will then be provided. Should a borrower default on a loan, the remedy is found in the loan agreement which is backed by the full taxing power of the borrowing municipality in the form of a general obligation pledge or in the full revenue collecting ability of the Agency's revenue borrowers. Further, the Indenture of Trust as it relates to the Local Interest Subsidy Trust (LIST) serves as a debt service reserve fund. An allowance for loan losses has not been established at June 30, 2014 and 2013 since historical collection experience has shown amounts to be fully collectible when due.

**(m) Deferred Inflows and Outflows of Resources**

A deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period and a deferred outflow of resources is a consumption of net position that is applicable to a future reporting period. Both deferred inflows and outflows are reported in the statement of net position but are not recognized in the financial statements as revenues and expenses until the period(s) to which they relate. Deferred outflows of resources of the Agency consist of deferred refunding costs.

(CONTINUED)

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(n) 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. The amount the Agency will be required to remit to the federal government could differ materially from the estimated liability in the near term.

Based on the interim calculations that were performed as of June 30, 2014 and 2013, the Agency had accrued arbitrage rebate liabilities totaling \$1,535,996 and \$1,479,112, respectively. During 2014 and 2013 the Agency paid to the U.S. Treasury Department \$164,864 and \$0 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.

**(o) Loan Origination Fees**

The Agency requires payment of loan origination fees at the time of loan closing. Loan origination fees are recognized as revenue in the period received. Prior to July 1, 2012, the Agency deferred loan origination fees net of direct loan origination costs and the net fee was recognized as income using the effective interest method over the contractual life of the loan. For financial reporting purposes in the statement of net position, outstanding loans receivable were reduced by unamortized loan origination fees. The implementation of GASB Statement No. 65 resulted in the write-off of loan origination fees as of July 1, 2012.

**(p) 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 \$166,974,448 and \$180,252,850 at June 30, 2014 and 2013, respectively. Included in these amounts is \$43,977,793 and \$24,730,750 payable to Narragansett Bay Commission, the Agency's largest borrower.

**(q) Bond Premium**

Bond premiums, included in long-term debt, are amortized using the effective interest method over the respective life of the associated bond issues. Amortization of bond premiums, which are charged against interest expense, totaled \$4,271,688 and \$2,841,977 for fiscal years 2014 and 2013, respectively.

**(r) 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. 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. The amortization amount is a component of interest on bonds, and the unamortized balances are recorded as deferred outflows or inflows.

(CONTINUED)

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(s) 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 \$135,474 and \$176,299 at June 30, 2014 and 2013, respectively.

**(t) Net Position**

Net investment in capital assets represents capital assets, net of accumulated depreciation. Net position of the Agency is classified as restricted when external constraints imposed by debt agreements, grantors, contributors, or laws or regulations of 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. Unrestricted net position has no external restrictions and is available for the operations of the Agency. Unrestricted net position may be designated by actions of the Agency.

**(u) Operating Revenues and Expenses**

Substantially all revenues and expenses, including interest received on investments and loans and interest paid on bonds, are considered operating items since the Agency issues bonds to finance loans for specific projects. All other revenues and expenses not meeting this criteria are reported as nonoperating revenue and expenses. In accordance with GASB Statement No. 34, federal EPA capitalization and state grants are shown below operating income (loss) on the statements of revenue, expenses and changes in net position.

**(v) 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.

**(w) 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, Drinking Water State Revolving Fund, and the Municipal Road and Bridge 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.

**(x) 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.

(CONTINUED)

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**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(y) Recently Issued Accounting Standards**

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.

The Agency implemented the following GASB Statements for the fiscal year ended June 30, 2014:

- GASB Statement No. 67 - Financial Reporting for Pension Plans - an amendment of GASB Statement No. 2. This Statement revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The Agency provides its employees with pension benefits through a deferred compensation plan.
- GASB Statement No. 70 - Accounting and Financial Reporting for Nonexchange Financial Guarantees. 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 adoption of these Statements did not have an impact on the Agency's financial position or results of operations.

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**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(y) Recently Issued Accounting Standards (Continued)**

The Agency also implemented GASB Statement No. 65 – Items Previously Reported as Assets and Liabilities. 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 changed the beginning net position resulting primarily from the change in accounting for deferred bond issuance costs and loan origination fees. Bond issuance costs are now 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 bond liability. The adoption of this Statement decreased the July 1, 2012 net position by \$271,248 as described in Note 10.

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

- GASB Statement No. 68 - Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27, effective for the Agency's fiscal year ending June 30, 2015. This Statement revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The Agency provides its employees with pension benefits through a deferred compensation plan.
- 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. 71 - Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68, effective for the Agency's fiscal year ending June 30, 2015.

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

**(z) 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.

**(aa) 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.

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**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(bb) Reclassifications**

Certain reclassifications have been made to the 2013 financial statements to conform to the classifications used in the 2014 financial statements.

**2. CASH EQUIVALENTS AND RESTRICTED INVESTMENTS**

**Custodial Credit Risk Deposits** – Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned. The Agency does not have a formal deposit policy for custodial credit risk and therefore, does not limit the amount of deposit custodial credit risk. The Agency mitigates custodial credit risk by ensuring that cash deposits that exceed federal depository insurance are collateralized and by investing in institutional money market accounts - government portfolio that are "AAA" rated.

At June 30, 2014, the carrying amount of the Agency's cash deposits was \$10,444,806. The bank balance was \$18,437,066 as of the same period, of which \$250,025 was covered by the Federal Depository Insurance Corporation (the "FDIC") and \$18,187,041 was uninsured and collateralized by securities held by the pledging institution's trust department in the Agency's name. The difference between the carrying amount and the bank balance is due to outstanding reconciling items (primarily outstanding checks) at year-end.

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. The difference between the carrying amount and the bank balance is due to outstanding reconciling items (primarily outstanding checks) at year-end.

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

<u>Description</u>	<u>2014</u>	<u>2013</u>
Cash on hand.....	\$ 100	\$ 100
Deposits with financial institutions .....	10,444,806	6,418,409
Institutional money market accounts – government portfolio.....	<u>239,396,054</u>	<u>230,771,929</u>
<b>Total cash and cash equivalents.....</b>	<b><u>\$249,840,960</u></b>	<b><u>\$237,190,438</u></b>

The institutional money market funds – government portfolio had credit ratings of AAAM/Aaa-mf by Standard & Poor's and Moody's at June 30, 2014 and 2013.

(CONTINUED)

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**2. CASH EQUIVALENTS AND RESTRICTED INVESTMENTS (Continued)**

The Agency's investments consisted of the following at June 30, 2014:

<u>Description</u>	<u>Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Rating Moody's/S&amp;P as of 6/30/2014</u>
<b>U.S. Agency Securities:</b>				
Federal National Mortgage Association.....	\$ 2,111,524	2014 - 2024	6.120% - 6.160%	AAA/AA+
Federal Home Loan Mortgage Corp.....	9,802,491	2015 - 2028	4.875% - 6.875%	AAA/AA+
Federal Home Loan Bank .....	<u>8,871,061</u>	2015 - 2023	4.750% - 5.625%	AAA/AA+
<b>Subtotal .....</b>	<b><u>20,785,076</u></b>			
<b>Municipal Bonds:</b>				
Texas - College Student Loan Refunding...	1,352,784	2017	5.00%	AAA/AAA
Washington State.....	857,083	2019	4.50%	AA2/N/A
Oregon State .....	11,590,902	2015 - 2023	3.795% - 5.435%	AA2/AA
New York State.....	<u>4,109,512</u>	2015 - 2016	4.274% - 4.700%	AA1/AA
<b>Subtotal .....</b>	<b><u>17,910,281</u></b>			
<b>Collateralized Repurchase Agreements:</b>				
Bayern LB.....	619,818	2016	3.75% - 5.600%	Aaa/AAA
Portigon (formerly Westdeutsche LB) .....	<u>4,909,285</u>	2019	6.280%	Aaa/AAA
<b>Subtotal .....</b>	<b><u>5,529,103</u></b>			
<b>Guaranteed Investment Contracts:</b>				
Bayern LB.....	6,536,010	2020	3.75% - 5.330%	Aaa/AAA
FSA Capital Management .....	7,296,129	2024	4.710%	A2/AA
FSA Capital Management .....	11,310,561	2025	4.670%	A2/AA
FSA Capital Management .....	5,707,399	2027	4.793%	A2/AA
FSA Capital Management .....	782,996	2028	5.060%	A2/AA
Transamerica .....	7,346,275	2026	4.770%	A1/AA-
Citigroup Financial Products .....	10,148,608	2027	4.805%	Baa2/A-**
GE Capital Corp .....	<u>5,056,768</u>	2029	4.498%	A1/AA+
<b>Subtotal .....</b>	<b><u>54,184,746</u></b>			
<b>Total Investments .....</b>	<b><u>\$98,409,206</u></b>			

\*\*As of June 30, 2014, 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, 2014 AND 2013**

**2. 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&amp;P as of 6/30/2013</u>
<b>U.S. Agency Securities:</b>				
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+
<b>Subtotal .....</b>	<b><u>21,610,210</u></b>			
<b>Municipal Bonds:</b>				
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
<b>Subtotal .....</b>	<b><u>22,042,350</u></b>			
<b>Collateralized Repurchase Agreements:</b>				
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
<b>Subtotal .....</b>	<b><u>6,768,346</u></b>			
<b>Guaranteed Investment Contracts:</b>				
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+
<b>Subtotal .....</b>	<b><u>58,302,238</u></b>			
<b>Total Investments .....</b>	<b><u>\$108,723,144</u></b>			

\*\*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, 2014 AND 2013**

**2. CASH EQUIVALENTS AND RESTRICTED INVESTMENTS (Continued)**

**Custodial Credit Risk - Investments** – Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Agency will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Agency requires that all investment agreements be collateralized either upon execution of such agreement or upon the happening of certain events, and at all times thereafter, by securities or other obligations issued or guaranteed by the United States, by certain federal agencies having a market value of not less than 100% of the amount currently on deposit or in accordance with their respective agreement. The Agency has a policy which requires the monthly monitoring of custodial credit risk, including the review of institutional credit ratings.

**Credit Risk**– Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The risk is evidenced by a rating issued by a nationally recognized statistical rating organization, which regularly rate such obligations. The majority of the Agency's investments are in Guaranteed Investment Contracts (GICs) or in Treasury or agency securities. The Treasury and agency securities are all backed by the federal government. The GICs either have collateral requirements in place upon execution of the investment agreement, or have triggered collateral requirements under which, upon a rating downgrade below a specified level, the counterparty is typically required to do one of three actions: 1) post collateral to a level sufficient to maintain an AA rating, 2) assign the investment contract to a new counterparty that has at least a AA rating, or 3) provide credit enhancement to maintain a rating on the investment contract of at least AA.

**Interest Rate Risk** – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Agency's investments. The Agency limits its exposure to interest rate risk by entering into guaranteed investments contracts and federally guaranteed fixed income securities for all of its long-term investments upon which the Agency relies to meet its obligations.

At June 30, 2014, maturities of the Agency's investment were as follows:

<u>Investment Maturities (Fair Value by Years)</u>					
<u>Description</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 .....	\$ 20,785,076	\$ 1,956,401	\$ 5,617,972	\$ 9,570,956	\$ 3,639,747
Municipal Bonds .....	17,910,281	3,960,413	8,725,318	5,224,550	
Collateralized Repurchase Agreements .....	5,529,103		5,529,103		
Guaranteed Investment Contracts .....	<u>54,184,746</u>			<u>13,832,139</u>	<u>40,352,607</u>
<b>Total</b> .....	<u>\$98,409,206</u>	<u>\$5,916,814</u>	<u>\$19,872,393</u>	<u>\$28,627,645</u>	<u>\$43,992,354</u>

At June 30, 2013, maturities of the Agency's investment were as follows:

<u>Investment Maturities (Fair Value by Years)</u>					
<u>Description</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 .....	<u>58,302,238</u>			<u>18,343,571</u>	<u>39,958,667</u>
<b>Total</b> .....	<u>\$108,723,144</u>	<u>\$5,414,828</u>	<u>\$24,665,830</u>	<u>\$34,769,019</u>	<u>\$43,873,467</u>

(CONTINUED)

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**2. CASH EQUIVALENTS AND RESTRICTED INVESTMENTS (Continued)**

**Concentration of Credit Risk** – Concentration of credit risk is the risk of loss attributed to the magnitude of the Agency's investment in a single issuer. The issuers where investments exceeded 5% of the Trust's total investments are as follows at June 30:

<i>Provider:</i>	<u>Percentage of Total Investments</u>	
	<u>2014</u>	<u>2013</u>
FSA Capital Management.....	26%	25%
Oregon State Municipal Bond.....	12%	12%
Citigroup Financial Products.....	10%	10%
Bayern LB.....	7%	8%
Transamerica.....	7%	7%
GE Capital Corp.....	5%	5%

**3. LOANS RECEIVABLE**

At June 30, 2014 and 2013, the Agency had loans receivable of \$1,171,111,536 and \$1,122,669,441 representing 202 and 201 outstanding loans, respectively, which are restricted for payment of bond debt service. At June 30, 2014 and 2013, the current portion of loans receivable totaled \$62,936,768 and \$57,177,078, respectively. In addition, at June 30, 2014 and 2013, the Agency had outstanding unused commitments (project costs payable) totaling approximately \$166,974,448 and \$180,252,850.

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

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

The Agency had loans receivable to three borrowers representing 53% of the Agency's total loan receivable balance at June 30, 2014 and 2013.

(CONTINUED)

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**3. LOANS RECEIVABLE (Continued)**

***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 wastewater 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, 2014 are summarized below:

<b><u>Clean Water SRF</u></b>			
<u>Capitalization Grant</u>	<u>Capitalization Grant Award</u>	<u>Principal Forgiveness Component</u>	<u>Principal Forgiveness Loans Issued June 30, 2014</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.....	9,486,000	527,198	527,198
2013.....	<u>8,955,000</u>	<u>500,000</u>	<u>500,000</u>
<b>Total</b> .....	<b><u>\$68,351,600</u></b>	<b><u>\$17,152,260</u></b>	<b><u>\$17,152,260</u></b>

The above schedule includes \$10,844,522 in principal forgiveness loans issued to Narragansett Bay Commission, the Agency's largest borrower.

<b><u>Drinking Water SRF</u></b>			
<u>Capitalization Grant</u>	<u>Capitalization Grant Award</u>	<u>Principal Forgiveness Component</u>	<u>Principal Forgiveness Loans Issued June 30, 2014</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	2,825,400
2012.....	8,975,000	1,795,000	1,795,000
2013.....	<u>8,421,000</u>	<u>1,684,200</u>	<u>0</u>
<b>Total</b> .....	<b><u>\$59,887,000</u></b>	<b><u>\$20,126,500</u></b>	<b><u>\$18,442,300</u></b>

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 \$35,594,560 and \$35,003,785 at June 30, 2014 and 2013, 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 2014 and 2013 was \$1,058,604 and \$894,241, respectively. The amounts are included in loan principal forgiveness in the statement of revenues, expenses, and changes in net position.

(CONTINUED)

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**4. 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>2014</u>	<u>2013</u>
<b>Water Pollution Control Revolving Fund Revenue Bonds:</b>		
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 .....	\$ 0	\$ 15,000
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.....	4,095,000	6,180,000
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.....	1,290,000	1,965,000
1995 Series A Bonds, dated December 15, 1995, at rates varying from 4.15% to 7.00% due annually from October 1, 1997 through October 1, 2016. On May 6, 2010, the Agency advance refunded \$415,000 of the outstanding bonds.....	850,000	1,075,000
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 .....	7,370,000	8,245,000
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.....	4,950,000	5,720,000
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.....	5,225,000	5,905,000

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**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**4. BONDS PAYABLE (Continued)**

	<u>2014</u>	<u>2013</u>
<b>Water Pollution Control Revolving Fund Revenue Bonds (Continued):</b>		
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.....	7,680,000	9,115,000
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 .....	13,940,000	17,680,000
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 .....	0	3,270,000
2004 Series A Bonds, dated December 30, 2004, with serial bonds of \$69,625,000 at rates varying from 2.50% to 5.00% due annually from October 1, 2005 through October 1, 2025. 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 .....	3,500,000	6,275,000
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 .....	32,035,000	34,445,000
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 .....	41,845,000	44,430,000
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 .....	32,725,000	34,640,000
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 .....	38,055,000	39,055,000
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 .....	64,400,000	67,650,000
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 .....	29,710,000	29,945,000

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**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**4. BONDS PAYABLE (Continued)**

	<u>2014</u>	<u>2013</u>
<b>Water Pollution Control Revolving Fund Revenue Bonds (Continued):</b>		
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 .....	37,540,000	38,450,000
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 .....	64,710,000	65,860,000
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	52,070,000
2014 Series A Bonds, dated February 20, 2014, with serial bonds of \$55,925,000 at rates varying from 2.00% to 5.00% due annually from October 1, 2015 through October 1, 2034 .....	55,925,000	0
<b>Safe Drinking Water Revenue Bonds:</b>		
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 .....	1,810,000	3,555,000
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 .....	9,835,000	12,315,000
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 .....	3,285,000	3,565,000
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 .....	32,590,000	33,615,000
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 .....	9,485,000	9,735,000

(CONTINUED)

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**4. BONDS PAYABLE (Continued)**

	<u>2014</u>	<u>2013</u>
<b>Safe Drinking Water Revenue Bonds (Continued):</b>		
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	35,780,000
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	38,790,000
<b>Non-SRF Wastewater Treatment System Revenue Bonds:</b>		
1997 Series Bonds, dated August 1, 1997. The Series 1997 Bonds mature on September 1, 2022, with sinking fund payments due on September 1, 1999, and September 1, 2018 through September 1, 2022, inclusive. Interest of 5.8% is due annually on March 1, and September 1.....	28,490,000	28,490,000
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.....	3,160,000	3,315,000
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 .....	9,330,000	9,850,000
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.....	2,192,000	2,399,000
2013 Series A Revenue Bonds (Town of Coventry), dated September 3, 2013 with serial bonds of \$8,225,000 at 4.25% due annually from September 1, 2014 through September 1, 2028.....	8,225,000	0
<b>Non-SRF Drinking Water Bonds:</b>		
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, dated December 17, 2003, with term bonds of \$7,655,000 at 6.00% due annually from October 1, 2025 through October 1, 2035 .....	7,655,000	7,655,000

(CONTINUED)

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**4. BONDS PAYABLE (Continued)**

	<u>2014</u>	<u>2013</u>
<b>Non-SRF Drinking Water Bonds (Continued):</b>		
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 .....	6,000,000	6,325,000
Subtotal.....	774,122,000	746,959,000
Add: bond premium (discount) net of amortization.....	63,500,084	61,448,512
<b>Total bonds payable.....</b>	<b><u>\$837,622,084</u></b>	<b><u>\$808,407,512</u></b>

Long-term liability activity for the year ended June 30, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<b>Long-term debt:</b>					
General obligation debt.....	\$746,959,000	\$64,150,000	\$36,987,000	\$774,122,000	\$40,659,000
Plus: bond premium (discount), net of amortization and refunding.....	61,448,512	6,323,260	4,271,688	63,500,084	
<b>Total long-term debt.....</b>	<b><u>\$808,407,512</u></b>	<b><u>\$70,473,260</u></b>	<b><u>\$41,258,688</u></b>	<b><u>\$837,622,084</u></b>	<b><u>\$40,659,000</u></b>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015.....	\$ 40,659,000	\$ 34,727,508	\$ 75,386,508
2016.....	44,016,000	32,762,591	76,778,591
2017.....	44,703,000	31,061,331	75,764,331
2018.....	45,560,000	29,264,286	74,824,286
2019.....	49,128,000	27,131,610	76,259,610
2020 - 2024.....	256,326,000	98,585,466	354,911,466
2025 - 2029.....	172,535,000	47,129,122	219,664,122
2030 - 2034.....	106,290,000	14,069,128	120,359,128
2035.....	14,905,000	501,681	15,406,681
<b>Total.....</b>	<b><u>\$774,122,000</u></b>	<b><u>\$315,232,723</u></b>	<b><u>\$1,089,354,723</u></b>

(CONTINUED)

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**4. BONDS PAYABLE (Continued)**

**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 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, 2014 and 2013 financial statements.

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

<u>Description</u>	<u>Defeased Bonds Outstanding June 30, 2014</u>
2012 Series B Clean Water .....	\$46,010,000
2013 Series B Drinking Water .....	<u>41,485,000</u>
<b>Total</b> .....	<b><u>\$87,495,000</u></b>

(CONTINUED)

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**4. BONDS PAYABLE (Continued)**

**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.

The Agency had no short-term debt activity for the year ended June 30, 2014.

**Deferred Outflows of Resources**

When the Agency refunds or advance refunds its bonds, it calculates the difference between the reacquisition price and the net carrying amount of the old debt. The resulting accounting gain or loss is then amortized over the life of the refunding bonds. The net unamortized excess of reacquisition price over the net carrying value of the defeased bonds is recorded in deferred outflows of resources on the Statements of Net Position.

Excess of reacquisition price over net carrying value of defeased bonds was as follows at June 30:

	<u>2014</u>	<u>2013</u>
Beginning balance of deferred outflows of resources.....	\$ 7,771,775	\$ 4,008,411
Additions .....	0	4,498,704
Reductions .....	<u>(958,886)</u>	<u>(735,340)</u>
<b>Ending balance of deferred outflows of resources..</b>	<b><u>\$ 6,812,889</u></b>	<b><u>\$ 7,771,775</u></b>

**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, 2014 AND 2013**

**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.

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, 2014:

<u>Grant Year</u>	<u>Award</u>	<u>Balance Remaining for Drawdown</u>
2012:		
Federal award .....	\$9,486,000	\$3,998,595
State match .....	1,897,200	0
2013:		
Federal award .....	8,955,000	7,655,851
State match .....	1,791,000	0
2014:		
Federal award (applied for July 2014) .....	9,410,000	N/A
State match (applied for July 2014) .....	1,882,000	N/A

(CONTINUED)

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**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. In order to receive the funding from EPA, the Agency must commit 20% of the Federal award in the form of State matching funds. The Agency agrees to provide, through methods available to it, the appropriate state matching funds to each grant.

The Drinking Water SRF allows the Department of Health to "set-aside" up to 31% of the annual capitalization grants in four set-aside accounts as follows: 1) 4% for program administration which is to be split between the Department of Health and the Agency, 2) up to 2% for technical assistance, 3) up to 10% for state program management, and 4) up to 15% for local assistance.

The following is a table of the federal and state matching funds awarded to the Agency and the balances remaining for drawdown under the Safe Drinking Water Act as of June 30, 2014:

<u>Grant Year</u>	<u>Award</u>	<u>Balance Remaining for Drawdown</u>
2010:		
Federal award .....	\$13,573,000	\$ 251,421
State match .....	2,714,600	0
2011:		
Federal award .....	9,418,000	540,398
State match .....	1,883,600	0
2012:		
Federal award .....	8,975,000	1,166,924
State match .....	1,795,000	0
2013:		
Federal award .....	8,421,000	8,421,000
State match .....	1,684,200	1,684,200
2014:		
Federal award (applied for July 2014) .....	8,845,000	N/A
State match (applied for July 2014) .....	1,769,000	N/A

(CONTINUED)

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**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 defined contribution 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, 2014 and 2013.

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 \$47,606 and \$51,161 for the years ended June 30, 2014 and 2013, 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, 2014 and 2013 were \$17,200 and \$23,947, 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 \$73,954 and \$59,891, during fiscal year 2014 and 2013, 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>
2015.....	\$ 79,744
2016.....	79,744
2017.....	79,744
2018.....	<u>79,744</u>
<b>Total</b> .....	<b><u>\$318,976</u></b>

(CONTINUED)

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**8. PROPERTY AND EQUIPMENT**

The summary of changes in property and equipment at June 30, 2014 are summarized below:

	<u>Balance at June 30, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2014</u>
<b>Cost:</b>				
Computers .....	\$ 51,626	\$ 6,512		\$ 58,138
Furniture and fixtures .....	25,598	7,059		32,657
Equipment .....	33,476	0		33,476
Leasehold Improvements .....	29,701	50,138		79,839
<b>Total cost</b> .....	<u>140,401</u>	<u>63,709</u>	<u>\$ 0</u>	<u>204,110</u>
<b>Accumulated depreciation:</b>				
Computers .....	47,253	3,205		50,458
Furniture and fixtures .....	22,870	1,485		24,355
Equipment .....	30,666	1,598		32,264
Leasehold Improvements .....	14,108	2,739		16,847
<b>Total accumulated depreciation</b> .....	<u>114,897</u>	<u>9,027</u>	<u>0</u>	<u>123,924</u>
<b>Net capital assets</b> .....	<u>\$ 25,504</u>	<u>\$54,682</u>	<u>\$ 0</u>	<u>\$ 80,186</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, 2014, no expenditures of the Agency have been disallowed. Agency officials believe that any future disallowance of expenditures would not be material.

**10. RESTATEMENT**

As a result of implementing GASB Statement No. 65 as discussed in Note 1, the Agency restated its net position at July 1, 2012 from \$460,021,569 to \$459,750,321.

Net position as of July 1, 2012 as originally reported .....	\$460,021,569
Write-off of debt issuance costs .....	(7,470,819)
Recognition of deferred loan origination fees .....	7,199,571
Net position as of July 1, 2012, as restated .....	<u>\$459,750,321</u>

(CONTINUED)

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

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**11. 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 \$35,088,000 at June 30, 2014.

**12. 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.

**13. 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.

(CONTINUED)

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

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**14. SUBSEQUENT EVENTS**

Management has evaluated potential subsequent events through October 27, 2014, the date the financial statements were available to be issued.

The Municipal Road and Bridge Revolving Fund closed 9 loans totaling \$10,215,000 in the first quarter of fiscal year 2015.

(CONCLUDED)

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# **RHODE ISLAND CLEAN WATER FINANCE AGENCY**

## **SUPPLEMENTARY INFORMATION**

*This section contains the following:*

*Combining Fund Financial Statements for:*

*Water Pollution Control Revolving Fund (WPCRF) – This fund is used to account for amounts received and expended from the Federally Capitalized SRF, Title VI of the Clean Water Act, along with amounts received and expended from the 20% required state matching of federal funding.*

*Rhode Island Water Pollution Control Revolving Fund (RIWPCRF) – This fund accounts for amounts received from state contributions and expended to finance projects not meeting the requirements of federal programs. This fund also accounts for the activity of the Facility Plan Loan Program, the Rhode Island Zero Interest Loan Fund, and the Sewer Tie-in Loan Fund.*

*Operating Fund – This fund is used to account for amounts received and expended for the general and administrative costs not applicable to the other funds.*

*Drinking Water State Revolving Fund (DWSRF) – This fund accounts for amounts received and expended from the Federally Capitalized SRF, the Safe Drinking Water Act of 1996, along with amounts received and expended from the required state matching of federal funding.*

*Municipal Road and Bridge Revolving Fund (MRBRF) – This fund accounts for amounts received and expended to provide low-cost financial assistance for road and bridge projects.*

*Schedule of Travel and Entertainment Expenses*

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RHODE ISLAND CLEAN WATER FINANCE AGENCY

**COMBINING STATEMENT OF NET POSITION**  
**JUNE 30, 2014**

	<u>WPCRF</u>	<u>RIWPCRF</u>	<u>OPERATING</u>	<u>DWSRF</u>	<u>MRBRF</u>	Total (Memorandum Only)
<b>ASSETS:</b>						
<b>Current assets:</b>			\$ 38,025,075	\$ 0	\$ 0	\$ 38,025,075
Cash equivalents and investments:						
Unrestricted:						
Cash equivalents						
Total unrestricted cash equivalents			\$ 38,025,075	\$ 0	\$ 0	\$ 38,025,075
Restricted:						
Cash equivalents	151,311,816	4,568,754	45,621,021		10,314,294	211,815,885
Investments	74,347,373		24,061,833			98,409,206
Total restricted cash equivalents and investments	225,659,189	4,568,754	69,682,854		10,314,294	310,225,091
Restricted loans receivable	44,465,459	3,205,000	1,894,000	13,372,309		62,936,768
Accrued interest receivable:						
Loans	4,000,793	202,951	1,375,608	2,398,047		7,977,399
Investments	826,849		216,475			1,043,324
Accounts receivable - service fees			1,549,701			1,549,701
Prepaid expenses and other receivables			127,784	1,786		129,570
<b>Total current assets</b>	<b>274,952,290</b>	<b>7,976,705</b>	<b>42,972,168</b>	<b>85,671,471</b>	<b>10,314,294</b>	<b>421,886,928</b>
<b>Noncurrent assets:</b>						
Restricted loans receivable	716,124,799	20,104,599	96,058,005	275,887,365		1,108,174,768
<b>Total noncurrent assets</b>	<b>716,124,799</b>	<b>20,104,599</b>	<b>96,058,005</b>	<b>275,887,365</b>	<b>0</b>	<b>1,108,174,768</b>
<b>Capital assets:</b>						
Computer equipment			58,138			58,138
Furniture and fixtures			32,657			32,657
Equipment			33,476			33,476
Leasehold improvements			79,839			79,839
Subtotal	0	0	204,110	0		204,110
Less: accumulated depreciation			(123,924)			(123,924)
<b>Total capital assets</b>	<b>0</b>	<b>0</b>	<b>80,186</b>	<b>0</b>	<b>0</b>	<b>80,186</b>
<b>TOTAL ASSETS</b>	<b>991,077,089</b>	<b>28,081,304</b>	<b>139,110,359</b>	<b>361,558,836</b>	<b>10,314,294</b>	<b>1,530,141,882</b>
<b>Deferred Outflows of Resources</b>	<b>5,121,255</b>	<b>0</b>	<b>15,777</b>	<b>1,675,857</b>	<b>0</b>	<b>6,812,889</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION. (CONTINUED)

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**COMBINING STATEMENT OF NET POSITION  
JUNE 30, 2014**

	<u>WPCRF</u>	<u>RIWPCRF</u>	<u>OPERATING</u>	<u>DWSRF</u>	<u>MRBRF</u>	Total (Memorandum Only)
<b>LIABILITIES:</b>						
<b>Current liabilities:</b>						
Project costs payable	124,037,192	476,911	9,102,330	33,358,015		166,974,448
Bonds payable	31,495,000		1,669,000	7,495,000		40,659,000
Accrued interest payable	6,088,953		1,309,311	1,838,821		9,237,085
Accounts payable and accrued expenses			223,966			223,966
<b>Total current liabilities</b>	<b>161,621,145</b>	<b>476,911</b>	<b>12,304,607</b>	<b>42,691,836</b>	<b>0</b>	<b>217,094,499</b>
<b>Noncurrent liabilities:</b>						
Bonds payable, net of current portion	537,310,735		83,017,430	176,634,919		796,963,084
Accrued arbitrage rebate	1,485,746			50,250		1,535,996
<b>Total noncurrent liabilities</b>	<b>538,796,481</b>	<b>0</b>	<b>83,017,430</b>	<b>176,685,169</b>	<b>0</b>	<b>798,499,080</b>
<b>TOTAL LIABILITIES</b>	<b>700,417,626</b>	<b>476,911</b>	<b>95,322,037</b>	<b>219,377,005</b>	<b>0</b>	<b>1,015,593,579</b>
<b>NET POSITION:</b>						
Net investment in capital assets			80,186			80,186
Restricted	295,780,718	27,604,393		143,857,688	10,314,294	477,557,093
Unrestricted			43,723,913			43,723,913
<b>TOTAL NET POSITION</b>	<b>\$ 295,780,718</b>	<b>\$ 27,604,393</b>	<b>\$ 43,804,099</b>	<b>\$ 143,857,688</b>	<b>\$ 10,314,294</b>	<b>\$ 521,361,192</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION.

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**COMBINING STATEMENT OF NET POSITION**

**JUNE 30, 2013**

	<u>WPCRF</u>	<u>RIWPCRF</u>	<u>OPERATING</u>	<u>DWSRF</u>	Total (Memorandum Only)
<b>ASSETS:</b>					
<b>Current assets:</b>					
Cash equivalents and investments:					
Unrestricted:					
Cash equivalents			\$ 33,211,928		\$ 33,211,928
Total unrestricted cash equivalents	0	0	33,211,928	0	33,211,928
Restricted:					
Cash equivalents	125,261,325	5,388,456		73,328,729	203,978,510
Investments	83,099,058			25,624,086	108,723,144
Total restricted cash equivalents and investments	208,360,383	5,388,456	0	98,952,815	312,701,654
Restricted loans receivable, net	41,617,022	3,371,600	1,427,000	10,761,456	57,177,078
Accrued interest receivable:					
Loans	3,753,113	232,778	1,259,175	2,065,005	7,310,071
Investments	945,168			237,141	1,182,309
Accounts receivable - service fees			1,422,816		1,422,816
Prepaid expenses and other receivables			183,568	1,786	185,354
<b>Total current assets</b>	<b>254,675,686</b>	<b>8,992,834</b>	<b>37,504,487</b>	<b>112,018,203</b>	<b>413,191,210</b>
<b>Noncurrent assets:</b>					
Restricted loans receivable, net	667,792,397	23,313,287	86,727,005	287,659,674	1,065,492,363
<b>Total noncurrent assets</b>	<b>667,792,397</b>	<b>23,313,287</b>	<b>86,727,005</b>	<b>287,659,674</b>	<b>1,065,492,363</b>
<b>Capital assets:</b>					
Computer equipment			51,626		51,626
Furniture and fixtures			25,598		25,598
Equipment			33,476		33,476
Leasehold improvements			29,701		29,701
Subtotal	0	0	140,401	0	140,401
Less: accumulated depreciation			(114,897)		(114,897)
<b>Total capital assets</b>	<b>0</b>	<b>0</b>	<b>25,504</b>	<b>0</b>	<b>25,504</b>
<b>TOTAL ASSETS</b>	<b>922,468,083</b>	<b>32,306,121</b>	<b>124,256,996</b>	<b>399,677,877</b>	<b>1,478,709,077</b>
<b>Deferred Outflows of Resources</b>	<b>5,894,264</b>	<b>0</b>	<b>36,816</b>	<b>1,840,695</b>	<b>7,771,775</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION.

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**COMBINING STATEMENT OF NET POSITION  
JUNE 30, 2013**

	<u>WPCRF</u>	<u>RIWPCRF</u>	<u>OPERATING</u>	<u>DWSRF</u>	Total (Memorandum Only)
<b>LIABILITIES:</b>					
<b>Current liabilities:</b>					
Project costs payable	92,963,792	496,455	5,126,034	81,666,569	180,252,850
Bonds payable	30,000,000		1,207,000	5,780,000	36,987,000
Accrued interest payable	5,193,277		1,206,677	1,122,024	7,521,978
Accounts payable and accrued expenses			559,584		559,584
<b>Total current liabilities</b>	<b>128,157,069</b>	<b>496,455</b>	<b>8,099,295</b>	<b>88,568,593</b>	<b>225,321,412</b>
<b>Noncurrent liabilities:</b>					
Bonds payable, net of current portion	509,691,466		76,476,529	185,252,517	771,420,512
Accrued arbitrage rebate	1,391,322		87,790		1,479,112
<b>Total noncurrent liabilities</b>	<b>511,082,788</b>	<b>0</b>	<b>76,564,319</b>	<b>185,252,517</b>	<b>772,899,624</b>
<b>TOTAL LIABILITIES</b>	<b>639,239,857</b>	<b>496,455</b>	<b>84,663,614</b>	<b>273,821,110</b>	<b>998,221,036</b>
<b>NET POSITION:</b>					
Net investment in capital assets			25,504		25,504
Restricted	289,122,490	31,809,666		127,697,462	448,629,618
Unrestricted			39,604,694		39,604,694
<b>TOTAL NET POSITION</b>	<b>\$ 289,122,490</b>	<b>\$ 31,809,666</b>	<b>\$ 39,630,198</b>	<b>\$ 127,697,462</b>	<b>\$ 488,259,816</b>

SCHEDULE 2

RHODE ISLAND CLEAN WATER FINANCE AGENCY

**COMBINING STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
YEAR ENDED JUNE 30, 2014**

	WPCRF	RWPCRF	OPERATING	DWSRF	MRRBF	Total (Memorandum Only)
<b>Operating revenues:</b>						
Investment income	\$ 3,245,756	\$ 396	\$ 3,017	\$ 966,292	\$ 425	\$ 4,215,886
Interest income - loans	11,723,474	623,905	4,400,363	6,990,279		23,738,021
Grant income - operating	473,471		2,695,859			3,169,330
Service fees			4,511,793			4,511,793
Loan origination fees	900,000		100,563	16,000		1,016,563
<b>Total operating revenues</b>	<b>16,342,701</b>	<b>624,301</b>	<b>11,711,595</b>	<b>7,972,571</b>	<b>425</b>	<b>36,651,593</b>
<b>Operating expenses:</b>						
Interest expense	19,921,885		4,219,184	6,591,537		30,732,606
Consulting fees - D.E.M and D.O.H.	757,939		2,788,026			3,545,965
Employee expense			744,882			744,882
Insurance expense			13,871			13,871
Legal fees			149,016			149,016
Loan principal forgiveness	383,119			675,485		1,058,604
Bond issuance costs	580,952					580,952
Office expense			111,320			111,320
Accounting and auditing			52,918			52,918
Depreciation expense			9,027			9,027
Trustee/bank fees			181,891			181,891
Promotional expenses			7,483			7,483
Financial advisor fees			43,024			43,024
Dues and subscriptions			9,441			9,441
Seminars			1,923			1,923
Business and travel expense			10,233			10,233
Miscellaneous expense			6,791			6,791
<b>Total operating expenses</b>	<b>21,643,895</b>	<b>0</b>	<b>8,349,030</b>	<b>7,267,022</b>	<b>0</b>	<b>37,259,947</b>
Operating income (loss)	(5,301,194)	624,301	3,362,565	705,549	425	(608,354)
<b>Other revenue:</b>						
Grant income - non-operating	6,064,210	1,791,000	0	15,540,651	10,313,869	33,709,730
Change in net position	763,016	2,415,301	3,362,565	16,246,200	10,314,294	33,101,376
Transfer from (to) other funds	5,895,212	(6,620,574)	811,336	(85,974)	0	0
<b>Net position, beginning of year, as restated</b>	<b>289,122,490</b>	<b>31,809,666</b>	<b>39,630,198</b>	<b>127,697,462</b>	<b>0</b>	<b>488,259,816</b>
<b>Net position, end of year</b>	<b>\$ 295,780,718</b>	<b>\$ 27,604,393</b>	<b>\$ 43,804,099</b>	<b>\$ 143,857,688</b>	<b>\$ 10,314,294</b>	<b>\$ 521,361,192</b>

**SCHEDULE 2**

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED JUNE 30, 2013**

	<u>WPCRF</u>	<u>RIWPCRF</u>	<u>OPERATING</u>	<u>DWSRF</u>	Total (Memorandum Only)
<b>Operating revenues:</b>					
Investment income	\$ 2,361,442	\$ 487	\$ 2,399	\$ 418,442	\$ 2,782,770
Interest income - loans	11,323,555	713,808	4,111,089	5,736,838	21,885,290
Grant income - operating	659,715		2,914,542		3,574,257
Service fees			4,159,174		4,159,174
Direct loan fees and other			249,302		249,302
Loan origination fees	804,575	500		692,733	1,497,808
<b>Total operating revenues</b>	<b>15,149,287</b>	<b>714,795</b>	<b>11,436,506</b>	<b>6,848,013</b>	<b>34,148,601</b>
<b>Operating expenses:</b>					
Interest expense	18,792,949		3,989,372	5,371,236	28,153,557
Consulting fees - D.E.M and D.O.H.	659,715		2,914,542		3,574,257
Employee expense			701,916		701,916
Insurance expense			13,576		13,576
Legal fees			117,712		117,712
Loan principal forgiveness	349,966			544,275	894,241
Bond issuance costs	1,293,361			982,510	2,275,871
Office expense			93,820		93,820
Accounting and auditing			42,531		42,531
Depreciation expense			7,946		7,946
Trustee/bank fees			182,298		182,298
Promotional expenses			9,640		9,640
Financial advisor fees			47,522		47,522
Dues and subscriptions			8,510		8,510
Seminars			1,875		1,875
Business and travel expense			10,128		10,128
Miscellaneous expense			4,885		4,885
<b>Total operating expenses</b>	<b>21,095,991</b>	<b>0</b>	<b>8,146,273</b>	<b>6,898,021</b>	<b>36,140,285</b>
Operating income (loss)	(5,946,704)	714,795	3,290,233	(50,008)	(1,991,684)
<b>Other revenue:</b>					
Grant income - non-operating	9,634,259	3,593,680	0	17,273,240	30,501,179
Change in net position	3,687,555	4,308,475	3,290,233	17,223,232	28,509,495
Transfer from (to) other funds	6,036,284	(8,540,614)	1,613,521	890,809	0
<b>Net position, beginning of year, as restated</b>	<b>279,398,651</b>	<b>36,041,805</b>	<b>34,726,444</b>	<b>109,583,421</b>	<b>459,750,321</b>
<b>Net position, end of year</b>	<b>\$ 289,122,490</b>	<b>\$ 31,809,666</b>	<b>\$ 39,630,198</b>	<b>\$ 127,697,462</b>	<b>\$ 488,259,816</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION.

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**SCHEDULE OF TRAVEL AND ENTERTAINMENT EXPENSES  
YEAR ENDED JUNE 30, 2014**

Executive Director's attendance at 2013 EPA/SRF Workshop – Chelmsford, MA – September 24, 2013 – September 26, 2013:

Lodging and other ..... \$ 400

Executive Director's attendance at C.I.F.A. SRF Workshop – Minneapolis, MN – November 2, 2013 – November 7, 2013:

Airfare ..... 449  
 Lodging and other ..... 1,164  
 Total ..... 1,613

Executive Director and Deputy Director/CFO's attendance at C.I.F.A. Federal Policy Conference – Washington, DC – April 13, 2014 – April 15, 2014:

Airfare ..... 197  
 Lodging and other ..... 2,665  
 Total ..... 2,862

Executive Director and Deputy Director/CFO's attendance at EPA Workshop Conference – Chicago, IL – June 23, 2014 – June 25, 2014:

Airfare ..... 1,572  
 Lodging and other ..... 1,269  
 Total ..... 2,841

Various expenses ..... 2,517

**Total expenses** ..... **\$10,233**

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION.

# ***RHODE ISLAND CLEAN WATER FINANCE AGENCY***

## **STATISTICAL SECTION**

This part of the Rhode Island Clean Water Finance Agency's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information reveals about the government's overall financial health.

The Statistical Schedules differ from other financial statement presentations because they generally disclose more than one fiscal year and present non-accounting data such as social and economic data and financial trends of the Agency.

<b><u>Contents</u></b>	<b><u>Page</u></b>
Financial Trends	
<i>These schedules contain trend information to help the reader understand how the Agency's financial performance and fiscal health have changed over time.</i>	55- 56
Revenue Capacity	
<i>These schedules contain information to help the reader assess the factors affecting the Agency's ability to provide interim loans and general obligations.</i>	57-58
Debt Capacity	
<i>These schedules present information to help the reader assess the affordability of the Agency's current levels of outstanding debt and the Agency's ability to issue additional debt in the future.</i>	59-61
Operating Information	
<i>These schedules contain information to help the reader understand how the information in the Agency's financial report relates to the services the Agency provides and the activities it performs.</i>	62-63
Demographic and Economic Information	
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the Agency's financial activities take place.</i>	64-66

Sources: Unless otherwise noted, the information in these schedules is derived from the annual financial reports for the relevant year.

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**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

***Net Position by Component***

Last Ten Fiscal Years

(dollar amounts in thousands)

<u>Fiscal Year</u>	<u>Net Investment in Capital Assets</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
2014	\$ 80	\$ 477,557	\$ 43,724	\$ 521,361
2013	25	448,630	39,605	488,260
2012	30	425,024	34,696	459,750
2011	29	399,830	30,350	430,209
2010	37	358,370	25,892	384,299
2009	37	336,939	23,275	360,251
2008	46	329,259	22,114	351,419
2007	35	318,427	18,114	336,576
2006	43	303,586	14,560	318,189
2005	50	279,998	11,714	291,762

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

***Changes in Net Position***

Last Ten Fiscal Years  
(dollar amounts in thousands)

<u>Fiscal Year</u>	<u>Operating Revenues</u>	<u>Operating Expenses</u>	<u>Operating Income (Loss)</u>	<u>Grant Income</u>	<u>Change in Net Position</u>
2014	\$ 36,652	\$ 37,260	\$ (608)	\$ 33,709	\$ 33,101
2013	34,148	36,140	(1,992)	30,501	28,509
2012	37,608	35,251	2,357	27,564	29,921
2011	30,735	33,688	(2,953)	48,863	45,910
2010	33,727	32,034	1,693	22,356	24,049
2009	32,506	31,860	646	8,186	8,832
2008	33,741	29,802	3,939	10,904	14,843
2007	31,523	28,150	3,373	15,015	18,388
2006	29,439	26,943	2,496	23,931	26,427
2005	27,098	23,603	3,495	23,985	27,480

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**Operating Revenue Components**

Last Ten Fiscal Years

(dollar amounts in thousands)

<u>Fiscal Year</u>	<u>Investment Income</u>	<u>Interest Income - Loans</u>	<u>Grant Income - Operating</u>	<u>Service Fees</u>	<u>Loan and Other Origination Fees</u>	<u>Total Operating Revenues</u>
2014	\$ 4,216	\$ 23,738	\$ 3,169	\$ 4,512	\$ 1,017	\$ 36,652
2013	2,783	21,885	3,574	4,159	1,748	34,149
2012	8,970	20,243	3,094	3,792	1,509	37,608
2011	5,819	18,033	2,496	3,535	852	30,735
2010	10,391	16,881	2,248	3,386	821	33,727
2009	9,630	16,364	2,428	3,332	752	32,506
2008	12,377	15,371	2,176	3,144	673	33,741
2007	10,973	14,875	2,123	2,934	618	31,523
2006	9,825	13,945	2,478	2,628	563	29,439
2005	9,447	12,636	2,350	2,149	516	27,098

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**Ten Largest Payors/Borrowers**  
Current Year and Nine Years Ago

<u>LOAN PAYOR / BORROWER</u>	<u>FY 2014 RANK</u>	<u>% OF REVENUE</u>	<u>FY 2005 RANK</u>	<u>% OF REVENUE</u>
Narragansett Bay Commission	1	32.44%	1	39.96%
City of Newport	2	11.38%	9	2.02%
City of Pawtucket	3	8.74%	3	12.31%
City of Warwick	4	7.74%	2	2.02%
Providence Water Supply Board	5	6.29%	7	2.28%
City of East Providence	6	5.38%	18	0.47%
RI Airport Corporation	7	2.86%	*N/R	**0.00
Town of Bristol	8	2.48%	10	1.95%
City of Woonsocket	9	2.18%	6	2.39%
City of Cranston	10	2.17%	12	1.29%

\*No Rank available

\*\*Borrower / Payor after June 30, 2005

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**Operating Expense Components**

Last Ten Fiscal Years

(dollar amounts in thousands)

<u>Fiscal Year</u>	<u>Interest Expense</u>	<u>Loan Principal Forgiveness</u>	<u>Consulting Fees</u>	<u>Administrative Expenses</u>	<u>Professional Expenses</u>	<u>Total Operating Expenses</u>
2014	\$ 30,732	\$ 1,059	\$ 3,546	\$ 1,496	\$ 427	\$ 37,260
2013	28,153	894	3,574	3,128	391	36,140
2012	29,183	804	3,094	1,269	422	34,772
2011	29,448	163	2,496	1,224	357	33,688
2010	28,153	-	2,248	1,147	486	32,034
2009	27,651	-	2,428	1,214	567	31,860
2008	26,379	-	2,176	1,015	232	29,802
2007	24,889	-	2,123	964	174	28,150
2006	23,377	-	2,479	919	168	26,943
2005	20,266	-	2,350	815	172	23,603

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

***Bond Issuances***

Last Ten Fiscal Years  
(dollar amounts in thousands)

<u>Fiscal Year</u>	<u>Number of Bond Issuances</u>	<u>Total Bond Amount</u>
2014	2	\$ 64,150
2013	4	192,500
2012	4	69,280
2011	2	50,545
2010	4	158,775
2009	0	0
2008	3	80,090
2007	2	62,930
2006	1	49,080
2005	2	112,585

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

***Debt Schedule***

Last Ten Fiscal Years

(dollar amounts in thousands)

<u>Fiscal Year</u>	<u>General Obligation Debt</u>	<u>Bond Premium/ (Discount) Net of Amortization</u>	<u>Amount Deferred on Refunding</u>	<u>Bonds Payable, Net</u>
2014	\$ 774,122	\$ 63,500	\$ -	\$ 837,622
2013	746,959	61,448	- *	808,407
2012	706,985	36,763	(4,008)	739,740
2011	671,225	29,979	(4,585)	696,619
2010	652,710	28,213	(5,162)	675,761
2009	602,605	17,282	(669)	619,218
2008	631,340	18,320	(778)	648,882
2007	576,950	16,645	(887)	592,708
2006	535,850	14,345	(996)	549,199
2005	504,660	13,887	(1,105)	517,442

\* Fiscal year 2013 was restated for the implementation of GASB 65, in fiscal year 2014.

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**Loan Agreements**

Last Ten Fiscal Years

(dollar amounts in thousands)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>Clean Water State Revolving Fund</b>										
Number of Loan Agreements	7	10	10	10	21	1	17	13	13	10
Total Loan Agreement Amounts	\$ 90,900	\$ 81,970	\$ 56,695	\$ 62,640	\$ 139,306	\$ 300	\$ 53,821	\$ 65,863	\$ 58,279	\$ 76,566
<b>Drinking Water State Revolving Fund</b>										
Number of Loan Agreements	2	6	7	0	14	2	4	4	2	4
Total Loan Agreement Amounts	1,600	69,772	66,540	0	43,058	635	46,800	12,600	1,589	44,624
<b>RICWFA - Conduit Financing</b>										
Number of Loan Agreements	1	0	2	1	0	0	1	0	0	0
Total Loan Agreement Amounts	8,225	0	9,040	10,345	0	0	4,000	0	0	0
<b>RICWFA - Operating / Admin Financing</b>										
Number of Loan Agreements	2	0	0	2	0	0	0	0	0	0
Total Loan Agreement Amounts	8,000	0	0	5,998	0	0	0	0	0	0
<b>RIWPCRF - State Revolving Fund</b>										
Number of Loan Agreements	0	0	2	1	1	0	0	0	0	0
Total Loan Agreement Amounts	0	0	300	150	150	0	0	0	0	0
<b>TOTAL</b>										
Number of Loan Agreements	12	16	21	14	36	3	22	17	15	14
Total Loan Agreement Amounts	\$ 108,725	\$ 151,742	\$ 132,575	\$ 79,133	\$ 182,514	\$ 935	\$ 104,621	\$ 78,463	\$ 59,868	\$ 121,190

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

***Schedule of Full-Time Employees  
By Program and Agency  
Last Ten Fiscal Years***

<b><u>Fiscal Year</u></b>	<b><u>RICWFA Administrative</u></b>	<b><u>Clean Water Program</u></b>	<b><u>Drinking Water Program</u></b>	<b><u>Municipal Road and Bridge Program</u></b>	<b><u>Total Agency</u></b>
2014	4	1	1	1	7
2013	4	1	1		6
2012	5	1	1		7
2011	5	1	1		7
2010	4	1	1		6
2009	4	1	1		6
2008	4	1	1		6
2007	4	1	1		6
2006	4	1	1		6
2005	4	1	1		6

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**State of Rhode Island Demographics**

Last Ten Years

<b>Calendar Year</b>	<b>Population</b>	<b>Personal Income (thousands of dollars)</b>	<b>Per Capita Personal Income (dollars)</b>	<b>Total Students, Public Schools</b>	<b>Unemployment Rate</b>
2013	1,051,511	\$ 49,433,814	\$ 47,012	unavailable	9.5%
2012	1,050,304	48,184,495	45,877	141,564	10.3%
2011	1,051,302	46,881,303	44,621	142,575	11.2%
2010	1,052,567	45,267,567	42,999	143,674	11.7%
2009	1,053,209	43,470,708	41,257	143,591	10.9%
2008	1,053,502	44,143,873	41,842	146,228	7.7%
2007	1,055,009	43,125,881	40,788	149,925	5.2%
2006	1,060,196	41,257,610	38,809	151,690	5.1%
2005	1,064,989	38,992,878	36,513	154,863	5.1%
2004	1,071,414	38,118,500	35,473	157,362	5.2%

**Indicator**

*Population*

*Personal Income*

*Per Capita Personal Income*

*Total Students, Public Schools*

*Unemployment Rate*

**Source and Notes**

*Census. Estimates as of July 1, with exception of 2010, which is the Census count.*

*Bureau of Economic Analysis. Not adjusted for inflation.*

*Bureau of Economic Analysis. Not adjusted for inflation.*

*National Center for Education statistics. For academic year ending in the year indicated.*

*RI Department of Labor and Training*

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

***Schedule of Total Net Debt, Rhode Island Resident Population,  
and Debt per Capita  
Last Ten Fiscal Years***

<b><u>Fiscal Year</u></b>	<b><u>Total Debt, Net (in thousands)</u></b>	<b><u>Population* (in thousands)</u></b>	<b><u>Per Capita Debt, Net (dollars)</u></b>
2014	\$ 837,622	1,052	\$ 796.59
2013	808,407	1,050	769.69
2012	739,740	1,051	703.64
2011	696,619	1,053	661.83
2010	675,761	1,053	641.62
2009	619,218	1,054	587.77
2008	648,882	1,055	615.05
2007	592,708	1,060	559.06
2006	549,199	1,065	515.69
2005	517,442	1,071	482.95

\* Based on a calendar year ending December 31st.

**RHODE ISLAND CLEAN WATER FINANCE AGENCY**

**Employment Sectors - Rhode Island Establishment Employment**

Current Year and Nine Years Ago  
(amounts in thousands)

	<u>2013</u>			<u>2004</u>		
	<u>*Employees</u>	<u>Rank</u>	<u>Percentage</u>	<u>*Employees</u>	<u>Rank</u>	<u>Percentage</u>
Educational and Health Services	105	1	22%	93	1	19%
Trade, Transportation & Utilities	74	2	16%	80	2	16%
Government	60	3	13%	66	3	13%
Professional and Business Services	59	4	13%	54	5	11%
Leisure and Hospitality	53	5	11%	50	6	10%
Manufacturing	40	6	8%	57	4	12%
Financial Activities (including Real Estate)	32	7	7%	34	7	7%
Other Services	23	8	5%	23	8	5%
Construction	16	9	3%	21	9	4%
Information	9	10	2%	11	10	3%
Total	<u>471</u>		<u>100%</u>	<u>489</u>		<u>100%</u>

\*Annual Average

Source: Rhode Island Department of Labor and Training. Based on a calendar year ending December 31st.

***RHODE ISLAND CLEAN WATER  
FINANCE AGENCY***

**REPORT IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**





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**INDEPENDENT AUDITOR'S  
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the 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, the financial statements of the Rhode Island Clean Water Finance Agency, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Rhode Island Clean Water Finance Agency's basic financial statements, and have issued our report thereon dated October 27, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Rhode Island Clean Water Finance Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rhode Island Clean Water Finance Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rhode Island Clean Water Finance Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rhode Island Clean Water Finance Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

October 27, 2014

*Cayer Caccia, LLP*