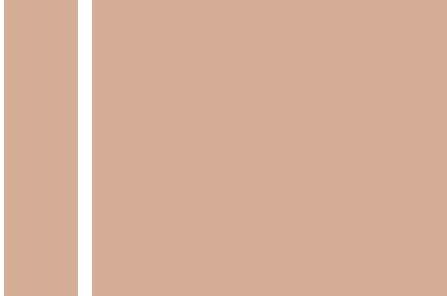




NARRAGANSETT BAY COMMISSION

FISCAL YEAR 2008

A COMPONENT UNIT OF THE STATE OF RHODE ISLAND  
COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE  
FISCAL YEAR ENDED JUNE 30, 2008





# **Narragansett Bay Commission**

**A Component Unit of the State of Rhode Island**

**Comprehensive Annual Financial Report**

**Fiscal Year Ended June 30, 2008**

**Prepared by: The Division of Administration and Finance  
of the Narragansett Bay Commission**



*Photo: Sunset on Narragansett Bay*





# **Narragansett Bay Commission's Mission Statement**

**“The mission of the Narragansett Bay Commission is  
to maintain a leadership role  
in the protection and enhancement of water quality  
in Narragansett Bay and its tributaries  
by providing safe and reliable  
wastewater collection and treatment services  
to its customers at a reasonable cost.”**



*Photo: Newport Beach*



**NARRAGANSETT BAY COMMISSION**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
*For the Fiscal Year Ended 2008*

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**NARRAGANSETT BAY COMMISSION**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
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Comprehensive Annual Financial Report  
**Introductory Section**



*Photo: Field's Point Wastewater Treatment Facility aeration tank*





The Narragansett Bay Commission  
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<http://www.narrabay.com>



Vincent J. Mesolella  
Chairman

Raymond J. Marshall, P.E.  
Executive Director

**September 15, 2008**

## **To the Chairman and the Commissioners of the Narragansett Bay Commission:**

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the Narragansett Bay Commission (NBC) for the fiscal year ended June 30, 2008. The purpose of the report is to provide a broad financial picture of the NBC to the Board of Commissioners, NBC's customers, the public, and other interested parties.

State law requires that every component unit of the State of Rhode Island publish a complete set of audited financial statements within three months of the close of each fiscal year. This report is published to fulfill that requirement for the fiscal year ended June 30, 2008.

This Comprehensive Annual Financial Report (CAFR) was prepared by the NBC's staff following guidelines set forth by the Governmental Accounting Standards Board (GASB). Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Bacon & Company CPA's LLC have issued an unqualified ("clean") opinion on the NBC's financial statements for the year ended June 30, 2008. The independent auditor's report is located at the front of the financial section of this report.

### **PROFILE OF NARRAGANSETT BAY COMMISSION**

The NBC is a non-profit public corporation established in 1980 by an act of the Rhode Island Legislature. The NBC was created for purposes of acquiring, operating and upgrading the metropolitan Providence wastewater collection and treatment facilities. On June 27, 1991, the Governor of the State of Rhode Island signed into law legislation mandating the merger of the NBC and the former Blackstone Valley District Commission (BVDC). The merger became effective on January 1, 1992.

The NBC is a component unit of the State of Rhode Island for financial reporting purposes. Accordingly, the financial statements of the NBC will be included in the State of Rhode Island's annual financial report.

A 19-member Board of Commissioners (Board) governs the NBC. The Board represents the municipalities in the service area, and also includes ten gubernatorial appointments. Empowered with responsibilities ranging from ensuring that the NBC operates a balanced budget to approving contracts for improving and sustaining the treatment facilities and wastewater collection system, the Board meets monthly to guide the direction of the NBC.

In addition, the NBC's Citizen Advisory Committee (CAC) is a diverse group of dedicated individuals, representing municipalities throughout the NBC's service area, industrial and residential users, environmental organizations and the general public. The CAC also advises the Board on matters pertaining to sewer usage fees, sewer construction, pretreatment, public awareness and education.

The NBC prepares its operating budget on a modified cash basis. Accordingly, certain non-cash expenses such as depreciation and amortization are not provided for in the operating budget. The budget includes the debt service principal payments on all debt, including debt issued to finance capital projects included in NBC's Capital Improvement Program (CIP).

A line item budget is maintained for each individual section or program. Finance staff reviews the budget versus actual status on a monthly basis. All budget transfers must be approved by the Division Director and the Director of Administration and Finance. The Executive Director notifies the NBC's Finance Committee of these adjustments on a monthly basis. In addition, the Finance Committee reviews and approves the monthly financial statements and the status of the budget versus expenses prior to presentation at the monthly Board Meeting.

## **LOCAL ECONOMY**

The NBC provides wastewater treatment and collection services to more than 360,000 residents and 7,900 businesses in ten Rhode Island communities in the metropolitan Providence and Blackstone Valley areas. Of the ten member communities that make up the NBC service area, Providence, Pawtucket and North Providence represent more than 73% of the NBC's accounts.

According to the Rhode Island Department of Economic Development, the Rhode Island economy has been shifting from manufacturing and goods producing to services over the last decade. NBC's ten largest customers are in the health, education and governmental services. It should also be mentioned that one of the primary service industries in Rhode Island is tourism, which is largely focused on recreational activities on and around Narragansett Bay.

Information developed at the May 2008 Rhode Island Revenue Estimating Conference indicates that there will be "a continued slowdown in growth at the State level, driven by declining employment figures, high oil prices and real estate market decline; the economy is expected to begin to recover at the end of 2009. Personal income growth is expected to reach a low of 2.7 percent in FY 2009 before climbing to 3.8% in FY 2010."

## **LONG-TERM FINANCIAL PLANNING**

The NBC maintains and updates a long-term financial model in order to project current and future operating and capital requirements. The model is used to develop and support financing strategies that will provide stability and continuity as well as minimize ratepayer impact.

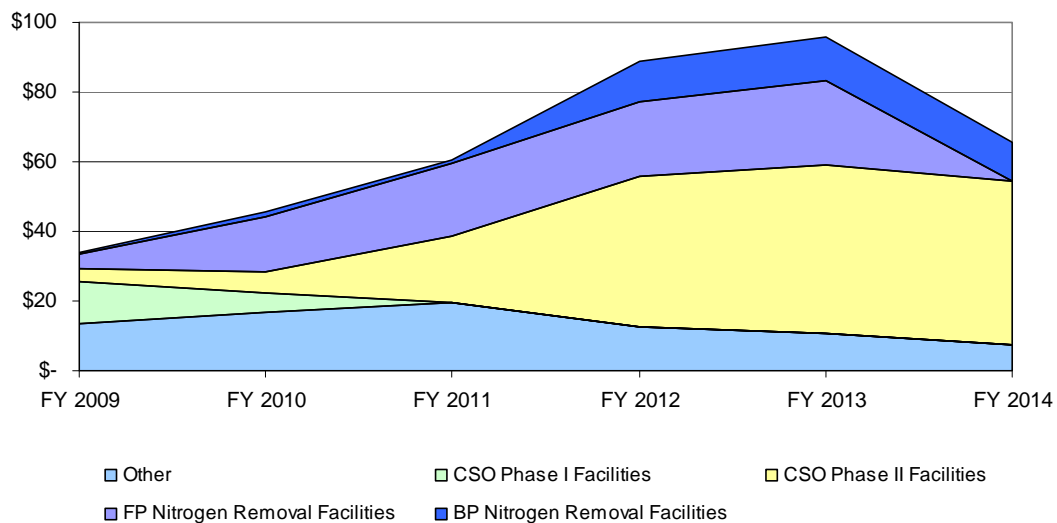
## **MAJOR INITIATIVES**

The NBC's fiscal year 2010 - 2014 Capital Improvement Program (CIP) identifies 38 projects totaling approximately \$356 million either in progress, to be initiated, or to be completed during the fiscal years of 2010 - 2014 in addition to \$34 million in expenditures in fiscal year 2009, totaling approximately \$389 million over the six year period. Expenditures on these projects are necessary in order to comply with current and future regulatory requirements, take advantage of technological changes, and ensure the integrity of the NBC's infrastructure.

This CIP includes four major projects in addition to numerous smaller projects. The major expenditures associated with the CSO Phase I Facilities will end as construction concludes in FY 2009. Design of the CSO Phase II Facilities will continue through FY 2010, and construction is scheduled to commence shortly thereafter. The most significant construction costs are projected for FY 2012–2014 and are related to construction of nutrient removal facilities at both Field’s Point and Bucklin Point. NBC’s infrastructure maintenance and improvement projects are anticipated to be continuous throughout the near future as part of NBC’s commitment to maintain its infrastructure.

The following graph and table show the projected cash flows for NBC’s four major projects over the next six years, as well as the other smaller projects included in the CIP.

**Expenditures by Major Project  
(Millions of \$)**

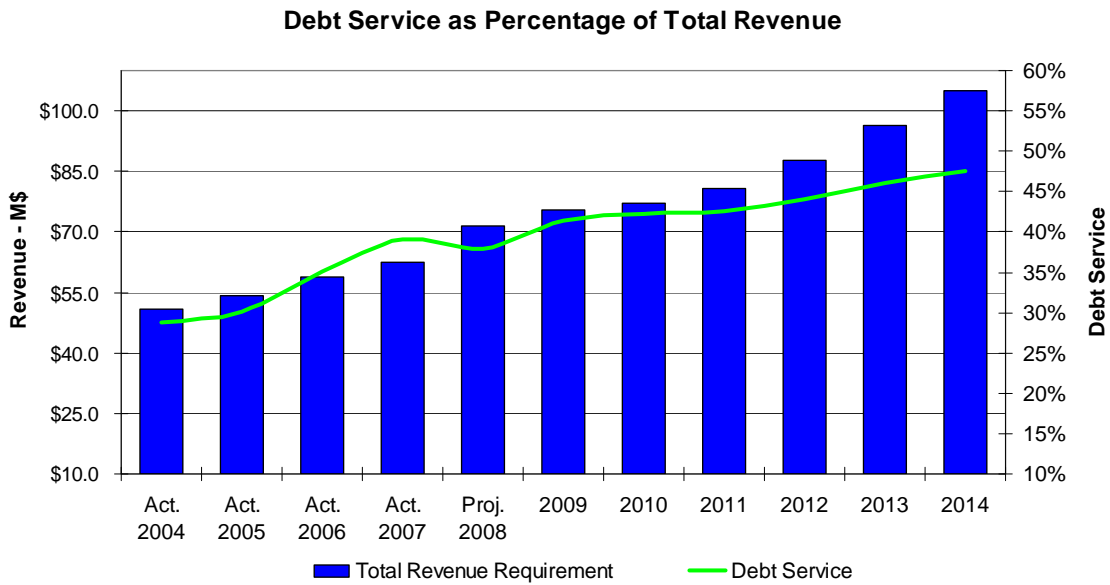


**Expenditures by Major Project  
(In thousands)**

Project	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Total Costs FY 2009 - 2014
CSO Phase I Facilities	\$ 12,001	\$ 5,420	\$ -	\$ -	\$ -	\$ -	\$ 17,421
CSO Phase II Facilities	4,019	6,091	18,732	43,598	48,224	47,273	167,937
FP Nitrogen Removal Facilities	4,255	16,041	21,183	21,179	24,271	-	86,928
BP Nitrogen Removal Facilities	150	1,037	755	11,507	12,522	10,912	36,882
Other	13,351	16,791	19,707	12,331	10,805	7,328	80,312
<b>Total</b>	<b>\$ 33,776</b>	<b>\$ 45,379</b>	<b>\$ 60,376</b>	<b>\$ 88,615</b>	<b>\$ 95,822</b>	<b>\$ 65,512</b>	<b>\$ 389,480</b>

Since the CIP is financed primarily through the issuance of long-term debt, the impact of the capital program on the operating budget is the associated principal and interest. Overall, debt service is anticipated to increase from approximately \$31.2 million in FY 2009 to approximately \$49.9 million in FY 2014. The annual debt service requirement as a percentage of total revenue is projected to increase from 28.7% in FY 2004 to 47.6% in FY 2014. The debt service projections are based on a number of assumptions including the cash flow estimates outlined in the annual CIP.

The chart below shows debt service as a percentage of projected revenues through FY 2014. debt service as a percentage of total revenue has climbed steadily over the past five years, but is projected to level off in future years.



**AWARDS AND ACKNOWLEDGEMENTS**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Finance Reporting to the NBC for its CAFR for the fiscal year ended June 30, 2007. This was the sixth consecutive year that the NBC has received this prestigious award. In order to be awarded a Certificate of Achievement, the NBC issued an easily readable and efficiently organized CAFR which satisfies both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR meets the high standards of the Certificate of Achievement Program’s requirement and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the NBC also received the GFOA’s Distinguished Budget Presentation Award for its annual budget document for the fiscal year beginning July 1, 2008. The GFOA also awarded NBC Special Performance Measures Recognition. In order to qualify for the Distinguished Budget Presentation award, the budget document had to be judged proficient as a policy document, a financial plan, an operations guide, and a communications device.



The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the NBC's Division of Administration and Finance. Credit also must be given to the Chairman and the Board of Commissioners for their unfailing support for maintaining the highest standards of professionalism in the management of the NBC's finances.

Respectfully Submitted,



Raymond Marshall, PE  
Executive Director



Karen L. Giebink  
Director of Administration and Finance



Leah E. Foster, CPA  
Controller

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# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Narragansett Bay  
Commission, Rhode Island

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Oliver S. Cox*

President

*Jeffrey R. Emer*

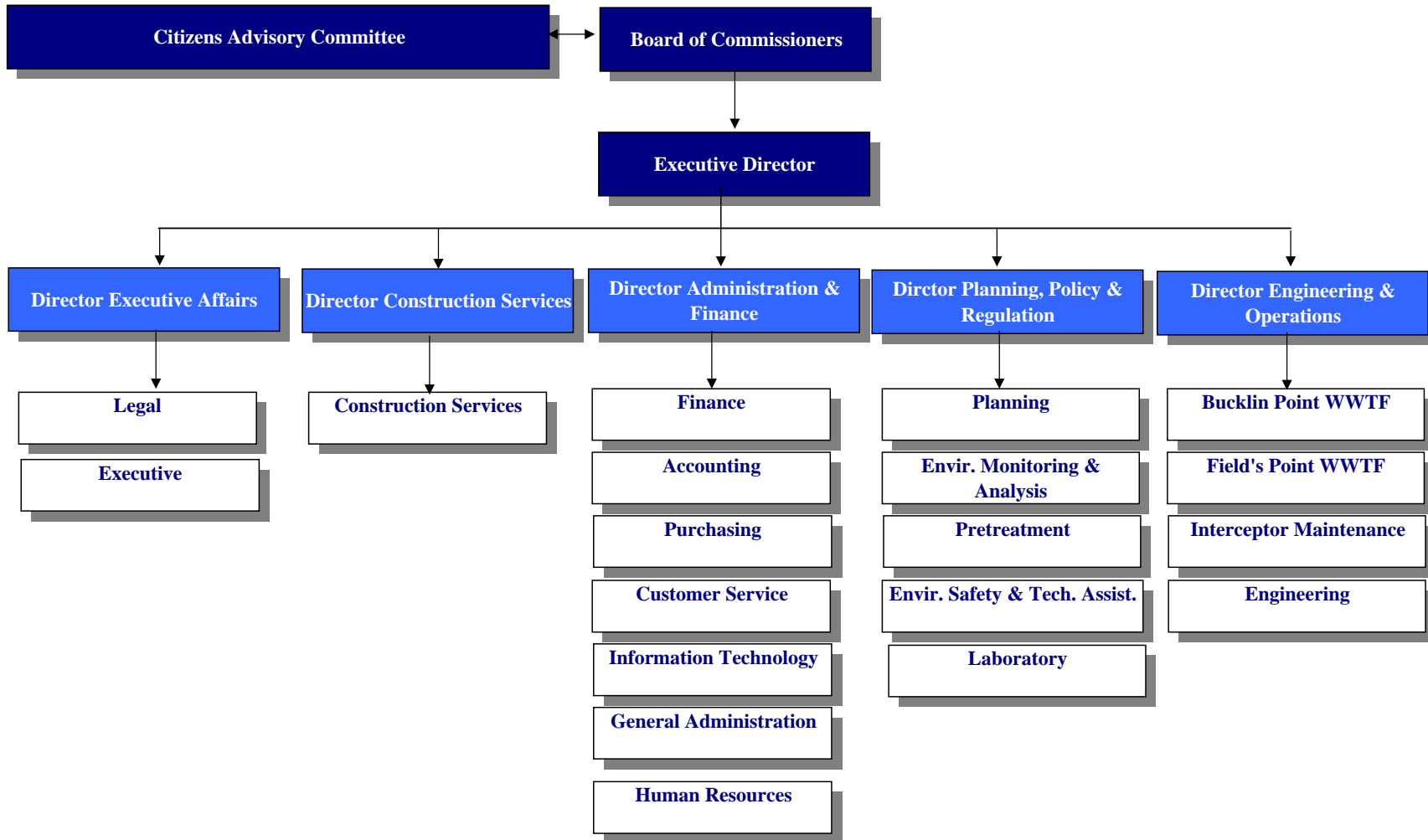
Executive Director

**NARRAGANSETT BAY COMMISSION  
BOARD OF COMMISSIONERS**

Vincent J. Mesolella, Jr. Chairman  
Raymond Marshall, Executive Director and Secretary of the Board  
Angelo S. Rotella, Vice Chairman  
Robert P. Andrade, Treasurer

Richard Burroughs  
Richard Brown  
Bruce Campbell  
R. David Cruise  
Michael DiChiro, Esq  
Jonathan Farnum  
Leslie M. Gray, III  
Joseph Kimball  
John MacQueen  
Alessandro Montanari  
Alan Nathan  
Richard Oster  
Michael A. Salvatore  
Leo P. Thompson  
Richard D. Worrell

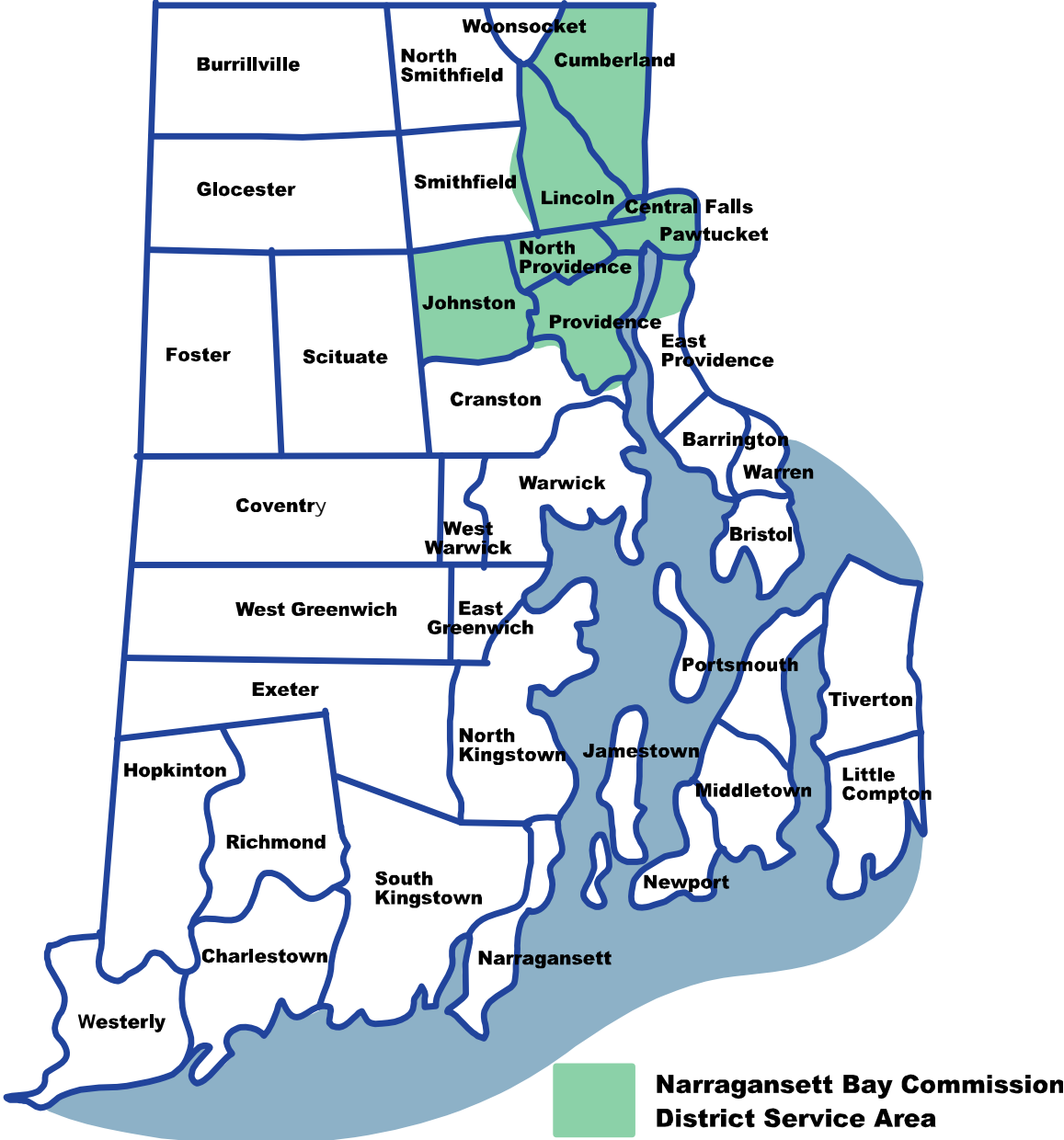
# NBC Organizational Chart





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**NARRAGANSETT BAY COMMISSION  
SERVICE AREA**



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Comprehensive Annual Financial Report  
**Financial Section**



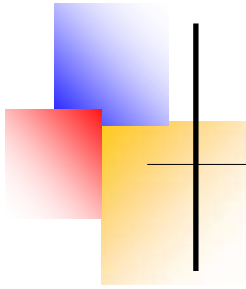
*Photo: Bucklin Point Wastewater Treatment Facility*



*Photo: Field's Point Wastewater Treatment Facility*







America Counts on CPAs

875 Centerville Road  
Bldg. 3, Unit 10  
Warwick, RI 02886

Phone: 401-586-6565  
Fax: 401-826-1710

## ***INDEPENDENT AUDITORS' REPORT***

To the Board of Commissioners  
Narragansett Bay Commission  
Providence, Rhode Island

We have audited the accompanying basic financial statements of the Narragansett Bay Commission (NBC), a component unit of the State of Rhode Island for financial reporting purposes, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of NBC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NBC as of June 30, 2008, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2008 on our consideration of NBC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and schedule of funding progress on pages 12 through 18 and page 46 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise NBC's basic financial statements. The Introductory Section, the schedule of expenses – budget to actual, the combining schedule of net assets and the combining schedule of revenues, expenses and changes in net assets, the Statistical Section, the schedule of expenditures of federal awards and the schedule of travel and entertainment expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenses – budget to actual, the combining schedule of net assets, the combining schedule of revenues, expenses and changes in net assets, the schedule of expenditures of federal awards and the schedule of travel and entertainment expenses have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements 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 express no opinion on them.

*Bacon & Company, CPAs, LLC*

Warwick, Rhode Island  
September 15, 2008

## **Management's Discussion and Analysis**

Our discussion and analysis of Narragansett Bay Commission's financial performance provides an overview of NBC's financial activities for the fiscal year ended June 30, 2008. It should be read in conjunction with the transmittal letter beginning on page 1 and NBC's basic financial statements, which begin on page 19.

### **Financial Statements**

Our discussion and analysis is intended to serve as an introduction to the NBC's basic financial statements, which consist of the financial statements and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

The financial statements report information about the NBC based upon an accrual accounting method similar to those used by private sector companies. The financial statements include a Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; Statement of Cash Flows; and Notes to the Financial Statements.

The Statement of Net Assets presents the financial position of the NBC on the accrual basis of accounting, with the exception of fine assessments and monitoring fees that are recorded on a cash basis. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the NBC is improving or deteriorating.

All the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the NBC's operations over the past year and can be used to determine whether the NBC has successfully recovered all its costs through its user fees and other charges.

The final required financial statement is the Statement of Cash Flows. The purpose of this statement is to provide information about the changes in cash and cash equivalents, resulting from operating, capital and related financing, noncapital financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of assets.

The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the statements. The notes to the financial statements can be found on pages 24-45 of this report.

### **Financial Highlights**

The NBC's financial condition is strong and the NBC's performance for the current year exceeded the budget. The following are the key financial highlights:

- The assets of NBC exceeded its liabilities at the close of the most recent fiscal year by \$286,749,964 (total net assets). Of this amount, \$58,174,511 (unrestricted net assets) may be used to meet NBC's ongoing obligations.
- Operating revenues increased by \$8,420,324 during 2008 compared to 2007.
- Operating expenses increased by \$2,380,599 during 2008 compared to 2007.

- The total net assets increased to \$17,134,415, an increase of \$4,146,831 over the prior year.
- Debt Service Coverage calculated as gross revenue less operating expenses exclusive of depreciation and amortization divided by total debt service was 127% for fiscal year 2008, exceeding the 125% debt service coverage level recommended by credit rating agencies.

### Financial Analysis

Net assets over time may serve as a useful indicator of a government's financial position. In the case of NBC, assets exceeded liabilities by \$286,749,964 as of June 30, 2008. This represents an increase in total net assets of \$17,134,415 or 6.36% from FY 2007 and demonstrates that the financial position of NBC is improving.

The largest portion of the NBC's net assets, 80%, reflects its investment in capital assets (e.g., land, buildings, equipment, and capital projects) less any related debt used to acquire those assets that is still outstanding. The NBC uses these capital assets to provide wastewater treatment and collection services to its customers. Consequently, only the unrestricted net assets are available for future spending. Although the NBC's investment in its capital assets is reported net of related debt, it should be noted that the resources need to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### Condensed Statement of Net Assets

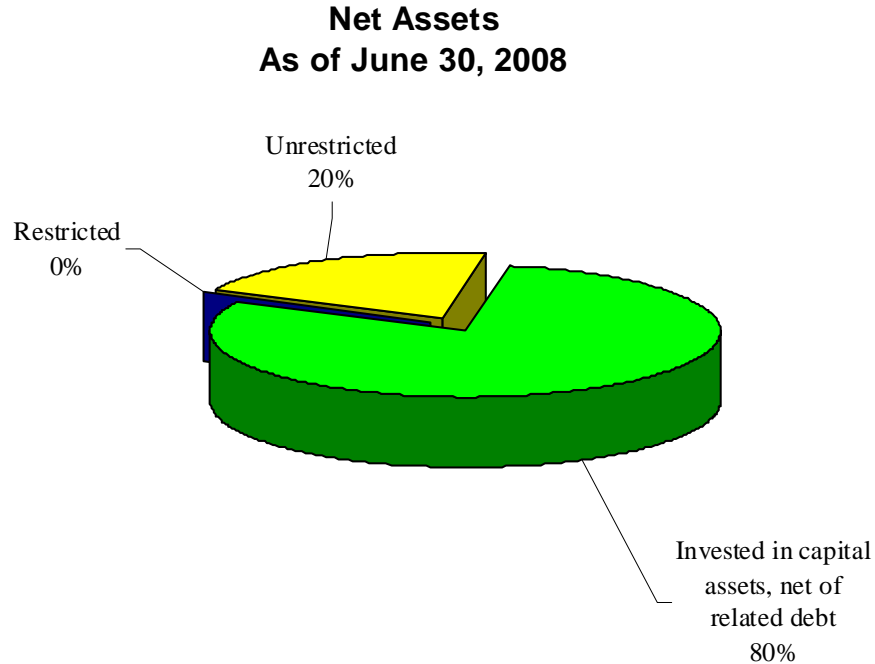
	<u>2008</u>	<u>2007</u>
Current assets	\$ 36,428,233	\$ 36,704,237
Restricted assets	47,147,974	66,868,543
Capital assets (net)	638,868,755	603,976,101
Other assets	<u>5,749,157</u>	<u>5,768,639</u>
Total assets	<u>728,194,119</u>	<u>713,317,520</u>
Current liabilities	31,740,677	31,366,436
Noncurrent liabilities	<u>409,703,478</u>	<u>412,335,535</u>
Total liabilities	<u>441,444,155</u>	<u>443,701,971</u>
Invested in capital assets, net of related debt	228,385,908	214,974,154
Restricted	189,545	127,370
Unrestricted	<u>58,174,511</u>	<u>54,514,025</u>
Total net assets	<u>\$286,749,964</u>	<u>\$269,615,549</u>

The table on the previous page reflects two significant increases when compared on a year to year basis. The total assets have increased by \$14,876,599. The majority of this increase is in the net capital assets which increased by 5.8% from FY 2007 to FY 2008. Driving the increase in net capital assets is the construction in progress account. This account has increased significantly due to the substantial progress that NBC made in FY 2008 on the projects identified in the Capital Improvement Program (CIP). The restricted assets decreased significantly as a result of the investment in the CIP.

In FY 2008, the NBC shows restricted assets of \$47,147,974. Of this amount \$189,545 is restricted for future environmental enforcement activities in accordance with Rhode Island General Law Section 46-25-38.1. These funds are held in a restricted cash account and are reflected as a restricted net asset. In addition, \$24,657,165 is restricted cash for future debt service and debt service coverage in accordance with the Report and Order of the Rhode Island Public Utilities Commission (PUC) as well as the Trust Indenture. As of June 30, 2008, the NBC's restricted cash account for future acquisition and construction of capital assets had a balance of \$22,239,340. The remaining \$61,924 is the accrued interest receivable on the restricted cash accounts.

In 2008, the noncurrent liabilities decreased by \$2,632,057. This is the net result of a \$25 million long-term borrowing from the Rhode Island Clean Water Finance Agency to finance NBC's CIP and debt service principal payments during FY 2008. The decrease in noncurrent liabilities and the \$34,892,654 increase in net capital assets over the prior year reflect NBC's continued investment in capital projects and the related debt in FY 2008.

Below is the detail of the Net Assets as of June 30, 2008:

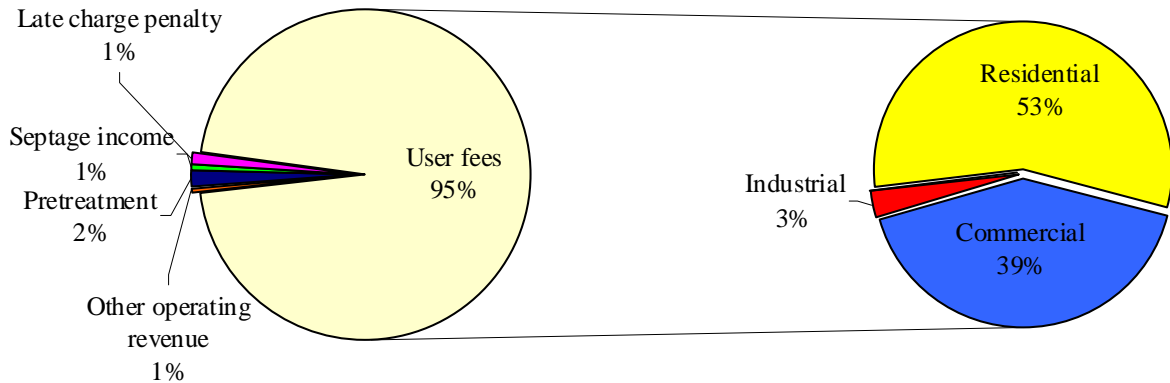


### Condensed Statement of Revenues, Expenses and Changes in Net Assets

	<u>2008</u>	<u>2007</u>
Operating Revenues		
User fees	\$ 64,462,984	\$ 56,094,973
Pretreatment	1,115,529	1,163,397
Septage income	372,711	357,206
Late charge penalties	741,834	631,183
Other operating revenues	384,673	410,648
Nonoperating revenues	<u>2,318,626</u>	<u>3,009,992</u>
Total revenues	<u>69,396,357</u>	<u>61,667,399</u>
Operating Expenses		
Personnel services	17,052,860	16,043,809
General and administration	896,481	1,050,346
Operation and maintenance	5,877,881	5,766,898
Depreciation and amortization	7,463,646	6,803,213
Contractual services	7,214,382	6,474,726
Miscellaneous	610,512	596,171
Nonoperating expenses	<u>13,146,180</u>	<u>11,950,278</u>
Total expenses	<u>52,261,942</u>	<u>48,685,441</u>
Net income before capital contributions	17,134,415	12,981,958
Capital contributions	<u>0</u>	<u>5,626</u>
Change in net assets	17,134,415	12,987,584
Total Net Assets, Beginning	<u>269,615,549</u>	<u>256,627,965</u>
Total Net Assets, Ending	<u>\$286,749,964</u>	<u>\$269,615,549</u>

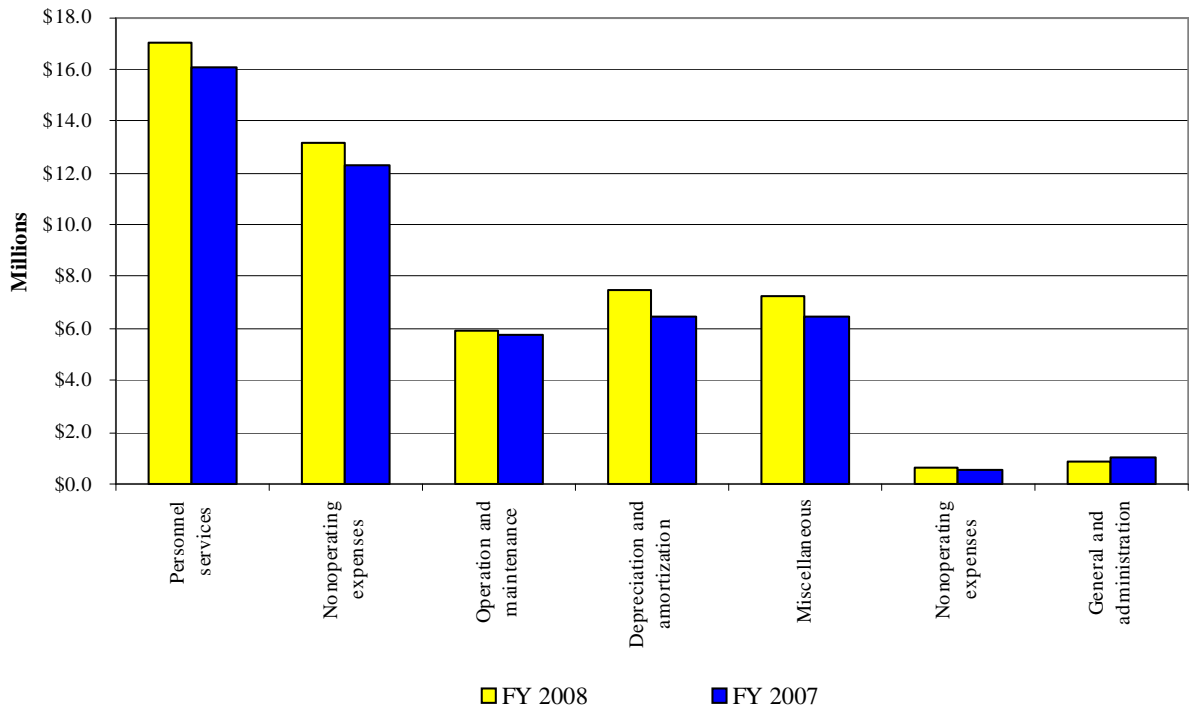
User fees are NBC's primary source of revenue, representing approximately 95% of total operating revenues. Fiscal Year 2008 user fee revenue was \$64,462,984 which is \$8,368,011 more than the prior year. The significant increase in user fees is primarily the result of two rate increases effective on July 1, 2007. The first rate increase of 9.99% was related to debt service and the second rate increase of 4.01% was related to operation and maintenance costs. In FY 2008 late charge penalties increased \$110,651 or 17.5% over FY 2007 as the result of a new compounded late charge penalty calculation. Nonoperating revenues decreased by \$691,366 or 22.97% as the result of decrease in investment earnings related to the investment of revenue bond proceeds.

## Operating Revenue for FY 2008



Total expenses in FY 2008 increased \$3,576,501 over the prior year. This is primarily a result of increased personnel costs including union retirement and health insurance. FY 2008 contractual services costs increased by \$739,656 or 11.4% over FY 2007. This increase resulted from a contracted inflation factor adjustment for biosolids disposal at both Fields Point and Bucklin Point. In addition, at Bucklin Point there was an increase in the contracted management fee to reflect a contracted inflation factor adjustment. The general and administration expense is lower in FY 2008 as a result of bad debt expense. Finally, nonoperating expenses increased \$1,195,902 as a result of the interest expense associated with NBC's long-term financing.

## Total Expenses for FY 2008 and FY 2007



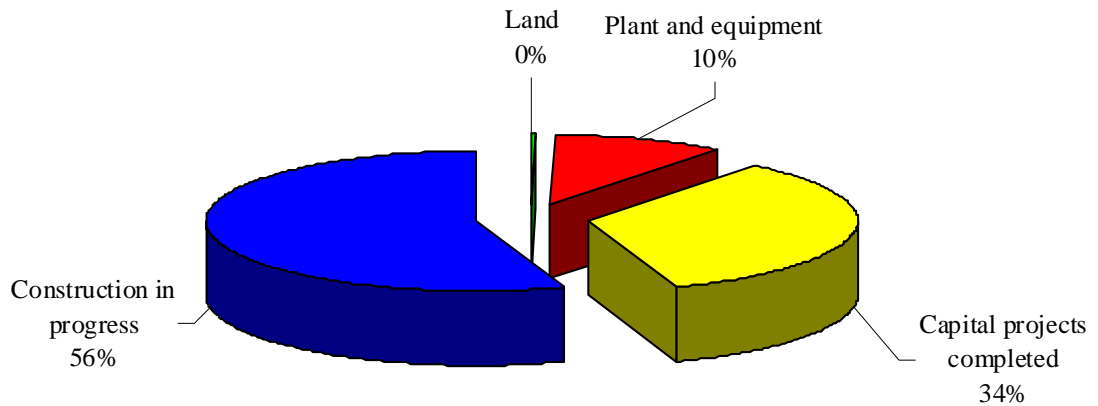
## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of FY 2008, the NBC had \$638 million invested in net capital assets. This amount represents an increase of more than \$34 million, or 5.8% over last year. The following schedule summarizes the NBC's capital assets and changes therein, for the years ended June 30, 2008 and 2007.

	<u>2008</u>	<u>2007</u>
Capital Assets		
Land	\$ 2,754,407	\$ 2,754,407
Plant and equipment	75,480,473	73,634,988
Capital projects completed	255,551,726	249,934,272
Construction in progress	<u>412,852,916</u>	<u>378,547,610</u>
	746,639,522	704,871,277
Less accumulated depreciation	<u>(107,770,767)</u>	<u>(100,895,176)</u>
Net capital assets	<u>\$ 638,868,755</u>	<u>\$ 603,976,101</u>

### Capital Assets As of June 30, 2008



### Long-Term Debt

During fiscal year 2008, the NBC borrowed \$25 million from the Rhode Island Clean Water Finance Agency at a subsidized interest rate to finance projects identified in the CIP. The total debt to net capital asset ratio is 66.9% and 71% for fiscal years ending June 30, 2008 and 2007, respectively. It is also noteworthy that Standard & Poor's raised its underlying rating on the NBC's revenue bonds one notch from "A+" to "AA-" with a stable outlook.



For additional information related to capital assets or long-term debt see the notes to the financial statements. The notes to the financial statements can be found on pages 24-45 of this report.

### **Economic Factors and Next Year's Budgets and Rates**

NBC is governed by a 19-member Board of Commissioners (Board) and is also regulated by the Rhode Island PUC. Both NBC's Board and the PUC must authorize all adjustments in user charges.

The NBC filed a General Rate Filing on December 3, 2007 requesting rate relief for a rate base adjustment, an increase in operating expenses, along with an increase in debt service related to the financing of NBC's capital improvements. The PUC authorized an increase in NBC's revenue requirement of 10.67% resulting in an 11.24% increase in user charges effective July 1, 2008.

All of these factors were considered in preparing the NBC's budget for the 2009 fiscal year.

### **Contacting NBC's Financial Management**

This financial report is designed to provide the Board, the NBC's ratepayers, bond investors and other interested parties with the general overview of the NBC's finances, and to demonstrate the NBC's accountability for the financial resources it manages. If you have any questions concerning this report or need additional financial information contact the Director of Administration and Finance at One Service Road, Providence, RI, 02905.

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# NARRAGANSETT BAY COMMISSION

## Statement of Net Assets

June 30, 2008

### Assets

#### **Current assets**

Cash and cash equivalents	\$ 13,644,637
Accrued interest receivable	6,988
Accounts receivable	
Sewer use fees (net of allowance)	6,668,085
Sewer use unbilled	15,769,029
Receivables, other	60,930
Prepaid expenses	190,205
Negative net pension obligation	88,359
<b>Total current assets</b>	<u>36,428,233</u>

#### **Noncurrent assets**

##### **Restricted assets**

Cash, environmental enforcement	189,545
Cash and cash equivalents, restricted	24,657,165
Cash and cash equivalents, restricted for the acquisition and construction of capital assets	22,239,340
Accrued interest receivable	61,924
<b>Total restricted assets</b>	<u>47,147,974</u>

##### **Capital assets**

Land	2,754,407
Plant and equipment	75,480,473
Capital projects completed	255,551,726
Construction in progress	412,852,916
	<u>746,639,522</u>
Less accumulated depreciation	<u>(107,770,767)</u>
<b>Net capital assets</b>	<u>638,868,755</u>

##### **Other assets**

Organization costs (net of accumulated amortization)	58,574
Bond and loan issuance costs (net of accumulated amortization)	5,690,583
<b>Total other assets</b>	<u>5,749,157</u>

**Total noncurrent assets** 691,765,886

**Total assets** \$ 728,194,119

(Continued)

*The notes to the financial statements are an integral part of this statement.*

**NARRAGANSETT BAY COMMISSION**

*Statement of Net Assets (Continued)*  
*June 30, 2008*

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***Liabilities***

***Current liabilities***

Accounts and contracts payable	\$ 7,296,807
Accrued interest payable	4,075,590
Accrued expenses	2,382,223
Unearned revenue	281,908
Current portion of loans payable	15,942,042
Current portion of leases payable	247,107
Current portion of long-term debt	1,515,000
<b><i>Total current liabilities</i></b>	<b><u>31,740,677</u></b>

***Noncurrent liabilities***

Net OPEB obligation	109,441
Other accrued expenses	71,808
Long-term loans payable, net	253,084,858
Long-term leases payable, net	338,649
Long-term debt, net	156,098,722
<b><i>Total noncurrent liabilities</i></b>	<b><u>409,703,478</u></b>

***Total liabilities***

**441,444,155**

***Net assets***

Invested in capital assets, net of related debt	228,385,908
Restricted, environmental enforcement	189,545
Unrestricted	58,174,511
<b><i>Total net assets</i></b>	<b><u>\$ 286,749,964</u></b>

*The notes to the financial statements are an integral part of this statement.*

**NARRAGANSETT BAY COMMISSION**  
*Statement of Revenues, Expenses and Changes in Net Assets*  
For the Year Ended June 30, 2008

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<b><i>Operating revenues</i></b>	
User fees, residential	\$ 36,113,007
User fees, commercial and industrial	28,349,977
Permit and connection fees	181,290
Pretreatment	1,115,529
Environmental enforcement	75,500
Septage income	372,711
Abatement fees	5,364
Late charge penalties	741,834
Miscellaneous revenue	6,423
BOD/TSS surcharge	116,096
<b><i>Total operating revenues</i></b>	<b><u>67,077,731</u></b>
<b><i>Operating expenses</i></b>	
Personnel services	17,052,860
Contractual services	7,214,382
Travel	68,607
Repairs and maintenance	1,258,783
Utilities	3,435,790
Supplies	1,183,308
Depreciation and amortization	7,463,646
Bad debt expense	77,534
Insurance	750,340
Miscellaneous	610,512
<b><i>Total operating expenses</i></b>	<b><u>39,115,762</u></b>
<b><i>Operating income</i></b>	<b><u>27,961,969</u></b>
<b><i>Nonoperating revenues (expenses)</i></b>	
Grants	27,653
Interest expense	(13,121,460)
Interest income	2,195,657
Gain on disposal of assets	12,484
Miscellaneous nonoperating income	82,832
Bond and note issuance costs	(24,720)
<b><i>Total nonoperating revenues (expenses)</i></b>	<b><u>(10,827,554)</u></b>
<b><i>Change in net assets</i></b>	<b>17,134,415</b>
<b><i>Total net assets - beginning of year</i></b>	<b><u>269,615,549</u></b>
<b><i>Total net assets - end of year</i></b>	<b><u>\$ 286,749,964</u></b>

*The notes to the financial statements are an integral part of this statement.*

# NARRAGANSETT BAY COMMISSION

Statement of Cash Flows  
For the Year Ended June 30, 2008

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<b><i>Cash flows from operating activities</i></b>	
Cash received from customers	\$ 65,361,391
Cash paid to suppliers for goods and services	(14,422,222)
Cash paid to employees for services	(16,837,919)
Other operating revenues	164,755
	<hr/>
<b><i>Net cash provided by operating activities</i></b>	<b>34,266,005</b>
	<hr/>
<b><i>Cash flows from noncapital financing activities</i></b>	
Cash receipts from grants	27,653
	<hr/>
<b><i>Net cash provided by noncapital financing activities</i></b>	<b>27,653</b>
	<hr/>
<b><i>Cash flows from capital and related financing activities</i></b>	
Acquisition and construction of capital assets	(28,165,745)
Proceeds from lease	316,362
Principal paid on debt, net	(17,118,934)
Interest paid on debt	(13,090,701)
Gain on sale of capital asset	12,844
Bond and note issuance costs	(24,720)
	<hr/>
<b><i>Net cash used for capital and related financing activities</i></b>	<b>(58,070,894)</b>
	<hr/>
<b><i>Cash flows from investing activity</i></b>	
Interest on investments	2,394,428
	<hr/>
<b><i>Net cash provided by investing activities</i></b>	<b>2,394,428</b>
	<hr/>
<b><i>Net decrease in cash and cash equivalents</i></b>	<b>(21,382,808)</b>
	<hr/>
<b><i>Cash and cash equivalents at beginning of year</i></b>	<b>82,113,495</b>
	<hr/>
<b><i>Cash and cash equivalents at end of year</i></b>	<b>\$ 60,730,687</b>
	<hr/> <hr/>

(Continued)

*The notes to the financial statements are an integral part of this statement.*

**NARRAGANSETT BAY COMMISSION**

*Statement of Cash Flows (Continued)*

*For the Year Ended June 30, 2008*

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***Reconciliation of operating income to net cash  
provided by operating activities:***

<b><i>Operating income</i></b>	<b><u>\$ 27,961,969</u></b>
<b><i>Adjustments to reconcile operating income to net cash provided by operating activities</i></b>	
Depreciation and amortization	7,463,646
Bad debt expense	77,534
Changes in assets and liabilities:	
Decrease in accounts receivable	17,171
Increase in unbilled revenue	(1,651,909)
Increase in other receivables	(22,601)
Increase in prepaid expenses	(5,202)
Increase in accounts and contracts payable	127,303
Increase in other accrued expenses	214,941
Increase in unearned revenue	321
Nonoperating income reported as operating revenues received	<u>82,832</u>
<b><i>Total adjustments</i></b>	<b><u>6,304,036</u></b>
 <b><i>Net cash provided by operating activities</i></b>	 <b><u><u>\$ 34,266,005</u></u></b>

***Noncash capital and related financing activities***

The NBC participates in the State Revolving Loan Fund as described in Note 6 to the financial statements. Project costs are paid directly by the Rhode Island Clean Water Finance Agency on behalf of the NBC and the related loan payable as shown on the financial statements. The State Revolving Loan Project activity during the year was as follows:

Project invoices paid by Rhode Island Clean Water Finance Agency	<u><u>\$ 14,361,880</u></u>
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***The notes to the financial statements are an integral part of this statement.***

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**NARRAGANSETT BAY COMMISSION**  
**Notes to Financial Statements**  
**June 30, 2008**

**NOTE 1 – ORGANIZATION**

The Narragansett Bay Commission (NBC) is a public corporation established in 1980 by an Act of the Rhode Island Legislature. NBC was created for purposes of acquiring, planning, constructing, extending, improving, operating and maintaining publicly owned wastewater treatment facilities (Field's Point Facility) in the District. The Field's Point service area includes the City of Providence and the Town of North Providence and portions of the Towns of Johnston and Lincoln and the City of Cranston.

On June 27, 1991, the Governor of the State of Rhode Island signed into law legislation mandating the merger of NBC and the Blackstone Valley District Commission (BVDC). The merger became effective January 1, 1992. The Bucklin Point service area includes the City of Pawtucket, the City of Central Falls, the Rumford area of the City of East Providence and portions of the Towns of Lincoln, Cumberland and Smithfield. NBC also accepts septage generated from within the State of Rhode Island at its Lincoln septage facility. NBC can provide service to other communities as long as it is a mutual agreement between the two parties.

NBC is considered a component unit of the State of Rhode Island for financial reporting purposes. Accordingly, the financial statements of NBC will be included in the State of Rhode Island's Annual Financial Report.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of accounting** – The accounting policies of NBC conform to generally accepted accounting principles as applicable to governmental proprietary fund types (enterprise funds). For enterprise funds, the intent of the governing body is that costs of providing goods or services to the general public on a continuing basis be financed or recovered through user charges. The financial statements of NBC are accounted for using the "economic resources" measurement focus and have been prepared on the accrual basis of accounting with the exception of fine assessments and monitoring fees, which are recorded on a cash basis. Under the accrual basis of accounting, all assets and liabilities associated with operations are included on the statement of net assets, and revenues are recorded when earned and expenses recognized at the time of liabilities are incurred. In accordance with Government Accounting Standards Board Statement No. 20, NBC has elected to apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989: FASB Statements and Interpretations, APB opinions and ARBs unless these pronouncements conflict with or contradict GASB pronouncements.

**Cash equivalents** – For purposes of the statement of cash flows, cash equivalents are considered to be all highly liquid investments (including restricted assets purchased) with a maturity of three months or less.

**NARRAGANSETT BAY COMMISSION**  
**Notes to Financial Statements**  
**June 30, 2008**

**Cash and cash equivalents restricted account** – Based upon a Report and Order issued by the Rhode Island Public Utilities Commission (PUC), along with the Trust Indenture, NBC established accounts for operating capital assets, debt service and debt service coverage. NBC is required to set aside a certain percentage of its monthly receipts from user charges into the restricted cash accounts. Funds from the accounts may only be used for those expenses outlined above and any other use so ordered by the PUC and in conformance with the Trust Indenture.

Cash and cash equivalents are also restricted for acquisition and construction of capital assets as set forth in the Trust Indenture.

The restricted cash for environmental enforcement activities is in accordance with Rhode Island General Law 46-25.

**Investments** – NBC reports investments at fair value.

NBC is authorized to invest excess funds, by provisions of its Act, in obligations of the State and of the United States Government or certain agencies thereof, and in certificates of deposit. NBC is also authorized to enter into repurchase agreements.

**Receivables** – Permit fees and fixed fees for sewer usage are billed to all customers in advance on a quarterly basis. Consumption based fees are billed in arrears, based on water consumption meter readings.

The allowance for doubtful accounts for June 30, 2008 was \$579,834.

**Capital assets** – Capital assets are valued at cost. Plant and equipment and capital projects completed are depreciated using the straight-line method over the estimated useful lives of the respective assets. Construction in progress and land are not depreciated. NBC's asset capitalization threshold is \$2,500. Depreciation is recognized over the following useful lives:

	<u>Years</u>
Plant and equipment	3-50
Capital projects completed	5-60

**Construction in progress** – Construction in progress consists of the capital projects' design, planning and construction costs. Upon completing the project and finalizing the financial transaction, the construction in progress is transferred into the completed project capital asset account. Once transferred, NBC will start to depreciate the completed capital project.

**NARRAGANSETT BAY COMMISSION**  
**Notes to Financial Statements**  
**June 30, 2008**

**Organization costs** – Organization costs, which were assumed from BVDC in the merger, are amortized on a straight-line method over a 60-year period ending June 30, 2014.

The total organization costs at June 30, 2008 were \$581,385. The accumulated amortization through June 30, 2008 was \$522,811.

**Bond and loan issuance costs** – Bond and loan issuance costs are amortized over the life of the related bond or loan.

The total bond and loan issuance costs as of June 30, 2008 were \$7,601,337. The accumulated amortization through June 30, 2008 was \$1,910,754.

**Unearned revenue** – Unearned revenue represents amounts billed in the current fiscal year for pretreatment fees relating to the subsequent fiscal year.

**Capital contributions** – Capital contributions represent financial assistance from Federal and State governments for the construction and upgrade of sewer treatment facilities and related capital projects.

**Operating revenues and expenses** – Operating revenues and expenses for NBC are those that result from providing wastewater treatment and collection services and related activities. It also includes all revenue and expenses not related to capital and related financing, noncapital financing or investing activities. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**Income taxes** – NBC is exempt from Federal and State income taxes.

**Regulatory** – NBC is a regulated utility, and its rates are set by the PUC. For rate-making purposes, depreciation expense is excluded while principal payments and capital outlays are included in the total expenses to arrive at a regulatory net income (loss). For this reason, the net income (loss) on a regulatory basis differs from the net income (loss) in the audited financial statements, which are prepared in conformance with generally accepted accounting principles.

**Estimates** – The preparation of financial statements in conformity with the generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NARRAGANSETT BAY COMMISSION**  
**Notes to Financial Statements**  
**June 30, 2008**

**NOTE 3 – CASH DEPOSITS AND INVESTMENTS**

Cash deposits: NBC’s cash deposits are in one financial institution. The carrying amount of deposits is separately displayed on the statement of net assets as “cash and cash equivalents”.

The carrying value of deposits, investments and petty cash funds reported on the statement of net assets as “cash and cash equivalents” are as follows:

Cash deposits	\$ 7,225,373
Cash equivalents	53,504,389
Petty cash	625
Cash with customer service	300
<b><i>Total cash and cash equivalents</i></b>	<b><u><u>\$ 60,730,687</u></u></b>

In accordance with Rhode Island General Laws, Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State, shall at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than sixty days. Any of these institutions, which do not meet minimum capital standards prescribed by federal regulators, shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity.

The carrying amount of NBC’s deposits at June 30, 2008 was \$7,225,373 and the bank balance was \$8,348,318.

***Custodial Credit Risk*** – Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, NBC will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2008, \$8,248,318 of NBC’s bank balance of \$8,348,318 was exposed to custodial credit risk as follows:

	<b><i>Bank</i></b>
	<b><i>Balance</i></b>
	<hr/>
Insured (Federal depository insurance funds)	\$ 100,000
Collateralized with securities held by pledging financial institution's or its agent, in NBC's name	8,248,318
<b><i>Total</i></b>	<b><u><u>\$ 8,348,318</u></u></b>

**NARRAGANSETT BAY COMMISSION**  
**Notes to Financial Statements**  
**June 30, 2008**

**Investments** – NBC’s investments as of June 30, 2008 were as follows:

<u>As of June 30, 2008</u>	<u>Fair Value</u>
Money Market Funds	<u>\$ 53,504,389</u>

These investments are classified as cash equivalents.

**Interest rate risk** – Funds held by NBC are invested in accordance with NBC’s investment policy. This investment policy does not limit investment maturities as a means of limiting its exposure to fair value losses arising from interest rates. Money held by the Trustee under the Indenture must be invested in accordance with Permitted Investments as defined under the Eighth Supplemental Indenture which mitigates interest rate exposure by limiting Federal funds or bankers acceptances to a maximum term of one year and requires Bond Insurer approval of Repurchase Agreements which exceed 30 days.

**Credit risk** – NBC’s investment policy objective states that all financial assets held by NBC shall be invested in a manner that will preserve the value and safety of capital. NBC shall invest funds in order to maximize earnings and minimize risk during the period of availability of the funds. NBC’s investment policy limits investments to U.S. Treasury securities, securities of the U.S. government agencies and instrumentalities that are backed by the full faith and credit or guarantee of the U.S. government, which have a liquid market with a readily determinable market value, investment-grade obligations of the State of Rhode Island, or any municipality or political subdivision of the State of Rhode Island, repurchase agreements backed by collateral, certificate of deposits, money market mutual funds whose portfolios consist of U.S. Treasury securities, U.S. agency obligations and repurchase agreements fully collateralized by such securities and governmental investment products backed by collateral consisting of U.S. Treasury and U.S. Agency securities. NBC’s Money Market Funds were rated Aaa by Moody’s Investment Service. Money held by the Trustee under the Indenture is invested at the direction of an Authorized Officer from NBC and must be invested in accordance with Permitted Investments as defined under the Eighth Supplemental Indenture. The monies invested in the Money Market Funds held by the Trustee were rated Aaa by Moody’s Investment Service.

**Concentration of credit risk** – NBC’s investment policy is not specific but states that investments shall be diversified to minimize the risk of loss that may occur due to concentration in a specific maturity, a specific issue or a specific class of securities.

**NARRAGANSETT BAY COMMISSION**  
**Notes to Financial Statements**  
**June 30, 2008**

**NOTE 4 – CAPITAL ASSETS**

The following is a summary of capital assets at June 30, 2008:

	<u>June 30, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2008</u>
Non-depreciable assets:				
Land	\$ 2,754,407	\$ -	\$ -	\$ 2,754,407
Construction in progress	378,547,610	39,922,760	(5,617,454)	412,852,916
<b>Total non-depreciable assets</b>	<u>381,302,017</u>	<u>39,922,760</u>	<u>(5,617,454)</u>	<u>415,607,323</u>
Depreciable assets:				
Plant and equipment	73,634,988	2,094,421	(248,936)	75,480,473
Capital projects completed	249,934,272	5,617,454	-	255,551,726
<b>Total depreciable assets</b>	<u>323,569,260</u>	<u>7,711,875</u>	<u>(248,936)</u>	<u>331,032,199</u>
Less accumulated depreciation for:				
Plant and equipment	(49,864,083)	(2,533,765)	248,573	(52,149,275)
Capital projects completed	(51,031,093)	(4,590,399)	-	(55,621,492)
Less accumulated depreciation	<u>(100,895,176)</u>	<u>(7,124,164)</u>	<u>248,573</u>	<u>(107,770,767)</u>
<b>Total capital assets, net</b>	<u>\$ 603,976,101</u>	<u>\$ 40,510,471</u>	<u>\$ (5,617,817)</u>	<u>\$ 638,868,755</u>

**NOTE 5 – COMPENSATED ABSENCES**

NBC's employees are granted vacation and sick leave in varying amounts based on years of service with NBC. At the termination of service, an employee is paid for accumulated unused vacation leave and sick leave. Sick leave payments are based on age and years of service for both union and non-union employees. NBC has determined that the dollar value of accumulated accrued vacation leave and sick leave, valued at the current rate of pay, at June 30, 2008 to be \$1,692,853. The accrued vacation and sick leave is reported on the statements of net assets as other accrued expenses.

The changes in compensated absences for the year ended June 30, 2008 were as follows:

	<u>June 30, 2007</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30, 2008</u>	<i>Amounts Due Within One Year</i>
Compensated absences	<u>\$ 1,669,503</u>	<u>\$ 160,470</u>	<u>\$ 137,120</u>	<u>\$ 1,692,853</u>	<u>\$ 1,621,045</u>

**NARRAGANSETT BAY COMMISSION**  
**Notes to Financial Statements**  
**June 30, 2008**

**NOTE 6 – LOANS PAYABLE**

NBC has fourteen loans outstanding with the Rhode Island Clean Water Finance Agency (RICWFA) at June 30, 2008 as follows:

	<u>June 30, 2007</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30, 2008</u>
The Butler Hospital Project – The total loan authorized is \$1,662,055 with an interest rate of 3.2644%.	\$ 632,639	-	\$ 95,944	\$ 536,695
The North Providence Interceptor Project – The total loan authorized is \$2,647,977 with an interest rate of 3.225%.	852,994	-	158,354	694,640
The Washington Park Project – The total loan authorized is \$3,694,678 with an interest rate of 1.9773%.	1,503,956	-	199,329	1,304,627
Pooled Loan #1 – The total loan authorized is \$14,781,000 with an interest rate of 3.16917%.	7,977,750	-	763,500	7,214,250
Pooled Loan #2 – The total loan authorized is \$17,279,000 with an interest rate of 2.9938%.	9,212,035	-	888,052	8,323,983
Pooled Loan #3 – The total loan authorized is \$8,150,000 with an interest rate of 3.14473%.	5,934,412	-	364,555	5,569,857
Pooled Loan #4 - The total loan authorized is \$23,955,000 with an interest rate of 3.032%.	23,950,000	-	2,155,000	21,795,000
Pooled Loan #5 - The total loan authorized is \$57,000,000 with an interest rate of 3.30%.	48,260,000	-	2,750,000	45,510,000
Pooled Loan #6 - The total loan authorized is \$57,000,000 with an interest rate of 1.0785%.	47,858,250	-	2,439,238	45,419,012
Pooled Loan #7 - The total loan authorized is \$40,000,000 with an interest rate of 1.349%.	36,567,000	-	1,745,000	34,822,000

**NARRAGANSETT BAY COMMISSION**  
**Notes to Financial Statements**  
**June 30, 2008**

	<u>June 30, 2007</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30, 2008</u>
Pooled Loan #8 - The total loan authorized is \$40,000,000 with an interest rate of 1.404%.	36,301,000	-	1,240,000	35,061,000
Pooled Loan #9 - The total loan authorized is \$30,000,000 with an interest rate of 1.397%.	28,619,000	-	1,279,000	27,340,000
Pooled Loan #10 - The total loan authorized is \$30,000,000 with an interest rate of 1.27%	30,000,000	-	1,268,000	28,732,000
Pooled Loan #11 - The total loan authorized is \$ 25,000,000 an interest rate of 1.475%	-	25,000,000	-	25,000,000
Total loans payable	\$277,669,036	<u>\$25,000,000</u>	<u>\$15,345,972</u>	\$287,323,064
Less funds not yet drawn from pool	(7,978,044)			(18,296,164)
Less current portion	(15,345,972)			(15,942,042)
Net long-term loans payable	<u>\$254,345,020</u>			<u>\$253,084,858</u>

The RICWFA pays all invoices related to the projects funded by these RICWFA loans. Amounts paid on NBC's behalf are shown as loans payable on the statements of net assets. The total loan authorized must be drawn down within three years, at which time NBC will be responsible for repayment of the total loan authorized.

Maturities of loans payable as of June 30, 2008 are due in future years as follows:

<u>Years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 15,942,042	\$ 6,209,744	\$ 22,151,786
2010	16,583,897	6,016,416	22,600,313
2011	17,012,657	5,585,001	22,597,658
2012	17,385,443	5,152,547	22,537,990
2013	17,778,503	4,723,474	22,501,977
2014-2018	89,825,371	17,191,416	107,016,787
2019-2023	83,011,151	7,145,454	90,156,605
2024-2028	28,155,000	1,173,161	29,328,161
2029	1,629,000	17,471	1,646,471
	<u>\$ 287,323,064</u>	<u>\$ 53,214,684</u>	<u>\$ 340,537,748</u>



**NARRAGANSETT BAY COMMISSION**  
**Notes to Financial Statements**  
**June 30, 2008**

**NOTE 7 – CAPITAL LEASES**

NBC entered into capital leases for computers. The assets are included in NBC's Statement of Net Assets at June 30, 2008 is as follows:

Plant and equipment	\$316,362
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Amortization of assets acquired under capital leases is included in depreciation expense for the year ended June 30, 2008.

As of June 30, 2008, future minimum rental commitments under capital leases are as follows:

**Years ending June 30,**

2009	\$275,388
2010	157,083
2011	137,471
2012	46,824
2013	23,412
Total future minimum rental payments	640,178
Less interest portion of payments	(54,422)
Present value of minimum lease payments	585,756
Less current maturities of capital lease obligations	(247,107)
Long-term capital lease obligations	\$338,649

The changes in capital leases for the year ended June 30, 2008 was as follows:

	<i>June 30, 2007</i>	<i>Additions</i>	<i>Payments</i>	<i>June 30, 2008</i>
Capital Leases	\$587,356	\$316,362	\$317,962	\$585,756

**NOTE 8 – LONG TERM DEBT**

Long-term debt at June 30, 2008 consists of the following:

	<i>June 30, 2007</i>	<i>Additions</i>	<i>Payments</i>	<i>June 30, 2008</i>
Revenue Bonds (variable rate)				
2004 Series A, dated April 29, 2004, maturing September 1, 2034	\$67,220,000	\$ -	\$(1,455,000)	\$65,765,000

**NARRAGANSETT BAY COMMISSION**  
**Notes to Financial Statements**  
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	<u>June 30, 2007</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30, 2008</u>
Revenue Bonds 2005 Series A, 5% average coupon rate, dated August 4, 2005, maturing August 1, 2035 (net of premium amortized at June 30, 2008 of \$2,429,506).	47,429,506	-	-	47,429,506
Revenue Bonds 2007 Series A, 4.84825% average coupon rate, dated February 8, 2007, maturing February 1, 2037. (net of premium amortized at June 30, 2008 of \$1,919,216	44,419,216	-	-	44,419,216
	<u>\$159,068,722</u>	<u>\$ -</u>	<u>\$(1,455,000)</u>	<u>\$157,613,722</u>

Maturities of long-term debt for the years ending June 30, 2009 through 2037 are as follows:

<u>Years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 1,515,000	\$ 6,823,279	\$ 8,338,279
2010	1,565,000	6,763,046	8,328,046
2011	1,620,000	6,700,728	8,320,728
2012	1,670,000	6,642,734	8,312,734
2013	1,735,000	6,569,738	8,304,738
2014-2018	9,605,000	31,771,105	41,376,105
2019-2023	11,380,000	29,721,862	41,101,862
2024-2028	24,215,000	26,934,067	51,149,067
2029-2033	57,445,000	17,244,640	74,689,640
2034-2037	42,515,000	3,789,499	46,304,499
	<u>\$ 153,265,000</u>	<u>\$ 142,960,698</u>	<u>\$ 296,225,698</u>

The above bonds are subject to federal arbitrage regulations. Based on current calculations, NBC has no arbitrage liability.

On April 20, 2004, NBC issued Multi-Modal Revenue Bonds, 2004 Series A in the principal amount of \$70,000,000 maturing September 2034. These bonds have been issued in weekly rate mode but can be changed by NBC to a daily, commercial paper or term rate mode. The interest rate is determined weekly or daily based on the mode and interest is paid monthly. The interest rate for the bonds outstanding during fiscal year 2008 ranged from 3.2% to 4.0%. The owners of the bonds in a weekly mode can require NBC (acting through its remarketing and lender agents) to repurchase the bonds. The remarketing agent has agreed to use its best efforts to remarket any purchased bonds.

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NBC has entered into a standby bond purchase agreement (liquidity facility) with the tender agent and a European bank (the bank). The remarketing agent is required to offer for sale all bonds properly tendered for purchase. In the event the remarketing agent is unable to remarket tendered bonds, the standby bond purchase agreement provides that the that the bank agrees to purchase any bonds from time to time in an amount not to exceed the principal amount plus accrued interest up to 183 days at an interest rate not to exceed 12% per annum, subject to the terms and provisions of the liquidity facility. NBC is required to pay the bank at an interest rate based on its prime lending rate or the federal funds rate plus ½ of 1 percent, whichever is higher. The standby bond purchase agreement remains in effect until the payment in full of the principal and interest on all bonds purchased by the bank. The standby bond purchase agreement terminates on April 29, 2009 and carries a fee of 0.18% per annum on the amount available.

**NOTE 9 – RISK MANAGEMENT**

NBC is exposed to various risk of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; health of employees and natural disasters. NBC purchases commercial insurance for property damage, general liability, errors and omissions and employee health coverage.

NBC has been commercially insured for workers' compensation benefits since March 1, 2000. Prior to that date, NBC was self-insured and the workers' compensation benefits were administered by the State of Rhode Island.

NBC has established an Owner Controlled Insurance Program for the construction projects associated with Phase I of the CSO abatement program, which has estimated costs of \$349 million. Commercial coverage has been purchased for workers' compensation benefits, general liability, builder's risk and environmental pollution. Settlement claims from these risks have not exceeded commercial insurance coverage for the past three fiscal years. The end of year liability is covered by the owner controlled insurance program and is not a direct liability of NBC. It is anticipated that all claims and judgments will be due within one year.

The following schedules detail settlement activity for the years ended June 30, 2008 and 2007:

	<i>Owner Controlled Insurance</i>	
	<u>2008</u>	<u>2007</u>
<i>Claims liability at beginning of year</i>	\$ 1,027,364	\$ 933,238
Plus:		
Claims incurred during year	51,895	658,369
Adjustments to claims of prior year	994,993	643,277
Less:		
Paid claims	<u>(1,295,681)</u>	<u>(1,207,520)</u>
<i>Claims liability at the end of year</i>	<u>\$ 778,571</u>	<u>\$ 1,027,364</u>

**NARRAGANSETT BAY COMMISSION**  
**Notes to Financial Statements**  
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**NOTE 10 – NET ASSETS**

Investment in capital assets, net of related debt is intended to reflect the portion of net assets that are associated with nonliquid capital assets less outstanding capital asset related debt.

Chapter 46-25 of the general laws enacted by the General Assembly established a restricted environmental enforcement fund. The fund consists of sums recovered by administrative or civil enforcement action and may be used as outlined in chapter 46-25. NBC has restricted net assets equal to the balance of funds in the environmental enforcement restricted cash and cash equivalent account.

**NOTE 11 – PENSION PLANS**

***EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND***

All NBC eligible full-time union employees participate in the Employees' Retirement System of the State of Rhode Island ("System"), a cost-sharing multiple-employer defined benefit pension plan ("Plan") administered by the State of Rhode Island. The payroll for NBC employees covered by the System for the year ended June 30, 2008 was \$4,598,364. NBC's total payroll was \$12,747,170.

***Plan Description***

The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The eligibility provisions and level of benefits provided to State employees are established by Title 36 Chapters 36-10 of the Rhode Island General Laws, and was amended by the General Assembly in 2005. The Plan changes resulting from the amendment are reflected below. The benefits are subject to additional amendment by the General Assembly.

***Schedule A Provisions (for members vested as of July 1, 2005)***

Pension benefits vest after 10 years of service. Participants are eligible to retire after 10 years of service if they have attained age 60, or after 28 years of service regardless of age and are entitled to retirement benefits payable monthly for life.

The retirement benefit is a percentage of final average salary per year of credited service with a maximum benefit of 80% of final average salary. The percentage for each year of credited service is as follows:

**NARRAGANSETT BAY COMMISSION**  
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<u>Years of Credited Service</u>	<u>Percent/Year</u>
1-10	1.7%
11-20	1.9%
21-34	3.0%
35	2.0%

Final average salary is computed using the three highest consecutive years of earned salary excluding overtime, bonuses or severance pay. Retirees' benefits are subject to a 3% compounded annual cost of living increase commencing on the January 1<sup>st</sup> following the third anniversary of an employee's retirement.

The Plan also provides pre-retirement benefits at a minimum of 17% of salary for nonoccupational disabilities after 5 years of service and at 67% of salary for occupational disabilities regardless of years of service. Surviving spouses are also eligible for both pre- and post-retirement benefits with minimum amounts established under varying circumstances.

***Schedule B Provisions (for members vested after July 1, 2005)***

Pension benefits vest after 10 years of service. Participants are eligible to retire after 10 years of service if they have attained age 65 with a minimum of 10 contributing years of retirement service credit, or at age 59 with 29 years of retirement service credit.

The retirement benefit is a percentage of final average salary for each year of service, as follows:

<u>Years of Credited Service</u>	<u>Percent/Year</u>
1-10	1.6%
11-20	1.8%
21-25	2.0%
26-30	2.25%
31-37	2.5%
38	2.25% (Max. 75% of salary)

Final average salary is computed using the three highest consecutive years of earned salary excluding overtime, bonuses or severance pay. Beginning the month after the 3<sup>rd</sup> anniversary of the date of retirement, the cost of living adjustment is the lesser of 3% or the CPI-U (Consumer Price Index for all Urban Consumers) as of September 30th of the prior calendar year compounded annually.

The Plan also provides for ordinary disability benefits after 5 years of service, including a minimum of 3 years of consecutive service based upon 16% of the three highest consecutive years of salary.

**NARRAGANSETT BAY COMMISSION**  
**Notes to Financial Statements**  
**June 30, 2008**

***Contributions Required and Contributions Made***

Rhode Island General Laws set the contribution rates for participating State employees at 8.75% of the member's salary. Annual contributions by the State on behalf of those employees are determined by actuaries and assessed as a percentage of the member's salary. NBC was required to contribute 20.77% for all full-time employees for fiscal year 2008. The required contributions include (a) normal costs and (b) payments to amortize the unfunded actuarial accrued liability as of June 30, 1999 over 30 years. Normal cost is determined using the entry age normal cost method. In addition, NBC is required to contribute 6.01% for post-retirement health benefits.

The amounts contributed to the Plan are as follows:

<u>Years ended June 30</u>	<u>Employee Contributions</u>	<u>NBC Required Contributions</u>
2008	\$402,357	\$955,078
2007	393,298	827,045
2006	399,648	672,224

NBC contributed 100% of the required contribution.

Trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the State of Rhode Island's Employee Retirement System's June 30, 2007 annual financial report, which may be obtained from the administrative offices of the State of Rhode Island Retirement Board, 40 Fountain Street, Providence, Rhode Island.

***NON-UNION PROFIT-SHARING PLAN***

NBC's Board of Commissioners approved a resolution, at the regular business meeting on May 15, 2002, adopting the Narragansett Bay Commission Non-union Defined Contribution Plan, which is a profit-sharing plan for its non-union employees pursuant to 401(a) of the Internal Revenue Code. The profit-sharing plan is a defined contribution, single employer pension plan. As of June 30, 2008, there were 112 participants.

Contributions are discretionary and established annually and may be amended by the Board of Commissioners. NBC's contribution to the profit-sharing plan for the year ended June 30, 2008 amounted to \$342,742 representing a contribution rate of 5% for the year ended June 30, 2008. Employees are allowed to make voluntary contributions to the profit-sharing plan on an after-tax basis. The employees' contribution to the plan for the year ended June 30, 2008 amounted to \$308,602.

Non-union employees are eligible to participate in the profit-sharing plan if they have performed one year of service and are at least twenty-one years of age. These provisions were adopted and may be amended by the Board of Commissioners.

**NARRAGANSETT BAY COMMISSION**  
**Notes to Financial Statements**  
**June 30, 2008**

NBC funds the annual profit-sharing plan contribution following the fiscal year close of each year based on each eligible employee's fiscal year compensation. The plan is administered by a third-party administrator and Capital Bank and Trust is the Plan's trustee.

NBC's payroll for employees covered by the profit-sharing plan was \$6,854,820 for the year ended June 30, 2008. The total payroll for the year ended June 30, 2008 amounted to \$12,747,170.

**NON-UNION DEFINED BENEFIT PLAN**

***Plan Description***

NBC's Board of Commissioners approved a resolution, at the regular business meeting on December 20, 2004 adopting a defined benefit plan for its non-union employees effective February 1, 2005, pursuant to 401(a) of the Internal Revenue Code. The plan is a single-employer, defined benefit pension plan. The plan year begins January 1 and ends December 31, with the initial plan year ending December 31, 2005.

The Pension Plan is being administered by third party administrator.

NBC's payroll for employees covered by the Plan for the year ended June 30, 2008 was \$6,172,044 and NBC's total payroll was \$12,747,170.

At December 31, 2007, employee membership related to the plan was as follows:

Active – vested benefits	74
Active – not vested	19
Terminated – deferred vested benefit	<u>13</u>
<b><i>Total</i></b>	<b><u>106</u></b>

***Benefit Provisions***

All non-union employees are eligible to participate in the plan after the completion of one year of service and attaining age 21. The monthly retirement benefit is based on 1% of average monthly compensation multiplied by total years of service limited to 30 years. Participants are eligible to retire at age 65 after 5 years of service. A participant is eligible for early actuarially adjusted retirement after 20 years of service and if they have attained age 62. The Plan has cliff vesting after 7 years. There are no retirement benefit payment distributions for the first five years of the plan or year 2010. The Board is authorized to establish and amend all plan provisions.

Effective as of January 1, 2007 the Plan was amended such that 1,000 hours of service was added to the definitions of both "Period of Service" and "Period of Participation."



**NARRAGANSETT BAY COMMISSION**  
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***Funding Policy***

The contribution requirements of the plan participants and NBC are established and may be amended by the Board. Eligible plan participants must contribute 5% of covered earnings. NBC is required to contribute an actuarially determined amount. The annual required contribution for the plan year January 1, 2007 through December 31, 2007 was \$687,937. This includes both the employee and employer contributions for the plan year ending December 31, 2007.

The contributions made to the plan for the plan year ended December 31, 2007 were \$717,033, which consists of employer contributions of \$419,913 and employee contributions of \$297,120.

***Annual Pension Cost***

NBC's annual pension cost and net pension obligation for the plan year ended December 31, 2007 were as follows:

Annual required contribution (ARC)	\$687,937
Interest on net pension obligation	-
Adjustment to ARC	-
Annual pension cost (APC)	<u>687,937</u>
Contributions made	<u>717,033</u>
Decrease in net pension obligation	(29,096)
Negative net pension obligation, beginning of year	<u>(59,263)</u>
Negative net pension obligation, end of year	<u>\$(88,359)</u>

***Three-Year Trend Information***

<b><i>Plan Year Ending</i></b>	<b><i>Annual Pension Cost (APC)</i></b>	<b><i>Percentage of APC Contributed</i></b>	<b><i>Net Pension Obligation</i></b>
12/31/2005	\$681,441	107%	\$(45,452)
12/31/2006	677,295	102%	(59,263)
12/31/2007	687,937	104%	(88,359)

***Actuarial Methods and Assumptions***

The annual required contribution was determined by an actuarial valuation as of December 31, 2007 using the entry age normal cost with frozen initial liability actuarial cost method. The actuarial assumptions included (a) 6% investment rate of return and (b) projected salary increases of 3.5% per year due to inflation and merit raises. NBC's unfunded actuarial accrued liability is being amortized over 30 years on a closed basis using the level dollar method. The remaining amortization period at December 31, 2007 is 27 years. The actuarial value of the investments was based on market value.

**NARRAGANSETT BAY COMMISSION**  
**Notes to Financial Statements**  
**June 30, 2008**

***Funding Status and Funding Progress***

The funded status of the plan as of December 31, 2007 the most recent actuarial valuation is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded (AAL) (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	UAAL as a % of Covered Payroll
12/31/2007	\$2,351,065	\$7,296,345	\$4,945,280	32.2%	\$5,843,128	84.63%

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

A separate audited pension plan financial statement is not available for the plan year ended December 31, 2007.

**NOTE 12 – SALARY DEFERRAL**

Under a salary reduction plan adopted by NBC, the gross pay of non-union employees of the Field’s Point service area was reduced by 12 ½% from March 10, 1991 through June 29, 1991; the gross pay of union employees of the Bucklin Point service area was reduced 14% from April 21, 1991 through June 29, 1991; and the gross pay of all non-union employees of the Field’s Point service area was reduced 10% from June 30, 1991 through March 21, 1992. The equivalent number of pay hours was accrued as deferred vacation days.

Field’s Point service area employees may discharge this additional deferred leave during any payroll period following the payroll period(s) in which it was earned commencing July 1, 1991.

Bucklin Point service area employees may discharge this additional deferred leave during any payroll period following the payroll period(s) in which it was earned. Cash payment may be elected for one additional day of paid leave per calendar month commencing July 1, 1992.

Employees at either facility may retain this additional deferred leave to be paid upon termination and at such time, receive payment at their then-current rate of pay.

Salary deferred under the salary reduction plan is included in compensated absences as of June 30, 2008 and is reported as a long-term liability within other accrued expenses.

**NARRAGANSETT BAY COMMISSION**  
**Notes to Financial Statements**  
**June 30, 2008**

**NOTE 13 – USER BILLING**

At its 1983 session, the Rhode Island General Assembly enacted Public Law 1983 Chapter 235, which amended NBC's enabling legislation (Title 46, Chapter 25 of the General Laws). The amendment required that NBC institute a retail billing system with rates and fees subject to review and approval by the PUC. A PUC approved retail billing system went into effect July 1, 1985, for the Field's Point service area, and January 1, 1992, for the Bucklin Point service area.

**NOTE 14 – COMMITMENTS AND CONTINGENCIES**

NBC has entered into various engineering and construction contracts for the design and improvement of its facilities as part of its capital improvement program. Commitments under these contracts aggregated approximately \$25,015,642 at June 30 2008.

NBC, during the ordinary course of its operations, is a party to various claims, legal actions and complaints. In the opinion of NBC's management and legal counsel, the potential liability to NBC, if any, or an evaluation of the outcome to these matters cannot be made at the present time.

**NOTE 15 – SUBSEQUENT EVENTS**

On July 17, 2008, NBC issued the 2008 Series A Wastewater System Revenue Refunding Bonds in the principal amount of \$66,360,000 maturing September 1, 2034. The Refunding Bonds were issued to refund the 2004 Series A Revenue Bonds. The 2008 Series A are Multi-Modal and have been issued in weekly rate mode with the interest rate determined weekly and interest paid monthly. The owners of the bonds in a weekly mode can require NBC (acting through its remarketing agent) to repurchase the bonds. The remarketing agent has agreed to use its best efforts to remarket any purchased bonds. NBC has an irrevocable direct pay letter of credit ("Letter of Credit") issued by RBS Citizens, National Association ("the Bank"). In the event that the remarketing agent is unable to remarket tendered bonds, the Letter of Credit provides that the Bank is obligated to pay to the Trustee, the amount necessary to pay the principal and Purchase Price of and interest on the Bonds of up to 60 days at the maximum Rate of 10% on the Bonds. The Letter of Credit expires on July 16, 2020.

**NARRAGANSETT BAY COMMISSION**  
**Notes to Financial Statements**  
**June 30, 2008**

**NOTE 16 – POST-EMPLOYMENT UNION HEALTHCARE PLAN**

***Plan Description***

The NBC's union employees are eligible to participate in a State administered defined benefit post-employment health care plan known as the Rhode Island Retiree Health Care Benefit Plan ("RIRHCBP" or "the Plan"). The RIRHCBP is an agent multiple employer plan.

The RIRHCBP is reported in an internal service fund of the State using the accrual basis of accounting. The fund reports all employer and retired participant (plan member) contributions to the Plan. Contributions are recognized when made. Benefits (health care claims) and refunds are recognized when due and payable in accordance with the terms of the Plan. A liability for incurred but not reported claims is determined based on past claims payment trends and is included in the State of RI financial statements. The working premium rates are determined by the State each fiscal year after consultation with an employee benefits consultant and are designed to fund current claims incurred during the fiscal year as well as the costs of administering the Plan. For the year ended June 30, 2008 the Plan operated on a pay as you go basis and no provision has been made to fund future benefits to be provided to RIRHCBP members. The RIRHCBP does not issue a stand-alone financial report.

***Funding Policy***

RIGL Sections 36-10-2, 36-12.1, 36-12.2.2 and 36-12-4 govern the provisions of the RIRHCBP. The contribution requirements of plan members, the State and participating employers are established and may be amended by the General Assembly.

For Plan members retiring on or before September 30, 2008, the Plan provides two types of subsidies for health care benefits. The Tier I subsidy applies to non-Medicare eligible plans and provides that the Plan will pay the portion of the cost of post-retirement health care for the retired participant and any dependents above the active group rate. The retired participant pays the active monthly rate and the State pays the difference between the active group rate and the early retiree rate. This subsidy is not based on years of service and ends at age 65. The Plan pays a portion of the cost of post-retirement health care above the Tier I costs for certain Plan members meeting eligibility requirements based upon the age and service of the retiree, which is referred to as the Tier II benefit.

**NARRAGANSETT BAY COMMISSION**  
**Notes to Financial Statements**  
**June 30, 2008**

The retired participants' fiscal 2008 contributions were as follows:

<u>Retired Participant Age</u>	<u>Years of Service</u>	<u>Amount of Cost Paid by Retired Participant</u>
<b>Below 60: (1)</b>	28-34	10%
	35+	0%
<b>Retiree Age from 60 to 65: (2)</b>	10 – 15	50%
	16 – 22	30%
	23 – 27	20%
	28+	0%
<b>Retiree Age Greater than 65: (3)</b>	10 – 15	50%
	16 – 19	30%
	20 – 27	10%
	28+	0%

- (1) The monthly premium rate was \$708.94 for the individual plan. The retired participant's cost is then calculated based on a maximum of \$452.28 (the active plan rate).
- (2) The monthly premium rate was the same as indicated above for the Retired Participant Age Below 60 category.
- (3) The monthly premium rate for the Medicare Supplemental plan is \$179.77 for the individual plan, and the monthly premium for the Medicare HMO plan was \$100.00 for the first six months of fiscal year 2008 and \$107 thereafter. Retired participants can choose between the two plans. The retired participant's cost is then calculated based on their years-of-service subsidy above.

***Annual OPEB Cost***

NBC recognized an expense equal to the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45 to be 6.01% of covered payroll. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Based on figures provided by the State of RI, NBC contributed 3.63% of annual covered payroll in fiscal year 2008, resulting in a Net OPEB obligation of \$109,441. The NBC annual OPEB cost,

**NARRAGANSETT BAY COMMISSION**  
**Notes to Financial Statements**  
**June 30, 2008**

the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal 2008, the first year of GASB 45 implementation, was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2008	\$276,362	60%	\$109,441

***Funded Status and Funding Progress***

The funded status of NBC's share of the plan as of June 30, 2008, was as follows:

Actuarial Accrued Liability (AAL)	\$5,611,272
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability	<u>\$5,611,272</u>
Funded ratio (Actuarial Value of Plan Assets / AAL)	0%
Annual Covered Payroll (Active Plan Members)	\$4,598,364
UAAL as a Percentage of Covered Payroll	122.03%

Separate actuarial valuations were not performed to determine the actuarial accrued liability for NBC, a participating employer. The total AAL for all eligible employees participating in RIRHCBP was apportioned to each participating employers based on their pro rata share of active covered employees to all active covered employees.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

***Actuarial Methods and Assumptions***

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation. The actuarial assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

**NARRAGANSETT BAY COMMISSION**  
**Notes to Financial Statements**  
**June 30, 2008**

The actuarial valuation was performed as of June 30, 2005 with results projected to July 1, 2007 for the fiscal year ended June 30, 2008. The annual required contribution was determined using the individual entry age actuarial cost method. The unfunded actuarial accrued liability as of the June 30, 2005 transition date is amortized over a period of 30 years using the level (principal and interest combined) percent of payroll contribution amortization method.

Plan changes effective for employees retiring after October 1, 2008 have been reflected in the actuarial valuation performed as of June 30, 2005.

The individual entry-age actuarial cost method is used to determine the annual required contribution amounts and the annual net OPEB obligation. The actuarial assumptions include a 3.566% discount rate; an annual healthcare cost trend rate of 12% progressively declining to 4.5% after 10 years; and a salary growth rate ranging from 8.25% in year 1 to 4.75% in year 15 and beyond. The discount rate was calculated based upon the average rate of return during the 10 years ended June 30, 2008 for short term investments of the State's General Fund.

Significant Legislation Affecting Plan. On May 1, 2008 Public Law 2008-09 was enacted. This law, among other provisions, establishes a Trust to be effective in fiscal year 2009 to fund other post employment health care benefits (OPEB) requires annual actuarial valuations of the OPEB liability and commits the State to funding the actuarially determined OPEB contribution beginning in fiscal year 2009. In addition, the legislation changes the eligibility requirements for Plan contributions for health care coverage for those retiring on or after October 1, 2008. For any participant who retires on or after that date and has a minimum of 20 years of service and who is a minimum of 59 years of age, the State will pay 80% of the actual cost of such health care coverage.

**NARRAGANSETT BAY COMMISSION**  
*Required Supplementary Information*  
*Schedule of Funding Progress (1)*  
*"Unaudited"*

	<i>Actuarial Valuation Date</i>	<i>Actuarial Value of Assets</i>	<i>Actuarial Accrued Liability (AAL) -Entry Age</i>	<i>Unfunded Liability/ (Funding) (Excess)</i>	<i>Funded Ratio</i>	<i>Covered Payroll</i>	<i>Unfunded Liability/ (Funding Excess) as a Percentage of Covered Payroll</i>
<b><i>Non-Union Defined Benefit Plan</i></b>	12/31/2005	\$749,690	\$5,841,205	\$5,091,515	12.83%	\$5,673,797	89.74%
	12/31/2006	1,550,915	6,549,837	4,998,922	23.68%	5,769,487	86.64%
	12/31/2007	2,351,065	7,296,345	4,945,280	32.22%	5,843,128	84.63%
<b><i>Postemployment Healthcare Plan</i></b>	6/30/2005	\$0	\$5,611,272	\$5,611,272	0.00%	\$4,598,364	122.03%

(1) The information included in the schedule of funding progress was obtained from the annual actuarial valuation at the date indicated.



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**NARRAGANSETT BAY COMMISSION**  
*Schedule of Expenses - Budget and Actual (Budgetary Basis)*  
*For the Year Ended June 30, 2008*

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Operating Expenses</b>			
<b>Personnel services</b>			
Union regular	\$ 5,169,780	\$ 4,739,757	\$ 430,023
Union overtime	429,400	417,126	12,274
Non-union regular	7,594,819	7,495,396	99,423
Non-union overtime	91,125	82,718	8,407
Non-union limited	47,000	32,074	14,926
Fringe benefits	6,209,993	5,765,429	444,564
Workers' compensation old claims	62,000	59,935	2,065
Turnover allowance	(318,426)	-	(318,426)
Project salaries and fringe benefits capitalized	(1,556,684)	(1,539,575)	(17,109)
<b>Total personnel services</b>	<u>17,729,007</u>	<u>17,052,860</u>	<u>676,147</u>
<b>Contract services</b>			
Medical services	15,768	12,480	3,288
Biosolids disposal	4,511,229	4,409,679	101,550
Screening and grit disposal	150,980	128,151	22,829
Security services	33,281	28,307	4,974
Regulatory expenses	227,361	230,990	(3,629)
Educational consulting	350	-	350
Legal services	188,000	177,532	10,468
Management/audit services	2,157,220	2,077,054	80,166
Special clerical services	53,300	50,956	2,344
Other special services	148,980	99,233	49,747
<b>Total contract services</b>	<u>7,486,469</u>	<u>7,214,382</u>	<u>272,087</u>
<b>Travel</b>			
Local travel	6,220	3,141	3,079
Long distance travel	90,540	65,466	25,074
<b>Total travel</b>	<u>96,760</u>	<u>68,607</u>	<u>28,153</u>
<b>Repairs and maintenance</b>			
Building and ground maintenance	99,903	100,189	(286)
Vehicle fuel and maintenance	184,339	185,068	(729)
Repairs, building and structures	539,970	506,856	33,114
Repairs, highway and walls	16,000	15,894	106
Maintenance/service agreements	512,130	444,142	67,988
Highway and landscape	10,000	6,634	3,366
<b>Total repairs and maintenance</b>	<u>1,362,342</u>	<u>1,258,783</u>	<u>103,559</u>

(Continued)

**NARRAGANSETT BAY COMMISSION**  
*Schedule of Expenses - Budget and Actual (Budgetary Basis)-(Continued)*  
For the Year Ended June 30, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Utilities</b>			
Telephone	\$ 140,000	\$ 135,773	\$ 4,227
Central telephone services	3,700	4,050	(350)
Fuel, oil - kerosene	900	-	900
Diesel for equipment	20,800	20,140	660
Fuel, gas	492,767	359,495	133,272
Electricity	3,134,315	2,847,148	287,167
Water	86,500	69,184	17,316
<b>Total utilities</b>	<u>3,878,982</u>	<u>3,435,790</u>	<u>443,192</u>
<b>Supplies</b>			
Clothing and clothing materials	34,840	33,319	1,521
Household, laundry and chemical supplies	31,150	25,419	5,731
Building and machinery supplies and expenses	167,420	168,001	(581)
Educational expenses	70,160	53,093	17,067
Lab supplies	226,150	220,850	5,300
Computer supplies	87,780	76,648	11,132
Other operating supplies and expenses	12,500	8,165	4,335
Chemicals	605,698	595,156	10,542
<b>Total supplies</b>	<u>1,235,698</u>	<u>1,180,651</u>	<u>55,047</u>
<b>Miscellaneous</b>			
Office expense	75,230	67,801	7,429
Postage	165,675	162,635	3,040
Dues and subscriptions	65,885	56,944	8,941
Freight	37,800	33,351	4,449
Insurance	382,120	346,404	35,716
Workers' compensation insurance	460,529	403,936	56,593
Printing and binding	123,900	93,620	30,280
Advertising	18,351	15,417	2,934
Rental of outside property	8,149	4,664	3,485
Rental of equipment	35,250	26,460	8,790
Rental of clothing	46,600	36,610	9,990
Safety equipment	30,890	23,534	7,356
Miscellaneous	57,400	64,229	(6,829)
Public outreach education	14,700	14,659	41
<b>Total miscellaneous</b>	<u>1,522,479</u>	<u>1,350,264</u>	<u>172,215</u>
<b>Total operating expenses</b>	<u>33,311,737</u>	<u>31,561,337</u>	<u>1,750,400</u>

(Continued)

**NARRAGANSETT BAY COMMISSION**  
*Schedule of Expenses - Budget and Actual (Budgetary Basis)-(Continued)*  
For the Year Ended June 30, 2008

	<i>Budget</i>	<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
<b><i>Nonoperating expenses</i></b>			
Interest expense- 2007 Series A	\$ 2,058,899	\$ 2,058,868	\$ 31
Interest expense- VDRO	2,569,982	2,569,967	15
Interest expense- SRF	6,210,149	6,204,642	5,507
Interest expense- Leases	58,000	37,983	20,017
Interest expense- 2005 Series A	2,250,000	2,250,000	-
Programmed debt	683,600	-	683,600
Bond and note issue fees	32,000	24,720	7,280
<b><i>Total nonoperating expenses</i></b>	<u>13,862,630</u>	<u>13,146,180</u>	<u>716,450</u>
<b><i>Capital outlays</i></b>			
Automotive equipment	144,400	69,950	74,450
Building and plant equipment	352,850	272,964	79,886
Laboratory equipment	64,000	49,417	14,583
Office furniture and equipment	17,200	17,081	119
Computer software	369,681	379,246	(9,565)
Computer hardware	369,469	363,469	6,000
Other equipment	20,000	19,746	254
Buildings and other structures	65,800	65,525	275
Replacement reserve	563,900	509,045	54,855
Improvements not buildings or structures	34,700	-	34,700
<b><i>Total capital outlays</i></b>	<u>2,002,000</u>	<u>1,746,443</u>	<u>255,557</u>
<b><i>Debt service principal</i></b>	<u>16,800,972</u>	<u>16,800,972</u>	<u>-</u>
<b><i>Total budgeted expenses</i></b>	<u>\$ 65,977,339</u>	<u>\$ 63,254,932</u>	<u>\$ 2,722,407</u>

The NBC prepares its operating budget on a modified cash basis. Accordingly certain noncash expenditures such as depreciation and amortization expense are not provided for in the operating budget.

Reconciliation of Budgetary Basis Expenses to GAAP Expenses:

<b><i>Total expenses on budgetary basis</i></b>	\$ 63,254,932
Add:	
Depreciation	7,124,164
Amortization	339,482
Grant expenses	13,245
Bad debt expense	77,534
Less:	
Capital outlay	(1,693,668)
Capital asset obligations	(52,775)
Debt service principal	(16,800,972)
<b><i>Total expenses on a GAAP basis</i></b>	<u>\$ 52,261,942</u>

**NARRAGANSETT BAY COMMISSION**  
*Combining Schedule of Net Assets*  
 June 30, 2008

<i>Assets</i>	<u><i>Revenue Fund</i></u>	<u><i>O &amp; M Fund</i></u>	<u><i>Project Fund</i></u>	<u><i>Debt Service Fund</i></u>	<u><i>Total</i></u>
<b><i>Current Assets</i></b>					
Cash and cash equivalents	\$ 6,528,875	\$ 2,306,399	\$ 4,809,363	\$ -	\$ 13,644,637
Accrued interest receivable	-	-	6,988	-	6,988
Accounts receivable					
Sewer use (net of allowance)	6,668,085	-	-	-	6,668,085
Sewer use unbilled	15,769,029	-	-	-	15,769,029
Receivables, other	39,890	18,540	2,500	-	60,930
Prepaid expenses	-	190,205	-	-	190,205
Negative net pension obligation	-	88,359	-	-	88,359
<b><i>Total current assets</i></b>	<u>29,005,879</u>	<u>2,603,503</u>	<u>4,818,851</u>	<u>-</u>	<u>36,428,233</u>
<b><i>Noncurrent Assets</i></b>					
<b><i>Restricted assets</i></b>					
Cash and cash equivalents, environmental enforcement	189,545	-	-	-	189,545
Cash and cash equivalents	-	-	160,455	24,496,710	24,657,165
Cash and cash equivalents, restricted for the acquisition and construction of plant assets	-	-	22,239,340	-	22,239,340
Accrued interest receivable	-	-	33,328	28,596	61,924
<b><i>Total restricted assets</i></b>	<u>189,545</u>	<u>-</u>	<u>22,433,123</u>	<u>24,525,306</u>	<u>47,147,974</u>
<b><i>Capital assets</i></b>					
Land	-	-	2,754,407	-	2,754,407
Plant and equipment	-	-	75,480,473	-	75,480,473
Capital projects completed	-	-	255,551,726	-	255,551,726
Construction in progress	-	-	412,852,916	-	412,852,916
	-	-	746,639,522	-	746,639,522
Less accumulated depreciation	-	-	(107,770,767)	-	(107,770,767)
<b><i>Net capital assets</i></b>	<u>-</u>	<u>-</u>	<u>638,868,755</u>	<u>-</u>	<u>638,868,755</u>
<b><i>Other assets</i></b>					
Organization costs (net of accumulated amortization)	-	58,574	-	-	58,574
Bond and loan issuance costs (net of accumulated amortization)	-	-	5,690,583	-	5,690,583
<b><i>Total other assets</i></b>	<u>-</u>	<u>58,574</u>	<u>5,690,583</u>	<u>-</u>	<u>5,749,157</u>
<b><i>Total noncurrent assets</i></b>	<u>189,545</u>	<u>58,574</u>	<u>666,992,461</u>	<u>24,525,306</u>	<u>691,765,886</u>
<b><i>Total Assets</i></b>	<u>\$ 29,195,424</u>	<u>\$ 2,662,077</u>	<u>\$ 671,811,312</u>	<u>\$ 24,525,306</u>	<u>\$ 728,194,119</u>

(Continued)

**NARRAGANSETT BAY COMMISSION**  
**Combining Schedule of Net Assets (Continued)**  
**June 30, 2008**

<i>Liabilities</i>	<u>Revenue Fund</u>	<u>O &amp; M Fund</u>	<u>Project Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
<b><i>Current Liabilities</i></b>					
Accounts and contracts payable	\$ 61,921	\$ 1,111,712	\$ 6,123,174	\$ -	\$ 7,296,807
Accrued interest payable	-	-	-	4,075,590	4,075,590
Accrued expenses	-	2,382,223	-	-	2,382,223
Unearned revenue	281,908	-	-	-	281,908
Current portion of loans payable	-	-	15,942,042	-	15,942,042
Current portion of leases payable	-	-	247,107	-	247,107
Current portion of long-term debt	-	-	1,515,000	-	1,515,000
<b><i>Total current liabilities</i></b>	<u>343,829</u>	<u>3,493,935</u>	<u>23,827,323</u>	<u>4,075,590</u>	<u>31,740,677</u>
<b><i>Noncurrent Liabilities</i></b>					
Net OPEB Pension Obligation	-	109,441	-	-	109,441
Other accrued expenses	-	71,808	-	-	71,808
Long-term loans payable, net	-	-	253,084,858	-	253,084,858
Long-term leases payable, net	-	-	338,649	-	338,649
Long-term debt, net	-	-	156,098,722	-	156,098,722
<b><i>Total noncurrent liabilities</i></b>	<u>-</u>	<u>181,249</u>	<u>409,522,229</u>	<u>-</u>	<u>409,703,478</u>
<b><i>Total liabilities</i></b>	<u>343,829</u>	<u>3,675,184</u>	<u>433,349,552</u>	<u>4,075,590</u>	<u>441,444,155</u>
<b><i>Net Assets</i></b>					
Investment in capital assets, net of related debt	-	-	228,385,908	-	228,385,908
Restricted, environmental enforcement	189,545	-	-	-	189,545
Unrestricted	28,662,050	(1,013,107)	10,075,852	20,449,716	58,174,511
<b><i>Total net assets</i></b>	<u>\$ 28,851,595</u>	<u>\$ (1,013,107)</u>	<u>\$ 238,461,760</u>	<u>\$ 20,449,716</u>	<u>\$ 286,749,964</u>

**NARRAGANSETT BAY COMMISSION**  
*Combining Schedule of Revenues, Expenses and Changes in Net Assets*  
*For the year ended June 30, 2008*

	<u>Revenue Fund</u>	<u>O &amp; M Fund</u>	<u>Project Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
<b>Operating revenues</b>					
User fees, residential	\$ 36,113,007	\$ -	\$ -	\$ -	\$ 36,113,007
User fees, commercial and industrial	28,349,977	-	-	-	28,349,977
Permit and connection fees	181,290	-	-	-	181,290
Pretreatment	1,115,529	-	-	-	1,115,529
Environmental enforcement	75,500	-	-	-	75,500
Septage income	372,711	-	-	-	372,711
Abatement fees	5,364	-	-	-	5,364
Late charge penalties	741,834	-	-	-	741,834
Miscellaneous revenue	6,423	-	-	-	6,423
BOD/TSS surcharge	116,096	-	-	-	116,096
<b>Total operating revenues</b>	<u>67,077,731</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>67,077,731</u>
<b>Operating expenses</b>					
Personnel services	-	17,052,860	-	-	17,052,860
Contractual services	-	7,214,382	-	-	7,214,382
Travel	-	68,607	-	-	68,607
Repairs and maintenance	-	1,258,783	-	-	1,258,783
Utilities	-	3,435,790	-	-	3,435,790
Supplies	-	1,183,308	-	-	1,183,308
Depreciation	-	-	7,463,646	-	7,463,646
Insurance	-	750,340	-	-	750,340
Bad debt expense, net of recoveries	-	77,534	-	-	77,534
Miscellaneous	-	610,512	-	-	610,512
<b>Total operating expenses</b>	<u>-</u>	<u>31,652,116</u>	<u>7,463,646</u>	<u>-</u>	<u>39,115,762</u>
<b>Operating income (loss)</b>	<u>67,077,731</u>	<u>(31,652,116)</u>	<u>(7,463,646)</u>	<u>-</u>	<u>27,961,969</u>

(Continued)

**NARRAGANSETT BAY COMMISSION**  
*Combining Schedule of Revenues, Expenses and Changes in Net Assets (Continued)*  
For the year ended June 30, 2008

	<u>Revenue Fund</u>	<u>O &amp; M Fund</u>	<u>Project Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
<i>Nonoperating revenues (expenses)</i>					
Grant	27,653	-	-	-	27,653
Interest expense	-	(37,983)	-	(13,083,477)	(13,121,460)
Interest income	287,152	71,766	1,404,374	432,365	2,195,657
Gain on disposal of assets	-	-	12,484	-	12,484
Miscellaneous income	82,832	-	-	-	82,832
Bond and note issuance costs	-	(24,720)	-	-	(24,720)
<b>Total nonoperating revenues (expenses)</b>	<u>397,637</u>	<u>9,063</u>	<u>1,416,858</u>	<u>(12,651,112)</u>	<u>(10,827,554)</u>
Net income before operating transfers - forward	<u>67,475,368</u>	<u>(31,643,053)</u>	<u>(6,046,788)</u>	<u>(12,651,112)</u>	<u>17,134,415</u>
Transfers in (out)	<u>(68,600,285)</u>	<u>32,155,419</u>	<u>18,163,769</u>	<u>18,281,097</u>	<u>-</u>
<b>Change in net assets</b>	<u>(1,124,917)</u>	<u>512,366</u>	<u>12,116,981</u>	<u>5,629,985</u>	<u>17,134,415</u>
<b>Total net assets, beginning of year</b>	<u>29,976,512</u>	<u>(1,525,473)</u>	<u>226,344,779</u>	<u>14,819,731</u>	<u>269,615,549</u>
<b>Total net assets ending end of year</b>	<u>\$ 28,851,595</u>	<u>\$ (1,013,107)</u>	<u>\$ 238,461,760</u>	<u>\$ 20,449,716</u>	<u>\$ 286,749,964</u>



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Comprehensive Annual Financial Report  
**Statistical Section**



*Photo: Manhole inspection*



# STATISTICAL SECTION

This part of the NBC's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statement, note disclosure, and required supplementary information says about the NBC's overall financial health.

## Financial Trends

These schedules contain trend information to help the reader understand how the NBC's financial performance and well-being have changed over time.

- Net Assets by Component
- Changes in Net Assets
- Revenue by Source
- Expenses by Function

## Revenue Capacity

These schedules contain information to help the reader assess the NBC's most significant revenue sources.

- User Fee Revenue by Customer Type
- Residential Sewer Rates
- Non-residential Sewer Rates
- Comparative Sewer Rates – RI Municipalities
- Principal Commercial Users

## Debt Capacity

These schedules present information to help the reader assess the affordability of the NBC's current levels of outstanding debt and the NBC's ability to issue additional debt in the future.

- Ratios of Outstanding Debt
- Debt Service Coverage

## Demographic and Economic Information

This schedule offer demographic and economic indicators to help the reader understand the environment within which the NBC's financial activities take place.

- Demographic & Economic Statistics

## Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the NBC's financial report relates to the Services the NBC provides and the activities it performs.

- Operating Indicators by Division
- Budgeted Employees by Activity

Sources: Unless otherwise noted, the information in these schedules was derived from the comprehensive annual financial report for the relevant year.

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**NARRAGANSETT BAY COMMISSION**  
*Net Assets By Component - (Unaudited)*  
*Last Ten Fiscal Years*

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<u>Years Ending June 30,</u>	<u>Investment in Capital Assets, net of related debt</u>	<u>Restricted Environmental Enforcement</u>	<u>Unrestricted</u>	<u>Total Net Assets</u>
1999	\$ 148,922,581	\$ 73,980	\$ 17,285,854	\$ 166,282,415
2000	165,503,461	103,856	15,387,628	180,994,945
2001	164,604,758	101,241	16,251,384	180,957,383
2002	173,360,798	45,288	20,891,265	194,297,351
2003	180,119,178	70,699	26,584,786	206,774,663
2004	176,130,955	34,340	46,295,161	222,460,456
2005	195,783,867	49,193	43,092,952	238,926,012
2006	205,752,364	84,735	50,790,866	256,627,965
2007	214,974,154	127,370	54,514,025	269,615,549
2008	228,385,908	189,545	58,174,511	286,749,964

**NARRAGANSETT BAY COMMISSION**  
*Change in Net Assets (Unaudited)*  
*Last Ten Fiscal Years*

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
<b>Operating Revenues</b>										
User fees	\$ 64,462,984	\$ 56,094,973	\$ 56,395,730	\$ 51,186,822	\$ 47,873,355	\$ 41,993,962	\$ 33,249,538	\$ 27,765,540	\$ 27,209,839	\$ 26,908,201
Pretreatment fees	1,115,529	1,163,397	1,165,749	1,209,418	1,234,447	1,083,886	861,821	875,338	896,287	939,771
Other operating revenue	1,499,218	1,399,037	1,464,685	1,381,662	1,305,690	1,510,275	1,325,622	1,624,235	1,516,108	1,248,899
<b>Total Operating Revenues</b>	<b>67,077,731</b>	<b>58,657,407</b>	<b>59,026,164</b>	<b>53,777,902</b>	<b>50,413,492</b>	<b>44,588,123</b>	<b>35,436,981</b>	<b>30,265,113</b>	<b>29,622,234</b>	<b>29,096,871</b>
<b>Non Operating Revenues</b>										
Interest income	2,195,657	2,849,252	2,483,388	914,079	515,567	260,466	244,713	494,964	431,581	372,794
Grants	27,653	49,037	20,695	35,530	74,983	391,631	1,132,839	228,265	77,844	47,967
Other nonoperating revenue	95,316	111,703	30,465	-	-	-	260,632	160,201	-	-
<b>Total Nonoperating Revenues</b>	<b>2,318,626</b>	<b>3,009,992</b>	<b>2,534,548</b>	<b>949,609</b>	<b>590,550</b>	<b>652,097</b>	<b>1,638,184</b>	<b>883,430</b>	<b>509,425</b>	<b>420,761</b>
<b>Operating Expenses</b>										
Personnel Services	17,052,860	16,043,809	15,681,061	15,367,770	14,984,343	13,893,990	13,373,277	11,809,558	12,252,827	12,316,050
Contractual Services	7,214,382	6,474,726	5,299,762	3,226,479	3,470,114	1,577,752	4,083,886	4,504,501	4,229,469	2,717,392
General and Administrative	7,384,874	7,413,415	7,319,290	7,821,574	7,050,880	8,650,093	6,495,336	6,904,768	5,618,680	5,905,963
Depreciation and amortization	7,463,646	6,803,213	6,129,019	6,397,410	6,265,860	5,981,286	5,849,189	5,388,068	5,032,327	4,607,433
<b>Total Operating Expenses</b>	<b>39,115,762</b>	<b>36,735,163</b>	<b>34,429,132</b>	<b>32,813,233</b>	<b>31,771,197</b>	<b>30,103,121</b>	<b>29,801,688</b>	<b>28,606,895</b>	<b>27,133,303</b>	<b>25,546,838</b>
<b>Nonoperating Expenses</b>										
Interest Expense	13,121,460	11,913,538	9,836,182	8,381,979	5,720,685	4,296,363	2,877,973	2,563,511	2,752,805	2,853,702
Other Expenses	24,720	36,740	1,016,836	8,436	49,740	27,973	119,986	20,788	29,987	53,014
<b>Total Nonoperating Expenses</b>	<b>13,146,180</b>	<b>11,950,278</b>	<b>10,595,585</b>	<b>8,390,415</b>	<b>5,770,425</b>	<b>4,324,336</b>	<b>2,997,959</b>	<b>2,584,299</b>	<b>2,782,792</b>	<b>2,906,716</b>
<b>Net Income before capital contributions</b>	<b>\$ 17,134,415</b>	<b>\$ 12,981,958</b>	<b>16,535,995</b>	<b>13,523,863</b>	<b>13,462,420</b>	<b>10,812,762</b>	<b>4,275,518</b>	<b>(42,651)</b>	<b>215,564</b>	<b>1,064,078</b>
Capital contribution	0	5,626	1,165,958	2,941,693	2,223,373	1,664,550	9,064,450	5,089	14,496,966	2,049,160
<b>Change in Net Assets</b>	<b>\$ 17,134,415</b>	<b>\$ 12,987,584</b>	<b>17,701,953</b>	<b>16,465,556</b>	<b>15,685,793</b>	<b>12,477,312</b>	<b>13,339,968</b>	<b>(37,562)</b>	<b>14,712,530</b>	<b>3,113,238</b>
<b>Net Assets- beginning</b>	<b>269,615,549</b>	<b>256,627,965</b>	<b>238,926,012</b>	<b>222,460,456</b>	<b>206,774,663</b>	<b>194,297,351</b>	<b>180,957,383</b>	<b>180,994,945</b>	<b>166,282,415</b>	<b>163,169,177</b>
<b>Net Assets- ending</b>	<b>\$286,749,964</b>	<b>\$ 269,615,549</b>	<b>\$ 256,627,965</b>	<b>\$ 238,926,012</b>	<b>\$ 222,460,456</b>	<b>\$ 206,774,663</b>	<b>\$ 194,297,351</b>	<b>\$ 180,957,383</b>	<b>\$180,994,945</b>	<b>\$ 166,282,415</b>

**NARRAGANSETT BAY COMMISSION**  
*Revenue by Source (Unaudited)*  
*Last Ten Fiscal Years*

<i>Years Ending June 30,</i>	<i>Operating Revenue</i>							<i>Operating Revenue</i>			<i>Nonoperating Revenue</i>				<i>Total Revenue</i>
	<i>User Fees</i>	<i>Permit and Connection Fees</i>	<i>Pretreatment</i>	<i>Environmental Enforcement</i>	<i>Septage Income</i>	<i>Late Charge Penalties</i>	<i>BOD/TSS Surcharge</i>	<i>Other Revenue</i>	<i>Total Operating Revenue</i>	<i>Grants</i>	<i>Interest Income</i>	<i>Arbitrage Rebate</i>	<i>Miscellaneous</i>		
1999	\$26,908,201	\$55,350	\$939,771	\$17,642	\$492,916	\$543,664	\$96,168	\$43,159	\$29,096,871	\$47,967	\$372,794	\$0	\$0	\$29,517,632	
2000	27,209,839	59,256	896,287	49,874	578,357	523,798	156,933	147,890	29,622,234	77,844	431,581	-	-	30,131,659	
2001	27,765,540	57,150	875,338	40,639	599,232	446,311	201,261	279,642	30,265,113	228,265	494,964	-	160,201	31,148,543	
2002	33,249,538	51,450	861,821	5,060	597,696	470,674	116,088	84,654	35,436,981	1,132,839	244,713	260,632	-	37,075,165	
2003	41,993,962	106,164	1,083,886	42,260	610,582	434,509	187,438	129,322	44,588,123	391,631	260,466	-	-	45,240,220	
2004	47,873,355	115,241	1,234,447	44,443	532,769	434,081	134,448	44,708	50,413,492	74,983	515,567	-	-	51,004,042	
2005	51,186,822	197,595	1,209,418	69,536	435,145	458,176	194,215	26,995	53,777,902	35,530	914,079	-	-	54,727,511	
2006	56,395,730	357,496	1,165,749	81,398	387,068	447,672	152,123	38,928	59,026,164	20,695	2,483,388	-	30,465	61,560,712	
2007	56,094,973	205,589	1,163,397	52,525	357,206	631,183	139,815	12,719	58,657,407	49,037	2,849,252	-	111,703	61,667,399	
2008	64,462,984	181,290	1,115,529	75,500	372,711	741,834	116,096	11,787	67,077,731	27,653	2,195,657	-	95,316	69,396,357	



**NARRAGANSETT BAY COMMISSION**  
*Expenses by Function (Unaudited)*  
*Last Ten Fiscal Years*

<i>Years Ending June 30,</i>	<i>Operating Expenses</i>							<i>Nonoperating Expenses</i>			<i>Total Expenses</i>	
	<i>Personnel Services</i>	<i>Contractual Services</i>	<i>Repairs and Maintenance</i>	<i>Utilities</i>	<i>Supplies</i>	<i>Depreciation Amortization</i>	<i>Miscellaneous</i>	<i>Operating Expenses</i>	<i>Interest Expenses</i>	<i>Arbitrage Expenses</i>		<i>Other Expenses</i>
1999	\$12,316,050	\$2,717,392	\$1,057,714	\$ 2,280,072	\$1,145,806	\$ 4,607,433	\$ 1,422,371	\$ 25,546,838	\$ 2,853,702	\$ 35,424	\$ 17,590	\$ 28,453,554
2000	12,252,827	4,229,469	1,025,234	2,225,058	847,146	5,032,327	1,521,242	27,133,303	2,752,805	-	29,987	29,916,095
2001	11,809,558	4,504,501	1,190,439	3,286,815	930,849	5,388,068	1,496,665	28,606,895	2,563,511	17,538	3,250	31,191,194
2002	13,373,277	4,083,886	1,237,214	2,388,772	1,370,809	5,849,189	1,498,541	29,801,688	2,877,973	-	119,986	32,799,647
2003	13,893,990	3,577,752	1,187,923	2,800,886	1,299,002	5,981,286	1,362,282	30,103,121	4,296,363	-	27,973	34,427,457
2004	14,984,343	3,470,114	1,321,740	2,922,865	1,173,647	6,265,860	1,632,628	31,771,197	5,720,685	-	49,740	37,541,622
2005	15,367,770	3,226,479	1,378,543	3,809,972	1,132,783	6,397,410	1,500,276	32,813,233	8,381,979	-	8,436	41,203,648
2006	15,681,061	5,299,762	1,259,874	3,470,521	1,044,137	6,386,452	1,287,325	34,429,132	9,836,182	-	759,403	45,024,717
2007	16,043,809	6,474,726	1,349,609	3,345,585	1,067,524	6,803,213	1,650,697	36,735,163	11,913,538	-	36,740	48,685,441
2008	17,052,860	7,214,382	1,258,783	3,435,790	1,183,308	7,463,646	1,506,993	39,115,762	13,121,460	-	24,720	52,261,942

**NARRAGANSETT BAY COMMISSION**  
*User Fee Revenue by Customer Type - (Unaudited)*  
*Last Ten Fiscal Years*

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	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
<b>Residential</b>	\$ 36,113,007	\$ 30,990,979	\$ 30,875,896	\$ 27,436,514	\$ 26,103,320	\$ 23,706,243	\$ 18,096,097	\$ 14,802,543	\$ 14,782,659	\$ 14,443,766
<b>Commercial</b>	26,584,703	23,412,834	23,454,508	21,715,154	19,744,104	16,418,380	13,040,443	10,604,822	10,190,288	10,220,837
<b>Industrial</b>	1,765,274	1,691,160	2,065,326	2,035,154	2,025,931	1,869,339	2,112,998	2,358,175	2,236,892	2,243,598
<b>Total</b>	<u>\$ 64,462,984</u>	<u>\$ 56,094,973</u>	<u>\$ 56,395,730</u>	<u>\$ 51,186,822</u>	<u>\$ 47,873,355</u>	<u>\$ 41,993,962</u>	<u>\$ 33,249,538</u>	<u>\$ 27,765,540</u>	<u>\$ 27,209,839</u>	<u>\$ 26,908,201</u>

**NARRAGANSETT BAY COMMISSION**  
**Schedule of Residential Sewer Rates - (Unaudited)**  
**Last Ten Fiscal Years**

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<u><i>Fiscal Year</i></u>	<u><i>Fixed Rate (per Dwelling Unit)</i></u>	<u><i>Consumption Rate (HCF)</i></u>
1999	\$ 44.23	\$ 0.85
2000	44.23	0.85
2001	44.23	0.85
2002	54.68	1.12
2003	68.25	1.40
2004	79.00	1.63
2005	83.70	1.72
2006	94.38	1.94
2007	98.21	2.02
2008	112.35	2.31

\* HCF - per hundred cubic feet

**NARRAGANSETT BAY COMMISSION**  
*Schedule of Non-residential Sewer Rates - (Unaudited)*  
*Last Ten Fiscal Years*

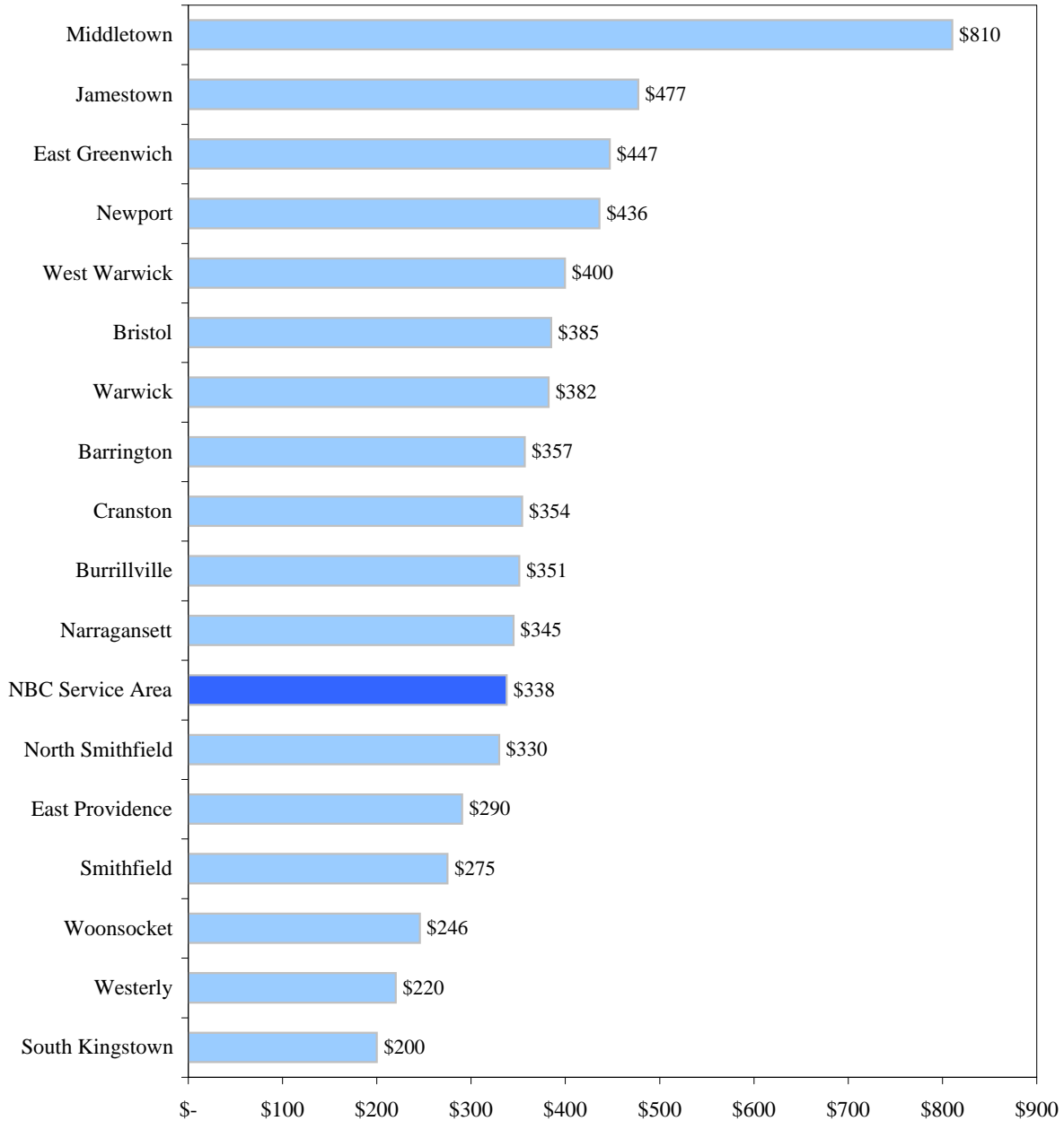
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<u><i>Fiscal Year</i></u>	<u><i>Non-residential Fixed Rate (Based on 5/8" meter)</i></u>	<u><i>Industrial Consumption Rate (HCF)</i></u>	<u><i>Commercial Consumption Rate (HCF)</i></u>
1999	\$ 98.00	\$ 0.770	\$ 1.280
2000	98.00	0.770	1.280
2001	98.00	0.770	1.280
2002	122.01	1.050	1.630
2003	152.27	1.310	2.030
2004	177.00	1.515	2.355
2005	188.00	1.605	2.495
2006	212.00	1.810	2.813
2007	221.00	1.884	2.927
2008	253.00	2.153	3.349

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## Annual Residential Sewer Charges Rhode Island Cities & Towns

The survey shown below, conducted by the Narragansett Bay Commission (NBC) in 2007, compares the annual residential sewer charges for Rhode Island Cities and Towns. The survey shows NBC, with its current fee structure, ranks 7<sup>th</sup> lowest in the state.



**Source: 2007 Narragansett Bay Commission Residential Sewer User Survey**

**Notes:**

In this survey, all Annual Residential Sewer charges are based on 97.6 HCF.  
 Warren's sewer costs are built into municipal taxes and therefore do not appear on this chart.  
 The average 2007 Annual Residential Sewer User Fee for Rhode Island Cities and Towns is \$369.

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**NARRAGANSETT BAY COMMISSION**  
**Principal Commercial Users - (Unaudited)**  
**2008 and 1999**

<u><i>Company</i></u>	Annual Billing	<u><i>2008</i></u>		Annual Billing	<u><i>1999</i></u>	
		<u><i>Rank</i></u>	Percentage of Total Billing		<u><i>Rank</i></u>	Percentage of Total
Brown University	\$ 1,394,100.17	1	2.16%	\$ 405,000.00	1	1.59%
Providence Housing Authority	1,209,742.28	2	1.88%	362,000.00	2	1.35%
Rhode Island Hospital	1,064,195.16	3	1.65%	179,000.00	4	0.66%
City of Providence	502,762.42	4	0.78%			
Providence College	367,737.80	7	0.57%	104,000.00	10	0.38%
City of Pawtucket	456,518.96	5	0.71%			
Johnson & Wales	276,287.74	8	0.43%	114,000.00	6	0.42%
Providence School Department	399,332.03	6	0.62%			
Rhode Island School of Design	240,349.22	9	0.37%			
Rhode Island College	229,148.61	10	0.36%	196,700.00	3	0.73%
Roger William Hospital				145,000.00	5	0.54%
Slater				108,000.00	7	0.40%
St. Joseph Hospital				105,000.00	8	0.39%
Pawtucket Memorial Hospital				104,000.00	9	0.38%
<b>Total</b>	<u><u>\$ 6,140,174.39</u></u>		<u><u>9.53%</u></u>	<u><u>\$ 1,822,700.00</u></u>		<u><u>6.84%</u></u>



**NARRAGANSETT BAY COMMISSION**

*Ratios of Outstanding Debt - (Unaudited)*

*Last Ten Years*

<i>Fiscal Year Ended June 30,</i>	<i>Loans Payable</i>	<i>Bonds Payable</i>	<i>Total Outstanding Debt</i>	<i>Capitalized Assets*</i>	<i>Construction in Process</i>	<i>Total Capital Assets</i>	<i>(1) Population</i>	<i>Ratio of Outstanding Debt to Capital Assets</i>	<i>Ratio of Outstanding Debt per Population</i>
1999	\$ 42,611,926	\$ 22,176,432	\$ 64,788,358	\$ 178,876,648	\$ 35,170,454	\$ 214,047,102	1,040,402	0.30	62.27
2000	47,349,721	20,011,688	67,361,409	187,010,007	31,729,006	218,739,013	1,048,319	0.31	64.26
2001	52,813,472	18,351,154	71,164,626	192,340,284	37,451,809	229,792,093	1,058,920	0.31	67.20
2002	74,810,860	15,972,043	90,782,903	187,657,682	76,255,003	263,912,685	1,069,725	0.34	84.87
2003	136,619,669	13,775,319	150,394,988	195,311,349	134,283,423	329,594,772	1,076,167	0.46	139.75
2004	204,228,468	81,628,122	285,856,590	203,821,078	201,485,348	405,306,426	1,080,622	0.71	264.53
2005	222,735,236	70,000,000	292,735,236	211,608,992	271,817,109	483,426,101	1,076,189	0.61	272.01
2006	247,768,485	116,064,506	363,832,991	220,781,312	330,122,836	550,904,148	1,067,610	0.66	340.79
2007	269,690,992	159,068,722	428,759,714	225,428,491	378,547,610	603,976,101	1,057,832	0.71	405.32
2008	269,026,900	157,613,722	426,640,622	226,015,839	412,852,916	638,868,755	N/A	0.67	N/A

\* Capitalized assets net of accumulated depreciation

(1) Not based on population of service area, but total population of State of Rhode Island

**NARRAGANSETT BAY COMMISSION**  
**Schedule of Debt Service Coverage - (Unaudited)**  
**Last Ten Fiscal Years**

<i>Fiscal Year</i>	<i>Gross Revenues (1)</i>	<i>Operating Expenses (2)</i>	<i>Net Revenue Available for Debt Service</i>	<i>Debt Service Requirement</i>			<i>Coverage</i>
				<i>Principal</i>	<i>Interest</i>	<i>Total</i>	
1999	\$29,517,632	\$20,939,405	\$8,578,227	\$3,260,161	\$2,853,702	\$6,113,863	1.40
2000	30,131,659	22,100,976	8,030,683	3,813,219	2,752,805	6,566,024	1.22
2001	31,148,543	23,218,827	7,929,716	3,693,168	2,551,913	6,245,081	1.27
2002	37,075,165	24,101,905	12,973,260	4,326,500	2,864,094	7,190,594	1.80
2003	45,240,220	24,322,698	20,917,522	5,623,294	4,276,165	9,899,459	2.11
2004	51,004,042	25,738,005	25,266,037	8,934,425	5,694,831	14,629,256	1.73
2005	54,727,511	26,601,612	28,125,899	9,035,349	7,295,728	16,331,077	1.72
2006	61,560,712	28,300,113	33,260,599	10,922,981	9,840,948	20,763,929	1.60
2007	61,667,399	29,931,950	31,735,449	12,502,822	10,742,156	23,244,978	1.37
2008	69,396,357	31,652,116	37,744,241	16,800,972	12,879,158	29,680,130	1.27

(1) Total revenues including interest income

(2) Total operating expenses exclusive of depreciation and amortization

**NARRAGANSETT BAY COMMISSION**  
**Demographic Statistics - (Unaudited)**  
**State of Rhode Island**  
**Last Ten Fiscal Years**

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<i>Fiscal Year</i>	<i>Population (1)</i>	<i>Personal Income (Millions of dollars)(4)</i>	<i>Per Capita Income (4)</i>	<i>Labor Force (2)</i>	<i>School Enrollment (3)</i>	<i>Unemployment Rate (2)</i>
1999	1,040,402	\$ 28,890	\$ 27,769	504,450	113,990	4.10%
2000	1,048,319	30,519	29,113	504,800	114,816	4.10%
2001	1,058,920	31,750	29,984	503,566	115,004	4.70%
2002	1,069,725	33,503	31,319	556,428	157,599	5.10%
2003	1,076,167	34,347	31,916	572,956	159,205	5.30%
2004	1,080,632	36,453	33,733	562,289	158,592	5.20%
2005	1,076,189	38,907	36,153	569,451	153,560	5.00%
2006	1,067,610	39,054	36,289	578,243	153,417	5.10%
2007	1,057,832	41,745	39,463	576,987	151,619	5.00%
2008	N/A	N/A	N/A	N/A	N/A	N/A

- (1) Source United States Census Bureau
- (2) Source Rhode Island Department of Labor
- (3) Source Rhode Island Department of Education
- (4) Source Rhode Island Department of Commerce

**NARRAGANSETT BAY COMMISSION**  
**Operating Indicators by Division - (Unaudited)**  
**Last Ten Years**

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Number of treatment plants	2	2	2	2	2	2	2	2	2	2
Number of Employees	237	241	245	247	247	255	243	229	240	238
<b><i>Field's Point Plant (Largest WWTF in RI)</i></b>										
Daily average treatment in gallons (mgd)	43.06	49.39	53.07	45.69	45.69	41.00	41.00	41.00	41.00	41.00
Maximum daily capacity of treatment (mgd)	200	200	200	200	200	200	200	200	200	200
Number of pump stations	4	4	4	4	5	5	6	6	6	6
Number of active combined sewer overflows (CSOs)	38	38	39	39	39	39	39	39	39	39
Miles of interceptor	80	80	80	80	80	80	80	80	80	80
Number of tide gates	32	32	32	32	32	32	32	32	32	32
<b><i>Bucklin Point Plant (Second largest WWTF in RI)</i></b>										
Daily average treatment in gallons (mgd)	19.60	24.83	24.83	24.61	24.61	24.48	24.48	24.48	24.48	24.48
Maximum daily capacity of treatment (mgd)	116	116	116	46	46	46	46	46	46	46
Number of pump stations	3	3	3	3	3	3	3	3	3	3
Number of active combined sewer overflows (CSOs)	26	26	27	27	27	27	27	27	27	27
Miles of interceptor	30	30	30	30	30	30	30	30	30	30

Mgd = million gallons per day  
Source: Management of NBC

**NARRAGANSETT BAY COMMISSION**  
*Budgeted Employees by Activity - (Unaudited)*  
*Last Ten Fiscal Years*

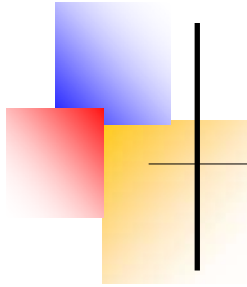
<u>Departments</u>	<u>FY 2008</u>	<u>FY 2007</u>	<u>FY 2006</u>	<u>FY 2005</u>	<u>FY 2004</u>	<u>FY 2003</u>	<u>FY 2002</u>	<u>FY 2001</u>	<u>FY 2000</u>	<u>FY 1999</u>
<b>Executive</b>	8.0	8.0	8.0	8.0	7.0	7.0	6.0	11.0	11.0	12.0
<b>Construction and Grants</b>	9.0	10.0	10.0	9.9	11.0	10.0	5.0	3.0	3.0	4.0
<b>Human Resources</b>	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	5.0	5.0
<b>Legal</b>	5.0	5.0	5.0	5.5	5.3	5.8	5.0	-	-	-
<b>Finance</b>	5.0	5.0	5.0	5.0	5.0	8.0	6.0	5.0	6.0	5.0
<b>Accounting</b>	10.0	10.0	11.0	11.0	12.0	13.0	12.0	12.0	10.0	10.0
<b>Information Technology</b>	11.0	11.0	11.0	11.0	11.0	10.0	10.0	9.0	9.0	9.0
<b>Customer Service</b>	22.0	22.0	21.0	21.0	20.0	19.0	19.0	18.0	19.0	19.0
<b>Purchasing</b>	4.0	4.0	4.0	4.0	6.0	4.0	4.0	4.0	4.0	4.0
<b>Planning</b>	4.0	4.0	4.0	4.0	4.0	4.0	4.0	5.0	5.0	5.0
<b>Pretreatment</b>	15.0	15.0	15.0	16.0	16.0	16.0	16.0	15.0	16.0	17.0
<b>Laboratory</b>	15.0	15.0	15.0	15.0	15.0	14.0	13.0	14.0	18.0	17.0
<b>Environmental Safety &amp; Technical Assistance</b>	4.0	4.0	4.0	4.0	3.0	3.0	3.0	2.5	3.5	2.5
<b>Environmental Monitoring &amp; Data Analysis</b>	17.0	17.0	17.0	17.0	18.0	15.0	15.0	13.0	10.0	10.0
<b>Interceptor Maintenance</b>	22.0	22.0	21.0	23.0	23.0	23.0	23.0	23.0	23.0	23.0
<b>Engineering</b>	11.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
<b>Field's Point WWTF</b>	56.0	56.0	56.0	61.0	62.0	61.0	61.0	61.0	63.0	65.0
<b>Bucklin Point WWTF</b>	32.0	32.0	32.0	32.0	32.0	31.0	31.0	28.0	29.0	33.0
<b>Total</b>	<u>254.0</u>	<u>254.0</u>	<u>253.0</u>	<u>261.4</u>	<u>264.3</u>	<u>257.8</u>	<u>247.0</u>	<u>237.5</u>	<u>244.5</u>	<u>250.5</u>

Comprehensive Annual Financial Report  
**Compliance Section**



*Photo: Shellfish transplant in Warwick Cove, RI*





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***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 Commissioners  
Narragansett Bay Commission  
Providence, Rhode Island

We have audited the financial statements of the Narragansett Bay Commission, a component unit of the State of Rhode Island for financial reporting purposes, as of and for the year ended June 30, 2008 and have issued our report thereon dated September 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control over Financial Reporting***

In planning and performing our audit, we considered NBC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of NBC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of NBC's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.



Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

*Compliance and Other Matters*

As part of obtaining reasonable assurance about whether NBC's financial statements are free of 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*.

This report is intended solely for the information and use of management, the Board of Commissioners, the State of Rhode Island Auditor General and the Public Utilities Commission and is not intended to be and should not be used by anyone other than these specified parties.

*Bacms Company, CPL's, LLC*

Warwick, Rhode Island  
September 15, 2008

**NARRAGANSETT BAY COMMISSION**  
*Schedule of Expenditures of Federal Awards*  
*Year Ended June 30, 2008*

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<u>Federal Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Project Number</u>	<u>Program or Award Amount</u>	<u>Type of Program</u>	<u>Expenditures</u>
Direct Program:					
U.S. Environmental Protection Agency					
Stormwater Pollution Prevention	66.708	NP-97107901-1	\$ 35,000	B	\$ 11,400
Energy Conservation and Pollution Prevention	66.708	NP-97126001-1	35,000	B	16,252
			<u>\$ 70,000</u>		<u>\$ 27,652</u>

***NARRAGANSETT BAY COMMISSION***  
***Notes to Schedule of Expenditures of Federal Awards***  
***June 30, 2008***

**GENERAL**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the NBC.

**BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting.

**DETERMINATION OF TYPE A AND TYPE B PROGRAMS**

The determination of Type A and Type B federal programs was based upon the overall level of expenditures for all federal programs for the State of Rhode Island. As such, the threshold for determining Type A and Type B programs is determined at the State level. For the year ended June 30, 2008, grants with expenditures exceeding \$7,700,000 were determined to constitute a Type A program. The NBC had no Type A programs for the year ended June 30, 2008.

NARRAGANSETT BAY COMMISSION  
LONG DISTANCE TRAVEL DETAIL  
FISCAL YEAR 2008

TRAVELER	PAYEE	TRAVEL DATES	CHECK	DATE PAID BY NBC	PURPOSE OF TRAVEL	DESTINATION	MILEAGE	MEALS	REGISTRY	AIRFARE	HOTEL	MISC./ OTHER	TOTALS
<b>02 / 21</b>													
Cynthia Morissette	Cynthia Morissette	S 7/18-7/19/07	58067	7/30/07	NACWA Summer Conference	Cleveland, OH		40.00		18.00	23.86	117.50	\$199.36
Raymond Marshall	Raymond Marshall	R 7/17-7/20/07	58091	7/30/07	NACWA Summer Conference	Cleveland, OH			725.00				725.00
Raymond Marshall	Raymond Marshall	S 7/17-7/20/07	58178	8/7/07	NACWA Summer Conference	Cleveland, OH		215.00		260.80	731.44	151.95	1,359.19
Jamie Samons	Jamie Samons	R 7/17-7/20/07	58091	7/30/07	NACWA Summer Conference	Cleveland, OH			725.00				725.00
Jamie Samons	Jamie Samons	S 7/17-7/21/07	58405	8/28/07	NACWA Summer Conference	Cleveland, OH		165.00		0.00	394.77	108.00	667.77
Raymond Marshall	Raymond Marshall	R 9/5/07	58260	8/14/07	RI Food Dealers Assoc	Baltimore, MD			350.00				350.00
Raymond Marshall	Raymond Marshall	S 9/5/07	58633	9/18/07	Sen. Jack Reed's Business Leaders Day	Baltimore, MD		9.75				15.00	24.75
Raymond Marshall	Raymond Marshall	A 9/16-9/18/07	58633	9/18/07	NACWA Strategic Leadership Meeting	Washington, DC				246.80	538.00		784.80
Raymond Marshall	Raymond Marshall	S 9/16-9/18/07	58633	9/18/07	NACWA Strategic Leadership Meeting	Washington, DC		50.00		0.00	(65.00)	30.00	15.00
Jamie Samons	Jamie Samons	R 9/5/07	58260	8/14/07	RI Food Dealers Assoc	Baltimore, MD			350.00				350.00
Jamie Samons	Jamie Samons	A 2/5-2/8/08	60046	1/23/08	NACWA Winter Conference	Phoenix, AZ				274.60	703.93		978.53
Raymond Marshall	Raymond Marshall	S 2/4-2/10/08	60382	2/19/08	NACWA Winter Conference	Phoenix, AZ		200.00		299.20	1,073.32	157.96	1,730.48
Raymond Marshall	Raymond Marshall	A 7/15-7/18/08	60469	2/26/08	NACWA Summer Conference	Anchorage, AK				717.54			717.54
Diane Buerger	Diane Buerger	R 6/21-6/25/08	60252	2/12/08	60th Annual Conference & Exposition	Chicago, IL			1,070.00				1,070.00
Diane Buerger	Diane Buerger	A 6/21-6/25/08	60587	3/11/08	60th Annual Conference & Exposition	Chicago, IL				261.50	298.89		560.39
Raymond Marshall	Raymond Marshall	A 5/6-5/7/08	61031	4/15/08	NACWA Nat'l Clean Water Policy Forum	Washington, DC				490.00	326.32		816.32
Raymond Marshall	Raymond Marshall	S 5/6-5/7/08	61779	5/28/08	NACWA Nat'l Clean Water Policy Forum	Washington, DC		40.00		0.00	0.00	67.00	107.00
Jamie Samons	Jamie Samons	A 5/4-5/7/08	61112	4/22/08	NACWA Nat'l Clean Water Policy Forum	Washington, DC				144.00	855.00		999.00
Jamie Samons	Wet Weather Partnership	R 4/17-4/18/08	62017	6/3/08	NACWA-Wet Weather Partnership CSO Conference	Chicago, IL			450.00				450.00
Jamie Samons	Jamie Samons	A 4/16-4/18/08	61112	4/22/08	NACWA-Wet Weather Partnership CSO Conference	Chicago, IL				295.00	551.61		846.61
NACWA	Jamie Samons	R 5/3-5/6/08	62078	6/10/08	Nat'l Clean Water Policy Forum	Washington, DC			685.00				685.00
NACWA	Jamie Samons	R 2/5-2/8/08	62078	6/10/08	2008 Winter Conference	Phoenix, AZ			785.00				785.00
NACWA	Raymond Marshall	R 5/3-5/6/08	62260	6/25/08	Nat'l Clean Water Policy Forum	Washington, DC			685.00				685.00
NACWA	Raymond Marshall	R 2/5-2/8/08	62260	6/25/08	2008 Winter Conference	Phoenix, AZ			785.00				785.00
Raymond Marshall	Raymond Marshall	A 7/15-7/18/08	62166	6/17/08	NACWA Summer Conference	Anchorage, AK					840.00		840.00
Diane M Buerger	Diane M Buerger	S 6/21-6/25/08	62551	7/29/08	Nat'l SHRM Conference	Chicago, IL	50.50	220.00		0.00	804.35	163.80	1,238.65
<b>TOTAL DIV 21</b>													<b>18,495.39</b>
<b>02 / 23</b>													
Brenda Smith	NBC	CR 6/24-6/27/07			Overpay on advance ck #57200 - Jun07							(195.30)	(195.30)
<b>TOTAL DIV 23</b>													<b>(195.30)</b>
<b>02 / 24</b>													
Diane Buerger	Diane Buerger	S 6/23-7/3/07	58070	7/30/07	SHRM Annual Conference & Exposition	Las Vegas, NV		220.00		0.00	(3.16)	159.00	375.84
Laurie H. Bissonette	Laurie H. Bissonette	S 8/7/07	58324	8/21/07	Labor & Employment Seminar	Portland, ME		25.00			0.00	115.65	140.65
<b>TOTAL DIV 24</b>													<b>516.49</b>

NARRAGANSETT BAY COMMISSION  
LONG DISTANCE TRAVEL DETAIL  
FISCAL YEAR 2008

TRAVELER	PAYEE	TRAVEL DATES	CHECK	DATE PAID BY NBC	PURPOSE OF TRAVEL	DESTINATION	MILEAGE	MEALS	REGISTRY	AIRFARE	HOTEL	MISC/ OTHER	TOTALS
<b>02 / 33</b>													
Jim Golden	Jim Golden	S 7/16-7/17/07	58159	8/7/07	Oracle Training	Nashua, NH	372.00						180.42
Keith A Zuidema	Keith A Zuidema	A 8/26-8/30/07	58162	8/7/07	Hewlett Packard Training	Alpharetta, GA				426.80	496.00		922.80
Keith A Zuidema	Keith A Zuidema	S 8/26-8/30/07	58633	9/18/07	Hewlett Packard Training	Alpharetta, GA		150.00		0.00	64.48	202.00	416.48
Brendon McLean	Brendon McLean	A 8/26-8/30/07	58131	8/7/07	Hewlett Packard Training	Alpharetta, GA				426.80	496.00		922.80
Brendon McLean	Brendon McLean	S 8/26-8/31/07	58683	9/25/07	Hewlett Packard Training	Alpharetta, GA		150.00		0.00	64.48	15.00	229.48
Kathleen Smith	Oracle USA Inc	R 8/24/07	58485	9/5/07	Oracle Open World US 2007	San Francisco, CA			1,750.00				1,750.00
Keith Zuidema	CDW Government	R 8/24/07	58521	9/11/07	CDW Government	Chicago, IL			2,470.00				2,470.00
Kathleen J Smith	Kathleen J Smith	A 11/10-11/15/07	58867	10/10/07	Oracle Conference	San Francisco, CA				338.80	895.00		1,233.80
Kathleen J Smith	Kathleen J Smith	S 11/10-11/15/07	59545	12/4/07	Oracle Conference	San Francisco, CA	54.74	210.00		0.00	329.36	139.31	733.41
Daniel T. Smith	Daniel T. Smith	S 10/10/07	59038	10/23/07	Oracle Seminar	Rocky Hill, CT	101.37						101.37
Pratana Harris	Pratana Harris	A 4/8-4/11/08	60790	3/25/08	SiteCore Training	San Rafael, CA				339.00	329.67		668.67
Pratana Harris	Pratana Harris	S 4/8-4/11/08	61131	4/22/08	SiteCore Training	San Rafael, CA		130.00		0.00	0.00	55.26	185.26
Joseph Roberts	Joseph Roberts	A 4/8-4/11/08	60776	3/26/08	SiteCore Training	San Rafael, CA				339.00	329.67		668.67
Joseph Roberts	Joseph Roberts	S 4/8-4/11/08	61114	4/22/08	SiteCore Training	San Rafael, CA	166.01	130.00		0.00	0.00	63.76	359.77
Israel Morales	Israel Morales	A 4/13-4/18/08	60928	4/8/08	Oracle Training	East Hartford, CT					585.00		585.00
Israel Morales	Israel Morales	S 4/13-4/18/08	61206	4/29/08	Oracle Training	East Hartford, CT	89.89	250.00			70.20	30.00	440.09
Kathleen Smith	Oracle Training	S 5/5-5/9/08	61604	5/20/08	Oracle Training	Baltimore, MD		185.00		410.49	289.92	106.57	991.98
Keith A Zuidema	Keith A Zuidema	A 6/15-6/18/08	61605	5/20/08	Fiber Optic Training	Oriskany, NY					74.99		74.99
Keith A Zuidema	Keith A Zuidema	S 6/15-6/18/08	62245	6/25/08	Fiber Optic Training	Oriskany, NY	338.85	25.00			24.67	8.30	396.82
Mythics Inc	Mythics Inc	R 6/15-6/18/08	62259	6/25/08	Oracle University Training	Oriskany, NY			12,960.00				12,960.00
Wade J Pooler	Wade J Pooler	S 5/24-5/31/08	62181	6/17/08	Network Training	Orlando, FL		115.00		250.00	562.44	20.00	947.44
<b>TOTAL DIV 33</b>													<b>27,239.25</b>
<b>02 / 43</b>													
Meg Goulet	Meg Goulet	A 2/5-2/8/08	59892	1/8/08	NACWA Winter Conference	Phoenix, AZ				226.00	872.34		1,098.34
Meg Goulet	Meg Goulet	S 2/5-2/8/08	60617	3/11/08	NACWA Winter Conference	Phoenix, AZ		190.00		0.00	0.00		190.00
NE Water Environmental	Meg Goulet	R 5/6-5/7/08	61765	5/28/08	NEWEA Conference	Nashua, NH			150.00				150.00
NACWA	Meg Goulet	R 2/5-2/8/08	62078	6/10/08	NACWA Winter Conference	Phoenix, AZ			785.00				785.00
<b>TOTAL DIV 43</b>													<b>2,223.34</b>
<b>02 / 44</b>													
Thomas Grala	Thomas Grala	S 6/17-6/22/07	57961	7/17/07	ESRI Intern'l User Grp Conf	San Diego, CA		265.00		0.00	52.91	100.95	365.95
Thomas Grala	Thomas Grala	S 6/17-6/22/07	58192	8/7/07	ESRI Intern'l User Grp Conf	San Diego, CA					52.91		52.91
Thomas G Brueckner	Thomas G Brueckner	A 10/9-10/10/07	58901	10/10/07	Wastewater Treatment Facility Visit	Montreal, CANADA					225.00		225.00
Thomas G Brueckner	Thomas G Brueckner	S 10/9-10/10/07	59081	10/23/07	Wastewater Treatment Facility Visit	Montreal, CANADA		50.00			(41.89)	50.02	58.13
Thomas G Brueckner		CP 10/30/07			NBC Reimbursement - 10901D								(283.13)
Eugene Sorkin	Eugene Sorkin	A 10/9-10/10/07	58849	10/10/07	Wastewater Treatment Facility Visit	Montreal, CANADA					225.00		225.00
Eugene Sorkin	NBC	* 10/9-10/11/07			Wastewater Treatment Facility Visit	Montreal, CANADA					(10.69)		(10.69)
Eugene Sorkin		CP 10/30/07			NBC Reimbursement - 10901D								(214.31)
Thomas G Brueckner	Thomas G Brueckner	A 12/11-12/13/07	59626	12/11/07	ECS Workshop	Washington, DC				483.79	278.00		761.79
Thomas G Brueckner	Thomas G Brueckner	S 12/11-12/14/07	59911	1/8/08	External Carbon Workshop	Washington, DC		100.00		0.00	206.45	48.00	354.45
NEWEA	Thomas G Brueckner	R 5/6-5/7/08	61988	6/3/08	NEWEA CSO/WWI Conf & Exhibit	Nashua, NH			150.00				150.00
NEWEA	Kathryn Kelly	R 5/6-5/7/08	61988	6/3/08	NEWEA CSO/WWI Conf & Exhibit	Nashua, NH			150.00				150.00
<b>TOTAL DIV 44</b>													<b>1,835.10</b>

NARRAGANSETT BAY COMMISSION  
LONG DISTANCE TRAVEL DETAIL  
FISCAL YEAR 2008

TRAVELER	PAYEE		TRAVEL DATES	CHECK	DATE PAID BY NBC	PURPOSE OF TRAVEL	DESTINATION	MILEAGE	MEALS	REGISTRY	AIRFARE	HOTEL	MISC/ OTHER	TOTALS
<b>02 / 46</b>														
Paul A. Desrosiers	Paul A. Desrosiers	A	10/9-10/10/07	58885	10/10/07	Wastewater Treatment Facility Visit	Montreal, CANADA					225.00		225.00
Paul A. Desrosiers	NBC	*	10/9-10/10/07			Wastewater Treatment Facility Visit	Montreal, CANADA					(10.69)		(10.69)
Paul A. Desrosiers		CP	10/30/07			NBC Reimbursement - 10901D								(214.31)
Gary M. Ruggiero	Gary M. Ruggiero	A	11/5-11/9/07	59119	10/30/07	Training Infared Camera	Billerica, MA					396.00		396.00
Gary M. Ruggiero	Gary M. Ruggiero	S	11/5-11/9/07	59452	11/27/07	Training Infared Camera	Billerica, MA		100.00			38.40		138.40
Gary M. Ruggiero	Gary M. Ruggiero	R	11/5-11/9/07	59371	11/20/07	Training Infared Camera	Billerica, MA			1,650.00				1,650.00
Steven J Morelli	Steven J Morelli	S	11/5-11/9/07	59562	12/4/07	Training Infared Camera	Billerica, MA		100.00					100.00
Arthur Sheridan	Arthur Sheridan	S	1/21-1/25/08	60237	2/12/08	Tunnel Controls Factory Testing	Cleveland, OH		130.00				25.00	155.00
John Fascitelli	John Fascitelli	S	1/21-1/25/08	60274	2/12/08	Tunnel Controls Factory Testing	Cleveland, OH		130.00				25.00	155.00
Paul Desrosiers	Paul Desrosiers	S	1/27-1/30/08	60376	2/19/08	NEWEA Conference			110.00			563.37	20.00	693.37
NE Water Env Assoc	Paul Desrosiers	R	1/27-1/30/08	60622	3/11/08	NE Water Environment Association	Boston, MA			365.00				365.00
Paul A. Desrosiers	Paul A. Desrosiers	S	4/13-4/15/08	61618	5/20/08	NEWEA Planning Session	Cape Cod, MA	75.75	40.00			242.30	10.00	368.05
NE Water Env Assoc	Paul A. Desrosiers	R	6/1-6/4/08	61765	5/28/08	NEWEA Spring Meeting & Exhibit	Hyannis, MA			255.00				255.00
Paul A Desrosiers	Paul A Desrosiers	S	6/1-6/308	62162	6/17/08	NEWEA Spring Meeting	Hyannis, MA	75.75	25.00			264.24		364.99
<b>TOTAL DIV 46</b>														<b>4,640.81</b>
<b>02 / 47</b>														
David Cournoyer	David Cournoyer	S	6/4-6/6/07	58069	7/30/07	Asset Management Training			125.00	0.00	0.00	0.00	69.00	194.00
<b>TOTAL DIV 47</b>														<b>194.00</b>
<b>02 / 52</b>														
NH Water Pollution	9 employees	R	9/27/07	58422	8/28/07	9th Annual EPA Pretreatment Workshop	Manchester, NH						135.00	135.00
NH Water Pollution	Joe McCooley	R	9/27/07	58555	9/11/07	10th Annual EPA Pretreatment Workshop	Manchester, NH			15.00				15.00
Kerry M. Britt	Kerry M. Britt	A	11/13-11/16/07	58869	10/10/07	NACWA P & PP Workshop	New Orleans, LA				358.80	495.00		853.80
Kerry M. Britt	Kerry M. Britt	S	11/13-11/16/07	59547	12/4/07	NACWA P & PP Workshop	New Orleans, LA	185.00			(8.20)	73.50	51.00	301.30
NACWA	Kerry Britt	R	2/1/08	60453	2/26/08	2007 Pretreatment	Denver, CO			545.00				545.00
NACWA	James McCaughey	R	2/1/08	60453	2/26/08	2007 Pretreatment	Denver, CO			545.00				545.00
<b>TOTAL DIV 52</b>														<b>2,395.10</b>
<b>02 / 53</b>														
Amanda Henry	Amanda Henry	A	9/17-9/20/07	58455	9/5/07	Labvantage Solutions Inc.	Bridgewater, NJ					231.00		231.00
Amanda Henry	Amanda Henry	S	9/17-9/20/07	59023	10/23/07	Labvantage Solutions Inc.	Bridgewater, NJ	260.45	75.00			34.65	4.00	374.10
Cynthia L. Walters	Cynthia L. Walters	A	10/31-11/1/07	58937	10/16/07	NEWEA's Lab Practice Committee 2007	Nashua, NH					106.92		106.92
Cynthia L. Walters	Cynthia L. Walters	R	11/01/07	59467	11/27/07	New England Water Environment Assoc	Woburn, MA			135.00				135.00
Labvantage Solutions	Labvantage Solutions	R	10/18-10/20/07	59133	10/30/07	LabVantage training for Amanda Henry	Bridgewater, NJ			2,100.00				2,100.00
<b>TOTAL DIV 53</b>														<b>2,947.02</b>
<b>02 / 54</b>														
James McCaughey	James McCaughey	A	11/13-11/16/07	58774	10/2/07	NACWA 2007 Nat'l PP & P Workshop	Denver, CO				358.80	495.00		853.80
James McCaughey	James McCaughey	S	11/13-11/17/07	59603	12/11/07	NACWA 2007 Nat'l PP & P Workshop	Denver, CO	100.00		(39.60)	73.50	81.00		214.90
Barry Wenskowicz	Barry Wenskowicz	A	10/12-10/17/07	58925	10/16/07	WEFTEC Conference	San Diego, CA			346.59	665.00			1,011.59
Barry Wenskowicz	Barry Wenskowicz	S	10/12-10/17/07	59265	11/14/07	WEFTEC Conference	San Diego, CA	285.00		(6.99)	103.00	61.50		442.51
James McCaughey	Univ of Massachusetts	R	12/11/07	61057	4/15/08	Energy Management Workshop	Hartford, CT			36.00				36.00
<b>TOTAL DIV 54</b>														<b>2,558.80</b>
<b>02 / 55</b>														
Water Environment Fede	James Kelley	R	4/9/08	61062	4/15/08	National Monitoring Conference	Atlantic City, NJ			375.00				375.00
James Kelley	James Kelley	A	5/18-5/22/08	61007	4/15/08	2007 Nat'l Water Quality Monitoring Conference	Atlantic City, NJ				216.00	456.00		672.00
Catharine M. Walker	Catharine M. Walker	A	5/18-5/22/08	61270	5/6/08	2008 Nat'l Water Quality Monitoring Conference	Atlantic City, NJ				259.00	700.00		959.00
Water Environment Fede	Catharine M. Walker	R	5/1-5/22/08	61416	5/13/08	2008 Nat'l Water Quality Monitoring Conference	Atlantic City, NJ			490.00				490.00
Catharine M. Walker	Catharine M. Walker	S	5/18-5/22/08	62037	6/10/08	WEF Water Monitoring Conference	Atlantic City, NJ	73.59		(81.00)	105.50	22.00		120.09
<b>TOTAL DIV 55</b>														<b>2,616.09</b>
<b>Total Travel</b>														<b>\$65,466.09</b>