

PAWTUCKET WATER SUPPLY BOARD
(An Enterprise Fund of the
City of Pawtucket, Rhode Island)

YEAR ENDED JUNE 30, 2014



PAWTUCKET WATER SUPPLY BOARD
(An Enterprise Fund of the City of Pawtucket, Rhode Island)

YEAR ENDED JUNE 30, 2014

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Independent Auditors' Report

Board of Directors
Pawtucket Water Supply Board
(an enterprise fund of the City of Pawtucket,
Rhode Island)
Pawtucket, Rhode Island

Report on the Financial Statements

We have audited the accompanying financial statements of the Pawtucket Water Supply Board (PWSB), an enterprise fund of the City of Pawtucket, Rhode Island, as of and for the year ended June 30, 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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 from material misstatement.

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

Independent Auditors' Report (Continued)

Board of Directors
Pawtucket Water Supply Board
(an enterprise fund of the City of Pawtucket,
Rhode Island)

Auditors' Responsibility (Continued)

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PWSB as of June 30, 2014, and the changes in financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements present only PWSB, an enterprise fund of the City of Pawtucket, Rhode Island, and do not purport to, and do not, present fairly the financial position of the City of Pawtucket as of June 30, 2014, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Also, as discussed in Note 1 to the financial statements, for the year ended June 30, 2014, PWSB adopted new accounting guidance affecting the accounting for bond issuance costs and the reporting of deferred outflows of resources. Due to the adoption of this guidance, PWSB restated its 2013 financial statements, resulting in a decrease of \$2,204,115 in net position at June 30, 2013.

Our opinion is not modified with respect to these matters.

Other Matters

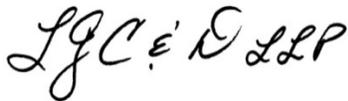
Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Independent Auditors' Report (Continued)

Board of Directors
Pawtucket Water Supply Board
(an enterprise fund of the City of Pawtucket,
Rhode Island)

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 16, 2014 on our consideration of PWSB's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering PWSB's internal control over financial reporting and compliance.



Providence, Rhode Island
December 16, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Pawtucket Water Supply Board (PWSB), an enterprise fund of the City of Pawtucket, Rhode Island, offers readers of our financial statements the following narrative overview and analysis of our financial activities as of and for the year ended June 30, 2014.

Financial Statements

PWSB's financial statements are prepared using proprietary fund (enterprise fund) accounting, which uses the same basis of accounting as private-sector business enterprises. Under this method of accounting, an economic resources measurement focus and the accrual basis of accounting is used.

Revenue is recorded when earned and expenses are recorded when incurred. The financial statements include statements of net position; revenues, expenses and changes in net position; and cash flows. These statements are followed by notes to the financial statements.

- The statement of net position presents information on PWSB's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of PWSB is improving or deteriorating.
- The statement of revenues, expenses, and changes in net position reports the operating and nonoperating revenues and expenses of PWSB for the fiscal year, with the difference determining the change in net position for the fiscal year. That change, combined with the previous year-end net position total, reconciles to the net position at the end of the fiscal year.
- The statement of cash flows reports cash and cash equivalents activity for the fiscal year resulting from operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The net result of these activities, when added to the beginning of the year cash and cash equivalents balance, reconciles to the cash and cash equivalents balance at the end of the fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Financial Information

Condensed financial information is presented below.

	<u>2014</u>	<u>2013</u> (Restated)
Current assets	\$ 7,218,630	\$ 4,819,943
Restricted assets	22,958,612	23,568,474
Capital assets, net	<u>152,485,020</u>	<u>148,257,770</u>
Total assets	<u>182,662,262</u>	<u>176,646,187</u>
Deferred outflows of resources	<u>160,740</u>	<u>242,328</u>
Current liabilities	8,997,998	6,247,436
Liabilities payable from restricted assets	541,420	799,948
Noncurrent liabilities	<u>95,940,722</u>	<u>96,117,987</u>
Total liabilities	<u>105,480,140</u>	<u>103,165,371</u>
Net position:		
Net investment in capital assets	54,299,532	49,764,832
Restricted	22,958,612	23,568,475
Unrestricted	<u>84,718</u>	<u>389,837</u>
Total net position	<u>\$ 77,342,862</u>	<u>\$ 73,723,144</u>
Operating revenues	\$ 18,444,023	\$ 18,006,305
Operating expenses, including depreciation (2014, \$2,640,906; 2013, \$2,537,986)	<u>11,931,046</u>	<u>11,722,123</u>
Operating income	6,512,977	6,284,182
Nonoperating expenses, net	<u>(2,893,259)</u>	<u>(3,054,327)</u>
Increase in net position	<u>\$ 3,619,718</u>	<u>\$ 3,229,855</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Financial Highlights

PWSB's net position totaled \$77.3 million as of June 30, 2014, which was an increase of \$3.6 million, or 5%, from the June 30, 2013 restated amount.

PWSB's total operating revenues were \$18.4 million for the year ended June 30, 2014, which increased by \$0.4 million from the year ended June 30, 2013. The total cost of operating the water system, including property taxes and depreciation, was \$11.9 million for the year ended June 30, 2014, which increased \$0.2 million from the year ended June 30, 2013.

For the year ended June 30, 2014, operating income was \$6.5 million, which is an increase of \$0.2 million from the year ended June 30, 2013.

Nonoperating revenues consist of federal grants, interest and rental income. Interest on long-term debt is the largest nonoperating expense. Nonoperating expenses exceeded nonoperating revenues by \$2.9 million for the year ended June 30, 2014, which was a net decrease of \$0.2 million from the year ended June 30, 2013.

Effective for the year ended June 30, 2014, PWSB adopted the provisions of Statement No. 65 of the GASB, *Items Previously Reported as Assets and Liabilities* (GASB 65). GASB 65 requires that certain items no longer be reported in statements of net position since they do not meet the definition of either assets, liabilities, deferred outflows of resources or deferred inflows of resources. In addition, GASB 65 requires that certain items previously reported as assets or liabilities be reported as deferred inflows or outflows of resources. As required by GASB 65, effective July 1, 2013, financing costs are expensed as incurred; previously, financing costs were deferred and amortized using the straight-line method over the life of the related debt. Due to the adoption of GASB 65, PWSB has restated its 2013 financial statements, resulting in a \$2,204,115 decrease in net position at June 30, 2013. In addition, deferred loss on advance refundings of debt is now presented as a deferred outflow of resources instead of as an offset to bonds payable.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2014, PWSB had \$152.5 million invested in various capital assets, net of depreciation, including land, structures and improvements, transmission and distribution reservoirs, mains, services, hydrants and appurtenances, machinery and equipment, and construction in progress. Net capital assets increased \$4.2 million, or 2.9%, from June 30, 2013.

Construction in progress relates to annual water main replacement contracts to complete the restoration of the water transmission and distribution system. These and other projects will be funded from bond proceeds available from bonds issued in fiscal years 2013 and 2012, and rate revenue restricted for infrastructure improvements. The water transmission and distribution system capital improvements, which will benefit the ratepayers for many years, are paid from debt financing on an as needed basis.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital Assets and Debt Administration (Continued)

Capital Assets (continued)

Major project expenditures in 2014 (in millions) were as follows:

Replace and refurbish water mains	\$	4.43
Purchase and design a new T&D Operations Center	\$	1.44
Dam improvements	\$.05
Service connection replacements	\$.45
Treatment plant improvements	\$.03
Replace fire hydrants	\$.28
Metering equipment	\$.18
Land acquisitions	\$.01

PWSB's fiscal year 2015 capital budget includes projected expenditures of \$10 million for infrastructure and capital projects. The major projects include the construction of the new transmission and distribution operations center and the annual water main replacement contracts to complete the restoration of the water transmission and distribution system.

PWSB has the following commitments related to construction project contracts at June 30, 2014 (in millions):

Main Replacement Contract MR-8	\$.93
Main Replacement Contract MR-9		2.53
T&D Operations Center Architect Services		<u>.02</u>
	\$	<u>3.48</u>

Debt Administration

At June 30, 2014, PWSB had \$97.6 million in bonds and notes payable (net of undrawn amounts), a 0.01% decrease, from June 30, 2013. No new debt was issued in 2014.

Requests for Information

This financial report is designed to provide our customers, investors and creditors with a general overview of PWSB's finances and to show PWSB's accountability for the money it receives. Questions concerning this report, or requests for additional information, should be directed to Mr. Robert Benson, Chief Financial Officer, Pawtucket Water Supply Board, 85 Branch Street, Pawtucket, RI 02860.

PAWTUCKET WATER SUPPLY BOARD
(An Enterprise Fund of the City of Pawtucket, Rhode Island)

STATEMENT OF NET POSITION

JUNE 30, 2014

ASSETS

Current assets:	
Cash and cash equivalents	\$ 2,793,909
Accounts receivable, net:	
Water user fees	3,946,592
Intergovernmental	8,664
Inventory	<u>469,465</u>
Total current assets	<u>7,218,630</u>
Noncurrent assets:	
Restricted assets:	
Cash:	
Debt service reserve	4,091,737
Debt service payment reserve	5,005,912
Sinking fund reserve	25,208
Infrastructure replacement reserve	2,367,408
Operating and maintenance reserve	2,708,185
Debt stabilization reserve	2,552,939
WTP Decommissioning reserve	735,835
Investments, debt service reserve	<u>5,471,388</u>
	<u>22,958,612</u>
Capital assets:	
Land	5,796,400
Capital assets not being depreciated	9,570,680
Capital assets being depreciated, net	<u>137,117,940</u>
	<u>152,485,020</u>
Total noncurrent assets	<u>175,443,632</u>
Total assets	<u>182,662,262</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred loss on advance debt refunding	<u>160,740</u>
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PAWTUCKET WATER SUPPLY BOARD
(An Enterprise Fund of the City of Pawtucket, Rhode Island)

STATEMENT OF NET POSITION (CONTINUED)

JUNE 30, 2014

LIABILITIES

Current liabilities:

Accounts payable and accrued expenses	\$ 623,342
Accrued interest payable	1,290,520
Due to other funds	2,746,581
Current portion of bonds payable	59,600
Current portion of loans payable	4,180,000
Current portion of accrued compensated absences	80,846
Deposits	<u>17,109</u>

Total current liabilities	<u>8,997,998</u>
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Noncurrent liabilities:

Accounts payable and accrued expenses payable from restricted assets	541,420
Accrued expenses	209,204
Accrued compensated absences, less current portion	727,616
Net OPEB obligation	1,438,694
Bonds payable, less current portion	293,289
Loans payable, less current portion (net of undrawn amounts)	<u>93,271,919</u>

Total noncurrent liabilities	<u>96,482,142</u>
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Total liabilities	<u>105,480,140</u>
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NET POSITION

Net investment in capital assets	54,299,532
Restricted for:	
Trust agreement	19,855,369
PUC order	3,103,243
Unrestricted	<u>84,718</u>

Total net position	<u><u>\$ 77,342,862</u></u>
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PAWTUCKET WATER SUPPLY BOARD
(An Enterprise Fund of the City of Pawtucket, Rhode Island)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2014

Operating revenues:	
Metered water sales	\$ 12,921,625
Water sales for resale	721,359
Customer service charge	3,038,161
Public fire protection fees	678,937
Private fire protection fees	650,411
State water surcharge	46,679
Water service installation fees	58,565
Other miscellaneous revenues	<u>328,286</u>
Total operating revenues	<u>18,444,023</u>
Operating expenses:	
General and administrative	2,313,210
Customer service	493,952
Source of supply	1,347,552
Pumping	18,746
Purification	3,675,383
Transmission and distribution	2,901,677
Engineering	353,650
Metering	<u>461,930</u>
Total operating expenses	<u>11,566,100</u>
Operating income	<u>6,877,923</u>
Nonoperating revenues (expenses):	
Rental income, net	25,700
Intergovernmental	54,637
Interest income on investments	326,855
Interest and service fees on long-term debt	(3,899,203)
Miscellaneous	<u>233,806</u>
Total nonoperating revenues (expenses)	<u>(3,258,205)</u>
Change in net position	<u>3,619,718</u>
Net position, beginning of year:	
As originally reported	75,927,259
Restatement (Note 1)	<u>(2,204,115)</u>
As restated	<u>73,723,144</u>
Net position, end of year	<u><u>\$ 77,342,862</u></u>

See notes to financial statements.

PAWTUCKET WATER SUPPLY BOARD
(An Enterprise Fund of the City of Pawtucket, Rhode Island)

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2014

Cash flows from operating activities:	
Cash received from customers	\$ 18,391,032
Cash payments to suppliers for goods and services	(6,738,282)
Cash payments to employees for services	<u>(2,481,955)</u>
Net cash provided by operating activities	<u>9,170,795</u>
Cash flows from noncapital financing activities:	
Interfund borrowings	2,746,581
Rental income received	25,700
Intergovernmental revenue	100,318
Miscellaneous nonoperating revenue	<u>233,806</u>
Net cash provided by noncapital financing activities	<u>3,106,405</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of fixed assets	(3,257,819)
Proceeds from bonds	381,747
Principal paid on bonds and loans	(4,166,348)
Interest paid on bonds and loans	<u>(3,809,727)</u>
Net cash used in capital and related financing activities	<u>(10,852,147)</u>
Cash flows from investing activities:	
Purchases/sales of investments, net	(59,349)
Interest income	<u>326,855</u>
Net cash provided by investing activities	<u>267,506</u>
Net increase in cash and cash equivalents	1,692,559
Cash and cash equivalents, beginning of year	<u>18,588,574</u>
Cash and cash equivalents, end of year	<u>\$ 20,281,133</u>
Unrestricted cash and cash equivalents	\$ 2,793,909
Restricted cash and cash equivalents	<u>17,487,224</u>
	<u>\$ 20,281,133</u>

(continued)

PAWTUCKET WATER SUPPLY BOARD
(An Enterprise Fund of the City of Pawtucket, Rhode Island)

STATEMENT OF CASH FLOWS (CONTINUED)

YEAR ENDED JUNE 30, 2014

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

Operating income	\$ 6,877,923
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	2,640,906
Changes in assets and liabilities:	
User fees receivable	(49,491)
Inventory	(33,989)
Prepaid expenses	882
Accounts payable and accrued expenses	(347,391)
Compensated absences	13,810
Net OPEB obligation	71,645
Deposits	<u>(3,500)</u>
Net cash provided by operating activities	<u>\$ 9,170,795</u>

PAWTUCKET WATER SUPPLY BOARD
(An Enterprise Fund of the City of Pawtucket, Rhode Island)

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

1. Summary of significant accounting policies:

The financial statements of the Pawtucket Water Supply Board (PWSB), an enterprise fund of the City of Pawtucket, Rhode Island (the City), have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to governmental entities (U.S. GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Financial reporting entity:

PWSB is an enterprise fund of the City. The financial statements present only PWSB and are not intended to present fairly the financial position of the City, the changes in its financial position and cash flows of its proprietary fund types in conformity with U.S. GAAP. PWSB is governed principally under the provisions of the Pawtucket City Charter. In some matters, including the setting of water rates and issuance of short and long-term debt, PWSB is governed by the general laws of the State of Rhode Island (State).

The management of PWSB is vested in a Board of Directors, consisting of four members appointed by the Mayor, subject to City Council approval, one member of the City Council elected by the City Council, and the City Finance Director, who serves ex-officio. The four appointed Board Members serve staggered terms. Day-to-day management is vested in a Chief Engineer (a Professional Engineer).

PWSB's water supply system provides treated water to residential and business customers, principally within the cities of Pawtucket and Central Falls and to part of the Town of Cumberland (all in Rhode Island). It also sells water in bulk to the Town of Cumberland, Rhode Island. The water system includes a series of reservoirs and holding tanks, treatment facilities, a laboratory, a network of water transmission and distribution pipes, and a pumping system.

In addition to exercising all powers and duties with respect to the management, supervision and control of the water system and its employees, the Board also establishes all rules and regulations, and determines the rates to be charged for water and all miscellaneous related services. However, all rules, regulations, and water rates are subject to the approval of the Rhode Island Public Utilities Commission.

PAWTUCKET WATER SUPPLY BOARD
(An Enterprise Fund of the City of Pawtucket, Rhode Island)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

1. Summary of significant accounting policies (continued):

Basis of accounting:

Proprietary funds are used to account for business-like activities provided to the general public (enterprise funds) or within the government (internal service funds). These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as soon as all eligible requirements imposed by the provider have been met.

Operating revenues in enterprise funds are those revenues that are generated from primary operations of the fund. All other revenues are reported as nonoperating revenues. Operating expenses generally are those expenses that are essential to providing services in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of operations and maintenance, and depreciation on capital assets. All expenses that do not meet this definition are reported as nonoperating expenses.

Budgetary data and budgetary accounting:

Formal budgetary accounting is employed as a management control by PWSB; however, legal budgets are not adopted.

Deferred outflows and inflows of resources:

Deferred outflows of resources represent the consumption of net assets that is applicable to a future reporting period. Deferred inflows of resources represent the acquisition of net assets that is applicable to a future reporting period. PWSB had no deferred inflows of resources at June 30, 2014. PWSB's deferred outflows of resources at June 30, 2014 consist of a deferred loss on advance debt refundings, determined as the difference between the reacquisition price and net carrying amount of the refunded debt. The deferred loss is amortized over the remaining life of the old debt, prior to refunding, or the life of the new debt, whichever is shorter, using the effective interest method.

Use of estimates:

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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.

PAWTUCKET WATER SUPPLY BOARD
(An Enterprise Fund of the City of Pawtucket, Rhode Island)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

1. Summary of significant accounting policies (continued):

Recent accounting pronouncements:

Effective for the year ended June 30, 2014, PWSB adopted the provisions of Statement No. 65 of the GASB, *Items Previously Reported as Assets and Liabilities* (GASB 65). GASB 65 requires that certain items no longer be reported in statements of net position since they do not meet the definition of either assets, liabilities, deferred outflows of resources or deferred inflows of resources. In addition, GASB 65 requires that certain items previously reported as assets or liabilities be reported as deferred inflows or outflows of resources. As required by GASB 65, effective July 1, 2013, PWSB expenses financing costs as incurred; previously, financing costs were deferred and amortized using the straight-line method over the life of the related debt. Due to the adoption of GASB 65, PWSB has restated its 2013 financial statements, resulting in a \$2,204,115 decrease in net position at June 30, 2013, representing the balance of PWSB's deferred financing costs at that date. In addition, deferred loss on advance refundings of debt is now presented as a deferred outflow of resources instead of as an offset to bonds payable.

Effective for the fiscal year ending June 30, 2015, PWSB will be required to adopt the provisions of Statement No. 68 of the GASB, *Accounting and Financial Reporting for Pensions* (GASB 68). GASB 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses and expenditures related to pension plans administered through trusts or equivalent arrangements. For defined benefit plans, GASB 68 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. In addition, GASB 68 will require more extensive footnote disclosures in employer financial statements. PWSB is currently evaluating the effects of GASB 68 on its financial statements.

Cash and equivalents:

Cash and cash equivalents consist of cash on hand, time and demand deposits and short-term investments maturing within three months from the date of acquisition. All bank accounts and cash balances are held and controlled by the City except for certain restricted cash accounts held by a trustee as required by the Revenue Bond Trust Indenture and Supplemental Indentures.

Investments:

Investments are reported at fair value, based on quotations from applicable national securities exchanges. Unrealized gains and losses from changes in fair value are recognized as investment income (loss). The State does not have pertinent laws regarding investments that apply to cities and towns.

PAWTUCKET WATER SUPPLY BOARD
(An Enterprise Fund of the City of Pawtucket, Rhode Island)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

1. Summary of significant accounting policies (continued):

Receivables:

Receivables are reported net of the estimated portion that is expected to be uncollectible (\$113,443 at June 30, 2014). Estimated unbilled revenue is recognized at the end of each fiscal year on a pro-rated basis.

Inventory:

Inventories are stated at cost (using the average cost method) and are recorded as expenditures when consumed.

Capital assets:

The City defines capital assets as assets with an individual cost of more than \$10,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. PWSB's capital assets are used as collateral for water improvement revenue bonds.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the statement revenues, expenses and changes in net position, with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets' estimated useful lives using the straight-line method.

The range of estimated useful lives by type of asset is as follows:

Description	Estimated lives (years)
Reservoirs and improvements	50
Wells and springs	100
Structures and improvements	50-100
Pumping equipment	25
Water treatment equipment	20
Office furniture and equipment	20
Hydrants	50
Meters	15
Services	50
Valves and water mains	100
Transportation, tools, laboratory, power and communication equipment	10

PAWTUCKET WATER SUPPLY BOARD
(An Enterprise Fund of the City of Pawtucket, Rhode Island)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

1. Summary of significant accounting policies (continued):

Debt issuance costs:

Debt issuance costs are recognized as expenses in the year the debt is issued.

Compensated absences:

Under the terms of various contracts and agreements, employees are granted vacation and sick leave in varying amounts based on length of service. The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-term obligations:

Long-term debt and other long-term obligations (including compensated absences) are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the term of the related debt using the effective interest method. Long-term obligations for certain general obligation bonds and revenue debt issued by the City are reported by PWSB as they are expected to be repaid with funds generated from PWSB.

Other postemployment benefits (OPEB):

The City provides postemployment health care and dental benefits to retired employees and their spouses as required by union contracts. PWSB funds the plans on a “pay-as-you-go” basis and records the net OPEB obligation as a noncurrent liability in the statement of net position.

Pensions:

The provision for pension costs for employees is recorded on an accrual basis; PWSB’s policy is to fund such pension costs as they accrue.

PAWTUCKET WATER SUPPLY BOARD
(An Enterprise Fund of the City of Pawtucket, Rhode Island)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

1. Summary of significant accounting policies (continued):

Net position:

Net position has been segregated into the following three components:

Net investment in capital assets – represents the net book value of all capital assets less the outstanding balances of bonds and other debt, and deferred inflows of resources, if any, used to acquire, construct or improve these assets, increased by deferred outflows of resources related to those assets, if any.

Restricted – assets that have been limited to uses specified either externally by creditors, contributors, laws, or regulations of other governments or internally by enabling legislation or law; reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted – a residual category for the balance of net position

Subsequent events:

PWSB has evaluated subsequent events through December 16, 2014, the date that the accompanying financial statements were available to be issued.

2. Deposits and investments:

Cash and cash equivalents:

At June 30, 2014, deposits, including restricted cash, are categorized as follows:

	<u>Insured</u>	<u>Collateralized</u>	<u>Total bank balance</u>	<u>Carrying amount</u>
Deposits:				
Demand deposits	\$ 500,022	\$ 17,785,830	\$ 18,285,852	\$ 19,545,298
Money market		<u>735,835</u>	<u>735,835</u>	<u>735,835</u>
	<u>\$ 500,022</u>	<u>\$ 18,521,665</u>	<u>\$ 19,021,687</u>	<u>\$ 20,281,133</u>

Restricted cash consists of funds deposited into restricted debt service accounts to be used for future debt service payments, as required under loan agreements with the Rhode Island Clean Water Finance Agency.

PAWTUCKET WATER SUPPLY BOARD
(An Enterprise Fund of the City of Pawtucket, Rhode Island)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

2. Deposits and investments (continued):

Investments:

Investments of all idle funds are made through national banks or trust companies, providing that the financial conditions and integrity of the institutions are verifiable and can be monitored. The investment of funds must be in direct obligations of the United States Government and “money market instruments” rated “A” or better. Investments in any one institution cannot exceed 5 percent of that institution’s capital and surplus as set forth in the institution’s most recent audited financial statements.

Concentration of credit risk:

Concentration of credit risk is the risk of loss attributed to the magnitude of the investment in a single issuer. PWSB’s investment policy is to maintain a diversified portfolio to minimize the risk of loss resulting from over concentration of assets in a specific maturity.

PWSB’s cash, cash equivalents and investments are as follows:

Cash and cash equivalents:	
Unrestricted deposits with financial institutions	\$ 2,793,909
Restricted cash accounts	<u>17,487,224</u>
Total cash and cash equivalents	<u>20,281,133</u>
Investments, restricted:	
Government and agency obligations	2,295,306
U.S. Treasuries	<u>3,176,082</u>
Total investments	<u>5,471,388</u>
Total cash, cash equivalents and investments	<u>\$ 25,752,521</u>

Interest rate risk:

This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates.

PAWTUCKET WATER SUPPLY BOARD
(An Enterprise Fund of the City of Pawtucket, Rhode Island)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

2. Deposits and investments (continued):

Interest rate risk (continued):

PWSB limits its exposure to fair value losses arising from changes in interest rates by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and investing operating funds primarily in shorter-term securities, money market funds, or similar investment pools.

Credit risk:

Credit risk, which is the risk that an issuer of a debt-type investment will not fulfill its obligation to the holder of the investment, is measured by assignment of a rating by a nationally recognized rating organization. U.S. government securities or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk exposure. PWSB has no investment policy that would limit its investment choices due to credit risk other than state statutes governing investments in obligations of any state or political subdivision or in obligations of the State or political subdivision.

Information about the exposure of PWSB's debt-type investments to interest rate and credit risk, using the segmented time distribution model, is as follows:

Type of investment	Moody's rating	Less than 1 year
U.S. Government and Agency Obligations	Aaa	\$ 2,295,306
U.S. Treasuries	Aaa	3,176,082
		\$ 5,471,388

Custodial credit risk:

Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, PWSB will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. PWSB does not believe that it has significant custodial credit risk with regard to its investments as substantially all investment securities are registered and held in the name of PWSB.

PAWTUCKET WATER SUPPLY BOARD
(An Enterprise Fund of the City of Pawtucket, Rhode Island)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

3. Capital assets, commitments and subsequent event:

Capital asset activity for the year ended June 30, 2014 was as follows:

	Beginning balance	Increases	Decreases	Ending balance
Nondepreciable assets:				
Land and land rights	\$ 5,784,856	\$ 11,544		\$ 5,796,400
Construction in progress	14,638,023	6,856,612	\$ 11,923,955	9,570,680
Total nondepreciable assets	20,422,879	6,868,156	11,923,955	15,367,080
Depreciable assets:				
Structures and improvements	68,005,403	2,461,764		70,467,167
Transmission and distribution	87,748,143	9,462,191		97,210,334
Equipment	5,321,657			5,321,657
Total depreciable assets	161,075,203	11,923,955		172,999,158
Less accumulated depreciation for:				
Structures and improvements	11,852,326	1,258,600		13,110,926
Transmission and distribution	16,511,292	1,288,023		17,799,315
Equipment	4,876,694	94,283		4,970,977
Total accumulated depreciation	33,240,312	2,640,906		35,881,218
Depreciable assets, net	127,834,891	9,283,049		137,117,940
Capital assets, net	<u>\$ 148,257,770</u>	<u>\$ 16,151,205</u>	<u>\$ 11,923,955</u>	<u>\$ 152,485,020</u>

Construction in progress relates to annual water main replacement contracts to complete the restoration of the water transmission and distribution system. These and other projects will be funded from bond proceeds available from bonds issued in fiscal years 2013 and 2012, and rate revenue restricted for infrastructure improvements. The water transmission and distribution system capital improvements, which will benefit the ratepayers for many years, are paid from debt financing on an as needed basis.

PAWTUCKET WATER SUPPLY BOARD
(An Enterprise Fund of the City of Pawtucket, Rhode Island)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

3. Capital assets, commitments and subsequent event (continued):

PWSB has the following commitments related to the construction project contracts at June 30, 2014:

Main Replacement Contract MR-8	\$	926,800
Main Replacement Contract MR-9		2,525,953
T&D Operations Center Architect Services		<u>17,544</u>
	<u>\$</u>	<u>3,470,297</u>

On July 15, 2014, PWSB purchased 2.12 acres of land in Cumberland, Rhode Island for \$74,200. This land is within the watershed of the Diamond Hill Reservoir. The closing was completed on July 17, 2014.

4. Long-term obligations:

Changes in long-term obligations during the year ended June 30, 2014 were as follows:

	Balance, July 1, 2013 (As restated)	<u>Additions</u>	<u>Retirements</u>	Balance, June 30, 2014	<u>Due within one year</u>
General obligation bonds payable	<u>\$ 437,417</u>		<u>\$ 84,528</u>	<u>\$ 352,889</u>	<u>\$ 59,600</u>
Revenue loans payable	106,371,000		4,068,001	102,302,999	4,180,000
Premium on loans	317,841		13,819	304,022	
Less undrawn loan proceeds	<u>(9,147,186)</u>		<u>(3,992,084)</u>	<u>(5,155,102)</u>	
	<u>97,541,655</u>		<u>89,736</u>	<u>97,451,919</u>	<u>4,180,000</u>
Compensated absences	<u>794,652</u>	<u>\$ 13,810</u>		<u>808,462</u>	<u>80,846</u>
Total long-term obligations	<u>\$ 98,773,724</u>	<u>\$ 13,810</u>	<u>\$ 174,264</u>	<u>\$ 98,613,270</u>	<u>\$ 4,320,446</u>

Balances as of July 1, 2013 were restated to present long-term obligations net of undrawn loan proceeds. Previously, such amounts were reported as due from Rhode Island Clean Water Finance Agency on the statement of net position.

PAWTUCKET WATER SUPPLY BOARD
(An Enterprise Fund of the City of Pawtucket, Rhode Island)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

4. Long-term obligations (continued):

Debt service through maturity for bonds and notes is as follows:

Year ending June 30,	General obligation bonds payable		Revenue loans payable	
	Principal	Interest	Principal	Interest
2015	\$ 59,600	\$ 12,941	\$ 4,180,000	\$ 3,453,190
2016	58,266	10,708	4,648,000	3,386,755
2017	59,562	8,456	4,780,000	3,275,043
2018	60,374	6,164	4,922,000	3,154,899
2019	61,088	3,847	5,072,000	3,026,089
2020-24	53,999	4,041	27,972,000	12,881,543
2025-29			25,885,000	8,283,952
2030-34			18,137,000	3,780,215
2035-36			6,706,999	337,101
	<u>\$ 352,889</u>	<u>\$ 46,157</u>	<u>\$ 102,302,999</u>	<u>\$ 41,578,787</u>

PAWTUCKET WATER SUPPLY BOARD
(An Enterprise Fund of the City of Pawtucket, Rhode Island)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

4. Long-term obligations (continued):

	<u>Date of issuance</u>	<u>Interest rate</u>	<u>Date of maturity</u>	<u>Authorized</u>	<u>Outstanding, June 30, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding, June 30, 2014</u>	<u>Interest paid</u>
General obligation bonds payable:									
Water debt refunding bond	10/15/02	2.00% - 4.00%	4/15/04	\$ 267,613	\$ 26,580	\$ -	\$ 26,580	\$ -	\$ 1,063
Water system improvements	07/01/01	4.00% - 6.00%	7/1/21	385,000	169,400		19,600	149,800	7,681
Water system improvements	04/14/10	3.36%	7/1/18	336,651	241,437		38,348	203,089	7,468
Total bonds payable					<u>437,417</u>	<u>-</u>	<u>84,528</u>	<u>352,889</u>	<u>16,212</u>
Revenue loans payable:									
RICWFA Series 2003A	12/17/03	5.00%	9/1/35	19,340,000	19,340,000			19,340,000	967,000
RICWFA Series 2003B	12/17/03	6.00%	9/1/35	7,655,000	7,655,000			7,655,000	459,300
RICWFA Series 2004A	3/11/04	2.00% - 5.00%	9/1/24	41,875,000	30,361,000		2,126,000	28,235,000	827,080
RICWFA Series 2005A	3/23/05	2.00% - 5.00%	9/1/27	31,909,000	25,728,000		1,344,000	24,384,000	765,003
RICWFA Series 2009A	11/19/09	.86% - 4.72%	9/1/30	5,935,000	5,491,000		227,000	5,264,000	131,753
RICWFA DL 2012 Loan	11/04/11	1.12% - 3.71%	9/1/31	7,485,000	7,197,000		293,000	6,904,000	205,541
RICWFA Series 2012A Loan	6/14/12	.53% - 3.33%	9/1/32	1,955,000	1,954,000		77,000	1,877,000	41,784
RICWFA Series 2013A Loan	5/14/13	.37% - 2.83%	9/1/34	8,645,000	8,645,000		1,000	8,644,000	46,498
Less undrawn loan proceeds					<u>(9,147,186)</u>		<u>(3,992,084)</u>	<u>(5,155,102)</u>	
Total revenue loans payable					<u>97,223,814</u>		<u>75,916</u>	<u>97,147,898</u>	<u>3,443,959</u>
Bond premiums					<u>317,841</u>		<u>13,820</u>	<u>304,021</u>	
Accrued compensated absences					<u>794,652</u>	<u>13,810</u>		<u>808,462</u>	
Total long-term obligations					<u>\$ 98,773,724</u>	<u>\$ 13,810</u>	<u>\$ 174,264</u>	<u>\$ 98,613,270</u>	<u>\$ 3,460,171</u>

The revenue loans payable are secured by certain revenues derived from the system of water supply, treatment and distribution facilities operated by PWSB.

PAWTUCKET WATER SUPPLY BOARD
(An Enterprise Fund of the City of Pawtucket, Rhode Island)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

5. Accounts payable and accrued expenses:

<u>Vendors</u>	<u>Employees</u>	<u>Accrued interest</u>	<u>Total</u>
\$ 1,298,544	\$ 75,422	\$ 1,290,520	\$ 2,664,486

6. Vacation, sick leave and other compensated absences:

In accordance with union or individual employee contracts, employees are granted vacation and sick leave in varying amounts based on length of service. The amounts accrued and maximum amounts accumulated are based on the employee's weekly hours. Any unused vacation is paid upon an employee's termination. Unused sick leave is paid at retirement as follows:

- a) AFSCME and non-classified employees - 50% of unused sick leave based on a daily rate of one-fifth of the employee's regular weekly salary. Sick leave may not accrue beyond a total of 200 days.
- b) TEAMSTERS - employees hired before 7/1/02 receive 100% of unused sick leave and employees hired after 7/1/02 receive 50% of unused sick leave based on a daily rate of one-fifth of the employee's regular weekly salary. Employees hired before 7/1/02 may not accrue sick leave beyond 220 days and employees hired after 7/1/02 may not accrue sick leave beyond 200 days.

7. Municipal Employees' Retirement System of the State of Rhode Island (MERS):

All full-time PWSB employees participate in MERS, an agent multiple-employer public employee retirement system administered by the State. The Employees' Retirement System of Rhode Island (the System) issues an annual financial report that includes financial statements and required supplementary information for all of the plans it administers. The reports can be obtained at www.ersri.org or 50 Service Avenue, Warwick, RI 02886.

PAWTUCKET WATER SUPPLY BOARD
(An Enterprise Fund of the City of Pawtucket, Rhode Island)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

7. Municipal Employees' Retirement System of the State of Rhode Island (MERS) (continued):

In November 2011, the State enacted the Rhode Island Retirement Security Act of 2011 (RIRSA), which made broad changes to MERS effective July 1, 2012. The most significant changes include changing the structure of the retirement program from a traditional defined benefit plan to a hybrid plan designed with a smaller defined benefit plan and a supplemental defined contribution plan; changing the automatic cost of living adjustment (COLA) from a CPI-related formula to a formula contingent on the actual investment performance over time; suspension/reduction of the COLA during times when the funded ratio is lower than targeted 80% levels; and the re-amortization of the Unfunded Actuarial Accrued Liability (UAAL) to 25 years from the 19-year schedule as of June 30, 2010. Included within these significant changes are certain rules for transitioning from the prior defined benefit structure to the smaller defined benefit plan going forward. The changes in the defined benefit plan instituted by RIRSA have been fully reflected in the actuarial valuation as of June 30, 2012.

Legal challenges to legislatively enacted pension reforms are proceeding through the courts and as of the date of this report are in court-ordered mediation.

The payroll for PWSB employees covered under MERS for the year ended June 30, 2014 was approximately \$2,567,000.

Defined benefit plan

Eligibility and benefits:

The following eligibility and benefit provisions are established by State Statute. The System generally provides retirement benefits equal to 1 percent (2 percent for each year of service prior to July 1, 2012) of final average salary per year of service with a maximum benefit of 75 percent of final average salary. Final average salary is the three highest consecutive years of earned salary exclusive of overtime, bonuses or severance pay. Such benefits are available to members at least age 58 with 10 years of service or after 30 years regardless of age. The plan also provides non-occupational disability benefits after 5 years of service, occupational disability benefits with no minimum service requirement, survivors' benefits, and certain lump sum death benefits. Employees are vested in their retirement benefits on completion of 10 years of service.

PAWTUCKET WATER SUPPLY BOARD
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

7. Municipal Employees' Retirement System of the State of Rhode Island (MERS) (continued):

Defined benefit plan (continued)

Funding policy:

The funding policy is outlined in Rhode Island General Laws (RIGL) sections 45-21-41, 45-21-42, and 45-21-52 (which can be amended by the Rhode Island General Assembly). Active members must contribute 2% of their compensation.

The City is required to contribute at an actuarially determined rate expressed as a percentage of total compensation paid to the active membership. The rate for fiscal year 2014 was 14.67%. PWSB contributed \$347,621 towards the City's contribution of \$2,778,221 during the year ended June 30, 2014, which was equal to its required contribution. PWSB employees were required to contribute \$47,932, which represents 2.0% of covered payroll.

Annual pension cost:

The following table summarizes PWSB's annual pension costs and the percent contributed for the defined benefit portion of MERS for the past three years. There was no net pension obligation during the three-year period.

<u>Fiscal year</u>	<u>Annual pension cost (APC)</u>	<u>Percentage of APC contributed</u>
2012	\$ 295,711	100%
2013	\$ 308,980	100%
2014	\$ 347,621	100%

PAWTUCKET WATER SUPPLY BOARD
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

7. Municipal Employees' Retirement System of the State of Rhode Island (MERS) (continued):

Defined benefit plan (continued)

Funded status and funding progress:

As of June 30, 2013, the date of the most recent actuarial valuation available, the City's funded status and funding progress were as follows:

Funded ratio	75.9%
Actuarial accrued liability for benefits	\$ 114,292,417
Actuarial value of assets	\$ 86,742,714
Unfunded actuarial accrued liability (UAAL)	\$ 27,549,703
Covered payroll	\$ 18,980,419
UAAL to covered payroll	<u>145.1%</u>

Actuarial methods and significant assumptions:

June 30, 2013 Valuation	
Actuarial Cost Method	Entry Age Normal – the Individual Entry Age Actuarial Cost methodology is used.
Amortization Method	Level Percent of Payroll – Closed
Equivalent Single Remaining Amortization Period	22 years as of June 30, 2013
Asset Valuation Method	5-Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Projected Salary Increases	4.00% to 8.00%
Inflation	2.75%

PAWTUCKET WATER SUPPLY BOARD
(An Enterprise Fund of the City of Pawtucket, Rhode Island)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

7. Municipal Employees' Retirement System of the State of Rhode Island (MERS) (continued):

Defined benefit plan (continued)

Funded status and funding progress (continued):

Cost of living adjustments are equal to the average five-year fund asset performance (percent) greater than 5.5% up to a maximum of 4% – the COLA is to be applied to the first \$25,000 of benefits, indexed over time. COLA is delayed until the later of Social Security eligibility age or 3 years after retirement. A 2% COLA is assumed after July 1, 2013.

Defined Contribution Plan

PWSB employees participate in the defined contribution plan of the System as authorized by RIGL Chapter 36-10.3. The defined contribution plan is established under IRS section 401(a) and is administered by TIAA-CREF and the System. Employees may choose among various investment options available to plan participants. Employee contributions are immediately vested while employer contributions are vested after three years of contributory service. Contributions required under the defined contribution plan by both the employee and the employer is established by the General Laws, which are subject to amendment by the General Assembly. Amounts in the defined contribution plan are available to participants in accordance with Internal Revenue Service guidelines for such plans.

The funding policy is outlined in RIGL Chapter 36-10.3 (which can be amended by the Rhode Island General Assembly). Active plan members must contribute 5% of their compensation and the City/PWSB is required to contribute 1%. PWSB plan members and PWSB contributed \$118,483 and \$23,694, respectively, during the fiscal year ended June 30, 2014.

8. Other postemployment benefits (OPEB):

Plan description:

The City provides post-retirement benefits to retired individuals as required by union contracts with City municipal employees, teachers, School department administrators, police officers, and firefighters through a single-employer defined benefit plan (OPEB). Benefits include: (1) full health coverage for the retiree and their spouse, and (2) full dental coverage for the retiree and their spouse. The City obtains a biennial actuarial valuation report which can be obtained from the City's Finance Director at City Hall, 137 Roosevelt Avenue, Pawtucket, Rhode Island 02860. Separate actuarial information related to PWSB employees is not available. Where applicable, disclosures about PWSB's participation in the Plan are presented herein.

PAWTUCKET WATER SUPPLY BOARD
(An Enterprise Fund of the City of Pawtucket, Rhode Island)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

8. Other postemployment benefits (OPEB) (continued):

Valuation:

An actuarial valuation study of the other postemployment benefits of the City was performed by Stone Consulting, Inc. as of July 1, 2013.

Funding policy:

The City and PWSB paid 100% of the amount of medical and dental costs incurred by eligible retirees. Employee contributions are recognized in the period to which the contribution relates. Benefit payments are charged to expense in the period paid.

Annual OPEB cost and net OPEB obligation:

PWSB's share of the annual OPEB cost, the amount contributed to the plan and the net OPEB obligation (NOO) for the past six years are as follows:

Year ended June 30,	Actuarial required contribution (ARC)	Interest on NOO	ARC adjustment	OPEB cost	Contribution	Change in NOO	NOO
2009	\$ 479,044	\$ 12,283	\$ 10,392	\$ 480,935	\$ 198,083	\$ 282,852	\$ 555,809
2010	\$ 487,390	\$ 23,622	\$ 22,540	\$ 488,472	\$ 186,166	\$ 302,306	\$ 858,115
2011	\$ 505,925	\$ 38,615	\$ 35,923	\$ 508,617	\$ 229,447	\$ 279,170	\$ 1,137,285
2012	\$ 424,086	\$ 45,491	\$ 47,813	\$ 421,764	\$ 313,512	\$ 108,252	\$ 1,245,537
2013	\$ 444,602	\$ 49,821	\$ 54,267	\$ 440,156	\$ 318,644	\$ 121,512	\$ 1,367,049
2014	\$ 260,765	\$ 54,682	\$ 50,878	\$ 264,569	\$ 192,924	\$ 71,645	\$ 1,438,694

PWSB's contributions to the plan for the year ended June 30, 2014 represented 73% of its share of the annual OPEB cost. The difference represents PWSB's OPEB obligation to the plan and has been accrued as a liability on the accompanying statement of net position.

Actuarial methods and assumptions:

The projection of future benefit payments for an ongoing plan involves 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 annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

PAWTUCKET WATER SUPPLY BOARD
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

8. Other postemployment benefits (OPEB) (continued):

Actuarial methods and assumptions (continued):

The valuation of the postemployment medical and life insurance benefits is based upon the projected unit credit actuarial cost method. A normal cost (or service cost) is determined for each year of the member's creditable service and is equal to the value of the future expected benefits divided by the total expected number of years of service. The actuarial accrued liability is the accumulated value of prior normal costs.

Actuarial cost method – Costs are attributed between past and future service using the projected Unit Credit Cost method. Benefits are attributed ratably to service from date of hire until full eligibility date.

Interest rate/discount rate – 4.0% per year of investment expenses

Mortality:

Actives – 65% of Post-Retirement Mortality (based on the Employee's Retirement System of Rhode Island report).

Retirees – Non-Teachers: 1994 Group Annuity Table set forward one year (based on the Employee's Retirement System of Rhode Island report).

Disabled – All but police and fire: Males: 65% of PBGC Tab Va; Females: 100% of PBGC Table Via (based on the Employee's Retirement System of Rhode Island report); police and fire: PBGC Table 11 for males and PBGC Table 12 for females.

Eligibility for Vested Post-Retirement Medical benefits upon Withdrawal – Employees who withdraw from employment and do not retire are ineligible for postretirement benefits even if they are vested in their retirement benefits.

Medical eligibility – Employees: 100%; Spouses: 100%

Participation rates – Current employees and spouses are assumed to continue the same coverage they have as of the valuation date. No future election of coverage is assumed for those retirees and spouses who currently have not elected coverage.

PAWTUCKET WATER SUPPLY BOARD
(An Enterprise Fund of the City of Pawtucket, Rhode Island)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

8. Other postemployment benefits (OPEB) (continued):

Actuarial methods and assumptions (continued):

Expenses – Administrative expenses are included in the per capita medical cost assumption.

Eligibility for Benefits – Current employees of the City who retire with a benefit from the Pawtucket Retirement Board, as well as their beneficiaries, and retirees of the City, as well as their beneficiaries and spouses, are eligible for benefits. The spouses of current employees are eligible for benefits if the current employees are covered under the police, fire, and teacher plans.

Medical Benefits – Various medical and dental plans offered by the City to its employees.

Retiree Contributions – Based on date provided by the City. Applicable to teachers only.

Listed below are the details of the funding progress of the City-wide OPEB obligation with a valuation date of July 1, 2013, which is the most recent report available from the actuary who values this plan.

Actuarial value of assets	\$	0
Actuarial accrued liability	\$	309,654,000
Unfunded actuarial accrued liability	\$	(309,654,000)
Funded ratio		0%
Annual covered payroll		N/A
UAAL as percentage of payroll		N/A

9. Risk management:

Litigation:

During the ordinary course of its operations, PWSB is a party to various claims, legal actions and complaints; it adequately accrues liabilities for losses when they are both probable and can be reasonably estimated.

PAWTUCKET WATER SUPPLY BOARD
(An Enterprise Fund of the City of Pawtucket, Rhode Island)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2014

9. Risk management (continued):

Insurance:

PWSB is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees and natural disasters. As a result, PWSB purchased commercial insurance for these risks, as well as employee personal injury (worker's compensation) insurance in accordance with provisions contained in City ordinances and State laws. Effective July 1, 2013, PWSB participates in a non-profit, public entity risk pool (Rhode Island Interlocal Risk Management Trust, Inc.) (the Trust) which provides coverage for property/liability and employee personal injury claims. Upon joining the Trust, PWSB signed a participation agreement which outlines the rights and responsibilities of both the Trust and PWSB. The agreement states that for premiums paid by PWSB, the Trust will assume financial responsibility for PWSB's losses up to the maximum amount of insurance purchased, minus PWSB's deductible amounts. The Trust provides this insurance coverage through a pooled, self-insurance mechanism which includes reinsurance purchased by the Trust to protect against large, catastrophic claims above the losses the Trust retains internally for payment from the pooled contributions of its members. Under the participation agreement, PWSB is insured for a maximum of \$5,000,000 per occurrence. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage during the year ended June 30, 2014.

Environmental costs:

PWSB expenses, on a "pay as you go" basis, recurring costs associated with managing substances and pollution in ongoing operations. PWSB has not accrued costs associated with the remediation of environmental pollution because such costs are considered to be immaterial.



Independent Auditors' 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

Pawtucket Water Supply Board
(an enterprise fund of the City of Pawtucket,
Rhode Island)
City of Pawtucket, Rhode Island

We have audited, 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, the financial statements of the Pawtucket Water Supply Board (PWSB), an enterprise fund of the City of Pawtucket, Rhode Island, as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated December 16, 2014.

Internal Control Over Financial Reporting

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

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

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

**Independent Auditors' 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 (Continued)**

Pawtucket Water Supply Board
(an enterprise fund of the City of Pawtucket,
Rhode Island)

Compliance and Other Matters

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

Purpose of This Report

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

LJC & D LLP

Providence, Rhode Island
December 16, 2014