

EXHIBIT 3

**PROVIDENCE WATER
SUPPLY BOARD**
(AN ENTERPRISE FUND OF THE CITY OF
PROVIDENCE, RHODE ISLAND)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

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Independent Auditors' Report

To the Board of Directors of
Providence Water Supply Board
Providence, Rhode Island

Report on the Financial Statements

We have audited the accompanying financial statements of Providence Water Supply Board (Water Supply Board) of the City of Providence, Rhode Island, as of and for the year ended June 30, 2018, 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Water Supply Board as of June 30, 2018 and the respective 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 Matter

Presentation

As discussed in Note 1, the financial statements of the Water Supply Board are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities of the City of Providence that are attributable to the transactions of the Water Supply Board. They do not purport to, and do not, present fairly the financial position of the City of Providence as of June 30, 2018, the changes in its financial position, or where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Changes in Accounting Principle and Restatement

As discussed in Note 11 to the financial statements, during the fiscal year ended June 30, 2018, the Water Supply Board adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The net position of the Water Supply Board has been restated to recognize the net other postemployment benefit liability in accordance with GASB No. 75 and to reclassify the component unit. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2018 on our consideration of the Water Supply Board'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 solely 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 effectiveness of the Water Supply Board's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Water Supply Board's internal control over financial reporting and compliance.

Blum, Shapiro & Company, P.C.

Cranston, Rhode Island
December 31, 2018

**PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

The management of the Providence Water Supply Board (the Water Supply Board) offers readers of our financial statements the following narrative overview and analysis of our financial activities for the year ended June 30, 2018.

Financial Statements

Our financial statements are prepared using proprietary fund (enterprise fund) accounting that 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 are used.

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

- The statement of net position presents information on the assets and liabilities, 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 the Water Supply Board is improving or deteriorating.
- The statement of revenues, expenses and changes in net position reports the operating and nonoperating revenues and expenses of the Water Supply Board for the fiscal year with the difference - the net income or loss - being combined with any capital contributions to determine 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 added to the beginning of the year cash balance reconciles to the cash and cash equivalents balance at the end of the fiscal year.

PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017

Condensed Financial Information

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Total current assets	\$ 58,575,820	\$ 54,554,469	\$ 54,703,458
Total long-term assets	406,430,789	391,547,959	360,983,066
Total assets	<u>465,006,609</u>	<u>446,102,428</u>	<u>415,686,524</u>
Deferred outflows of resources	<u>3,418,884</u>	<u>4,739,191</u>	<u>6,348,674</u>
Total current liabilities	13,098,064	11,953,738	13,183,282
Total long-term liabilities	176,556,035	170,282,008	157,876,249
Total liabilities	<u>189,654,099</u>	<u>182,235,746</u>	<u>171,059,531</u>
Deferred inflows of resources	<u>3,256,637</u>	<u>786,585</u>	<u>178,623</u>
Net position:			
Net investment in capital assets	294,002,639	273,631,269	256,129,467
Restricted fund	43,396,562	41,155,297	37,233,166
Unrestricted fund	<u>(61,884,444)</u>	<u>(46,967,278)</u>	<u>(42,565,589)</u>
Total Net Position	<u>\$ 275,514,757</u>	<u>\$ 267,819,288</u>	<u>\$ 250,797,044</u>
Total operating revenue	\$ 75,085,420	\$ 71,778,075	\$ 69,209,492
Total operating expenses	46,380,902	45,438,116	44,687,516
Depreciation	9,696,365	10,327,272	10,673,384
Total operating expenses including depreciation	<u>56,077,267</u>	<u>55,765,388</u>	<u>55,360,900</u>
Operating income	19,008,153	16,012,687	13,848,592
Nonoperating expense	(1,943,854)	(2,622,675)	(673,210)
Capital grants and contributions	<u>4,245,111</u>	<u>405,252</u>	<u>483,201</u>
Change in Net Position	<u>\$ 21,309,410</u>	<u>\$ 13,795,264</u>	<u>\$ 13,658,583</u>

*The data above reflects the information that was included in the prior year issued financial statements. It does not reflect the restatements relative to GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

**PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

Financial Highlights

During the year, the Water Supply Board had operating revenues that exceeded operating expenses by \$19.0 million. These are primarily due to rate relief to support the continued commitment to the replacement of aging infrastructure, careful management of operating costs, and unexpended revenues allocated for restricted funds. Total assets were \$465.0 million, up \$18.9 million from last year's total assets of \$446.1 million. Current assets, principally cash, increased by \$4.0 million, and net plant increased by \$15.0 million.

The Water Supply Board's net position totaled \$275.5 million at June 30, 2018, an increase of \$7.7 million from June 30, 2017. The increase is the result of unexpended revenue allocated for restricted funds. Also, reflected in the change to our net position is net operating income of \$19.0 million, net nonoperating expenses of \$1.9 million, and capital contributions of \$4.2 million.

The Water Supply Board's net position totaled \$267.8 million at June 30, 2017, an increase of \$17.0 million from June 30, 2016. The increase is the result of unexpended revenue allocated for restricted funds. Also reflected in the change to our net position is net operating income of \$16.0 million, net nonoperating expenses of \$2.6 million, and capital contributions of \$0.40 million.

The Water Supply Board's total operating revenues were \$75.1 million for fiscal year 2018 which was an increase of \$3.3 million over the prior year. One reason for the increase is the full year effect of the 8.5% rate increase approved by the RI Public Utilities Commission (PUC) effective February 17, 2017.

The Water Supply Board's total operating revenues were \$71.8 million for fiscal year 2017, which is a slight increase over the prior year. One reason for the increase is the effect of the 8.5% rate increase approved by the RI Public Utilities Commission (PUC) effective February 17, 2017. The rate increase would result in approximately \$1.9 million in additional revenue in fiscal year 2017. Also, as of January 13, 2017, the Water Supply Board merged with the East Smithfield Water District (ESWD). ESWD historically has been a wholesale customer of the Water Supply Board. The merger resulted in an additional 2,400 retail customers. This addition of retail customers could result in potential retail revenue of approximately \$700,000 per year compared to \$410,000 revenue as a wholesale customer.

Total operating expenses of the water system amounted to \$56.1 million, which is a slight increase over the prior year's amount of \$55.7 million. Fiscal year 2018 nonoperating revenue consisted of interest income amounting to \$1.0 million and other revenue which is derived from a tax relief payment agreement between the Water Supply Board and the Town of Foster. The agreement called for the Town of Foster to reimburse the Water Supply Board a total of \$1.6 million plus interest over the next 10 years. Nonoperating expense of \$1.9 million was principally interest expense on long-term debt. Capital grants and contributions in fiscal year 2018 amounted to \$4.2 million.

**PROVIDENCE WATER SUPPLY BOARD
 (AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 JUNE 30, 2018 AND 2017**

Capital Assets and Debt Administration

Capital Assets:

At June 30, 2018, the Water Supply Board had \$405.4 million invested in various capital assets, including land, buildings and improvements, transmission and distribution mains, reservoirs, services, hydrants and appurtenances, machinery and equipment, and construction work in progress. This amount represents a net increase in capital assets of \$15.0 million, or 3.85%, over the prior year.

At June 30, 2017, the Water Supply Board had \$390.4 million invested in various capital assets. This amount represented a net increase of \$30.7 million, or 8.53%, over the previous year.

Major project expenditures in fiscal year 2018 included (in millions):

* Replace/Upgrade Water Mains	\$ 20.83
* Central Operation Facility	\$ 5.18
* 102" & 78" Aqueducts-Investigation/Rehabilitation	\$ 3.24
* Renewable Energy Project	\$ 1.45
* Security Improvement at Treatment Plant	\$ 1.21
* Computer/IT Equipment Virtualization	\$ 1.07
* GIS System and Asset Management System	\$ 0.97
* Water Quality Study	\$ 0.54
* Replace Lead Services	\$ 0.35
* Various Distribution System Improvements	\$ 0.34
* Johnston Distribution System Improvements	\$ 0.32
* Replace Fire Hydrants	\$ 0.28
* Ashby St. Pump Station Upgrades	\$ 0.16
* Pretreatment Pilot-Scale Evaluation	\$ 0.14
* Storage Tanks Inspection/Improvement	\$ 0.13
* Replace Distribution Valves	\$ 0.12
* New Fencing and Road PW Properties	\$ 0.11
* Treatment Process Studies	\$ 0.10
* Plant Influent and Aerator Rehabilitation	\$ 0.10
* Replace Sand Filters	\$ 0.09

The Water Supply Board's fiscal year 2018 capital budget included project expenditures of \$37.4 million for infrastructure and capital projects. The major projects were: replacing and upgrading the aging water mains , continuation of the renovation of the new central operation facility, 102" and 78" aqueducts rehabilitation, renewable energy at the central operation facility, upgrading the security at the treatment plant, improving and upgrading the computer equipment virtualization, installation of a new asset management system, upgrading the various distribution system including the Johnston distribution system, replacement of lead services and aging fire hydrants, and upgrades to the aging pump station at Ashby Street. The majority of infrastructure projects are financed on a pay-as-you-go, cash basis from rate revenues. Some major projects were funded from bond proceeds issued through the Rhode Island Infrastructure Bank (RIIB) in fiscal year 2018. New major capital investments that will benefit ratepayers for many years are generally funded with long-term debt financing.

**PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

Debt:

At June 30, 2018, the Water Supply Board had \$111.4 million in bonds and notes outstanding versus \$116.7 million in the previous year. This represented a decrease of \$5.3 million or 4.58%. Providence Water is partnering with the Rhode Island Infrastructure Bank to have access to an additional \$1 million in support of its new Private Side Lead Service Replacement Loan program. This is a 0% interest loan program available to Providence Water customers that wish to replace the lead service connection that links their property to the distribution system. This program is part of Providence Water's larger lead reduction program.

At June 30, 2017, the Water Supply Board had \$116.7 million in bonds and notes outstanding versus \$103.5 million in the previous year. This represented an increase of \$13.2 million, or 12.7%. This increase was a result of a new bond issue in the amount of \$16.3 million to finance replacement and rehabilitation of water mains in the distribution system.

Subsequent Events

In October 2017, Providence Water filed a request with the RI PUC requesting a transfer of funds from the Restricted Revenue Reserve Fund to the Restricted Infrastructure Replacement Fund (IFR) in an effort to reach the funding levels approved by the RI PUC in Providence Water's last rate filing (Docket 4618). The approved funding had not been reached due to a shortfall in anticipated rate revenue in fiscal years 2016, 2017 and 2018. This transfer was approved by the RI PUC in January 2019.

Union Contract

The labor force of the Water Supply Board, with the exception of management, is covered by a union contract which is effective for the period of July 1, 2016 through June 30, 2018. The new labor agreement was signed in January 2019, effective July 1, 2018 through June 30, 2022.

Contacting Providence Water's Financial Management

This financial report is designed to provide our customers, investors and creditors with a general overview of the Providence Water Supply Board's finances and to illustrate the Providence Water Supply Board's accountability for the monies it receives. If you have questions about this report or need additional financial information, please contact the Finance Department at the Providence Water Supply Board, 125 Dupont Drive, Providence, RI 02907.

PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
STATEMENT OF NET POSITION
JUNE 30, 2018

Assets:	
Current unrestricted assets:	
Cash and cash equivalents	\$ 1,430,099
Accounts receivable, net of allowance for uncollectible accounts of \$1,205,140 in 2018	6,546,218
Accounts receivable - unbilled	4,392,511
Inventory	412,931
Other assets	65,495
Total current unrestricted assets	<u>12,847,254</u>
Current restricted assets:	
Cash and cash equivalents	45,374,638
Accounts receivable	217,794
Notes receivable - short term	136,134
Total current restricted assets	<u>45,728,566</u>
Total current assets	<u>58,575,820</u>
Capital assets:	
Land	24,342,006
Building and improvements	123,451,054
Improvements other than buildings	361,185,960
Machinery and equipment	33,510,818
Scituate Reservoir Project	18,681,695
Construction in progress	82,567,540
	<u>643,739,073</u>
Less accumulated depreciation and amortization	238,348,756
Total capital assets, net	<u>405,390,317</u>
Other noncurrent assets:	
Notes receivable - long term	<u>1,040,472</u>
Deferred Outflows of Resources:	
Pension-related deferred outflows of resources	<u>3,418,884</u>
Total assets and deferred outflows of resources	<u>468,425,493</u>

The accompanying notes are an integral part of the financial statements

PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2018

Liabilities:	
Current:	
Current portion of long-term debt	\$ 6,077,425
Due to City of Providence General Fund	656,560
Accounts payable	1,330,981
Accrued liabilities	2,701,094
	<u>10,766,060</u>
Amounts to be paid from current restricted assets:	
Due to Water Resources Board	334,492
Accounts payable	1,997,512
	<u>2,332,004</u>
Total current liabilities	<u>13,098,064</u>
Noncurrent liabilities:	
General revenue bonds	105,310,253
Net pension liability	50,780,782
Other post employment benefit obligations payable	20,465,000
Total noncurrent liabilities	<u>176,556,035</u>
Total liabilities	<u>189,654,099</u>
Deferred Inflows of Resources:	
OPEB-related deferred inflows of resources	2,355,000
Pension-related deferred inflows of resources	901,637
	<u>3,256,637</u>
Net Position:	
Net investment in capital assets	294,002,639
Restricted	43,396,562
Unrestricted	<u>(61,884,444)</u>
Total Net Position	<u>\$ 275,514,757</u>

The accompanying notes are an integral part of the financial statements

**PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018**

Operating Revenues:	
Charges for services:	
Water sales:	
General customers	\$ 53,225,723
Other local water suppliers	16,146,509
Fire protection services	2,699,184
Maintenance charges and other revenue	3,014,004
Total operating revenues	<u>75,085,420</u>
Operating Expenses:	
Source of supply	3,191,527
Pumping operations	792,204
Water treatment	7,792,596
Transmission and distribution	6,508,566
Charge for services provided by other City departments	839,167
Customer accounts and service	3,700,265
Administrative and general	16,145,222
Depreciation	9,696,365
Property taxes - other local governments	7,411,355
Total operating expenses	<u>56,077,267</u>
Operating Income	<u>19,008,153</u>
Nonoperating Revenue (Expense):	
Interest income	1,052,158
Interest expense and other	(2,996,012)
Net nonoperating expense	<u>(1,943,854)</u>
Capital Grants and Contributions	<u>4,245,111</u>
Change in Net Position	21,309,410
Net Position - Beginning of Year, as Restated	<u>254,205,347</u>
Net Position - End of Year	<u>\$ 275,514,757</u>

The accompanying notes are an integral part of the financial statements

**PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018**

Cash Flows from Operating Activities:	
Receipts from customers	\$ 73,429,595
Payments to vendors	(23,749,054)
Payments to employees	(19,447,305)
Net cash provided by operating activities	<u>30,233,236</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(24,721,196)
Interest and issuance costs paid on debt	(2,996,012)
Principal payments on long-term debt	(5,352,407)
Proceeds from note receivable	131,781
Capital grants	4,245,111
Net cash used in capital and related financing activities	<u>(28,692,723)</u>
Cash Flows from Investing Activities:	
Investment income	<u>1,052,158</u>
Net cash provided by investing activities	<u>1,052,158</u>
Net Increase in Cash and Cash Equivalents	2,592,671
Cash and Cash Equivalents - Beginning of Year	<u>44,212,066</u>
Cash and Cash Equivalents - End of Year	<u>\$ 46,804,737</u>
Unrestricted Cash and Cash Equivalents	\$ 1,430,099
Restricted Cash and Cash Equivalents	<u>45,374,638</u>
	<u>\$ 46,804,737</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:	
Operating income (loss)	\$ 19,008,153
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation	9,696,365
Provision for doubtful accounts	138,644
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(1,763,087)
(Increase) decrease in inventories	157,762
(Increase) decrease in other assets	48,221
(Increase) decrease in deferred outflows of resources	1,320,307
Increase (decrease) in due to other funds	(86,614)
Increase (decrease) in accounts payable and accrued expenses	545,136
Increase (decrease) net pension liability	478,238
Increase (decrease) net OPEB liability	(1,779,941)
Increase (decrease) in deferred inflows of resources	<u>2,470,052</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 30,233,236</u>

The accompanying notes are an integral part of the financial statements

**PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
NOTES TO FINANCIAL STATEMENTS**

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Providence Water Supply Board, an enterprise fund of the City of Providence, (the Water Supply Board) was created in 1940 by Chapter 832 of the Public Laws of the State of Rhode Island. Membership of the Water Supply Board is comprised of four persons appointed by the Mayor, who serve for four-year staggered terms and two City Council members elected by the City Council who serve during their four-year City Council term. The Finance Director of the City of Providence also serves as an ex-officio Water Supply Board member.

The Water Supply Board provides water supply services through metered sales in Providence and parts of the surrounding communities of North Providence, Johnston and Cranston. The Water Supply Board also sells water to other local water supply systems on a wholesale basis. The Water Supply Board's source of water supply is the Scituate Reservoir, located in the Town of Scituate, Rhode Island, and five tributary reservoirs.

B. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Water Supply Board is considered an enterprise fund of the City of Providence (the City). The operations of the Water Supply Board are accounted for with a separate set of self-balancing accounts organized on a Proprietary Fund type (Enterprise Fund) basis.

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or change in net position is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The Water Supply Board utilizes the accrual basis of accounting, under which revenues are recognized when earned and expenses are recognized when incurred regardless of the timing of the related cash flows.

Regulations and Operations

The Water Supply Board is subject, as to rates and other matters, to the regulatory authority of the State of Rhode Island Public Utilities Commission (PUC).

Cash Equivalents

The Water Supply Board considers all highly liquid instruments with an original maturity of three months or less, when purchased, to be cash equivalents.

Investments

The Water Supply Board accounts for investments at fair values, which are established by quoted market prices in active markets that are accessible at the measurement date for identical, unrestricted assets. Fair value is defined as the price that two parties are willing to pay to acquire an asset or settle a liability in an orderly transaction in the market place.

**PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
NOTES TO FINANCIAL STATEMENTS**

Inventory

Inventory, consisting of materials and supplies, is valued at the lower of average cost or market using the first-in, first-out method.

Capital Assets, Depreciation and Amortization

Capital assets owned by the Water Supply Board are stated at cost and are defined as assets with an initial cost of more than \$3,000 and an estimated useful life in excess of 1 year. Depreciation and amortization is provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Building, source of supply structures and improvements	5-75 years
Improvements other than buildings	3-75 years
Equipment	3-50 years

Depreciation expense is not reflected for construction in progress until such time as it is placed in service. Assets under capital leases are amortized under the Water Supply Board's normal depreciation policies for similar assets.

Restricted Funds for Construction of Assets

Restricted funds for construction of assets represent unexpended revenue bond proceeds obtained specifically for construction of water facilities, as well as revenues restricted for capital improvements by the PUC. These funds are included in restricted assets.

Capital Contributions

Capital contributions consist of property and equipment paid for by customers for water installations. Once the installation is complete, the property and equipment transfers to the Water Supply Board at fair value.

Impact Fees

The impact fees assessment was established in 1996 when the Water Supply Board acquired the water distribution system in the City of Cranston. As part of the agreement for the acquisition, the Water Supply Board assumed all operation obligation, benefits and assets, and debt service related to the water distribution system, and created an impact fee agreement with the City of Cranston. In accordance with the City of Cranston ordinance, impact fee for the water system improvement must be set aside by the City of Cranston and paid to the Water Supply Board or deducted from the debt services the Water Supply Board pays to the City of Cranston.

The impact fee is assessed by the City of Cranston based on the agreement with the Water Supply Board. If new water systems facilities are required to serve areas where no water system presently exists, the Water Supply Board will collect a subdivision processing fee, and the City of Cranston will collect a water impact fee for the benefit of the Water Supply Board as follows: 1) residential \$1,352 per unit; 2) industrial and commercial \$6,003 per acre. The Water Supply Board in turn agreed to use the said impact fee solely for the purpose of construction of new water system facilities required to serve areas where no water system presently exists. In 2018, the \$81,878 in fees that had been collected was recognized by the Water Supply Board as revenue.

**PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
NOTES TO FINANCIAL STATEMENTS**

Revenues, Operating Revenues and Expenses

Revenues include amounts billed and unbilled to all customers, including those customers outside the City of Providence. All billed charges are based on rates approved by the PUC. Revenues for unbilled amounts to general customers are estimated based on billing amounts subsequent to year end. The Water Supply Board distinguishes operating revenues and expenses from nonoperating. Operating revenues result from charges to customers for water and related services. Operating expenses include the cost of operations, maintenance, sales and service, administrative expenses and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating or capital contributions.

Compensated Absences

Employees accumulate sick leave hours for subsequent use or for payment upon retirement. Sick leave and vacation may be carried forward into the following calendar year, but not to exceed 135 days and 30 days, respectively.

Vested sick leave and accumulated vacation leave are recorded as expenses and liabilities as the benefits accrue to employees.

Net Pension Liability

The net pension liability is measured as the portion of the actuarial present value of projected benefits that is attributed to past periods of employee service (total pension liability), net of the pension plan's fiduciary net position. The pension plan's fiduciary net position is determined using the same valuation methods that are used by the pension plan for purposes of preparing its statement of fiduciary net position. The net pension liability is measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year, consistently applied from period to period.

Total Other Postemployment Benefits Other than Pensions (OPEB) Liability

The total OPEB liability is measured as the portion of the actuarial present value of projected benefits that is attributed to past periods of employee service. The total OPEB liability is measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year and no later than the end of the current fiscal year, consistently applied from period to period.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position can report deferred outflows of resources. Deferred outflow of resources represents a consumption of net position that applies to a future period which will not be recognized as an outflow of resources (expense) until that later date. At June 30, 2018, the Water Supply Board reports deferred outflows related to pension in the statement of net position. A deferred outflow of resources related to pension results from differences between expected and actual experience, changes in assumptions or other inputs. These amounts are deferred and included in pension expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plans (active employees and inactive employees).

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In addition to liabilities, the statement of net position can report deferred inflows of resources. Deferred inflows of resources represent the acquisition of net position that applies to a future period and which will not be recognized as an inflow of resources (revenue) until a later date. A deferred inflow of resources related to pension and OPEB results from differences between expected and actual experience, changes in assumptions or other inputs. These amounts are deferred and included in pension and OPEB expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension and OPEB plans (active employees and inactive employees).

Concentration of Credit Risk

The Water Supply Board's financial instruments that are exposed to concentrations of credit risk consist primarily of accounts receivable. Exposure to losses on receivables is principally dependent on each customer's financial condition. Concentration of credit risk with respect to receivables is limited due to the large number of customers. The Water Supply Board monitors its exposure for credit losses and maintains allowances for anticipated losses.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of 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.

2. RESTRICTED ASSETS

The State of Rhode Island enacted the Public Drinking Water Protection Act of 1987 (the Act) that empowers suppliers of public drinking water to levy a surcharge (the surcharge) of one cent (\$0.01) per hundred gallons of water for all customers. The surcharge has been amended several times since 1987. The last increase was on July 1, 2002, when the surcharge increased to \$0.0292 per hundred gallons of water for all customers. Of those collected funds, the Water Supply Board will retain 36.1% of the surcharge in its Water Quality Protection Fund, remit 57.0% to the State Water Resources Board and retain 6.9% for general operations. The funds collected in the Water Quality Protection Fund are to be expended in the following manner:

- at a minimum, 55% of the funds are to be spent for the acquisition of land or land rights or physical improvements to acquired land to protect the quality of the raw water of the water supply system;
- 35% may be used to acquire a fee simple interest or a conservation restriction that directly protects the quality and safety of the public drinking water supply; and
- 0% may be used by the supplier for any purpose relating to its operations.

The restricted investments are pooled with the cash and cash equivalents and investments of other funds maintained by the City of Providence. The earnings from investments are allocated in proportion to each fund's balance.

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3. CASH

The following is a summary of cash and investments as of June 30, 2018:

Cash and cash equivalents	\$ 1,430,099
Restricted cash and cash equivalents	<u>45,374,638</u>
	<u>\$ 46,804,737</u>

Responsibility for custodial credit risk of deposits, investment risk, interest rate risk and concentration of investments rests with the City. However, the deposits for the Water Supply Board are supported by collateralization agreements with its main banking institutions. These agreements collateralize the deposits at 102%. Of the cash and cash equivalent balances of \$46,804,737, \$250,000 is covered by Federal Deposit Insurance Corporation (FDIC) insurance and \$1,180,099 of the balance is covered by the collateral agreements.

4. CAPITAL ASSETS

The following is a summary of the activity in capital assets as of June 30, 2018:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 24,113,598	\$ 228,408	\$ -	\$ 24,342,006
Scituate Reservoir Project	18,681,695	-	-	18,681,695
Construction in progress	<u>85,556,950</u>	<u>48,676,675</u>	<u>51,666,085</u>	<u>82,567,540</u>
Total capital assets not being depreciated	<u>128,352,243</u>	<u>48,905,083</u>	<u>51,666,085</u>	<u>125,591,241</u>
Capital assets being depreciated:				
Buildings and improvements	117,974,309	5,476,745	-	123,451,054
Sewer and infrastructure	339,975,131	21,210,829	-	361,185,960
Equipment	<u>32,722,062</u>	<u>788,756</u>	<u>-</u>	<u>33,510,818</u>
Total capital assets being depreciated	<u>490,671,502</u>	<u>27,476,330</u>	<u>-</u>	<u>518,147,832</u>
Less accumulated depreciation for:				
Buildings and improvements	71,950,734	4,332,348	-	76,283,082
Sewer and infrastructure	127,386,457	4,673,622	-	132,060,079
Equipment	<u>29,315,200</u>	<u>690,395</u>	<u>-</u>	<u>30,005,595</u>
Total accumulated depreciation	<u>228,652,391</u>	<u>9,696,365</u>	<u>-</u>	<u>238,348,756</u>
Total capital assets being depreciated, net	<u>262,019,111</u>	<u>17,779,965</u>	<u>-</u>	<u>279,799,076</u>
Capital Assets, Net	<u>\$ 390,371,354</u>	<u>\$ 66,685,048</u>	<u>\$ 51,666,085</u>	<u>\$ 405,390,317</u>

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5. LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable:					
Revenue bonds	\$ 116,740,085	\$ -	\$ 5,352,407	\$ 111,387,678	\$ 6,077,425
Long-Term Liabilities	\$ 116,740,085	\$ -	\$ 5,352,407	\$ 111,387,678	\$ 6,077,425

The following is a summary of bonds and notes outstanding at June 30, 2018:

<u>Description</u>	<u>Amount of Interest Rate (%)</u>	<u>Outstanding June 30, 2018</u>
Safe Drinking Water Bonds (CWFA FY2002)	3.61%	\$ 637,250
Scituate Reservoir Project (PPBA FY 2011)	5.40%	76,853
Safe Drinking Water Bonds (CWFA FY2008)	2.85%	23,613,000
Safe Drinking Water Bonds (CWFA FY2010)	.0410% to 3.14%	6,655,250
Safe Clean Water Bonds (CWFA FY2012)	.072% to 3.26%	2,361,000
Safe Clean Water Bonds (CWFA FY2013)	.019% - 2.53%	3,480,000
Safe Drinking Water Bonds (CWFA FY2013)	.022% - 2.63%	21,855,000
Safe Drinking Water Bonds (CWFA FY2013)	.022% - 3.01%	6,997,000
Safe Drinking Water Bonds (CWFA FY2015)	.022% - 3.01%	28,693,000
Safe Drinking Water Bonds (CWFA FY2017)	.022% to 1.95%	16,271,095
East Smithfield Water District DWSRF Bonds	3.51%	155,909
East Smithfield Water District DWSRF Loan		
Series 2009A (RIIB- FY2009 Loan)	3.00%	120,000
East Smithfield Water District DWSRF Bond		
Series 2014A (RIIB- FY2014 Bond)	1.30% - 3.43%	472,321
Total		\$ <u>111,387,678</u>

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Scheduled principal maturities of long-term debt are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>ARRA / SRF Principal Forgiveness</u>	<u>Interest and Fees</u>	<u>Total</u>
2019	\$ 6,077,425	\$ (327,357)	\$ 2,953,432	\$ 8,703,500
2020	6,124,590	(333,541)	2,830,469	8,621,518
2021	6,263,502	(341,025)	2,696,875	8,619,352
2022	6,406,834	(348,269)	2,552,819	8,611,384
2023	6,391,989	(356,560)	2,398,694	8,434,123
2024-2028	34,571,428	(1,901,864)	8,771,002	41,440,566
2029-2033	31,202,868	(1,881,724)	4,232,934	33,554,078
2034-2038	14,349,042	(799,252)	644,807	14,194,597
Total	\$ <u>111,387,678</u>	\$ <u>(6,289,592)</u>	\$ <u>27,081,032</u>	\$ <u>132,179,118</u>

6. TRANSACTIONS WITH CITY OF PROVIDENCE, RHODE ISLAND

The City of Providence performs various services for the Water Supply Board including certain accounting, personnel and cash management services and working capital support. The total billing to the Water Supply Board for services performed amounted to \$839,167 for each of the years ended June 30, 2018. This amount is established by the City, approved by the Water Supply Board and ultimately approved by the PUC. The Water Supply Board also provides services to various City funds and departments, the charges for which have been included as revenue in the accompanying financial statements. Included within the due to City of Providence General Fund balance on the statements of net position are the related balances due for the services described above. The balance also includes payments for pension and post-employment benefits. The total balance due to the City of Providence General Fund at June 30, 2018 totaled \$656,560.

7. LINE OF CREDIT

The Water Supply Board opened a line of credit with Century Bank of \$5,000,000 in 2013. This line of credit is used for infrastructure replacement and renewed annually per the agreement terms. The balance as of June 30, 2018 was \$-0-.

8. COMMITMENTS AND CONTINGENCIES

Risk Management

The Water Supply Board has a complete comprehensive insurance program protecting all facilities, employees and liability claims.

The Water Supply Board is subject to various claims and litigation that arise in the ordinary course of its operations. Legal counsel and management are of the opinion that the Water Supply Board's liabilities in such cases, if decided adversely to the Water Supply Board, would not materially affect the financial statements.

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Union Contract

The labor force of the Water Supply Board, with the exception of management, is covered by a union contract, which is effective for the period July 1, 2016 to June 30, 2018. A new contract for the period of July 1, 2018 to June 30, 2022 was approved in January 2019.

Lead Reduction Program

Providence Water is committed to reducing lead at our customers' taps. Providence Water is striving to meet the Environmental Protection Agency (EPA) goal of 0 parts per million (ppm) of lead. In order to achieve this goal, Providence Water has implemented a four-pronged approach.

- Water Main Rehabilitation
- Distribution Water Main Flushing
- Corrosion Control
- Public Education and Outreach

Water Main Rehabilitation: Providence Water operates an aging distribution system, composed mainly of unlined cast iron pipes. PW is committed to renew and/or replace much of the buried infrastructure. Water main rehabilitation improves water quality, reduces pipe breaks and the resulting loss of service, curtails leakage, and improves hydraulic capacity as needed for residential, commercial, and industrial users and fire protection. Providence Water's Water Main Replacement/Rehabilitation Program (WMR) is now targeting areas of high iron and lead corrosion as indicated by LCR compliance sites and additional water quality monitoring within the distribution system. In FY 2018, Providence Water rehabilitated 13.5 miles at a cost of approximately \$21 million.

During FY 2018, Providence Water replaced 731 public side lead services at a cost of \$2,294,000. Since its inception of the reporting of the IFR program and the public lead services replacement program to the RIPUC (July 1, 1996), the Water Supply Board has replaced 18,187 lead services to the end of fiscal year 2018 (June 30, 2018) at cost of \$59,240,773. In addition to replacing the public side lead services, Providence Water has implemented a no interest, three-year loan program to encourage our customers to replace their (private) side of the lead service. Providence Water has \$250,000 per year allocated in rates to facilitate these loans. Providence Water also has a \$1 million loan with the Clean Water Finance Agency.

Corrosion Control: Providence Water is evaluating corrosion control treatment techniques. Providence Water is working with a panel of nationally recognized corrosion control experts to optimize treatment. As part of this effort, Providence Water implemented a full-scale pilot of orthophosphate treatment in the Fruit Hill section of our distribution system. If the pilot is successful, Providence Water will implement orthophosphate system wide.

Flushing Program: Beginning in 2013, Providence Water initiated a unidirectional flushing (UDF) program to improve water quality through removal of accumulations from the distribution system. In FY2018, Providence Water flushed approximately 93 miles of main. Because of Providence Water's aging distribution system, some of the assets (valves and hydrants) that are utilized for flushing need to be repaired or replaced. In addition to the water quality benefits, the flushing program has the secondary benefit of being a valve exercise program.

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Public Education and Outreach: Utilizing social media, our website, and direct mailings, Providence Water provides educational material to our customers on the hazards of lead in water and the steps they can take to minimize lead at their tap. In addition, Providence Water offers free lead testing for customers within our retail area.

9. DEFINED BENEFIT PENSION PLANS

Substantially all employees of the Water Supply Board participate in the Employees' Retirement System of the City of Providence (ERS or the Plan), a defined-benefit, single-employer plan. Water Supply Board employees participating in the Plan are eligible to retire at age 55 if hired prior to July 1, 2004, at age 60 if hired between July 1, 2004 and June 30, 2009, at age 62 with 10 years of service if hired on or after July 1, 2009 or at any age after 25 years of service if hired prior to July 1, 1995, or at any age after 30 years of service if hired on or after July 1, 1995. The total retirement allowance is equal to an annuity, which is the actuarial equivalent of accumulated contributions at the time of retirement, plus a pension, which when added together either; 1) equals 1/40 of final compensation for each year of total service up to 20 years and 1/50 of final compensation for each year of service in excess of 20 years if hired prior to July 1, 1996 or; 2) equals 1/50 of final compensation for each year of total service credited if hired on or after July 1, 1996. These benefit provisions and all other requirements are established by City ordinance.

ERS is governed by an Employee Retirement Board provided by the Providence Home Rule Charter. The ERS consists of elected officials, management and employee representation and provides for establishing rules and regulations and is responsible for the administration and operation of the City employee retirement system. The Board has the discretion and authority to interpret the Plan and to determine the eligibility and benefits of participants and beneficiaries pursuant to the provisions of the Plan. On all such matters, the decision of a majority of the then members of the Board shall govern and be binding upon the employer, participants and beneficiaries.

Membership of the ERS plan for the Water Supply Board consisted of the following at June 30, 2018, the date of the latest actuarial valuation:

Inactive plan members or beneficiaries currently receiving benefits	167
Inactive employees entitled to but not yet receiving benefits	27
Active employees	<u>236</u>
Total	<u><u>430</u></u>

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The Plan's investment policy in regard to the allocation of invested assets is established and may be amended by the City. It is the policy of the City to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension Plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the asset allocation as of June 30, 2018:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity	39.25 %
International developed markets equity	13.25
International emerging markets equity	1.50
Core fixed income	29.00
Hedge fund, GTAA, Risk parity	13.00
Private equity	4.00
	<u>100.00 %</u>

The total pension liability was determined by an actuarial valuation as of June 30, 2017 and rolled forward to June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	3.50% per year, before reflecting increases due to longevity
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

For the year ended June 30, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 7.30%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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The long-term expected rate of return on Plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target allocation as of June 30, 2018 are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	39.25 %	6.15 %
International developed markets equity	13.25	7.11
International emerging markets equity	1.50	9.41
Core fixed income	29.00	1.68
Hedge fund, GTAA, Risk parity	13.00	3.94
Private equity	4.00	10.28
	100.00 %	

Contributions

Class A members and police officers are required to contribute 8% of their salary to the Plan. Class B members, other than police officers, are required to contribute 9.5% of their salary to the Plan. Water Supply Board employees are Class A members. The Mayor and City Council contribute to the Plan at a rate of \$350 per year. Additionally, the City shall contribute from time to time amounts sufficient with the contributions of elected officials to provide the special pensions granted to them. The Water Supply Board's contributions to the ERS for the year ended June 30, 2018 was \$3,828,000.

Investment Policy

The City policy for pension investments is under the oversight of the Board of Investment Commissioners (the Board). The Board contracts with an investment advisory firm and approves any new investment vehicles presented by the consultant. The Board follows all applicable state statutes and Section 17-189 of the City Ordinance, which states, "The Board of Investment Commissioners is authorized and empowered to execute the disposition and investment of the funds which are within its control in any securities and investments as would be acquired by prudent persons of discretion and intelligence in these matters, who are seeking a reasonable income and the preservation of their capital."

Net Pension Liability

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

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The components of the net pension liability of the Retirement System for the Water Supply Board were as follows as of June 30, 2018:

Total pension liability	\$	68,687,560
Plan fiduciary net position		<u>17,906,778</u>
Net Pension Liability	\$	<u><u>50,780,782</u></u>
Plan fiduciary net position as a percentage of the total pension liability		26.07%

Changes in the Net Pension Liability for the Water Supply Board

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances as of June 30, 2017	\$ 67,816,389	\$ 17,513,845	\$ 50,302,544
Changes for the year:			
Service cost	980,977		980,977
Interest on total pension liability	5,258,402		5,258,402
Differences between expected and actual experience	288,353		288,353
Change from inputs in proportionate share	(478,117)	(54,698)	(423,419)
Employer contributions		3,828,000	(3,828,000)
Member contributions		610,831	(610,831)
Net investment income		1,198,417	(1,198,417)
Benefit payments, including refund to employee contributions	(5,178,444)	(5,178,444)	-
Administrative expenses		(11,173)	11,173
Net Changes	<u>871,171</u>	<u>392,933</u>	<u>478,238</u>
Balances as of June 30, 2018	\$ <u><u>68,687,560</u></u>	\$ <u><u>17,906,778</u></u>	\$ <u><u>50,780,782</u></u>

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Additional information as of the latest actuarial valuation follows:

Valuation Date	July 1, 2017
Actuarial cost method	Entry age normal
Amortization cost method	Level dollar for the 1995 deferral liability and increasing 3.5% per year for the remaining unfunded liability.
Remaining amortization period	Market value of assets as represented by the City less unrecognized returns in each of the last five years plus the discounted contribution paid by the city in the following year. Unrecognized return is equal to the difference between the actual market return and the expected market return and is recognized over a five-year period, further adjusted, if necessary, to be within 20% of the market value.
Actuarial assumptions:	
Investment rate of return	8.00%
Inflation rate	3.50%
Projected salary increases	3.50% per year before reflecting increases due to longevity compensation
Cost of living adjustments	10-year freeze as of January 1, 2013 and 3% thereafter.

Mortality rates were based on the RP-2014 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with no assumed pre-retirement mortality or turnover.

Mortality rates for healthy retirees were based on RP-2014 Employee and Healthy Annuitant Mortality Tables with MP-2014 improvement projections backed out to a base year of 2006 and projected generationally with Scale BB2D, set forward 1-year post-retirement for Class A employees and the RP-2014 Blue Collar Employee and Healthy Annuitant Mortality Tables with MP-2014 improvement projections based out to a base year of 2006 and projected generationally with Scale BB2D, set forward 1-year post-retirement for Class B employees. Disabled retiree mortality rates were based on RP-2014 Blue Collar Healthy Annuitant Mortality Table with MP-2014 improvement projections backed out to a base year of 2006 and projected generationally with Scale BB2D, set forward 3 years.

Discount Rate

The discount rate used to measure the total pension liability at June 30, 2018 was 8.00%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that the City of Providence's contributions will be made at the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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Sensitivity of the Net Pension Liability to Changes in the Discount Rate.

The following presents the net pension liability of the Retirement System, calculated using the discount rate of 8.00%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.00%) or 1 percentage point higher (9.00%) than the current rate at June 30, 2018:

	<u>1% Decrease (7.00%)</u>	<u>Discount (8.00%)</u>	<u>1% Increase (9.00%)</u>
Net Pension Liability	\$ 58,406,765	\$ 50,780,782	\$ 44,397,801

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the years ended June 30, 2018, the Water Supply Board recognized pension expense of \$5,741,597.

At June 30, 2018, the Water Supply Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 592,546	\$ 87,128
Changes of assumptions	1,211,752	
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,208,421	814,509
Net difference between projected and actual earning on pension plan investments	<u>406,165</u>	
	<u>\$ 3,418,884</u>	<u>\$ 901,637</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30:

2019	\$ 1,465,821
2020	1,169,885
2021	(128,415)
2022	<u>9,956</u>
	<u>\$ 2,517,247</u>

Payable to the Plan

At June 30, 2018, the Water Supply Board had made full payment of the required pension contribution for the year ended June 30, 2018.

**PROVIDENCE WATER SUPPLY BOARD
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