

Providence Water Docket 4994

Bristol County Water Authority
Data Request – Set 1
January 28, 2020

BCWA 1-23: Please state how much the Mayor's Office's budget would be reduced if it did not provide any services to Providence Water.

RESPONSE:

There would be no reduction to the Mayor's office budget. All staff who consistently support Providence Water have other responsibilities critical to management of the executive branch. As such, no positions would be eliminated.

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January 28, 2020

BCWA 1-24: Please state how many fulltime employees or contractors Providence Water would have to hire to perform the oversight and staff support function the Mayor's Office provides if the Mayor's office did not provide such services and set forth all facts that support your response.

RESPONSE: This information will be provided when it is made available to Providence Water by the City of Providence.

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Bristol County Water Authority Data Request – Set 1 January 28, 2020

BCWA 1-27: With regard to the costs for services rendered by the City Council:

- a. Please identify all issues brought by constituents of Providence Water to the City Council in the last three fiscal years.
- b. Please provide copies of all City Council agendas used to develop the allocation percentage of 8.05%.
- c. Please provide the number of City Council agenda items related to Providence Water for FY2015, 2016, 2017, 2018 and 2019 and provide copies of the agendas on which these items appeared.
- d. Please state how much the City Council's budget would be reduced if it did not provide any services to Providence Water.

RESPONSE: This information will be provided when it is made available to Providence Water by the City of Providence.

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Bristol County Water Authority Data Request – Set 1 January 28, 2020

BCWA 1-28: With regard to the cost for services rendered by the City Council Administration:

- a. Please identify the number of research projects performed by the City Council Administration for FY2015, 2016, 2017, 2018 and 2019 and please state how long each project took.
- b. Please provide copies of each research project performed by the City Council Administration for FY2015, 2016, 2017, 2018 and 2019.
- c. Please identify the number of ordinances drafted by the City Council Administration for FY2015, 2016, 2017, 2018 and 2019 and please state how long it took to draft each ordinance.
- d. Please provide copies of each ordinance drafted by the City Council Administration for FY2015, 2016, 2017, 2018 and 2019.
- e. Please identify the number of other functions and requests from the City Council related to Providence Water.
- f. Please state how many fulltime employees or contractors Providence Water would have to hire to perform the services the City Council Administration provides if the City Council Administration did not provide such services and set forth all facts that support your response.
- g. Please state how much the City Council Administration's budget would be reduced if it did not provide any services to Providence Water.

RESPONSE: This information will be provided when it is made available to Providence Water by the City of Providence.

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Bristol County Water Authority Data Request – Set 1 January 28, 2020

BCWA 1-30: With regard to the cost for services rendered by the Law Department:

- a. Please state how many attorneys are employed directly by Providence Water.
- b. Please state whether the attorneys that work directly for Providence Water review Providence Water's contracts.
- c. Please state how many contracts the City Law Department reviewed in FY2019 and how long each review took.
- d. Please provide each contract the City Law Department reviewed in FY2019.
- e. Ms. Southgate indicates that the Law Department spent approximately 1% of its time reviewing Providence Water contracts. Please state what this 1% equates to in actual time spent reviewing contracts.
- f. Please provide all facts, assumptions, calculations and work papers used to derive Ms. Southgate's estimate that the Law Department spends 1% of its time reviewing Providence Water contracts.
- g. Please state why all Providence Water contracts require approval from the City's Law Department.
- h. Please provide a copy of the Law Department's \$6,308,412 budget.
- i. Please state how much the Law Department's budget would be reduced if it did not provide any services to Providence Water.

RESPONSE:

- a. One our Board Attorney.
- b. Yes, the Board Attorney employed by Providence Water does review some contracts.
- c. Approximately 500 contracts were reviewed during the fiscal year. Contract review occupies the bulk of Deputy City Solicitor Adrienne Southgate's time. Ergo, a very rough estimate of the review time per contract would be to divide the number of work hours per year (1820) by the number of contracts, yielding an approximate review time of 3.64 hours per contract. But this would be deceiving, because some contracts are predicated on pre-approved templates and might be reviewable within fifteen minutes, while others (especially SaaS contracts where the critical language is contained in voluminous terms & conditions) may consume a day or two.
- d. Not Available.
- e. Providence Water sends several large construction/replacement/repair contracts to the Law Department annually, and may also send contracts related to the tax litigation in Scituate and other property-related matters. Ms. Southgate estimated that she might spend between 10-20 hours annually reviewing such documents.
- f. See response to e.
- g. The Providence Home Rule Charter requires that the City Solicitor draft or endorse his/her approval on all contracts. See Sec. 603(b)(8).
- h. See attached copy BCWA 1-30 (h) Law Department budget.

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Data Request – Set 1

January 28, 2020

- i. The Law Department cannot shed its Charter obligation to provide services to Providence Water. If Providence Water were privatized and no further reviews were required, the reduction of 10-20 hours per annum would not be reflected in any change in the Law Department's budget.

LAW DEPARTMENT / CITY SOLICITOR BUDGET Fiscal Year 2020

EXPENSES

101-105: Law Department	2017-Actual	2018-Actual	2019-Budget	2020-Approved	2021-Forecast
50010: SALARIES	1,659,589	1,707,748	2,308,025	2,389,080	2,510,644
50060: OVERTIME	5,811	9,087	6,000	6,000	6,000
50080: SICK LEAVE	55,578	77,216	0	0	0
50090: VACATION	113,229	137,278	0	0	0
50340: HOLIDAY	126,322	120,017	0	0	0
50350: LONGEVITY	39,554	45,347	49,512	61,368	63,822
Total PERSONNEL SALARIES	2,000,083	2,096,693	2,363,537	2,456,448	2,580,466
51570: DENTAL INSURANCE	23,583	27,599	28,212	28,536	28,536
51582: HEALTHCARE EE CASH PAYMENT	0	6,000	0	0	0
51820: LABORERS INT'L PENSION	13,376	14,997	20,657	27,300	32,760
51850: CITY OF PROVIDENCE PENSION EXPENSE	606,180	629,566	675,258	672,612	723,192
51980: F.I.C.A.	150,716	159,461	196,159	195,564	203,386
51998: AUTO ALLOWANCE	4,518	4,518	0	4,518	4,518
51999: LOCAL 1033 BENEFITS EXPENSE	12,886	13,541	16,926	20,530	20,530
59891: TRANSFER TO ACTIVE MEDICAL INS FUND	337,855	369,294	461,916	422,896	444,040
Total EMPLOYEE BENEFITS	1,149,114	1,224,976	1,399,128	1,371,956	1,456,962
52120: FEES NOT CLASSIFIED	1,135,879	1,417,602	1,400,000	1,350,000	1,350,000
52170: POSTAGE	1,786	3,063	3,600	3,600	3,744
52185: DUES & SUBSCRIPTIONS	12,884	9,008	11,016	14,400	14,976
52192: PAY OF CLAIMS & DAMAGES	9,754,036	6,998,002	800,040	800,040	799,960
Total G&A SERVICES	10,904,585	8,427,675	2,214,656	2,168,040	2,168,680
52850: COMPUTER EQUIPMENT	0	0	7,000	0	0
Total COMPUTER EQUIPMENT	0	0	7,000	0	0
52865: OFFICE FURNITURE	754	408	1,008	1,200	(1,200)
Total FURNITURE AND FIXTURES	754	408	1,008	1,200	(1,200)
52900: REPAIRS TO OFFICE EQUIPMENT	1,259	1,355	1,400	1,500	1,560
Total R&M EQUIPMENT	1,259	1,355	1,400	1,500	1,560
53000: RENTAL OF LAND AND BUILDINGS	194,999	222,915	216,000	224,568	233,550
Total RENT OTHER	194,999	222,915	216,000	224,568	233,550
53425: CONTRACTUAL SERVICES/TRAINING	12,009	10,918	24,000	27,000	28,080
Total CONTRACT SERVICES	12,009	10,918	24,000	27,000	28,080
53500: MISC. EXPENSES	2,171	1,365	4,000	4,200	4,368

LAW DEPARTMENT / CITY SOLICITOR BUDGET Fiscal Year 2020 (continued)					EXPENSES
101-105: Law Department	2017-Actual	2018-Actual	2019-Budget	2020-Approved	2021-Forecast
Total OTHER SERVICES	2,171	1,365	4,000	4,200	4,368
54020: STATIONERY	5,605	5,053	5,508	5,500	5,720
Total OFFICE SUPPLIES	5,605	5,053	5,508	5,500	5,720
54615: REFERENCE BOOKS	41,829	45,847	46,572	48,000	49,920
Total SCHOOL SUPPLIES	41,829	45,847	46,572	48,000	49,920
101-105 TOTALS (Law Department) :	14,312,408	12,037,205	6,282,809	6,308,412	6,528,106
Law Department / City Solicitor TOTALS:	14,312,408	12,037,205	6,282,809	6,308,412	6,528,106

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Bristol County Water Authority Data Request – Set 1 February 18, 2020

BCWA 1-31:

With regard to the cost for services rendered by the City of Providence Finance Department:

- a. Please state how many employees of Providence Water provide oversight and approval of Providence Water's financial transactions.
- b. Please state how many employees of Providence Water provide review and approval of purchase orders.
- c. Please state how many employees of Providence Water help prepare bond issues for Providence Water.
- d. Please state how many fulltime employees or contractors Providence Water would have to hire to perform the services rendered by the Finance Department if the Finance Department did not provide such services and set forth all facts that support your response.
- e. Please provide all supporting data, assumptions, calculations and work papers to support Mr. Smith's testimony that in FY2018 Providence Water expenditures represented 9.89% of total City expenditures.
- f. Please provide the same calculation for FY2015, 2016, 2017 and 2019.

RESPONSE:

- a. Four.
- b. Four.
- c. One.
- d. The City Finance Department provides the following services:
 - Oversight, review, and signatory authority of all bond documents
 - Oversight of the annual financial statement and single audit
 - Commentary on the annual Water Supply Board budget.
 - Review and preparation for Water Supply Board meetingsIt is not possible to quantify the number of full-time employees or contractors due to the diversity of these tasks and the variances time to complete from one party to another. We can confirm that the Finance Department expends approximately 2% (36 hours annually) of it's time working on or preparing for Water Supply Board matters.

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Bristol County Water Authority

Data Request – Set 1

February 18, 2020

- e. Please see attached pdf file entitled “BCWA 1-31E and F” and Providence Water Audits from FY 2015 to FY 2019.

- f. Please see response to BCWA 1-31e above.

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

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

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

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Providence Water Supply Board

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 years ended June 30, 2015 and 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.

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, 2015 and 2014, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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-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, 2015 and 2014, the changes in its financial position, or where applicable, its cash flows for the years ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Change in Method of Accounting for Pensions

As discussed in Note 9 to the financial statements, the Water Supply Board changed its method for accounting and financial reporting for pensions as a result of the adoption of Governmental Accounting Standards Board (GASB) Statement No.68, *Accounting and Financial Reporting for Pensions* – an Amendment of GASB Statement No. 27 and GASB Statement No.71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. As discussed in Note 11 to the financial statements, Management analyzed GASB No. 68 and determined that the beginning net position has been restated by \$41,356,974 to include the net pension liability as of June 30, 2014. Our opinion is not modified with respect to this matter.

Prior Period Financial Statements

As described in Note 11, net position at June 30, 2014 has been restated for the elimination of a prior year liability. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedules of Funding Progress, Funding Status, Changes in Net Pension Liability and Related Ratios, Contributions and Investment Returns, on pages 4-8 and 36-38, respectively, 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 April 1, 2016, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Water Supply Board's internal control over financial reporting and compliance.

Marcum LLP

Providence, RI
April 1, 2016

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

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2015 AND 2014

The management of the 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 years ended June 30, 2015 and 2014.

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 statements of net position present 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 statements of revenues, expenses, and changes in net position report the operating and non-operating 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 statements of cash flows report cash and cash equivalents activity for the fiscal year resulting from operating activities, non-capital 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, 2015 AND 2014

Condensed Financial Information (in thousands)

Condensed Financial Information

	2013	2014	2015
TOTAL CURRENT ASSETS	\$ 51,371,246	\$ 50,845,457	\$ 56,860,298
NET PROPERTY, PLANT AND EQUIPMENT	295,298,057	299,812,331	317,261,613
TOTAL ASSETS	<u>\$ 346,669,303</u>	<u>\$ 350,657,788</u>	<u>\$ 374,121,911</u>
TOTAL CURRENT LIABILITIES	\$ 14,108,844	\$ 9,928,198	\$ 13,498,670
TOTAL LONG -TERM LIABILITIES	78,321,740	75,559,279	123,484,780
TOTAL LIABILITIES	<u>92,430,584</u>	<u>85,487,477</u>	<u>136,983,450</u>
DEFERRED INFLOW OF RESOURCES	1,997,014	2,709,308	-
TOTAL DEFERRED INFLOW OF RESOURCES	<u>1,997,014</u>	<u>2,709,308</u>	<u>-</u>
NET POSITION:			
NET INVESTMENT IN CAPITAL ASSETS	217,211,421	225,543,538	239,087,594
RESTRICTED FUND	31,511,583	32,410,386	36,145,168
UNRESTRICTED FUND	3,518,701	4,507,079	(38,094,301)
TOTAL NET POSITION	<u>\$ 252,241,705</u>	<u>\$ 262,461,003</u>	<u>\$ 237,138,461</u>
TOTAL OPERATING REVENUE	\$ 61,069,674	\$ 62,872,231	\$ 69,231,217
TOTAL OPERATING EXPENSES	38,040,000	41,750,117	43,179,067
DEPRECIATION	12,263,983	12,643,922	11,313,363
TOTAL OPERATING EXPENSES INCLUDING DEPRECIATION	50,303,983	54,394,039	54,492,430
OPERATING INCOME	10,765,691	8,478,192	14,738,787
NON OPERATING EXPENSE	(1,593,191)	(1,562,494)	(1,811,838)
CAPITAL GRANTS AND CONTRIBUTIONS	2,099,550	3,303,600	1,098,257
NET POSITION	<u>\$ 11,272,049</u>	<u>\$ 10,219,298</u>	<u>\$ 14,025,206</u>

Note:

(1) The 2015 Unrestricted fund reflects implementation of the GASB No 68 and prior year adjustment. See Footnote #11

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015 AND 2014

Financial Highlights

During the year, the Water Supply Board had operating revenues that exceeded operating expenses by \$14.7 million. This is 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 \$374.1 million, up \$23.5 million from last year's total assets of \$350.6 million. Current assets, principally cash, increased by \$4.9 million, and net plant increased by \$17 million.

The Water Supply Board's net position totaled \$237.1 million at June 30, 2015, a decrease of \$25.3 million from June 30, 2014. The decrease is the result of recording the net pension liability in the amount of \$41.3 million to reflect implementation of GASB Statement No.68. Also, reflected in the change to our net position is net operating income of \$14.7 million, net non-operating expenses of \$1.8 million, capital contributions of \$1.1 million, and a prior period adjustment of \$2 million.

At June 30, 2014, the Water Supply Board's net position totaled \$ 262.4 million. This net position was restated as of July 1, 2014 to \$221.1 million reflecting the implementation of GASB Statement No. 68. Total assets were \$351 million at June 30, 2014, an increase of \$4 million from the prior year's total assets of \$347 million.

The Water Supply Board's total operating revenues were \$69.5 million for fiscal year 2015, an increase of \$6.6 million over prior year's revenues of \$62.9 million. Total operating expenses of the water system amounted to \$54.8 million, which is slight increase over the prior year's amount of \$54.4 million. The increase in revenue in 2015 was attributable to the increase in rates authorized by the RI Public Utilities Commission (PUC) in December 2013. Fiscal year 2015 represents the first full fiscal year which reflects that increase in rates. Fiscal year 2015 non-operating revenue, principally interest, amounted to \$324,754, and non-operating expense of \$2.1 million was principally interest on long-term debt. Capital grants and contributions in fiscal year 2015 amounted to \$1.1 million.

The Water Supply Board's total operating revenues were \$62.9 for fiscal year 2014, an increase of \$1.8 million over prior year's revenues of \$61.1 million. The total operating expenses of the water system were \$54.4 million in fiscal year 2014. This resulted in a net operating income of \$8.5 million. Fiscal year 2014 non-operating revenue, principally interest, amounted to \$314,637, and non-operating expense of \$1.9 million was principally interest on long-term debt. Capital grants and contributions in fiscal year 2014 amounted to \$3.3 million. This resulted in an increase in net position of \$10.2 million in fiscal year 2014, and a reported net position of \$262.5 million at June 30, 2014. This net position was restated as of July 1, 2014 to \$223 million reflecting the implementation of GASB Statement No. 68 and a prior period adjustment.

The increase in revenue in fiscal year 2014 as compared to fiscal year 2013 was attributable to an approved increase in rates authorized by the RI Public Utilities Commission across all classes of the Water Supply Board customers effective December 2013.

Capital Assets and Debt Administration

Capital Assets:

At June 30, 2015, the Water Supply Board had \$317.3 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 \$17.4 million, or 5.8%, over the prior year.

At June 30, 2014, the Water Supply Board had \$299.8 million invested in various capital assets. This amount represented a net increase of \$4.5 million, or 1.5%, over the previous year.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015 AND 2014

Capital Assets and Debt Administration (Continued)

Major project expenditures in fiscal year 2015 included (in millions):

◆	Replace and Upgrade water mains	\$ 14.40
◆	Replace Sand Filters	\$ 5.60
◆	Plant influent and aerator rehabilitation	\$ 3.30
◆	Sludge handling/disposal	\$ 1.00
◆	Aerated, settled and filter influent conduits	\$ 0.66
◆	Various Distribution System Improvements	\$ 0.56
◆	Install Transmission Mains (W. Cranston)	\$ 0.50
◆	Treatment Process Studies	\$ 0.48
◆	Replace Fire Hydrants	\$ 0.48
◆	Unidirectional Flushing (UDF) Program Development	\$ 0.47
◆	90" Influent Conduit –Inspection	\$ 0.44
◆	Replace Lead Services	\$ 0.37
◆	Administration Building Site Design/Land Acquisition	\$ 0.37
◆	Replace Distribution Valve	\$ 0.32
◆	Aqueduct Reservoir –Replace the 60" Valve	\$ 0.31

The Water Supply Board's fiscal year 2015 capital budget included project expenditures of \$27.1 million for infrastructure and capital projects. The major projects were: water main replacements and upgrades, treatment plant filter replacements, plant influent and aerator upgrades, sludge removal and disposal, source water improvements, aerated settled and filter conduits, various distribution system improvements and installing transmission mains in Western Cranston. The majority of infrastructure projects are financed on a pay-as-you-go, cash basis from rate revenues. Some projects were funded from bond proceeds issued in fiscal year 2015. New capital additions, that will benefit ratepayers for many years, are generally funded with long-term debt financing.

Debt

At June 30, 2015, the Water Supply Board had \$78.2 million in bonds and notes outstanding versus \$74.3 million in the previous year. This represented an increase of \$3.9 million or 5%. A new \$8.0 million bond was issued in 2015 to fund various water main improvements.

At June 30, 2014, the Water Supply Board had \$74.3 million in bonds and notes outstanding versus \$78 million in the previous year. This represented a decrease of \$3.7 million, or 5%. No new debt was issued in 2014.

Subsequent Events:

The Water Supply Board sought and received approval from the RI Division of Public Utilities (the Division) to borrow \$30 million from the RI Infrastructure Bank to finance the purchase and renovation of a new Central Operating Facility (COF). The Division's approval for this borrowing was the basis of rate relief authorized by the PUC that will generate additional revenue of \$2.1 million per year to fund the debt service associated with this borrowing.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015 AND 2014

Subsequent Events (continued):

On December 17, 2015, the Water Supply Board entered into a bond purchase agreement with the RI Infrastructure Bank to obtain the \$30 million in bond proceeds to purchase and renovate its new Central Operating Facility located at 125 DuPont Drive, Providence Rhode Island. The new facility will allow the Water Supply Board to consolidate its two administrative locations into one facility. The Water Supply Board will continue its treatment operation at its plant in Scituate. The new facility will go through extensive renovations over the next 15 months with plans to occupy the facility in the spring of 2017.

On December 28, 2015, the Water Supply Board purchased the aforementioned building at 125 Dupont Drive.

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 January 1, 2011 to June 30, 2015. A new contract was in negotiations at fiscal year-end and subsequently approved by the union and City. The new contract is effective for the period of July 1, 2015 through June 30, 2018.

Contacting The Water Supply Board's Financial Management

This financial report is designed to provide our customers, investors and creditors with a general overview of the Water Supply Board's finances and to illustrate the 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 Water Supply Board, 552 Academy Avenue, Providence, RI 02908.

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

STATEMENTS OF NET POSITION

JUNE 30, 2015 AND 2014

	2015	2014
Assets		
Current Unrestricted Assets		
Cash and cash equivalents (Note 3)	\$ 4,796,887	\$ 5,935,190
Accounts receivable, net of allowance for uncollectible accounts of \$1,247,078 in 2015 and \$1,516,982 in 2014	6,332,160	6,620,177
Accounts receivable - unbilled	3,441,854	3,258,843
Inventory	826,530	879,812
Other assets	300,455	31,703
Total Current Unrestricted Assets	15,697,886	16,725,725
Current Restricted Assets		
Cash and cash equivalents (Note 3)	33,354,104	27,147,017
Investments (Note 3)	6,634,910	6,960,501
Accounts receivable	16,959	12,214
Total Current Restricted Assets	40,005,973	34,119,732
Total Current Assets	55,703,859	50,845,457
Capital Assets (Note 4)		
Land	22,613,760	21,958,397
Building and improvements	84,679,611	79,135,020
Improvements other than buildings	311,430,903	297,055,247
Machinery and equipment	31,586,324	30,877,466
Scituate Reservoir Project	18,681,695	18,681,695
Construction in progress	55,087,340	47,609,161
	524,079,633	495,316,986
Less accumulated depreciation and amortization	206,818,020	195,504,655
Total Capital Assets, Net	317,261,613	299,812,331
Deferred Outflows of Resources		
Deferred outflows of resources (Note 9)	1,156,442	--
Total Assets	374,121,914	350,657,788

The accompanying notes are an integral part of these financial statements.

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

STATEMENTS OF NET POSITION (CONTINUED)

JUNE 30, 2015 AND 2014

	2015	2014
Liabilities		
Current Liabilities		
Current portion of long-term debt (Note 5)	4,628,807	4,094,775
Due to City of Providence General Fund (Note 6)	1,394,422	1,377,649
Accounts payable	1,231,083	410,797
Accrued expenses	2,383,551	2,335,631
	9,637,863	8,218,852
Amounts to be Paid from Current Restricted Assets (Note 2)		
Due to Water Resources Board	400,400	268,312
Accounts payable	3,460,405	1,441,034
	3,860,805	1,709,346
Total Current Liabilities	13,498,668	9,928,198
Non-Current Liabilities		
General revenue bonds (Note 5)	73,545,212	70,174,018
Net pension liability (Note 9)	43,268,573	--
Other post employment benefits (Note 10)	6,671,000	5,385,261
Total Non-Current Liabilities	123,484,785	75,559,279
Total Liabilities	136,983,453	85,487,477
Deferred Inflows of Resources		
Unavailable revenues from impact fees (Note 9)	--	2,709,308
Net Position		
Net investment in capital assets	239,087,594	225,543,538
Restricted	36,145,168	32,410,386
Unrestricted	(38,094,301)	4,507,079
Total Net Position	\$ 237,138,461	\$ 262,461,003

The accompanying notes are an integral part of these financial statements.

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

STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Operating Revenues		
Charges for services:		
Water sales (Note 1):		
General customers	\$ 46,859,419	\$ 41,728,477
Other local water suppliers	17,732,754	16,852,460
Fire protection services	2,308,161	2,083,816
Maintenance charges and other revenue	2,330,883	2,207,478
Total Operating Revenues	69,231,217	62,872,231
Operating Expenses		
Source of supply	2,654,218	2,678,278
Pumping operations	724,018	638,487
Water treatment	8,227,250	8,643,838
Transmission and distribution	5,086,495	5,207,017
Charge for services provided by other City departments (Note 6)	839,167	839,167
Customer accounts and service	3,593,293	3,340,891
Administrative and general	15,031,845	13,480,801
Depreciation	11,313,363	12,643,922
Property taxes - other local governments	7,022,781	6,921,638
Total Operating Expenses	54,492,430	54,394,039
Net Operating Income	14,738,787	8,478,192
Non-operating Revenues (Expenses)		
Interest income	324,754	314,637
Interest expense and other	(2,136,592)	(1,877,131)
Net Non-operating Expenses	(1,811,838)	(1,562,494)
Capital Grants and Contributions	1,098,257	3,303,600
Change in Net Position	14,025,206	10,219,298
Net Position - Beginning of Year (as Restated) (Note 11)	223,113,255	252,241,705
Net Position - End of Year	\$ 237,138,461	\$ 262,461,003

The accompanying notes are an integral part of these financial statements.

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

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Cash Flows From Operating Activities		
Cash received from customers	\$ 69,062,726	\$ 65,904,184
Cash paid to vendors	(25,137,957)	(28,264,414)
Cash paid to employees	(13,610,390)	(12,714,891)
Net Cash Provided by Operating Activities	30,314,379	24,924,879
Cash Flows From Non-Capital and Related Financing Activities		
Receipts from or (payments to) other funds	16,773	(418,193)
Net Cash Provided by (Used in) Capital and Related Financing Activities	16,773	(418,193)
Cash Flows From Capital and Related Financing Activities		
Interest and issuance costs paid on debt	(2,136,592)	(1,877,131)
Proceeds from line of credit	--	(3,000,000)
Repayment of long-term debt	(4,094,774)	(3,817,843)
Proceeds from long-term debt	8,000,000	--
Capital grants	1,098,257	3,303,600
Net Cash Provided by (Used in) Capital and Related Financing Activities	2,866,891	(5,391,374)
Cash Flows From Investing Activities		
Acquisition and construction of capital assets	(28,779,604)	(17,158,196)
Purchase of investment securities	(500,409)	(350,000)
Redemption of investment securities	826,000	--
Investment income (loss)	324,754	314,637
Net Cash Used in Investing Activities	(28,129,259)	(17,193,559)
Net Increase in Cash and Cash Equivalents	5,068,784	1,921,753
Cash and Cash Equivalents - Beginning	33,082,207	31,160,454
Cash and Cash Equivalents - Ending	\$ 38,150,991	\$ 33,082,207
Unrestricted Cash and Cash Equivalents	\$ 4,796,887	\$ 5,935,190
Restricted Cash and Cash Equivalents	33,354,104	27,147,017
	\$ 38,150,991	\$ 33,082,207
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:		
Net operating income	\$ 14,738,787	\$ 8,478,192
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	11,313,363	12,643,922
Change in allowance for doubtful accounts	(269,904)	51,556
Pension expense	755,157	--
Changes in assets and liabilities:		
Accounts receivable	370,165	3,012,100
Inventories	53,282	(234,411)
Other assets	(268,752)	(31,703)
Accounts payable and accrued expenses	4,305,404	292,929
Unearned revenue	(683,123)	712,294
Net cash provided by operating activities	\$ 30,314,379	\$ 24,924,879

The accompanying notes are an integral part of these financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The 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.

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”).

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2015, the \$2,026,185 in fees that had been collected was recognized by the Water Supply Board as revenue.

REVENUES, OPERATING REVENUES AND EXPENSES

Revenues include amounts billed and unbilled to all customers, including those customers outside the City of Providence, Rhode Island. 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 non-operating. 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 non-operating or capital contributions.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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 apply to a future period which will not be recognized as an outflow of resources (expense) until that later date. At June 30, 2015 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 plan (active employees and inactive employees).

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES (CONTINUED)

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 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 plan (active employees and inactive employees).

NOTE 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:

- 1) 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;
- 2) 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
- 3) 10% 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.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 3 - CASH AND INVESTMENTS

The following is a summary of cash and investments:

	Fair Value
Cash and cash equivalents	\$ 4,796,887
Restricted cash and cash equivalents	33,354,104
Equity Mutual Funds	6,634,910
 Total	 \$ 44,785,901

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 \$38,150,991, \$250,000 is covered by Federal Deposit Insurance Corporation (FDIC) insurance and \$4,347,156 is uncollateralized.

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. Information about the exposure of the entity's debt type investments to this risk using the segmented time distribution model is as follows:

Type of Investment	Fair Value	Investment Maturities (in Years)					No maturity
		Less Than 1 Year	1-5 Years	6-10 Years	Over 10 Years		
Equity Mutual Funds	\$ 6,634,910	\$	\$	\$	\$	\$ 6,634,910	
TOTAL	\$ 6,634,910	\$ -	\$ -	\$ -	\$ -	\$ 6,634,910	

CREDIT RISK

Generally, credit risk is the risk that an issuer of a debt type investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating of a nationally recognized rating organization. Mutual Funds holding U.S. government securities or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk exposure.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

FAIR VALUE MEASUREMENT OF INVESTMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurements.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2015 and 2014.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Water Supply Board are open-ended mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Water Supply Board are deemed to be actively traded on a public exchange. All mutual funds are considered Level 1 investments at December 31, 2015 and 2014.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 4 - CAPITAL ASSETS

The following is a summary of the activity in capital assets as of June 30, 2015:

	Balance June 30, 2014	Additions	Disposals / Reclasses	Balance June 30, 2015
Capital Assets Not Being Depreciated:				
Land	\$ 21,958,397	\$ 655,363	\$ --	\$ 22,613,760
Scituate Reservoir Project	18,681,695	--	--	18,681,695
Construction in progress	<u>47,609,161</u>	<u>24,438,961</u>	<u>16,960,782</u>	<u>55,087,340</u>
Total Capital Assets Not Being Depreciated	<u>88,249,253</u>	<u>25,094,324</u>	<u>16,960,782</u>	<u>96,382,795</u>
Capital Assets Being Depreciated:				
Buildings and improvements	79,135,020	5,544,591	--	84,679,611
Improvements other than buildings	297,055,247	14,375,656	--	311,430,903
Machinery and equipment	<u>30,877,466</u>	<u>708,858</u>	--	<u>31,586,324</u>
	<u>407,067,733</u>	<u>20,629,105</u>	--	<u>427,696,838</u>
Less accumulated depreciation for:				
Buildings and improvements	55,267,185	6,207,747	--	61,474,932
Improvements other than buildings	113,064,008	4,367,715	--	117,431,723
Machinery and equipment	<u>27,173,462</u>	<u>737,903</u>	--	<u>27,911,365</u>
	<u>195,504,655</u>	<u>11,313,365</u>	--	<u>206,818,020</u>
Total Capital Assets Being Depreciated, Net	<u>211,563,078</u>	<u>9,315,740</u>	--	<u>220,878,818</u>
Total Capital Assets, Net	<u>\$ 299,812,331</u>	<u>\$ 34,410,064</u>	<u>\$ 16,960,782</u>	<u>\$ 317,261,613</u>

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 4 - CAPITAL ASSETS (CONTINUED)

The following is a summary of the activity in capital assets as of June 30, 2014:

	Balance June 30, 2013	Additions	Disposals / Reclasses	Balance June 30, 2014
Capital Assets Not Being Depreciated:				
Land	\$ 21,918,296	\$ 40,101	\$ --	\$ 21,958,397
Scituate Reservoir Project	18,681,695	--	--	18,681,695
Construction in progress	61,726,417	15,173,778	29,291,034	47,609,161
Total Capital Assets Not Being Depreciated	<u>102,326,408</u>	<u>15,213,879</u>	<u>29,291,034</u>	<u>88,249,253</u>
Capital Assets Being Depreciated:				
Buildings and improvements	74,388,265	4,819,992	73,237	79,135,020
Improvements other than buildings	270,994,006	26,061,241	--	297,055,247
Machinery and equipment	30,450,111	427,355	--	30,877,466
Total Capital Assets Being Depreciated	<u>375,832,382</u>	<u>31,308,588</u>	<u>73,237</u>	<u>407,067,733</u>
Less Accumulated Depreciation for:				
Buildings and improvements	48,420,614	6,846,571	--	55,267,185
Improvements other than buildings	108,384,312	4,679,696	--	113,064,008
Machinery and equipment	26,055,807	1,117,655	--	27,173,462
	<u>182,860,733</u>	<u>12,643,922</u>	<u>--</u>	<u>195,504,655</u>
Total Capital Assets Being Depreciated, Net	<u>192,971,649</u>	<u>18,664,666</u>	<u>73,237</u>	<u>211,563,078</u>
Total Capital Assets, Net	<u>\$ 295,298,057</u>	<u>\$ 33,878,545</u>	<u>\$ 29,364,271</u>	<u>\$ 299,812,331</u>

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 5 - LONG-TERM DEBT

Long-term debt activity for the years ended June 30, 2015 and 2014 were as follows:

	2015				
	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Bonds Payable:					
Revenue bonds	\$ 74,268,793	\$ 8,000,000	\$ (4,094,774)	\$ 78,174,019	\$ 4,628,807
Total Bonds	<u>74,268,793</u>	<u>8,000,000</u>	<u>(4,094,774)</u>	<u>78,174,019</u>	<u>4,628,807</u>
Total Long-Term Debt	<u>\$ 74,268,793</u>	<u>\$ 8,000,000</u>	<u>\$ (4,094,774)</u>	<u>\$ 78,174,019</u>	<u>\$ 4,628,807</u>
	2014				
	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Bonds Payable:					
Revenue bonds	\$ 78,086,636	\$ --	\$ (3,817,843)	\$ 74,268,793	\$ 4,094,775
Total Bonds	<u>78,086,636</u>	<u>--</u>	<u>(3,817,843)</u>	<u>74,268,793</u>	<u>4,094,775</u>
Total Long-Term Debt	<u>\$ 78,086,636</u>	<u>\$ --</u>	<u>\$ (3,817,843)</u>	<u>\$ 74,268,793</u>	<u>\$ 4,094,775</u>

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 5 - LONG-TERM DEBT (CONTINUED)

The following is a summary of bonds and notes outstanding at June 30, 2015 and 2014:

Description	June 30, 2015	
	Interest Rate	Balance
Revenue bonds:		
Safe Drinking Water Bonds (CWFA FY2002)	3.61%	\$ 1,061,245
Scituate Reservoir Project (PPBA FY 2011)	5.40%	504,774
Safe Drinking Water Bonds (CWFA FY2005)	2.22%	--
Safe Drinking Water Bonds (CWFA FY2008)	2.85%	28,181,000
Safe Drinking Water Bonds (CWFA FY2010)	.0410% to 3.14%	8,660,000
Safe Clean Water Bonds (CWFA FY2012)	.072% to 3.26%	2,748,000
Safe Clean Water Bonds (CWFA FY2013)	.019% - 2.53%	4,021,000
Safe Drinking Water Bonds (CWFA FY2013)	.022% - 2.63%	24,998,000
Safe Drinking Water Bonds (CWFA FY2013)	.022% - 3.01%	8,000,000
		<u>\$ 78,174,019</u>
Description	June 30, 2014	
	Interest Rate	Balance
Revenue bonds:		
Safe Drinking Water Bonds (CWFA FY2002)	3.61%	\$ 1,193,199
Scituate Reservoir Project (PPBA FY 2011)	5.40%	635,594
Safe Drinking Water Bonds (CWFA FY2005)	2.22%	915,000
Safe Drinking Water Bonds (CWFA FY2008)	2.85%	29,617,000
Safe Drinking Water Bonds (CWFA FY2010)	.0410% to 3.14%	9,836,000
Safe Clean Water Bonds (CWFA FY2012)	.072% to 3.26%	2,874,000
Safe Clean Water Bonds (CWFA FY2013)	.019% - 2.53%	4,199,000
Safe Drinking Water Bonds (CWFA FY2013)	.022% - 2.63%	24,999,000
		<u>\$ 74,268,793</u>

PROVIDENCE WATER SUPPLY BOARD
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 5 - LONG-TERM DEBT (CONTINUED)

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

Year ending June 30:	ARRA Principal			Total
	Principal	Forgiveness	Interest and Fees	
2016	\$ 4,628,807	\$ (389,485)	\$ 2,209,396	\$ 6,448,718
2017	3,891,845	(203,506)	2,169,611	5,857,950
2018	3,978,016	(207,283)	2,087,165	5,857,898
2019	3,992,105	(211,265)	1,997,940	5,778,780
2020	5,114,504	(215,814)	1,907,132	6,805,822
2021-2025	20,120,492	(1,163,410)	7,741,578	26,698,660
2026-2030	24,344,000	(1,344,827)	4,503,746	27,502,919
2031-2035	12,104,250	(870,335)	1,737,203	12,971,118
	<u>\$ 78,174,019</u>	<u>\$ (4,605,925)</u>	<u>\$ 24,353,771</u>	<u>\$ 97,921,865</u>

NOTE 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, 2015 and 2014, respectively. 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, 2015 and 2014 totaled \$1,394,423 and \$1,377,649, respectively.

NOTE 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, 2015 and 2014 was \$0.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 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.

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 January 1, 2011 to June 30, 2015. A new union contract has been negotiated and agreed to by both parties and is effective for the period of July 1, 2015 through June 30, 2018.

LEAD SERVICE REPLACEMENT PROGRAM

The Environmental Protection Agency (EPA) Lead and Copper Rule (the "Rule") require that systems monitor drinking water at the customer tap. In accordance with the Rule, if after corrosion control optimization is implemented, lead concentrations exceed an action level of 15 ppb in more than 10% of customer taps sampled, the system is required to replace lead service lines under its ownership. The regulations require that the utility must replace annually 7% of the total amount of lead services in the system. In accordance with EPA requirements, the Rhode Island Department of Health (RIDOH) found that the Water Supply Board exceeded the lead action level on September 30, 2006 (the date of conclusion of that monitoring period) and was required to begin the annual replacement of 7% of its 25,600 lead services. Because of lead-time in gearing up for an undertaking of this magnitude, RIDOH and the Water Supply Board agreed to a compliance schedule that fulfilled the intent of the regulation whereby 14% of the lead services were to be replaced over the two-year period ending September 30, 2008 and 7% annually thereafter.

By September of 2010, the Water Supply Board exceeded the lead service replacement requirement by over 2,200 services and as a result of being approximately one year ahead of the regulatory required pace, we were informed by RIDOH that the mandated replacements of lead service could be suspended until October 2011.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 8 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

LEAD SERVICE REPLACEMENT PROGRAM (CONTINUED)

During this period, various concerns were raised about the effectiveness of partial lead service replacements, the persistence of lead levels in the water, and the difficulty of finding a proven solution for reducing the levels. In June 2012, the RIDOH in concert with the EPA, agreed to enter into a consent agreement with the Water Supply Board which granted a stay of the lead service replacement requirement for construction season 2012. As part of the agreement, RIDOH and the EPA required that the Water Supply Board convene a panel of national water quality experts, to include regulators, water professionals, and members of academia, to recommend studies and / or treatment modifications with the objective of reducing lead levels in the water. In 2013 the Water Supply Board was granted a stay of the lead services replacement requirement for the 2013 construction season.

In April 2014, RIDOH granted the Water Supply Board a stay of the lead service replacement requirement for the 2014 construction season. By consent order Providence is required to:

1. Continue with the consultation with its expert panel to evaluate corrosion control treatment in the system.
2. Conduct studies to examine alternative treatment schemes for optimization of corrosion control.
3. Continue a unidirectional flushing program.
4. Continue to rehabilitate and replace unlined cast iron mains that are usually found to be problematic in terms of both water quality and delivery capacity.

Even though the lead service replacement program is temporarily suspended, lead services are still replaced in conjunction with the water main replacement program. Lead services are also replaced on an ongoing basis where customers are voluntarily replacing their private side lead services. Lead services continue to be replaced in areas of local and state road resurfacing projects, and on projects initiated by private or outside entities. PW's own crews replace lead services which are found to be leaking. The replacement work is subject to all of the EPA regulatory notification, testing, and reporting requirements.

PROVIDENCE WATER SUPPLY BOARD
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 8 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

LEAD SERVICE REPLACEMENT PROGRAM (CONTINUED)

Since inception of the reporting of the IFR program and the lead service replacement program to the RIPUC (July 1, 1996), The Water Supply Board has replaced 16,221 lead services to the end of fiscal year 2015 (June 30, 2015) at a cost of \$55,614,291.

NOTE 9 - DEFINED BENEFIT PENSION PLANS

The City of Providence has adopted GASB Statement No. 68 Accounting and Financial Reporting for Pensions. These changes enhance the Plan's accounting and disclosure for the pension and expand the Required Supplemental Information (RSI) data with new schedules. These were issued to improve the financial reporting by state and local government pension plans. The following provides information required to be disclosed under GASB Statement No. 68.

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.

PROVIDENCE WATER SUPPLY BOARD
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 9 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

Membership of the ERS plan for the City of Providence consisted of the following at June 30, 2015, the date of the latest actuarial valuation:

Inactive plan members or beneficiaries currently receiving benefits	3,109
Inactive employees entitled to but not yet receiving benefits	428
Active employees	<u>2,986</u>
 Total	 <u><u>6,523</u></u>

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, 2015:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity	79%
Core fixed income	5%
High yield fixed income	13%
Short-term governmental money market	<u>3%</u>
 Total	 <u><u>100%</u></u>

PROVIDENCE WATER SUPPLY BOARD
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 9 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

The total pension liability was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 Percent
Salary increases	3.5 Per year, before reflecting increases due to longevity
Investment rate of return	8.25 Percent, net of pension plan investment expense, including inflation

PROVIDENCE WATER SUPPLY BOARD
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 9 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

For the year ended June 30, 2015 the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 5.56 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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, 2015 are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Weighted Real Rate of Return
Domestic equity	79%	6.23%	4.92%
Core fixed income	5%	1.56%	0.08%
High yield fixed income	13%	3.89%	0.51%
Short-term governmental money market	<u>3%</u>	1.71%	5.00%
Total	<u><u>100%</u></u>		5.56%

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 years ended June 30, 2015, 2014 and 2013 were \$3,212,354, \$2,945,209, and \$2,792,964, respectively.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 9 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

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, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

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

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Total pension liability	\$ 60,131,939	\$ 58,311,217
Plan fiduciary net position	\$ 16,863,366	\$ 16,954,243
Board's net pension liability	\$ 43,268,573	\$ 41,356,974
Plan fiduciary net position as a percentage of the total pension liability	28.04%	29.08%

PROVIDENCE WATER SUPPLY BOARD
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 9 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

Changes in the Net Pension Liability for the Water Supply Board

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 6/30/14	<u>\$58,311,217</u>	<u>\$16,954,243</u>	<u>\$41,356,974</u>
Changes for the year:			
Service Cost	854,182	--	854,182
Interest	5,509,989	--	5,509,989
Differences between expected and actual experience	79,253	--	79,253
Changes in benefit terms	--	--	--
Changes in assumptions	40,391	--	40,391
Contributions - employer	--	3,212,354	(3,212,354)
Contributions - employee	--	1,037,505	(1,037,505)
Net investment income	--	331,724	(331,724)
Benefit payments, including refunds	(4,663,093)	(4,663,093)	--
Administration expenses	--	(9,367)	9,367
Other changes	--	--	--
Net Changes	<u>1,820,722</u>	<u>(90,877)</u>	<u>1,911,599</u>
Balance at 6/30/15	<u><u>\$60,131,939</u></u>	<u><u>\$16,863,366</u></u>	<u><u>\$43,268,573</u></u>

Additional information as of the latest actuarial valuation follows:

Valuation Date	1-Jul-14
Actuarial cost method	Individual entry age method
Amortization cost method	Approximate level percent of payroll-open
Remaining amortization period	26 years
Asset valuation method	5-year smoothed market value
	Actuarial assumptions:
Investment rate of return	8.25%
Inflation rate	3.5%
Projected salary increases	3.5% per year before reflecting increases due to longevity compensation
Cost of living adjustments	No COLA for next 8 years, 3% thereafter

PROVIDENCE WATER SUPPLY BOARD
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 9 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

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-2000 Combined Healthy Mortality Table projected 21 years with Scale AA from 2000 for Class A employees and RP-2000 Combined Healthy Blue Collar Mortality Table projected 21 years with Scale AA from 2000 for Class B employees. Disabled retiree mortality rates were based on RP-2000 Combined Healthy Mortality Table set forward 3 years.

Discount Rate: The discount rate used to measure the total pension liability was 8.25%. 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.

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 8.25%, 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 (7.25%) or 1-percentage-point higher (9.25%) than the current rate:

	1% Decrease (7.25%)	Discount (8.25%)	1% Increase (9.25%)
Net pension liability	\$ 49,571,509	\$ 43,268,573	\$37,941,170

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

For the year ended June 30, 2015, the Water Supply Board recognized pension expense of \$3,967,510. At June 30, 2015, the Water Supply Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PROVIDENCE WATER SUPPLY BOARD
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 9 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 63,403	\$ --
Changes of assumption	32,313	--
Net difference between projected and actual earnings on pension plan investments	1,060,726	--
 Total	\$ 1,156,442	\$ --

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

Year Ended June 30:

2016	\$ 289,110
2017	289,110
2018	289,110
2019	289,112
 Total	 \$ 1,156,442

Payable to the Plan

At June 30, 2015, the Water Supply Board had made full payment of the required pension contribution for the year ended June 30, 2015.

PROVIDENCE WATER SUPPLY BOARD
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 10 - POST EMPLOYMENT BENEFITS

The Water Supply Board follows GASB Statement No. 45 “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”.

The Water Supply Board’s Post-Retirement Benefits Program of the City of Providence (the “Program”) is a defined-benefit, single-employer post-retirement health and life insurance program. The Program provides lifetime health care and life insurance benefits to retired employees and their spouses when retirement was effective prior to 1996. Disclosures about this program, as a whole, are presented in the City of Providence, Rhode Island’s basic financial statements. As of June 30, 2015 and 2014, the City recorded a liability for unpaid post-retirement contributions of \$241,723,000 and \$209,481,098, respectively. Separate actuarial information related to the Water Supply Board employees is not available. Accordingly, only disclosures about the Water Supply Board’s participation in the Plan are presented herein.

Fiscal Year <u>Ending</u>	Annual OPEB <u>Cost</u>	Contribution <u>Made</u>	% of OPEB <u>Contributed</u>	Net OPEB <u>Obligation</u>
6/30/2015	1,774,000	507,000	28.6%	6,671,000
6/30/2014	1,755,357	437,598	24.9%	5,385,261
6/30/2013	1,305,000	446,423	34.2%	4,052,946

The historical schedules of employer contributions and funding progress for the Program are included in the City of Providence, Rhode Island’s basic financial statements.

NOTE 11 - RESTATEMENT

The statement of net position has been restated as of June 30, 2014 to reflect the implementation of GASB No. 68 – Accounting and Financial Reporting for Pensions. The implementation of GASB Standard No. 68 resulted in an adjustment of the net pension obligation ending balance at June 30, 2014. The following reflects the effect of implementation of GASB No.68. Additionally, it was determined that impact fees collected from the City of Cranston for development of the Western Cranston service area should have been recognized as revenue in prior periods. These impact fees have been reclassified to beginning net position at June 30, 2014. The following reflects the implementation of GASB No. 68, GASB Statement No. 71 and the adjustment to net position:

PROVIDENCE WATER SUPPLY BOARD
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 11 - RESTATEMENT (CONTINUED)

Net Position, June 30, 2014 as originally reported	\$ 262,461,003
GASB 68 Implementation	(41,356,974)
Correction of liabilities	<u>2,009,226</u>
Net Position, July 1, 2004 as Restated	<u>\$ 223,113,255</u>

NOTE 12 - SUBSEQUENT EVENTS

On December 17, 2015 the Water Supply Board with the City of Providence entered into a Bond Purchase Agreement with the Rhode Island Infrastructure Bank for bonds (Series 2015A) in the amount of \$30 million issued through its Safe Drinking Water State Revolving Fund. The purpose of this funding was to purchase property at 125 Dupont Drive in Providence. This property is to be renovated into a central operating facility which will allow the Water Supply Board to consolidate its operations from two separate facilities located in Providence and Cranston into one location located in the heart of its service area.

On December 28, 2015 the aforementioned property located at 125 Dupont Drive was purchased by the Water Supply Board. Renovations will begin in spring 2016.

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

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF CHANGES IN THE
NET PENSION LIABILITY AND RELATED RATIO**

	2015	2014
Total Pension Liability		
Service cost	\$ 854,182	\$ 893,162
Interest	5,509,989	4,946,549
Changes of benefit plans	--	--
Differences between expected and actual experience	79,253	--
Changes of assumptions	40,391	--
Benefit payments, including refunds of member contributions	<u>(4,663,093)</u>	<u>(4,973,233)</u>
Net Change in Total Pension Liability	1,820,722	866,478
Total Pension Liability - Beginning	<u>58,311,217</u>	<u>57,444,739</u>
Total Pension Liability - Ending (a)	<u>\$ 60,131,939</u>	<u>\$ 58,311,217</u>
Plan Fiduciary Net Position		
Contributions - employer	3,212,354	\$ 2,945,209
Contributions - member	1,037,505	911,508
Net Investment income	331,724	1,210,438
Benefit payments, including refunds of member contributions	(4,663,093)	(4,973,233)
Administrative expense	<u>(9,367)</u>	<u>(71,995)</u>
Not Change in Plan Fiduciary Net Position	(90,877)	21,927
Plan Fiduciary Net Position - Beginning	<u>16,954,243</u>	<u>16,932,316</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 16,863,366</u>	<u>\$ 16,954,243</u>
Net Pension Liability - Ending (a) - (b)	<u>\$ 43,268,573</u>	<u>\$ 41,356,974</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	28.04%	29.08%
Covered Employee Payroll	\$ 12,930,447	\$ 11,900,000
Net Pension Liability as a Percentage of Covered-Employee Payroll	334.63%	347.54%

Notes:

1.) The amounts presented for each fiscal year were determined as of a 6/30 measurement date prior to the fiscal year-end

2.) Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

PROVIDENCE WATER SUPPLY BOARD
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REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS

	2015	2014
Actuarially determined contribution	\$ 3,212,354	\$ 2,945,209
Contributions in relation to the actuarially determined contribution	3,212,354	2,945,209
Contribution deficiency (excess)	\$ --	\$ --
Covered-employee payroll	\$ 12,930,447	\$ 11,900,000
Contributions as a percentage of covered-employee payroll	24.84%	24.75%

Notes to Schedule

Valuation date: July 1, 2014

Actuarially determined contribution rates are calculated as of July 1, two years prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level dollar for the 1995 deferral liability and increasing 3.5% per year for the remaining unfunded liability.
Remaining amortization period	Market value assets as reported by the Water Board 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.
Inflation	3.5%
Salary increases	3.5% per year before reflecting increases due to longevity compensation.
Investment rate of return	8.25%, net of pension plan investment and administrative expenses, including inflation.
Cost of living adjustments	10-year freeze as of January 1, 2013 and 3% thereafter.
Benefit Changes:	There have been no changes in benefit provisions since GASB 67/68 implementation
Assumption Changes:	The actuarial assumptions used reflect the assumptions proposed in the Experience Investigation for the Five Year Period Ending June 30, 2011 submitted to the Board on April 2, 2012, with the following exception: The retirement rate for Class B participants is 100% at age 60.

Notes:

1.) The amounts presented for each fiscal year were determined as of a 6/30 measurement date prior to the fiscal year-end

2.) Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

PROVIDENCE WATER SUPPLY BOARD
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REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF INVESTMENT RETURNS

	2015	2014
Annual money-weighted rate of return, net of investment expense	5.56%	14.04%

Notes:

1.) The amounts presented for each fiscal year were determined as of a 6/30 measurement date prior to the fiscal year-end

2.) Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

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*

To the Board of Directors of
Providence Water Supply Board

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Providence Water Supply Board (the "Water Supply Board"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Water Supply Board's basic financial statements, and have issued our report thereon dated April 1, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Marcum LLP

Providence, RI
April 1, 2016



Accounting | Tax | Business Consulting

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

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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

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Independent Auditors' Report

To the Board of Directors of
Providence Water Supply Board

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, 2016 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.

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, 2016 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.

Change in Accounting Principle

During the fiscal year ended June 30, 2016, the City adopted new accounting guidance, GASB Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

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-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, 2016 and 2015, 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.

Other Matters

Prior Year Financial Statements

The financial statements of the Providence Water Supply Board as of June 30, 2015 were audited by other auditors whose report dated April 1, 2016 expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and the pension schedules on pages 28 through 30 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 29, 2016, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Water Supply Board's internal control over financial reporting and compliance.

Blum, Shapiro & Company, P.C.

Cranston, Rhode Island
December 29, 2016

**PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015**

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 years ended June 30, 2016 and 2015.

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 statements of net position present 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 statements of revenues, expenses and changes in net position report the operating and non-operating 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 statements of cash flows report cash and cash equivalents activity for the fiscal year resulting from operating activities, non-capital 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, 2016 AND 2015**

Condensed Financial Information

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total current assets	\$ 62,360,519	\$ 56,860,298	\$ 50,845,457
Net property, plant and equipment	359,674,679	317,261,613	299,812,331
Total assets	<u>422,035,198</u>	<u>374,121,911</u>	<u>350,657,788</u>
Total current liabilities	13,183,282	13,498,670	9,928,198
Total long-term liabilities	157,876,249	123,484,780	75,559,279
Total liabilities	<u>171,059,531</u>	<u>136,983,450</u>	<u>85,487,477</u>
Deferred inflows of resources	<u>178,623</u>	-	<u>2,709,308</u>
Net position:			
Net investment in capital assets	256,129,467	239,087,594	225,543,538
Restricted fund	37,233,166	36,145,168	32,410,386
Unrestricted fund	<u>(42,565,589)</u>	<u>(38,094,301)</u>	<u>4,507,079</u>
Total Net Position	<u>\$ 250,797,044</u>	<u>\$ 237,138,461</u>	<u>\$ 262,461,003</u>
Total operating revenue	\$ 69,209,492	\$ 69,231,217	\$ 62,872,231
Total operating expenses	44,687,516	43,179,067	41,750,117
Depreciation	10,673,384	11,313,363	12,643,922
Total operating expenses including depreciation	<u>55,360,900</u>	<u>54,492,430</u>	<u>54,394,039</u>
Operating income	13,848,592	14,738,787	8,478,192
Nonoperating expense	(673,210)	(1,811,838)	(1,562,494)
Capital grants and contributions	<u>483,201</u>	<u>1,098,257</u>	<u>3,303,600</u>
Change in Net Position	<u>\$ 13,658,583</u>	<u>\$ 14,025,206</u>	<u>\$ 10,219,298</u>

**PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015**

Financial Highlights

During the year, the Water Supply Board had operating revenues that exceeded operating expenses by \$13.8 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 \$422.0 million, up \$47.9 million from last year's total assets of \$374.1 million. Current assets, principally cash, decreased by \$1.0 million, and net plant increased by \$42.4 million.

The Water Supply Board's net position totaled \$250.8 million at June 30, 2016, an increase of \$13.66 million from June 30, 2015. 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 \$13.8 million, net non-operating expenses of \$0.67 million, and capital contributions of \$.48 million.

The Water Supply Board's net position totaled \$237.1 million at June 30, 2015, a decrease of \$25.3 million from June 30, 2014. The decrease is the result of recording the net pension liability in the amount of \$41.3 million to reflect implementation of GASB Statement No. 68. Also reflected in the change of our net position is net operating income of \$14.7 million, net non-operating expenses of \$1.8 million, capital contributions of \$1.1 million, and a prior period adjustment of \$2 million.

The Water Supply Board's total operating revenues were \$69.2 million for fiscal year 2016, which is consistent with the prior year. Total operating expenses of the water system amounted to \$55.4 million, which is a slight increase over the prior year's amount of \$54.5 million. Fiscal year 2016 non-operating revenue consisted of interest income amounting to \$404,534 and other revenue which is derived from a tax relief payment agreement between the Water Supply Board and Town of Foster. The agreement called for Town of Foster to reimburse Water Supply Board a total of \$1.6 million plus interest over the next 10 years. Non-operating expense of \$2.7 million was principally interest expense on long-term debt. Capital grants and contributions in fiscal year 2016 amounted to \$0.48 million.

The Water Supply Board's total operating revenues were \$69.2 million for fiscal year 2015, an increase of \$6.4 million over prior year's revenue of \$62.9 million. Total operating expenses of the water system amounted to \$54.5 million, which is slight increase over the prior year's amount of \$54.4 million. The increase in revenue in 2015 was attributable to the increase in rates authorized by the RI Public Utilities Commission (PUC) in December 2013. Fiscal year 2015 represents the first full fiscal year which reflects that increase in rates. Fiscal year 2015 non-operating revenue, principally interest, amount to \$324,754, and non-operating expenses of \$2.1 million was principally interest on long-term debt. Capital grants and contributions in fiscal year 2015 amounted to \$1.1 million.

The increase in revenue in fiscal year 2016 as compared to fiscal year 2015 was combinations of recognizing the Tax relief payment from Town of Foster, slight increase in consumption in retail customers, increase in Impact fees, miscellaneous revenue, and decrease in consumption in wholesale customers.

**PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015**

Capital Assets and Debt Administration

Capital Assets:

At June 30, 2016, the Water Supply Board had \$359.7 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 \$42.4 million, or 11.8%, over the prior year.

At June 30, 2015, the Water Supply Board had \$317.3 million invested in various capital assets. This amount represented a net increase of \$17.4 million, or 5.8%, over the previous year.

Major project expenditures in fiscal year 2016 included (in millions):

* Replace / upgrade water mains	\$	15.67
* Administration Building Site Design/Land Acquisition	\$	11.20
* Replace sand filters	\$	6.70
* Supplemental Tunnel - Investigation Rehabilitation (2016)	\$	1.30
* Pretreatment Pilot-Scale Evaluation	\$	1.06
* Sludge handling / disposal	\$	1.01
* Plant Influent and Aerator Rehabilitation	\$	0.92
* Treatment Process Studies	\$	0.44
* Replace fire hydrants	\$	0.41
* Various Distribution System Improvements	\$	0.37
* Unidirectional Flushing (UDF) Program Development	\$	0.31
* Install Transmission Mains (W. Cranston)	\$	0.30
* Replace distribution valves	\$	0.28
* Replace lead services	\$	0.26
* Aerated, Settled, and Filter Influent Conduits	\$	0.18
* Replace 16 inch & larger valves	\$	0.15
* 90" influent conduit - inspection	\$	0.12
* Treatment Plant On-Site Wastewater Treatment System	\$	0.12
* COF - Operating Expenses	\$	0.12
* Other Miscellaneous Projects	\$	0.55

The Water Supply Board's fiscal year 2016 capital budget included project expenditures of \$27.1 million for infrastructure and capital projects. The major projects were: water main replacements and upgrades, treatment plant filter replacements, plant influent and aerator upgrades, sludge removal and disposal, source water improvements, aerated settled and filter conduits, various distribution system improvements and installing transmission mains in Western Cranston. The Water Supply Board, in December 2015 purchased a new central operating facility and embarked on major improvements and renovations on the new facility which will be the new headquarters of the company. The majority of infrastructure projects are financed on a pay-as-you-go, cash basis from rate revenues. Some projects were funded from bond proceeds issued in fiscal year 2016. New capital additions, 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, 2016 AND 2015**

Debt:

At June 30, 2016, the Water Supply Board had \$103.5 million in bonds and notes outstanding versus \$78.2 million in the previous year. This represented an increase of \$25.4 million or 24.5%. Providence Water Supply Board sought and received approval from the RI Division of Public Utilities (the Division) to borrow \$30 million from the RI Infrastructure Bank to finance the purchase and renovation of a new Central Operating Facility (COF). The Division's approval for this borrowing was the basis of rate relief authorized by the PUC that will generate additional revenue of \$2.1 million per year to fund the debt service associated with this borrowing.

A new \$30.0 million bond was issued in December 2016.

At June 30, 2015, the Water Supply Board had \$78.2 million in bonds and notes outstanding versus \$74.3 million in the previous year. This represented an increase of \$3.9 million, or 5%. A new \$8.0 million bond was issued in 2015 to fund various water main improvements.

Subsequent Events

Providence Water Supply Board has applied to the Public Utility Commission (PUC) for full rates increase across all classes of the Water Supply Board customer, effective February 2017. These rates range from 6.7% for the wholesale customers to 15.0% for the retail customers. The rates increase, if approved, would generate additional revenue of \$7.9 million, and allow the Water Supply Board to continue to improve and replace the aging infrastructure and maintain the continued supply of safe drinking water to the two thirds of the state of Rhode Island population it serves. The rates increase would also allow the water board to generate additional revenue to fund the debt service associated with future debt it will borrow. The increase would bring the annual revenue of the Water Supply Board to \$77.2 million.

Providence Water Supply Board is in the final stage of a merger and annexation with East Smithfield Water District to its water operation. The East Smithfield Water District currently serves about 2,400 customers in East Smithfield, and North Providence. When the merger and annexation is completed, Providence Water Supply Board customers' counts would increase to approximately 74,400 customers including its wholesalers. The merger is expected to be completed by mid-January 2017.

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 January 1, 2011 to June 30, 2016. A new contract was in negotiations at fiscal year-end and subsequently approved by the union and City. The new contract is effective for the period of July 1, 2016 through June 30, 2018.

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, 552 Academy Avenue, Providence, RI 02908.

PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
STATEMENTS OF NET POSITION
JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Assets:		
Current unrestricted assets:		
Cash and cash equivalents	\$ 2,364,040	\$ 4,796,887
Accounts receivable, net of allowance for uncollectible accounts of \$1,242,827 in 2016 and \$1,247,078 in 2015	6,696,642	6,332,160
Accounts receivable - unbilled	2,843,801	3,441,854
Inventory	569,051	826,530
Other assets		300,455
Total current unrestricted assets	<u>12,473,534</u>	<u>15,697,886</u>
Current restricted assets:		
Cash and cash equivalents	42,041,914	39,989,014
Accounts receivable	60,571	16,959
Notes receivable - short term	127,439	
Total current restricted assets	<u>42,229,924</u>	<u>40,005,973</u>
Total current assets	<u>54,703,458</u>	<u>55,703,859</u>
Capital assets:		
Land	23,836,137	22,613,760
Building and improvements	103,048,502	84,679,611
Improvements other than buildings	326,348,497	311,430,903
Machinery and equipment	31,999,221	31,586,324
Scituate Reservoir Project	18,681,695	18,681,695
Construction in progress	73,252,031	55,087,340
	<u>577,166,083</u>	<u>524,079,633</u>
Less accumulated depreciation and amortization	217,491,404	206,818,020
Total capital assets, net	<u>359,674,679</u>	<u>317,261,613</u>
Other noncurrent assets:		
Notes receivable - long term	1,308,387	
Deferred Outflows of Resources:		
Pension-related deferred outflows of resources	6,348,674	1,156,442
Total assets and deferred outflows of resources	<u>422,035,198</u>	<u>374,121,914</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)
STATEMENTS OF NET POSITION (CONTINUED)
JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Liabilities:		
Current:		
Current portion of long-term debt	\$ 3,892,845	\$ 4,628,807
Due to City of Providence General Fund	643,624	1,394,422
Accounts payable	1,049,299	1,231,083
Accrued liabilities	<u>2,600,756</u>	<u>2,383,551</u>
	<u>8,186,524</u>	<u>9,637,863</u>
Amounts to be paid from current restricted assets:		
Due to Water Resources Board	360,017	400,400
Accounts payable	<u>4,636,741</u>	<u>3,460,405</u>
	<u>4,996,758</u>	<u>3,860,805</u>
Total current liabilities	<u>13,183,282</u>	<u>13,498,668</u>
Noncurrent liabilities:		
General revenue bonds	99,652,367	73,545,212
Net pension liability	50,365,882	43,268,573
Other post employment benefit obligations payable	<u>7,858,000</u>	<u>6,671,000</u>
Total noncurrent liabilities	<u>157,876,249</u>	<u>123,484,785</u>
Total liabilities	<u>171,059,531</u>	<u>136,983,453</u>
Deferred Inflows of Resources:		
Pension-related deferred inflows of resources	<u>178,623</u>	
Net Position:		
Net investment in capital assets	256,129,467	239,087,594
Restricted	37,233,166	36,145,168
Unrestricted	<u>(42,565,589)</u>	<u>(38,094,301)</u>
Total Net Position	<u>\$ 250,797,044</u>	<u>\$ 237,138,461</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)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Operating Revenues:		
Charges for services:		
Water sales:		
General customers	\$ 47,413,514	\$ 46,859,419
Other local water suppliers	16,929,522	17,732,754
Fire protection services	2,322,938	2,308,161
Maintenance charges and other revenue	2,543,518	2,330,883
Total operating revenues	<u>69,209,492</u>	<u>69,231,217</u>
Operating Expenses:		
Source of supply	2,785,157	2,654,218
Pumping operations	755,951	724,018
Water treatment	7,376,945	8,227,250
Transmission and distribution	6,158,189	5,086,495
Charge for services provided by other City departments	839,167	839,167
Customer accounts and service	3,738,236	3,593,293
Administrative and general	16,014,991	15,031,845
Depreciation	10,673,384	11,313,363
Property taxes - other local governments	7,018,880	7,022,781
Total operating expenses	<u>55,360,900</u>	<u>54,492,430</u>
Operating Income (Loss)	<u>13,848,592</u>	<u>14,738,787</u>
Nonoperating Revenue (Expense):		
Interest income	404,534	324,754
Interest expense and other	(2,682,272)	(2,136,592)
Other revenues	1,604,528	
Net nonoperating revenue (expense)	<u>(673,210)</u>	<u>(1,811,838)</u>
Capital Grants and Contributions	<u>483,201</u>	<u>1,098,257</u>
Change in Net Position	13,658,583	14,025,206
Net Position - Beginning of Year	<u>237,138,461</u>	<u>223,113,255</u>
Net Position - End of Year	<u>\$ 250,797,044</u>	<u>\$ 237,138,461</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)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Receipts from customers	\$ 71,148,337	\$ 69,062,726
Payments to vendors	(24,401,681)	(25,137,957)
Payments to employees	(17,785,511)	(13,593,617)
Net cash provided by (used in) operating activities	<u>28,961,145</u>	<u>30,331,152</u>
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(53,086,450)	(28,779,604)
Interest and issuance costs paid on debt	(2,682,272)	(2,136,592)
Principal payments on long-term debt	(4,628,807)	(4,094,774)
Proceeds from long-term debt	30,000,000	8,000,000
Proceeds from note receivable	168,702	
Capital grants	483,201	1,098,257
Net cash provided by (used in) capital and related financing activities	<u>(29,745,626)</u>	<u>(25,912,713)</u>
Cash Flows from Investing Activities:		
Investment income (loss)	404,534	324,754
Net cash provided by (used in) investing activities	<u>404,534</u>	<u>324,754</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(379,947)	4,743,193
Cash and Cash Equivalents - Beginning of Year	<u>44,785,901</u>	<u>40,042,708</u>
Cash and Cash Equivalents - End of Year	<u>\$ 44,405,954</u>	<u>\$ 44,785,901</u>
Unrestricted Cash and Cash Equivalents	\$ 2,364,040	\$ 4,796,887
Restricted Cash and Cash Equivalents	<u>42,041,914</u>	<u>39,989,014</u>
	<u>\$ 44,405,954</u>	<u>\$ 44,785,901</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Operating income (loss)	\$ 13,848,592	\$ 14,738,787
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	10,673,384	11,313,363
Provision for doubtful accounts	4,251	(269,904)
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	185,708	370,165
(Increase) decrease in inventories	257,479	53,282
(Increase) decrease in other assets	300,455	(268,752)
(Increase) decrease in deferred outflows of resources	(5,192,232)	(1,156,442)
Increase (decrease) in due to other funds	(750,798)	16,773
Increase (decrease) in accounts payable and accrued expenses	1,171,374	3,019,665
Increase (decrease) net pension liability	7,097,309	1,911,599
Increase (decrease) OPEB obligation	1,187,000	1,285,739
Increase (decrease) in deferred inflows of resources	178,623	(683,123)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 28,961,145</u>	<u>\$ 30,331,152</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 2016, the \$60,570 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.

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.

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.

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, 2016, 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 plan (active employees and inactive employees).

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

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 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 plan (active employees and inactive employees).

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.

3. CASH

The following is a summary of cash and investments:

	2016	2015
Cash and cash equivalents	\$ 2,364,040	\$ 4,796,887
Restricted cash and cash equivalents	42,041,914	39,989,014
	\$ 44,405,954	\$ 44,785,901

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 \$44,405,954, \$250,000 is covered by Federal Deposit Insurance Corporation (FDIC) insurance and \$2,114,040 is uncollateralized.

**PROVIDENCE WATER SUPPLY BOARD
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4. CAPITAL ASSETS

The following is a summary of the activity in capital assets as of June 30, 2016:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 22,613,760	\$ 1,222,377	\$ -	\$ 23,836,137
Scituate Reservoir Project	18,681,695	-	-	18,681,695
Construction in progress	55,087,340	71,876,564	53,711,873	73,252,031
Total capital assets not being depreciated	<u>96,382,795</u>	<u>73,098,941</u>	<u>53,711,873</u>	<u>115,769,863</u>
Capital assets being depreciated:				
Buildings and improvements	84,679,611	18,368,891	-	103,048,502
Sewer and infrastructure	311,430,903	14,917,594	-	326,348,497
Equipment	31,586,324	412,897	-	31,999,221
Total capital assets being depreciated	<u>427,696,838</u>	<u>33,699,382</u>	<u>-</u>	<u>461,396,220</u>
Less accumulated depreciation for:				
Buildings and improvements	61,474,932	5,328,975	-	66,803,907
Sewer and infrastructure	117,431,723	4,600,171	-	122,031,894
Equipment	27,911,365	744,238	-	28,655,603
Total accumulated depreciation	<u>206,818,020</u>	<u>10,673,384</u>	<u>-</u>	<u>217,491,404</u>
Total capital assets being depreciated, net	<u>220,878,818</u>	<u>23,025,998</u>	<u>-</u>	<u>243,904,816</u>
Capital Assets, Net	<u>\$ 317,261,613</u>	<u>\$ 96,124,939</u>	<u>\$ 53,711,873</u>	<u>\$ 359,674,679</u>

The following is a summary of the activity in capital assets as of June 30, 2015:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 21,958,397	\$ 655,363	\$ -	\$ 22,613,760
Scituate Reservoir Project	18,681,695	-	-	18,681,695
Construction in progress	47,609,161	24,438,961	16,960,782	55,087,340
Total capital assets not being depreciated	<u>88,249,253</u>	<u>25,094,324</u>	<u>16,960,782</u>	<u>96,382,795</u>
Capital assets being depreciated:				
Buildings and improvements	79,135,020	5,544,591	-	84,679,611
Improvements other than buildings	297,055,247	14,375,656	-	311,430,903
Machinery and equipment	30,877,466	708,858	-	31,586,324
Total capital assets being depreciated	<u>407,067,733</u>	<u>20,629,105</u>	<u>-</u>	<u>427,696,838</u>
Less accumulated depreciation for:				
Buildings and improvements	55,267,185	6,207,747	-	61,474,932
Sewer and infrastructure	113,064,008	4,367,715	-	117,431,723
Equipment	27,173,462	737,903	-	27,911,365
Total accumulated depreciation	<u>195,504,655</u>	<u>11,313,365</u>	<u>-</u>	<u>206,818,020</u>
Total capital assets being depreciated, net	<u>211,563,078</u>	<u>9,315,740</u>	<u>-</u>	<u>220,878,818</u>
Capital Assets, Net	<u>\$ 299,812,331</u>	<u>\$ 34,410,064</u>	<u>\$ 16,960,782</u>	<u>\$ 317,261,613</u>

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

5. LONG-TERM DEBT

Long-term debt activity for the years ended June 30, 2016 and 2015, was as follows:

		2016				
		<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable:						
Revenue bonds	\$	78,174,019	\$ 30,000,000	\$ 4,628,807	\$ 103,545,212	\$ 3,892,845
Long-Term Liabilities	\$	<u>78,174,019</u>	<u>30,000,000</u>	<u>4,628,807</u>	<u>103,545,212</u>	<u>3,892,845</u>
		2015				
		<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable:						
Revenue bonds	\$	74,268,793	\$ 8,000,000	\$ 4,094,774	\$ 78,174,019	\$ 4,628,807
Long-Term Liabilities	\$	<u>74,268,793</u>	<u>8,000,000</u>	<u>4,094,774</u>	<u>78,174,019</u>	<u>4,628,807</u>

The following is a summary of bonds and notes outstanding at June 30, 2016 and 2015:

<u>Description</u>	<u>Amount of Interest Rate (%)</u>	<u>Outstanding June 30, 2016</u>	<u>Outstanding June 30, 2015</u>
Safe Drinking Water Bonds (CWFA FY2002)	3.61%	\$ 924,704	\$ 1,061,245
Scituate Reservoir Project (PPBA FY 2011)	5.40%	368,258	504,774
Safe Drinking Water Bonds (CWFA FY2008)	2.85%	26,703,000	28,181,000
Safe Drinking Water Bonds (CWFA FY2010)	.0410% to 3.14%	7,458,250	8,660,000
Safe Clean Water Bonds (CWFA FY2012)	.072% to 3.26%	2,621,000	2,748,000
Safe Clean Water Bonds (CWFA FY2013)	.019% - 2.53%	3,842,000	4,021,000
Safe Drinking Water Bonds (CWFA FY2013)	.022% - 2.63%	23,960,000	24,998,000
Safe Drinking Water Bonds (CWFA FY2013)	.022% - 3.01%	7,668,000	8,000,000
Safe Drinking Water Bonds (CWFA FY2015)	.022% - 3.01%	<u>30,000,000</u>	
Total		<u>\$ 103,545,212</u>	<u>\$ 78,174,019</u>

**PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
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Scheduled principal maturities of long-term debt are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>ARRA Principal Forgiveness</u>	<u>Interest and Fees</u>	<u>Total</u>
2017	\$ 3,892,845	\$ (203,572)	\$ 2,542,880	\$ 6,232,153
2018	5,284,015	(270,262)	2,660,271	7,674,024
2019	5,312,106	(274,967)	2,557,456	7,594,595
2020	5,349,503	(280,369)	2,444,485	7,513,619
2021	5,474,936	(286,671)	2,322,402	7,510,667
2022-2026	28,850,557	(1,541,365)	8,912,270	36,221,462
2027-2031	30,804,250	(1,779,034)	5,047,793	34,073,009
2032-2036	<u>18,577,000</u>	<u>(1,027,296)</u>	<u>1,262,685</u>	<u>18,812,389</u>
Total	\$ <u>103,545,212</u>	\$ <u>(5,663,536)</u>	\$ <u>27,750,242</u>	\$ <u>125,631,918</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, 2016 and 2015. 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, 2016 and 2015, totaled \$643,624 and \$1,394,422, respectively.

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, 2016 and 2015 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.

**PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
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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, 2015 to June 30, 2018.

Lead Service Replacement Program

The Environmental Protection Agency (EPA) Lead and Copper Rule (the Rule) requires that systems monitor drinking water at the customer tap. In accordance with the Rule, if after corrosion control optimization is implemented lead concentrations exceed an action level of 15 ppb in more than 10% of customer taps sampled, the system is required to replace lead service lines under its ownership. The regulations require that the utility must replace annually 7% of the total amount of lead services in the system. In accordance with EPA requirements, the Rhode Island Department of Health (RIDOH) found that the Water Supply Board exceeded the lead action level on September 30, 2006 (the date of conclusion of that monitoring period) and was required to begin the annual replacement of 7% of its 25,600 lead services. Because of lead-time in gearing up for an undertaking of this magnitude, RIDOH and the Water Supply Board agreed to a compliance schedule that fulfilled the intent of the regulation whereby 14% of the lead services were to be replaced over the two-year period ending September 30, 2008 and 7% annually thereafter.

By September 2010, the Water Supply Board exceeded the lead service replacement requirement by over 2,200 services and as a result of being approximately one year ahead of the regulatory required pace, we were informed by RIDOH that the mandated replacements of lead service could be suspended until October 2011.

During this period, various concerns were raised about the effectiveness of partial lead service replacements, the persistence of lead levels in the water, and the difficulty of finding a proven solution for reducing the levels. In June 2012 the RIDOH, in concert with the EPA, agreed to enter into a consent agreement with the Water Supply Board, which granted a stay of the lead service replacement requirement for construction season 2012. As part of the agreement, RIDOH and the EPA required that the Water Supply Board convene a panel of national water quality experts, to include regulators, water professionals and members of academia, to recommend studies and/or treatment modifications with the objective of reducing lead levels in the water. In 2013, the Water Supply Board was granted a stay of the lead services replacement requirement for the 2013 construction season.

In April 2014, RIDOH granted the Water Supply Board a stay of the lead service replacement requirement for the 2014 construction season. By consent order the City of Providence is required to:

1. Continue with the consultation with its expert panel to evaluate corrosion control treatment in the system.
2. Conduct studies to examine alternative treatment schemes for optimization of corrosion control.
3. Continue a unidirectional flushing program.
4. Continue to rehabilitate and replace unlined cast iron mains that are usually found to be problematic in terms of both water quality and delivery capacity.

**PROVIDENCE WATER SUPPLY BOARD
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Even though the lead service replacement program is temporarily suspended, lead services are still replaced in conjunction with the water main replacement program. Lead services are also replaced on an ongoing basis where customers are voluntarily replacing their private side lead services. Lead services continue to be replaced in areas of local and state road resurfacing projects, and on projects initiated by private or outside entities. The Water Supply Board’s own crews replace lead services that are found to be leaking. The replacement work is subject to all of the EPA regulatory notification, testing and reporting requirements.

Since inception of the reporting of the IFR program and the lead service replacement program to the RIPUC (July 1, 1996), The Water Supply Board has replaced 16,894 lead services to the end of fiscal year 2016 (June 30, 2016) at a cost of \$55,870,855.

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 City of Providence consisted of the following at June 30, 2015, the date of the latest actuarial valuation:

Inactive plan members or beneficiaries currently receiving benefits	3,097
Inactive employees entitled to but not yet receiving benefits	432
Active employees	<u>3,012</u>
Total	<u><u>6,541</u></u>

**PROVIDENCE WATER SUPPLY BOARD
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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, 2016:

Asset Class	Target Allocation
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
	100.00%

The total pension liability was determined by an actuarial valuation as of June 30, 2015, 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	8.25%, net of pension plan investment expense, including inflation

For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 2.60%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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, 2016 are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Weighted Real Rate of Return
Domestic equity	39.25%	6.49%	(2.20)%
International developed markets equity	13.25	7.16	(5.50)
International emerging markets equity	1.50	9.46	(5.50)
Core fixed income	29.00	1.68	4.40
Hedge fund, GTAA, Risk parity	13.00	3.60	26.70
Private equity	4.00	11.04	(15.30)
	100.00%		2.60%

**PROVIDENCE WATER SUPPLY BOARD
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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 years ended June 30, 2016, 2015 and 2014 were \$3,615,102, \$3,212,354 and \$2,945,209, respectively.

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, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

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

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Total pension liability	\$ 67,406,877	\$ 60,131,939
Plan fiduciary net position	<u>17,040,995</u>	<u>16,863,406</u>
Net Pension Liability	<u>\$ 50,365,882</u>	<u>\$ 43,268,533</u>
Plan fiduciary net position as a percentage of the total pension liability	25.28%	28.04%

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

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, 2015	\$ 60,131,939	\$ 16,863,406	\$ 43,268,533
Changes for the year:			
Service cost	941,053		941,053
Interest on total pension liability	5,130,041		5,130,041
Differences between expected and actual experience	(223,279)		(223,279)
Change from difference in proportionate share	3,875,236	1,086,733	2,788,503
Effect of assumptions changes or inputs	3,083,805		3,083,805
Employer contributions		3,615,102	(3,615,102)
Member contributions		615,760	(615,760)
Net investment income		401,320	(401,320)
Benefit payments, including refund to employee contributions	(5,531,918)	(5,531,918)	-
Administrative expenses		(9,408)	9,408
Net changes	<u>7,274,938</u>	<u>177,589</u>	<u>7,097,349</u>
Balances as of June 30, 2016	<u>\$ 67,406,877</u>	<u>\$ 17,040,995</u>	<u>\$ 50,365,882</u>

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

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances as of June 30, 2014	\$ 58,311,217	\$ 16,954,283	\$ 41,356,934
Changes for the year:			
Service cost	854,182		854,182
Interest on total pension liability	5,509,989		5,509,989
Differences between expected and actual experience	79,253		79,253
Effect of assumptions changes or inputs	40,391		40,391
Employer contributions		3,212,354	(3,212,354)
Member contributions		1,037,505	(1,037,505)
Net investment income		331,724	(331,724)
Benefit payments, including refund to employee contributions	(4,663,093)	(4,663,093)	-
Administrative expenses		(9,367)	9,367
Net changes	<u>1,820,722</u>	<u>(90,877)</u>	<u>1,911,599</u>
Balances as of June 30, 2015	\$ <u>60,131,939</u>	\$ <u>16,863,406</u>	\$ <u>43,268,533</u>

Additional information as of the latest actuarial valuation follows:

Valuation Date	July 1, 2015
Actuarial cost method	Individual entry age method
Amortization cost method	Approximate level percent of payroll-open
Remaining amortization period	25 years
Asset valuation method	5-year smoothed market value
Actuarial assumptions: Investment rate of return	8.25%
Inflation rate	3.5%
Projected salary increases	3.5% per year before reflecting increases due to longevity compensation
Cost of living adjustments	No COLA for next 8 years, 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.

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

Discount Rate

The discount rate used to measure the total pension liability at June 30, 2016 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.

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, 2016:

	<u>1% Decrease (7.00%)</u>	<u>Discount (8.00%)</u>	<u>1% Increase (9.00%)</u>
Net pension liability	\$ 57,962,738	\$ 50,365,882	\$ 44,011,621

The following presents the net pension liability of the Retirement System, calculated using the discount rate of 8.25%, 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 (7.25%) or 1-percentage-point higher (9.25%) than the current rate at June 30, 2015:

	<u>1% Decrease (7.25%)</u>	<u>Discount (8.25%)</u>	<u>1% Increase (9.25%)</u>
Net pension liability	\$ 49,571,509	\$ 43,268,533	\$ 37,941,170

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

For the years ended June 30, 2016 and 2015, the Water Supply Board recognized pension expense of \$5,698,801 and \$3,967,510, respectively.

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

At June 30, 2016, 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	\$ 50,616	\$ 178,623
Changes of assumptions	2,492,840	
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,528,207	
Net difference between projected and actual earning on pension plan investments	<u>1,277,011</u>	
Total	<u>\$ 6,348,674</u>	<u>\$ 178,623</u>

At June 30, 2015, 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	\$ 63,403	\$
Changes of assumptions	32,313	
Net difference between projected and actual earning on pension plan investments	<u>1,060,726</u>	
Total	<u>\$ 1,156,442</u>	<u>\$ -</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:

2017	\$ 1,622,650
2018	1,622,650
2019	1,622,650
2020	<u>1,302,101</u>
Thereafter	<u>\$ 6,170,051</u>

Payable to the Plan

At June 30, 2016, the Water Supply Board had made full payment of the required pension contribution for the year ended June 30, 2016.

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

10. POST EMPLOYMENT BENEFITS

The Water Supply Board follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

The Water Supply Board’s Post-Retirement Benefits Program of the City of Providence (the Program) is a defined-benefit, single-employer post-retirement health and life insurance program. The Program provides lifetime health care and life insurance benefits to retired employees and their spouses when retirement was effective prior to 1996. Disclosures about this program, as a whole, are presented in the City of Providence, Rhode Island’s basic financial statements. As of June 30, 2016 and 2015, the City recorded a liability for unpaid post-retirement contributions of \$278,037,000 and \$241,723,000, respectively. Separate actuarial information related to the Water Supply Board employees is not available. Accordingly, only disclosures about the Water Supply Board’s participation in the Plan are presented herein.

<u>Year Ended June 30,</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
2016	\$ 1,841,000	\$ 678,000	36.8%	\$ 7,858,000
2015	1,774,000	507,000	28.6%	6,671,000
2014	1,755,357	437,598	24.9%	5,385,261

The historical schedules of employer contributions and funding progress for the Program are included in the City of Providence, Rhode Island’s basic financial statements.

11. RECLASSIFICATIONS

Certain reclassifications have been made to the Water Supply Board’s financial statement presentation as of and for the year ended June 30, 2015 to correspond to the current year’s format.

12. SUBSEQUENT EVENTS

Effective January 1, 2017, the Providence Water Supply Board entered into an agreement to merge with the East Smithfield Water District in Smithfield, Rhode Island. As part of the agreement, the Providence Water Supply Board has agreed to spend no less than \$4 million to upgrade the East Smithfield Water District’s infrastructure over a 10-year period.

**PROVIDENCE WATER SUPPLY BOARD
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LAST THREE FISCAL YEARS***

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability:			
Service cost	\$ 941,053	\$ 854,182	\$ 893,162
Interest	5,130,041	5,509,989	4,946,549
Differences between expected and actual experience	(223,279)	79,253	
Change from difference in proportionate share	3,875,236		
Changes of assumptions	3,083,805	40,391	
Benefit payments, including refunds of member contributions	<u>(5,531,918)</u>	<u>(4,663,093)</u>	<u>(4,973,233)</u>
Net change in total pension liability	7,274,938	1,820,722	866,478
Total pension liability - beginning	<u>60,131,939</u>	<u>58,311,217</u>	<u>57,444,739</u>
Total pension liability - ending	<u>67,406,877</u>	<u>60,131,939</u>	<u>58,311,217</u>
Plan fiduciary net position:			
Contributions - employer	3,615,102	3,212,354	2,945,209
Contributions - member	615,760	1,037,505	911,508
Net investment income	401,320	331,724	1,210,438
Change from difference in proportionate share	1,086,733		
Benefit payments, including refunds of member contributions	(5,531,918)	(4,663,093)	(4,973,233)
Administrative expense	<u>(9,408)</u>	<u>(9,367)</u>	<u>(71,955)</u>
Net change in plan fiduciary net position	177,589	(90,877)	21,967
Plan fiduciary net position - beginning	<u>16,863,406</u>	<u>16,954,283</u>	<u>16,932,316</u>
Plan fiduciary net position - ending	<u>17,040,995</u>	<u>16,863,406</u>	<u>16,954,283</u>
Net Pension Liability - Ending	<u>\$ 50,365,882</u>	<u>\$ 43,268,533</u>	<u>\$ 41,356,934</u>
Plan fiduciary net position as a percentage of the total pension liability	25.28%	28.04%	29.08%
Covered-employee payroll	\$ 13,096,208	\$ 12,930,447	\$ 11,900,000
Net pension liability as a percentage of covered-employee payroll	384.58%	334.63%	347.54%

***Notes:**

1. The amounts presented for each fiscal year were determined as of a June 30 measurement date prior to the fiscal year end
2. This schedule is intended to show information for 10 years - additional years will be displayed as they become available

**PROVIDENCE WATER SUPPLY BOARD
SCHEDULE OF EMPLOYER CONTRIBUTIONS
LAST THREE FISCAL YEARS***

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 3,615,102	\$ 3,212,354	\$ 2,945,209
Contributions in relation to the actuarially determined contribution	<u>3,615,102</u>	<u>3,212,354</u>	<u>2,945,209</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 13,096,208	\$ 12,930,447	\$ 11,900,000
Contributions as a percentage of covered-employee payroll	27.60%	24.84%	24.75%

Notes to Schedule

Valuation date: July 1, 2015
 Measurement date: June 30, 2016
 Actuarially determined contribution rates are calculated as of July 1, two years prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level dollar for the 1995 deferral liability and increasing 3.5% per year for the remaining unfunded liability.
Remaining amortization period	25 years remaining as of July 1, 2015 (16 years remaining as of July 1, 2015 for the 1995 deferral).
Asset valuation method	Market value of assets as reported by the City less unrecognized returns in each of the last five years. 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.
Inflation	3.50%
Salary increases	3.5% per year before reflecting increases due to longevity compensation
Investment rate of return	8.25%, net of pension plan investment and administrative expenses, including inflation.
Cost of living adjustments	10-year freeze as of January 1, 2013 and 3% thereafter.
Benefit changes	There have been no changes in benefit provisions since GASB 67/68 implementation.
Assumption changes	The actuarial assumptions used reflect the assumptions proposed in the Experience Investigation for the Five Year Period Ending June 30, 2011 submitted to the Board on April 2, 2012, with the following exception: The retirement rate for Class B participants is 100% at age 60.

*Note - This schedule is intended to show information for ten years - additional years will be displayed as they become available

**PROVIDENCE WATER SUPPLY BOARD
SCHEDULE OF INVESTMENT RETURNS
LAST THREE FISCAL YEARS***

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	2.60%	5.56%	14.04%

***Notes:**

1. The amounts presented for each fiscal year were determined as of a June 30 measurement date prior to the fiscal year end
2. This schedule is intended to show information for 10 years - additional years will be displayed as they become available

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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*

To the Board of Directors
Providence Water Supply Board

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the Providence Water Supply Board (the Water Supply Board), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Water Supply Board's basic financial statements, and have issued our report thereon dated December 29, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Water Supply Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Water Supply Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Water Supply Board'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 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 combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Water Supply Board'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 result of that testing, and not to provide an opinion on the effectiveness of the Water Supply Board's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Water Supply Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blum, Shapiro & Company, P.C.

Cranston, Rhode Island
December 29, 2016

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

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

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

To the Board of Directors of
Providence Water Supply Board

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 years ended June 30, 2017 and 2016, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2017 and 2016 and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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, 2017 and 2016, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and the pension schedules on pages 30 through 32 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 29, 2017, 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 29, 2017

**PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017 AND 2016**

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 years ended June 30, 2017 and 2016.

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 statements of net position present 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 statements of revenues, expenses and changes in net position report 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 statements of cash flows report 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, 2017 AND 2016**

Condensed Financial Information

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total current assets	\$ 54,554,469	\$ 54,703,458	\$ 55,703,859
Total long-term assets	391,547,959	360,983,066	317,261,613
Total assets	<u>446,102,428</u>	<u>415,686,524</u>	<u>372,965,472</u>
Deferred outflows of resources	<u>4,739,191</u>	<u>6,348,674</u>	<u>1,156,442</u>
Total current liabilities	11,953,738	13,183,282	13,498,670
Total long-term liabilities	170,282,008	157,876,249	123,484,780
Total liabilities	<u>182,235,746</u>	<u>171,059,531</u>	<u>136,983,450</u>
Deferred inflows of resources	<u>786,585</u>	<u>178,623</u>	<u>-</u>
Net position:			
Net investment in capital assets	273,631,269	256,129,467	239,087,594
Restricted fund	41,155,297	37,233,166	36,145,168
Unrestricted fund	<u>(46,967,278)</u>	<u>(42,565,589)</u>	<u>(38,094,301)</u>
Total Net Position	<u>\$ 267,819,288</u>	<u>\$ 250,797,044</u>	<u>\$ 237,138,461</u>
Total operating revenue	\$ 71,778,075	\$ 69,209,492	\$ 69,231,217
Total operating expenses	45,438,116	44,687,516	43,179,067
Depreciation	10,327,272	10,673,384	11,313,363
Total operating expenses including depreciation	<u>55,765,388</u>	<u>55,360,900</u>	<u>54,492,430</u>
Operating income	16,012,687	13,848,592	14,738,787
Nonoperating expense	(2,622,675)	(673,210)	(1,811,838)
Capital grants and contributions	<u>405,252</u>	<u>483,201</u>	<u>1,098,257</u>
Change in Net Position	<u>\$ 13,795,264</u>	<u>\$ 13,658,583</u>	<u>\$ 14,025,206</u>

**PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017 AND 2016**

Financial Highlights

During the year, the Water Supply Board had operating revenues that exceeded operating expenses by \$16.0 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 \$450.8 million, up \$28.8 million from last year's total assets of \$422.0 million. Current assets, principally cash, decreased by \$0.15 million, and net plant increased by \$30.6 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 \$.39 million.

The Water Supply Board's net position totaled \$250.8 million at June 30, 2016, an increase of \$13.66 million from June 30, 2015. 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 \$13.8 million, net nonoperating expenses of \$0.67 million, and capital contributions of \$0.40 million.

The Water Supply Board's total operating revenues were \$71.8 million for fiscal year 2017 which was a slight increase over the prior year. One reason for the increase is 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.

The Water Supply Board's total operating revenues were \$69.2 million for fiscal year 2016, which is consistent with the prior year. Total operating expenses of the water system amounted to \$55.4 million, which is a slight increase over the prior year's amount of \$54.5 million. Fiscal year 2016 nonoperating revenue consisted of interest income amounting to \$404,534 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 \$2.7 million was principally interest expense on long-term debt. Capital grants and contributions in fiscal year 2016 amounted to \$0.48 million.

**PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2017 AND 2016**

Capital Assets and Debt Administration

Capital Assets:

At June 30, 2017, the Water Supply Board had \$390.1 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 \$30.7 million, or 8.5%, over the prior year.

At June 30, 2016, the Water Supply Board had \$359.7 million invested in various capital assets. This amount represented a net increase of \$42.4 million, or 13.4%, over the previous year.

Major project expenditures in fiscal year 2017 included (in millions):

*	Central Operating Facility	\$	12.92
*	Replace/upgrade Water Mains	\$	12.32
*	Replace sand filters	\$	2.17
*	102” & 78” Aqueducts - Investigation/rehabilitation	\$	1.34
*	GIS System and Asset Management System	\$	0.70
*	Pre-treatment Pilot - Scale Evaluation	\$	0.69
*	Replace lead services	\$	0.44
*	Replace fire hydrants	\$	0.43
*	Plant Influent and Aerator Rehabilitation	\$	0.39
*	Replace Blow-offs	\$	0.36
*	Unidirectional Flushing (UDF) Program Development	\$	0.30
*	Treatment Process and Water Quality Studies	\$	0.30
*	Treatment Plant Architectural Upgrades	\$	0.25
*	Computer/IT Equipment Virtualization	\$	0.21
*	Chlorine Room Monorail and Scales Replacement	\$	0.21
*	Replace Distribution Valves	\$	0.20
*	Renewable Energy Feasibility Study	\$	0.15
*	Water Main Tie-ins	\$	0.13
*	Various Pumping and Storage Improvements	\$	0.12
*	Fruit Hill Pumping Station Upgrades	\$	0.11

The Water Supply Board’s fiscal year 2017 capital budget included project expenditures of \$34.38 million for infrastructure and capital projects. The major projects were: continuation of the renovation of the new central operation facility, water main replacements and upgrades, treatment plant filter replacements, 102” and 78” aqueducts rehabilitation, installation of a new asset management system, replacement of lead services and aging fire hydrants, plant influent and aerator upgrades, replacement and upgrade of aging computer infrastructure, and upgrades to aging pump stations. 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 2017. 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, 2017 AND 2016**

Debt:

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%. Providence Water Supply Board sought and received approval from the RI Division of Public Utilities (the Division) to borrow \$16.272 million from the RI Infrastructure Bank to finance the replacement and rehabilitation of water mains in the distribution system. The new \$16.272 million was issued in May of 2017, and the necessary rates were approved by the PUC as a part of the new rates approved in February of 2017.

At June 30, 2016, the Water Supply Board had \$103.5 million in bonds and notes outstanding versus \$78.2 million in the previous year. This represented an increase of \$25.4 million, or 32.4%. This increase was a result of a new bond issue in the amount of \$30 million to finance the new Central Operations Facility.

Subsequent Events

In October of 2017, Providence Water Supply Board officially opened its doors of its new Central Operation Facility to the public. The facility is located at 125 Dupont Drive in Providence.

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.

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)
STATEMENTS OF NET POSITION
JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Assets:		
Current unrestricted assets:		
Cash and cash equivalents	\$ 1,324,140	\$ 2,364,040
Accounts receivable, net of allowance for uncollectible accounts of \$1,223,168 in 2017 and \$1,242,827 in 2016	6,817,315	6,696,642
Accounts receivable - unbilled	2,633,646	2,843,801
Inventory	570,693	569,051
Other assets	113,716	
Total current unrestricted assets	<u>11,459,510</u>	<u>12,473,534</u>
Current restricted assets:		
Cash and cash equivalents	42,887,926	42,041,914
Accounts receivable	75,251	60,571
Notes receivable - short term	131,782	127,439
Total current restricted assets	<u>43,094,959</u>	<u>42,229,924</u>
Total current assets	<u>54,554,469</u>	<u>54,703,458</u>
Capital assets:		
Land	24,113,598	23,836,137
Building and improvements	117,974,309	103,048,502
Improvements other than buildings	339,975,131	326,348,497
Machinery and equipment	32,722,062	31,999,221
Scituate Reservoir Project	18,681,695	18,681,695
Construction in progress	85,556,950	73,252,031
	<u>619,023,745</u>	<u>577,166,083</u>
Less accumulated depreciation and amortization	<u>228,652,391</u>	<u>217,491,404</u>
Total capital assets, net	<u>390,371,354</u>	<u>359,674,679</u>
Other noncurrent assets:		
Notes receivable - long term	<u>1,176,605</u>	<u>1,308,387</u>
Deferred Outflows of Resources:		
Pension-related deferred outflows of resources	<u>4,739,191</u>	<u>6,348,674</u>
Total assets and deferred outflows of resources	<u>450,841,619</u>	<u>422,035,198</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)
STATEMENTS OF NET POSITION (CONTINUED)
JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Liabilities:		
Current:		
Current portion of long-term debt	\$ 5,391,621	\$ 3,892,845
Due to City of Providence General Fund	743,174	643,624
Accounts payable	1,029,991	1,049,299
Accrued liabilities	<u>2,849,290</u>	<u>2,600,756</u>
	<u>10,014,076</u>	<u>8,186,524</u>
Amounts to be paid from current restricted assets:		
Due to Water Resources Board	304,847	360,017
Accounts payable	<u>1,634,815</u>	<u>4,636,741</u>
	<u>1,939,662</u>	<u>4,996,758</u>
Total current liabilities	<u>11,953,738</u>	<u>13,183,282</u>
Noncurrent liabilities:		
General revenue bonds	111,348,464	99,652,367
Net pension liability	50,302,544	50,365,882
Other post employment benefit obligations payable	<u>8,631,000</u>	<u>7,858,000</u>
Total noncurrent liabilities	<u>170,282,008</u>	<u>157,876,249</u>
Total liabilities	<u>182,235,746</u>	<u>171,059,531</u>
Deferred Inflows of Resources:		
Pension-related deferred inflows of resources	<u>786,585</u>	<u>178,623</u>
Net Position:		
Net investment in capital assets	273,631,269	256,129,467
Restricted	41,155,297	37,233,166
Unrestricted	<u>(46,967,278)</u>	<u>(42,565,589)</u>
Total Net Position	<u>\$ 267,819,288</u>	<u>\$ 250,797,044</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)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Operating Revenues:		
Charges for services:		
Water sales:		
General customers	\$ 49,599,264	\$ 47,413,514
Other local water suppliers	17,007,836	16,929,522
Fire protection services	2,421,070	2,322,938
Maintenance charges and other revenue	2,749,905	2,543,518
Total operating revenues	<u>71,778,075</u>	<u>69,209,492</u>
Operating Expenses:		
Source of supply	2,705,585	2,785,157
Pumping operations	878,433	755,951
Water treatment	7,591,065	7,376,945
Transmission and distribution	6,213,933	6,158,189
Charge for services provided by other City departments	839,167	839,167
Customer accounts and service	4,111,085	3,738,236
Administrative and general	15,937,492	16,014,991
Depreciation	10,327,272	10,673,384
Property taxes - other local governments	7,161,356	7,018,880
Total operating expenses	<u>55,765,388</u>	<u>55,360,900</u>
Operating Income	<u>16,012,687</u>	<u>13,848,592</u>
Nonoperating Revenue (Expense):		
Interest income	279,905	404,534
Interest expense and other	(2,902,580)	(2,682,272)
Other revenues		1,604,528
Net nonoperating expense	<u>(2,622,675)</u>	<u>(673,210)</u>
Capital Grants and Contributions	<u>405,252</u>	<u>483,201</u>
Change in Net Position	13,795,264	13,658,583
Net Position Acquired via Merger	3,226,980	-
Net Position - Beginning of Year	<u>250,797,044</u>	<u>237,138,461</u>
Net Position - End of Year	<u>\$ 267,819,288</u>	<u>\$ 250,797,044</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)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Receipts from customers	\$ 72,135,913	\$ 71,148,337
Payments to vendors	(26,927,557)	(24,401,681)
Payments to employees	(18,331,135)	(17,785,511)
Net cash provided by (used in) operating activities	<u>26,877,221</u>	<u>28,961,145</u>
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(37,488,692)	(53,086,450)
Interest and issuance costs paid on debt	(2,902,580)	(2,682,272)
Principal payments on long-term debt	(3,944,684)	(4,628,807)
Proceeds from long-term debt	16,272,095	30,000,000
Proceeds from note receivable	127,439	168,702
Capital grants	405,252	483,201
Net cash provided by (used in) capital and related financing activities	<u>(27,531,170)</u>	<u>(29,745,626)</u>
Cash Flows from Investing Activities:		
Investment income (loss)	279,905	404,534
Cash acquired through merger	180,156	
Net cash provided by (used in) investing activities	<u>460,061</u>	<u>404,534</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(193,888)	(379,947)
Cash and Cash Equivalents - Beginning of Year	<u>44,405,954</u>	<u>44,785,901</u>
Cash and Cash Equivalents - End of Year	<u>\$ 44,212,066</u>	<u>\$ 44,405,954</u>
Unrestricted Cash and Cash Equivalents	\$ 1,324,140	\$ 2,364,040
Restricted Cash and Cash Equivalents	<u>42,887,926</u>	<u>42,041,914</u>
	<u>\$ 44,212,066</u>	<u>\$ 44,405,954</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Operating income (loss)	\$ 16,012,687	\$ 13,848,592
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	10,327,272	10,673,384
Provision for doubtful accounts	19,659	4,251
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	410,094	185,708
(Increase) decrease in inventories	46,036	257,479
(Increase) decrease in other assets		300,455
(Increase) decrease in deferred outflows of resources	1,624,539	(5,192,232)
Increase (decrease) in due to other funds	99,550	(750,798)
Increase (decrease) in accounts payable and accrued expenses	(2,970,744)	1,171,374
Increase (decrease) net pension liability	(63,338)	7,097,309
Increase (decrease) OPEB obligation	773,000	1,187,000
Increase (decrease) in deferred inflows of resources	<u>598,466</u>	<u>178,623</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 26,877,221</u>	<u>\$ 28,961,145</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 2017, the \$75,250 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.

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.

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.

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, 2017, 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 plan (active employees and inactive employees).

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

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 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 plan (active employees and inactive employees).

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.

3. CASH

The following is a summary of cash and investments:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 1,324,140	\$ 2,364,040
Restricted cash and cash equivalents	<u>42,887,926</u>	<u>42,041,914</u>
	<u>\$ 44,212,066</u>	<u>\$ 44,405,954</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 \$43,503,382, \$250,000 is covered by Federal Deposit Insurance Corporation (FDIC) insurance and \$1,081,140 is the balance is covered by the collateral agreements.

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

4. CAPITAL ASSETS

The following is a summary of the activity in capital assets as of June 30, 2017:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Assets Acquired via Merger</u>	<u>Disposals/ Transfers</u>	<u>Ending Balance</u>
Capital assets not being depreciated:					
Land	\$ 23,836,137	\$ 277,461	\$	\$	\$ 24,113,598
Scituate Reservoir Project	18,681,695				18,681,695
Construction in progress	<u>73,252,031</u>	<u>53,131,450</u>	<u>11,532</u>	<u>40,838,063</u>	<u>85,556,950</u>
Total capital assets not being depreciated	<u>115,769,863</u>	<u>53,408,911</u>	<u>11,532</u>	<u>40,838,063</u>	<u>128,352,243</u>
Capital assets being depreciated:					
Buildings and improvements	103,048,502	14,925,807			117,974,309
Sewer and infrastructure	326,348,497	9,429,143	4,197,491		339,975,131
Equipment	<u>31,999,221</u>	<u>562,893</u>	<u>159,948</u>		<u>32,722,062</u>
Total capital assets being depreciated	<u>461,396,220</u>	<u>24,917,843</u>	<u>4,357,439</u>	<u>-</u>	<u>490,671,502</u>
Less accumulated depreciation for:					
Buildings and improvements	66,803,907	5,146,827			71,950,734
Sewer and infrastructure	122,031,894	4,621,228	733,335		127,386,457
Equipment	<u>28,655,603</u>	<u>559,217</u>	<u>100,380</u>		<u>29,315,200</u>
Total accumulated depreciation	<u>217,491,404</u>	<u>10,327,272</u>	<u>833,715</u>	<u>-</u>	<u>228,652,391</u>
Total capital assets being depreciated, net	<u>243,904,816</u>	<u>14,590,571</u>	<u>3,523,724</u>	<u>-</u>	<u>262,019,111</u>
Capital Assets, Net	<u>\$ 359,674,679</u>	<u>\$ 67,999,482</u>	<u>\$ 3,535,256</u>	<u>\$ 40,838,063</u>	<u>\$ 390,371,354</u>

The following is a summary of the activity in capital assets as of June 30, 2016:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 22,613,760	\$ 1,222,377	\$	\$ 23,836,137
Scituate Reservoir Project	18,681,695			18,681,695
Construction in progress	<u>55,087,340</u>	<u>71,876,564</u>	<u>53,711,873</u>	<u>73,252,031</u>
Total capital assets not being depreciated	<u>96,382,795</u>	<u>73,098,941</u>	<u>53,711,873</u>	<u>115,769,863</u>
Capital assets being depreciated:				
Buildings and improvements	84,679,611	18,368,891		103,048,502
Sewer and infrastructure	311,430,903	14,917,594		326,348,497
Equipment	<u>31,586,324</u>	<u>412,897</u>		<u>31,999,221</u>
Total capital assets being depreciated	<u>427,696,838</u>	<u>33,699,382</u>	<u>-</u>	<u>461,396,220</u>
Less accumulated depreciation for:				
Buildings and improvements	61,474,932	5,328,975		66,803,907
Sewer and infrastructure	117,431,723	4,600,171		122,031,894
Equipment	<u>27,911,365</u>	<u>744,238</u>		<u>28,655,603</u>
Total accumulated depreciation	<u>206,818,020</u>	<u>10,673,384</u>	<u>-</u>	<u>217,491,404</u>
Total capital assets being depreciated, net	<u>220,878,818</u>	<u>23,025,998</u>	<u>-</u>	<u>243,904,816</u>
Capital Assets, Net	<u>\$ 317,261,613</u>	<u>\$ 96,124,939</u>	<u>\$ 53,711,873</u>	<u>\$ 359,674,679</u>

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5. LONG-TERM DEBT

Long-term debt activity for the years ended June 30, 2017 and 2016, was as follows:

	2017					
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Assumption of Debt via Merger</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable:						
Revenue bonds	\$ 103,545,212	\$ 16,272,095	\$ 867,462	\$ 3,944,684	\$ 116,740,085	\$ 5,391,621
Long-Term Liabilities	<u>\$ 103,545,212</u>	<u>\$ 16,272,095</u>	<u>\$ 867,462</u>	<u>\$ 3,944,684</u>	<u>\$ 116,740,085</u>	<u>\$ 5,391,621</u>

	2016				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable:					
Revenue bonds	\$ 78,174,019	\$ 30,000,000	\$ 4,628,807	\$ 103,545,212	\$ 3,892,845
Long-Term Liabilities	<u>\$ 78,174,019</u>	<u>\$ 30,000,000</u>	<u>\$ 4,628,807</u>	<u>\$ 103,545,212</u>	<u>\$ 3,892,845</u>

The following is a summary of bonds and notes outstanding at June 30, 2017 and 2016:

<u>Description</u>	<u>Amount of Interest Rate (%)</u>	<u>Outstanding June 30, 2017</u>	<u>Outstanding June 30, 2016</u>
Safe Drinking Water Bonds (CWFA FY2002)	3.61%	\$ 783,429	\$ 924,704
Scituate Reservoir Project (PPBA FY 2011)	5.40%	225,688	368,258
Safe Drinking Water Bonds (CWFA FY2008)	2.85%	25,181,000	26,703,000
Safe Drinking Water Bonds (CWFA FY2010)	.0410% to 3.14%	7,062,250	7,458,250
Safe Clean Water Bonds (CWFA FY2012)	.072% to 3.26%	2,492,000	2,621,000
Safe Clean Water Bonds (CWFA FY2013)	.019% - 2.53%	3,662,000	3,842,000
Safe Drinking Water Bonds (CWFA FY2013)	.022% - 2.63%	22,913,000	23,960,000
Safe Drinking Water Bonds (CWFA FY2013)	.022% - 3.01%	7,334,000	7,668,000
Safe Drinking Water Bonds (CWFA FY2015)	.022% - 3.01%	29,999,000	30,000,000
Safe Drinking Water Bonds (CWFA FY2017)	.022% to 1.95%	16,272,095	
East Smithfield Water District DWSRF Bonds Series 2009A (RIIB- FY2009 Bond)	3.51%	187,940	205,836
East Smithfield Water District DWSRF Loan Series 2009A (RIIB- FY2009 Loan)	3.00%	130,000	140,000
East Smithfield Water District DWSRF Bond Series 2014A (RIIB- FY2014 Bond)	1.30% - 3.43%	497,683	521,626

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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>
2018	\$ 5,391,621	\$ (277,765)	\$ 2,917,119	\$ 8,030,975
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
2023-2027	33,652,289	(1,859,937)	9,699,384	41,491,736
2028-2032	33,276,208	(1,969,833)	5,198,632	36,505,007
2033-2037	19,547,616	(1,109,630)	1,149,422	19,587,408
Total	\$ <u>116,740,085</u>	\$ <u>(6,567,357)</u>	\$ <u>29,998,153</u>	\$ <u>140,170,881</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, 2017 and 2016. 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, 2017 and 2016, totaled \$743,174 and \$643,624, respectively.

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, 2017 and 2016 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.

Lead Service Replacement Program

The Environmental Protection Agency (EPA) Lead and Copper Rule (the Rule) requires that systems monitor drinking water at the customer tap. In accordance with the Rule, if after corrosion control optimization is implemented, lead concentrations exceed an action level of 15 ppb in more than 10% of customer taps sampled, the system is required to replace lead service lines under its ownership. The regulations require that the utility must replace annually 7% of the total amount of lead services in the system. In accordance with EPA requirements, the Rhode Island Department of Health (RIDOH) found that the Water Supply Board exceeded the lead action level on September 30, 2006 (the date of conclusion of that monitoring period) and was required to begin the annual replacement of 7% of its 25,600 lead services. Because of lead-time in gearing up for an undertaking of this magnitude, RIDOH and the Water Supply Board agreed to a compliance schedule that fulfilled the intent of the regulation whereby 14% of the lead services were to be replaced over the two-year period ending September 30, 2008 and 7% annually thereafter.

By September 2010, the Water Supply Board exceeded the lead service replacement requirement by over 2,200 services and as a result of being approximately one year ahead of the regulatory required pace, we were informed by RIDOH that the mandated replacements of lead service could be suspended until October 2011.

During this period, various concerns were raised about the effectiveness of partial lead service replacements, the persistence of lead levels in the water, and the difficulty of finding a proven solution for reducing the levels. In June 2012 the RIDOH, in concert with the EPA, agreed to enter into a consent agreement with the Water Supply Board, which granted a stay of the lead service replacement requirement for construction season 2012. As part of the agreement, RIDOH and the EPA required that the Water Supply Board convene a panel of national water quality experts, to include regulators, water professionals and members of academia, to recommend studies and/or treatment modifications with the objective of reducing lead levels in the water. In 2013, the Water Supply Board was granted a stay of the lead services replacement requirement for the 2013 construction season.

In April 2014, RIDOH granted the Water Supply Board a stay of the lead service replacement requirement for the 2014 construction season. By consent order the City of Providence is required to:

1. Continue with the consultation with its expert panel to evaluate corrosion control treatment in the system.
2. Conduct studies to examine alternative treatment schemes for optimization of corrosion control.
3. Continue a unidirectional flushing program.
4. Continue to rehabilitate and replace unlined cast iron mains that are usually found to be problematic in terms of both water quality and delivery capacity.

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Even though the lead service replacement program is temporarily suspended, lead services are still replaced in conjunction with the water main replacement program. Lead services are also replaced on an ongoing basis where customers are voluntarily replacing their private side lead services. Lead services continue to be replaced in areas of local and state road resurfacing projects, and on projects initiated by private or outside entities. The Water Supply Board’s own crews replace lead services that are found to be leaking. The replacement work is subject to all of the EPA regulatory notification, testing and reporting requirements.

Since inception of the reporting of the IFR program and the lead service replacement program to the RIPUC (July 1, 1996), the Water Supply Board has replaced 17,456 lead services to the end of fiscal year 2017 (June 30, 2017) at a cost of \$56,316,773.

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, 2017, 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, 2017:

Asset Class	Target Allocation
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
	100.00%

The total pension liability was determined by an actuarial valuation as of June 30, 2016 and rolled forward to June 30, 2017, 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, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 12.2%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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, 2017 are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	39.25%	6.44%
International developed markets equity	13.25	7.40
International emerging markets equity	1.50	9.42
Core fixed income	29.00	2.02
Hedge fund, GTAA, Risk parity	13.00	3.75
Private equity	4.00	10.47
	100.00%	

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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 years ended June 30, 2017, 2016 and 2015 were \$3,636,754, \$3,615,102 and \$3,212,354, respectively.

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, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

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

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Total pension liability	\$ 67,816,389	\$ 67,406,877
Plan fiduciary net position	<u>17,513,845</u>	<u>17,040,995</u>
Net Pension Liability	<u>\$ 50,302,544</u>	<u>\$ 50,365,882</u>
Plan fiduciary net position as a percentage of the total pension liability	25.83%	25.28%

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Additional information as of the latest actuarial valuation follows:

Valuation Date	July 1, 2016
Actuarial cost method	Individual entry age method
Amortization cost method	Approximate level percent of payroll-open
Remaining amortization period	25 years
Asset valuation method	5-year smoothed market value
Actuarial assumptions: Investment rate of return	8.0%
Inflation rate	3.5%
Projected salary increases	3.5% per year before reflecting increases due to longevity compensation
Cost of living adjustments	No COLA for next 7 years, 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, 2017 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.

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, 2017:

	1% Decrease (7.00%)	Discount (8.00%)	1% Increase (9.00%)
Net pension liability	\$ 57,842,478	\$ 50,302,544	\$ 43,990,393

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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, 2016:

	<u>1% Decrease (7.00%)</u>	<u>Discount (8.00%)</u>	<u>1% Increase (9.00%)</u>
Net pension liability	\$ 57,962,738	\$ 50,365,882	\$ 44,011,621

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

For the years ended June 30, 2017 and 2016, the Water Supply Board recognized pension expense of \$5,294,710 and \$5,698,801, respectively.

At June 30, 2017, 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	\$ 496,962	\$ 131,620
Changes of assumptions	1,834,758	
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,868,314	654,965
Net difference between projected and actual earning on pension plan investments	<u>539,157</u>	
	<u>\$ 4,739,191</u>	<u>\$ 786,585</u>

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At June 30, 2016, 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	\$ 50,616	\$ 178,623
Changes of assumptions	2,492,840	
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,528,207	
Net difference between projected and actual earning on pension plan investments	<u>1,277,011</u>	
	<u>\$ 6,348,674</u>	<u>\$ 178,623</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:

2018	\$ 1,462,683
2019	1,462,681
2020	1,165,433
2021	<u>(138,191)</u>
	<u>\$ 3,952,606</u>

Payable to the Plan

At June 30, 2017, the Water Supply Board had made full payment of the required pension contribution for the year ended June 30, 2017.

10. POST EMPLOYMENT BENEFITS

Plan Description

The Water Supply Board's Post-Employment Medical Benefit Plan is a single-employer defined benefit postretirement health insurance program administered by the City. The City provides for a portion of the lifetime health care benefits to substantially all retired employees and their spouses. Health care benefits are provided through the City's self-insured health insurance program covering both active and retired employees. The Plan does not issue a separate financial report. These benefits are provided for and amended under various provisions of Rhode Island General Law, City Ordinances and the terms of collective bargaining agreements.

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OPEB Funding Policy

The contribution requirements of plan members and the City are established and may be amended through provisions of Rhode Island General Law, City Ordinances and through collective bargaining. The required contribution is based on pay as you go financing requirements. The Plan can cover 100% of the costs of the benefit; however, retirees and their spouses are potentially required to fund a portion of the Plan costs depending upon the class an employee has been assigned and their date of hire. Current employee co-share for the retiree health insurance benefit requires a co-share of .01 of final average salary with a maximum limit of \$400.

The following is a current census of the Water Supply Board participants as of July 1, 2016:

Active members	208
Retirees	<u>125</u>
Total	<u><u>333</u></u>

Annual OPEB Cost and Net OPEB Obligation

The Water Supply Board’s annual OPEB cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of future events. Assumptions include future employment, mortality, and healthcare and other benefit cost trends. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as accrual results are compared with past expectations and new estimates are made about the future.

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Water Supply Board’s annual OPEB cost for the year, the amount actually contributed to the plan and changes in the Water Supply Board’s net OPEB obligation:

Annual required contribution	\$ 1,326,000
Interest on net OPEB obligation	314,000
Adjustment to annual required contribution	<u>(286,000)</u>
Annual OPEB cost	1,354,000
Contributions made	<u>581,000</u>
Increase in net OPEB obligation	773,000
Net OPEB obligation - beginning of year	<u>7,858,000</u>
Net OPEB Obligation - End of Year	<u><u>\$ 8,631,000</u></u>

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The Water Supply Board’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for June 30, 2015, 2016 and 2017 were is presented below:

<u>Year Ended June 30,</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
2017	\$ 1,326,000	\$ 581,000	43.8%	\$ 8,631,000
2016	1,841,000	678,000	36.8%	7,858,000
2015	1,774,000	507,000	28.6%	6,671,000

Projections of the benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2016 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.0% rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer’s own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 7.5% initially, reduced by decrements of .5% to an ultimate rate of 4.5% after six years. Both rates included a 3.5% inflation assumption. The actuarial value of the assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2016, was 30 years.

The Water Supply Board’s share of annual funding progress is presented below:

Share of Amortization Component:	
Actuarial Accrued Liability as of July 1, 2016	\$ 17,887,885
Assets at Market Value	<u>-</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 17,887,885</u>
Funded Ratio	<u>0.00%</u>
Covered Payroll	<u>\$ 12,504,937</u>
UAAL as a Percentage of Covered Payroll	<u>143.05%</u>

The historical schedules of employer contributions and funding progress for the Program are included in the City of Providence, Rhode Island’s basic financial statements.

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NOTES TO FINANCIAL STATEMENTS**

11. MERGER

On January 13, 2017, the Providence Water Supply Board and the East Smithfield Water District combined in a government merger. Subsequent to the merger, the East Smithfield Water District ceased to exist, and their operations have been absorbed into, and provided by, the Providence Water Supply Board. The initial opening balances of East Smithfield Water District's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position, as of the beginning of the period, were determined on the basis of the carrying values reported in the separate financial statements of East Smithfield Water District as of June 30, 2016, as follows:

Assets:		Liabilities:	
Current assets:		Current liabilities:	
Cash and cash equivalents	\$ 177,367	Accounts payable and accrued liabilities	142,875
Restricted cash and cash equivalents	2,789	Current portion of long-term notes payable	51,839
Receivables, net	354,951	Total current liabilities	<u>194,714</u>
Inventories	47,678		
Total current assets	<u>582,785</u>	Noncurrent liabilities:	
		Notes payable, net	<u>815,623</u>
Capital assets:		Total liabilities	<u>1,010,337</u>
Sewer and infrastructure	4,168,626		
Equipment	188,813	Deferred Inflows of Resources:	
Construction in progress	11,532	Changes in pension plan assumptions	<u>9,496</u>
	<u>4,368,971</u>		
Less accumulated depreciation	833,715	Net Position:	
Total noncurrent assets	<u>3,535,256</u>	Net investment in capital assets	2,667,794
		Restricted for net pension asset	113,716
Other assets:		Restricted for qualified assistance fund	2,789
Net pension asset	<u>113,716</u>	Unrestricted	<u>442,681</u>
		Total Net Position	<u>\$ 3,226,980</u>
Total assets	<u>4,231,757</u>		
Deferred Outflows of Resources:			
Differences between expected and actual experience	11,011		
Net difference between projected and actual earnings on pension plan investments	699		
Contributions made subsequent to the measurement date	<u>3,346</u>		
Total deferred outflows of resources	<u>15,056</u>		

12. SUPPLEMENTAL DISCLOSURES TO STATEMENTS OF CASH FLOWS

There was no cash paid in exchange for the assets and liabilities of the East Smithfield Water District acquired by the Water Supply Board during the fiscal year ended June 30, 2017 (See Note 11).

**PROVIDENCE WATER SUPPLY BOARD
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LAST FOUR FISCAL YEARS***

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability:				
Service cost	\$ 1,017,119	\$ 941,053	\$ 854,182	\$ 893,162
Interest	5,172,289	5,130,041	5,509,989	4,946,549
Differences between expected and actual experience	579,761	(223,279)	79,253	
Change from difference in proportionate share	(1,181,115)	3,875,236		
Changes of assumptions		3,083,805	40,391	
Benefit payments, including refunds of member contributions	(5,178,542)	(5,531,918)	(4,663,093)	(4,973,233)
Net change in total pension liability	409,512	7,274,938	1,820,722	866,478
Total pension liability - beginning	67,406,877	60,131,939	58,311,217	57,444,739
Total pension liability - ending	<u>67,816,389</u>	<u>67,406,877</u>	<u>60,131,939</u>	<u>58,311,217</u>
Plan fiduciary net position:				
Contributions - employer	3,636,754	3,615,102	3,212,354	2,945,209
Contributions - member	573,624	615,760	1,037,505	911,508
Net investment income	1,752,168	401,320	331,724	1,210,438
Change from difference in proportionate share	(298,595)	1,086,733		
Benefit payments, including refunds of member contributions	(5,178,542)	(5,531,918)	(4,663,093)	(4,973,233)
Administrative expense	(12,559)	(9,408)	(9,367)	(71,955)
Net change in plan fiduciary net position	472,850	177,589	(90,877)	21,967
Plan fiduciary net position - beginning	17,040,995	16,863,406	16,954,283	16,932,316
Plan fiduciary net position - ending	<u>17,513,845</u>	<u>17,040,995</u>	<u>16,863,406</u>	<u>16,954,283</u>
Net Pension Liability - Ending	<u>\$ 50,302,544</u>	<u>\$ 50,365,882</u>	<u>\$ 43,268,533</u>	<u>\$ 41,356,934</u>
Plan fiduciary net position as a percentage of the total pension liability	25.83%	25.28%	28.04%	29.08%
Covered-employee payroll	\$ 12,980,186	\$ 13,096,208	\$ 11,900,000	\$ 11,900,000
Net pension liability as a percentage of covered-employee payroll	387.53%	384.58%	363.60%	347.54%

***Notes:**

1. The amounts presented for each fiscal year were determined as of a June 30 measurement date prior to the fiscal year end.
2. This schedule is intended to show information for 10 years - additional years will be displayed as they become available.

**PROVIDENCE WATER SUPPLY BOARD
SCHEDULE OF EMPLOYER CONTRIBUTIONS
LAST FOUR FISCAL YEARS***

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 3,636,754	\$ 3,615,102	\$ 3,212,354	\$ 2,945,209
Contributions in relation to the actuarially determined contribution	<u>3,636,754</u>	<u>3,615,102</u>	<u>3,212,354</u>	<u>2,945,209</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 12,980,186	\$ 13,096,208	\$ 12,930,447	\$ 11,900,000
Contributions as a percentage of covered-employee payroll	28.02%	27.60%	24.84%	24.75%

Notes to Schedule

Valuation date: July 1, 2016

Measurement date: June 30, 2017

Actuarially determined contribution rates are calculated as of July 1, two years prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level dollar for the 1995 deferral liability and increasing 3.5% per year for the remaining unfunded liability.
Remaining amortization period	26 years remaining as of July 1, 2014 (17 years remaining as of July 1, 2014 for the 1995 deferral).
Asset valuation method	Market value of assets as reported by the City less unrecognized returns in each of the last five years. 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.
Inflation	3.50%
Salary increases	3.50% per year before reflecting increases due to longevity compensation
Investment rate of return	8.25%, net of pension plan investment and administrative expenses, including inflation.
Cost of living adjustments	10-year freeze as of January 1, 2013 and 3% thereafter.
Benefit changes	There have been no changes in benefit provisions since GASB 67/68 implementation.
Assumption changes	The following changes were effective July 1, 2015: The investment return assumption was lowered from 8.25% to 8.00%. The mortality assumption for Class A nondisabled participants was changed from the RP-2000 Combined Healthy Mortality Table projected 21 years with Scale AA to the 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 one year post-retirement. The mortality assumption for Class B nondisabled participants was changed from the RP-2000 Combined Healthy Blue Collar Mortality Table projected 21 years with Scale AA to the REP-2014 Blue Collar 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 one year post-retirement. The mortality assumptions for disabled participants was changed from the RP-2000 Combined Healthy Mortality Table set forward three years to the 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 three years.

*Note - This schedule is intended to show information for ten years - additional years will be displayed as they become available.

**PROVIDENCE WATER SUPPLY BOARD
SCHEDULE OF INVESTMENT RETURNS
LAST FOUR FISCAL YEARS***

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	12.20%	2.60%	5.56%	14.04%

***Notes:**

1. The amounts presented for each fiscal year were determined as of a June 30 measurement date prior to the fiscal year end.
2. This schedule is intended to show information for 10 years - additional years will be displayed as they become available.

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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*

To the Board of Directors
Providence Water Supply Board

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the Providence Water Supply Board (the Water Supply Board), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Water Supply Board's basic financial statements, and have issued our report thereon dated December 29, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Water Supply Board'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 result of that testing, and not to provide an opinion on the effectiveness of the Water Supply Board's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Water Supply Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blum, Shapiro & Company, P.C.

Cranston, Rhode Island
December 29, 2017

Providence Water Docket 4994

Bristol County Water Authority Data Request – Set 1 January 28, 2020

BCWA 1-32: With regard to the cost for services rendered by the City Controller's Office:

- a. Please explain the process of how the Controller's Office handles the payment of Providence Water's checks for accounts payable.
- b. Please state how much of the total budget of \$449,016 for the accounts payable portion of the Controller's budget would be reduced if the City did not have to process Providence Water's checks.
- c. For payroll, please state how much incremental time is expended by the Controller's Office to process Providence Water's employee payroll checks.
- d. For the fiscal function, please state how long it took the Controller's Office to process the 47 transfers referenced in Mr. Smith's testimony.
- e. Please describe what each of these transfers were for and provide any supporting documentation.
- f. Please state how much the City Controller's budget would be reduced if it did not provide any services to Providence Water.

RESPONSE:

- a. PWSB has their own A/P department. PWSB A/P department prepares invoices for payment by entering them into Lawson (City-wide ERP system) and confirms cash requirements for each fund's check run. Every week - Controller's A/P then processes all payments through data processing and checks are created. Controller's A/P then matches checks against invoices and are sent to Treasury to be picked up by a PWSB representative on a weekly basis.
- b. The A/P portion of the Controller's Budget is comprised mainly of unionized salaries & fringe. These positions would not be removed if Controller's was not responsible for PWSB checks. If quantified, PWSB portion of total checks processed by Controller's on a yearly basis – is approx. 13% or \$58,372.08 of Controller's budget.
- c. PWSB's payroll records are prepared and entered by PWSB employees. PR records then get pulled in and processed by City Controller's on a weekly basis for approx. 2 hrs/week. City Controller's along with HR also handles setting up new employees in payroll system as well as adjusting tax information as necessary. City Controller also handles direct deposits account setup and confirmation as needed.
- d. Each transfer is prepared and entered by a Fiscal Officer, then reviewed by the Fiscal Supervisor & confirmed by the Deputy Controller. Each of these transfers when complete would take approx. 30 mins or 23.5 hrs.
- e. These transfers were made on behalf of PWSB by the Controller's Office to reimburse the City's General Fund for payroll expenses. PR expenses all get charged

Providence Water Docket 4994

Bristol County Water Authority

Data Request – Set 1

January 28, 2020

to the City on a weekly basis and are then reimbursed with transfers and relief of due to/from from PWSB to City General.

- f. As mentioned in line B – much of the City Controller’s budget is comprised of unionized salaries & fringe. These expenses mainly cannot be reduced. For the purpose of this exercise, PWSB’s measurables for Controller’s as a whole is approx. 13.75% or \$185,218.97 of the total FY20 budget.

Providence Water Docket 4994

Bristol County Water Authority Data Request – Set 1 February 18, 2020

BCWA 1-34: With regard to the services rendered by the Treasurer's Office:

- a. Please set forth all facts to explain why it is equitable to assign costs related to distributing checks for this department as well as the Controller's Office.
- b. Please state what functions provided by the Treasurer's Office are not provided by the Controller's Office.
- c. Please provide all supporting data, assumptions, calculations and work papers used to calculate the percentage of Providence Water checks to City checks. HS
- d. If any employees of Providence Water process and distribute checks for Providence Water, please identify each such employee
- e. Please state how much the Treasurer's budget would be reduced if it did not provide any services to Providence Water.

RESPONSE:

- a. The Finance Department does not distribute checks. Checks are distributed by the Treasurers office and accounted for (i.e., accounts payable) within the Controller's Office.
- b. Treasury: The City of Providence Treasury Department performs the following functions not provided by the Controllers;
 - a. Check and balance
 - b. Review
 - c. Distribution (mail, department pickup, employee pickup, etc.)
 - d. Record keeping
 - e. Stop payments
 - f. Payroll processing
 - g. Systems administration
- c. Please see pdf entitled BCWA 1-34c.
- d. Treasury: Currently no employees of the PW are employed within the Treasury department performing any of these functions.
- e. Treasury: The Treasury budget would be reduced by approximately \$100,000.00 and one FTE.

<i>PWSB Measurables - Controller's Office</i>	
<i>FY2019 Figures</i>	
	A/P
TOTAL CITY CHECKS ISSUED	397,966
TOTAL PWSB CHECKS ISSUED	51,978
PERCENTAGE	13%
	PAYROLL
TOTAL EEs BI-WEEKLY CITY P/R	2081
TOTAL PWSB EEs BIWEEKLY CITY P/R	229
PERCENTAGE	11%
	FISCAL
TOTAL CASH RECS PROCESSED	68
TOTAL PWSB RECS PROCESSED	13
PERCENTAGE	19%
	TRANSFERS
TOTAL TRANSFERS PROCESSED MAY 2019	289
TOTAL PWSB TRANSFERS PROCESSED MAY 2019	34
PERCENTAGE	12%

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Bristol County Water Authority Data Request – Set 1 January 28, 2020

BCWA 1-36: With regard to the services provided by the Personnel Department:

- a. Please describe “all on-boarding and off-boarding and tasks associated with benefits for both active and retired employees” referenced in Mr. Smith’s testimony.
- b. Please state how the duties performed by the Personnel Department with respect to retired employees differ from the services provided by the Retirement Department regarding retired employees.
- c. If Providence Water has any employees who help administer on-boarding, off-boarding and tasks associated with benefits for both active and retired employees, please identify each such employee.
- d. Please state how many fulltime employees or contractors Providence Water would have to hire to perform the services provided by the Personnel Department if the Personnel Department did not provide such services and set forth all facts that support your response.
- e. Please state how much incremental time is expended by the Personnel Department on Providence Water issues.
- f. Please state how much the Personnel Department’s budget would be reduced if it did not provide any services to Providence Water.

RESPONSE: See below.

a. **On-Boarding:**

- Posting requests
- Job description amendments
- Candidate compilations
- Approval of selections
- Onboarding policy documentation
- Health and voluntary benefit enrollment
- Benefit education
- New Hire Orientation
- Depending on the position, license verifications, pre-employment drug test
- CDL training
- Background Criminal Investigation (BCI) checks
- Benefit enrollment with carriers

Off-Boarding:

- Voluntary and involuntary separation from processing
 - COBRA administration
 - Disciplinary action documentation (for involuntary separations)
 - Benefit terminations
 - For retirees, retirement health coverage education and enrollment
- b. City HR reviews retiree health benefits with retiring Water Supply Board members and processes their new health benefit enrollment. The Retirement Office is

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Bristol County Water Authority Data Request – Set 1 January 28, 2020

responsible for processing pension payroll, assisting with retirement-related questions and other ad-hoc tasks. All Retirement related costs are addressed in BCWA 1-33.

- c. Providence Water has three employees.
 - Lynn Roberts, Director
 - Stephanie Martins, HR Generalist
 - Susan Silvestre, Water Supply Board Clerk

- d. If the City of Providence provided no administrative, personnel, or benefit related support to Providence Water, as an entity of approximately 200 individuals, they would likely need between three and four FTE Human Resource employees to seek out fully-funded insurance and voluntary benefits, administer policies, testing and run the on-boarding and off-boarding processes in addition to all other duties.

- e. Providence Water posts several positions a year (23 in the last year or so), which takes hours to process postings, descriptions, and bidders lists for. It is difficult to measure time with such a small response window, but I would say if we were to assume Water makes up 15% of the employee population the Personnel Division staff supports and 11% of the employee population our City Benefits Division of Human Resources supports, and we Assume an equal amount of time is spent on administrative and personnel duties totaling 15% or 11% depending on the employee, the Human Resources Department expends approximately 3,239 hours of work on Providence Water Matters.

- f. \$0- The volume of work produced by Providence Water personnel requests and processes coupled with collective bargaining practices that dedicate the roles of frontline Human Resources staff, would not amount to any monetary savings for the City of Providence in its salary line items. We would still have to perform all of the essential functions of the Human Resources Department without any administrative burden of Providence Water employees.

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Bristol County Water Authority Data Request – Set 1 January 28, 2020

BCWA 1-37: With regard to services rendered by the Data Processing Department:

- a. Please state how many employees are directly employed by Providence Water who provide data processing services.
- b. Please state all facts upon which Mr. Silveira bases his statement that “the cost for these services is roughly equal for all employees, meaning all departments require similar functions for each employee,” and include in your answer which services Mr. Silveira is referring to.
- c. Please identify each specific service that the Data Processing Department provides to Providence Water.
- d. Please state how much the Data Processing Department’s budget would be reduced if it did not provide any services to Providence Water.
- e. Please state how many fulltime employees or contractors Providence Water would have to hire to perform the services provided by the Data Processing Department if the Data Processing Department did not provide such services and set forth all facts that support your response.
- f. Please state which specific ERP services the City provides to Providence Water.
- g. Please describe specifically the network services the Data Processing Department provides to Providence Water.

RESPONSE: See below.

- a. Providence Water employs seven (7) persons within the IT department each with a distinct role in support of the various data processing needs of the organization.
- b. City IT Department hosts the ERP system for City, PPSD and Providence Water. IT also processes payroll and AP check printing and file uploads, and tax form generation and printing. IT manages user accounts for the ERP system, including new user setup, account security, and account archiving. During the normal course of business, IT follows the same procedures for performing these tasks for all employees – meaning the cost to print a City check is the same as printing a Providence Water Check.
- c. The City IT Department hosts the ERP system for City, PPSD and Providence Water. IT also processes payroll and AP check printing and file uploads, and tax form generation and printing. IT manages user accounts for the ERP system, including new user setup, account security, and account archiving.
- d. If the City IT Department did not provide any services to Providence Water, it would still manage the same ERP system for City and PPSD offices, needing the same number of staff. Our licensing costs for the overall ERP system would not change. our annual printing costs – actual paper expenses – would be reduced by approximately \$500.00.

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Bristol County Water Authority Data Request – Set 1 January 28, 2020

- e. If Providence Water actually wanted to replicate a Lawson environment such as ours, and continue with the same level of service, they would likely need:
 - 1 System Administrator similar to Chris Scott's role
 - 1 Server/Hardware Administrator similar to Jimmy Provoyeur's role
 - 1 Database/Reporting Administrator similar to Mark Johnson's role
 - 1 Application Programmer similar to Carol DeAngelis's role
 - 1 Production Supervisor similar to Dan Boccanfuso's role

- f. The City IT Department hosts the ERP system for City, PPSD and Providence Water. IT also processes payroll and AP check printing and file uploads, and tax form generation and printing. IT manages user accounts for the ERP system, including new user setup, account security, and account archiving.

- g. The statement: "Mr. Silveria described how his department provides network services to all city departments and hosts the ERP (enterprise resource planning) system for the City." should not be interpreted to mean the IT department provides network services for Providence Water. The City IT Department does not provide network services for Providence Water.

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Bristol County Water Authority Data Request – Set 1 January 28, 2020

BCWA 1-38: Regarding Mr. Smith's testimony on page 38 regarding additional, non-departmental, expenses allocated to Providence Water:

- a. Please describe the Stop Loss Insurance annual premium that is being allocated to Providence Water.
- b. Please set forth all facts upon which Mr. Smith bases his testimony that the cost for Stop Loss Insurance annual premium has roughly the same cost per employee for all City of Providence employees, including Providence Water employees.
- c. Please describe the Mercer Annual Consulting Fee.
- d. Please set forth all facts upon which Mr. Smith bases his testimony that the cost for Mercer annual **consulting** fee has roughly the same cost per employee for all City of Providence employees, including Providence Water employees.

RESPONSE: See below.

- a. Stop loss premiums are charged based on accrual WSB enrollment. Please see the response Division 3-11.
- b. The stop loss premium is determined by the provider based on enrollment. Water supply board is not treated any differently than other City Departments.
- c. The Mercer annual consulting fee is a fee paid for actuarial and managerial services provided by Mercer to assist in the maintenance of the City's medical funds. Please see the response Division 3-11.
- d. The Mercer Premium is decided by Mercer and charged equitably to each department based on enrollment.

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Bristol County Water Authority
Data Request – Set 1
January 28, 2020

BCWA 1-44: Regarding Mr. Caruolo's testimony on page 16, please state whether there have been any occupants of the Academy Avenue building since December 2017.

RESPONSE:

During the period July 2018 through June 30, 2019, the Academy Avenue location was used by Vison Appraisal to conduct the 2018/2019 Mandatory Tax Revaluation.

It was used by Vision as a means to conduct their city-wide reval and then public appointments to discuss or appeal tax valuation notices that were sent out in April of 2019