

**CITY OF PROVIDENCE, RHODE ISLAND**  
**WATER SUPPLY BOARD**

**FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED  
JUNE 30, 2008 AND 2007**

**CITY OF PROVIDENCE, RHODE ISLAND**  
**WATER SUPPLY BOARD**

**TABLE OF CONTENTS**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

---

	<b><u>PAGE(S)</u></b>
<b>FINANCIAL SECTION:</b>	
Independent Auditor's Report .....	1
 <b>Basic Financial Statements and Required Supplementary Information:</b>	
Management's Discussion and Analysis .....	2 - 5
 <b>Financial Statements:</b>	
Statement of Net Assets .....	6 - 7
Statements of Revenues and Expenses and Changes in Fund Net Assets .....	8
Statements of Cash Flows .....	9
 <b>Notes to Financial Statements</b> .....	 10 - 19
 <b>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</b> .....	  20 - 21

---

## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying statements of net assets of the Providence Water Supply Board (the "Water Supply Board") (an enterprise fund of the City of Providence, Rhode Island) as of June 30, 2008 and 2007, and the related statements of revenues and expenses and changes in fund net assets and cash flows for the years then ended. These financial statements are the responsibility of the Water Supply Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Providence Water Supply Board as of June 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with "Government Auditing Standards", we have also issued our report dated December 29, 2008, on our consideration of the Providence 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 the internal control over financial reporting or on compliance and other matters. That report is an integral part of an audit performed in accordance with "Government Auditing Standards", and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 2 through 5 is not a required part of the basic financial statements, but is supplementary information required by accounting standards generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Braver, PC  
Providence, Rhode Island

December 29, 2008

Boston

Newton

Providence

**PROVIDENCE WATER SUPPLY BOARD**  
***(An enterprise fund of the City of Providence, Rhode Island)***

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2008 AND 2007**

---

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, 2008 and 2007.

**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 is used.

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

- The statements of net assets present information on the assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets 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 net change in assets for the fiscal year. That change combined with the previous year-end net assets total reconciles to the net assets 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.

(CONTINUED)

---

**PROVIDENCE WATER SUPPLY BOARD**  
***(An enterprise fund of the City of Providence, Rhode Island)***

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2008 AND 2007**

---

**Condensed Financial Information (in thousands)**

Condensed financial information from the statements of net assets and revenues, expenses, and changes in net assets is presented below.

	<b><u>2008</u></b>	<b><u>2007</u></b>
Current assets	\$ 67,255	\$ 37,145
Capital assets, net	<u>190,522</u>	<u>180,113</u>
<b>Total assets</b>	<b><u>257,777</u></b>	<b><u>217,258</u></b>
Current liabilities	13,215	15,631
Noncurrent liabilities	<u>45,009</u>	<u>12,043</u>
<b>Total liabilities</b>	<b><u>58,224</u></b>	<b><u>27,674</u></b>
Net assets:		
Invested in capital assets, net of related debt	143,479	165,284
Restricted	47,986	17,397
Unrestricted	<u>8,088</u>	<u>6,903</u>
<b>Total net assets</b>	<b><u>\$ 199,553</u></b>	<b><u>\$ 189,584</u></b>
Operating revenues	<u>\$ 56,032</u>	<u>\$ 52,748</u>
Operating expenses	36,144	35,046
Depreciation	<u>10,714</u>	<u>10,135</u>
<b>Total operating expenses, including depreciation</b>	<b><u>46,858</u></b>	<b><u>45,181</u></b>
<b>Operating income</b>	<b>9,174</b>	<b>7,567</b>
Nonoperating expense	(103)	(38)
Capital grants and contributions	<u>898</u>	<u>1,613</u>
<b>Increase in net assets</b>	<b><u>\$ 9,969</u></b>	<b><u>\$ 9,142</u></b>

(CONTINUED)

**PROVIDENCE WATER SUPPLY BOARD**  
**(An enterprise fund of the City of Providence, Rhode Island)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2008 AND 2007**

---

**Financial Highlights**

The Water Supply Board's net assets totaled \$ 200 million at June 30, 2008. Total net assets increased by \$10 million, or about 5.3% from June 30, 2007.

During the year, the Water Supply Board had operating revenues that exceeded operating expenses by \$9.2 million. This is primarily due to the large commitment to the replacement of infrastructure included in water rates.

At June 30, 2008, the Water Supply Board's net assets totaled \$ 200 million. Total assets were \$257.8 million, up \$ 40.5 million from last year's total assets of \$ 217.3 million.

At June 30, 2007, the Water Supply Board's net assets totaled \$ 189.6 million. Total assets were \$217.3 million, up \$ 4.7 million from the prior year's total assets of \$ 212.6 million.

The Water Supply Board's total operating revenues were \$ 56 million at June 30, 2008, which increased from \$52.7 million at June 30, 2007. The total cost of operating the water system, including property taxes and depreciation, was \$ 46.8 million. This resulted in an operating income of \$ 9.2 million. Non-operating revenue consists of interest and dividend income. Interest on long-term restricted debt is the largest non-operating expense, followed by miscellaneous and other expenses. Non-operating income for the fiscal year totaled (\$.1) million, with capital grants of \$ .9 million. The total increase in net assets was \$ 10 million.

The Water Supply Board's total operating revenues were \$ 52.7 million at June 30, 2007 which increased from \$52.4 million at June 30, 2006. The total cost of operating the water system, including property taxes and depreciation, was \$ 45.2 million. This resulted in an operating income of \$ 7.5 million. Non-operating revenue consists of interest and dividend income. Interest on long-term restricted debt is the largest non-operating expense, followed by miscellaneous and other expenses. Non-operating income for the fiscal year totaled (\$.04) million, with capital grants of \$ 1.6 million. The total increase in net assets was \$ 9.1 million.

The increase in expenditures in both 2008 and 2007 were a result of normal inflation, contractual and external factors.

**Capital Assets and Debt Administration**

**Capital Assets**

At June 30, 2008, the Water Supply Board had \$ 190.5 million invested in various capital assets, including land, buildings and improvements, transmission and distribution reservoirs, mains, services, hydrants and appurtenances, machinery and equipment and construction work in progress. This amount represents a net increase of \$ 10.4 million, or 5.8%, over last year.

At June 30, 2007, the Water Supply Board had \$ 180.1 million invested in various capital assets, including land, buildings and improvements, transmission and distribution reservoirs, mains, services, hydrants and appurtenances, machinery and equipment and construction work in progress. This amount represents a net increase of \$3.6 million, or 2.0%, over the prior year.

(CONTINUED)

**PROVIDENCE WATER SUPPLY BOARD**  
***(An enterprise fund of the City of Providence, Rhode Island)***

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2008 AND 2007**

---

**Major project expenditures included (in millions):**

- Sludge handling and disposal, \$1.0
- Various distribution improvements, \$0.6
- Replace fire hydrants, \$0.2
- Replace lead services, \$10.4
- Replace meters, \$0.1
- AMR system, \$0.3
- Geographic Info. Systems (GIS), \$1.0
- Aqueduct Pump Station, \$0.1
- Neutaconkanut Reservoir, \$0.2
- Replace water mains, \$0.8
- 102" aqueduct improvements, \$2.0
- Sand Filters, \$0.8
- Access Roads, fencing and security, \$0.2
- Electrical and process control upgrades, \$0.1

The Water Supply Board's fiscal 2009 capital budget includes projected expenditures of \$25 million for infrastructure and capital projects. The major projects are lead service replacements, sludge removal and disposal, pump station rehabilitation, chemical system and treatment plant upgrades, GIS system implementation, meter replacements, distribution system improvements, and transmission main inspection and rehabilitation. Projects will be funded from bond proceeds available from bonds issued in prior fiscal years and with restricted cash funding from rate revenues. The majority of infrastructure projects are financed on a pay-as-you-go, cash basis. New capital additions, that benefit the ratepayers for many years, are paid for with debt financing on an as needed basis.

**Debt**

At June 30, 2008, the Water Supply Board had \$ 45 million in bonds and notes outstanding versus \$ 11.8 million in the previous year. This represented an increase of \$ 33.2 million or 281%.

\$35 million in new debt was issued in 2008 to fund the lead service replacement project, filter system rehabilitation and water main replacements.

At June 30, 2007, the Water Supply Board had \$ 11.8 million in bonds and notes outstanding versus \$ 14.7 million in the previous year. This represented a decrease of \$ 2.9 million or 19.7%.

**Contacting Providence Water'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 show the Water Supply Board's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Director at the Providence Water Supply Board, 552 Academy Avenue, Providence, RI 02908.

(CONCLUDED)

**PROVIDENCE WATER SUPPLY BOARD**  
**(An enterprise fund of the City of Providence, Rhode Island)**

**STATEMENT OF NET ASSETS**  
**JUNE 30, 2008 AND 2007 (000's)**

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
<b>Current unrestricted assets</b>		
Cash and cash equivalents (Note 3)	\$ 2,034	\$ 3,064
Accounts receivable, net of allowance for uncollectible accounts of \$2,498 in 2008 and \$2,929 in 2007	8,015	8,056
Accounts receivable - unbilled	4,724	4,479
Inventory	440	295
Other assets	400	1,510
<b>Total current unrestricted assets</b>	<u>15,613</u>	<u>17,404</u>
<b>Current restricted assets (Note 2)</b>		
Cash and cash equivalents (Note 3)	16,444	17,191
Investments (Note 3)	1,585	1,715
Accounts receivable	-	297
Accounts receivable - unbilled	545	538
Due from other governmental units	33,018	-
Other assets	50	-
<b>Total current restricted assets</b>	<u>51,642</u>	<u>19,741</u>
<b>Total current assets</b>	<u>67,255</u>	<u>37,145</u>
<b>Capital Assets (Note 10)</b>		
Land	11,091	11,091
Building and improvements	31,110	28,224
Improvements other than buildings	184,077	169,755
Machinery and equipment	25,801	25,478
Assets under capital leases (Note 7)	13,846	13,846
Scituate Reservoir Project	18,682	18,682
Construction in progress	30,874	27,282
	<u>315,481</u>	<u>294,358</u>
Less accumulated depreciation and amortization	124,959	114,245
<b>Total capital assets, net</b>	<u>190,522</u>	<u>180,113</u>
<b>Total assets</b>	<u>257,777</u>	<u>217,258</u>

(CONTINUED)

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)*

**STATEMENT OF NET ASSETS**  
**JUNE 30, 2008 AND 2007 (000's)**

	<u>2008</u>	<u>2007</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Due to City of Providence General Fund (Note 6)	1,806	4,697
Accounts payable	1,690	1,947
Accrued expenses	1,747	1,825
Unearned revenues	1,885	1,732
Current portion of long-term debt (Note 5)	1,471	1,836
Current portion of obligations under capital lease (Note 7)	1,010	950
Line of credit (Note 8)	-	300
	<u>9,609</u>	<u>13,287</u>
 Amounts to be paid from current restricted assets (Note 2)		
Due to Water Resources Board	368	453
Accounts payable	<u>3,238</u>	<u>1,891</u>
	<u>3,606</u>	<u>2,344</u>
 <b>Total current liabilities</b>	<u>13,215</u>	<u>15,631</u>
 <b>Non-current liabilities</b>		
General revenue bonds (Note 5)	43,572	10,043
Obligations under capital lease (Note 7)	990	2,000
Other post employment benefits (Note 11)	447	-
<b>Total non-current liabilities</b>	<u>45,009</u>	<u>12,043</u>
 <b>Total liabilities</b>	<u>58,224</u>	<u>27,674</u>
 <b>NET ASSETS</b>		
Invested in capital assets, net of related debt	143,479	165,284
Restricted	47,986	17,397
Unrestricted	<u>8,088</u>	<u>6,903</u>
<b>Total net assets</b>	<u>\$ 199,553</u>	<u>\$ 189,584</u>

(CONCLUDED)

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 FUND NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007 (000's)**

	<b>2008</b>	<b>2007</b>
<b>Operating Revenues</b>		
Charges for services:		
Water sales (Note 1):		
General customers	\$ 36,696	\$ 35,493
Other local water suppliers	14,821	12,927
Fire protection services	1,718	1,564
Maintenance charges and other revenue	2,797	2,764
<b>Total operating revenues</b>	<b>56,032</b>	<b>52,748</b>
<b>Operating Expenses</b>		
Source of supply	1,924	1,895
Pumping operations	915	781
Water treatment	6,651	6,931
Transmission and distribution	4,496	3,806
Charge for services provided by other City departments (Note 6)	785	730
Customer accounts and service	2,825	4,072
Administrative and general	12,319	12,406
Depreciation and amortization	10,714	10,135
Property taxes - other local governments	6,229	4,425
<b>Total operating expenses</b>	<b>46,858</b>	<b>45,181</b>
<b>Operating income</b>	<b>9,174</b>	<b>7,567</b>
<b>Nonoperating Revenues (Expenses)</b>		
Interest income	649	885
Interest expense and other	(752)	(923)
<b>Net nonoperating expenses</b>	<b>(103)</b>	<b>(38)</b>
<b>Capital Grants and Contributions</b>	<b>898</b>	<b>1,613</b>
<b>Change in net assets</b>	<b>9,969</b>	<b>9,142</b>
<b>Net Assets, beginning of year</b>	<b>189,584</b>	<b>180,442</b>
<b>Net Assets, end of year</b>	<b>\$ 199,553</b>	<b>\$ 189,584</b>

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, 2008 AND 2007 (000's)**

	<b>2008</b>	<b>2007</b>
<b>Cash Flows From Operating Activities</b>		
Cash received from customers	\$ 57,331	\$ 49,875
Cash paid to vendors	(22,020)	(24,058)
Cash paid to employees	(12,894)	(13,402)
<b>Net cash provided by operating activities</b>	<b>22,417</b>	<b>12,415</b>
<b>Cash Flows From Non-Capital and Related Financing Activities</b>		
Due to/from other funds	(2,891)	1,837
<b>Cash Flows From Capital and Related Financing Activities</b>		
Acquisition and construction of capital assets	(21,124)	(13,783)
Interest paid on debt	(752)	(923)
Repayment to line of credit	(300)	(85)
Repayment of long-term debt and capital leases	(2,786)	(3,744)
Proceeds from long-term debt and capital leases	1,982	-
Capital grants	898	1,613
<b>Net cash used in capital and related financing activities</b>	<b>(22,082)</b>	<b>(16,922)</b>
<b>Cash Flows From Investing Activities</b>		
Purchase of investment securities	130	(239)
Investment income	649	885
<b>Net cash provided by investing activities</b>	<b>779</b>	<b>646</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1,777)</b>	<b>(2,024)</b>
<b>Cash and cash equivalents</b>		
Beginning	20,255	22,279
Ending	<b>\$ 18,478</b>	<b>\$ 20,255</b>
Unrestricted cash and cash equivalents	\$ 2,034	\$ 3,064
Restricted cash and cash equivalents	16,444	17,191
	<b>\$ 18,478</b>	<b>\$ 20,255</b>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>		
Operating income	\$ 9,174	\$ 7,567
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	10,714	10,135
Changes in assets and liabilities:		
Accounts receivable	87	(1,456)
Inventories	(146)	108
Other assets	1,060	(1,510)
Accounts payable and accrued expenses	1,377	(2,522)
Unearned revenue	152	93
<b>Net cash provided by operating activities</b>	<b>\$ 22,417</b>	<b>\$ 12,415</b>

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 FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007 (000's)**

---

**1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES**

**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.

Significant accounting policies are as follows:

**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 net income 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.

**Regulations and Operation**

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 debt 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.

**Inventory**

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

(CONTINUED)

**PROVIDENCE WATER SUPPLY BOARD**  
***(An enterprise fund of the City of Providence, Rhode Island)***

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007 (000's)**

---

**1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Capital assets, depreciation and amortization

Capital assets owned by the Water Supply Board are stated at cost. They 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. 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.

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.

Proprietary fund accounting

The Water Supply Board has implemented Statement No. 20 of the Governmental Accounting Standards Board (GASB), "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting." This Statement provides guidance on the applicability of accounting pronouncements from other standard setting organizations. Under the Board's election, it must apply all GASB pronouncements and the following pronouncements issued before November 30, 1989 unless they contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board, Accounting Principles Board Opinions, and Accounting Research Bulletins of the committee on Accounting Procedures.

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.

(CONTINUED)

**PROVIDENCE WATER SUPPLY BOARD**  
**(An enterprise fund of the City of Providence, Rhode Island)**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007 (000's)**

---

**1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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 vest and 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.

**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") on 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. In addition to the increase, 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.

**3. CASH AND INVESTMENTS**

The following is a summary of cash and investments:

	Fair Value
Cash and cash equivalents	\$ 2,034
Restricted cash and cash equivalents	16,444
Equity Mutual Funds	1,585
Total	<u><u>\$ 20,063</u></u>

(CONTINUED)

**PROVIDENCE WATER SUPPLY BOARD**  
***(An enterprise fund of the City of Providence, Rhode Island)***

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007 (000's)**

**3. CASH AND INVESTMENTS (CONTINUED)**

Responsibility for custodial credit risk of deposits and investments and interest rate risk and risk and concentration of investments rests with the City; accordingly separate disclosure is not possible. The City's financial statements should be read to determine the associated risks of the Water Supply Board's deposits and investments.

**4. PENSION PLANS**

Substantially all employees of the Water Supply Board participate in the Employees' Retirement System of the City of Providence (the "Plan"), a defined-benefit, single-employer plan. Disclosures about this plan, as a whole, are presented in the City of Providence, Rhode Island's basic financial statements. As of June 30, 2008 and 2007, the City recorded a liability for unpaid pension contributions of \$124,400 and \$122,500, 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.

All Water Supply Board employees participating in the Plan are eligible to retire at age 55 or at any age after 25 years of service. 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, 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. These benefit provisions and all other requirements are established by City ordinance.

The Water Supply Board's allocation of the actuarial required contribution and amount contributed for the year ended June 30, 2008 were \$2,727. The Water Supply Board's allocation of the actuarial required contribution and amount contributed for the year ended June 30, 2007 were \$2,566. The employer and employees contribution rates are approximately 25% and 23%, respectively, for both 2008 and 2007.

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

**5. LONG-TERM DEBT**

Long-term liability activity for the years ended June 30, 2008 and 2007 were as follows:

	2008				
	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Bonds payable:					
Revenue bonds	\$ 11,879	\$ 35,000	\$ (1,836)	\$ 45,043	\$ 1,471
Total bonds	11,879	35,000	(1,836)	45,043	1,471
Capital leases	2,950	-	(950)	2,000	1,010
Total long-term liabilities	\$ 14,829	\$ 35,000	\$ (2,786)	\$ 47,043	\$ 2,481

(CONTINUED)

**PROVIDENCE WATER SUPPLY BOARD**  
**(An enterprise fund of the City of Providence, Rhode Island)**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007 (000's)**

**5. LONG-TERM DEBT (CONTINUED)**

	2007				
	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Bonds payable:					
Revenue bonds	\$ 14,708	\$ -	\$ (2,829)	\$ 11,879	\$ 1,836
Total bonds	14,708	-	(2,829)	11,879	1,836
Capital leases	3,865	-	(915)	2,950	950
Total long-term liabilities	\$ 18,573	\$ -	\$ (3,744)	\$ 14,829	\$ 2,786

The following is a summary of bonds and notes outstanding at June 30, 2008 and 2007:

Description	June 30, 2008	
	Interest Rate	Balance
Revenue bonds:		
Safe Drinking Water Bonds (CWFA FY2002)	2.97%	1,897
Safe Drinking Water Bonds (CWFA FY2003)	2.59%	-
Scituate Reservoir Project (PPBA I)	5.40%	2,264
Safe Drinking Water Bonds (CWFA FY2005)	2.25%	5,882
Safe Drinking Water Bonds (CWFA FY2008)	2.85%	35,000
		<u>\$ 45,043</u>

Description	June 30, 2007	
	Interest Rate	Balance
Revenue bonds:		
Safe Drinking Water Bonds (CWFA FY2002)	2.97%	\$ 2,001
Safe Drinking Water Bonds (CWFA FY2003)	2.59%	415
Scituate Reservoir Project (PPBA I)	5.40%	2,825
Safe Drinking Water Bonds (CWFA FY2005)	2.25%	6,638
		<u>\$ 11,879</u>

(CONTINUED)

**PROVIDENCE WATER SUPPLY BOARD**  
***(An enterprise fund of the City of Providence, Rhode Island)***

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007 (000's)**

**5. LONG-TERM DEBT (CONTINUED)**

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

	Principal	Interest	Balance
Fiscal year ending June 30:			
2009	1,471	429	1,900
2010	1,524	1,665	3,189
2011	2,868	1,372	4,240
2012	2,699	1,285	3,984
2013	2,345	1,181	3,526
2014-2018	9,886	5,100	14,986
2019-2023	9,287	3,602	12,889
2024-2028	10,290	1,874	12,164
2029-2033	4,673	180	4,853
	<u>\$ 45,043</u>	<u>\$ 16,688</u>	<u>\$ 61,731</u>

**In-Substance Defeasance Prior-Years**

In prior years, the Water Supply Board has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the financial statements. As of June 30, 2008, the amount of defeased debt outstanding but removed from the Water Supply Board's statements was \$5,930.

**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 \$785 and \$730 for the years ended June 30, 2008 and 2007, 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 accounts payable balance are the related balances due for these services and pension payments which at June 30, 2008 and 2007 totaled \$322 and \$3,208, respectively.

**7. LEASES**

On July 1, 1988, the City of Providence, through its Water Supply Board, entered into a lease agreement with the Rhode Island Water Resources Board. The Water Supply Board has leased the project, which expires on September 15, 2009. At the expiration of the lease term, the Water Supply Board has the option to purchase the facilities for one dollar (\$1.00). This lease has been accounted for as a capital lease.

(CONTINUED)

**PROVIDENCE WATER SUPPLY BOARD**  
**(An enterprise fund of the City of Providence, Rhode Island)**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007 (000's)**

**7. LEASES (CONTINUED)**

The assets and liabilities under all capital leases are recorded at the present value of the minimum lease payments. Amortization of these assets charged to expense amounted to \$185 for each of the years ended June 30, 2008 and 2007. Summary of book value is as follows:

	2008	2007
Cost	\$ 13,846	\$ 13,846
Accumulated amortization	(2,774)	(2,589)
Book value	<u>\$ 11,072</u>	<u>\$ 11,257</u>

Minimum future lease payments under capital leases as of June 30, 2008 are as follows:

	<u>RI Water Resources Board</u>
2009	\$ 1,083
2010	<u>1,014</u>
Total minimum lease payments	2,097
Less amount representing interest	<u>(97)</u>
	<u><u>\$ 2,000</u></u>

**8. LINE OF CREDIT**

The Water Supply Board had a \$2,750 line of credit with an outstanding balance of \$300 as of June 30, 2007. The line of credit matured August 10, 2007. The line of credit was not renewed.

Line of credit transactions for the year ended June 30, 2008 were as follows:

Outstanding, July 1, 2007	\$ 300
Borrowings	-
Repayments	<u>(300)</u>
Outstanding, June 30, 2008	<u>\$ -</u>

Line of credit transactions for the year ended June 30, 2007 were as follows:

Outstanding, July 1, 2006	\$ 385
Borrowings	-
Repayments	<u>(85)</u>
Outstanding, June 30, 2007	<u>\$ 300</u>

(CONTINUED)

**PROVIDENCE WATER SUPPLY BOARD**  
***(An enterprise fund of the City of Providence, Rhode Island)***

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007 (000's)**

---

**9. 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 of July 1, 2008 to June 30, 2011.

Contingent Liability to City of Providence per Rhode Island G.L.

A law passed in 2003 (R.I.G.L. § 39-3-11.3 and § 46-15.3-21) required an annual payment by the Water Supply Board to the City of Providence of 5% of the Board's gross revenues for the fiscal years ending June 30, 2004, 2005 and 2006. The law specifically provides that this payment shall not be included as part of the Water Supply Board's rates for these years. These payments would total approximately \$2,500 per year.

The Water Supply Board has no material funds (other than revenues from rates) from which to make these payments and therefore has not made the payments. Further, since the payments can not be made from rate revenues the Board believes it is not liable for any amount to the City and therefore has not accrued an amount for the potential liability.

No action has been taken by either the City of Providence or the Rhode Island Public Utilities Commission concerning this matter.

Lead Service Replacement Program

The Water Supply Board is required to test for lead and copper in its water. In August 2006, 16 of 100 samples taken throughout the water system tested for trace lead levels higher than 15 parts per billion (ppb). The U.S. Environmental Protection Agency (EPA) regulations mandate specific actions that need to be taken by water utilities when more than 10% of test samples exceed the 15 ppb lead level. While there is no detectable lead in the drinking water that leaves the Water Supply Board's treatment plant, some older homes with lead pipes and lead connections to the water main in the street can show trace amounts of lead in the water.

Due to the results of the testing, the Water Supply Board was required by the U.S EPA, through the Rhode Island Department of Health (RIDOH), to engage in public education efforts related to lead in water, and to replace a minimum of 7% of the active lead services in its system by September 30, 2007, and 7% each year thereafter. The Water Supply Board entered into a consent agreement with RIDOH to replace 14% of its active lead services by September 30, 2008, and to then continue on with a minimum of 7% in each ensuing year. Approximately 26,000 of the 75,000 total service connections in the Water Supply Board's distribution system are lead services.

In July 2007, the Water Supply Board embarked on a Lead Service Replacement (LSR) program and engaged an engineering firm for a period of three years to provide assistance in managing the LSR program, and contracted with three construction firms for two-year periods to perform the actual replacement work. The Water Supply Board entered into contracts not to exceed \$22 million with these firms. By June 30, 2008 a total of 3,180 lead services had been replaced, and the Water Supply Board expects that the requirement for 3,600 service replacements to be completed by September 30, 2008 will be accomplished by August 15, 2008, a month and a half ahead of schedule.

(CONTINUED)

**PROVIDENCE WATER SUPPLY BOARD**  
**(An enterprise fund of the City of Providence, Rhode Island)**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007 (000's)**

**9. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

Retirees Health Care

During 2006 the City of Providence, as well as the Water Supply Board, discovered that the City was not charging the Water Supply Board for the health care costs for retired Water Supply Board employees. All City retirees are placed into a separate retirement payroll with associated fringe benefits. Former Water Supply Board employees were not separately tracked.

A schedule was prepared of the Water Supply Board's retiree's health care costs for 2006, which was paid to the City of Providence. A schedule was also prepared including the Water Supply Board's actual retiree's health care costs for 2004 and 2005 and the calculated costs for the years from 1997 through 2003. This amount was included in the Water Supply Board's rate filing to the RI Public Utilities Commission (PUC) in March of 2007. During discovery for the rate case, the outstanding obligation amount was revised to \$1,489. The Water Supply Board agreed with the Division of Public Utilities, to a repayment term of six years, without interest. The RI PUC at an open meeting on October 30, 2007 denied the Water Supply Board's request to repay the City of Providence. The City has appealed the decision to the Supreme Court. A liability for \$1,489 is included in Due to City of Providence General Fund on the Statement of Net Assets as of June 30, 2008 and 2007.

**10. CAPITAL ASSETS**

The following is a summary of the activity in capital assets as of June 30, 2008:

	Balance June 30, 2007	Additions	Disposals	Balance June 30, 2008
Capital assets not being depreciated:				
Land	\$ 11,091	\$ -	\$ -	\$ 11,091
Scituate Reservoir Project	18,682	-	-	18,682
Construction in progress	27,282	20,296	16,704	30,874
Total capital assets not being depreciate	57,055	20,296	16,704	60,647
Capital assets being depreciated:				
Buildings and improvements	28,224	2,886	-	31,110
Improvements other than buildings	169,755	14,322	-	184,077
Machinery and equipment	25,478	323	-	25,801
Assets under capital lease	13,846	-	-	13,846
Total capital assets being depreciated	237,303	17,531	-	254,834
Less accumulated depreciation for:				
Buildings and improvements	20,751	2,504	-	23,255
Improvements other than buildings	70,589	7,000	-	77,589
Machinery and equipment	19,324	1,025	-	20,349
Assets under capital lease	3,581	185	-	3,766
	114,245	10,714	-	124,959
Total capital assets being depreciated,	123,058	6,817	-	129,875
Total capital assets, net	\$ 180,113	\$ 27,113	\$ 16,704	\$ 190,522

(CONTINUED)

**PROVIDENCE WATER SUPPLY BOARD**  
**(An enterprise fund of the City of Providence, Rhode Island)**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008 AND 2007 (000's)**

**10. CAPITAL ASSETS (CONTINUED)**

The following is a summary of the activity in capital assets as of June 30, 2007:

	Balance June 30, 2006	Additions	Disposals	Balance June 30, 2007
Capital assets not being depreciated:				
Land	\$ 10,289	\$ 802	\$ -	\$ 11,091
Scituate Reservoir Project	18,682	-	-	18,682
Construction in progress	23,150	11,315	7,183	27,282
Total capital assets not being depreciate	52,121	12,117	7,183	57,055
Capital assets being depreciated:				
Buildings and improvements	25,600	2,624	-	28,224
Improvements other than buildings	163,976	5,779	-	169,755
Machinery and equipment	25,032	446	-	25,478
Assets under capital lease	13,846	-	-	13,846
	228,454	8,849	-	237,303
Less accumulated depreciation for:				
Buildings and improvements	18,814	1,937	-	20,751
Improvements other than buildings	64,017	6,572	-	70,589
Machinery and equipment	17,956	1,368	-	19,324
Assets under capital lease	3,323	258	-	3,581
	104,110	10,135	-	114,245
Total capital assets being depreciated,	124,344	(1,286)	-	123,058
Total capital assets, net	\$ 176,465	\$ 10,831	\$ 7,183	\$ 180,113

**11. POST EMPLOYMENTS BENEFITS**

The Water Supply Board adopted GASB Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", during the fiscal year ended June 30, 2008.

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 substantially all retired employees and their spouses. Disclosures about this program, as a whole, are presented in the City of Providence, Rhode Island's basic financial statements. As of June 30, 2008, the City recorded a liability for unpaid post-retirement contributions of \$4,787. Prior to adoption of GASB 45, the Water Supply Board funded these post-retirement benefits on a pay-as-you-go basis. The total cost of these benefits for June 30, 2007 was \$421. 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.

The Water Supply Board's allocation of the actuarial required contribution was \$917 and the amount contributed for the year ended June 30, 2008 was \$470. The unpaid balance of the actuarial required contribution at June 30, 2008 of \$447 is included in non-current liabilities on the Statement of Net Assets.

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.

(CONCLUDED)

**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 Water Supply Board  
City of Providence, Rhode Island

We have audited the financial statements of the Providence Water Supply Board (the "Water Supply Board"), as of and for the year ended June 30, 2008, and have issued our report thereon dated December 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Water Supply Board's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Water Supply Board's financial statements that is more than inconsequential will not be prevented or detected by the Water Supply Board's internal control.

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

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

Boston

Newton

Providence

## Compliance and Other Matters

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

We noted certain matters that we reported to management of the Water Supply Board, in a separate letter dated December 29, 2008.

This report is intended solely for the information and use of management and the Water Supply Board and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Graver PC". The signature is written in a cursive, flowing style.

Providence, Rhode Island

December 29, 2008