

CITY OF PROVIDENCE, RHODE ISLAND
WATER SUPPLY BOARD

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
June 30, 2014 and 2013

CITY OF PROVIDENCE, RHODE ISLAND
WATER SUPPLY BOARD

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YEARS ENDED JUNE 30, 2014 AND 2013

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Providence Water Supply Board of Providence, Rhode Island, as of and for the year ended June 30, 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the Providence Water Supply Board, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adjustments to Prior Period Financial Statements

The financial statements of the Providence Water Supply Board as of and for the year ended June 30, 2013, were audited by other auditors whose opinion dated December 31, 2013, on those statements was unmodified. As discussed in Note 11, the Providence Water Supply Board has restated its 2013 financial statements during the current year in accordance with the implementation of GASB No. 65 – *Items Previously Reported as Assets and Liabilities*. The other auditors reported on the 2013 financial statements before the restatement.

As part of our audit of the 2014 financial statements, we also audited adjustments described in Note 11 that were applied to restate the 2013 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We are not engaged to audit, review, or apply any procedures to the 2013 financial statements of the Providence Water Supply Board other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2013 financial statements as a whole.

Prior Period Financial Statements

The financial statements of the Providence Water Supply Board as of June 30, 2013 were audited by Braver P.C. whose practice was combined with Marcum LLP as of January 1, 2014, and whose report dated December 31, 2013 expressed an unmodified opinion on those statements.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Providence 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 is attributable to the transactions of Providence 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, 2014, the changes in its financial position, or where applicable, its cash flows for the year 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 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated December 31, 2014, on our consideration of the City of Providence, Rhode Island'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 City of Providence, Rhode Island's internal control over financial reporting and compliance.

Marcum LLP

Providence, Rhode Island
December 31, 2014

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013

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, 2014 and 2013.

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 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 net change in assets 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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013

Condensed Financial Information (in thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current assets	\$ 50,845	\$ 51,371	\$ 39,274
Capital assets, net	299,812	295,298	266,247
Total assets	<u>350,657</u>	<u>346,669</u>	<u>305,521</u>
Current liabilities	9,928	14,109	10,490
Noncurrent liabilities	75,560	78,321	52,081
Total liabilities	<u>85,488</u>	<u>92,430</u>	<u>62,571</u>
Deferred inflows of resources	2,709	1,997	1,979
Total deferred inflows of resources	<u>2,709</u>	<u>1,997</u>	<u>1,979</u>
Net position:			
Net investment in capital assets	225,543	217,211	213,758
Restricted	32,410	31,512	18,649
Unrestricted	4,507	3,519	8,564
Total net position	<u>\$ 262,460</u>	<u>\$ 252,242</u>	<u>\$ 240,971</u>
Operating revenues	\$ 62,872	\$ 61,070	\$ 61,727
Operating expenses	41,750	38,041	37,404
Depreciation	12,644	12,264	12,191
Total operating expenses, including depreciation	<u>54,394</u>	<u>50,305</u>	<u>49,595</u>
Operating income	8,478	10,765	12,132
Nonoperating expense	(1,562)	(1,593)	(1,671)
Capital grants and contributions	3,304	2,100	200
Increase in net position	<u>\$ 10,220</u>	<u>\$ 11,272</u>	<u>\$ 10,661</u>

(CONTINUED)

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013

Financial Highlights

The Water Supply Board's net position totaled \$ 262 million at June 30, 2014. Total net position increased by \$10.2 million, or about 3.9% from June 30, 2013.

During the year, the Water Supply Board had operating revenues that exceeded operating expenses by \$10.2 million. This is primarily due to the large commitment to the replacement of infrastructure included in water rates, and holding the line on operating costs.

At June 30, 2014, the Water Supply Board's net position totaled \$ 262 million. Total assets were \$351 million, up \$ 4 million from last year's total assets of \$ 347 million.

At June 30, 2013, the Water Supply Board's net position totaled \$ 252 million. Total assets were \$347 million, up \$ 41 million from the prior year's total assets of \$ 306 million.

The Water Supply Board's total operating revenues were \$63 million at June 30, 2014, which increased from \$61 million at June 30, 2013. The total cost of operating the water system, including property taxes and depreciation, was \$54 million, which increased from \$50 million in June 30, 2013. This resulted in an operating income of \$10 million in June 30, 2014. 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 expense for the fiscal year totaled (\$1.6) million, with capital grants of \$3 million. The total increase in net asset was \$10.2 million.

The increase in revenue in 2014 was attributable to the increase in rates in December 2013. The increase in operating expenses were the result of a combination of increases in wages and salary, pension contribution, property taxes, contractual services, an increase in the adjustment to bad debt on the allowance for uncollectible, a decrease in insurance expenses, and a decrease in chemical.

The Water Supply Board's total operating revenues were \$61.1million at June 30, 2013, which decreased from \$61.7 million at June 30, 2012. The total cost of operating the water system, including property taxes and depreciation, was \$50.3 million. This resulted in an operating income of \$10.6 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 expense for the fiscal year totaled (\$1.6) million, with capital grants of \$2.0 million. The total increase in net asset was \$ 11.3million.

The decrease in revenue in 2013 compared to the 2012 was an attributable to a decrease in consumption based revenue. The 1.4% overall increase in operating expenses were a combination of increases in salaries and benefits, pension contribution, contractual services, and decreases in chemical expenses, insurance and depreciation expenses, and a big decrease in bad debt expense due to an adjustment in the allowance for uncollectible.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2014, the Water Supply Board had \$ 299.8 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 \$4.5 million, or 1.5%, over last year.

At June 30, 2013, the Water Supply Board had \$ 295.3 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 \$ 29 million, or 9.8%, over last year.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013

Capital Assets and Debt Administration (Continued)

Major project expenditures included (in millions):

- ♦ Replace and Upgrade water mains, \$13.9
- ♦ Sand Filters, \$4.9
- ♦ 78" Aqueducts assessment, \$2.2
- ♦ Sludge maintenance, \$1.0
- ♦ Plant influent and aerator rehabilitation, \$0.8
- ♦ Treatment process study, \$0.7
- ♦ Replace lead services, \$0.5
- ♦ Unidirectional Flushing program development, \$0.4
- ♦ Ferric system upgrades, \$0.4
- ♦ Various distribution system improvements \$0.3
- ♦ Replace fire hydrants, \$0.3
- ♦ Replace distribution valves, \$0.2
- ♦ Aerated, settled and filter influent conduits, \$0.1
- ♦ 90" influent conduit, \$0.1
- ♦ GIS system and base mapping conversion system, \$0.05

The Water Supply Board's fiscal 2014 capital budget includes projected expenditures of \$25.3 million for infrastructure and capital projects. The major projects are filter replacements, water main replacements and upgrade, plant influent and aerator upgrade, and sludge removal and disposal, source water improvements, treatment plant system upgrades, GIS system, and land acquisition. Other projects will be funded from bond proceeds issued in fiscal year 2013, 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, 2014, the Water Supply Board had \$74.2 million in bonds and notes outstanding versus \$78.0 million in the previous year. This represented a decrease of \$3.8 million or 5.1%. No new debt was issued in 2014.

At June 30, 2013, the Water Supply Board had \$ 78.0 million in bonds and notes outstanding versus \$ 53 million in the previous year. This represented an increase of \$25.6 million or 33%. Total of \$29.2 million in new debts was issued in 2013 to fund watershed land acquisition, and water main and/or lead service replacements.

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 Department at the Providence Water Supply Board, 552 Academy Avenue, Providence, RI 02908.

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

STATEMENTS OF NET POSITION
JUNE 30, 2014 AND 2013

	2014	2013
ASSETS		
Current unrestricted assets		
Cash and cash equivalents (Note 3)	\$ 5,935,190	\$ 4,882,804
Accounts receivable, net of allowance for uncollectible accounts of \$1,516,982 in 2014 and \$1,465,426 in 2013	6,620,177	8,318,265
Accounts receivable - unbilled, net of allowance for uncollectible accounts of \$0 in 2014 and 2013	3,258,843	4,618,337
Inventory	879,812	645,401
Other assets	31,703	-
Total current unrestricted assets	16,725,725	18,464,807
Current restricted assets		
Cash and cash equivalents (Note 3)	27,147,017	26,277,650
Investments (Note 3)	6,960,501	6,610,501
Accounts receivable	12,214	18,288
Total current restricted assets	34,119,732	32,906,439
Total current assets	50,845,457	51,371,246
Capital Assets (Note 4)		
Land	21,958,397	21,918,296
Building and improvements	79,135,020	74,388,265
Improvements other than buildings	297,055,247	270,994,006
Machinery and equipment	30,877,466	30,450,111
Scituate Reservoir Project	18,681,695	18,681,695
Construction in progress	47,609,161	61,726,417
	495,316,986	478,158,790
Less accumulated depreciation and amortization	195,504,655	182,860,733
Total capital assets, net	299,812,331	295,298,057
Total assets	350,657,788	346,669,303

(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)

STATEMENTS OF NET POSITION
JUNE 30, 2014 AND 2013

	2014	2013
<i>LIABILITIES</i>		
Current liabilities		
Due to City of Providence General Fund (Note 6)	1,377,649	1,795,842
Accounts payable	410,797	843,849
Accrued expenses	2,335,631	3,256,455
Line of credit	-	3,000,000
Current portion of long-term debt (Note 5)	4,094,775	3,817,842
	<u>8,218,852</u>	<u>12,713,988</u>
Amounts to be paid from current restricted assets (Note 2)		
Due to Water Resources Board	268,312	464,121
Accounts payable	1,441,034	930,735
	<u>1,709,346</u>	<u>1,394,856</u>
Total current liabilities	<u>9,928,198</u>	<u>14,108,844</u>
Non-current liabilities		
General revenue bonds (Note 5)	70,174,018	74,268,794
Other post employment benefits (Note 10)	5,385,261	4,052,946
Total non-current liabilities	<u>75,559,279</u>	<u>78,321,740</u>
Total liabilities	<u>85,487,477</u>	<u>92,430,584</u>
<i>DEFERRED INFLOWS OF RESOURCES</i>		
Unavailable revenues from impact fees	<u>2,709,308</u>	<u>1,997,014</u>
<i>NET POSITION</i>		
Net investment in capital assets	225,543,538	217,211,421
Restricted	32,410,386	31,511,583
Unrestricted	4,507,079	3,518,701
Total net position	<u>\$ 262,461,003</u>	<u>\$ 252,241,705</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 NET POSITION
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
Operating Revenues		
Charges for services:		
Water sales (Note 1):		
General customers	\$ 41,728,477	\$ 40,547,555
Other local water suppliers	16,852,460	15,788,788
Fire protection services	2,083,816	1,956,427
Maintenance charges and other revenue	2,207,478	2,776,905
Total operating revenues	<u>62,872,231</u>	<u>61,069,675</u>
Operating Expenses		
Source of supply	2,678,278	2,008,017
Pumping operations	638,487	631,195
Water treatment	8,643,838	8,155,303
Transmission and distribution	5,207,017	5,337,188
Charge for services provided by other City departments (Note 6)	839,167	839,167
Customer accounts and service	3,340,891	2,798,208
Administrative and general	13,480,801	11,892,810
Depreciation	12,643,922	12,263,983
Property taxes - other local governments	6,921,638	6,378,112
Total operating expenses	<u>54,394,039</u>	<u>50,303,983</u>
Net operating income	<u>8,478,192</u>	<u>10,765,692</u>
Nonoperating Revenues (Expenses)		
Interest income	314,637	297,139
Interest expense and other	(1,877,131)	(1,890,330)
Net nonoperating expenses	<u>(1,562,494)</u>	<u>(1,593,191)</u>
Capital Grants and Contributions	<u>3,303,600</u>	<u>2,099,550</u>
Change in net position	10,219,298	11,272,051
Net Position, beginning of year	<u>252,241,705</u>	<u>240,969,654</u>
Net Position, end of year	<u><u>\$262,461,003</u></u>	<u><u>\$252,241,705</u></u>

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, 2014 AND 2013

	2014	2013
Cash Flows From Operating Activities		
Cash received from customers	\$ 65,904,184	\$ 62,072,672
Cash paid to vendors	(28,264,414)	(24,701,009)
Cash paid to employees	(12,714,891)	(13,322,855)
Net cash provided by operating activities	24,924,879	24,048,808
Cash Flows From Non-Capital and Related Financing Activities		
Due to/from other funds	(418,193)	1,254,139
Net cash provided by (used in) capital and related financing activities	(418,193)	1,254,139
Cash Flows From Capital and Related Financing Activities		
Interest and insurance costs paid on debt	(1,877,131)	(1,979,316)
Proceeds from line of credit	(3,000,000)	3,000,000
Repayment of long-term debt	(3,817,843)	(3,602,288)
Proceeds from long-term debt	-	29,200,000
Capital grants	3,303,600	2,099,550
Net cash provided by (used in) capital and related financing activities	(5,391,374)	28,717,946
Cash Flows From Investing Activities		
Acquisition and construction of capital assets	(17,158,196)	(41,314,114)
Purchase of investment securities	(350,000)	(1,786,777)
Investment income (loss)	314,637	297,139
Net cash used in investing activities	(17,193,559)	(42,803,752)
Net increase in cash and cash equivalents	1,921,753	11,217,141
Cash and cash equivalents		
Beginning	31,160,454	19,943,313
Ending	<u>\$ 33,082,207</u>	<u>\$ 31,160,454</u>
Unrestricted cash and cash equivalents	\$ 5,935,190	\$ 4,882,804
Restricted cash and cash equivalents	<u>27,147,017</u>	<u>26,277,650</u>
	<u>\$ 33,082,207</u>	<u>\$ 31,160,454</u>
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:		
Net operating income	\$ 8,478,192	\$ 10,765,692
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	12,643,922	12,263,983
Change in allowance for doubtful accounts	51,556	(1,320,107)
Changes in assets and liabilities:		
Accounts receivable	3,012,100	2,584,128
Inventories	(234,411)	(7,943)
Other assets	(31,703)	(261,014)
Accounts payable and accrued expenses	292,929	5,782
Unearned revenue	712,294	18,287
Net cash provided by operating activities	\$ 24,924,879	\$ 24,048,808

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
June 30, 2014 and 2013

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 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.

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.

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 THE FINANCIAL STATEMENTS
June 30, 2014 and 2013

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.

Impact fees

The impact fees assessment was established in 1996 when Providence water acquired the water distribution system in the City of Cranston. As part of the agreement for the acquisition, Providence Water 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 Providence Water or deducted from the debt services providence water pays to the City of Cranston.

The impact fee is assessed by the City of Cranston based on the agreement with Providence Water. If new water systems facilities are required to serve areas where no water system presently exists, Providence Water will collect a subdivision processing fee, and City of Cranston will collect a water impact fee for the benefit of Providence Water as follows: 1) residential \$1,352 per unit; 2) industrial and commercial \$6,003 per acre. Providence Water in turn agreed to use the said impact fee solely for the purposed of construction of new water system facilities required to serve area where no water system presently exists.

Since 1996 a total of \$2,009,227 in impact fee has been collected from the City of Cranston which is posted as restricted deferred revenue for future development in the Western Cranston division, where no water service exists.

(CONTINUED)

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

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014 and 2013

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

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.

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 financial position will sometimes report a separate section for deferred outflows of resources. This separate section represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that later date. At June 30, 2014 the Water Supply Board did not have any items that qualified as a deferred outflow of resources.

(CONTINUED)

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

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014 and 2013 (000's)

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

Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate section represents the acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until a later date. At June 30, 2014 and 2013, the Water Supply Board did have unavailable revenue from impact fees totaling \$2,709,308 and \$1,997,014, respectively that qualified as a deferred inflow of resources.

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. 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:

	<u>Fair Value</u>
Cash and cash equivalents	\$ 5,935,190
Restricted cash and cash equivalents	27,147,017
Equity Mutual Funds	6,960,501
Total	<u>\$ 40,042,708</u>

(CONTINUED)

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

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014 and 2013

3. CASH AND INVESTMENTS (CONTINUED)

Responsibility for custodial credit risk of deposits, investment risk, interest rate 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. CAPITAL ASSETS

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	102,326,408	15,213,879	29,291,034	88,249,253
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
	375,832,382	31,308,588	73,237	407,067,733
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
	182,860,733	12,643,922	-	195,504,655
Total capital assets being depreciated, net	192,971,649	18,664,666	73,237	211,563,078
Total capital assets, net	\$ 295,298,057	\$ 33,878,545	\$ 29,364,271	\$ 299,812,331

(CONTINUED)

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

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014 and 2013

4. CAPITAL ASSETS (CONTINUED)

The following is a summary of the activity in capital assets as of June 30, 2013:

	Balance June 30, 2012	Additions	Disposals / Reclasses	Balance June 30, 2013
Capital assets not being depreciated:				
Land	\$ 21,917,266	\$ 1,030	\$ -	\$ 21,918,296
Scituate Reservoir Project	18,681,695	-	-	18,681,695
Construction in progress	63,796,405	39,477,946	41,547,934	61,726,417
Total capital assets not being depreciated	104,395,366	39,478,976	41,547,934	102,326,408
Capital assets being depreciated:				
Buildings and improvements	69,295,960	5,092,305	-	74,388,265
Improvements other than buildings	234,157,767	36,836,239	-	270,994,006
Machinery and equipment	28,995,582	1,454,529	-	30,450,111
Total capital assets being depreciated	332,449,309	43,383,073	-	375,832,382
Less accumulated depreciation for:				
Buildings and improvements	42,057,445	6,363,169	-	48,420,614
Improvements other than buildings	103,365,784	5,018,528	-	108,384,312
Machinery and equipment	25,173,521	882,286	-	26,055,807
	170,596,750	12,263,983	-	182,860,733
Total capital assets being depreciated, net	161,852,559	31,119,090	-	192,971,649
Total capital assets, net	\$ 266,247,925	\$ 70,598,066	\$ 41,547,934	\$ 295,298,057

5. LONG-TERM DEBT

Long-term debt activity for the years ended June 30, 2014 and 2013 were as follows:

	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	78,086,636	-	(3,817,843)	74,268,793	4,094,775
Total long-term debt	\$ 78,086,636	\$ -	\$ (3,817,843)	\$ 74,268,793	\$ 4,094,775

(CONTINUED)

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

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014 and 2013

5. LONG-TERM DEBT (CONTINUED)

	2013			
	Beginning Balance	Increases	Decreases	Ending Balance
Bonds payable:				
Revenue bonds	\$ 52,488,924	\$ 29,200,000	\$ (3,602,288)	\$ 78,086,636
Total bonds	52,488,924	29,200,000	(3,602,288)	78,086,636
Total long-term debt	\$52,488,924	\$ 29,200,000	\$(3,602,288)	\$78,086,636

The following is a summary of bonds and notes outstanding at June 30, 2014 and 2013:

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>
Description	June 30, 2013	
	Interest Rate	Balance
Revenue bonds:		
Safe Drinking Water Bonds (CWFA FY2002)	3.61%	\$ 1,320,729
Scituate Reservoir Project (PPBA FY 2011)	5.40%	760,907
Safe Drinking Water Bonds (CWFA FY2005)	2.22%	1,802,000
Safe Drinking Water Bonds (CWFA FY2008)	2.85%	31,014,000
Safe Drinking Water Bonds (CWFA FY2010)	.0410% to 3.14%	10,990,000
Safe Clean Water Bonds (CWFA FY2012)	.072% to 3.26%	2,999,000
Safe Clean Water Bonds (CWFA FY2013)	.019% - 2.53%	4,200,000
Safe Drinking Water Bonds (CWFA FY2013)	.022% - 2.63%	25,000,000
		<u>\$ 78,086,636</u>

(CONTINUED)

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

5. LONG-TERM DEBT (CONTINUED)

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

Year ending June 30:	Principal		ARRA Principal	Interest and	Total
			Forgiveness	Fees	
2015	\$	4,094,775	\$ (306,789)	\$ 2,006,532	\$ 5,794,518
2016		4,296,807	(371,874)	2,076,920	6,001,853
2017		3,557,845	(185,788)	2,019,013	5,391,070
2018		3,641,016	(189,407)	1,938,125	5,389,734
2019		3,574,253	(193,177)	1,850,290	5,231,366
2020-2024		19,100,847	(1,001,848)	7,832,751	25,931,750
2025-2029		21,551,000	(1,061,362)	4,957,768	25,447,406
2030-2034		12,857,250	(915,062)	2,117,299	14,059,487
2035-2036		1,595,000	(90,559)	23,545	1,527,986
	\$	74,268,793	\$ (4,315,866)	\$ 24,822,243	\$94,775,170

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 for each of the years ended June 30, 2014 and 2013, 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, 2014 and 2013 totaled \$1,377,649 and \$1,795,842, respectively.

(CONTINUED)

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

7. LINE OF CREDIT

Providence 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, 2014 and 2013 is \$0 and \$3,000,000, respectively.

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.

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 Water Supply Board's gross revenues for the 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 \$2,500,000 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 cannot 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. As of June 30, 2014, the Water Supply Board is considered to be in default of these required payments.

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

(CONTINUED)

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

8. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Lead Service Replacement Program

The EPA Lead and Copper 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 found that Providence Water 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 Providence Water 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, Providence Water 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 USEPA, agreed to enter into a consent agreement with Providence Water which granted a stay of the lead service replacement requirement for construction season 2012. As part of the agreement, RIDOH and the USEPA required that Providence Water 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 Providence Water was granted a stay of the lead services replacement requirement for the 2013 construction season.

In April 2014, RIDOH granted Providence Water 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 service 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.

(CONTINUED)

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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), Providence Water has replaced 15,632 lead services to the end of fiscal year 2014 (June 30, 2014) at a cost of \$55,245,834.

As part of the consent agreement between the Rhode Island Department of Health and Providence Water, a final contribution payment of \$125,000 is expected. No further contribution to this program is expected to be paid by Providence Water going forward.

9. 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, 2014 and 2013, the City recorded a liability for unpaid pension contributions of \$154,539,226 and \$151,884,292, 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.

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.

The Water Supply Board's allocation of the actuarial required contribution and amount contributed for the year ended June 30, 2014 was \$3,212,354. The Water Supply Board's allocation of the actuarial required contribution and amount contributed for the year ended June 30, 2013 was \$2,762,060. The employer and employees contribution rates are approximately 25% and 8%, respectively, for both 2014 and 2013.

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.

(CONTINUED)

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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 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, 2014 and 2013, the City recorded a liability for unpaid post-retirement contributions of \$209,481,098 and \$173,271,000, 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.

The Water Supply Board's allocation of the actuarial required contribution was \$1,755,357 and \$437,598 was contributed for the year ended June 30, 2014.

The Water Supply Board's allocation of the actuarial required contribution was \$1,305,000 and \$446,523 was contributed for the year ended June 30, 2013.

The unpaid balance of the actuarial required contribution at June 30, 2014 and June 30, 2013 of \$5,385,261 and \$4,052,946, respectively, is included in non-current liabilities on the Statements of net position.

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. RESTATEMENT

The net position of the Governmental Activities has been restated as of June 30, 2013 and June 30, 2012 to reflect the implementation of GASB Statement #65 - *Items Previously Reported as Assets and Liabilities*. Implementation of this new Standard resulted in the removal of bond issuance costs as an asset from the Statement of Net Position (formerly the Statement of Net Assets). Under GASB Statement #65 bond issuance costs, excluding bond insurance costs, are to be recorded as an expense in the year the costs are incurred rather than amortizing those costs over the life of the bond obligation. As a result, the unamortized bond issuance costs as of June 30, 2013 and June 30, 2012 totaling \$261,014 and \$479,382, respectively, have been retroactively removed from the opening net position balance. The following reflects the effect of implementation of GASB Statement #65:

Net Position, June 30, 2012 as originally stated	\$ 241,449,036
Less write-off of FY12 bond issuance costs, net	<u>479,382</u>
Net Position, June 30, 2012 as restated	<u>\$ 240,969,654</u>
 Net Position, June 30, 2013 as originally stated	 \$ 252,982,101
Less write-off of FY12 bond issuance costs, net	<u>479,382</u>
Less write-off of FY13 bond issuance costs, net	<u>261,014</u>
Net Position, June 30, 2013 as restated	<u>\$ 252,241,705</u>

(CONCLUDED)

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 Water Supply Board
City of Providence, Rhode Island

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 Providence Water Supply Board (the "Water Supply Board"), as of and for the year ended June 30, 2014, 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 31, 2014.

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, Rhode Island
December 31, 2014