

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

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

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

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Providence Water Supply Board

We have audited the accompanying financial statements of Providence Water Supply Board (Water Supply Board) of the City of Providence, Rhode Island, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Water Supply Board, as of June 30, 2015 and 2014, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Presentation

As discussed in Note 1, the financial statements of the Water Supply Board, are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the business-activities of the City of Providence that are attributable to the transactions of the Water Supply Board. They do not purport to, and do not, present fairly the financial position of the City of Providence as of June 30, 2015 and 2014, the changes in its financial position, or where applicable, its cash flows for the years ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Change in Method of Accounting for Pensions

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

Prior Period Financial Statements

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedules of Funding Progress, Funding Status, Changes in Net Pension Liability and Related Ratios, Contributions and Investment Returns, on pages 4-8 and 36-38, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our

inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated April 1, 2016, on our consideration of the Water Supply Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Water Supply Board's internal control over financial reporting and compliance.

Marcum LLP

Providence, RI
April 1, 2016

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015 AND 2014

The management of the Water Supply Board (the "Water Supply Board") offers readers of our financial statements the following narrative overview and analysis of our financial activities for the years ended June 30, 2015 and 2014.

Financial Statements

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

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

- The statements of net position present information on the assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Water Supply Board is improving or deteriorating.
- The statements of revenues, expenses, and changes in net position report the operating and non-operating revenues and expenses of the Water Supply Board for the fiscal year with the difference – the net income or loss – being combined with any capital contributions to determine the change in net position for the fiscal year. That change combined with the previous year-end net position total reconciles to the net position at the end of the fiscal year.
- The statements of cash flows report cash and cash equivalents activity for the fiscal year resulting from operating activities, non-capital financing activities, capital and related financing activities, and investing activities. The net result of these activities added to the beginning of the year cash balance reconciles to the cash and cash equivalents balance at the end of the fiscal year.

PROVIDENCE WATER SUPPLY BOARD
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MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015 AND 2014

Condensed Financial Information (in thousands)

Condensed Financial Information

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

Note:

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

PROVIDENCE WATER SUPPLY BOARD
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MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015 AND 2014

Financial Highlights

During the year, the Water Supply Board had operating revenues that exceeded operating expenses by \$14.7 million. This is primarily due to rate relief to support the continued commitment to the replacement of aging infrastructure, careful management of operating costs, and unexpended revenues allocated for restricted funds. Total assets were \$374.1 million, up \$23.5 million from last year's total assets of \$350.6 million. Current assets, principally cash, increased by \$4.9 million, and net plant increased by \$17 million.

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

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

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

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

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

Capital Assets and Debt Administration

Capital Assets:

At June 30, 2015, the Water Supply Board had \$317.3 million invested in various capital assets, including land, buildings and improvements, transmission and distribution mains, reservoirs, services, hydrants and appurtenances, machinery and equipment, and construction work in progress. This amount represents a net increase in capital assets of \$17.4 million, or 5.8%, over the prior year.

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

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MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2015 AND 2014

Capital Assets and Debt Administration (Continued)

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

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

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

Debt

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

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

Subsequent Events:

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015 AND 2014

Subsequent Events (continued):

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

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

Union Contract:

The labor force of the Water Supply Board, with the exception of management, is covered by a union contract which is effective for the period January 1, 2011 to June 30, 2015. A new contract was in negotiations at fiscal year-end and subsequently approved by the union and City. The new contract is effective for the period of July 1, 2015 through June 30, 2018.

Contacting The Water Supply Board's Financial Management

This financial report is designed to provide our customers, investors and creditors with a general overview of the Water Supply Board's finances and to illustrate the Water Supply Board's accountability for the monies it receives. If you have questions about this report or need additional financial information, please contact the Finance Department at the Water Supply Board, 552 Academy Avenue, Providence, RI 02908.

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

STATEMENTS OF NET POSITION

JUNE 30, 2015 AND 2014

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

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

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

STATEMENTS OF NET POSITION (CONTINUED)

JUNE 30, 2015 AND 2014

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

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

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

STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

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

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

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

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

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

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

SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

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

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

REGULATIONS AND OPERATIONS

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

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

CASH EQUIVALENTS

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

INVESTMENTS

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

INVENTORY

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

CAPITAL ASSETS, DEPRECIATION AND AMORTIZATION

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

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

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

RESTRICTED FUNDS FOR CONSTRUCTION OF ASSETS

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

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

CAPITAL CONTRIBUTIONS

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

IMPACT FEES

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

The impact fee is assessed by the City of Cranston based on the agreement with the Water Supply Board. If new water systems facilities are required to serve areas where no water system presently exists, the Water Supply Board will collect a subdivision processing fee, and the City of Cranston will collect a water impact fee for the benefit of the Water Supply Board as follows: 1) residential \$1,352 per unit; 2) industrial and commercial \$6,003 per acre. The Water Supply Board in turn agreed to use the said impact fee solely for the purpose of construction of new water system facilities required to serve areas where no water system presently exists. In 2015, the \$2,026,185 in fees that had been collected was recognized by the Water Supply Board as revenue.

REVENUES, OPERATING REVENUES AND EXPENSES

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

PROVIDENCE WATER SUPPLY BOARD
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

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

CONCENTRATION OF CREDIT RISK

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

USE OF ESTIMATES

The preparation of the financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

COMPENSATED ABSENCES

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

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

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position can report deferred outflows of resources. Deferred outflow of resources represents a consumption of net position, that apply to a future period which will not be recognized as an outflow of resources (expense) until that later date. At June 30, 2015 the Water Supply Board reports deferred outflows related to pension in the statement of net position. A deferred outflow of resources related to pension results from differences between expected and actual experience, changes in assumptions or other inputs. These amounts are deferred and included in pension expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees).

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

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

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES (CONTINUED)

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

NOTE 2 - RESTRICTED ASSETS

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

- 1) at a minimum, 55% of the funds are to be spent for the acquisition of land or land rights or physical improvements to acquired land to protect the quality of the raw water of the water supply system;
- 2) 35% may be used to acquire a fee simple interest or a conservation restriction that directly protects the quality and safety of the public drinking water supply; and
- 3) 10% may be used by the supplier for any purpose relating to its operations.

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

PROVIDENCE WATER SUPPLY BOARD
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 3 - CASH AND INVESTMENTS

The following is a summary of cash and investments:

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

Responsibility for custodial credit risk of deposits, investment risk, interest rate risk and concentration of investments rests with the City. However, the deposits for the Water Supply Board are supported by collateralization agreements with its main banking institutions. These agreements collateralize the deposits at 102%. Of the cash and cash equivalent balances of \$38,150,991, \$250,000 is covered by Federal Deposit Insurance Corporation (FDIC) insurance and \$4,347,156 is uncollateralized.

INTEREST RATE RISK

This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the exposure of the entity's debt type investments to this risk using the segmented time distribution model is as follows:

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

CREDIT RISK

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

FAIR VALUE MEASUREMENT OF INVESTMENTS

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

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

Level 2: Inputs to the valuation methodology include:

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

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

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

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

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

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

PROVIDENCE WATER SUPPLY BOARD
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 4 - CAPITAL ASSETS

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

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

PROVIDENCE WATER SUPPLY BOARD
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 4 - CAPITAL ASSETS (CONTINUED)

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 5 - LONG-TERM DEBT

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 5 - LONG-TERM DEBT (CONTINUED)

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

Description	June 30, 2015	
	Interest Rate	Balance
Revenue bonds:		
Safe Drinking Water Bonds (CWFA FY2002)	3.61%	\$ 1,061,245
Scituate Reservoir Project (PPBA FY 2011)	5.40%	504,774
Safe Drinking Water Bonds (CWFA FY2005)	2.22%	--
Safe Drinking Water Bonds (CWFA FY2008)	2.85%	28,181,000
Safe Drinking Water Bonds (CWFA FY2010)	.0410% to 3.14%	8,660,000
Safe Clean Water Bonds (CWFA FY2012)	.072% to 3.26%	2,748,000
Safe Clean Water Bonds (CWFA FY2013)	.019% - 2.53%	4,021,000
Safe Drinking Water Bonds (CWFA FY2013)	.022% - 2.63%	24,998,000
Safe Drinking Water Bonds (CWFA FY2013)	.022% - 3.01%	8,000,000
		\$ 78,174,019

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
		\$ 74,268,793

PROVIDENCE WATER SUPPLY BOARD
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 5 - LONG-TERM DEBT (CONTINUED)

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

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

NOTE 6 - TRANSACTIONS WITH CITY OF PROVIDENCE, RHODE ISLAND

The City of Providence performs various services for the Water Supply Board including certain accounting, personnel and cash management services and working capital support. The total billing to the Water Supply Board for services performed amounted to \$839,167 for each of the years ended June 30, 2015 and 2014, respectively. This amount is established by the City, approved by the Water Supply Board and ultimately approved by the PUC. The Water Supply Board also provides services to various City funds and departments, the charges for which have been included as revenue in the accompanying financial statements. Included within the Due To City of Providence General Fund balance on the statements of net position are the related balances due for the services described above. The balance also includes payments for pension and post-employment benefits. The total balance due to the City of Providence General Fund at June 30, 2015 and 2014 totaled \$1,394,423 and \$1,377,649, respectively.

NOTE 7 - LINE OF CREDIT

The Water Supply Board opened a line of credit with Century Bank of \$5,000,000 in 2013. This line of credit is used for infrastructure replacement and renewed annually per the agreement terms. The balance as of June 30, 2015 and 2014 was \$0.

PROVIDENCE WATER SUPPLY BOARD
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 8 - COMMITMENTS AND CONTINGENCIES

RISK MANAGEMENT

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

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

UNION CONTRACT

The labor force of the Water Supply Board, with the exception of management, is covered by a union contract which is effective for the period January 1, 2011 to June 30, 2015. A new union contract has been negotiated and agreed to by both parties and is effective for the period of July 1, 2015 through June 30, 2018.

LEAD SERVICE REPLACEMENT PROGRAM

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

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

PROVIDENCE WATER SUPPLY BOARD
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 8 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

LEAD SERVICE REPLACEMENT PROGRAM (CONTINUED)

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

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

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

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

PROVIDENCE WATER SUPPLY BOARD
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 8 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

LEAD SERVICE REPLACEMENT PROGRAM (CONTINUED)

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

NOTE 9 - DEFINED BENEFIT PENSION PLANS

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 9 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

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

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

The Plan's investment policy in regard to the allocation of invested assets is established and may be amended by the City. It is the policy of the City to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension Plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the asset allocation as of June 30, 2015:

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 9 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

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

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

PROVIDENCE WATER SUPPLY BOARD
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 9 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

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

The long-term expected rate of return on Plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target allocation as of June 30, 2015 are summarized as follows:

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

CONTRIBUTIONS

Class A members and police officers are required to contribute 8% of their salary to the Plan. Class B members, other than police officers, are required to contribute 9.5% of their salary to the Plan. Water Supply Board employees are Class A members. The Mayor and City Council contribute to the Plan at a rate of \$350 per year. Additionally, the City shall contribute from time to time amounts sufficient with the contributions of elected officials to provide the special pensions granted to them. The Water Supply Board's contributions to the ERS for the years ended June 30, 2015, 2014 and 2013 were \$3,212,354, \$2,945,209, and \$2,792,964, respectively.

PROVIDENCE WATER SUPPLY BOARD
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 9 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

INVESTMENT POLICY

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

NET PENSION LIABILITY

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

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

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

PROVIDENCE WATER SUPPLY BOARD
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 9 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

Changes in the Net Pension Liability for the Water Supply Board

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

Additional information as of the latest actuarial valuation follows:

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

PROVIDENCE WATER SUPPLY BOARD
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 9 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

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

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

Discount Rate: The discount rate used to measure the total pension liability was 8.25%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that the City of Providence's contributions will be made at the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE.

The following presents the net pension liability of the Retirement System, calculated using the discount rate of 8.25%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.25%) or 1-percentage-point higher (9.25%) than the current rate:

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

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

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

PROVIDENCE WATER SUPPLY BOARD
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 9 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

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

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

Year Ended June 30:

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

Payable to the Plan

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 10 - POST EMPLOYMENT BENEFITS

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

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

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

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

NOTE 11 - RESTATEMENT

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 11 - RESTATEMENT (CONTINUED)

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

NOTE 12 - SUBSEQUENT EVENTS

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

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

PROVIDENCE WATER SUPPLY BOARD
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REQUIRED SUPPLEMENTARY INFORMATION

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

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

Notes:

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS

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

Notes to Schedule

Valuation date: July 1, 2014

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level dollar for the 1995 deferral liability and increasing 3.5% per year for the remaining unfunded liability.
Remaining amortization period	Market value assets as reported by the Water Board less unrecognized returns in each of the last five years plus the discounted contribution paid by the City in the following year. Unrecognized return is equal to the difference between the actual market return and the expected market return and is recognized over a five-year period, further adjusted, if necessary, to be within 20% of the market value.
Inflation	3.5%
Salary increases	3.5% per year before reflecting increases due to longevity compensation.
Investment rate of return	8.25%, net of pension plan investment and administrative expenses, including inflation.
Cost of living adjustments	10-year freeze as of January 1, 2013 and 3% thereafter.
Benefit Changes:	There have been no changes in benefit provisions since GASB 67/68 implementation
Assumption Changes:	The actuarial assumptions used reflect the assumptions proposed in the Experience Investigation for the Five Year Period Ending June 30, 2011 submitted to the Board on April 2, 2012, with the following exception: The retirement rate for Class B participants is 100% at age 60.

Notes:

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

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

PROVIDENCE WATER SUPPLY BOARD
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REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF INVESTMENT RETURNS

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

Notes:

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

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

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Board of Directors of
Providence Water Supply Board

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

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Marcum LLP

Providence, RI
April 1, 2016