



CITY OF PROVIDENCE, RHODE ISLAND

General Purpose Financial Statements and
Supplementary Financial Information

Year ended June 30, 1997

(With Independent Auditors' Report Thereon)

IN CITY COUNCIL
MAY 21 1998

READ
WHEREUPON IT IS ORDERED THAT
THE SAME BE RECEIVED.

*Referred to Committee
on Finance*
Michael R. Clement CLERK
DMC

IN CITY COUNCIL
DEC 3 1998

READ
WHEREUPON IT IS ORDERED THAT
THE SAME BE RECEIVED AND APPROVED.

Michael R. Clement CLERK

CITY OF PROVIDENCE, RHODE ISLAND

General Purpose Financial Statements and Supplementary Financial Information

Year ended June 30, 1997

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members of the City Council
 City of Providence, Rhode Island:

We have audited the general purpose financial statements of the City of Providence, Rhode Island, as of and for the year ended June 30, 1997, as listed in the accompanying table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of certain entities and accounts that aggregate the following percentages of total assets and revenues of the respective fund types and account groups:

<u>Fund Type/Account Group</u>	<u>Percentage of</u>	
	<u>Total assets</u>	<u>Total revenues</u>
Special Revenue	17%	4%
Capital Projects	85	33
General Fixed Assets	29	-
General Long-term Obligations	25	-

Those statements were audited by other auditors whose reports have been furnished to us, and our opinion on the general purpose financial statements, insofar as it relates to the amounts included for those entities and accounts, is based solely upon the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards and *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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Providence, Rhode Island as of June 30, 1997, and the results of its operations and cash flows of its proprietary and nonexpendable trust fund types for the year then ended, in conformity with generally accepted accounting principles.

Honorable Mayor and Members of the City Council
City of Providence, Rhode Island
Page Two

In accordance with *Government Auditing Standards* we have also issued a separate report dated January 31, 1998 on our consideration of the City's internal control structure and on its compliance with laws and regulations.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining financial statements and other financial information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City of Providence, Rhode Island. Such information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, based on our audit and the report of other auditors, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

During the year ended June 30, 1997, the City adopted Governmental Accounting Standards Board Statements No. 25 *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and No. 27, *Accounting for Pensions by State and Local Governmental Employers*.

The accompanying financial statements and supplementary financial information have been prepared assuming that the Providence Civic Center Authority will continue as a going concern. As discussed in note 1 to the financial statements, the Authority has suffered recurring losses from operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. The financial statements and supplementary information did not include any adjustments that might result from the outcome of this uncertainty.

KPMG Peat Marwick LLP

March 16, 1998

CITY OF PROVIDENCE, RHODE ISLAND

Combined Balance Sheet - All Fund Types and Account Groups

June 30, 1997
(in thousands)

Assets	Governmental Fund Types			Proprietary	Fiduciary	Account Groups		Total (Memorandum Only)
	General	Special Revenue	Capital Projects	Funds Types Enterprise	Fund Types Trust and Agency	General Long-term Obligations	General Fixed Assets	
Cash and cash equivalents (note 16)	\$ 17,900	14,315	11,887	2,131	29,578	-	-	75,811
Restricted assets (note 11)	-	-	-	9,733	-	-	-	9,733
Investments (note 16)	-	5,644	1	-	258,437	-	-	264,082
Receivables:								
Taxes (net of allowances for uncollectible amounts of \$35,045)	31,281	-	-	-	-	-	-	31,281
Unbilled water charges	-	-	-	4,825	-	-	-	4,825
Other (net of allowance for uncollectible amounts)	806	5,867	-	6,760	-	-	-	13,433
Due from:								
Other funds (note 6)	2,879	10,393	729	-	29,906	-	-	43,907
Other governments	12,156	12,385	10	-	121	-	-	24,672
Notes due from Water Supply Board (note 18)	2,593	12,399	-	-	-	-	-	14,992
Loans receivable, net (note 7)	-	-	-	-	13,220	-	-	13,220
Inventory	-	-	-	606	-	-	-	606
Property, plant and equipment (net of accumulated depreciation) (note 5)	-	-	-	118,953	-	-	243,051	362,004
Amount to be provided for retirement of long-term obligations	-	-	-	-	-	326,625	-	326,625
Other assets	<u>1,012</u>	<u>238</u>	<u>-</u>	<u>872</u>	<u>1,923</u>	<u>-</u>	<u>-</u>	<u>4,045</u>
	\$ <u>68,627</u>	<u>61,241</u>	<u>12,627</u>	<u>143,880</u>	<u>333,185</u>	<u>326,625</u>	<u>243,051</u>	<u>1,189,236</u>

See accompanying notes to general purpose financial statements.

CITY OF PROVIDENCE, RHODE ISLAND

Combined Balance Sheet - All Fund Types and Account Groups

June 30, 1997
(in thousands)

<u>Liabilities and Fund Equity</u>	<u>Governmental Fund Types</u>			<u>Proprietary</u> <u>Funds</u> <u>Types</u>	<u>Fiduciary</u> <u>Fund Types</u>	<u>Account Groups</u>		<u>Total</u> <u>(Memorandum</u> <u>Only)</u>
	<u>General</u>	<u>Special</u> <u>Revenue</u>	<u>Capital</u> <u>Projects</u>	<u>Enterprise</u>	<u>Trust and</u> <u>Agency</u>	<u>General</u> <u>Long-term</u> <u>Obligations</u>	<u>General</u> <u>Fixed Assets</u>	
Liabilities:								
Bank overdraft	\$ -	11,251	-	-	136	-	-	11,387
Accounts payable	3,244	6,021	193	5,808	194	-	-	15,460
Accrued expenditures	4,163	-	1,129	-	625	-	-	5,917
Accrued legal contingencies	1,250	-	-	-	-	-	-	1,250
Amounts held for others	-	-	-	117	17,940	-	-	18,057
Liabilities payable from restricted assets (note 11)	-	-	-	897	-	-	-	897
Due to:								
Other funds (note 6)	24,158	7,113	-	2,321	8	10,307	-	43,907
Other governments	38	6	-	-	-	-	-	44
Note payable to the General Fund (note 18)	-	-	-	2,285	-	-	-	2,285
Deferred revenues	30,481	3,613	729	1,259	8,631	-	-	44,713
Bonds, loans and notes payable (note 8)	-	9,021	-	24,787	-	250,153	-	283,961
Unpaid pension contributions	-	-	-	-	-	11,671	-	11,671
Other liabilities	-	1,717	-	5,699	-	28,601	-	36,017
Obligation under capital leases (notes 9)	-	-	-	13,508	-	25,893	-	39,401
	<u>63,334</u>	<u>38,742</u>	<u>2,051</u>	<u>56,681</u>	<u>27,534</u>	<u>326,625</u>	<u>-</u>	<u>514,967</u>
Fund Equity:								
Investment in general fixed assets	-	-	-	-	-	-	243,051	243,051
Contributed capital (note 19)	-	-	-	61,111	-	-	-	61,111
Retained earnings:								
Reserved	-	-	-	8,828	-	-	-	8,828
Unreserved	-	-	-	17,260	-	-	-	17,260
Fund balance (deficit) (note 12):								
Reserved	2,288	23,628	221	-	292,416	-	-	318,553
Unreserved:-								
Undesignated	<u>3,005</u>	<u>(1,129)</u>	<u>10,355</u>	<u>-</u>	<u>13,235</u>	<u>-</u>	<u>-</u>	<u>25,466</u>
Total fund equity and other credits	<u>5,293</u>	<u>22,499</u>	<u>10,576</u>	<u>87,199</u>	<u>305,651</u>	<u>-</u>	<u>243,051</u>	<u>674,269</u>
Commitments and contingent liabilities (note 15)								
	\$ <u>68,627</u>	<u>61,241</u>	<u>12,627</u>	<u>143,880</u>	<u>333,185</u>	<u>326,625</u>	<u>243,051</u>	<u>1,189,236</u>

See accompanying notes to general purpose financial statements.

CITY OF PROVIDENCE, RHODE ISLAND

Combined Statement of Revenues, Expenditures and Changes in Fund Balance - All Governmental Fund Types and Expendable Trust Funds

Year ended June 30, 1997
(in thousands)

	Governmental Fund Types			Fiduciary	Total (Memorandum Only)
	General	Special Revenue	Capital Projects	Expendable Trusts	
Revenues:					
Taxes (note 3)	\$ 177,920	-	-	-	177,920
Departmental revenue	6,720	52	-	21	6,793
Federal and state grants and reimburse- ments	22,977	132,493	706	-	156,176
Sale of real estate	-	154	-	119	273
Investment and rental income	3,674	7,503	858	1,122	13,157
Fines and forfeitures	3,448	-	-	-	3,448
Other	<u>15,171</u>	<u>17,192</u>	<u>-</u>	<u>4,247</u>	<u>36,610</u>
Total revenues	<u>229,910</u>	<u>157,394</u>	<u>1,564</u>	<u>5,509</u>	<u>394,377</u>
Expenditures:					
Executive, legislative, and judicial	4,587	-	-	-	4,587
Finance	58,851	-	-	-	58,851
Public safety	59,478	-	-	-	59,478
Building inspection	2,505	-	-	-	2,505
Public works	8,509	-	-	-	8,509
Recreation	1,162	-	-	-	1,162
Public lands and parks	6,827	-	-	-	6,827
Education	-	182,163	-	-	182,163
Other departments	3,517	12,158	-	-	15,675
Welfare	323	-	-	-	323
Grants	2,956	-	-	-	2,956
Public properties	3,078	574	-	-	3,652
Other	362	5,509	1,258	26,323	33,452
Capital outlays	-	-	12,195	-	12,195
Program expenditures	-	-	1,646	-	1,646
Debt service	<u>-</u>	<u>8,908</u>	<u>-</u>	<u>-</u>	<u>8,908</u>
Total expenditures	<u>152,155</u>	<u>209,312</u>	<u>15,099</u>	<u>26,323</u>	<u>402,889</u>
Excess (deficiency) of revenues over expenditures	77,755	(51,918)	(13,535)	(20,814)	(8,512)
Other financing sources (uses):					
Operating transfers (to) from other funds (note 20)	(77,493)	38,628	17,758	21,439	332
Transfers (to) from other governments	224	(23)	-	360	561
Bond payments - refunded debt	-	24,439	-	-	24,439
Proceeds of refunding bonds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>(77,269)</u>	<u>63,044</u>	<u>17,758</u>	<u>21,799</u>	<u>25,332</u>
Revenues and other financing sources over (under) expenditures and other financing uses	486	11,126	4,223	985	16,820
Fund balance, beginning of year	<u>4,807</u>	<u>11,373</u>	<u>6,353</u>	<u>11,979</u>	<u>34,512</u>
Fund balance, end of year	\$ <u>5,293</u>	<u>22,499</u>	<u>10,576</u>	<u>12,964</u>	<u>51,332</u>

See accompanying notes to general purpose financial statements.

CITY OF PROVIDENCE RHODE ISLAND

Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual - General Fund and School Fund

Year ended June 30, 1997
(in thousands)

	General Fund			School Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Taxes (note 3)	\$ 175,580	177,920	2,340	\$ -	-	-
Federal and State revenue	20,584	22,977	2,392	93,526	97,089	3,563
Fines and forfeits	2,625	3,448	823	-	-	-
Investment and rental income	3,558	3,674	117	-	-	-
Departmental	6,340	6,720	380	-	-	-
Other revenue	<u>15,355</u>	<u>15,395</u>	<u>40</u>	<u>635</u>	<u>116</u>	<u>(519)</u>
Total revenue	<u>224,042</u>	<u>230,134</u>	<u>6,092</u>	<u>94,161</u>	<u>97,205</u>	<u>3,044</u>
Other financing sources:						
Operating transfers from other funds	<u>3,443</u>	<u>3,384</u>	<u>(59)</u>	<u>64,574</u>	<u>67,236</u>	<u>2,662</u>
Total revenues and other financing sources	<u>227,485</u>	<u>233,518</u>	<u>6,033</u>	<u>158,735</u>	<u>164,441</u>	<u>5,706</u>
Expenditures:						
Executive, legislative, and judicial	4,710	4,587	123	-	-	-
Finance administration	60,836	58,851	1,985	-	-	-
Public safety	56,483	59,478	(2,995)	-	-	-
Education	-	-	-	158,735	164,441	(5,706)
Building inspection	2,286	2,505	(219)	-	-	-
Public works	9,330	8,509	821	-	-	-
Recreation	1,100	1,162	(62)	-	-	-
Public lands and parks	6,297	6,827	(530)	-	-	-
Other departments	3,508	3,517	(9)	-	-	-
Welfare	433	323	110	-	-	-
Commissions	2,926	2,956	(30)	-	-	-
Public properties	2,719	3,078	(359)	-	-	-
Purchasing	299	309	(10)	-	-	-
Public celebrations	10	4	6	-	-	-
Other	<u>59</u>	<u>49</u>	<u>10</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>150,996</u>	<u>152,155</u>	<u>(1,159)</u>	<u>158,735</u>	<u>164,441</u>	<u>(5,706)</u>
Other financing uses:						
Transfer to other funds	<u>76,489</u>	<u>80,877</u>	<u>(4,388)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures and other financing uses	<u>227,485</u>	<u>233,032</u>	<u>(5,547)</u>	<u>158,735</u>	<u>164,441</u>	<u>(5,706)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	\$ <u>-</u>	<u>486</u>	<u>486</u>	\$ <u>-</u>	<u>-</u>	<u>-</u>

See accompanying notes to general purpose financial statements.

CITY OF PROVIDENCE, RHODE ISLAND

Combined Statement of Revenues, Expenses and Changes in Fund Equity - All Proprietary Fund
Types and Similar Trust Funds

Year ended June 30, 1997
(in thousands)

	Proprietary Fund Types	Fiduciary Fund Type	Total (Memorandum)
	<u>Enterprise</u>	<u>Nonexpendable Trusts</u>	<u>Only</u>
Operating revenues:			
Arena rent and concession income	\$ 3,510	-	3,510
Water sales	30,062	-	30,062
Maintenance and other charges	340	-	340
Other	<u>-</u>	<u>-</u>	<u>-</u>
	<u>33,912</u>	<u>-</u>	<u>33,912</u>
Operating expenses:			
Wages and benefits	2,494	-	2,494
Operations	5,304	-	5,304
Charges by other City departments (note 11)	659	-	659
Administrative and general	9,748	-	9,748
Bad debts	1,303	-	1,303
Property taxes - other local governments	3,907	-	3,907
Depreciation and amortization	3,045	-	3,045
Other	<u>403</u>	<u>-</u>	<u>403</u>
	<u>26,863</u>	<u>-</u>	<u>26,863</u>
Operating income	<u>7,049</u>	<u>-</u>	<u>7,049</u>
Nonoperating revenues (expenses):			
Water quality protection charge (note 11)	2,202	-	2,202
Water quality protection expense	(1,064)	-	(1,064)
Net interest	(1,800)	-	(1,800)
Interest income	<u>895</u>	<u>-</u>	<u>895</u>
	<u>233</u>	<u>-</u>	<u>233</u>
Net income	7,282	-	7,282
Add: depreciation on contributed fixed assets	431	-	431
Operating transfer from (to) other funds (note 20)	<u>(932)</u>	<u>-</u>	<u>(932)</u>
Increase in retained earnings/fund balance	6,781	-	6,781
Retained earnings/fund balance, beginning of year	<u>19,307</u>	<u>296</u>	<u>19,603</u>
Retained earnings/fund balance, end of year	\$ <u>26,088</u>	<u>296</u>	<u>26,384</u>

See accompanying notes to general purpose financial statements.

CITY OF PROVIDENCE, RHODE ISLAND

Combined Statement of Changes in Plan Net Assets - Pension Trust Fund

Year ended June 30, 1997
(in thousands)

Additions:	
Contributions:	
Employer	\$ 19,345
Employee	<u>7,156</u>
Total contributions	<u>26,501</u>
Investment income:	
Realized and unrealized gains on investments	13,833
Interest	<u>11,290</u>
Total investment income	<u>25,123</u>
Total additions	51,624
Deductions:	
Benefits	47,108
Refunds of contributions	-
Administrative expenses	<u>-</u>
Total deductions	<u>47,108</u>
Net increase	<u>4,516</u>
Net assets held in trust for pension benefits:	
Beginning of year	<u>287,875</u>
End of year	\$ <u>292,391</u>

See accompanying notes to general purpose financial statements.

CITY OF PROVIDENCE, RHODE ISLAND

Combined Statement of Cash Flows - All Proprietary Fund Types and Similar Trust Funds

Year ended June 30, 1997

(in thousands)

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	Total
	<u>Enterprise</u>	<u>Nonexpendable Trusts</u>	<u>(Memorandum) Only</u>
Operating activities:			
Operating income	\$ 6,374	-	6,374
Adjustments to reconcile operating income to net cash used in operating activities:			
Depreciation and amortization	3,045	-	3,045
Provision for losses on accounts receivable	1,303	-	1,303
Deferred revenue	377	-	377
Increase (decrease) in cash arising from changes in assets and liabilities:			
Accounts receivable	(1,002)	-	(1,002)
Accounts receivable - unbilled	2,541	-	2,541
Inventory	(9)	-	(9)
Other current assets	25	-	25
Accrued expenses and accounts payable	(395)	-	(395)
Advance sales receipts and promoter deposits	(462)	-	(462)
Due to City of Providence	538	-	538
Due to Water Resources Board	(517)	-	(517)
Net cash (used in) operating activities	<u>11,818</u>	<u>-</u>	<u>11,818</u>
Noncapital financing activities:			
Net borrowings from City of Providence General Fund	(314)	-	(314)
Payments to other funds	(258)	-	(258)
Contributions from the City of Providence	<u>600</u>	<u>-</u>	<u>600</u>
Net cash provided by noncapital financing activities	<u>28</u>	<u>-</u>	<u>28</u>
Capital and related financing activities:			
Capital expenditures	(7,599)	-	(7,599)
Payment of obligations under capital lease	(1,106)	-	(1,106)
Payment of principal on general obligation and revenue bonds	(1,983)	-	(1,983)
Interest on general obligation and revenue bonds	(1,450)	-	(1,450)
Water quality protection receipts	2,368	-	2,368
Water quality protection disbursements	(410)	-	(410)
Net cash used in capital and related financing activities	<u>(10,180)</u>	<u>-</u>	<u>(10,180)</u>
Investing activities:			
Purchase of investments, net	(13)	-	(13)
Interest on investments	<u>896</u>	<u>-</u>	<u>896</u>
Net cash provided by investing activities	<u>883</u>	<u>-</u>	<u>883</u>
Net decrease in cash and cash equivalents	2,549	-	2,549
Cash and cash equivalents at beginning of year	<u>1,312</u>	<u>239</u>	<u>1,551</u>
Cash and cash equivalents at end of year	\$ <u>3,861</u>	<u>239</u>	<u>4,100</u>

See accompanying notes to general purpose financial statements.

CITY OF PROVIDENCE, RHODE ISLAND

Notes to General Purpose Financial Statements

June 30, 1997

(1) Reporting Entity

In accordance with the requirements of Statement No. 14 of the Governmental Accounting Standards Board, *The Financial Reporting Entity*, the accompanying general purpose financial statements present the City of Providence (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Primary Government

The City of Providence, Rhode Island, operates under a Mayor-Council form of government. A Home Rule Charter was adopted in November 1980 and became fully effective on January 3, 1983. The Mayor is elected by the voters of the City to a four-year term. City Council members are also elected to four year terms, which coincides with the term of the Mayor. Most department heads and other City officials are appointed by the Mayor.

Individual Component Unit Disclosure

The component units provide services entirely or almost entirely to the City or otherwise exclusively or almost exclusively to benefit the City, even though they do not provide services directly to it. Although legally separate, all component units have been reported as if they were part of the primary government through a method of inclusion known as blending. A description of the component units, criteria for inclusion and their relationship with the City are as follows:

- ***Providence Public Buildings Authority***
The Providence Public Buildings Authority (PPBA) was created by an act of the Rhode Island General Assembly and was empowered by resolution of the Providence City Council on August 13, 1987, and by resolution of the Public Finance Board, created under Section 42-10.11 of the General Laws of Rhode Island, on February 12, 1988.

The purpose of the PPBA is to acquire, construct, maintain, renovate, repair, and operate public facilities and public equipment through the use of public financing for lease to the City. These activities allow the PPBA to provide for the conduct of the executive, legislative and judicial functions of the government. The PPBA is obligated to pay the principal and interest on any financing solely from the rents, revenues and receipts derived under the lease agreements with the City or from receipts on the disposition of the assets being financed. The PPBA's administrative expenses are paid on an annual basis by the lessee in the form of additional rent.
- ***Providence Water Supply Board***
The Providence Water Supply Board was created in 1940 by Chapter 832 of the Public Laws of the State of Rhode Island. Membership of the 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 Board member.

(Continued)

CITY OF PROVIDENCE, RHODE ISLAND

Notes to General Purpose Financial Statements

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 Board also sells water to the other local water supply systems on a wholesale basis. The Board's source of water supply is the Scituate Reservoir, located in the Town of Scituate, Rhode Island, and five tributary reservoirs.

Activities of the Water Supply Board are governed by the regulations of the Public Utility Administrator of the State of Rhode Island. All water sale rates are established by the State of Rhode Island Public Utilities Commission.

- ***Providence Civic Center Authority***

The Providence Civic Center Authority (the "Authority"), a component unit of the City of Providence, is governed by a seven member Board of Directors. It was created by an Act of the Rhode Island State Legislature in 1969 (the "Act") to provide a public facility for various civic, athletic, and cultural events. The facility was built and paid for from the proceeds of general obligation bonds sold by the City of Providence. As of February 1, 1992, the Center and all funds and assets of the Authority became the property of the City of Providence. Under Section 10(b) of the Act, the Authority is required to pay annually all excess revenues, as defined in the Act, to the City. It is the City's intention to continue to operate the Authority as a going concern.

The Authority leases its facility to various promoters and groups, at rental charges usually calculated as a percent of gross ticket sales and/or a minimum rental fee. Rental charges for certain events are based upon a fixed fee. In addition to rental income, the Authority is reimbursed by lessees for expenses the Authority incurs in connection with the various events.

- ***Providence Economic Development Corporation (PEDC)***

On July 1, 1989, the Providence Industrial Development Corporation merged with the Providence Local Development Corporation to form the Providence Economic Development Corporation (PEDC). PEDC is a not-for-profit and was created to foster economic growth in Providence as well as assist and attract new industrial, manufacturing and other commercial enterprises to the City. The activities of PEDC are funded by state and local agencies.

- ***Providence Redevelopment Agency (PRA)***

The PRA is governed by the Mayor, ex-officio and a seven member Board. Its purpose is to provide the planning support for major construction and redevelopment activity in the City.

Joint Ventures

Providence Cranston Job Training Partnership (the Partnership) is the administrative entity of Providence Cranston Job Training Consortium. Providence Cranston Job Training Consortium was established by the City of Providence and the City of Cranston to operate a comprehensive employment and training service delivery system according to the provisions of the Job Training Partnership Act of 1982.

(Continued)

CITY OF PROVIDENCE, RHODE ISLAND

Notes to General Purpose Financial Statements

The Partnership is administered by the City who is responsible for the proper administration and operation of programs within guidelines established by the Providence Cranston Private Industry Council and provisions of the Job Training Partnership Act of 1982. The operations of the Partnership are immaterial to the City's general purpose financial statements.

The Providence Cranston Private Industry Council is a committee of representatives from the public and private sector. The Council provides policy guidance and exercises oversight of activities within the service delivery area. The operations of the Council are immaterial to the City's general purpose financial statements.

Complete financial statements of the above mentioned entities can be obtained through the City of Providence Finance Department, City Hall, Providence, Rhode Island 02903.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The financial condition and results of operations of the City's funds are presented as of and for the year ended June 30, 1997. The accounting policies of the City conform with generally accepted accounting principles ("GAAP"). The accounts of the City are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise total assets, liabilities, fund balance/retained earnings, revenues and expenditures/expenses.

(b) Fund Accounting

The operations of the City are recorded in the following fund types and account groups:

Governmental Fund Types

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and remaining balance of the City's expendable financial resources and most related current liabilities are accounted for through governmental funds. The measurement focus for governmental funds is determination of financial position and changes in financial position, rather than the determination of net income. The following identifies the City's governmental fund types.

- **General Fund**
This fund is the City's general operating fund. It is used to account for all financial resources except those required to be accounted for in other funds.
- **Special Revenue Funds**
These funds are used to account for the proceeds from specific revenue sources (other than special assessments, expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

The School Fund is set up as a separate special revenue fund accountable for appropriations made to it by the General Fund and revenue receipts specifically pertaining to school activities. Under this system, any excess of revenues over expenditures reverts to the City's General Fund; therefore, the School Fund has no fund balance.

(Continued)

CITY OF PROVIDENCE, RHODE ISLAND

Notes to General Purpose Financial Statements

- ***Capital Project Funds***

These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary and trust funds).

Proprietary Fund Types

These funds account for the City's ongoing organizations and activities which are similar to those found in the private sector. The proprietary funds' measurement focus is determination of net income. The City maintains the following proprietary fund types:

- ***Enterprise Funds***

These funds are used to account for City operations that are financed and operated in a manner similar to private business enterprise. The intent is that the costs and expenses, including depreciation, of providing goods or services to the general public on a continuing basis, be financed or recovered primarily through user charges. Enterprise funds are also used where the City has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. Additionally, the rates charged to customers by the Providence Water Supply Board are subject to approval by the State of Rhode Island Public Utilities Commission.

Fiduciary Fund Types

These funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units or other funds.

Fiduciary Funds include expendable, nonexpendable, agency and retirement trust funds. Expendable trust funds are accounted for as governmental funds. Nonexpendable and retirement trust funds are accounted for as proprietary funds (i.e. flow of economic resources measurement focus and accrual basis of accounting), since capital maintenance is critical. Agency funds are purely custodial and do not involve the measurement of operating results.

Account Groups: General Long-term Obligations and General Fixed Assets

These account groups are used to account for all general long-term obligations and general fixed assets of the City, except those accounted for in proprietary and similar trust funds.

(c) Basis of Accounting

The modified accrual basis of accounting is followed by governmental funds, expendable trust funds and agency funds. Under this basis of accounting, revenues are recorded when susceptible to accrual (i.e. when they become both measurable and available to pay liabilities of the current period). Revenues not considered available are recorded as deferred revenues.

The City applies the susceptible to accrual criteria to property taxes and intergovernmental revenues. In applying the susceptible to accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, resources must be expended on the specific purpose or project before any amounts will be reimbursed to the City; therefore, revenues are recognized based upon the amount of expenditures incurred. In the other,

(Continued)

CITY OF PROVIDENCE, RHODE ISLAND

Notes to General Purpose Financial Statements

resources are virtually unrestricted and are usually revocable by the grantor only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Property taxes are recognized as revenue in the year for which taxes have been levied, provided they are collected within 60 days after year-end. Motor vehicle and other excise, licenses and permits, fines and forfeitures, and miscellaneous revenues are recorded as revenues when received in cash because these amounts are generally not measurable until actually received. Investment earnings are recorded as earned.

Expenditures are recorded when the liability is incurred except for (1) interest on general long-term obligations, which is recorded when due, and (2) the noncurrent portion of accrued judgments and claims, abatement refunds, pension costs and vacation and sick leave, which is recorded in the general long-term obligations account group.

The accrual basis of accounting is used by proprietary funds, nonexpendable trust funds, and pension trust funds. Revenues are recognized when earned and expenses are recognized when goods or services have been received or a liability has been incurred.

Revenues from charges for services of the Providence Water Supply Board are recognized on the accrual basis, net of estimated uncollectibles. Depending upon consumption, metered water sale customers are billed monthly, quarterly or annually for water usage, in arrears, and a year in advance for water service fees. Yearly billing cycles are on a staggered basis throughout the fiscal year. Large commercial customers and other local water suppliers are billed more frequently.

(d) Cash Equivalents

For purposes of the cash flow statement, the proprietary and nonexpendable trust funds consider all investments with original maturities of three months or less when purchased to be cash equivalents.

(e) Proprietary Activity Accounting and Financial Reporting

The City has elected to apply to its proprietary, nonexpendable and pension trust funds accounting standards applicable to the private sector issued on or before November 30, 1989 unless those standards conflict with or contradict pronouncements of the Governmental Accounting Standards Board.

(f) Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in governmental funds. Open encumbrances at year-end are reported as reservations of fund balance since they do not constitute expenditures or liabilities.

Certain unexpended and unencumbered appropriations for incomplete projects are carried over to succeeding years. Such continuing appropriations are accounted for similar to encumbrances. Other unencumbered appropriations lapse at year end.

(Continued)

CITY OF PROVIDENCE, RHODE ISLAND

Notes to General Purpose Financial Statements

(g) Investments

Debt securities of the Retirement Fund are stated at cost, adjusted for amortization of premium and accretion of discount. Equity securities of the Retirement Fund are stated at cost. Investments of other funds are stated at cost which approximates market.

(h) Allowance for Possible Loan Losses

The allowance for possible loan losses is maintained at a level believed adequate by management to absorb potential losses for outstanding loans. Management's determination of the adequacy of the allowance is based on an evaluation of the portfolio, past loan loss experience and current economic conditions.

(i) Compensated Absences

Under the terms of various contracts and policies, City employees are granted vacation and sick leave based on length of service. The City's policy is to recognize the cost of vacation and sick leave in governmental funds when paid and on the accrual basis in proprietary funds. The amount of earned but unpaid vacation and sick leave relating to governmental fund employees is recognized as a noncurrent obligation in the general long-term obligations group of accounts.

(j) Judgments and Claims

Liabilities for legal cases and other claims against governmental funds are recorded when the ultimate liability can be estimated and such cases are expected to be liquidated with expendable available financial resources (payable within one year). Remaining claims against governmental funds, which can be estimated, but are not expected to be liquidated with expendable available resources, are recorded in the general long-term obligations account group. Proprietary fund types record these liabilities using the accrual basis of accounting.

(k) Inventory

Proprietary fund inventory is stated at the lower of cost or market using the weighted average method. Inventory consists primarily of materials and supplies. Inventory is not maintained in governmental funds, but are recorded as expenditures at the time of purchase.

(l) Property, Plant and Equipment

Property, plant and equipment are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Assets acquired by the Providence Water Supply Board through contributions are recorded at contributor's reported cost.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Public domain ("infrastructure") general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are not capitalized, as these assets are immovable and of value only to the government.

(Continued)

CITY OF PROVIDENCE, RHODE ISLAND

Notes to General Purpose Financial Statements

Assets in the general fixed assets account group are not depreciated. Depreciation of buildings, equipment and vehicles in the proprietary fund types is computed using the straight-line method over the estimated useful lives.

Depreciation on Providence Civic Center assets acquired with contributed capital is recognized as an operating expense and then charged against contributed capital.

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

The estimated useful lives are as follows:

	<u>Civic Center Authority</u>	<u>Water Supply Board</u>
Buildings, source of supply structures and improvements	10 - 30 years	50 - 150 years
Improvements, other than buildings	-	75 - 100 years
Machinery and equipment	3 - 20 years	3 - 40 years

(m) Self Insurance

The City's self insurance costs in governmental funds are accounted for as expenditures when claims are paid. Claims incurred but not paid, including those which have not been reported, are accounted for as accrued judgments and claims in the long-term obligations account group, self-insured judgments and claims of enterprise funds are recorded as expenses when a liability has been incurred.

(n) Total (Memorandum Only)

These totals are the aggregate of the fund types and the account groups. No consolidating or eliminating entries were made in arriving at these totals. As a result, they do not represent consolidated information and are shown only in memorandum form.

(o) Reclassifications

Certain 1996 amounts have been reclassified to conform with the 1997 presentation.

(3) Property Taxes

The City's property tax is levied each year based on the assessed property value, as of the prior December 31, for all real property, tangible property, equipment and motor vehicles located in the City. Assessed values of real property were established by the City Assessor's office at 100% of appraised market value, based on the 1987 valuation less Homestead exemptions for 1 to 6 unit dwellings. Assessed values of tangible property and equipment and motor vehicles are determined annually at 100% of market value.

(Continued)

CITY OF PROVIDENCE, RHODE ISLAND

Notes to General Purpose Financial Statements

The 1996 taxable assessments and the fiscal 1997 tax rate and gross levy are as follows (in thousands, except for the tax rate):

	<u>Taxable assessment</u>	<u>Exemptions</u>	<u>Net taxable assessment</u>	<u>Rate per \$1,000</u>	<u>Gross levy</u>
Real property	\$ 5,431,824	1,278,020	4,153,805	\$ 30.42	126,359
Tangible property	526,025	9	526,017	73.00	38,399
Motor vehicle	312,067	1,582	310,485	73.00	22,665

Payments on the gross levy are due in equal quarterly installments in July, October, January and April. Property taxes attach as an enforceable lien on property when levied. The City recognizes property and excise tax revenues on the modified accrual basis. Only those property tax and excise tax payments due as of the end of the current fiscal year and collected within the current fiscal year or reasonably thereafter, usually 60 days, are recognized as revenue of the current fiscal year, net of cash abatements paid. All uncollected property taxes as of the fiscal year are recorded as receivables. Those taxes not collected within 60 days subsequent to year end are recorded as deferred revenue, even if the eventual collection appears likely. If collection appears unlikely an allowance for doubtful accounts is established.

(4) Budgetary Data

The City employs the following procedures in establishing the General Fund budgetary data reflected in the general purpose financial statements:

- At least sixty days prior to July 1, the Mayor submits a proposed operating budget for the upcoming fiscal year to the City Council. The operating budget includes proposed expenditures and the means of financing them. The Council may alter the Mayor's proposed expenditures, but may not cause an excess of appropriations over expected revenues.
- The final budget is legally enacted through passage of an ordinance.
- The Mayor is authorized to make minor transfers of budgeted amounts between departments. Significant budget revisions or transfers must be approved by the City Council.

The actual amounts are presented in accordance with generally accepted accounting principles, the method employed in preparation of the budget. The Special Revenue Fund amounts include those of the Unrestricted School Fund and the Area Vocation and Section IV Restricted School Funds. Other Special Revenue Funds do not have legally adopted budgets and are excluded.

The budget for the Unrestricted School Fund is prepared annually and approved by the Providence School Board. The amount of the annual transfer from the General Fund is ultimately determined through the adoption of the General Fund budget. This appropriation does not lapse at year end.

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CITY OF PROVIDENCE, RHODE ISLAND

Notes to General Purpose Financial Statements

(5) Property, Plant and Equipment

The following is a summary of the activity of the City's general fixed assets for the year ended June 30, 1997 (in thousands):

	<u>June 30, 1996</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 1997</u>
Land	\$ 28,521	275	-	28,796
Buildings and improvements	111,657	6,164	-	117,821
Furniture and fixtures	2,939	-	-	2,939
Machinery and equipment	9,507	1,028	(326)	10,209
Auto and truck	11,550	930	(201)	12,279
Other	<u>254</u>	<u>-</u>	<u>-</u>	<u>254</u>
Total City	164,428	8,397	(527)	172,298
PPBA	<u>64,489</u>	<u>11,239</u>	<u>(4,975)</u>	<u>70,753</u>
Total	\$ <u>228,917</u>	<u>19,636</u>	<u>(5,502)</u>	<u>243,051</u>

The following is a summary of the property, plant and equipment of the City's enterprise funds at June 30, 1997.

	<u>Water Supply Board</u>	<u>Civic Center Authority</u>	<u>Total</u>
Land	\$ 7,887	-	7,887
Buildings and improvements	83,989	16,689	100,678
Machinery and equipment	8,677	2,347	11,024
Scituate Reservoir project	18,682	-	18,682
Assets under capital leases	16,275	-	16,275
Construction in progress	15,355	-	15,355
Funds restricted for construction of assets under capital lease	<u>1,091</u>	<u>-</u>	<u>1,091</u>
	151,956	19,036	170,992
Less accumulated depreciation	<u>(37,429)</u>	<u>(14,610)</u>	<u>(52,039)</u>
Net property, plant and equipment	\$ <u>114,527</u>	<u>4,426</u>	<u>118,953</u>

(6) Interfund Accounts

At June 30, 1997, amounts due to and from funds of the City were as follows (in thousands):

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 2,879	24,158
Capital Project Funds	729	-
Fiduciary Fund Types	29,906	8
Special Revenue Funds	10,393	7,113
Enterprise Fund	-	2,321
General Long-term Obligations Account Group	<u>-</u>	<u>10,307</u>
	\$ <u>43,907</u>	<u>43,907</u>

(Continued)

CITY OF PROVIDENCE, RHODE ISLAND

Notes to General Purpose Financial Statements

(7) Loans Receivable

(a) Department of Planning and Development

Included in Special Revenue Funds are loans receivable under Community Development Action Grant (CDAG), Urban Development Action Grants (UDAG) and Housing Development Assistance Grants (HODAG). These loans represent amounts advanced to developers for certain urban, community and economic development projects within the City. As of June 30, 1997, the loans receivable, net of allowance, totaled approximately \$2.7 million.

Security for these above loans includes first or second mortgages, property and equipment and other real estate and letters of credit. Future proceeds from the repayment of principal and interest on loans must be expended by the Department of Planning and Development on eligible community development projects.

(b) Providence Economic Development Corporation

The Corporation is a component unit of the City and was created to foster economic growth and assist and attract industrial, manufacturing and other commercial enterprises to the City. At June 30, 1997, the Corporation had outstanding loans receivable, net of allowance, of approximately \$9.7 million.

Security for these loans includes first and second mortgages, property and equipment and other real estate.

(8) Long-Term and Short-Term Debt

(a) Long-term Obligations

The following is a summary of the transactions in the City's general long-term debt account group for the year ended June 30, 1997 (in thousands):

	<u>June 30,</u> <u>1996</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30,</u> <u>1997</u>
City:				
General obligation bonds	\$ 139,030	73,435	33,495	178,970
Revenue Bonds - PPBA	52,092	21,225	2,134	71,183
Judgments and claims	1,176	-	265	911
Compensated absences	14,244	404	-	14,648
Workers compensation	2,257	-	167	2,090
Health claims	9,486	26,103	23,726	11,863
Capital leases	26,270	-	377	25,893
Unpaid pension contributions	-	11,671	-	11,671
Due other funds	<u>11,797</u>	<u>-</u>	<u>1,490</u>	<u>10,307</u>
Total	\$ <u>256,352</u>	<u>132,838</u>	<u>61,654</u>	<u>327,536</u>

(Continued)

CITY OF PROVIDENCE, RHODE ISLAND

Notes to General Purpose Financial Statements

The Providence Water Supply Board (WSB) long-term debt is general obligation debt of the City. However, because it is the intent of the City to have the WSB meet the debt service requirements of this debt, such amounts are recorded in the enterprise funds of the City.

In 1990, the City, on behalf of the Water Supply Board, entered into a lease agreement with the Providence Public Building Authority (PPBA) relating to the Scituate Reservoir Project. In connection with the lease and agreement, the PPBA issued of revenue bonds to acquire land or land rights or physical improvements to acquired land to protect the quality of raw water of the Water Supply System. The bonds are to be repaid by the \$.01 per hundred gallons Water Quality Protection Charge (see note 11).

On December 1, 1994, the City, on behalf of the Water Supply Board entered into a loan agreement with the Rhode Island Clean Water Finance Agency. In connection with the loan agreement, The Rhode Island Clean Water Finance Agency issued \$12,000,000 of 1995 Series A Safe Drinking Water Revenue Bonds with a maturity date of January 1, 2015 and a 6% interest rate payable with revenues from the Water Supply Board.

The annual requirements to amortize general long-term bonds payable as of June 30, 1997, are as follows (in thousands):

<u>Year Ending June 30</u>	<u>General Obligation Principal</u>	<u>Proprietary Fund Principal</u>	<u>Total</u>
1998	\$ 18,359	2,310	20,669
1999	15,764	2,406	18,170
2000	17,697	2,530	20,227
2001	12,868	1,728	14,596
2002	13,305	1,025	14,330
Thereafter	<u>172,160</u>	<u>14,788</u>	<u>186,948</u>
Total	\$ <u>250,153</u>	<u>24,787</u>	<u>274,940</u>

The Narragansett Bay Commission has agreed to assume a portion of the general obligation debt service pursuant to a 1982 agreement, whereby the City's Sewerage Treatment Facility was transferred to the Bay Commission. Under the agreement, the Bay Commission will reimburse the City for \$3.2 million of principal and interest on the debt when it becomes due. The City, however, remains ultimately responsible for the timely payment of the issues.

On January 1, 1995, the City issued Series C of \$13,260,000 tax-exempt Series A Special Obligation Tax Increment Bonds with a rate of 5.7-7.65% maturing on June 1, 2016.

On February 1, 1995, the City issued \$10,435,000 taxable Series B Special Obligation Tax Increment bonds with a rate of 8.95% and maturing on June 1, 2007 together with \$2,805,000 taxable Series C Special Obligation Tax Increment Bonds with a rate of 7.5% and maturing on June 1, 2010. The bonds were issued in part for the purpose of financing and refinancing a portion of the Providence Plan Housing Corporation Program. The City had pledged the taxes due from the Narragansett Electric Company Agreement to constitute most of the tax increment Series II.

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CITY OF PROVIDENCE, RHODE ISLAND

Notes to General Purpose Financial Statements

On May 1, 1996, the City issued \$11,000,000 tax exempt Series D Special Obligation Tax Increment Bonds with rates of 5.5%-6.7% maturing on June 1, 2016. The bonds were issued in part for the purpose of financing and refinancing the Community Facilities Project Program.

(b) Refunding of Bonds

Defeased Debt - Current Year

On May 15, 1997, the City issued \$23.4 million in General Obligation Refunding Bonds with an average interest rate of 4.9 percent to advance refund \$23.1 million of outstanding 1991 General Obligation Bonds (the "Refunded Bonds") with an average interest rate of 7.7 percent. The Refunded Bonds were issued by the City for the purpose of (1) acquiring and preserving open space and acquiring, preserving, restoring or improving recreation areas, (2) for renovations of City schools.

The City advance refunded the \$30,850,000 General Obligation Bonds to reduce its total debt service payments over the next 14 years by \$676,846. The net present value debt savings over the life of the Refunding Bonds is \$716,953.

Defeased Debt - Prior Year

The following prior year transactions met the requirements of an in-substance defeasance:

- On March 1, 1996, PPBA issued 1996 Series A Refunding Revenue Bonds to advance refund \$22,295,000 1990 Series A Revenue Bonds and \$13,100,000 1991 Series Revenue Bonds.

The principal amount refunded through in-substance defeasance transactions and still outstanding at June 30, 1997 was \$29.9 million.

(c) Short-Term Debt

At June 30, 1997, the City had several short-term notes outstanding. The City's short-term notes were comprised of the following individual issues:

<u>Description</u>	<u>Issued</u>	<u>Due Date</u>	<u>Interest Rate</u>	<u>Principal Amount</u>
Department of Planning and Development:				
HUD Section 108 Loans and Notes	Various	Various	Various	\$ 7,560
Other - Fleet	1/26/95	June 1, 2002	7.95%	143
Providence Economic Development Corp.				
Note payable - Fleet	11/22/93	January 1, 1999	Various	<u>1,318</u>
Total				\$ <u>9,021</u>

(Continued)

CITY OF PROVIDENCE, RHODE ISLAND

Notes to General Purpose Financial Statements

(d) Debt Limit

Except as explained below, under Rhode Island law the City may not, without special statutory authorization, incur any debt which would increase its aggregate indebtedness not otherwise excepted by law to an amount greater than 3% of the taxable property of the City. Deducted from the computation of aggregate indebtedness is the amount of any borrowing in anticipation of taxes authorized by law and the amount of any sinking funds maintained by the City. The current outstanding debt of the City subject to the 3% debt limit is \$51.4 million and the current 3% debt limit of the City is \$178.2 million based on taxable property as of December 31, 1995, of approximately \$6 billion, leaving a remaining borrowing capacity of approximately \$126.8 million.

The State of Rhode Island General Assembly (General Assembly) may, by special act permit the City to incur indebtedness outside the 3% debt limit. Bonds issued either within the 3% debt limit or by special legislation adopted by the General Assembly authorizing the City to incur debt are subject to referendum by the electors of the City. On June 30, 1997, the total outstanding debt of the City issued outside the 3% debt limit was \$130.2 million, excluding water bonds and sewer bonds that are deemed self-supporting.

In addition to debt authorized within the 3% debt limit and debt authorized by special act of the General Assembly, Rhode Island General Laws Section 45-12-11 authorizes the State Director of Administration, upon petition by a municipality, to authorize such municipality to incur indebtedness in excess of the 3% debt limit whenever the Director shall determine that the sums appropriated by the municipality or its funds available are insufficient to pay the necessary expenses of the municipality. The City has not requested the State Director of Administration to authorize indebtedness of the City under Section 45-12-11.

In 1982, the City agreed to contribute an unpaid appropriation to the Employees' Retirement System over a twenty-year period ending in 2001 with interest at 8 1/2%. This obligation is being paid in annual amounts of \$514,238, including principal and interest. The remaining principal balance of the obligation is presented as an amount due to the Retirement System in the long-term obligations group of accounts. A corresponding receivable amount is recorded in the Retirement System Fund.

(9) Lease Commitments

The City is obligated under various capital and operating leases to make the following aggregate annual lease payments (in thousands):

	<u>Operating</u>	<u>Capital</u>	<u>Total</u>
1998	\$ 819,206	3,792,027	4,611,233
1999	786,421	3,517,429	4,303,850
2000	223,633	2,994,605	3,218,238
2001	58,000	2,553,972	2,611,972
2002	17,500	2,536,298	2,553,798
Thereafter	-	<u>41,535,041</u>	<u>41,535,041</u>
Total minimum lease payments	\$ <u>1,904,760</u>	56,929,372	58,834,132
Less: Interest		<u>31,035,942</u>	<u>31,035,942</u>
Present value of minimum payments		<u>25,893,430</u>	<u>27,798,190</u>

(Continued)

CITY OF PROVIDENCE, RHODE ISLAND

Notes to General Purpose Financial Statements

Defeased Leases

The following prior year transactions met the requirements of an in-substance defeasance:

- On December 31, 1993, the City issued \$985,000 in General Obligation Refunding Bonds to advance refund a \$2.4 million lease purchase agreement for the Providence Civic Center.

Minimum future lease payments under capital leases for the proprietary funds as of June 30, 1997, for each of the next five fiscal years and thereafter are as follows (in thousands):

	<u>Water Board</u>	<u>Civic Center</u>
1998	\$ 1,709	343
1999	1,694	174
2000	1,598	-
2001	1,327	-
2002	1,330	-
Thereafter	<u>7,767</u>	<u>-</u>
Total minimum lease payments	15,425	517
Less amount representing interest	<u>2,392</u>	<u>42</u>
Present value of net minimum lease payments	\$ <u>13,033</u>	<u>475</u>

(10) Segment Information for Enterprise Funds

The City maintains two Enterprise Funds, the Providence Civic Center Authority and the Providence Water Supply Board. Segment information for the year ended June 30, 1997 is as follows (in thousands):

	<u>Water Board</u>	<u>Civic Center</u>	<u>Total</u>
Operating revenues	\$ 30,402	3,510	33,912
Depreciation and amortization expense	2,324	721	3,045
Operating income (loss)	8,116	(1,067)	7,049
Net income (loss)	8,404	(1,122)	7,282
Capital contributions	2,509	1,188	3,697
Property, plant, and equipment additions	7,762	3	7,765
Net working capital (deficit)	5,932	(3,308)	2,624
Total assets	138,753	5,127	143,880
Bonds and other long-term liabilities	34,216	162	34,378
Total equity	86,243	956	87,199

(Continued)

CITY OF PROVIDENCE, RHODE ISLAND

Notes to General Purpose Financial Statements

(11) Restricted Assets and Related Liabilities

(a) Water Supply Board

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 Water Quality Protection surcharge) of \$.01 per hundred gallons of water for all customers.

A July 1990 amendment to the Act increased the surcharge to \$.02333 per hundred gallons of water. The \$.01333 increase is to be remitted to the State and appropriated to the Water Resources Board, a component of the State of Rhode Island. In July 1992, the Act was further amended to increase the levy to \$.02590 per hundred gallons of water for all customers. The Board retains 40.7% of the surcharge in its water quality protection fund, remits 51.5% to the State Water Resources Board and retains 7.8% for general operations. The surcharge was effective as of January 1, 1989 and 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 assets are pooled with the cash and cash equivalents and investments of other funds maintained by the City. The earnings from pooled cash and cash equivalents and investments are allocated in proportion to each fund's balance.

(12) Fund Equity

Reserved fund balances at June 30, 1997, are as follows (in thousands):

General Fund:	
Reserved for note due from Water Supply Board	\$ 2,285
Reserved for Encumbrances	<u>3</u>
	\$ <u>2,288</u>
Special Revenue Fund:	
Reserved for loans	12,054
Reserved for other purposes	3
Reserved for debt service	<u>11,571</u>
	\$ <u>23,628</u>
Capital Projects Fund:	
Reserved for encumbrances	\$ <u>221</u>
Fiduciary Fund types:	
Reserved for payment of retirement benefits and endowments	292,391
Reserved for encumbrances	<u>25</u>
	\$ <u>292,416</u>

(Continued)

CITY OF PROVIDENCE, RHODE ISLAND

Notes to General Purpose Financial Statements

The Water Supply Board has reserved retained earnings of \$8,827,857 at June 30, 1997. This represents the excess of restricted assets over liabilities payable from restricted assets unexpended water quality protection revenue.

(13) Employee Retirement Systems

The City contributes to two defined benefit pension plans — the Employees' Retirement System of the City of Providence ("ERS"), a single employer plan; and the Employees' Retirement System of the State of Rhode Island (the "System"), a cost-sharing multiple employer plan. The ERS is presented in the accompanying financial statements as a pension trust fund. The System is not included in the City's financial statements.

Employees' Retirement System of the City of Providence ("ERS")

Summary of Significant Accounting Policies

Basis of Accounting

ERS' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Method Used of Value Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value.

Plan Description and Contribution Information

Membership of the ERS plan consisted of the following at June 30, 1997, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	2,890
Active plan members	<u>3,055</u>
Total	<u>5,945</u>

Plan Description

ERS is a single-employer defined benefit pension plan that covers most management employees of the City, except school teachers and employees of the Civic Center Authority. The Plan provides retirement, disability and death benefits to plan members and their beneficiaries. Cost-of-living adjustments (COLA) are provided to retirees and beneficiaries at varying percentages ranging from 0% to 6%.

(Continued)

CITY OF PROVIDENCE, RHODE ISLAND

Notes to General Purpose Financial Statements

Contributions

Class A members are required to contribute 8% of their salary to the Plan. Class B members are required to contribute 9 1/2% of their salary to the Plan. The Mayor and City Council contribute to the Plan at a rate of \$350 per year. The employer and employee contributions represent covered payroll of 9% and 4%, respectively.

Annual Pension Cost and Net Pension Obligation

The City's annual pension cost and net pension obligation to ERS for the current year were as follows (in thousands):

Annual required contribution	\$ 21,089
Contributions made	<u>19,735</u>
Increase in net pension obligation	1,354
Net pension obligation, beginning of year	<u>10,317</u>
Net pension obligation, end of year	\$ <u>11,671</u>

The annual required contribution for the current year was determined as part of the June 30, 1997 actuarial valuation using the aggregate level entry age normal cost actuarial cost method. The actuarial assumptions included (a) 8.5% investment rate of return; (b) no projected salary increases through June 30, 1999 and 5% increases thereafter; and (c) cost of living adjustments ranging from 0% to 6%. The actuarial value of assets was determined using a 5-year moving average of market values. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 1997 was 31 years.

Employees' Retirement System of the State of Rhode Island

Plan Description

All full-time teachers including superintendents, principals, school nurses and certain other school officials ("classified employees") in the Providence School Department participate in the Employees Retirement System of the State of Rhode Island ("System"), a cost-sharing multiple-employer public retirement system. The System provides retirement, death and disability benefits, all of which plan members are established by State statute. The System issues a publicly available financial report that includes the financial statements and required supplementary information for the System. That report may be obtained by contracting the State of Rhode Island.

Funding Policy

Plan members are required by State statute to contribute 9.5% of their salary to the plan. The School Department contributions are based on a percentage of annual compensation of active members, half of which is payable by the State of Rhode Island. The School Department contributions made for the years ended June 30, 1997, 1996 and 1995 were approximately \$6.9 million, \$7.3 million and \$7.5 million and were equal to the required contributions for each year.

(Continued)

CITY OF PROVIDENCE, RHODE ISLAND

Notes to General Purpose Financial Statements

Other City Pension Costs

The City is required to make contributions to the National Pension Plan of the Laborers' International Union of North America, the Rhode Island Legal Service trust for those employees in the Laborers' International Union and pay retirement benefits to certain retired police and firemen not covered by the ERS. The pension cost charged to the general fund for these purposes amounted to \$1,029,000 for the year ended June 30, 1997.

The Providence Civic Center Authority established a noncontributory defined contribution plan for all management employees. The contribution for the year ended June 30, 1997 was \$18,000 and was based on a percentage of salaries paid. Total payroll expense for the year ended June 30, 1997, was approximately \$2,218,600 while covered payroll was approximately \$265,100. A management employee may become a participant upon the completion of one year of service, in which at least 1,000 hours of service was performed. A participant becomes fully vested upon completion of seven years of employment.

The Civic Center Authority also makes contributions to three union-sponsored multiple-employer pension plans. Contributions for the year ended June 30, 1997, were approximately \$55,400, as determined in accordance with negotiated labor contracts.

(14) Post Retirement Benefits

The City pays health care benefits for certain retired employees and funds these benefits on a cash basis. During the year ended June 30, 1997, the cost of retiree health care benefits recorded by the City amounted to \$6.5 million.

(15) Contingent Liabilities

The City is involved in numerous lawsuits, claims and grievances arising in the normal course of business, including claims for property damage, personal injury and personnel practices, disputes over property condemnation proceedings and suits contesting the legality of certain taxes. In the opinion of City officials, the ultimate disposition of these matters will not have a material adverse effect on the City's general purpose financial statements.

The City participates in a number of federally-assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. In the opinion of City officials, liabilities resulting from such disallowed expenditures, if any, will not be material to the accompanying general purpose financial statements.

(16) Deposits

Cash, cash equivalents and investments are separately held by several of the City's funds.

(a) Cash and Cash Equivalents

The following summary presents the amount of City deposits at June 30, 1997. Category 1 includes deposits which are fully insured or collateralized with securities held by the entity or its agent in the entity's name. Category 2 includes deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name. Category 3 includes those deposits that are not collateralized (in thousands).

(Continued)

CITY OF PROVIDENCE, RHODE ISLAND

Notes to General Purpose Financial Statements

	Category			Bank Balance	Carrying Amount
	1	2	3		
Demand deposits	\$ 300		51,896	52,196	75,811
Certificates of deposit	-		-	-	-
Total	\$ <u>300</u>		<u>51,896</u>	<u>52,196</u>	<u>75,811</u>

(b) Investments

City management invests primarily in commercial paper, certificates of deposit funds, U.S. government securities and corporate stocks. The City also enters into repurchase agreements and, to a limited extent, the City has invested a derivative products, primarily options and fixtures covenants, as a way to hedge certain risks. Management believes the risk associated with investments in derivative products is not material to the financial statements and the City does not hold any derivative products at year end.

The City's investments are categorized below indicating the level of risk assumed by the City at year-end. Category 1 includes investments insured or registered in the City's name, or securities held by the City or its agent in the City's name. Category 2 includes investments uninsured and unregistered, with securities held by the broker's or dealer's trust department or agent in the City's name. Category 3 includes investments uninsured and unregistered with securities held by the broker or dealer, or by its trust department or agent, but not in the City's name (in thousands).

	Category 1	Category 2	Category 3	Total Book Value	Estimated Market Value
US Government and Agencies					
Obligations	\$ -	23,525	475	24,000	24,141
Corporate bonds	-	72,745	-	72,745	73,604
Common stock	-	113,588	-	113,588	123,361
Other	-	-	5,169	5,169	5,169
Uncategorized:					
Real estate	-	-	-	28,484	51,631
Pooled funds	-	-	-	263	268
Money market funds	-	-	-	<u>19,834</u>	<u>19,834</u>
Total	\$ <u>-</u>	<u>209,858</u>	<u>5,644</u>	<u>264,082</u>	<u>298,008</u>

(17) Deferred Compensation Plan

The City offers a deferred compensation plan, created in accordance with Internal Revenue Code Section 457, to all municipal employees. The Plan permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

(Continued)

CITY OF PROVIDENCE, RHODE ISLAND

Notes to General Purpose Financial Statements

All deferred compensation under the plan, all property and rights purchased with the amounts, and all income earned on those amounts, property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the City (without being restricted to the provisions for benefits under the plan), subject only to claims of the City's general creditors, in an amount equal to the fair market value for each participant's deferred account.

The City has not used any of assets of the Plan to satisfy the claims of general creditors and it is unlikely the assets will be used to satisfy general creditor claims in the future.

(18) Related Party Transactions

The City leases certain properties from the PPBA, a related party. The estimated future minimum lease payments required under these agreements coincide with the principal and interest payments on bonds issued by the PPBA. The leases terminate between 2010 and 2012.

The City in turn subleases a portion of this property to the School Department. At the expiration of the leases, the City, at its option, can purchase the properties for a nominal amount.

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 for City services amounted to \$659,000. This amount is established by the City and approved by the Water Supply Board. 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 of the Water Supply Board. These revenues are not significant to total revenues.

On June 19, 1991, the Water Supply Board entered into a note agreement with the City of Providence for \$5,020,928. On April 11, 1995, the Water Supply Board and the City of Providence filed a plan with the Rhode Island Public Utilities Commission (PUC) for the repayment of the note over a five-year period. Approval by the PUC was received on February 9, 1996, and the first payment of \$655,710 was made. On June 17, 1997, the PUC conditionally approved the second payment in the amount of \$710,000. The PUC order provided for the Water Supply Board to repay the City \$307,466 immediately, with the remaining \$402,534 payable only to the extent that a related reimbursement is received from the Rhode Island Emergency Management Agency for eligible disaster assistance. The outstanding principal balance on June 30, 1997 was \$2,285,376.

On April 11, 1996, the City agreed to pay the retroactive cost of living allowances to retirees pension plans. Accordingly, a liability for \$3 million has been recorded in the accompanying general purpose financial statements.

During 1997, the City transferred approximately \$1,175,000 in financial assistance to the Civic Center.

(Continued)

CITY OF PROVIDENCE, RHODE ISLAND

Notes to General Purpose Financial Statements

(19) Contributed Capital

Contributed capital consists of contributions in aid for the Water Supply Board for property and equipment paid for by customers for water installations. The contributed capital for the Civic Center consists of amounts contributed by the City to acquire and maintain the Civic Center. Activity in the contributed capital accounts for June 30, 1997 is as follows (in thousands):

	<u>Water Board</u>	<u>Civic Center</u>	<u>Total</u>
Balance June 30, 1996	\$ 53,984	4,448	58,432
Contributions in aid	2,510	-	2,510
Depreciation on contributed assets	-	(431)	(431)
Contribution from the City of Providence	<u>-</u>	<u>600</u>	<u>-</u>
Balance June 30, 1997	\$ <u>56,494</u>	<u>4,617</u>	<u>61,111</u>

(20) Operating Transfers

<i>Purpose of Transfers</i>	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Proprietary Fund</u>	<u>Expendable Trust</u>
Seizure funds	\$ -	-	-	-	-
School operations	(67,236)	67,236	-	-	-
Revolving fund receipts	(165)	255	-	-	(90)
Revolving fund payments	585	(585)	-	-	-
Capital projects	-	-	-	-	-
PPBA funds	-	(17,758)	17,758	-	-
Other revenue	2,715	(2,585)	-	-	(130)
Health Trust	(12,791)	(7,936)	-	-	20,727
Civic Center operations	(600)	-	-	(258)	258
Water fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>(674)</u>	<u>674</u>
	\$ <u>(77,493)</u>	<u>38,628</u>	<u>17,758</u>	<u>(932)</u>	<u>21,439</u>

Operating transfers do not balance due to a \$600,000 transfer from the general fund to the Civic Center recorded as an addition to contributed capital.

(21) Risk Management

The City is self insured in most areas of risk, subject to certain third-party "stop loss" coinsurance. Self insured risks include general liability, property and casualty, workers' compensation, unemployment and employee health and life insurance claims. The City's Counsel defends the City in any lawsuits that arise from the normal course of operations.

(Continued)

CITY OF PROVIDENCE, RHODE ISLAND

Notes to General Purpose Financial Statements

The City's health insurance program, provides coverage to the City's employees and retirees through Healthmate and Blue Cross - Blue Shield of Rhode Island (BC/BS). In 1997, the City first went to a self insured program with BC/BS. BC/BS acts as a third party agent for the City in the payment of the various claim plans used by the City. Costs incurred for the operation of the BC/BS plans are accounted for in a separate health claims expendable trust fund. Costs to the City are paid by all funds based on "working rates" established by Blue Cross.

Effective July 1, 1994, the City and its component units adopted the provisions of Governmental Accounting Standards Board Statement No. 10, which requires that liabilities for self insured claims be reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. The City has established a liability based on historical trends of previous years, where available, and attorney's estimates of pending matters and lawsuits in which the City is involved. Changes in the self insurance liability for the fiscal years ended June 30, 1997 and June 30, 1996 are as follows (in thousands):

	<u>1997</u>	<u>1996</u>
Beginning of year	\$ 12,919	16,624
Incurred claims	26,103	23,137
Less: payments of claims attributable to events of both the current and prior fiscal years:		
Health and life	(23,726)	(22,845)
Workers' compensation	(167)	(773)
Court judgments and claims	<u>(265)</u>	<u>(3,224)</u>
	<u>(24,158)</u>	<u>(26,842)</u>
End of year	\$ <u>14,864</u>	<u>12,919</u>

The liabilities above have not been discounted to their present value. Incurred claims represent the total of a provision for events of the current fiscal year and any change in the provision for events of the prior fiscal years.

The claims liability activity for the proprietary funds are not included in the above amounts because they are not material.

(22) Subsequent Events

The PPBA plans to issue \$28,625,000 Revenue Bonds, 1998 Series A on May 15, 1998 to fund various capital projects at the Civic Center and City School Department.

CITY OF PROVIDENCE, RHODE ISLAND
Employee's Retirement System

Required Supplementary Information
(Unaudited)
(dollar amounts in thousands)

Schedule of Funding Progress

Actuarial Valuation Date <u>June 30</u>	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1990	\$ 234,423	\$ 394,490	\$ 160,167	59.40%	\$ 75,456	212.26%
1991	246,159	431,936	185,777	56.99%	74,075	250.79%
1992	266,166	403,404	137,238	65.98%	78,347	175.17%
1993	278,544	465,943	187,399	59.78%	78,200	239.64%
1994	286,956	500,119	213,163	57.38%	84,176	253.23%
1995	293,454	460,567	167,113	63.72%	88,335	189.18%
1996	287,320	699,265	411,945	41.09%	84,178	489.38%
1997	288,800	732,373	443,573	39.43%	88,959	498.63%

Information prior to June 30, 1990 is not available.

Schedule of Contributions from the City

Year Ended <u>June 30</u>	Annual Required Contribution	Percentage Contributed
1990	\$ 11,900	100.00%
1991	12,726	100.00
1992	15,466	100.36
1993	17,221	100.13
1994	18,612	99.90
1995	21,159	53.81
1996	16,136	100.00
1997	21,089	93.58

Notes to Schedules

Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 1997
Actuarial cost method	Aggregate entry age normal
Amortization method	Approximate level percent of payroll-open
Remaining amortization period	31 years (for original unfunded)
Asset valuation method	5-year moving average of market values
Actuarial assumptions:	
Investment rate of return	8.5%
Projected salary increases	0% through 1999, 5% thereafter
Cost-of-living adjustments	0% to 6%

CITY OF PROVIDENCE, RHODE ISLAND

Combining Balance Sheet-Special Revenue Funds

June 30, 1997
(in thousands)

<u>Assets</u>	<u>School Department</u>	<u>Department Planning and Development</u>	<u>Providence Redevelopment Agency</u>	<u>Economic Development Corporation</u>	<u>Revolving Fund</u>	<u>Providence Public Buildings Authority</u>	<u>Sewer Fund</u>	<u>Miscellaneous</u>	<u>Total</u>
Assets:									
Cash and cash equivalents	\$ 2,257	587	3,853	2,586	433	3,683	96	820	14,315
Investments	-	-	-	-	-	5,644	-	-	5,644
Accounts receivable (net of allowance)	1,889	-	-	-	-	492	-	3,486	5,867
Due from:									
Other funds	8,745	1,403	11	-	176	-	-	58	10,393
Other governments	12,385	-	-	-	-	-	-	-	12,385
Loans receivable (net of allowance for uncollectible amounts)	-	2,662	-	9,737	-	-	-	-	12,399
Other assets	-	140	-	93	5	-	-	-	238
Total assets	\$ <u>25,276</u>	<u>4,792</u>	<u>3,864</u>	<u>12,416</u>	<u>614</u>	<u>9,819</u>	<u>96</u>	<u>4,364</u>	<u>61,241</u>
<u>Liabilities and Fund Balance (Deficit)</u>									
Liabilities:									
Bank overdraft	11,251	-	-	-	-	-	-	-	11,251
Accounts payable	5,331	454	-	-	110	-	-	126	6,021
Due to:									
Other funds	4,469	431	729	1,376	13	-	-	95	7,113
Other governments	-	6	-	-	-	-	-	-	6
Bonds, loans, and notes payable	-	7,703	-	1,318	-	-	-	-	9,021
Other liabilities	1,088	-	239	217	-	173	-	-	1,717
Deferred revenue	14	-	-	113	-	-	-	3,486	3,613
Total liabilities	<u>22,153</u>	<u>8,594</u>	<u>968</u>	<u>3,024</u>	<u>123</u>	<u>173</u>	<u>-</u>	<u>3,707</u>	<u>38,742</u>
Fund balance (deficit):									
Reserved	3	2,662	3,514	9,392	-	8,057	-	-	23,628
Unreserved	3,120	(6,464)	(618)	-	491	1,589	96	657	(1,129)
Total fund balance (deficit)	<u>3,123</u>	<u>(3,802)</u>	<u>2,896</u>	<u>9,392</u>	<u>491</u>	<u>9,646</u>	<u>96</u>	<u>657</u>	<u>22,499</u>
Total liabilities and fund balance	\$ <u>25,276</u>	<u>4,792</u>	<u>3,864</u>	<u>12,416</u>	<u>614</u>	<u>9,819</u>	<u>96</u>	<u>4,364</u>	<u>61,241</u>

CITY OF PROVIDENCE, RHODE ISLAND

Combining Statement of Revenues, Expenditures and Changes in
Fund Balance (Deficit)-Special Revenue Funds

June 30, 1997
(in thousands)

	<u>School Department</u>	<u>Department Planning and Development</u>	<u>Providence Redevelopment Agency</u>	<u>Economic Development Corporation</u>	<u>Revolving Fund</u>	<u>Providence Public Buildings Authority</u>	<u>Sewer Fund</u>	<u>Miscellaneous</u>	<u>Total</u>
Revenues:									
Federal, state and local grants	\$ 116,062	12,307	228	2,068	-	-	-	1,828	132,493
Charges for services	20	-	32	-	-	-	-	-	52
Sale of real estate	-	-	154	-	-	-	-	-	154
Investment and rental income	-	-	46	572	-	6,884	1	-	7,503
Other income	<u>9,031</u>	<u>-</u>	<u>1,401</u>	<u>-</u>	<u>884</u>	<u>-</u>	<u>-</u>	<u>5,876</u>	<u>17,192</u>
Total revenue	<u>125,113</u>	<u>12,307</u>	<u>1,861</u>	<u>2,640</u>	<u>884</u>	<u>6,884</u>	<u>1</u>	<u>7,704</u>	<u>157,394</u>
Expenditures:									
Personnel services	109,465	-	-	-	99	-	-	3,035	112,599
Employee benefits	26,278	-	-	-	3	-	-	151	26,432
Miscellaneous services	9,619	-	-	-	693	-	-	988	11,300
Other supplies	888	-	-	-	30	-	-	103	1,021
Equipment	1,702	-	-	-	78	-	-	92	1,872
Other services	5,401	-	-	-	-	-	-	53	5,454
Security	635	-	-	-	-	-	-	-	635
Plant maintenance	353	-	-	-	-	-	-	-	353
Transportation	5,988	-	-	-	-	-	-	(5)	5,983
Rentals	7,403	-	-	-	-	-	-	31	7,434
Repairs	1,213	-	-	-	77	-	-	-	1,290
School activities	54	-	-	-	-	-	-	-	54
Office supplies	268	-	-	-	-	-	-	10	278
Education supplies	2,174	-	-	-	-	-	-	-	2,174
Housekeeping supplies	7	-	-	-	-	-	-	-	7
Textbooks	983	-	-	-	-	-	-	-	983
Tuition payments	5,057	-	-	-	-	-	-	-	5,057
Utilities and fuel	4,675	-	-	-	-	-	-	-	4,675
Debt service	-	-	1,523	-	-	7,385	-	-	8,908
Other	<u>-</u>	<u>10,176</u>	<u>453</u>	<u>1,529</u>	<u>71</u>	<u>574</u>	<u>-</u>	<u>-</u>	<u>12,803</u>
Total expenditures	<u>182,163</u>	<u>10,176</u>	<u>1,976</u>	<u>1,529</u>	<u>1,051</u>	<u>7,959</u>	<u>-</u>	<u>4,458</u>	<u>209,312</u>
Excess (deficiency) of revenue over expenditures	(57,050)	2,131	(115)	1,111	(167)	(1,075)	1	3,246	(51,918)

(Continued)

CITY OF PROVIDENCE, RHODE ISLAND

Combining Statement of Revenues, Expenditures and Changes in
Fund Balance (Deficit)-Special Revenue Funds (continued)

June 30, 1997
(in thousands)

	<u>School Department</u>	<u>Department Planning and Development</u>	<u>Providence Redevelopment Agency</u>	<u>Economic Development Corporation</u>	<u>Revolving Fund</u>	<u>Providence Public Buildings Authority</u>	<u>Sewer Fund</u>	<u>Miscellaneous</u>	<u>Total</u>
Other financing sources (uses):									
Proceeds of refunding bonds	\$ -	-	2,910	-	-	21,529	-	-	24,439
Bond payment - refunded debt	-	-	-	-	-	-	-	-	-
Transfer from (to) other funds	59,375	-	-	-	(329)	(17,758)	-	(2,660)	38,628
Transfer from (to) other governments	-	-	-	-	(23)	-	-	-	(23)
Total other financing sources (uses)	<u>59,375</u>	<u>-</u>	<u>2,910</u>	<u>-</u>	<u>(352)</u>	<u>3,771</u>	<u>-</u>	<u>(2,660)</u>	<u>63,044</u>
Revenues over (under) expenditures and other financing sources (uses)	2,325	2,131	2,795	1,111	(519)	2,696	1	586	11,126
Fund balance (deficit) at beginning of year	<u>798</u>	<u>(5,933)</u>	<u>101</u>	<u>8,281</u>	<u>1,010</u>	<u>6,950</u>	<u>95</u>	<u>73</u>	<u>11,373</u>
Fund balance (deficit) at end of year	\$ <u><u>3,123</u></u>	<u><u>(3,802)</u></u>	<u><u>2,896</u></u>	<u><u>9,392</u></u>	<u><u>491</u></u>	<u><u>9,646</u></u>	<u><u>96</u></u>	<u><u>657</u></u>	<u><u>22,499</u></u>

CITY OF PROVIDENCE, RHODE ISLAND
Combining Balance Sheet - All Enterprise Funds

June 30, 1997
(in thousands)

<u>Asset</u>	<u>Water Supply Board</u>	<u>Civic Center Authority</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents	\$ 1,575	556	2,131
Restricted assets	9,733	-	9,733
Accounts receivable	6,677	83	6,760
Unbilled accounts receivable	4,825	-	4,825
Prepaid expenses	810	62	872
Inventory	606	-	606
Total current assets	<u>24,226</u>	<u>701</u>	<u>24,927</u>
Property, plant and equipment:			
Land	7,887	-	7,887
Building and improvements	135,392	16,689	152,081
Furnishings and equipment	8,677	2,347	11,024
	<u>151,956</u>	<u>19,036</u>	<u>170,992</u>
Less accumulated depreciation and amortization	37,429	14,610	52,039
Net property, plant and equipment	<u>114,527</u>	<u>4,426</u>	<u>118,953</u>
Total assets	<u>\$ 138,753</u>	<u>5,127</u>	<u>143,880</u>
<u>Liabilities and Fund Equity</u>			
Current liabilities:			
Accounts payable and accrued expenses	4,941	849	5,790
Advance sales receipts and promoter deposits	-	117	117
Due to other funds	850	1,471	2,321
Due to restricted funds	5,717	-	5,717
Note payable to City of Providence	2,285	-	2,285
Deferred revenue	-	1,259	1,259
Current installment under capitalized lease obligation	1,294	313	1,607
Current portion of bonds payable	2,310	-	2,310
Liabilities payable from restricted assets	897	-	897
Total current liabilities	<u>18,294</u>	<u>4,009</u>	<u>22,303</u>
Capitalized lease obligations	11,739	162	11,901
Long-term bonds payable	21,661	-	21,661
Long-term note payable Western Cranston	816	-	816
Total liabilities	<u>52,510</u>	<u>4,171</u>	<u>56,681</u>
Fund equity:			
Contributed capital	56,494	4,617	61,111
Reserved retained earnings	8,828	-	8,828
Unreserved retained earnings (deficit)	20,921	(3,661)	17,260
Total fund equity	<u>86,243</u>	<u>956</u>	<u>87,199</u>
Total liabilities and fund equity	<u>\$ 138,753</u>	<u>5,127</u>	<u>143,880</u>

CITY OF PROVIDENCE, RHODE ISLAND

Combining Statement of Revenues, Expenses and Changes in Retained Earnings (Deficit) - All Enterprise Funds

Year ended June 30, 1997
(in thousands)

	<u>Water Supply Board</u>	<u>Civic Center Authority</u>	<u>Total</u>
Operating revenues:			
Arena rent and concession income	\$ -	3,510	3,510
Water sales	30,062	-	30,062
Maintenance and other charges	340	-	340
Other	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>30,402</u>	<u>3,510</u>	<u>33,912</u>
Operating expenses:			
Wages and benefits	-	2,494	2,494
Operations	5,304	-	5,304
Charges by other City departments	659	-	659
Administrative and general	8,789	959	9,748
Bad debts - net of recoveries	1,303	-	1,303
Property taxes - other local governments	3,907	-	3,907
Depreciation and amortization	2,324	721	3,045
Other	<u>-</u>	<u>403</u>	<u>403</u>
Total expenses	<u>22,286</u>	<u>4,577</u>	<u>26,863</u>
Operating income (loss)	<u>8,116</u>	<u>(1,067)</u>	<u>7,049</u>
Nonoperating revenues (expenses):			
Water quality protection charge	2,202	-	2,202
Water quality protection expense	(1,064)	-	(1,064)
Net interest expense	(1,745)	(55)	(1,800)
Interest income	<u>895</u>	<u>-</u>	<u>895</u>
	<u>288</u>	<u>(55)</u>	<u>233</u>
Net income (loss) before transfers and depreciation add back	8,404	(1,122)	7,282
Transfers (to) from other funds	(674)	(258)	(932)
Depreciation on contributed fixed assets	<u>-</u>	<u>431</u>	<u>431</u>
Increase (decrease) in retained earnings	7,730	(949)	6,781
Retained earnings (deficit) at beginning of year	<u>22,019</u>	<u>(2,712)</u>	<u>19,307</u>
Retained earnings (deficit) at end of year	\$ <u>29,749</u>	<u>(3,661)</u>	<u>26,088</u>

See accompanying notes to general purpose financial statements.

CITY OF PROVIDENCE, RHODE ISLAND

Combining Statement of Cash Flows - All Enterprise Funds

Year ended June 30, 1997
(in thousands)

	<u>Water Supply Board</u>	<u>Civic Center Authority</u>	<u>Total</u>
Operating activities:			
Operating income (loss)	\$ 7,441	(1,067)	6,374
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	2,324	721	3,045
Provision for losses on accounts receivable	1,303	-	1,303
Deferred credits		377	377
Increase (decrease) in cash arising from:			
Accounts receivable	(1,021)	19	(1,002)
Accounts receivable - unbilled	2,541	-	2,541
Inventory	(9)	-	(9)
Other current assets	43	(18)	25
Accrued expenses and accounts payable	(399)	4	(395)
Advance sales receipts and promoter deposits	-	(462)	(462)
Due to City of Providence	-	538	538
Due to Water Resources Board	(517)	-	(517)
Net cash (used in) provided by operating activities	<u>11,706</u>	<u>112</u>	<u>11,818</u>
Noncapital financing activities:			
Payments to other funds	-	(258)	(258)
Net borrowings (payments) from City of Providence	(314)	-	(314)
Contributions from the City of Providence	-	600	600
Net cash provided by noncapital financing activities	<u>(314)</u>	<u>342</u>	<u>28</u>
Capital and related financing activities:			
Capital expenditures	(7,596)	(3)	(7,599)
Payment of obligations under capital lease	(773)	(333)	(1,106)
Payment of principal on general obligation and revenue bonds	(1,983)	-	(1,983)
Interest on general obligation and revenue bonds and capital leases	(1,394)	(56)	(1,450)
Water quality protection receipts	2,368	-	2,368
Water quality protection disbursements	(410)	-	(410)
Net cash used in capital and related financing activities	<u>(9,788)</u>	<u>(392)</u>	<u>(10,180)</u>
Investing activities:			
Purchase of investments	(13)	-	(13)
Interest on investments	895	1	896
Net cash provided by investing activities	<u>882</u>	<u>1</u>	<u>883</u>
Net (decrease) in cash and cash equivalents	2,486	63	2,549
Cash and cash equivalents at beginning of year	<u>819</u>	<u>493</u>	<u>1,312</u>
Cash and cash equivalents at end of year	\$ <u>3,305</u>	<u>556</u>	<u>3,861</u>

CITY OF PROVIDENCE, RHODE ISLAND

Combining Balance Sheet - Fiduciary Funds

June 30, 1997

(in thousands)

<u>Assets</u>	<u>Trust Funds</u>			<u>Agency Funds</u>			<u>Total</u>
	<u>Expendable</u>	<u>Non-Expendable</u>	<u>Retirement System</u>	<u>Probate Court</u>	<u>Deferred Compensation Plans</u>	<u>Other Agency Funds</u>	
Cash and cash equivalents	\$ 2,181	18	27,096	168	-	115	29,578
Investments	8,136	231	232,314	-	17,756	-	258,437
Due from:							
Other funds	3,329	-	26,576	-	-	1	29,906
Other governments	121	-	-	-	-	-	121
Loans receivable	-	-	13,220	-	-	-	13,220
Other assets	<u>60</u>	<u>47</u>	<u>1,810</u>	<u>-</u>	<u>-</u>	<u>6</u>	<u>1,923</u>
Total assets	\$ <u>13,827</u>	<u>296</u>	<u>301,016</u>	<u>168</u>	<u>17,756</u>	<u>122</u>	<u>333,185</u>
<u>Liabilities and Fund Balances</u>							
Bank overdraft	136	-	-	-	-	-	136
Accounts payable	76	-	-	-	-	118	194
Accrued expenditures	625	-	-	-	-	-	625
Amounts held for others	16	-	-	168	17,756	-	17,940
Due to other funds	4	-	-	-	-	4	8
Deferred revenues	<u>6</u>	<u>-</u>	<u>8,625</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,631</u>
Total liabilities	<u>863</u>	<u>-</u>	<u>8,625</u>	<u>168</u>	<u>17,756</u>	<u>122</u>	<u>27,534</u>
Fund balance:							
Reserved	25	-	292,391	-	-	-	292,416
Undesignated	<u>12,939</u>	<u>296</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,235</u>
	<u>12,964</u>	<u>296</u>	<u>292,391</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>305,651</u>
Total liabilities and fund balance	\$ <u>13,827</u>	<u>296</u>	<u>301,016</u>	<u>168</u>	<u>17,756</u>	<u>122</u>	<u>333,185</u>

OTHER FINANCIAL INFORMATION

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Expenditures and Transfers - Budget and Actual -- General Fund

Year ended June 30, 1997
(in thousands)

<u>Expenditures and Transfers</u>	<u>Revised Budget</u>	<u>Actual Expenditures</u>	<u>Actual (Over) Under Budget</u>
Executive, Legislative and Judicial activities:			
Mayor's Office	\$ 876	848	28
City Council	430	463	(33)
City Clerk	317	314	3
City Sergeant	33	33	-
Law Department	2,139	2,098	41
Providence Municipal Court	364	374	(10)
Probate Court	169	172	(3)
Contingencies	194	96	98
Housing Court	<u>188</u>	<u>189</u>	<u>(1)</u>
	<u>4,710</u>	<u>4,587</u>	<u>123</u>
Finance Administration:			
Finance Director	270	190	80
City Controller	648	608	40
Employees' Retirement Office	443	317	126
Data Processing	1,563	1,438	125
City Collector	1,496	1,530	(34)
City Assessor	938	753	185
Treasury Department	172	174	(2)
Personnel	462	392	70
Heat, light and power	2,825	3,402	(577)
Payment to Employees' Retirement System	16,898	16,562	336
Elected officials	109	125	(16)
Police pensions	70	20	50
Fire pensions	75	35	40
Laborers International legal fee	430	378	52
Payment to Laborers Internat'l Pension Fund	1,100	1,029	71
Public employees health services	220	76	144
Debt service	16,552	16,241	311
Interest on bonded debt	9,256	8,639	617
FICA	2,400	2,481	(81)
Medical insurance	3,384	3,291	93
Workers' compensation	925	771	154
Unemployment compensation	100	131	(31)
Reserve for anticipated tax abatements	<u>500</u>	<u>268</u>	<u>232</u>
	<u>60,836</u>	<u>58,851</u>	<u>1,985</u>

(Continued)

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Expenditures and Transfers - Budget and Actual -- General Fund

Year ended June 30, 1997
(in thousands)

<u>Expenditures and Transfers</u>	<u>Revised Budget</u>	<u>Actual Expenditures</u>	<u>Actual (Over) Under Budget</u>
Public Safety:			
Commissioner of Public Safety	\$ 578	492	86
Police Department	25,662	26,089	(427)
Fire Department	25,416	27,974	(2,558)
Department of Communication	4,030	4,115	(85)
Traffic Engineering Department	<u>797</u>	<u>808</u>	<u>(11)</u>
	<u>56,483</u>	<u>59,478</u>	<u>(2,995)</u>
Building Inspection Department:			
Building Inspection Administration	1,057	1,284	(227)
Structures and Zoning Division	356	357	(1)
Plumbing, Drainage and Gas Piping Division	87	89	(2)
Electrical Installations Division	125	114	11
Mechanical Equip. and Install. Div.	140	141	(1)
Zoning Board of Review	36	30	6
Building and Housing Board of Review	13	12	1
Building Inspection Code Enforcement	234	237	(3)
Building Inspection Prosecution	163	163	-
Utilities and standards	<u>75</u>	<u>78</u>	<u>(3)</u>
	<u>2,286</u>	<u>2,505</u>	<u>(219)</u>
Public Works Activities:			
Public Works Administration	386	368	18
Engineering and Sanitation	238	203	35
Environment Control	5,596	5,160	436
Highway	1,699	1,506	193
Bridge Maintenance Section	146	128	18
Snow Removal	700	561	139
Sewer Construction and Maintenance	354	356	(2)
Garage Maintenance and Equipment Repair	<u>211</u>	<u>227</u>	<u>(16)</u>
	<u>9,330</u>	<u>8,509</u>	<u>821</u>
Recreation Activities:			
Recreation Department	730	762	(32)
Recreation - seasonal	<u>370</u>	<u>400</u>	<u>(30)</u>
	<u>1,100</u>	<u>1,162</u>	<u>(62)</u>

(Continued)

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Expenditures and Transfers - Budget and Actual -- General Fund

Year ended June 30, 1997
(in thousands)

<u>Expenditures and Transfers</u>	<u>Revised Budget</u>	<u>Actual Expenditures</u>	<u>Actual (Over) Under Budget</u>
Public Lands and Parks:			
Grounds maintenance services	\$ 3,128	3,659	(531)
Zoological services	1,243	1,279	(36)
Park Environmental Services	350	350	-
Park Programming	387	379	8
Superintendent of Parks	828	842	(14)
North Burial Grounds	<u>361</u>	<u>318</u>	<u>43</u>
	<u>6,297</u>	<u>6,827</u>	<u>(530)</u>
Other Departments:			
Recorder of Deeds	323	312	11
Vital Statistics	155	157	(2)
Board of Canvassers	445	458	(13)
Bureau of Licenses	252	243	9
Human Relations	209	204	5
Civil Defense Preparedness	143	151	(8)
Planning and Urban Development	1,565	1,610	(45)
Administration to City Council	209	181	28
Providence Review Commission	20	19	1
Archives	81	79	2
Department of Human services	<u>106</u>	<u>103</u>	<u>3</u>
	<u>3,508</u>	<u>3,517</u>	<u>(9)</u>
Welfare Activities:			
General Public Assistance	<u>433</u>	<u>323</u>	<u>110</u>
Commissions:			
Providence Public Library	2,422	2,451	(29)
Providence Center	270	270	-
Capital Center	50	50	-
Rhode Island Historical Society	9	10	(1)
Providence Place Comm.	<u>175</u>	<u>175</u>	<u>-</u>
	<u>2,926</u>	<u>2,956</u>	<u>(30)</u>

(Continued)

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Expenditures and Transfers - Budget and Actual -- General Fund

Year ended June 30, 1997
(in thousands)

<u>Expenditures and Transfers</u>	<u>Revised Budget</u>	<u>Actual Expenditures</u>	<u>Actual (Over) Under Budget</u>
Public properties	\$ <u>2,719</u>	<u>3,078</u>	<u>(359)</u>
Purchasing	<u>299</u>	<u>309</u>	<u>(10)</u>
Public celebrations	<u>10</u>	<u>4</u>	<u>6</u>
Miscellaneous entities:			
Providence Housing Authority	49	43	6
League of Cities	7	6	1
Cost of living grant	<u>3</u>	<u>-</u>	<u>3</u>
	<u>59</u>	<u>49</u>	<u>10</u>
Education:			
Transfer to School Department	<u>64,574</u>	<u>67,236</u>	<u>(2,662)</u>
Other transfers:			
Transfer to Revolving Fund	15	15	-
Transfer to Health Trust Fund	11,300	13,026	(1,726)
Transfer to Civic Center	<u>600</u>	<u>600</u>	<u>-</u>
	<u>11,915</u>	<u>13,641</u>	<u>(1,726)</u>
 Total expenditures	 \$ <u><u>227,485</u></u>	 <u><u>233,032</u></u>	 <u><u>(5,547)</u></u>

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Long-Term Bonds Payable

June 30, 1997
(in thousands)

<u>Long-term Debt Account Group</u>	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Maturity</u>	<u>Issued</u>	<u>Outstanding</u>
General Obligation:					
Public Improvement Bonds	4.75-6.0%	5/01/79	7/1/99	\$ 15,000	\$ 2,250
Refunding Bonds 1991	4.7-6.2%	9/1/91	9/1/99	30,750	13,050
Refunding Bonds 1992	5.00-5.80%	8/1/92	8/01/06	28,615	19,070
Refunding Bonds 1997	3.85%-5.5%	5/15/97	1/15/11	23,435	23,435
May 1997 - Tax Exempt	4.75%-7.5%	5/1/97	7/1/97	38,200	38,200
May 1997 - Taxable	7.5%-8.0%	5/1/97	7/1/97	<u>11,800</u>	<u>11,800</u>
				<u>147,800</u>	<u>107,805</u>
Schools:					
School Bonds 1993	5.25-8.25%	1/15/93	1/15/13	<u>35,150</u>	<u>28,110</u>
Providence Redevelopment Agency:					
Series A	8.9%-9.4%	11/15/94	11/15/01	3,570	2,875
Series B	8.9%-9.4%	11/15/94	11/15/01	<u>3,930</u>	<u>3,165</u>
				<u>7,500</u>	<u>6,040</u>
Special Obligation Tax Increment Bonds:					
Series A	5.7%-7.65%	1/1/95	6/1/16	13,260	13,250
Series B	8.95%	2/1/95	6/1/07	10,435	9,960
Series C	7.50%	2/1/95	6/1/10	2,805	2,805
Series D	5.5%-6.65%	4/1/96	6/1/16	<u>11,000</u>	<u>11,000</u>
				<u>37,500</u>	<u>37,015</u>
Providence Public Buildings Authority:					
General Revenue Bond	5.80-7.25%	12/15/90	12/15/11	14,105	11,675
General Revenue Bond	5%	7/15/92	12/15/97	4,235	3,450
General Revenue Bond	4.7%-7.1%	6/15/95	12/15/14	7,500	7,280
Refunding Revenue Bonds	3.5%-5.4%	3/1/96	12/15/11	28,772	27,553
Revenue Bonds - 1996 School	4.5%-6.5%	12/1/96	12/15/16	<u>21,225</u>	<u>21,225</u>
				<u>75,837</u>	<u>71,183</u>
Total long-term debt account group				\$ <u>303,787</u>	\$ <u>250,153</u>
<u>Proprietary funds</u>					
Water Bonds of 1971	5.09-6.00%	6/1/71	6/01/01	11,000	2,715
General Revenue Bond - PPBA	5.10-7.50%	3/1/95	12/15/99	4,000	2,550
General Revenue Bond	6.00%	12/1/95	1/1/05	12,000	11,375
Refunding Revenue Bonds	6.00%	3/1/96	12/15/11	7,453	7,137
Note Payable - Cranston	5.6%			-	<u>1,010</u>
				<u>\$ 34,453</u>	<u>\$ 24,787</u>
Grand totals				\$ <u>338,240</u>	\$ <u>274,940</u>

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Taxes Receivable

June 30, 1997
(in thousands)

<u>Amount</u> <u>Receivable</u> <u>Year of Assessment</u>	
1996	\$ 19,192
1995	9,035
1994	6,536
1993	5,089
1992	5,045
1991	5,029
1990	4,257
1989	3,344
1988	2,757
1987	2,469
1986	2,207
1985	2,086
1984	1,973
1983	1,425
1982	65
1981	51
1980	39
1979	37
1978	33
1977 and prior	<u>157</u>
Total taxes	70,826
Less allowance for estimated uncollectible amounts	<u>35,045</u>
Net property taxes receivable	\$ <u><u>35,781</u></u>

IPMG

THE COMMITTEE ON
~~Finance~~
Recommends ~~Securities~~
Michael H. Clement
July 20, 1998 Clerk (20)
Oct. 13, 1998

THE COMMITTEE ON
~~Finance~~
Recommends ~~Approval~~
Clare & Bestwick
Nov. 19, 1998 Clerk



CITY OF PROVIDENCE, RHODE ISLAND
Auditors' Reports as Required by OMB Circular A-133
and *Government Auditing Standards* and Related Information
Year Ended June 30, 1997

CITY OF PROVIDENCE, RHODE ISLAND

Auditors' Reports as Required by OMB Circular A-133
and *Government Auditing Standards* and Related Information

Year Ended June 30, 1997

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**AUDITORS' REPORT ON COMPLIANCE, INTERNAL CONTROL
OVER COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133**

The City Council
City of Providence, Rhode Island:

Compliance

We have audited the compliance of the City of Providence, Rhode Island with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1997. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of current year findings and questioned costs (Exhibit IV). Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1997.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

The City Council
City of Providence, Rhode Island

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of current year findings and questioned costs (Exhibit IV) as item 97-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 97-3 to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the general purpose financial statements of the City as of and for the year ended June 30, 1997, and have issued our report thereon dated March 16, 1998, which contained explanatory paragraphs for the adoption of Statements No. 25 and 27 of the Governmental Accounting Standards Board. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards (Exhibit II) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

The City's general purpose financial statements include the operations of a component unit, the Providence Public Building Authority which received federal assistance during the year ended June 30, 1997. Our audit, described above, did not include the operations of that component unit because the component unit engaged other auditors to perform an audit in accordance with OMB Circular A-133.

This report is intended for the information of the finance committee, elected officials, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

March 16, 1998

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Expenditures of Federal Awards

Year ended June 30, 1997

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
US Department of Housing & Urban Development:		
Community Development Block Grant	14.218	\$ 7,566,350
Home Investment Partnership	14.239	1,809,279
McKinney Homeless Shelter Grant	14.231	220,932
US Department of Education:		
Pass-Through grant from the State of Rhode Island:		
Adult Education - State Administered Basis Grant Program	84.002	158,535
S.I.E.P.	84.009	3,504
Title I - Local Education Agencies	84.010	10,634,440
Migrant Education	84.011	99,650
Special Education - State Grants	84.027	980,993
Vocational Education	84.048	984,651
Federal, State, and Local Partnerships for Educational Improvement	84.151	483,673
Emergency Immigrant	84.162	698,037
Eisenhower Mathematics and Science Education - State Grants	84.164	249,922
Special Education Preschool (Project Expand)	84.173	261,276
Drug free schools	84.184	400,906
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	544,644
Even Start	84.313	92,968
US Department of Agriculture:		
Pass-through from the State of Rhode Island:		
National School/Summer Lunch Program	10.555/10.559	8,217,434
US Department of Labor:		
JTPA	17.250	2,079,581
JTPA III	17.246	1,648,686

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Expenditures of Federal Awards

Year ended June 30, 1997

Federal Grantor/Pass-Through Grantor/ Program Title	CFDA Number	Expenditures
Senior Community Service Employment Program	17.235	\$ 397,244
US Department of Health & Human Services:		
Office of Substance Abuse Prevention:		
SOF/SOC	93.194	363,781
Community School Program	93.588	158,998
Office of Refugee Settlement:		
Southeast Asian Youth & Family Development	93.576	213,230
US Department of Emergency Management Assistance:		
Emergency Management Grant	83.534	99,402
Disaster Assistance	83.516	1,234,704
Corporation for National and Community Service:		
Learn and Serve America	94.004	10,365
US Department of Justice:		
M.O.R.E.	16.710	78,298
Domestic Violence	16.710	80,515
COPS Universal Hiring	16.710	45,118
Police Hiring Supplement	16.592	<u>385,173</u>
Total Federal Expenditures		\$ <u>40,202,289</u>

CITY OF PROVIDENCE, RHODE ISLAND

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 1997

(1) Summary of Significant Accounting Policies

The accounting and reporting policies of the City of Providence, Rhode Island, are set forth below:

(a) Basis of Presentation

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting.

(2) School Cafeteria Programs

The City contracts with the Marriot Corporation for the administration the National School Lunch and School Breakfast programs. Program expenditures in the accompanying schedule of expenditure of federal awards represent amounts paid to Marriot during 1997.

**AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The City Council
City of Providence, Rhode Island:

We have audited the general purpose financial statements of the City of Providence, Rhode Island, as of and for the year ended June 30, 1997, and have issued our report thereon dated March 16, 1998. Our report is qualified for the adoption of Statements No. 25 and 27 of the Government Accounting Standards Board, *Accounting for Pensions by State and Local Governmental Employers*. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we considered to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying schedule of current year findings and questioned costs (Exhibit IV) as items 97-1 through 97-28.

The City Council
City of Providence, Rhode Island

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 97-1 and 97-20 to be material weaknesses. However, we also noted other matters involving the internal control over financial reporting that we have reported to management of the City as items 97-21 through 97-28.

This report is intended for the information of the audit committee, elected officials, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

March 16, 1998

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Current Year Findings and Questioned Costs

Year Ended June 30, 1997

(1) Summary of Auditor's Results

- (a) The independent auditors' report on the financial statements expressed an unqualified opinion.
- (b) Reportable conditions in internal control over financial reporting were identified some of which are considered to be material weaknesses.
- (c) No instances of noncompliance considered material to the financial statements were disclosed by the audit.
- (d) Reportable conditions in internal control over compliance with requirements applicable to major federal awards programs were identified, some of which are considered to be a material weakness.
- (e) The independent auditors' report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.
- (f) The audit disclosed findings required to be reported by OMB Circular A-133.
- (g) The City's major programs were:

Name of Federal Program or Cluster	CFDA Number
Title I	84.010
Special Education	84.027
Vocational Education	84.048
National School/Summer Lunch Programs	10.555/10.559
JTPA	17.250
JTPAIII	17.246
Disaster Assistance	83.516

- (h) A threshold of \$1.2 million was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
- (i) The City did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Current Year Findings and Questioned Costs

**(2) Relating to Financial Statements Findings Reported in Accordance with
*Government Auditing Standards***

**MATERIAL INTERNAL CONTROL WEAKNESSES
RELATED TO THE CITY AND SCHOOL DEPARTMENT**

97-1: Resolution of Prior Year Comments

Many of the comments included in the 1997 management letter repeat weaknesses that existed and were reported to the City in prior years because the resolution of these issues has not yet occurred. Improvements have been made in certain areas (e.g., the Finance Department in City Hall), but many 'non-City Hall' entities (Water Board, School, etc.) continue to operate with material weaknesses in internal control and management of these departments are not held accountable for the resolution of the deficiencies. Instead, the deficiencies are left unaddressed year after year.

The severity of the current and previously reported deficiencies and the lack of attention to their resolution and elimination continues to delay the reporting of internal financial data and the production of the City's financial statements while continuing to expose the City to unnecessary risk.

The City Council or Finance Committee must take a more proactive role in ensuring that the issues are addressed. Without the proper assignment of responsibility and accountability for the correction of these deficiencies and the cooperation of the personnel in the affected City departments, the financial information will continue to be late and management's ability to effectively monitor and improve operations will be compromised.

Management Response:

We must reluctantly concur with this comment, due to the fact that the School Department, in particular School Federal, and the Water Supply Board have been very slow in making changes recommended by the City's management and prior audit comments.

97-2: Closing of the Month End and Year End Books

As of January 15, 1998, several departments outside of City Hall had not yet closed their books or analyzed or adjusted their accounts for the year ended June 30, 1997. Additionally, monthly closings and account analyses for the other eleven months in fiscal 1997 were not generally performed throughout the City.

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Current Year Findings and Questioned Costs

(2), Continued

It is extremely important that all City departments perform basic monthly analyses of their accounts to help ensure that all activities are fairly and accurately presented in the City's book. While the Finance Department generally does a good deal of analysis on the activities of the general fund, we have found that the rest of the City departments, as a whole, do not do any structured analysis of their activities throughout the fiscal year. Compilation of data, basic account reconciliations, income and expense analyses and adjustments of errors is typically not done until and unless it is needed for the year end audit. Monthly analysis of activities is particularly critical for special revenue and school funds where federal and state funds are involved.

Additionally, the City continues to have difficulty producing financial reporting information on a timely basis. Other larger and more complex cities can close their books and issue financial statements within six months after year end and, by the year 2000, the City will be required to finalize and issue its financial statements within nine months after year end.

Producing timely financial statements is important for budgeting and other purposes, yet reporting for the entire City is being held up by two or three of its departments. Sufficient attention is not being paid to staffing, automation and other issues in these departments. City officials must take prompt constructive actions to correct these deficiencies.

The fact that these basic accounting controls are not performed on a more timely basis should not be acceptable to the City Council or to City Hall management.

Accordingly, the City needs to take immediate and effective action to get all departments throughout the City on a fixed and firm schedule for monthly analysis of activities as well as monthly and annual financial reporting. Without a structured plan, the City will continue to receive inaccurate and stale financial information that will expose the City to the risk that assets may be misappropriated and not be detected in a timely fashion.

Management Response:

City management has attempted for several years to schedule monthly reconciliations with School Federal and the Water Supply Board, but these entities **have been unwilling** to allocate the time to perform these reconciliations.

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Current Year Findings and Questioned Costs

(2), Continued

97-3: School Department Federal Funds

To reiterate a prior year management letter comment, the School Department does not have the personnel necessary to adequately account for, monitor and report the activities of the School's federal funds on a timely basis. Neither the City nor the School Board has taken the action necessary to remedy this serious situation.

By not correcting this situation, management of both the City and School Board are exposing the City to a significant avoidable risk.

We recommend that prompt effective action be taken immediately so that the situation is corrected.

Management Response:

The responsibility and authority for hiring the appropriate personnel rests with the Director of Federal Programs. The City finance department and the City's internal auditor have been urging the hiring of a qualified accountant for the past three years. We have yet to receive a plausible explanation why this person wasn't hired a long time ago.

97-4: Year End Fund Deficits

Several individual funds of the City contain deficits that may require City contributions to eliminate. Chief among these funds is the Civic Center Authority.

Management Response:

Management concurs.

97-5: Management Information Systems

The City's management information system is woefully inadequate to meet its current and future needs. While we realize the City is in the process of purchasing and eventually implementing a new central computer system, purchasing and installing a new system is not a cure-all and may create new issues that the City will need to address.

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Current Year Findings and Questioned Costs

(2), Continued

The most common issues that arise in a new system implementation include the following:

- The system purchased simply does not meet the needs of the entity. The City's current system is not used by all City departments and agencies - who instead use non-integrated systems as their official books and records (e.g. Planning and School Federal). The new system should at a minimum integrate with all significant sub-systems and replace any stand-alone financial systems currently in use.
- System costs are often over budget due to system add-ons being requested or modifications being made to the system that are outside the scope of the original purchase. Often change orders are requested to enable the new system to be compatible with the existing ways that the City does business. All changes to the software being implemented must be strictly controlled.
- Too often entities overlook the impact of change on the entity. The system will not be accepted by the users if they have not participated in the development of it. Implementing a system must address the changes that need to take place in order for the system to succeed. Business processes need to be changed to be consistent with the new system. The system should not be changed to comply with the old processes.
- Effective implementation is heavily dependent on the cooperation and availability of the entity's personnel - Without the full cooperation of the City's personnel, the system will not meet the City's needs; it will cost more than planned and it will not be delivered on time.
- User training provided by vendors is often insufficient to satisfactorily 'train the users'. The City should ensure that the amount of training and post-implementation support provided by the vendors is adequate given the level of changes that will occur with the new system.

Implementing a system in a large and complex entity like the City generally cannot be effectively done by a "part-time" person. The City must do one of the following:

- identify one experienced person within the City and make that person responsible for the overall system implementation - this person would work full-time on the implementation and be accountable for getting the system in place on time and on budget; or

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Current Year Findings and Questioned Costs

(2), Continued

- if the City cannot identify an experienced individual within the City who can be devoted full time to the implementation, the City must contract with an experienced third party system implementation to oversee the planning and implementation of the system.

Having one experienced person responsible for the implementation will help ensure that the City gets what it pays for and that the implementation schedule is met. By doing this, the City will have one person who can independently evaluate the status of the implementation and objectively report that status to the City Officials.

Unless the City is willing to invest in properly monitoring and controlling the implementation of the new system, there is a significant risk that the implementation will encounter some of the issues noted above. This could mean that the City will pay more money than expected and receive a system that does not operate effectively.

Management Response:

For the most part, the above comment pertains to issues that may or may not occur. The City has already factored most, if not all, of the above mentioned concerns into our implementation plan.

97-6: Year 2000 Compliance

The arrival of the year 2000 presents a significant challenge to all organizations that use computers in their business and operational activities. In simple terms, many existing software packages use a two-digit convention when referring to a year (i.e., 1998 = '98'). Under this method, the century turn would be read in the software as '00'. Accordingly, any calculations (e.g., interest charges, time, etc.) would not be properly calculated. For example, the calculation of interest on an over due account from 1999 to 2000 would be calculated not as one year (e.g., 2000-1999=1), but rather as 99 years (e.g., '00'-'99'=99). While this simple example illustrates the type of calculation problems that can occur, there are many other potential software logic anomalies associated with the year 2000 that need to be reviewed.

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Current Year Findings and Questioned Costs

(2), **Continued**

Even though the City officials believe their current financial system (and the planned replacement system) are Year 2000 compliant, it is important to note that this issue is not just limited to the MIS area or to computer programs.

Similar issues may exist with any activities that are controlled by a chip with a hard coded date (e.g., traffic lights, elevators, etc.). Additionally, issues may exist between the City's computer systems and outside computer systems (e.g., bank systems where direct deposit is used, federal or state payment systems where EFT payments are used). In short, this issue is not an easy issue to resolve and must be addressed promptly.

Without addressing these issues promptly, the City's activities may virtually come to a halt on January 1, 2000. Because of the significance of this issue to the City, the short time frame involved and the expected escalation in costs as the century turn approaches, we recommend that the City develop a plan immediately to inventory and review the status of all critical business systems to ensure they will be year 2000 compliant by January 1, 1999. This review should include all systems such as mainframe, midrange, client/server and end-user computing environments. In addition, any other software controlled devices which are clock dependent such as elevators, building lighting and telephone systems should be reviewed. Finally, all PC's need to be reviewed for compliance.

Management Response:

The City is aware of the Year 2000 issues, and have taken the appropriate steps to ensure the safeguarding of our computer systems and assets.

97-7: Leases

The City does not maintain a complete inventory of the leases it has entered into. Such an inventory should include all salient points contained in the lease agreement including future rents to be paid/received rent escalation clauses and bargain purchase options.

Without such a list the City does not and cannot know whether it is complying with the terms of the agreement.

Management Response:

The City does maintain a complete inventory of City leases.

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Current Year Findings and Questioned Costs

97-8: Related Party Transactions

The City has no effective system in place to identify transactions that the City has entered into with related parties (e.g., department head, councilors, vendors with financial or other ties with department head or councilors, etc.). All such transactions should be reviewed at a high enough level to help ensure that they are at 'arms-length.' Without such a system, the City risks unknowingly entering into transactions that are not in the best interest of the City.

We recommend the City develop and implement a system for reviewing any transaction the City enters into for potential related party and conflict of interest issues.

Management Response:

Management concurs.

97-9: General Fixed Assets

As of January 15, 1998, the City was unable to produce a list of its general fixed assets.

Management Response:

The Director of Public Property disagrees with this comment.

97-10: Taxes Receivable

The City should, but does not, reconcile the tax receivable detail to the general ledger on a timely basis. The reconciliation for the year ended June 30, 1997 was still not available as of January 15, 1998.

We recommend that taxes receivable detail ledgers be reconciled to the general ledger on at least a quarterly basis and ideally a monthly basis.

Management Response:

Management concurs.

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Current Year Findings and Questioned Costs

(2), Continued

97-11: School Cash Accounts

Several cash accounts are maintained by individual schools within the City without the knowledge or permission of the School or City Finance departments.

All cash within the City is the responsibility of the Treasurer and any accounts not established by the Treasurer should be closed immediately.

Management Response:

The Department of Administration at the School Department has been made aware of this problem, and is currently reviewing the situation to determine if corrective action needs to be taken.

MATERIAL INTERNAL CONTROL WEAKNESSES
RELATED TO THE WATER SUPPLY BOARD

During the fiscal 1997 audit, the fiscal reporting practices of the Water Board continue to be inadequate for an operation with \$30 million in sales and \$140 million in assets. Additionally, many of the same comments and recommendations made in prior year management letters have not been addressed by the management of the Board. The significant comments noted during the 1997 audit that are not consistent with sound fiscal practices are as follows:

97-12: Financial Accounting Systems

The Board's general ledger accounting system, Data Point, and the detailed accounts receivable system, Customer Star II, are not integrated. This setup requires the Water Board to manually input financial data into the general ledger system based on reports generated from the Customer Star II billing system.

During the year, we noted that billings were not posted to the general ledger on a consistent timely basis resulting in large adjustments and difficulties in reconciling year end accounts receivable balances.

We recommend that the Water Board implement system upgrades immediately so that the Customer Star II billing system be integrated with the general ledger system (Data Point).

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Current Year Findings and Questioned Costs

(2), Continued

Management Response:

ORACLE financial system is being implemented, therefore, the Data Point will not be used. Implementation delays resulted from staff turnover and inability to hire employees in accordance with salary and residency.

97-13: Financial Reporting

During the past year the Water Board experienced significant problems in producing accurate accounting information for year end reporting. The Board had difficulties performing basic accounting functions, including: timely recording of routine activity, reconciling accounts monthly, and producing accurate monthly reports on a timely basis.

Additionally, we noted that no account reconciliations were performed for some of the larger balance sheet account balances (i.e. accounts payable, accounts receivable, cash) during the year causing delays in obtaining accurate year end information.

Management of the Board needs to be held strictly accountable, by the Water Board members and the City Finance Committee, for implementing sound fiscal management practices that will allow the accounting records of the Water Board to be closed, in an accurate and timely fashion, on a monthly basis.

Management Response:

We are implementing procedures to have interim closings and the current fiscal year will be closed no later than October 17.

97-14: Use of Restricted Cash Funds

The Water Board continues to encounter cash flow difficulties whereby operating cash balances have fallen to a level that required the Board to utilize specifically restricted cash for regular operating purposes. At June 30, 1997, the Board had not yet repaid \$5.7 million to the restricted cash accounts that it had previously used for operating purposes. The legality of the Board using these restricted funds for operating purposes needs to be addressed by the City and the and the Board.

The primary reason for the cash flow difficulties is the Board's inability to collect on its outstanding water receivables. At June 30, 1997, the total billed and unbilled water and sewer receivables outstanding on the Board's general ledger totaled approximately 50% of the annual revenue amount - which effectively translates into an average collection period of 180 days. This average is clearly outside of the industry standard of 45 to 60 days.

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Current Year Findings and Questioned Costs

(2), Continued

Management Response:

Providence Water has historically had problems with collections as a result of erroneous and/or numerous estimated reads on accounts from the prior billing system, as was evidenced by the adjustment for uncollectible accounts. Collection procedures are in the process of being reviewed and modified in order to more aggressively pursue delinquent accounts. In addition, we will be scheduling a lien sale on an annual basis to address accounts which are habitually delinquent.

97-15: Accounts Receivable Reconciliations

The Board currently does not perform periodic reconciliations of the accounts receivable balance reported in the general ledger to the detail accounts receivable ledger and thereby cannot determine the integrity of its accounting records. As of January 15, 1998, the Board has been unable to provide an auditable accounts receivable reconciliation as of June 30, 1997.

Reconciling the accounts receivable detail ledger to the general ledger on a monthly basis is a sound fiscal practice.

Management Response:

We did provide auditable accounts receivable prior to 1/15/98. We have also reconciled the accounts receivable balance as of December 31, 1997. We plan on reconciling through March 31, 1998 and at year-end. During the next fiscal year, monthly reconciliations will be performed.

97-16: Accounts Receivable - Allowance for Doubtful Accounts

During the current year, we noted that the Water Board did not perform periodic evaluations of the adequacy of the accounts receivable allowance. Despite continued increases in open accounts receivable balances during the the past few years, the Board has not adjusted its allowance to reflect these increases or the change in the aging of the accounts.

Management Response:

Management concurs. Adjusted in fiscal year 1997 statements. Will evaluate annually.

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Current Year Findings and Questioned Costs

(2), Continued

97-17: Manual Meter Readings

Approximately 65% of the water bills issued by the Board are generated based on manual meter readings. With the level of technology currently available in the industry, this level of manual readings is high.

Manually reading customer meters requires that the meter reader physically gain access to the meter. However, access is often not possible because the customer is not at home in which case a card is left for the customer to complete. Without a response, the Board will produce an estimated bill for the customer based on prior consumption patterns. This process leads to potentially significant inaccuracies in billing amounts and may result in lost revenue to the Board.

The Board needs to immediately accelerate its program of replacing old meters with those equipped with outside encoders. A better alternative would be for the Board to consider the cost/benefit of converting to automatic meter reading (AMR) technology to allow for meter readings to be taken without access to the customer's premises (i.e. radio frequency meters).

Management Response:

Inappropriate comment since plan of action was on held pending the Supreme Court decision. PWSB plans to move forward with AMR technology and will not invest the time and money into outside encoder addressing.

97-18: Sales Tax Accrual

As a result of the computer system constraints that exist at the Board, sales tax liabilities and related payments have been estimated based on consumption figures. Accordingly, the possibility exists for the Board to be under or over stating its sales tax liabilities and payments. Such a situation may result in the Board's payments being challenged by the State, possibly resulting in interest and penalties.

Management Response:

Procedures are being implemented to determine the actual sales tax liability.

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Current Year Findings and Questioned Costs

(2), Continued

97-19: Clean Water Finance Agency Cash

In connection with the issuance of the \$12,000,000 1995 Series A Safe Drinking Water Revenue Bonds, issued by the Clean Water Finance Agency, the Board was responsible for maintaining a cash account. During the year, we noted that the Board did not record the activity in this account on the general ledger on a timely or consistent basis. We also noted that account reconciliations between the general ledger and the bank records were not performed on a timely basis.

Management Response:

Management concurs. Historically, all entires were booked at year-end due to insufficient staffing. It is understood that this is not an effective approach and now with full staffing in the accounting area, timely recording is taking place.

97-20: Construction in Progress - Reconciliation of Costs

Currently, payroll costs associated with projects are reviewed and authorized, however, controls need to be further improved to help ensure that payroll costs are appropriately classified (expense versus capitalization) for internal and external reporting purposes.

To improve controls the Board should immediately begin reconciling costs, from the approved timesheets, charged to projects to the payroll and work order reports. This fiscal control should be performed on a monthly basis to help ensure that costs approved are all charged to projects and that all costs charged to projects are approved.

Management Response:

Due to the number of different systems in place, manual reconciliation is the only means to accomplish this task. We are currently awarding a contract for the integration of our systems in order to ensure that proper capitalization takes place.

**NON-MATERIAL INTERNAL CONTROL WEAKNESSES -
ALL CITY DEPARTMENTS AND AGENCIES**

97-21: Civic Center Contract

The Civic Center continues to incur substantial losses that the City's general fund pays for. In fiscal 1997, the City contributed close to \$1.2 million to support the Civic Center's operation. This does not include other contributed items such as police detail costs that the Civic Center does not pay.

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Current Year Findings and Questioned Costs

(2), **Continued**

As of October 1997, Ogden Entertainment is responsible for the management of the Civic Center, however, it is unclear who at the City is responsible for monitoring this contract to ensure Ogden's compliance with its provisions. Without such monitoring, the City would not know if the financial and other provisions of the contract were being complied with.

Management Response:

Monitoring of the contract is the responsibility of the Civic Center Authority. The finance department will monitor and verify financial results.

97-22: Retirement System

The funded status of the retirement system continues to deteriorate. As of the date of the last actuarial valuation, the plan was under 40% funded.

Management Response:

Several issues concerning the retirement system are under litigation; under the advice of the Law Department, the position of the city is not to fund any benefits that are currently being litigated.

97-23: Sick and Vacation

The City's sick and vacation information did not agree with information provided by certain City agencies.

Management Response:

The current system has some bugs but overall is working well. The City is constantly seeking and finding new ways to improve its current systems; and hopes that no discrepancies will occur in the future.

97-24: Long-term Liabilities

The City does not perform actuarial calculations of its workers compensation or health care insurance liabilities.

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Current Year Findings and Questioned Costs

(2), Continued

Management Response:

Management concurs. It has become necessary to do so because of GASB 10, the City will look for help from our actuary and health care administrator.

97-25: Water Board Reconciliation of Cash Accounts

Currently the City Controller's office performs all cash account reconciliations and then forwards the reconciliations and corresponding bank statements to the Water Board. The Water Board does not perform a similar reconciliation or a detailed review of the City Controller's office reconciliations.

We recommend that the Water Board begin performing reconciliations in addition to the reconciliation performed by the City Controller's office. By performing bank reconciliations the Water Board will enhance their control over a significant asset.

Management Response:

Meetings have been held with the appropriate personnel of the Water Supply Board to set up a mechanism that would facilitate monthly reconciliations by the Water Supply Board.

97-26: Water Board Investment Policy

The Water Board invests any excess cash in conservative and short term (i.e. maturities of three months and under) investments. A single Water Board employee authorizes and carries out all investment decisions without the guidance of a formal investment policy, or the oversight of any formal Water Board review of investment decisions.

We recommend that the Water Board adopt a formal investment policy which explicitly states which securities the Water Board can invest in along with presenting clearly defined set of instructions as to how to carry out all investment decisions. By adopting such a policy the Water Board will ensure that significant assets will be safeguarded.

Management Response:

A policy is being drafted and will be presented to the Board for adoption.

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Current Year Findings and Questioned Costs

(2), Continued

97-27: Water Board Wholesale Customer Receipts

The Water Board utilizes lock box accounts for customers to remit payments as well as allowing customers to pay bills at the Academy Avenue location wherein the Water Board is directly responsible for the funds. We noted that Wholesale customers currently do not remand payments to the lockbox, but instead make payments directly at the Academy Avenue office. Wholesale revenues tend to be large in nature, and by being processed directly by the Water Board, the controls over these revenues are decreased.

We recommend that the Water Board direct its Wholesale customers to remand future payments to one of its lock box locations. By implementing this procedure, the Water Board will be able to strengthen its controls over Wholesale revenues and will also reduce the risk and responsibility associated with collecting larger amounts of cash.

Management Response:

Wholesale remittances do not usually agree with the invoice because the Water Quality Protection Surcharge is based on the Wholesaler billings. Providence Water does not know the amount of the surcharge prior to receipt. If remittances do not agree with, the lockbox forwards the payment as an exception item to PW anyway.

97-28: Water Board Overhead Rates

In connection with Water Board construction projects, the Board books overhead applied on direct labor at a rate of 65%, and for indirect labor at a rate of 45%. This rate is based on a prior years calculation which has not been updated regularly. Increases or decreases in the associated overhead costs to the Water Board are not being evaluated regularly to determine the propriety of the current overhead rate being charged to contracts.

We recommend the Water Board perform a review of the current overhead rate to determine the propriety of the rate being charged to contracts. Reviewing the rate will help the Water Board to determine if the current rate is reasonable based on current overhead charges and will help to assure that the proper costs are being charged to the construction in progress accounts.

Management Response:

The 65% rate is used when there is a claim against someone for damages. While the rate is applied to the labor component, it is designed to capture both indirect labor and fringe, and direct material and equipment overhead. The 45% factor is the fringe benefit cost.

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Current Year Findings and Questioned Costs

(3) Findings and Questioned Cost Relating to Federal Awards

Reference Number: 1997-1

Federal Agency and Pass-through Entity: U.S. Department of Education
State of Rhode Island

CFDA Number: 84.027
84.048
10.555

Program: Special Education
Vocational Education
National School Lunch Program

Finding: Equipment and Real Property
Management

Description:

The Providence School Department does not maintain adequate property records and could not account for assets present at the Department in City asset reports.

OMB A-102 Common Rule, (____ .32)(d), sets forth the responsibilities of other than grantees and sub-grantees as "(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property; (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years; (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of property. Any loss, damage, or theft shall be investigated; (4) Adequate maintenance procedures must be developed to keep the property in good condition; and (5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

The Providence School Department equipment management policies and procedures do not emulate the required policies and procedures in accordance with OMB A-102 Common Rule.

The National School Lunch Program is exempt from the A-102 Common Rule; however, the program is covered by the USDA's 7 CFR part 3015 which has requirements more restrictive but similar to the A-102 Common Rule.

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Current Year Findings and Questioned Costs

(3), Continued

Recommendation:

We recommend that the Providence School Department follow the same policies and procedures as the City in accordance with applicable laws and regulations imposed by the Federal Government.

Grantee Response:

Management concurs.

CITY OF PROVIDENCE, RHODE ISLAND

Status of Prior Year Findings Required
under *Government Auditing Standards*

Year Ended June 30, 1997

All significant or material findings or recommendations resulting from prior audit reports that affect the current audit objectives have been presented in Part 2 of the Current Year Schedule of Findings and Questioned Costs.

KPMG