

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

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020



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

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

Report on the Financial Statements

We have audited the accompanying financial statements of Providence Water Supply Board (Water Supply Board), an enterprise fund of the City of Providence, Rhode Island, as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Supply Board as of June 30, 2021 and 2020 and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter***Reporting Entity***

As discussed in Note 1, the financial statements presently only the Water Supply Board and do not purport to, and do not, present fairly the financial position of the City of Providence as of June 30, 2021 and 2020, the changes in its financial position, or where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Correction of an Error

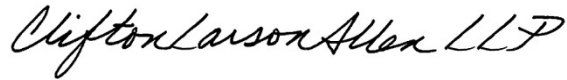
As discussed in Note 12 to the financial statements, certain errors were identified in the prior year financial statements during the current year. Accordingly, amounts have been restated in the 2021 and 2020 financial statements now presented, and adjustments have been made to net position as of June 30, 2019, to correct these errors. Our opinion is not modified with respect to that matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the pension and OPEB schedules, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2022, on our consideration of the Water Supply Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Water Supply Board's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Water Supply Board's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Cranston, Rhode Island
March 16, 2022

**PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021 AND 2020**

The management of the Providence Water Supply Board (the Water Supply Board) offers readers of our financial statements the following narrative overview and analysis of our financial activities for the years ended June 30, 2021 and 2020.

Financial Statements

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

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

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

**PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021 AND 2020**

Condensed financial Information

| | <u>2021</u> | <u>2020</u> | <u>2019*</u> |
|---|-----------------------|-----------------------|-----------------------|
| Total current assets | \$ 82,082,639 | \$ 43,603,728 | \$ 48,323,882 |
| Total long-term assets | <u>478,079,672</u> | <u>451,775,332</u> | <u>441,096,391</u> |
| Total assets | <u>560,162,311</u> | <u>495,379,060</u> | <u>489,420,273</u> |
| Deferred outflows of resources | <u>11,780,093</u> | <u>11,457,933</u> | <u>3,396,558</u> |
| Total current liabilities | 19,879,299 | 18,482,218 | 14,062,833 |
| Total long-term liabilities | <u>222,141,102</u> | <u>190,423,825</u> | <u>189,514,439</u> |
| Total liabilities | <u>242,020,401</u> | <u>208,906,043</u> | <u>203,577,272</u> |
| Deferred inflows of resources | <u>5,399,793</u> | <u>5,776,081</u> | <u>2,861,073</u> |
| Net position: | | | |
| Net investment in capital assets | 329,505,821 | 336,524,362 | 319,818,541 |
| Restricted fund | 66,732,571 | 28,893,135 | 33,525,802 |
| Unrestricted fund | <u>(71,716,182)</u> | <u>(73,262,628)</u> | <u>(66,965,857)</u> |
| Total Net Position | <u>\$ 324,522,210</u> | <u>\$ 292,154,869</u> | <u>\$ 286,378,486</u> |
| Total operating revenue | <u>\$ 81,349,230</u> | <u>\$ 69,757,831</u> | <u>\$ 72,330,415</u> |
| Total operating expenses | 46,241,696 | 51,349,984 | 49,998,732 |
| Depreciation | <u>10,883,231</u> | <u>11,712,793</u> | <u>9,429,564</u> |
| Total operating expenses including depreciation | <u>57,124,927</u> | <u>63,062,777</u> | <u>59,428,296</u> |
| Operating income | 24,224,303 | 6,695,054 | 12,902,119 |
| Nonoperating expense | (2,866,652) | (1,441,472) | (3,655,366) |
| Capital grants and contributions | 683,986 | 522,801 | 915,968 |
| Special item - annexation | <u>10,325,704</u> | <u>-</u> | <u>-</u> |
| Change in Net Position | <u>\$ 32,367,341</u> | <u>\$ 5,776,383</u> | <u>\$ 10,162,721</u> |

*Amount has been restated

Financial Highlights

During the fiscal year 2021, the Water Supply Board had operating revenues that exceeded operating expenses by \$24.2 million. These are primarily due to rate relief to support the continued commitment to the replacement of aging infrastructure, careful management of operating costs, and unexpended revenues allocated for restricted funds. Total assets and deferred outflows were \$571.9 million, up \$65.1 million from last year's total assets of \$506.8 million as a result from the annexation of the Town of Johnston, Rhode Island Water fund. Current assets, principally cash, increased by \$38.5 million, and net plant increased by \$26.5 million.

**PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021 AND 2020**

The Water Supply Board's net position totaled \$324.5 million at June 30, 2021, an increase of \$32.4 million from June 30, 2020. The increase is the result of unexpended loan proceeds available through the Rhode Island Infrastructure Bank (RIIB) in the restricted funds. Also, reflected in the change to our net position is net operating income of \$24.2 million, net non-operating expenses of \$2.9 million, and capital contributions of \$11.0 million.

The Water Supply Board's net position totaled \$292.2 million at June 30, 2020, an increase of \$6.5 million from June 30, 2019. The increase is the result of unexpended revenue allocated for restricted funds. Also reflected in the change to our net position is net operating income of \$6.7 million, net non-operating expenses of \$1.4 million, and capital contributions of \$0.5 million.

The Water Supply Board's total operating revenues were \$81.3 million for fiscal year 2021 which was a \$11.6 million or 16.61% increase over the prior year. The primary reason for the increase is due to new rates being approved by the Rhode Island Public Utilities Commission as part of the step two increase filed in Docket 4994. Total operating expenses of the water system amounted to \$57.1 million which was a \$-6.0 million decrease over the prior year's amount of \$63.1 million. The decrease is primarily attributable to Providence Water's management team carefully managing the budget because of the lower amount of cash flow due to the COVID-19 pandemic.

The Water Supply Board's total operating revenues were \$69.8 million for fiscal year 2020 which was a \$2.5 million or 3.51% decrease over the prior year. The primary reason for the decrease is the continued decline in consumption across all customer classes as well as the economic impact of the COVID-19 pandemic, which impacted business activity in the fourth quarter. Total operating expenses of the water system amounted to \$63.0 million which was a \$3.9 million increase over the prior year's amount of \$59.4 million. The increase is primarily attributable to increases in pension expenses and depreciation.

Capital Assets and Debt Administration

Capital Assets:

At June 30, 2021, the Water Supply Board had \$477.6 million invested in various capital assets, including land, buildings and improvements, transmission and distribution mains, reservoirs, services, hydrants and appurtenances, machinery and equipment, and construction work in progress. This amount represents a net increase in capital assets of \$26.5 million, or 5.9%, over the prior year.

At June 30, 2020, the Water Supply Board had \$451 million invested in various capital assets, including land, buildings and improvements, transmission and distribution mains, reservoirs, services, hydrants and appurtenances, machinery and equipment, and construction work in progress. This amount represents a net increase in capital assets of \$10.8 million, or 2.5%, over the prior year.

**PROVIDENCE WATER SUPPLY BOARD
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 MANAGEMENT'S DISCUSSION AND ANALYSIS
 JUNE 30, 2021 AND 2020**

Major project expenditures in fiscal year 2021 included (in millions):

| | | |
|---|----|-------|
| • Water Main Rehabilitation | \$ | 15.31 |
| • Lead Service Replacements | \$ | 2.67 |
| • Various Distribution System Improvements | \$ | 1.91 |
| • Full Scale Orthophosphate System | \$ | 1.48 |
| • Clarification/Pretreatment Process Upgrades | \$ | 1.10 |
| • Various Support System Improvements | \$ | 0.96 |
| • Various Pumping and Storage Improvements | \$ | 0.84 |
| • Various Transmission System Improvements | \$ | 0.67 |
| • Various Treatment System Improvements | \$ | 0.54 |
| • Various Dam Improvements | \$ | 0.33 |

The Water Supply Board's fiscal year 2021 capital budget included project expenditures of \$22.06 million for infrastructure and capital projects. The major projects were: continuation of the water main replacements and upgrades, replacement of lead services and aging fire hydrants, upgrades to aging pump stations and storage facilities. The majority of infrastructure projects are financed on a pay-as-you-go, cash basis from rate revenues. The major project – water main rehabilitation/replacement – was funded from bond proceeds issued through the Rhode Island Infrastructure Bank (RIIB) in fiscal year 2021. New major capital investments that will benefit ratepayers for many years are generally funded with long-term debt financing.

Water Main Rehabilitation

The Water Supply Board operates an aging distribution system, composed mainly of unlined cast iron pipes. The Water Supply Board is committed to renew and/or replace much of the buried infrastructure. Water main rehabilitation improves water quality, reduces pipe breaks and the resulting loss of service, curtails leakage, and improves hydraulic capacity as needed for residential, commercial, and industrial users and fire protection. The Water Supply Board's Water Main Replacement/Rehabilitation Program (WMR) is now targeting areas of high iron and lead corrosion as indicated by LCR compliance sites and additional water quality monitoring within the distribution system. In FY 2021, the Water Supply Board rehabilitated 12 miles at a cost of approximately \$15 million.

During FY 2021, the Water Supply Board replaced 719 public side lead services at a cost of \$2,152,436. Since its inception of the reporting of the IFR program and the public lead services replacement program to the RIPUC (July 1, 1996), the Water Supply Board has replaced 20,012 lead services to the end of fiscal year 2021 (June 30, 2021) at cost of over \$60 Million.

Private Side Lead Service Line Replacement Loan Program:

In February of 2017, The Rhode Island Public Utilities Commission (PUC) approved, as part of the application for new rates (PUC Docket 4618) \$250,000 of rate revenue per year be used to finance a 0% interest loan with a 3-year repayment schedule program to assist homeowners replace the private side lead service lines that carry water from the water mains in the street to the home. Effective August 2020, the amount approved by the PUC in Docket 4994 increased to \$1 million per year and extended the repayment term from the original 3-year term to a 10-year term. This program is to address the reduction of lead found in homes that could be harmful to the residents, especially children.

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JUNE 30, 2021 AND 2020**

The program entered into its first loan in April of 2018 and through June 30, 2021, 616 loans had been executed in the amount of approximately \$2.5 million. A 0% interest loan for \$1 million as well as a second loan for \$3 million from the RIIB allowed Providence Water to capitalize these loans at an accelerated rate.

Corrosion Control

The Water Supply Board is evaluating corrosion control treatment techniques. The Water Supply Board is working with a panel of nationally recognized corrosion control experts to optimize treatment. As part of this effort, the Water Supply Board successfully implemented a system-wide orthophosphate addition.

Flushing Program

Beginning in 2013, the Water Supply Board initiated a unidirectional flushing (UDF) program to improve water quality through removal of accumulations from the distribution system. In FY 2021, the Water Supply Board flushed approximately 81 miles of main. Because of the Water Supply Board's aging distribution system, some of the assets (valves and hydrants) that are utilized for flushing need to be repaired or replaced. In addition to the water quality benefits, the flushing program has the secondary benefit of being a valve exercise program.

Debt

At June 30, 2021, the Water Supply Board had \$147.1 million in bonds and notes outstanding versus \$114.5 million in the previous year. This represented an increase of \$32.6 million or 28.4%. This is due to the issuance of new debt for the Water Main Rehabilitation/Replacement Project.

At June 30, 2020, the Water Supply Board had \$114.5 million in bonds and notes outstanding versus \$120.4 million in the previous year. This represented a decrease of \$5.9 million or 4.9%. This is due to the retirement of previously issued debt.

Subsequent Events

In June 2021, the Public Utilities Commission approved new rates effective July 1, 2021, that represented the step two increase of this 3-year filing.

The overall rate increase for the first year was 16.82%. The increase for the step 2 increase was 4.3% and the third step is anticipated to be 3.85%.

Union Contract

The labor force of the Water Supply Board, with the exception of management, is covered by a union contract which is effective for the period of July 1, 2019 through June 30, 2022.

**PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021 AND 2020**

Contacting Providence Water's Financial Management

This financial report is designed to provide our customers, investors and creditors with a general overview of the Providence Water Supply Board's finances and to illustrate the Providence Water Supply Board's accountability for the monies it receives. If you have questions about this report or need additional financial information, please contact the Finance Department at the Providence Water Supply Board, 125 Dupont Drive, Providence, RI 02907.

PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
STATEMENTS OF NET POSITION
JUNE 30, 2021 AND 2020

| | <u>2021</u> | <u>2020</u> |
|--|--------------------|--------------------|
| Assets: | | |
| Current unrestricted assets: | | |
| Cash and cash equivalents | \$ 1,412,166 | \$ 3,100,343 |
| Cash held by fiscal agent | 29,667,246 | |
| Accounts receivable, net of allowance for uncollectible accounts of \$2,053,685 in 2021 and \$1,726,534 in 2020 | 9,222,593 | 7,047,304 |
| Accounts receivable - unbilled | 2,942,852 | 2,503,355 |
| Inventory | 439,528 | 555,429 |
| Other assets | 42,753 | 231,941 |
| Total current unrestricted assets | <u>43,727,138</u> | <u>13,438,372</u> |
| Current restricted assets: | | |
| Cash and cash equivalents | 36,837,008 | 28,974,483 |
| Accounts receivable | 1,342,466 | 1,016,907 |
| Notes receivable - short term | 176,027 | 173,966 |
| Total current restricted assets | <u>38,355,501</u> | <u>30,165,356</u> |
| Total current assets | <u>82,082,639</u> | <u>43,603,728</u> |
| Capital assets: | | |
| Land | 26,449,185 | 25,382,574 |
| Building and improvements | 150,095,165 | 143,887,545 |
| Improvements other than buildings | 476,024,773 | 439,301,774 |
| Machinery and equipment | 49,213,782 | 42,100,953 |
| Scituate Reservoir Project | 18,681,695 | 18,681,695 |
| Construction in progress | 31,689,984 | 41,186,167 |
| | <u>752,154,584</u> | <u>710,540,708</u> |
| Less accumulated depreciation and amortization | <u>274,624,621</u> | <u>259,491,112</u> |
| Total capital assets, net | <u>477,529,963</u> | <u>451,049,596</u> |
| Other noncurrent assets: | | |
| Notes receivable - long term | <u>549,709</u> | <u>725,736</u> |
| Deferred Outflows of Resources: | | |
| OPEB-related deferred outflows of resources | 6,166,474 | 2,343,652 |
| Pension-related deferred outflows of resources | 5,613,619 | 9,114,281 |
| Total deferred outflows of resources | <u>11,780,093</u> | <u>11,457,933</u> |
| Total assets and deferred outflows of resources | <u>571,942,404</u> | <u>506,836,993</u> |

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

**PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
STATEMENTS OF NET POSITION (CONTINUED)
JUNE 30, 2021 AND 2020**

| | <u>2021</u> | <u>2020</u> |
|--|-----------------------|-----------------------|
| Liabilities: | | |
| Current: | | |
| Accounts payable | \$ 1,756,809 | \$ 1,111,364 |
| Accrued liabilities | 3,073,183 | 3,491,769 |
| Due to City of Providence General Fund | 560,560 | 1,124,334 |
| Current portion of long-term debt | 8,579,596 | 7,209,834 |
| Current portion of OPEB liability | <u>4,069,266</u> | <u>3,546,960</u> |
| Total current unrestricted liabilities | <u>18,039,414</u> | <u>16,484,261</u> |
| Amounts to be paid from current restricted assets: | | |
| Due to Water Resources Board | 210,653 | 196,467 |
| Amounts payable from restricted assets | <u>1,629,232</u> | <u>1,801,490</u> |
| Total current restricted liabilities | <u>1,839,885</u> | <u>1,997,957</u> |
| Total current liabilities | <u>19,879,299</u> | <u>18,482,218</u> |
| Noncurrent liabilities: | | |
| General revenue bonds | 139,444,546 | 107,315,400 |
| Net pension liability | 58,083,935 | 59,590,496 |
| Total OPEB liability | <u>24,612,621</u> | <u>23,517,929</u> |
| Total noncurrent liabilities | <u>222,141,102</u> | <u>190,423,825</u> |
| Total liabilities | <u>242,020,401</u> | <u>208,906,043</u> |
| Deferred Inflows of Resources: | | |
| OPEB-related deferred inflows of resources | 2,511,634 | 2,775,701 |
| Pension-related deferred inflows of resources | <u>2,888,159</u> | <u>3,000,380</u> |
| Total deferred inflows of resources | <u>5,399,793</u> | <u>5,776,081</u> |
| Net Position: | | |
| Net investment in capital assets | 329,505,821 | 336,524,362 |
| Restricted | 40,019,359 | 28,893,135 |
| Unrestricted | <u>(45,002,970)</u> | <u>(73,262,628)</u> |
| Total Net Position | <u>\$ 324,522,210</u> | <u>\$ 292,154,869</u> |

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

PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

| | <u>2021</u> | <u>2020</u> |
|--|-----------------------|-----------------------|
| Operating Revenues: | | |
| Charges for services: | | |
| Water sales: | | |
| General customers | \$ 56,867,300 | \$ 49,277,118 |
| Other local water suppliers | 18,696,757 | 15,571,499 |
| Fire protection services | 3,290,155 | 2,720,260 |
| Maintenance charges and other revenue | 2,495,018 | 2,188,954 |
| Total operating revenues | <u>81,349,230</u> | <u>69,757,831</u> |
| Operating Expenses: | | |
| Source of supply | 3,094,386 | 2,885,503 |
| Pumping operations | 718,673 | 841,726 |
| Water treatment | 8,322,661 | 8,485,942 |
| Transmission and distribution | 6,102,449 | 6,400,982 |
| Charge for services provided by other City departments | 839,167 | 839,167 |
| Customer accounts and service | 2,999,822 | 2,762,129 |
| Administrative and general | 16,177,894 | 21,237,713 |
| Depreciation | 10,843,456 | 11,712,793 |
| Property taxes - other local governments | 8,026,419 | 7,896,822 |
| Total operating expenses | <u>57,124,927</u> | <u>63,062,777</u> |
| Operating Income | <u>24,224,303</u> | <u>6,695,054</u> |
| Nonoperating Revenue (Expense): | | |
| Interest income | 546,327 | 1,407,353 |
| Interest expense and other | (3,422,627) | (3,123,460) |
| Gain (loss) on sale of asset | 9,648 | 274,635 |
| Net nonoperating expense | <u>(2,866,652)</u> | <u>(1,441,472)</u> |
| Capital Grants and Contributions | 683,986 | 522,801 |
| Special Item - Annexation | 10,325,704 | |
| Total capital grants, contributions and special items | <u>11,009,690</u> | <u>522,801</u> |
| Change in Net Position | 32,367,341 | 5,776,383 |
| Net Position - Beginning of Year, as restated | <u>292,154,869</u> | <u>286,378,486</u> |
| Net Position - End of Year | <u>\$ 324,522,210</u> | <u>\$ 292,154,869</u> |

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

PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

| | <u>2021</u> | <u>2020</u> |
|---|----------------------|----------------------|
| Cash Flows from Operating Activities: | | |
| Receipts from customers | \$ 78,596,012 | \$ 69,581,595 |
| Payments to vendors | (29,091,908) | (24,376,521) |
| Payments to employees | (17,266,344) | (21,047,770) |
| Net cash provided by operating activities | <u>32,237,760</u> | <u>24,157,304</u> |
| Cash Flows from Capital and Related Financing Activities: | | |
| Acquisition and construction of capital assets | (27,926,149) | (22,582,979) |
| Interest and issuance costs paid on debt | (3,422,627) | (3,123,460) |
| Proceeds from bond issuance | 40,764,289 | 569,675 |
| Principal payments on long-term debt | (7,265,381) | (6,405,309) |
| Proceeds from note receivable | 173,966 | 157,911 |
| Capital grants | 683,986 | 522,801 |
| Net cash provided by (used in) capital and related financing activities | <u>3,008,084</u> | <u>(30,861,361)</u> |
| Cash Flows from Investing Activities: | | |
| Investment income | 546,327 | 1,407,353 |
| Proceeds from sale of assets | 9,648 | 274,634 |
| Net cash provided by investing activities | <u>555,975</u> | <u>1,681,987</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 35,801,819 | (5,022,070) |
| Cash and Cash Equivalents - Beginning of Year | <u>32,074,826</u> | <u>37,096,896</u> |
| Cash and Cash Equivalents - End of Year | <u>\$ 67,876,645</u> | <u>\$ 32,074,826</u> |
| Unrestricted Cash and Cash Equivalents | \$ 31,079,412 | \$ 3,100,343 |
| Restricted Cash and Cash Equivalents | <u>36,837,008</u> | <u>28,974,483</u> |
| | <u>\$ 67,916,420</u> | <u>\$ 32,074,826</u> |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities: | | |
| Operating income | \$ 24,224,303 | \$ 6,721,687 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 10,843,456 | 11,712,793 |
| Provision for doubtful accounts | (327,151) | (436,046) |
| Changes in assets and liabilities: | | |
| (Increase) decrease in accounts receivable | (1,724,939) | 472,912 |
| (Increase) decrease in inventories | 115,901 | (125,680) |
| (Increase) decrease in other assets | 189,188 | (179,767) |
| (Increase) decrease in deferred outflows of resources | (322,160) | (7,387,000) |
| Increase (decrease) in due to other funds | (563,774) | 353,371 |
| Increase (decrease) in accounts payable and accrued expenses | 68,787 | (421,748) |
| Increase (decrease) net pension liability | (1,506,561) | 7,625,782 |
| Increase (decrease) net OPEB liability | 1,616,998 | 3,607,000 |
| Increase (decrease) in deferred inflows of resources | <u>(376,288)</u> | <u>2,214,000</u> |
| Net Cash Provided by Operating Activities | <u>\$ 32,237,760</u> | <u>\$ 24,157,304</u> |

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

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

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

The financial statements of the Providence Water Supply Board are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only the business-type activities of the City of Providence that are attributable to the transactions of the Providence Water Supply Board. They do not purport to, and do not, present fairly the financial position of the City of Providence as of June 30, 2021, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

B. Significant Accounting Policies

Basis of Presentation

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

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

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

Regulations and Operations

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

Cash Equivalents

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

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

Investments

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

Inventory

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

Capital Assets, Depreciation and Amortization

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

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

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

Restricted Funds for Construction of Assets

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

Capital Contributions

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

Impact Fees

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

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

The impact fee is assessed by the City of Cranston based on the agreement with the Water Supply Board. If new water systems facilities are required to serve areas where no water system presently exists, the Water Supply Board will collect a subdivision processing fee, and the City of Cranston will collect a water impact fee for the benefit of the Water Supply Board as follows: 1) residential \$1,352 per unit; and 2) industrial and commercial \$6,003 per acre. The Water Supply Board in turn agreed to use the said impact fee solely for the purpose of construction of new water system facilities required to serve areas where no water system presently exists. In 2021, the \$98,548 in fees that had been collected was recognized by the Water Supply Board as revenue. In 2020, the \$91,280 in fees that had been collected was recognized by the Water Supply Board as revenue.

Revenues, Operating Revenues and Expenses

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

Concentration of Credit Risk

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position can report deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period which will not be recognized as an outflow of resources (expense) until that later date. At June 30, 2021 and 2020, the Water Supply Board reports deferred outflows related to pension and OPEB in the statements of net position. A deferred outflow of resources related to pension results from differences between expected and actual experience, changes in assumptions or other inputs. These amounts are deferred and included in pension and OPEB expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension and OPEB plans (active employees and inactive employees).

In addition to liabilities, the statement of net position can report deferred inflows of resources. Deferred inflows of resources represent the acquisition of net position that applies to a future period and which will not be recognized as an inflow of resources (revenue) until a later date. At June 30, 2021 and 2020, the Water Supply Board reports deferred inflows related to pension and OPEB in the statements of net position. A deferred inflow of resources related to pension and OPEB results from differences between expected and actual experience, changes in assumptions or other inputs. These amounts are deferred and included in pension and OPEB expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension and OPEB plans (active employees and inactive employees).

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

Compensated Absences

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

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

Net Pension Liability

The net pension liability is measured as the portion of the actuarial present value of projected benefits that is attributed to past periods of employee service (total pension liability), net of the pension plan's fiduciary net position. The pension plan's fiduciary net position is determined using the same valuation methods that are used by the pension plan for purposes of preparing its statement of fiduciary net position. The net pension liability is measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year, consistently applied from period to period. Investments are reported at fair value.

Total Other Postemployment Benefits Other than Pensions (OPEB) Liability

The total OPEB liability is measured as the portion of the actuarial present value of projected benefits that is attributed to past periods of employee service. The total OPEB liability is measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year and no later than the end of the current fiscal year, consistently applied from period to period.

Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

When both restricted and unrestricted resources are available for use, it is the Water Supply Board's policy to use restricted resources first, then unrestricted resources as they are needed.

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

Fund Equity

In the government-wide and proprietary fund financial statements, net position is classified in the following categories:

Net Investment in Capital Assets

This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

Restricted Net Position

This category represents the net position of the City, which are restricted by outside parties or enabling legislation.

Unrestricted Net Position or Deficits

This category represents the net position of the City, which do not meet the definition of “restricted” or “invested in capital assets, net of related debt”. Deficits require future funding.

Use of Estimates

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

Reclassification of Prior Year Presentation

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

2. RESTRICTED ASSETS

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

- at a minimum, 55% of the funds are to be spent for the acquisition of land or land rights or physical improvements to acquired land to protect the quality of the raw water of the water supply system;
- 35% may be used to acquire a fee simple interest or a conservation restriction that directly protects the quality and safety of the public drinking water supply; and
- 0% may be used by the supplier for any purpose relating to its operations.

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

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

3. CASH

The following is a summary of cash and investments as of June 30, 2021 and 2020:

| | <u>2021</u> | <u>2020</u> |
|--------------------------------------|----------------------|----------------------|
| Cash and cash equivalents | \$ 1,412,166 | \$ 3,100,343 |
| Restricted cash and cash equivalents | <u>36,837,008</u> | <u>28,974,483</u> |
| | <u>\$ 38,249,174</u> | <u>\$ 32,074,826</u> |

Responsibility for custodial credit risk of deposits, investment risk, interest rate risk and concentration of investments rests with the City. Additional information about these risks can be obtained from the City of Providence's Finance Department at City Hall or at www.providenceri.gov/finance. However, the deposits for the Water Supply Board are supported by collateralization agreements with its main banking institutions. These agreements collateralize the deposits at 102%. Of the cash and cash equivalent balances at June 30, 2021 of \$38,249,174, \$250,000 is covered by Federal Deposit Insurance Corporation (FDIC) insurance and \$1,162,166 of the balance is covered by the collateral agreements. Of the cash and cash equivalent balances at June 30, 2020 of \$32,074,826, \$250,000 is covered by FDIC insurance and \$2,850,343 of the balance is covered by the collateral agreements.

4. CAPITAL ASSETS

The following is a summary of the activity in capital assets as of June 30, 2021:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Disposals/ Transfers</u> | <u>Annexation</u> | <u>Ending Balance</u> |
|---|------------------------------|----------------------|---------------------------------|---------------------|---------------------------|
| Capital assets not being depreciated: | | | | | |
| Land | \$ 25,382,574 | \$ 1,026,611 | \$ | \$ 40,000 | \$ 26,449,185 |
| Scituate Reservoir Project | 18,681,695 | | | | 18,681,695 |
| Construction in progress | <u>41,186,167</u> | <u>28,447,977</u> | <u>37,944,160</u> | | <u>31,689,984</u> |
| Total capital assets not being depreciated | <u>85,250,436</u> | <u>29,474,588</u> | <u>37,944,160</u> | <u>40,000</u> | <u>76,820,864</u> |
| Capital assets being depreciated: | | | | | |
| Buildings and improvements | 143,887,545 | 6,207,620 | | | 150,095,165 |
| Sewer and infrastructure | 439,301,774 | 23,112,747 | | 13,610,252 | 476,024,773 |
| Equipment | <u>42,100,953</u> | <u>7,075,352</u> | | <u>37,477</u> | <u>49,213,782</u> |
| Total capital assets being depreciated | <u>625,290,272</u> | <u>36,395,719</u> | <u>-</u> | <u>13,647,729</u> | <u>675,333,720</u> |
| Less accumulated depreciation for: | | | | | |
| Buildings and improvements | 84,667,391 | 3,533,448 | | | 88,200,839 |
| Sewer and infrastructure | 142,298,923 | 5,734,685 | | 4,252,576 | 152,286,184 |
| Equipment | <u>32,524,798</u> | <u>1,575,323</u> | | <u>37,477</u> | <u>34,137,598</u> |
| Total accumulated depreciation | <u>259,491,112</u> | <u>10,843,456</u> | <u>-</u> | <u>4,290,053</u> | <u>274,624,621</u> |
| Total capital assets being depreciated, net | <u>365,799,160</u> | <u>25,552,263</u> | <u>-</u> | <u>9,357,676</u> | <u>400,709,099</u> |
| Capital Assets, Net | <u>\$ 451,049,596</u> | <u>\$ 55,026,851</u> | <u>\$ 37,944,160</u> | <u>\$ 9,397,676</u> | <u>\$ 477,529,963</u> |

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

The following is a summary of the activity in capital assets as of June 30, 2020:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Disposals/ Transfers</u> | <u>Ending Balance</u> |
|---|------------------------------|----------------------|---------------------------------|---------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 25,220,803 | \$ 161,771 | \$ - | \$ 25,382,574 |
| Scituate Reservoir Project | 18,681,695 | - | - | 18,681,695 |
| Construction in progress | <u>66,933,822</u> | <u>40,034,511</u> | <u>65,782,166</u> | <u>41,186,167</u> |
| Total capital assets not being depreciated | <u>110,836,320</u> | <u>40,196,282</u> | <u>65,782,166</u> | <u>85,250,436</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 123,990,544 | 19,897,001 | - | 143,887,545 |
| Sewer and infrastructure | 412,532,325 | 26,769,449 | - | 439,301,774 |
| Equipment | <u>40,598,540</u> | <u>1,502,413</u> | <u>-</u> | <u>42,100,953</u> |
| Total capital assets being depreciated | <u>577,121,409</u> | <u>48,168,863</u> | <u>-</u> | <u>625,290,272</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 79,861,371 | 4,806,020 | - | 84,667,391 |
| Sewer and infrastructure | 136,853,384 | 5,445,539 | - | 142,298,923 |
| Equipment | <u>31,063,565</u> | <u>1,461,233</u> | <u>-</u> | <u>32,524,798</u> |
| Total accumulated depreciation | <u>247,778,320</u> | <u>11,712,792</u> | <u>-</u> | <u>259,491,112</u> |
| Total capital assets being depreciated, net | <u>329,343,089</u> | <u>36,456,071</u> | <u>-</u> | <u>365,799,160</u> |
| Capital Assets, Net | <u>\$ 440,179,409</u> | <u>\$ 76,652,353</u> | <u>\$ 65,782,166</u> | <u>\$ 451,049,596</u> |

5. LONG-TERM DEBT

The following is the long-term debt activity as of June 30, 2021:

| | 2021 | | | | |
|-----------------------|------------------------------|----------------------|---------------------|---------------------------|--------------------------------|
| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
| Bonds payable: | | | | | |
| Revenue bonds | \$ 114,525,234 | \$ 40,764,289 | \$ 7,265,381 | \$ 148,024,142 | \$ 8,579,596 |
| Net pension liability | 59,590,496 | - | 1,506,561 | 58,083,935 | - |
| Total OPEB liability | <u>27,064,889</u> | <u>1,616,998</u> | <u>-</u> | <u>28,681,887</u> | <u>4,069,266</u> |
| Long-Term Liabilities | <u>\$ 201,180,619</u> | <u>\$ 42,381,287</u> | <u>\$ 8,771,942</u> | <u>\$ 234,789,964</u> | <u>\$ 12,648,862</u> |

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

The following is the long-term debt activity as of June 30, 2020:

| | 2020 | | | | Due Within One Year |
|-----------------------|-----------------------|----------------------|---------------------|-----------------------|------------------------|
| | Beginning Balance | Additions | Reductions | Ending Balance | |
| Bonds payable: | | | | | |
| Revenue bonds | \$ 120,360,868 | \$ 569,675 | \$ 6,405,309 | \$ 114,525,234 | \$ 7,209,834 |
| Net pension liability | 51,964,714 | 7,625,782 | | 59,590,496 | |
| Total OPEB liability | <u>23,457,889</u> | <u>3,607,000</u> | | <u>27,064,889</u> | <u>3,546,960</u> |
| Long-Term Liabilities | <u>\$ 195,783,471</u> | <u>\$ 11,802,457</u> | <u>\$ 6,405,309</u> | <u>\$ 201,180,619</u> | <u>\$ 10,756,794</u> |

The following is a summary of bonds and notes outstanding at June 30, 2021 and 2020:

| Description | Amount of Interest Rate (%) | Outstanding June 30, 2021 | Outstanding June 30, 2020 |
|--|-----------------------------------|------------------------------|------------------------------|
| Safe Drinking Water Bonds (CWFA FY2002) | 3.61% | \$ 167,557 | \$ 329,492 |
| Safe Drinking Water Bonds (CWFA FY2008) | 2.85% | 18,597,000 | 20,324,000 |
| Safe Drinking Water Bonds (CWFA FY2010) | .0410% to 3.14% | 5,361,250 | 5,806,250 |
| Safe Clean Water Bonds (CWFA FY2012) | .072% to 3.26% | 1,955,000 | 2,093,000 |
| Safe Clean Water Bonds (CWFA FY2013) | .019% - 2.53% | 2,919,000 | 3,109,000 |
| Safe Drinking Water Bonds (CWFA FY2013) | .022% - 2.63% | 18,596,000 | 19,699,000 |
| Safe Drinking Water Bonds (CWFA FY2013) | .022% - 3.01% | 5,960,000 | 6,311,000 |
| Safe Drinking Water Bonds (CWFA FY2015) | .022% - 3.01% | 24,676,000 | 26,035,000 |
| Safe Drinking Water Bonds (CWFA FY2017) | .022% to 1.95% | 14,109,095 | 14,840,095 |
| Safe Drinking Water Bonds (RIIB- FY2018) | 0.00% | 307,238 | 640,572 |
| Safe Drinking Water Bonds (CWFA FY2019) | .022% to 1.95% | 14,086,000 | 14,699,000 |
| Safe Drinking Water Bonds (CWFA FY2020) | 1.17% | 19,099,000 | |
| Safe Drinking Water Bonds (CWFA FY2021) | .070% to 2.09% | 21,000,000 | |
| Safe Drinking Water Bonds (RIIB- FY2020) | 0.00% | 609,744 | |
| East Smithfield Water District DWSRF Bonds Series 2009A (RIIB- FY2009 Bond) | 3.51% | 90,625 | 113,667 |
| East Smithfield Water District DWSRF Loan Series 2009A (RIIB- FY2009 Loan) | 3.00% | 90,000 | 100,000 |
| East Smithfield Water District DWSRF Bond Series 2014A (RIIB- FY2014 Bond) | 1.30% - 3.43% | <u>400,633</u> | <u>425,158</u> |
| Total | | <u>\$ 148,024,142</u> | <u>\$ 114,525,234</u> |

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

Scheduled principal maturities at June 30, 2021 of long-term debt are as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>ARRA / SRF Principal Forgiveness</u> | <u>Interest and Fees</u> | <u>Total</u> |
|--------------------|-----------------------|---|------------------------------|-----------------------|
| 2022 | \$ 8,579,596 | \$ (811,777) | \$ 3,034,247 | \$ 10,802,066 |
| 2023 | 9,276,123 | (822,620) | 3,091,256 | 11,544,759 |
| 2024 | 9,233,551 | (834,127) | 2,961,352 | 11,360,776 |
| 2025 | 9,326,004 | (846,463) | 2,207,707 | 10,687,248 |
| 2026 | 9,507,298 | (851,210) | 2,567,441 | 11,223,529 |
| 2027-2031 | 48,784,820 | (4,499,065) | 9,285,375 | 53,571,130 |
| 2032-2036 | 38,217,362 | (3,973,470) | 3,900,158 | 38,144,050 |
| 2037-2041 | 15,099,388 | (2,398,427) | 695,649 | 13,396,610 |
| Total | <u>\$ 148,024,142</u> | <u>\$ (15,037,159)</u> | <u>\$ 27,743,185</u> | <u>\$ 160,730,168</u> |

6. TRANSACTIONS WITH CITY OF PROVIDENCE, RHODE ISLAND

The City of Providence performs various services for the Water Supply Board including certain accounting, personnel and cash management services and working capital support. The total billing to the Water Supply Board for services performed amounted to \$839,167 for each of the years ended June 30, 2021 and 2020. This amount is established by the City, approved by the Water Supply Board and ultimately approved by the PUC. The Water Supply Board also provides services to various City funds and departments, the charges for which have been included as revenue in the accompanying financial statements. Included within the due to City of Providence General Fund balance on the statements of net position are the related balances due for the services described above. The balance also includes payments for pension and post-employment benefits. The total balance due to the City of Providence General Fund at June 30, 2021 and 2020 totaled \$560,560 and \$1,124,334, respectively.

7. LINE OF CREDIT

The Water Supply Board opened a line of credit with Century Bank of \$5,000,000 in 2013. This line of credit is used for infrastructure replacement and renewed annually per the agreement terms. The balance as of June 30, 2021 and 2020 was \$-0-.

8. COMMITMENTS AND CONTINGENCIES

Risk Management

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

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

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

Union Contract

The labor force of the Water Supply Board, with the exception of management, is covered by a union contract, which is effective for the period July 1, 2018 to June 30, 2022.

Lead Service Replacement Program

The Water Supply Board is committed to reducing lead at our customers' taps. The Water Supply Board is striving to meet the Environmental Protection Agency (EPA) goal of 0 parts per million (ppm) of lead. In order to achieve this goal, the Water Supply Board has implemented a four-pronged approach.

- Water Main Rehabilitation
- Distribution Water Main Flushing
- Corrosion Control
- Public Education and Outreach

Public Education and Outreach

Utilizing social media, our website and direct mailings, the Water Supply Board provides educational material to our customers on the hazards of lead in water and the steps they can take to minimize lead at their tap. In addition, the Water Supply Board offers free lead testing for customers within our retail area.

9. DEFINED BENEFIT PENSION PLANS

Substantially all employees of the Water Supply Board participate in the Employees' Retirement System of the City of Providence (ERS or the Plan), a defined-benefit, single-employer plan. Water Supply Board employees participating in the Plan are eligible to retire at age 55 if hired prior to July 1, 2004, at age 60 if hired between July 1, 2004 and June 30, 2009, at age 62 with 10 years of service if hired on or after July 1, 2009 or at any age after 25 years of service if hired prior to July 1, 1995, or at any age after 30 years of service if hired on or after July 1, 1995. The total retirement allowance is equal to an annuity, which is the actuarial equivalent of accumulated contributions at the time of retirement, plus a pension, which when added together either: 1) equals 1/40 of final compensation for each year of total service up to 20 years and 1/50 of final compensation for each year of service in excess of 20 years if hired prior to July 1, 1996; or 2) equals 1/50 of final compensation for each year of total service credited if hired on or after July 1, 1996. These benefit provisions and all other requirements are established by City ordinance. A separate financial statement is not issued for the Plan.

ERS is governed by an Employee Retirement Board provided by the Providence Home Rule Charter. The ERS consists of elected officials, management and employee representation and provides for establishing rules and regulations and is responsible for the administration and operation of the City employee retirement system. The Board has the discretion and authority to interpret the Plan and to determine the eligibility and benefits of participants and beneficiaries pursuant to the provisions of the Plan. On all such matters, the decision of a majority of the then members of the Board shall govern and be binding upon the employer, participants, and beneficiaries. Additional information about the plan can be obtained from the City of Providence's Finance Department at City Hall or at www.providenceri.gov/finance.

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The approximate membership of the ERS plan for the Water Supply Board consisted of the following at July 1, 2020, the date of the latest actuarial valuation:

| | |
|---|-------------------|
| Inactive plan members or beneficiaries currently receiving benefits | 132 |
| Active employees | <u>230</u> |
| Total | <u><u>362</u></u> |

The total pension liability was determined by an actuarial valuation as of July 1, 2020 and rolled forward to June 30, 2021, using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|--|
| Inflation | 3.00% |
| Salary increases | 3.00% per year, before reflecting increases due to longevity |
| Investment rate of return | 7.00%, net of pension plan investment expense, including inflation |

For the year ended June 30, 2021, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 27.0%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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

The long-term expected rate of return on Plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target allocation as of June 30, 2021 are summarized as follows:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|--|--------------------------|---|
| Domestic equity | 45.25 % | 6.15 % |
| International developed markets equity | 12.75 | 6.78 |
| Core fixed income | 26.00 | 1.11 |
| Hedge fund, GTAA, Risk parity | <u>16.00</u> | 3.19 |
| | <u><u>100.00 %</u></u> | |

**PROVIDENCE WATER SUPPLY BOARD
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Contributions

Class A members and police officers are required to contribute 8% of their salary to the Plan. Class B members, other than police officers, are required to contribute 9.5% of their salary to the Plan. Water Supply Board employees are Class A members. The Mayor and City Council contribute to the Plan at a rate of \$350 per year. Additionally, the City shall contribute from time to time amounts sufficient with the contributions of elected officials to provide the special pensions granted to them. The Water Supply Board’s contributions to the ERS for the year ended June 30, 2021 was \$4,262,000.

Investment Policy

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

Net Pension Liability

The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Net pension liability is allocated to the Water Supply Board based on a proportion of covered payroll.

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

| | <u>June 30, 2021</u> | <u>June 30, 2020</u> |
|---|----------------------|----------------------|
| Total pension liability | \$ 82,681,060 | \$ 80,502,639 |
| Plan fiduciary net position | <u>24,597,125</u> | <u>20,912,143</u> |
| Net Pension Liability | <u>\$ 58,083,935</u> | <u>\$ 59,590,496</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 29.75% | 25.98% |

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Changes in the Net Pension Liability for the Water Supply Board

| | Increase (Decrease) | | |
|--|------------------------------------|--|----------------------------------|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
| | (a) | (b) | (a)-(b) |
| Balances as of July 1, 2020 | \$ 80,502,639 | \$ 20,912,143 | \$ 59,590,496 |
| Changes for the year: | | | |
| Service cost | 1,166,900 | | 1,166,900 |
| Interest on total pension liability | 5,266,382 | | 5,266,382 |
| Differences between expected and actual experience | 814,236 | | 814,236 |
| Employer contributions | | 4,262,000 | (4,262,000) |
| Member contributions | | 634,891 | (634,891) |
| Net investment income | | 3,893,207 | (3,893,207) |
| Benefit payments, including refund to employee contributions | (5,069,097) | (5,095,301) | 26,204 |
| Administrative expenses | | (9,815) | 9,815 |
| Net changes | <u>2,178,421</u> | <u>3,684,982</u> | <u>(1,506,561)</u> |
| Balances as of June 30, 2021 | <u>\$ 82,681,060</u> | <u>\$ 24,597,125</u> | <u>\$ 58,083,935</u> |

| | Increase (Decrease) | | |
|--|------------------------------------|--|----------------------------------|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
| | (a) | (b) | (a)-(b) |
| Balances as of July 1, 2019 | \$ 70,014,956 | \$ 18,050,242 | \$ 51,964,714 |
| Changes for the year: | | | |
| Service cost | 995,246 | | 995,246 |
| Interest on total pension liability | 5,175,617 | | 5,175,617 |
| Differences between expected and actual experience | (494,321) | | (494,321) |
| Changes in assumptions | 9,569,894 | | 9,569,894 |
| Employer contributions | | 4,083,000 | (4,083,000) |
| Member contributions | | 604,613 | (604,613) |
| Net investment income | | (233,787) | 233,787 |
| Benefit payments, including refund to employee contributions | (4,758,753) | (1,582,761) | (3,175,992) |
| Administrative expenses | | (9,164) | 9,164 |
| Net changes | <u>10,487,683</u> | <u>2,861,901</u> | <u>7,625,782</u> |
| Balances as of June 30, 2020 | <u>\$ 80,502,639</u> | <u>\$ 20,912,143</u> | <u>\$ 59,590,496</u> |

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Additional information as of the latest actuarial valuation follows:

| | |
|-------------------------------|---|
| Valuation Date | July 1, 2019 |
| Actuarial cost method | Entry age normal cost method |
| Amortization cost method | Level dollar for the 1995 deferral liability and increasing 3.5% per year for the remaining unfunded liability. |
| Remaining amortization period | Market value of assets as represented by the City less unrecognized returns in each of the last five years plus the discounted contribution paid by the city in the following year. Unrecognized return is equal to the difference between the actual market return and the expected market return and is recognized over a five-year period, further adjusted, if necessary, to be within 20% of the market value. |
| Actuarial assumptions: | |
| Investment rate of return | 7.00%, net of pension plan investment and administrative expenses, including inflation. |
| Inflation rate | 3.00% |
| Projected salary increases | 3.00% per year before reflecting increases due to longevity compensation. |
| Cost of living adjustments | COLAs commence on January 1, 2023, except for participants identified by the City who opted out of the Consent Judgements agreed to by the City. For these participants, COLAs will commence on January 1, 2037, when the Plan was projected to be greater than 70% funded with the prior valuation. Any Class B retired participant whose total benefit is greater than the base of compensation of a current employee holding the same rank that the retiree held at the time of retirement will not receive a COLA in any year until this is no longer true. We have assumed that Class B average compensation for all ranks will increase by 3.0% per year. Future COLAs will not exceed 3% per year. |

Mortality rates were based on the following:

Pre-Retirement

- Class A Healthy: Pub-2010 General Employee Amount-Weighted Mortality Tables projected generationally using Scale MP-2019.
- Class B Health: Pub-2010 Safety Employee Amount-Weighted Mortality Tables projected generationally using Scale MP-2019.

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Post Retirement

- Class A Healthy Retiree: Pub-2010 General Healthy Retiree Amount-Weighted Mortality Tables projected generationally using Scale MP-2019.
- Class B Health Retiree: Pub-2010 Safety Healthy Retiree Amount-Weighted Mortality Tables projected generationally using Scale MP-2019.
- Class A Beneficiary: Pub-2010 General Contingent Survivor Amount-Weighted Mortality Tables projected generationally using Scale MP-2019.
- Class B Beneficiary: Pub-2010 Safety Contingent Survivor Amount-Weighted Mortality Tables projected generationally using Scale MP-2019.
- Class A Disabled Retiree: Pub-2010 Non-Safety Disabled Retiree Amount-Weighted Mortality Tables projected generationally using Scale MP-2019.
- Class B Disabled Retiree: Pub-2010 Safety Disabled Retiree Amount-Weighted Mortality Tables projected generationally using Scale MP-2019.

Discount Rate

The discount rate used to measure the total pension liability at June 30, 2021 and 2020 was 7.00% and 8.00%, respectively. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that the City of Providence’s contributions will be made at the actuarially determined contribution rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate.

The following presents the net pension liability of the Retirement System, calculated using the discount rate of 7.00%, as well as what the System’s net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.00%) or 1 percentage point higher (8.00%) than the current rate at June 30, 2021:

| | 1% Decrease (6.00%) | Current Discount Rate (7.00%) | 1% Increase (8.00%) |
|-----------------------|--------------------------------|--|--------------------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| Net Pension Liability | \$ 68,011,828 | \$ 58,083,935 | \$ 49,922,279 |

**PROVIDENCE WATER SUPPLY BOARD
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The following presents the net pension liability of the Retirement System, calculated using the discount rate of 7.00%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.00%) or 1 percentage point higher (8.00%) than the current rate at June 30, 2020:

| | <u>1% Decrease (6.00%)</u> | <u>Current Discount Rate (7.00%)</u> | <u>1% Increase (8.00%)</u> |
|-----------------------|--------------------------------|--|--------------------------------|
| Net Pension Liability | \$ 69,013,697 | \$ 59,590,496 | \$ 51,819,462 |

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

For the years ended June 30, 2021 and 2020, the Water Supply Board recognized pension expense of \$6,144,582 and \$7,474,913, respectively.

At June 30, 2021, the Water Supply Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual experience | \$ 705,504 | \$ 247,273 |
| Changes of assumptions | 4,787,113 | |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 121,002 | 1,617,059 |
| Net difference between projected and actual earning on pension plan investments | | 1,023,827 |
| | <u>\$ 5,613,619</u> | <u>\$ 2,888,159</u> |

At June 30, 2020, the Water Supply Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual experience | \$ 278,030 | \$ 370,639 |
| Changes of assumptions | 7,177,421 | |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 155,535 | 2,629,741 |
| Net difference between projected and actual earning on pension plan investments | 1,503,295 | |
| | <u>\$ 9,114,281</u> | <u>\$ 3,000,380</u> |

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

Year Ending June 30

| | |
|------|---------------------|
| 2022 | \$ 1,658,511 |
| 2023 | 1,653,607 |
| 2024 | (44,486) |
| 2025 | <u>(542,172)</u> |
| | <u>\$ 2,725,460</u> |

Payable to the Plan

At June 30, 2021, the Water Supply Board had made full payment of the required pension contribution for the year ended June 30, 2021.

10. POST EMPLOYMENT BENEFITS

The following disclosure presents information regarding the City's Post-Employment Medical Benefit Plan with certain information being specific to Providence Water Supply Board's financial statements.

Plan Description

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

OPEB Funding Policy

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

The following is a current census of the City benefit participants as of July 1, 2020:

| | |
|----------------|---------------------|
| Active members | 4,514 |
| Retirees | <u>5,393</u> |
| Total | <u><u>9,907</u></u> |

**PROVIDENCE WATER SUPPLY BOARD
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Total OPEB Liability

For the years ended June 30, 2021 and 2020, the Water Supply Board recognized OPEB liability of \$28,681,887 and \$27,064,889, respectively. The City has not accumulated any assets in a fiduciary trust for payment of benefits.

Actuarial Assumptions and Other Inputs

The total OPEB liability at June 30, 2020 was measured by an actuarial valuation as of June 30, 2020 using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

| | |
|-------------------------|--|
| Inflation | 3.50% |
| Salary increases | 3.50% per year before reflecting longevity. Longevity compensation varies from 3.0% to 11.0% based on years of service, date of hire and Class |
| Health care trend rates | <p>Non-Medicare medical: 7.0% decreasing by 0.25% for 10 years to an ultimate level of 4.5% per year</p> <p>Medicare medical: 6.0% decreasing by 0.25% for 6 years to an ultimate level of 4.5% per year</p> <p>Prescription drug: 9.0% decreasing by 0.25% for 18 years to an ultimate level of 4.5% per year</p> <p>Part B: 4.5%</p> <p>Administrative: 3.0%</p> |
| Mortality rates | <p><u>Pre-Retirement</u></p> <p>Class A Heathy: Pub-2010 General Employee Headcount-Weighted Mortality Tables projected generationally with Scale MP-2019</p> <p>Class B Heathy: Pub-2010 Safety Employee Headcount-Weighted Mortality Tables projected generationally with Scale MP-2019</p> <p>Teachers: Pub-2010 Teacher Employee Headcount-Weighted Mortality Tables projected generationally with Scale MP-2019</p> <p><u>Post-Retirement</u></p> <p>Class A Heathy: Pub-2010 General Healthy Retiree Headcount-Weighted Mortality Tables projected generationally with Scale MP-2019</p> <p>Class B Heathy: Pub-2010 Safety Healthy Retiree Headcount-Weighted Mortality Tables projected generationally with Scale MP-2019</p> <p>Teachers Healthy: Pub-2010 Teacher Healthy Retiree Headcount-Weighted Mortality Tables projected generationally with Scale MP-2019</p> <p>Class A Beneficiaries: Pub-2010 General Contingent Survivor Retiree Headcount-Weighted Mortality Tables projected generationally with Scale MP-2019</p> |

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Class B Beneficiaries: Pub-2010 Safety Contingent Survivor Retiree
 Headcount-Weighted Mortality Tables projected generationally with Scale
 MP-2019

Teachers Beneficiaries: Pub-2010 Teacher Contingent Survivor Retiree
 Headcount-Weighted Mortality Tables projected generationally with Scale
 MP-2019

Class A Disabled Retirees: Pub-2010 Non-Safety Disabled Retirees
 Headcount-Weighted Mortality Tables projected generationally with Scale
 MP-2019

Class B Disabled Retirees: Pub-2010 Safety Disabled Retirees Headcount-
 Weighted Mortality Tables projected generationally with Scale MP-2019

Teachers Disabled Retirees: Pub-2010 Non-Safety Disabled Retirees
 Headcount-Weighted Mortality Tables projected generationally with Scale
 MP-2019

Changes in the Total OPEB Liability for the Water Supply Board

| | Total OPEB Liability |
|--|---------------------------------|
| Balances as of July 1, 2020 | \$ <u>27,064,889</u> |
| Changes for the year: | |
| Service cost | 558,459 |
| Interest on total OPEB liability | 842,300 |
| Changes in assumptions | 4,504,506 |
| Differences between expected and actual experience | (200,612) |
| Change from difference in proportionate share | (3,408,861) |
| Benefit payments | <u>(678,794)</u> |
| Net changes | <u>1,616,998</u> |
| Balances as of June 30, 2021 | \$ <u><u>28,681,887</u></u> |

Changes of assumptions reflect the following:

- The discount rate was lowered from 3.50% as of June 30, 2019 to 2.21% as of June 30, 2020.
- The per capita health care costs, and the associated trends on the costs and contributions, were updated to reflect current experience and future expectations.

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| | <u>Total OPEB Liability</u> |
|--|--|
| Balances as of July 1, 2019 | \$ <u>23,457,889</u> |
| Changes for the year: | |
| Service cost | 575,778 |
| Interest on total OPEB liability | 916,055 |
| Changes in assumptions | 442,418 |
| Differences between expected and actual experience | 695,648 |
| Change from difference in proportionate share | 1,239,364 |
| Benefit payments | <u>(262,263)</u> |
| Net changes | <u>3,607,000</u> |
| Balances as of June 30, 2020 | \$ <u><u>27,064,889</u></u> |

Changes of assumptions reflect the following:

- The mortality, disability, withdrawal, and retirement assumptions for Class A and the mortality assumptions for Class B were updated to be consistent with The Employee Retirement System of the City of Providence Actuarial Experience Review for July 1, 2015 through June 30, 2018, dated December 14, 2020, completed by Segal.
- The disability, withdrawal, and retirement assumptions for teachers were updated to be consistent with the Employees' Retirement System of Rhode Island Actuarial Experience Investigation as of June 30, 2019, dated May 6, 2020 completed by Gabriel, Roeder Smith & Company.
- The mortality assumptions for teachers were updated to the Pub-2010 Teacher Headcount-Weighted mortality tables released by the Society of Actuaries in 2019.
- The discount rate was lowered from 3.87% as of June 30, 2018 to 3.50% as of June 30, 2019.
- The impact of the excise tax on high cost health plans (part of the Patient Protection and Affordable Care Act) was removed as the tax was repealed effective December 20, 2019.

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Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Water Supply Board, as well as what the Water Supply Board's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.21%) or 1 percentage point higher (3.21%) than the current discount rate (2.21%) at June 30, 2021:

| | <u>1% Decrease</u> <u>1.21%</u> | <u>Current Discount Rate</u> <u>2.21%</u> | <u>1% Increase</u> <u>3.21%</u> |
|----------------------|------------------------------------|--|------------------------------------|
| Total OPEB Liability | \$ 34,776,888 | \$ 28,681,887 | \$ 24,022,923 |

The following presents the total OPEB liability of the Water Supply Board, as well as what the Water Supply Board's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.87%) or 1 percentage point higher (4.87%) than the current discount rate (3.87%) at June 30, 2020:

| | <u>1% Decrease</u> <u>2.87%</u> | <u>Current Discount Rate</u> <u>3.87%</u> | <u>1% Increase</u> <u>4.87%</u> |
|----------------------|------------------------------------|--|------------------------------------|
| Total OPEB Liability | \$ 27,882,234 | \$ 27,064,889 | \$ 20,663,968 |

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the Water Supply Board, as well as what the Water Supply Board's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates at June 30, 2021:

| | <u>1% Decrease</u> | <u>Healthcare Cost Trend Rate</u> | <u>1% Increase</u> |
|----------------------|--------------------|-----------------------------------|--------------------|
| Total OPEB Liability | \$ 23,588,397 | \$ 28,681,887 | \$ 35,429,223 |

The following presents the total OPEB liability of the Water Supply Board, as well as what the Water Supply Board's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates at June 30, 2020:

| | <u>1% Decrease</u> | <u>Healthcare Cost Trend Rate</u> | <u>1% Increase</u> |
|----------------------|--------------------|-----------------------------------|--------------------|
| Total OPEB Liability | \$ 20,276,042 | \$ 27,064,889 | \$ 28,421,281 |

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OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2021, the City recognized OPEB expense of \$80,520,837 and the Water Supply Board recognized OPEB expense of \$2,039,587. At June 30, 2021, the Water Supply Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflow of Resources | Deferred Inflow of Resources |
|--|--|---|
| | <u> </u> | <u> </u> |
| Differences between expected and actual experience | \$ 518,346 | \$ 166,091 |
| Changes of assumptions | 4,080,999 | 1,933,087 |
| Changes in proportion and differences between employer contributions and proportionate share contributions | 888,335 | 412,456 |
| Contributions subsequent to measurement date | <u>678,794</u> | <u> </u> |
| Total | <u>\$ 6,166,474</u> | <u>\$ 2,511,634</u> |

For the year ended June 30, 2020, the City recognized OPEB expense of \$48,429,956 and the Water Supply Board recognized OPEB expense of \$1,029,131. At June 30, 2020, the Water Supply Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflow of Resources | Deferred Inflow of Resources |
|--|--|---|
| | <u> </u> | <u> </u> |
| Change of assumptions | \$ 1,669,277 | \$ 2,775,701 |
| Contributions subsequent to measurement date | <u>674,375</u> | <u> </u> |
| Total | <u>\$ 2,343,652</u> | <u>\$ 2,775,701</u> |

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

Year Ending June 30

| | | |
|------|----|-------------------------|
| 2022 | \$ | 473,249 |
| 2023 | | 559,320 |
| 2024 | | 651,316 |
| 2025 | | 638,478 |
| 2026 | | <u>653,683</u> |
| | \$ | <u><u>2,976,046</u></u> |

11. CASH FLOWS

Annexation

During 2021, the annexation of the Town of Johnston, Rhode Island’s Water Fund added \$13,687,727 of capital assets to the Water Supply Board in a noncash transaction.

12. PRIOR PERIOD ADJUSTMENTS AND RESTATEMENTS

The Water Supply Board previously did not properly report deferred outflows of resources related to the OPEB plan for contributions received subsequent to the measurement date.

| | 6/30/2020 Previously Reported | Correction | 6/30/2020 As Restated |
|---|-------------------------------------|------------|-----------------------------|
| Statements of Net Position | | | |
| Deferred outflows of resources related to OPEB | \$ 1,669,277 | \$ 674,375 | \$ 2,343,652 |
| Net position | 291,480,494 | 674,375 | 292,154,869 |
| Statements of Revenues, Expenses and Changes in Net Position | | | |
| Administrative and general | 21,211,080 | 26,633 | 21,237,713 |
| Change in net position | 5,803,016 | (26,633) | 5,776,383 |
| Beginning net position | 285,677,478 | 701,008 | 286,378,486 |

PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LAST SEVEN FISCAL YEARS*

| | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Total pension liability: | | | | | | | |
| Service cost | \$ 1,166,900 | \$ 995,246 | \$ 979,926 | \$ 980,977 | \$ 1,017,119 | \$ 941,053 | \$ 854,182 |
| Interest | 5,266,382 | 5,175,617 | 5,396,418 | 5,258,402 | 5,172,289 | 5,130,041 | 5,509,989 |
| Differences between expected and actual experience | 814,236 | (494,321) | 107,440 | 288,353 | 579,761 | (223,279) | 79,253 |
| Change from difference in proportionate share | | | | (478,117) | (1,181,115) | 3,875,236 | |
| Changes of assumptions | | 9,569,894 | | | | 3,083,805 | 40,391 |
| Benefit payments, including refunds of member contributions | (5,069,097) | (4,758,753) | (5,156,388) | (5,178,444) | (5,178,542) | (5,531,918) | (4,663,093) |
| Net change in total pension liability | 2,178,421 | 10,487,683 | 1,327,396 | 871,171 | 409,512 | 7,274,938 | 1,820,722 |
| Total pension liability - beginning | 80,502,639 | 70,014,956 | 68,687,560 | 67,816,389 | 67,406,877 | 60,131,939 | 58,311,217 |
| Total pension liability - ending | <u>82,681,060</u> | <u>80,502,639</u> | <u>70,014,956</u> | <u>68,687,560</u> | <u>67,816,389</u> | <u>67,406,877</u> | <u>60,131,939</u> |
| Plan fiduciary net position: | | | | | | | |
| Contributions - employer | 4,262,000 | 4,083,000 | 4,180,000 | 3,828,000 | 3,636,754 | 3,615,102 | 3,212,354 |
| Contributions - member | 634,891 | 604,613 | 634,544 | 610,831 | 573,624 | 615,760 | 1,037,505 |
| Net investment income | 3,893,207 | (233,787) | 764,455 | 1,198,417 | 1,752,168 | 401,320 | 331,724 |
| Change from difference in proportionate share | | | | (54,698) | (298,595) | 1,086,733 | |
| Benefit payments, including refunds of member contributions | (5,095,301) | (1,582,761) | (5,426,927) | (5,178,444) | (5,178,542) | (5,531,918) | (4,663,093) |
| Administrative expense | (9,815) | (9,164) | (8,608) | (11,173) | (12,559) | (9,408) | (9,367) |
| Net change in plan fiduciary net position | 3,684,982 | 2,861,901 | 143,464 | 392,933 | 472,850 | 177,589 | (90,877) |
| Plan fiduciary net position - beginning | 20,912,143 | 18,050,242 | 17,906,778 | 17,513,845 | 17,040,995 | 16,863,406 | 16,954,283 |
| Plan fiduciary net position - ending | <u>24,597,125</u> | <u>20,912,143</u> | <u>18,050,242</u> | <u>17,906,778</u> | <u>17,513,845</u> | <u>17,040,995</u> | <u>16,863,406</u> |
| Net Pension Liability - Ending | <u>\$ 58,083,935</u> | <u>\$ 59,590,496</u> | <u>\$ 51,964,714</u> | <u>\$ 50,780,782</u> | <u>\$ 50,302,544</u> | <u>\$ 50,365,882</u> | <u>\$ 43,268,533</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 29.75% | 25.98% | 25.78% | 26.07% | 25.83% | 25.28% | 28.04% |
| Covered payroll | \$ 14,236,747 | \$ 13,591,633 | \$ 13,580,693 | \$ 13,790,686 | \$ 12,980,186 | \$ 13,096,208 | \$ 12,930,447 |
| Net pension liability as a percentage of covered payroll | 407.99% | 438.44% | 382.64% | 368.23% | 387.53% | 384.58% | 334.63% |

***Notes:**

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

PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
SCHEDULE OF EMPLOYER CONTRIBUTIONS
LAST SEVEN FISCAL YEARS*

| | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Actuarially determined contribution | \$ 4,262,000 | \$ 4,083,000 | \$ 4,180,000 | \$ 3,828,000 | \$ 3,636,754 | \$ 3,615,102 | \$ 3,212,354 |
| Contributions in relation to the actuarially determined contribution | <u>4,262,000</u> | <u>4,083,000</u> | <u>4,180,000</u> | <u>3,828,000</u> | <u>3,636,754</u> | <u>3,615,102</u> | <u>3,212,354</u> |
| Contribution deficiency (excess) | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> |
| Covered payroll | \$ 14,236,747 | \$ 13,591,633 | \$ 13,580,693 | \$ 13,790,686 | \$ 12,980,186 | \$ 13,096,208 | \$ 12,930,447 |
| Contributions as a percentage of covered payroll | 29.94% | 30.04% | 30.78% | 27.76% | 28.02% | 27.60% | 24.84% |

Notes to Schedule

Valuation date: July 1, 2020

Measurement date: June 30, 2021

Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

| | |
|-------------------------------|---|
| Actuarial cost method | Entry age method |
| Amortization method | Level dollar for the 1995 deferral liability and increasing 3.5% per year for the remaining unfunded liability. |
| Remaining amortization period | 20 years remaining as of July 1, 2020 (12 years remaining as of July 1, 2020 for the 1995 deferral). |
| Asset valuation method | Market value of assets as represented by the City less unrecognized returns in each of the last five years plus the discounted contribution paid by the city in the following year. Unrecognized return is equal to the difference between the actual market return and the expected market return and is recognized over a five-year period, further adjusted, if necessary, to be within 20% of the market value. |
| Inflation | 3.50% |
| Salary increases | 3.50% per year before reflecting increases due to longevity compensation |
| Discount rate | 7.00% |
| Investment rate of return | 8.00%, net of pension plan investment and administrative expenses, including inflation. |
| Benefit changes | There have been no changes in benefit provisions since GASB 67/68 implementation. |
| Cost of living adjustments | COLAs commence on January 1, 2023, except for participants identified by the City who opted out of the Consent Judgements agreed to by the City. For these participants, COLAs will commence on January 1, 2036, when the Plan was projected to be greater than 70% funded with the prior valuation. Any Class B retired participant whose total benefit is greater than the base of compensation of a current employee holding the same rank that the retiree held at the time of retirement will not receive a COLA in any year until this is no longer true. We have assumed that Class B average compensation for all ranks will increase by 3.5% per year. Future COLAs will not exceed 3% per year. |

*Note - This schedule is intended to show information for 10 years - additional years will be displayed as they become available.

**PROVIDENCE WATER SUPPLY BOARD
 (AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
 SCHEDULE OF INVESTMENT RETURNS
 LAST SEVEN FISCAL YEARS***

| | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Annual money-weighted rate of return, net of investment expense | 27.00% | -2.00% | 4.50% | 7.30% | 12.20% | 2.60% | 5.56% |

***Notes:**

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

PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
LAST THREE FISCAL YEARS*

| | <u>2021</u> | <u>2020</u> | <u>2019</u> |
|--|----------------------|----------------------|----------------------|
| Total OPEB liability: | | | |
| Service cost | \$ 558,459 | \$ 575,778 | \$ 575,778 |
| Interest on the total OPEB liability | 842,300 | 916,055 | 916,055 |
| Changes of assumptions | 4,504,506 | 442,418 | 442,418 |
| Differences between expected and actual experience | (200,612) | 695,648 | 695,648 |
| Change from difference in proportionate share | (3,408,861) | 1,239,364 | 1,239,364 |
| Benefit payments | <u>(678,794)</u> | <u>(262,263)</u> | <u>(262,263)</u> |
| Net change in total OPEB liability | 1,616,998 | 3,607,000 | 3,607,000 |
| Total OPEB liability - beginning | <u>27,064,889</u> | <u>23,457,889</u> | <u>23,457,889</u> |
| | | | |
| Total OPEB Liability - Ending | <u>\$ 28,681,887</u> | <u>\$ 27,064,889</u> | <u>\$ 27,064,889</u> |

The City does not have any assets accumulated in a trust for payment of OPEB expenses.

***Note** - This schedule is intended to show information for 10 years - additional years will be displayed

***Note** - Measurement date of the total OPEB liability is one year prior to report date



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Providence Water Supply Board (the Water Supply Board), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Water Supply Board's basic financial statements, and have issued our report thereon dated March 16, 2022.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2021-001 that we consider to be material weaknesses.

Compliance and Other Matters

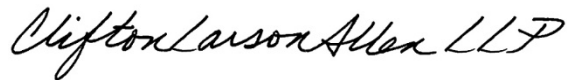
As part of obtaining reasonable assurance about whether the Water Supply Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and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

City of Providence, Rhode Island's Response to Findings

City of Providence, Rhode Island's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Providence, Rhode Island's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



CliftonLarsonAllen LLP

Cranston, Rhode Island
March 16, 2022

**PROVIDENCE WATER SUPPLY BOARD
(AN ENTERPRISE FUND OF THE CITY OF PROVIDENCE, RHODE ISLAND)
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2021**

| | |
|--|--|
| Finding 2021-001 | Material Weakness in Internal Control over Financial Reporting |
| Condition | Management identified and corrected an error related to an understatement of deferred outflows of resources and understatement of net position as of June 30, 2020 and June 30, 2019 applicable to OPEB contributions made subsequent to the measurement date. |
| Criteria or specific requirement | Management is responsible for the design and implementation of internal controls. Internal controls should be in place to provide reasonable assurance that the financial statements are prepared in accordance with U.S. GAAP. |
| Effect | The identified errors required the restatement of the beginning net position reported for the Water Supply Board. |
| Cause | Internal controls were not in place to ensure balances reported in the prior year financial statements were properly supported and reported in accordance with U.S. GAAP. |
| Recommendation | We recommend management evaluate the current financial reporting processes and controls to ensure that controls are in place to present the external financial statements in accordance with U.S. GAAP. |
| Description of Finding | Management identified and corrected an error related to an understatement of deferred outflows of resources and understatement of net position as of June 30, 2020 and 2019 applicable to OPEB contributions made subsequent to the measurement date. |
| Statement of Concurrence or Non-Concurrence | Management concurs with the finding. |
| City Response | Management was made aware of this reporting deficiency, agreed with the finding and has restated the net position to include deferred outflows of resources. The error is corrected as of the beginning for fiscal year ending June 30, 2021. |

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