

**KENT COUNTY WATER AUTHORITY  
WARWICK, RHODE ISLAND**

**ANNUAL FINANCIAL STATEMENTS**

*YEAR ENDED JUNE 30, 2015*

**KENT COUNTY WATER DEPARTMENT  
WARWICK, RHODE ISLAND**

June 30, 2015

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*Committed to Excellence*



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## *Independent Auditor's Report*

Board of Directors  
Kent County Water Authority  
West Warwick, Rhode Island

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Kent County Water Authority ("the Authority"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprises the Authority's basic financial statements as listed in the table of contents. The financial statements of the Authority as of June 30, 2014 were audited by other auditors whose report dated December 2, 2014, expressed an unqualified opinion on those statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the Rhode Island Public Utilities Commission (RIPUC). Management is also responsible for 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 opinion.

### **Opinion**

In our opinion, the June 30, 2015 financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the RIPUC.

*Continued*

## **Basis of Accounting**

The financial statements are prepared on the basis of the financial reporting provisions of RIPUC, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of RIPUC. Our opinion is not modified with respect to this matter.

## **Emphasis of Matter**

As discussed in Note 2 to the financial statements, in 2015, the Authority adopted new accounting guidance, *GASB No. 67, Financial Reporting for Pension Plans* and *GASB No. 68, Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and Pension Plan information, as listed on 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 September 3, 2015 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

### **Restriction on Use**

This report is intended solely for the information and use of management, Board of Directors, others within the Kent County Water Authority and the RIPUC and is not intended to be and should not be used by anyone other than these specified parties.

*Hague, Sabady & Co. PC*

Fall River, Massachusetts  
September 3, 2015



# KENT COUNTY WATER AUTHORITY

## Management's Discussion and Analysis (MD&A)

Year Ended June 30, 2015

Our discussion and analysis of the Kent County Water Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2015. It should be read in conjunction with basic financial statements.

The Kent County Water Authority (the Authority) is a public benefit corporation created pursuant to an existing under Chapter 1740 of the Public Laws of 1946, at Chapter 16 of Title 39 of the Rhode Island General Laws (1956), as amended, and is subject to the supervisory and regulatory powers of the State Public Utilities Commission (PUC).

The Authority provides water supply services through metered sales in the communities of Coventry, Warwick, West Warwick, East Greenwich, West Greenwich, and in smaller sections of Cranston, Scituate, and North Kingstown. The Authority is responsible for operating and maintaining the water supply system.

### FINANCIAL STATEMENTS

Our discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements, which consist of the financial statements and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

The financial statements report information about the Authority based upon an accrual accounting method similar to those used by private sector companies. The financial statements include a Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; Statement of Cash Flows; and Notes to the Financial Statements.

The Statement of Net Position presents the financial position of the Authority on the accrual basis of accounting, with the exception of fine assessments and monitoring fees that are recorded on a cash basis. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

All the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its user fees and other charges.

The final required financial statement is the Statement of Cash Flows. The purpose of this statement is to provide information about the changes in cash and cash equivalents, resulting from operating, capital and related financing, noncapital financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of assets.

The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the statements. The notes to the financial statements can be found on pages 14-30 of this report.

*Continued*





## **KENT COUNTY WATER AUTHORITY**

### **Management's Discussion and Analysis (MD&A)**

Year Ended June 30, 2015

#### **FINANCIAL HIGHLIGHTS**

The Authority's financial condition is strong and the Authority's performance for the current year exceeded the budget. The following are the key financial highlights:

- User fees were under budget by roughly \$415 thousand although they were \$355 thousand higher than the prior year.
- The Authority spent nearly \$1 million more on purchase of water than budgeted.
- The Authority spent roughly \$160 thousand less than budgeted on chemicals in the current year.

#### **FINANCIAL ANALYSIS**

##### **NET POSITION**

Net position over time may serve as a useful indicator of a government's financial position. In the case of the Authority, assets plus deferred outflows of resources exceeded liabilities plus deferred inflows of resources by \$141,278,996 as of June 30, 2015. This represents an increase in total net position of \$6,728,295 or 5.00% from FY 2014 and demonstrates that the financial position of the Authority is improving.

The operations of the Authority are accounted for on a Proprietary Fund Type (Enterprise Fund) basis. The Authority operates in a manner similar to private business enterprises where the costs of providing goods or services to the general public, support of a Capital Improvement Program, and funding of an Infrastructure Replacement Program are financed or recovered through user charges approved by the PUC.

Condensed financial information from the statements of net position and operations is presented below. The statement of net position provides information on the assets and liabilities of the Authority, with net position reported as the difference between assets and liabilities. The statement of operations of the Authority reflects all revenues earned and all expenses incurred for each fiscal year:

*Continued*



# KENT COUNTY WATER AUTHORITY

## Management's Discussion and Analysis (MD&A)

Year Ended June 30, 2015

### Condensed Statement of Net Position

	2015	2014
Current assets	\$ 6,824,247	\$ 7,830,899
Other noncurrent assets	19,205,696	17,991,046
Capital assets, net	137,597,235	134,302,565
Total assets	163,627,178	160,124,510
Deferred inflows of resources		
NPL - assumption changes*	68,485	-
NPL - investment experience*	178,102	-
Total deferred inflows of resources	246,587	-
Current liabilities	3,661,201	6,543,925
Noncurrent liabilities	17,076,073	17,123,646
Total liabilities	20,737,274	23,667,571
Deferred inflows of resources		
Gain (loss) on refunding	1,670,415	1,906,238
NPL - liability experience*	187,080	-
Total deferred inflows of resources	1,857,495	1,906,238
Net position:		
Net investment in capital assets	124,615,042	123,258,736
Restricted for debt service	1,954,000	4,194,000
Restricted for infrastructure replacement	7,287,048	6,277,494
Unrestricted net position	7,422,906	820,471
Total net position	\$ 141,278,996	\$ 134,550,701

\* As this is the first year for GASB68 disclosure, net pension liability deferred outflows and inflows could only be provided for 2015.

There is also a significant increase in capital assets (net) of \$3,294,670 from FY 2014 to FY 2015. This increase is the result of substantial progress that the Authority made in FY 2015 on the initiatives identified in the Capital Improvement Program (CIP).

In 2015, the current liabilities decreased by \$1,934,045. This is the result of an increase in the current portion of the long-term loans payable as well as accrued liabilities.

The largest portion of the Authority's net position, 88%, reflects its net investment in capital assets. The Authority uses these capital assets to provide water treatment and collection services to its customers. Consequently, only the unrestricted net assets are available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

*Continued*



# KENT COUNTY WATER AUTHORITY

## Management's Discussion and Analysis (MD&A)

Year Ended June 30, 2015

### CHANGES IN NET POSITION

The Authority's ended the FY 2015 with an increase in net position of \$6,728,295. The Authority has included a Condensed Statement of Revenues, Expenses and Changes in Net Position as follows.

### Condensed Statement of Revenues, Expenses and Changes in Net Position

	2015	2014
Operating revenues:		
Water	\$ 18,125,293	\$ 17,743,307
Hydrant fees	1,309,184	1,306,816
Other	255,690	385,883
Total operating revenue	<u>19,690,167</u>	<u>19,436,006</u>
Operating expenses:		
Source of supply	4,999,638	4,254,854
Pumping	812,335	686,839
Transmission and distribution	1,164,782	1,096,973
Water treatment	310,572	448,504
Customer accounting	413,059	368,239
Administrative and general	3,140,852	3,126,241
Depreciation	2,159,019	1,935,848
Taxes other than income	177,540	167,504
Total operating expenses	<u>13,177,797</u>	<u>12,085,002</u>
Operating income	<u>6,512,370</u>	<u>7,351,004</u>
Nonoperating income (expense):		
Capital contributions	215,505	846,405
Interest income (expense)	420	(253,434)
Arbitrage rebate provision	-	-
Other	-	-
Net non-operating income (expense)	<u>215,925</u>	<u>592,971</u>
Increase in net position	6,728,295	7,943,975
Net position at beginning of year	<u>134,550,701</u>	<u>126,606,726</u>
Net position at end of year	<u>\$ 141,278,996</u>	<u>\$ 134,550,701</u>

Continued



## KENT COUNTY WATER AUTHORITY

### Management's Discussion and Analysis (MD&A)

Year Ended June 30, 2015

The table above reflects an decrease in current assets of \$1,006,652 from FY 2014 to FY 2015. This decrease reflects an decrease in cash and cash equivalents as well as a decrease in cash restricted for current portion of long-term debt.

In FY15, the Authority's net position totaled \$141.3 million, an increase of \$6.7 million or 5.00% from the previous year. Total assets in FY15 were \$163.6 million, an increase of \$3.5 million or 2.19% from the previous year. Total liabilities decreased by \$2.9 million or 12.38% as a result of debt service payments.

The Authority's major capital expenditures included Capital Improvement Projects (funded by revenue bonds) and Infrastructure Projects (funded by water rates).

#### REVENUES

User fees are the Authority's primary source of revenue, representing approximately 92.05% of total operating revenues. Fiscal Year 2015 user fee revenue was \$18,125,293 which is \$381,986 more than the prior year. The increase in user fees is the combined effect of a 2.00% pass through rate increase effective July 1, 2013. These PUC approved rate increases applied to both consumption and flat fees. FY 2015 other operating revenue decreased by \$130,193.

The operating income for FY14 totaled \$6.5 million, representing a decrease of 12.22% from the previous year. This decrease is a result of the changes discussed above.

#### EXPENSES

Total operating expenses in FY 2015 increased \$1,092,795 over the prior year. The increase in operating expenses was driven most notably by an increase in water supply costs of nearly \$750 thousand, as well as, an increase in depreciation expenses of almost \$225 thousand.

Non-operating expenses decreased \$377,046 as a result of increased capitalized interest expense.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### CAPITAL ASSETS

At the end of FY 2015, the Authority had \$137.6 million invested in net capital assets. This amount represents an increase of \$3.3 million, or 2.7% over last year. The following table summarizes the Authority's capital assets and changes therein, for the years ended June 30, 2015 and June 30, 2014.

*Continued*





**KENT COUNTY WATER AUTHORITY****Management's Discussion and Analysis (MD&A)**

Year Ended June 30, 2015

**CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)****CAPITAL ASSETS (CONTINUED)**

	<b>Balance at June 30, 2014</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance at June 30, 2015</b>
Capital assets, not being depreciated:				
Construction in progress	\$ 25,337,411	\$ 5,587,533	\$ 15,119,766	\$ 15,805,178
Land	<u>1,836,045</u>	<u>-</u>	<u>-</u>	<u>1,836,045</u>
Total capital assets, not being depreciated	<u>27,173,456</u>	<u>5,587,533</u>	<u>15,119,766</u>	<u>17,641,223</u>
Capital assets, being depreciated:				
Buildings and improvements	2,969,167	14,548,273	-	17,517,440
Machinery and equipment	16,103,626	261,621	-	16,365,247
Infrastructure	<u>109,983,734</u>	<u>176,028</u>	<u>107,872</u>	<u>110,051,890</u>
Total capital assets, being depreciated	129,056,527	14,985,922	107,872	143,934,577
Less accumulated depreciation	<u>21,927,418</u>	<u>2,159,019</u>	<u>107,872</u>	<u>23,978,565</u>
Total capital assets, being depreciated, net	<u>107,129,109</u>	<u>12,826,903</u>	<u>-</u>	<u>119,956,012</u>
Capital assets, net	<u>\$ 134,302,565</u>	<u>\$ 18,414,436</u>	<u>\$ 15,119,766</u>	<u>\$ 137,597,235</u>

**LONG-TERM DEBT**

Currently the Authority has one General Revenue Bonds outstanding at the end of FY15, totaling \$14.5 million at par value.

2012 Series "A"

\$14,495,000

Currently the Authority has a Moody's rating of Aa3 and a S&P rating of A+.

During FY15, the Authority paid approximately \$1.4 million in principal on outstanding issuances and \$723 thousand of interest on outstanding issuances.

The Authority is required to establish and maintain rates and charges at levels sufficient so that total net revenues in each year during which bonds are outstanding will equal at least 125% of the bond debt service requirement during such year less the amount, if any, of bond proceeds available to pay interest becoming due in such year on bonds outstanding as of the first day of such year. The Authority has exceeded the 125% debt service coverage requirement of the Resolution in each year since the 2001 issue.

*Continued*



## **KENT COUNTY WATER AUTHORITY**

### **Management's Discussion and Analysis (MD&A)**

**Year Ended June 30, 2015**

#### **BUDGET AND RATES**

For FY16, the budget for operating revenues will increase by 1.5%. A 2% increase is projected for operation and maintenance expenses.

#### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The Authority is governed by a 5-member appointed Board (Board) and is also regulated by the Rhode Island Public Utilities Commission (PUC). Both Authority's Board and the PUC must authorize all adjustments to user charges.

The Authority filed a pass through Rate Filing with the PUC on June 4, 2013 December 23, 2013 for a 0.54% rate increase effective December 7, 2013.

#### **REQUEST FOR INFORMATION**

This financial report is intended to provide an overview of the financial picture of the Kent County Water Authority. Any further questions regarding any of the information contained within this report may be directed to the General Manager or Treasurer at P.O. Box 192, West Warwick, RI 02893.



# KENT COUNTY WATER AUTHORITY

## Statement of Net Position

June 30, 2015

### ASSETS

	2015	2014
<b>Current assets:</b>		
Cash and cash equivalents	\$ 177,985	\$ 735,581
Accounts receivable, less allowance of \$182,721 in 2015 and \$166,797 in 2014	2,926,229	2,809,738
Unbilled water revenue	1,139,996	1,074,248
Materials and supplies inventory	382,278	483,762
Other assets	243,759	232,570
Restricted cash and cash equivalents held by trustee for current portion of long-term debt	1,954,000	2,495,000
<b>Total current assets</b>	<b>6,824,247</b>	<b>7,830,899</b>
<b>Noncurrent assets:</b>		
Restricted cash and cash equivalents held by trustee	11,918,648	11,713,552
Restricted cash and cash equivalents held by trust-Infrastructure replacement	7,287,048	6,277,494
<b>Total noncurrent assets</b>	<b>19,205,696</b>	<b>17,991,046</b>
<b>Capital assets:</b>		
Depreciable, net	119,956,012	107,129,109
Nondepreciable	17,641,223	27,173,456
<b>Total assets</b>	<b>\$ 163,627,178</b>	<b>\$ 160,124,510</b>

### DEFERRED OUTFLOWS OF RESOURCES

<b>Deferred outflows of resources:</b>		
NPL - assumption changes	68,485	-
NPL - investment experience	178,102	-
<b>Total deferred outflows of resources</b>	<b>\$ 246,587</b>	<b>\$ -</b>

The accompany notes are an integral part of the financial statements



# KENT COUNTY WATER AUTHORITY

## Statement of Net Position (Continued)

June 30, 2015

### LIABILITIES

	2015	2014
<b>Current liabilities:</b>		
Accounts payable	\$ 1,509,359	\$ 1,528,728
Accrued interest expense	318,312	339,651
Accrued liabilities	222,418	1,104,690
Water quality protection charges payable	126,112	127,177
Long-term debt due within one year	1,485,000	2,495,000
<b>Total current liabilities</b>	<b>3,661,201</b>	<b>5,595,246</b>
<b>Noncurrent liabilities:</b>		
Accrued arbitrage rebate liability	-	-
Long-term debt, net	12,955,133	14,432,386
Net pension liability	958,755	948,679
OPEB obligation, net	3,162,185	2,691,260
<b>Total noncurrent liabilities</b>	<b>17,076,073</b>	<b>18,072,325</b>
<b>Total liabilities</b>	<b>20,737,274</b>	<b>23,667,571</b>

### DEFERRED INFLOWS OF RESOURCES

<b>Deferred inflows of resources:</b>		
Gain on refunding	1,670,415	1,906,238
NPL - liability experience	187,080	-
<b>Total deferred inflows of resources</b>	<b>1,857,495</b>	<b>1,906,238</b>

### NET POSITION

<b>Net position:</b>		
Net investment in capital assets	124,615,042	123,258,736
Restricted for debt service	1,954,000	4,194,000
Restricted for infrastructure replacement	7,287,048	6,277,494
Unrestricted net position	7,422,906	820,471
<b>Total net position</b>	<b>\$ 141,278,996</b>	<b>\$ 134,550,701</b>

The accompany notes are an integral part of the financial statements





# KENT COUNTY WATER AUTHORITY

## Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2015

	<u>2015</u>	<u>2014</u>
<b><i>Operating revenues:</i></b>		
Water	\$ 18,125,293	\$ 17,743,307
Hydrant fees	1,309,184	1,306,816
Other	255,690	385,883
<b><i>Total operating revenue</i></b>	<u>19,690,167</u>	<u>19,436,006</u>
<b><i>Operating expenses:</i></b>		
Source of supply	4,999,638	4,254,854
Pumping	812,335	686,839
Transmission and distribution	1,164,782	1,096,973
Water treatment	310,572	448,504
Customer accounts	413,059	368,239
Administrative and general	3,140,852	3,126,241
Depreciation	2,159,019	1,935,848
Taxes other than income	177,540	167,504
<b><i>Total operating expenses</i></b>	<u>13,177,797</u>	<u>12,085,002</u>
<b><i>Operating income</i></b>	<u>6,512,370</u>	<u>7,351,004</u>
<b><i>Nonoperating income (expense):</i></b>		
Capital contributions	215,505	846,405
Interest income (expense)	420	(253,434)
<b><i>Net non-operating income (expense)</i></b>	<u>215,925</u>	<u>592,971</u>
<b><i>Increase in net position</i></b>	6,728,295	7,943,975
<b><i>Net position at beginning of year</i></b>	<u>134,550,701</u>	<u>127,555,405</u>
<b><i>Restatement of net position</i></b>	<u>-</u>	<u>(948,679)</u>
<b><i>Net position at end of year</i></b>	<u>\$ 141,278,996</u>	<u>\$ 134,550,701</u>

The accompany notes are an integral part of the financial statements



# KENT COUNTY WATER AUTHORITY

## Statement of Cash Flows

Year Ended June 30, 2015

	<u>2015</u>	<u>2014</u>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 19,506,863	\$ 19,525,375
Cash paid to employees for services	(1,579,651)	(1,228,073)
Cash paid to suppliers for goods and services	(9,828,979)	(9,838,821)
Net cash provided by operating activities	8,098,233	8,458,481
<b>Cash flows from investing activities:</b>		
Interest income received	194,166	18,934
Net cash provided by investing activities	194,166	18,934
<b>Cash flows from capital and related financial activities:</b>		
Payments on debt	(2,723,076)	(2,550,000)
Capital additions	(5,453,689)	(8,298,419)
Interest expense	420	(409,400)
Net cash used/or capital and related financing activities	(8,176,345)	(11,257,819)
<b>Net decrease in cash and cash equivalents</b>	116,054	(2,780,404)
<b>Cash and cash equivalents, beginning of year</b>	21,221,627	24,002,031
<b>Cash and cash equivalents, end of year</b>	21,337,681	21,221,627
<b>Cash and cash equivalents, per the statement of net position</b>		
Cash and cash equivalents	177,985	735,581
Restricted cash and cash equivalents held by trustee		
for current portion of long term debt	1,954,000	2,495,000
Restricted cash and cash equivalents held by trustee (Note 3)	11,918,648	11,713,552
Restricted cash and cash equivalents held by trustee-Infrastructure replacement (Note 3)	7,287,048	6,277,494
Total cash and cash equivalents, per the statement of net position	<u>\$ 21,337,681</u>	<u>\$ 21,221,627</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 6,512,370	\$ 7,351,004
<b>Adjustments to reconcile operating income to net cash provided by operating activities:</b>		
Depreciation of bond issuance costs	2,159,019	1,935,848
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable, net	(116,491)	34,168
(Increase) decrease in unbilled water revenue	(65,748)	55,201
(Increase) decrease in material, supplies and inventory	101,484	(10,093)
(Increase) decrease in other assets	(11,189)	(171,911)
(Increase) decrease in NPL deferred outflows	(59,507)	-
Increase (decrease) in accounts payable	(19,369)	(975,831)
Increase (decrease) in accrued liabilities	(882,272)	(74,317)
Increase (decrease) in water quality protection charges payable	(1,065)	84,914
Increase (decrease) in other liabilities	481,001	229,498
<b>Net cash provided by operating activities</b>	<u>\$ 8,098,233</u>	<u>\$ 8,458,481</u>

The accompany notes are an integral part of the financial statements



# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2015

The financial statements of the Kent County Water Authority (the Authority) have been prepared in conformity with the Rhode Island Public Utilities Commission (RIPUC) regulatory basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following notes to the financial statements are an integral part of the Authority's financial statements.

### **NOTE 1. Reporting Entity**

#### ***Primary Government***

The Kent County Water Authority (the Authority) was created by General Assembly of the State of Rhode Island on April 24, 1946, and was organized on July 8, 1946. The Authority serves as the governing body of the Kent County Water District, a political subdivision of the State of Rhode Island. The Authority is subject to the regulations of the Public Utility Commission (PUC) of the State of Rhode Island.

The Authority provides water supply services through metered sales in the communities of Warwick, West Warwick, Coventry, East Greenwich, North Kingstown, Cranston, Scituate and West Greenwich. The Authority is also responsible for acquiring, constructing, improving, operating, and maintaining the water supply system. The Authority's source of water supply is principally through purchases of water from the Providence Water Supply Board and Warwick Water Department with the remaining amount produced from its own wells.

#### ***Component Units***

Component Units are included in the Authority's reporting entity if their operational and financial relationships with the Authority are significant. Pursuant to the criteria established by the Governmental Accounting Standards Board (GASB), no component units were identified for inclusion in the accompanying financial statements.

The Authority is considered a related organization of the State of Rhode Island for financial reporting purposes. The Authority is reported as a related organization of the State of Rhode Island, and not as a component unit, based on the criteria of GASB Statement No. 14 "The Financial Reporting Entity", as amended by GASB Statement No. 39 "Determining Whether Certain Organizations are Component Units" and as amended by GASB Statement No. 61 "Financial Reporting Entity - Omnibus".

### **NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Authority conform to the RIPUC regulatory basis of accounting. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies followed by the Authority:

*Continued*



# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2015

### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### ***Basis of Presentation***

The operations of the Authority are accounted for on a Proprietary Fund Type (Enterprise Fund) basis.

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

Proprietary fund revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable.

When restricted and unrestricted resources are available for use, it is the Authority's practice to use restricted resources first.

***Cash and Cash Equivalents*** - Cash and cash equivalents and restricted cash (held by trustee) include highly liquid investments with a maturity of three months or less when purchased. Restricted cash has been classified as noncurrent as it primarily represents unspent bond proceeds restricted for future capital spending.

***Receivables*** - Fixed fees for water usage are billed to all customers in advance on a monthly basis. Consumption based fees are billed in arrears on a monthly basis, based on estimated and actual water consumption meter readings.

The allowance for doubtful accounts for June 30, 2015 was \$182,721.

***Materials and Supplies Inventory*** - Materials and supplies inventory is stated at the lower of cost (average cost method) or market.

***Capital Assets*** - Property, plant, and equipment is stated at cost. The Authority provides for depreciation of capital assets based on a composite rate of 1.5% of depreciable capital assets as required by the Rhode Island Public Utility Commission (RIPUC). Depreciation expense is not reflected for construction in progress until it is placed in service. The Authority capitalizes interest costs as part of the cost of constructing transmission and distribution facilities.

***Construction in progress*** - Construction in progress consists of the capital projects' design, planning and construction costs. Upon completing the project and finalizing the financial transaction, the construction in progress is transferred into the completed project capital asset account. Once transferred, the Authority will start to depreciate the completed capital project.

***Capital Contributions*** - Capital contributions consist of property, plant, and equipment paid for by customers for water installations. Once the installation is complete, the property, plant, and equipment transfer to the Authority.

*Continued*





# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2015

### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Unearned Revenue** - Unearned revenue represents amounts billed in the current fiscal year for pretreatment fees relating to the subsequent fiscal year.

**Deferred Outflows/inflows Of Resources** - In addition to assets, the statement of financial position can report a separate section for deferred outflows of resources. This separate section represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until that later date. On June 30, 2014 and 2013, there were no deferred outflows of resources.

In addition to liabilities, the statement of financial position can report a separate section for deferred inflows of resources. This separate section represents the acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until a later date. At June 30, 2015 and 2014, there were \$1,670,415 and \$1,906,238 in deferred inflows relating to gain on refunding, respectively.

**Income Taxes** - The Authority is exempt from Federal and State income taxes.

**Regulatory** - The Authority is a regulated utility, and its rates are set by the PUC. For rate-making purposes, depreciation expense is excluded while principal payments and capital outlays are included in the total expenses to arrive at a regulatory net income (loss). For this reason, the net income (loss) on a regulatory basis differs from the change in net position in the audited financial statements, which are prepared in conformance with generally accepted accounting principles.

**Use of Estimates** - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at 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.

**Summarized Financial Information** - The financial information for the year June 30, 2014, presented for comparative purposes is not intended to be a complete financial statement presentation. Certain amounts in the prior year financial statements may have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

**Recently Issued Accounting Standards** - The Authority has implemented the following new accounting pronouncements:

For the year ending June 30, 2015, the Authority implemented the following pronouncements issued by the GASB:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*
- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*

The implementation GASB Statements No. 68 and 71 represented a significant change in the accounting and reporting of pension expense and the related liability. For the first time, the Authority recognized its long-term obligation for pension benefits as a liability to more comprehensively measure the annual costs of pension benefits. The implementation of this Statement also expanded pension related note disclosures and required supplementary information. As a result of this change in accounting principle, the Authority has restated its beginning net position within the business-type activities. See "Note 13 Restatement" on page 30 for more information.

The implementation of GASB Statement No. 69 had no material reporting impact for the Authority.



# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2015

### NOTE 3. CASH AND CASH EQUIVALENTS

Cash deposits: The Authority's cash deposits are in one financial institution. The carrying amount of deposits is separately displayed on the Statement of Net Position as "cash and cash equivalents".

The carrying value of deposits, investments and petty cash funds reported on the Statement of Net Position as "cash and cash equivalents" are as follows:

Cash deposits	\$ 177,685
Cash equivalents	21,159,696
Petty cash	<u>300</u>
	<u>\$ 21,337,681</u>

Essential risk information regarding the Authority's deposits and investments is presented below.

In accordance with Rhode Island General Laws, Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State, shall at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than sixty days. Any of these institutions, which do not meet minimum capital standards prescribed by federal regulators, shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity.

The carrying amount of the Authority's deposits at June 30, 2015 was \$21,337,681 and the bank balance was \$21,748,421.

**Custodial Credit Risk** - Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, the Authority will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2015, \$21,184,789 of the Authority's bank balance of \$21,748,421 was exposed to custodial credit risk as follows:

	Bank Balance
Insured (Federal depository insurance funds)	\$ 563,632
Collateralized with securities held by pledging financial institution's or its agent, in the Authority's name	<u>21,184,789</u>
	<u>\$ 21,748,421</u>

**Interest Rate Risk** - Funds held by the Authority are invested in accordance with the Authority's investment policy. This investment policy does not limit investment maturities as a means of limiting its exposure to fair value losses arising from interest rates.

In connection with the issuances of \$10 million of general revenue bonds in July 2001, \$24.4 million of general revenue bonds in December 2002, \$10.4 million of general revenue in April 2004, and \$17.3 million of general revenue in July 2012, the proceeds from the bonds along with subsequent debt payments by the Authority and unspent operating income are maintained in cash accounts held in trust by the trustee.

Continued



# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2015

### NOTE 3. CASH AND CASH EQUIVALENTS

#### *Interest Rate Risk (Continued)*

The Authority's investment policy is governed by the general bond resolution and the series resolution for all transactions covered by bond funding of the Authority. All investments are managed through the trustee of the Authority and invested as allowed.

Cash equivalents are valued at fair value. All of the Authority's debt cash equivalents have maturities of three months or less. The components and fair values of the Authority's cash equivalents are presented below:

Cash equivalent type	Fair value	
	2015	2014
Money Market Treasury		
Obligation Fund	\$ 21,159,696	\$ 19,183,047
U.S. Treasuries	-	1,302,999
Total cash equivalents	\$ 21,159,696	\$ 20,486,046

The Authority established an "Infrastructure Replacement Fund" in conformity with all applicable provisions of state laws; Chapter 46-13 of the General Laws of Rhode Island, Public Drinking Water Supply. The dedicated fund for infrastructure replacement was \$7,287,494 and \$6,277,494 as of June 30, 2015 and 2014, respectively.

**Credit Risk** - The Authority's investment policy objective states that all financial assets held by the Authority shall be invested in a manner that will preserve the value and safety of capital. The Authority shall invest funds in order to maximize earnings and minimize risk during the period of availability of the funds. The Authority's investment policy limits investments to U.S. Treasury securities, securities of the U.S. government agencies and instrumentalities that are backed by the full faith and credit or guarantee of the U.S. government, which have a liquid market with a readily determinable market value, investment-grade obligations of the State of Rhode Island, or any municipality or political subdivision of the State of Rhode Island, repurchase agreements backed by collateral, certificate of deposits, money market mutual funds whose portfolios consist of U.S. Treasury securities, U.S. agency obligations and repurchase agreements fully collateralized by such securities and governmental investment products backed by collateral consisting of U.S. Treasury and U.S. Agency securities.

The Authority follows the credit risk policy associated with the Authority's general bond resolutions. The Authority's credit ratings for cash equivalents are as follows:

	Credit Rating
Money Market Treasury	
Obligation Fund	AAA (Moody's)
U.S. Treasuries	AAA (Moody's)



# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2015

### NOTE 3. CASH AND CASH EQUIVALENTS

**Concentration of credit risk** - The Authority's investment policy is not specific but states that investments shall be diversified to minimize the risk of loss that may occur due to concentration in a specific maturity, a specific issue or a specific class of securities.

### NOTE 4. CAPITAL ASSETS

The cost and activity of water capital assets in service and related accumulated depreciation for the year ended June 30, 2015 is as follows:

	Balance at June 30, 2014	Increases	Decreases	Balance at June 30, 2015
Capital assets, not being depreciated:				
Construction in progress	\$ 25,337,411	\$ 5,587,533	\$ 15,119,766	\$ 15,805,178
Land	<u>1,836,045</u>	<u>-</u>	<u>-</u>	<u>1,836,045</u>
Total capital assets, not being depreciated	<u>27,173,456</u>	<u>5,587,533</u>	<u>15,119,766</u>	<u>17,641,223</u>
Capital assets, being depreciated:				
Buildings and improvements	2,969,167	14,548,273	-	17,517,440
Machinery and equipment	16,103,626	261,621	-	16,365,247
Infrastructure	<u>109,983,734</u>	<u>176,028</u>	<u>107,872</u>	<u>110,051,890</u>
Total capital assets, being depreciated	129,056,527	14,985,922	107,872	143,934,577
Less accumulated depreciation	<u>21,927,418</u>	<u>2,159,019</u>	<u>107,872</u>	<u>23,978,565</u>
Total capital assets, being depreciated, net	<u>107,129,109</u>	<u>12,826,903</u>	<u>-</u>	<u>119,956,012</u>
Capital assets, net	<u>\$ 134,302,565</u>	<u>\$ 18,414,436</u>	<u>\$ 15,119,766</u>	<u>\$ 137,597,235</u>

Interest costs of \$466,234 and \$612,503, offset by interest income of \$420 and \$7,218, were capitalized in 2015 and 2014, respectively.

Continued





# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2015

### NOTE 5. LONG-TERM OBLIGATIONS

The Authority issues revenue bonds to support various projects. The following is a summary of the bond activity for the years ended June 30, 2015 and 2014:

Description	Balance June 30, 2014	Additions	Reductions	Balance June 30, 2015	Amounts due within one year
Revenue bonds:					
April 2004 Series A bearing interest at 2%-4% and maturing in 2014	\$ 1,070,000	\$ -	\$ (1,070,000)	\$ -	\$ -
July 2012 Series A bearing interest at 4%-5% and maturing in 2023	15,920,000	-	(1,425,000)	14,495,000	1,485,000
	16,990,000	-	(2,495,000)	14,495,000	1,485,000
Add (less):					
Unamortized discount	(62,614)	-	7,746	(54,868)	-
	(62,614)	-	7,746	(54,868)	-
	<u>\$ 16,927,386</u>	<u>\$ -</u>	<u>\$ (2,487,254)</u>	<u>\$ 14,440,132</u>	<u>\$ 1,485,000</u>

During the year ended June 30, 2013, \$21,255,000 of general revenue bonds, along with approximately \$122,000 of accrued interest on such bonds, was refunded to the Authority. As a result, the refunded bonds were removed from the Authority's long-term obligations as of June 30, 2013.

Continued



# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2015

### NOTE 5. LONG-TERM OBLIGATIONS (CONTINUED)

The annual debt service requirements of the general long-term bonds payable as of June 30, 2015 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ended June 30:			
2016	\$ 1,485,000	\$ 664,800	\$ 2,149,800
2017	1,540,000	604,300	2,144,300
2018	1,605,000	533,375	2,138,375
2019	1,690,000	451,000	2,141,000
2020	1,775,000	364,375	2,139,375
2021-2024	<u>6,400,000</u>	<u>581,250</u>	<u>6,981,250</u>
	<u>\$ 14,495,000</u>	<u>\$ 3,199,100</u>	<u>\$ 17,694,100</u>

Borrowings are secured by the Authority's pledge of all revenues, monies, securities, receivables, and other funds of the Authority as well as the proceeds of the sale of the Authority's real property pursuant to a mortgage on its water supply, treatment and distribution facilities, exclusive of monies collected as water quality protection charges.

The Authority must meet certain financial covenants. The Authority was in compliance with all such covenants at June 30, 2015 and 2014.

### NOTE 6 - COMPENSATED ABSENCES

The Authority's employees are granted vacation and sick leave in varying amounts based on years of service with the Authority. At the termination of service, an employee is paid for accumulated unused vacation leave. The Authority has determined that the dollar value of accumulated accrued vacation leave, valued at the current rate of pay, at June 30, 2015 to be \$154,899. The accrued vacation is reported on the Statement of Net Position as other accrued expenses.

The changes in compensated absences for the year ended June 30, 2015 were as follows:

	<u>June 30, 2014</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30, 2015</u>	<u>Amounts Due Within One Year</u>
Compensated absences	<u>\$ 142,788</u>	<u>\$ 21,918</u>	<u>\$ 9,807</u>	<u>\$ 154,899</u>	<u>\$ 154,899</u>

Continued



# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2015

### NOTE 7. PENSION PLAN

#### Summary of Significant Accounting Policies

##### *Method used to value investments*

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Real estate assets are reported at fair value utilizing an income approach to valuation. By contract, an independent appraisal is obtained once every year to determine the fair market value of the real estate assets.

#### Plan Description

##### *Plan administration*

The Kent County Water Authority administers the pension plan (plan)—a single-employer defined benefit pension plan that provides pensions for all permanent full-time general employees of the Authority.

##### *Plan membership*

At June 30, 2015, pension plan membership consisted of the following:

Retirees and beneficiaries receiving benefits from the plan	21
Terminated members entitled to future benefits	15
Active plan members	28
	<hr/>
Subtotal	64
	<hr/>

##### *Benefits provided*

To participate in the Plan, employees must be at least twenty-one years of age and be employed by the Authority for a minimum of 12 months. The plan provides retirement, and death benefits to plan members based upon the average of the highest consecutive five years of compensation of the last 10 years of participation. The Authority is responsible for making all contributions to the Plan. The benefits provisions and all other requirements under the Plan are established by the Authority's board of directors. A copy of the Plan statements may be obtained by contacting the Authority.

##### *Contributions*

In the January 1, 2015 actuarial valuation, the Authority utilized the aggregate actuarial method to determine the annual required employer contributions. This method does not identify or separately amortize unfunded actuarial liabilities. Therefore, the entry age method was used to prepare the funded status of the Plan. The actuarial value of assets was determined using the fair value of investments.

The schedule of funding progress presented as required supplementary information presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

*Continued*



# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2015

### NOTE 7. PENSION PLAN (CONTINUED)

#### *Contributions (Continued)*

The Authority's funding policy provides for employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due. The contribution requirements of the Authority are established and may be amended by the Authority's board of director's.

#### **Investments**

##### *Investment policy*

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

<u>Asset Class</u>	<u>Target Allocation</u>
Fixed income	25%
Domestic equity	44%
International equity	12%
Real estate	4%
Cash	15%
Total	100%

#### *Concentrations*

As of June 30, 2015, 5% or more of Plan assets were held in the following individual funds:

<u>Fund</u>	<u>Concentration</u>
Nationwide Fixed Fund	15.10%
Vanguard Mid-Cap Index	8.90%
Vanguard Growth Index	8.00%
Vanguard High Yield Corporate	8.00%
American Fund AMCAP	7.00%
Vanguard Value Index	6.90%
American Fund American Mutual	6.90%
LeggMason Core Bond Fund	6.00%
Prudential Core Bond Fund	6.00%
Franklin Templeton Global Bond Fund	5.00%

*Continued*





# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2015

### NOTE 7. PENSION PLAN (CONTINUED)

#### Investments (Continued)

##### *Rate of return*

For the year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 7.25 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

#### Deferred Retirement Option Program

As of June 30, 2015, the Plan has deferred pension liability as summarized below. These deferred items will be recognized in future pension expense. These deferred items are detailed as follows:

	Deferred Outflows	Deferred Inflows
Liability experience	\$ -	\$ (187,080)
Assumption changes	68,485	-
Investment experience	178,102	-
Total	<u>\$ 246,587</u>	<u>\$ (187,080)</u>

The amounts shown above will be recognized in pension expense as follows:

Fiscal Year End	Expense Recognition
2016	\$ 34,002
2017	34,002
2018	34,003
2019	34,003
2020	(10,523)
After 2020	(65,980)

#### Net Pension Liability of the Authority

The components of the net pension liability of the Authority at June 30, 2015, were as follows:

Total pension liability	\$ 6,128,791
Plan fiduciary net position	<u>(5,170,037)</u>
Authorities' net pension liability	<u>\$ 958,754</u>
Plan fiduciary net position as a percentage of the total pension liability	84.36%

Continued



# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2015

### NOTE 7. PENSION PLAN (CONTINUED)

#### Net Pension Liability of the Authority (Continued)

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

Inflation	2.00 percent to 2.50 percent
Social security wage base	The taxable wage base is assumed to increase 2.5% annually.
Salary increases	Salary is assumed to increase 3.00% annually
Liability interest rate	7.25 percent

Assumed mortality was updated from the sex-distinct IRS 2008 Combined Static Table to the sex-distinct IRS 2015 Combined Static Table as of January 1, 2015.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2014–June 30, 2015.

The long-term expected rate of return on pension 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 asset allocation as of June 30, 2015 (see the discussion of the pension plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	3.50%
Domestic equity	5.75%
International equity	5.85%
Real estate	5.50%
Cash	2.00%

#### *Discount rate*

The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the Authority's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. 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.



# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2015

### NOTE 7. PENSION PLAN (CONTINUED)

#### Net Pension Liability of the Authority (Continued)

*Sensitivity of the net pension liability to changes in the discount rate*

The following presents the net pension liability of the Authority, calculated using the discount rate of 7.25 percent, as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Authority's net pension liability	\$ 1,639,967	\$ 958,754	\$ 377,278

### NOTE 8. OTHER POST EMPLOYMENT BENEFITS

#### *Plan Description*

The Authority's Post-Employment Medical Benefit Plan is a single-employer defined benefit postretirement health and life insurance program. All full-time employees are eligible to receive health and life insurance coverage after retirement. Retirement eligibility for continued health insurance coverage is age 62 with at least 20 years of service. Employees are eligible for life insurance coverage if they retire on or after age 62. Spousal and/or family health coverage is not provided for under the postretirement program. The Authority will provide eligible retirees continued individual health and dental insurance comparable to the active employee plans. Retirees age 65 and older are eligible for an individual Medicare Supplement Plan as well as continued dental coverage. The full cost of postretirement medical and dental coverage is provided by the Authority. Eligible retirees receive term life insurance in the amount of \$2,000. The Authority provides the full cost of this insurance. Prior to the adoption of GASB 45, the Authority funded these post retirement benefits on a pay as you go basis.

#### *Funding Policy*

The Authority's funding policy provides for actuarially determined periodic contributions to the Plans at rates that, increase gradually over time so that sufficient assets will be available to pay benefits when due.

The following is summary of the actuarial assumptions and cost methods used to determine Plan liabilities:

<u>Fiscal Year Beginning</u>	<u>July 1, 2014</u>	<u>July 1, 2012</u>
Discount rate	4.00%	4.00%
Census date	7/1/2014	7/1/2011
Mortality	IRS-2014	IRS-2008

Medical coverage costs are assumed to increase 7.5% in fiscal 2016 with trend rates decreasing 0.5% each year to an ultimate rate of 5.0% per year in fiscal 2019 and beyond. Dental coverage costs are assumed to increase 4.75% in fiscal 2016 with trend rates decreasing 0.25% each year to an ultimate rate of 3.5% per year in fiscal 2019 and beyond.

*Continued*



# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2015

### NOTE 8. OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

#### Funding Policy (Continued)

##### Three-Year Trend Information

Fiscal Year Ending	Annual OPEB Cost	Actual Plan Contributions	Percentage of OPEB Cost Contributed	Net OPEB Obligation
June 30, 2015	\$ 550,128	\$ 79,203	14.40%	\$ 3,162,185
June 30, 2014	610,799	92,877	15.21%	2,691,260
June 30, 2013	591,301	103,866	17.57%	2,173,338
June 30, 2012	572,805	110,408	19.27%	1,685,903

The Authority's annual OPEB cost and net OPEB obligation for the year ended June 30, 2015 and 2014 was as follows:

	June 30, 2015	June 30, 2014
Annual required contribution	\$ 592,128	\$ 644,715
Interest on net OPEB obligation	107,650	86,934
Adjustment to annual required contribution	(149,650)	(120,850)
Annual OPEB cost (expense)	550,128	610,799
Contributions made	(79,203)	(92,877)
Increase in net OPEB obligation	470,925	517,922
Net OPEB obligation - beginning of year	2,691,260	2,173,338
Net OPEB obligation - end of year	<u>\$ 3,162,185</u>	<u>\$ 2,691,260</u>

#### Schedule of Funding Progress

The unfunded actuarial accrued liability was determined using the open thirty-year level dollar amortization basis.

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (1)	Actuarial Accrued Liability (AAL) (2)	Unfunded AAL (UAAL) (2)-(1) (3)	AVA as a percent of AAL (1)/(2) (4)	Covered Payroll (d)	UAAL as a Percent of of Covered Payroll (3)/(5) (6)
7/1/2014	N/A	\$4,278,597	\$ 4,278,597	N/A	\$ 1,993,673	214.61%
7/1/2011	N/A	\$5,077,569	\$ 5,077,569	N/A	\$ 1,671,141	303.84%

Continued





# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2015

### **NOTE 9. WATER QUALITY PROTECTION CHARGES PAYABLE**

Pursuant to the rules and procedures of the Public Drinking Water Protection Program as promulgated by the Rhode Island Water Resources Board, the Authority has imposed a water quality protection charge on its customers. Prior to June 30, 1992, the Authority accounted for all water quality protection charges imposed as a liability due to the Authority's position that the rules and procedures regarding the imposition of the water quality protection charge did not adequately address the Authority's status as both a purchaser and supplier of water. The law governing the implementation of the water quality protection charge was amended on July 1, 1992. At June 30, 2015 and 2014, water quality protection charges payable of \$126,112 and \$127,177, respectively, represented funds collected from customers that are required to be paid to the Rhode Island Water Resources Board.

### **NOTE 10. COMMITMENTS AND CONTINGENCIES**

During the ordinary course of its operations, the Authority is a party to various claims, legal actions and complaints, and adequately provides for losses and accrues liabilities for losses when they are both probable and can be reasonably estimated.

As of June 30, 2015, the Authority had no pending contingencies to report.

### **NOTE 11. REGULATORY MATTERS**

The Authority periodically submits rate and compliance filings with the RIPUC to receive rate relief for amounts equal to rate increases awarded by the RIPUC to the Providence Water Supply Board, the Authority's main supplier.

### **NOTE 12. RISK MANAGEMENT**

#### *Insurance Held*

The Authority is exposed to various risks of loss related to general liability, property and casualty, workers' compensation, unemployment and employee health and life insurance claims.

Buildings are fully insured against fire, theft, and natural disaster to the extent that losses exceed \$1,000 per incident. Directors, officers, and Board members are insured for a maximum of \$5,000,000 per occurrence and annual aggregate.

The Authority is a member of the Rhode Island Workers' Compensation Association public entity risk pool (the pool) currently operating as a common risk management and insurance program for workers' compensation benefits for all employees. The Pool assesses premiums which are paid by the Authority.

The Pool is self-sustaining through member premiums and reinsures through commercial companies for stop loss insurance.

*Continued*



# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2015

### NOTE 12. RISK MANAGEMENT (CONTINUED)

The Authority has a third-party insured health care program for its employees for which the Authority pays 100% of the premium costs.

### NOTE 13. PRIOR PERIOD ADJUSTMENT

Net position of the financial statements at June 30, 2014 has been restated to properly account for net pension liability to reflect the adoption of GASB Statement 68.

Net position, June 30, 2013 as originally stated	\$ 135,499,380
Less net pension liability	<u>(948,679)</u>
Net position, June 30, 2013 as restated	<u>\$ 134,550,701</u>

### NOTE 14. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 3, 2015, the date the financial statements were available to be issued. No subsequent events were identified.



# KENT COUNTY WATER AUTHORITY

## Required Supplementary Information

### Schedule of Changes in the Authority's Net Pension Liability and Related Ratios (Unaudited)

Last Ten Fiscal Years  
June 30, 2015

	<b>2015*</b>
<b>Total pension liability</b>	
Service cost	\$ 144,147
Interest	419,030
Experience (gain) or loss	(203,680)
Assumption changes	74,562
Benefit payments	(260,720)
<b>Net change in total pension liability</b>	<u>173,339</u>
<b>Total pension liability - beginning</b>	<u>5,955,452</u>
<b>Total pension liability - ending (a)</b>	<u>\$ 6,128,791</u>
<b>Pension fiduciary net position</b>	
Contributions - employer	\$ 277,560
Expected investment return	369,051
Additional investment return	(222,627)
Other	(260,720)
<b>Net change in plan fiduciary net position</b>	<u>163,264</u>
<b>Plan fiduciary net position - beginning</b>	<u>5,006,773</u>
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 5,170,037</u>
<b>Authority's net pension liability (asset) - ending (a) - (b)</b>	<u>\$ 958,754</u>

\* Only one year out of the required ten was made available in the actuarial report.

See independent auditors' report

*Continued*



# KENT COUNTY WATER AUTHORITY

## Required Supplementary Information

### Schedule of Changes in the Authority's Net Pension Liability and Related Ratios (Unaudited)

Last Ten Fiscal Years  
June 30, 2015

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Total pension liability	\$6,128,791	\$5,955,452	\$5,813,927	\$5,723,004	\$5,351,926	\$5,061,493	\$4,998,203	\$5,073,463	\$4,812,595	\$4,318,678
Plan fiduciary net position	5,170,037	5,006,773	4,897,501	4,188,518	3,784,648	3,853,105	3,499,204	2,940,501	3,932,168	3,775,115
Authority's net pension liability (asset)	<u>\$ 958,754</u>	<u>\$ 948,679</u>	<u>\$ 916,426</u>	<u>\$ 1,534,486</u>	<u>\$ 1,567,278</u>	<u>\$ 1,208,388</u>	<u>\$ 1,498,999</u>	<u>\$ 2,132,962</u>	<u>\$ 880,427</u>	<u>\$ 543,563</u>
Plan fiduciary net position as a percentage of the total pension liability	84.36%	84.07%	84.24%	73.19%	70.72%	76.13%	70.01%	57.96%	81.71%	87.41%
Covered-employee payroll	1,798,468	1,916,160	1,840,222	1,671,148	1,699,872	1,614,790	1,669,110	1,755,040	1,713,024	Not Avail.
Authority's net pension liability (asset) as a percentage of covered-employee payroll	53.31%	49.51%	49.80%	91.82%	92.20%	74.83%	89.81%	121.53%	51.40%	Not Avail.

See independent auditors' report





# KENT COUNTY WATER AUTHORITY

## Required Supplementary Information

### Schedule of Authority's Contributions (Unaudited)

Last Ten Fiscal Years  
June 30, 2015

	2015	2014	2013	2012	2011	2010	2009	2008	2007*
Actuarially determined contribution Contributions in relation to the actuarially determined contribution	\$ 246,738	\$ 277,560	\$ 311,745	\$ 256,566	\$ 222,723	\$ 214,026	\$ 258,392	\$ 193,619	\$ 154,574
Contribution deficiency (excess)	246,738	277,560	311,745	256,566	222,723	214,026	260,000	193,619	206,000
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,608)	\$ -	\$ (51,426)
Covered-employee payroll	1,798,468	1,916,160	1,840,222	1,671,148	1,699,872	1,614,790	1,669,110	1,755,040	1,713,024
Contributions as a percentage of covered-employee payroll	13.72%	14.49%	16.94%	15.35%	13.10%	13.25%	15.58%	11.03%	12.03%

\* Only nine years out of the required ten were made available in the actuarial report.

See independent auditors' report



# KENT COUNTY WATER AUTHORITY

## Required Supplementary Information

### Schedule of Investment Returns (Unaudited)

Last Ten Fiscal Years  
June 30, 2015

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Annual money-weighted rate of return, net of investment expense	2.92%	Not Avail	15.41%	11.88%	0.45%	12.08%	19.93%	-24.08%	5.28%	9.81%

See independent auditors' report



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*INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON A N AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS*

To the Board of Directors  
Kent County Water  
Authority West Warwick,  
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 Kent County Water Authority, as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated September 3, 2015.

Internal Control Over Financial Reporting

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

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

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

*Continued*



### Compliance and Other Matters

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

### Purpose of this Report

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

*Hague, Sabady & Co PC*

Fall River, Massachusetts  
September 3, 2015