

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

ANNUAL FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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

June 30, 2017

Table of Contents

	Page
Independent Auditors' Report.....	1-3
Management's Discussion and Analysis.....	4-10
Basic Financial Statements:	
Proprietary Funds:	
Statement of Net Position	11-12
Statement of Revenues, Expenses and Changes in Net Position.....	13
Statement of Cash Flows.....	14
Fiduciary Funds:	
Statement of Fiduciary Net Position	15
Statement of Changes in Fiduciary Net Position.....	16
Notes to the Financial Statements	17-32
Required Supplementary Information:	
Schedule of Changes in the Authority's Net Pension Liability and Related Ratios (Unaudited).....	33-34
Schedule of Authority's Contributions (Unaudited).....	35
Schedule of Authority's Investment Returns (Unaudited).....	36
Other Post Employment Benefits Schedule of Funding Progress.....	37
Other Post Employment Benefits Schedule of Employer Contributions.....	38
Accompanying Information to Basic Financial Statements	
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	39-40

Hague, Sahady & Co., Certified Public Accountants P.C.

Committed to Excellence

HAGUE, SAHADY & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS
126 President Avenue
Fall River, MA 02720
TEL. (508) 675-7889
FAX (508) 675-7859
www.hague-sahady.com

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 years ended June 30, 2017, and the related notes to the financial statements, which collectively comprises the Authority's basic 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 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, 2017 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, 2017, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of changes in the Authority's net pension liability and related ratios, schedule of Authority's contributions, schedule of Authority's investment returns, other post employment benefits schedule of funding progress, other post employment benefits schedule of employer contributions information, on pages 3-9 and 30-35 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.

Comparative Information

The financial information for the year June 30, 2016, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2017 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, 2017

KENT COUNTY WATER AUTHORITY

Management's Discussion and Analysis (MD&A)

Year Ended June 30, 2017

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, 2017. 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 14-29 of this report.

Continued

KENT COUNTY WATER AUTHORITY

Management's Discussion and Analysis (MD&A)

Year Ended June 30, 2017

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 \$408 thousand over budget and \$402 thousand higher than the prior year due to a rate increase which occurred mid-year.
- The Authority spent nearly \$242 thousand more on purchase of water than budgeted due to the wholesale rate increase which occurred mid-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 \$156,712,282 as of June 30, 2017. This represents an increase in total net position of \$8,046,765 or 5.41% from FY 2016 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 RIPUC.

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, 2017

Condensed Statement of Net Position

	<u>2017</u>	<u>2016</u>
Current assets	\$ 7,869,281	\$ 6,563,437
Other noncurrent assets	27,603,921	19,452,001
Capital assets, net	<u>154,913,474</u>	<u>145,130,806</u>
Total assets	<u>190,386,676</u>	<u>171,146,244</u>
Deferred outflows of resources		
NPL - assumption changes	231,092	74,332
NPL - investment experience	<u>155,569</u>	<u>448,276</u>
Total deferred outflows of resources	<u>386,661</u>	<u>522,608</u>
Current liabilities	7,210,342	5,042,729
Noncurrent liabilities	<u>25,293,942</u>	<u>16,245,116</u>
Total liabilities	<u>32,504,284</u>	<u>21,287,845</u>
Deferred inflows of resources		
Gain (loss) on refunding	1,198,769	1,434,592
NPL - liability experience	<u>358,002</u>	<u>280,898</u>
Total deferred inflows of resources	<u>1,556,771</u>	<u>1,715,490</u>
Net position:		
Net investment in capital assets	141,687,041	133,119,611
Restricted for debt service	3,154,000	1,954,000
Restricted for infrastructure replacement	282,626	4,555,514
Unrestricted net position	<u>11,588,615</u>	<u>9,036,392</u>
Total net position	<u>\$ 156,712,282</u>	<u>\$ 148,665,517</u>

The table above reflects an increase in current assets of \$1,305,844 from FY 2016 to FY 2017. This increase reflects an increase in accounts receivable and restricted cash due to bond issuance. There is also a significant increase in capital assets (net) of \$9,782,668 from FY 2016 to FY 2017. This increase is the result of substantial progress that the Authority made in FY 2017 on the initiatives identified in the Capital Improvement Program (CIP).

In 2017, the current liabilities increased by \$2,617,613. This is the result of an increase in the current portion of the long-term loans payable as well as accounts payable.

The largest portion of the Authority's net position, 90.4%, 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. In FY17, the Authority's net position totaled \$156.7 million, an increase of \$8.05 million or 5.41% from the previous year. Total assets in FY17 were \$190.4 million, an increase of \$19.2 million or 11.24% from the previous year. Total liabilities increased by \$11.2 million or 52.69%.

KENT COUNTY WATER AUTHORITY

Management's Discussion and Analysis (MD&A)

Year Ended June 30, 2017

CHANGES IN NET POSITION

The Authority's ended the FY 2017 with an increase in net position of \$8,046,765. 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

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Water	\$ 19,220,906	\$ 18,576,440
Hydrant fees	1,612,517	1,334,022
Other	<u>352,119</u>	<u>281,091</u>
Total operating revenue	<u>21,185,542</u>	<u>20,191,553</u>
Operating expenses:		
Source of supply	4,642,200	4,954,207
Pumping	631,893	644,136
Transmission and distribution	1,151,935	1,209,270
Water treatment	292,808	275,355
Customer accounting	451,605	426,058
Administrative and general	3,397,322	3,097,133
Depreciation	2,349,326	2,330,514
Taxes other than income	<u>155,370</u>	<u>174,825</u>
Total operating expenses	<u>13,072,459</u>	<u>13,111,498</u>
Operating income	<u>8,113,083</u>	<u>7,080,055</u>
Nonoperating income (expense):		
Capital contributions	23,389	108,637
Interest income (expense)	(89,707)	197,829
Arbitrage rebate provision	-	-
Other	<u>-</u>	<u>-</u>
Net non-operating income (expense)	<u>(66,318)</u>	<u>306,466</u>
Increase in net position	8,046,765	7,386,521
Net position at beginning of year	<u>148,665,517</u>	<u>141,278,996</u>
Net position at end of year	<u>\$ 156,712,282</u>	<u>\$ 148,665,517</u>

Continued

KENT COUNTY WATER AUTHORITY

Management's Discussion and Analysis (MD&A)

Year Ended June 30, 2017

REVENUES

User fees are the Authority's primary source of revenue, representing approximately 90.7% of total operating revenues. Fiscal Year 2017 user fee revenue was \$19,220,906 which is \$644,466 more than the prior year. The increase in user fees is the combined effect of a pass-through rate increase. These PUC approved rate increases applied to both consumption and flat fees. FY 2017 other operating revenue increased by \$71,028.

The operating income for FY17 totaled \$8.1 million, representing an increase of 8.9% from the previous year. This increase is a result of the changes discussed above.

EXPENSES

Total operating expenses in FY 2017 decreased \$39,039 over the prior year. The decrease in operating expenses was driven most notably by a decrease in source of supply of nearly \$312 thousand, as well as, an increase in administrative and general expenses of \$300 thousand.

Net non-operating expense is \$66,318 in the current year because of an increase in capitalized interest expense.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At the end of FY 2017, the Authority had \$154.9 million invested in net capital assets. This amount represents an increase of \$9.7 million, or 6.31% over last year. The following table summarizes the Authority's capital assets and changes therein, for the years ended June 30, 2017 and June 30, 2016.

Continued

KENT COUNTY WATER AUTHORITY

Management's Discussion and Analysis (MD&A)

Year Ended June 30, 2017

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

CAPITAL ASSETS (CONTINUED)

	<u>Balance at June 30, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2017</u>
Capital assets, not being depreciated:				
Construction in progress	\$ 13,371,328	\$ 11,755,964	\$ -	\$ 25,127,292
Land	<u>1,836,045</u>	<u>-</u>	<u>-</u>	<u>1,836,045</u>
Total capital assets, not being depreciated	<u>15,207,373</u>	<u>11,755,964</u>	<u>-</u>	<u>26,963,337</u>
Capital assets, being depreciated:				
Buildings and improvements	29,626,672	-	-	29,626,672
Machinery and equipment	16,456,675	123,862	-	16,580,537
Infrastructure	<u>110,162,336</u>	<u>252,168</u>	<u>-</u>	<u>110,414,504</u>
Total capital assets, being depreciated	156,245,683	376,030	-	156,621,713
Less accumulated depreciation	<u>26,322,250</u>	<u>2,349,326</u>	<u>-</u>	<u>28,671,576</u>
Total capital assets, being depreciated, net	<u>129,923,433</u>	<u>(1,973,296)</u>	<u>-</u>	<u>127,950,137</u>
Capital assets, net	<u>\$ 145,130,806</u>	<u>\$ 9,782,668</u>	<u>\$ -</u>	<u>\$ 154,913,474</u>

LONG-TERM DEBT

Currently the Authority has two General Revenue Bonds outstanding at the end of FY17, totaling \$23.5 million at par value.

2012 Series "A"	\$11,470,000
2017 Series "A"	\$12,000,000

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

During FY17, the Authority paid approximately \$1.5 million in principal on outstanding issuances and \$633 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, 2017

BUDGET AND RATES

For FY18, the budget for operating revenues has increased 11.8% from the previous year with operating & maintenance expenses increasing by 4.2% over the previous year. The rate tariff approved in December 2016 is seen as the increase noted.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Authority has been governed by a 5-member appointed Board until July 2017 when the State law governing the Authority was amended to increase the Board to seven members. KCWA 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's rate increase was approved on December 20, 2016 for an increase in rate revenues to be effective immediately. Also approved was a step increase of 4.77% to become effective in January 2018.

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 Director of Administration and Finance at P.O. Box 192, West Warwick, RI 02893.

KENT COUNTY WATER AUTHORITY

Statement of Net Position

June 30, 2017 and 2016

ASSETS	2017	2016
<i>Current assets:</i>		
Cash and cash equivalents	\$ 196,869	\$ 240,605
Accounts receivable, less allowance of \$171,546 in 2017 and \$160,268 in 2016	3,055,725	2,769,601
Unbilled water revenue	1,096,651	1,025,657
Materials and supplies inventory	366,036	489,416
Other assets	-	84,158
Restricted cash and cash equivalents held by trustee for current portion of long-term debt	3,154,000	1,954,000
<i>Total current assets</i>	7,869,281	6,563,437
<i>Noncurrent assets:</i>		
Restricted cash and cash equivalents held by trustee	27,321,295	14,896,487
Restricted cash and cash equivalents held by trust-Infrastructure replacement	282,626	4,555,514
<i>Total noncurrent assets</i>	27,603,921	19,452,001
<i>Capital assets:</i>		
Depreciable, net	127,950,137	129,923,432
Nondepreciable	26,963,337	15,207,374
<i>Total capital assets</i>	154,913,474	145,130,806
<i>Total assets</i>	\$ 190,386,676	\$ 171,146,244
DEFERRED OUTFLOWS OF RESOURCES		
<i>Deferred outflows of resources:</i>		
NPL - assumption changes	231,092	74,332
NPL - investment return	155,569	448,276
<i>Total deferred outflows of resources</i>	\$ 386,661	\$ 522,608

The accompany notes are an integral part of the financial statements

KENT COUNTY WATER AUTHORITY

Statement of Net Position (Continued)

June 30, 2017 and 2016

	2017	2016
LIABILITIES		
<i>Current liabilities:</i>		
Accounts payable	\$ 3,289,618	\$ 2,944,337
Accrued interest expense	320,724	291,087
Accrued liabilities	270,599	216,656
Water quality protection charges payable	59,401	50,649
Long-term debt due within one year	3,270,000	1,540,000
<i>Total current liabilities</i>	7,210,342	5,042,729
<i>Noncurrent liabilities:</i>		
Long-term debt, net	20,160,625	11,422,879
Net pension liability	971,316	1,165,162
OPEB obligation, net	4,162,001	3,657,075
<i>Total noncurrent liabilities</i>	25,293,942	16,245,116
<i>Total liabilities</i>	32,504,284	21,287,845
DEFERRED INFLOWS OF RESOURCES		
<i>Deferred inflows of resources:</i>		
Gain on refunding	1,198,769	1,434,592
NPL - liability experience	358,002	280,898
<i>Total deferred inflows of resources</i>	1,556,771	1,715,490
NET POSITION		
<i>Net position:</i>		
Net investment in capital assets	141,687,041	133,119,611
Restricted for debt service	3,154,000	1,954,000
Restricted for infrastructure replacement	282,626	4,555,514
Unrestricted net position	11,588,615	9,036,392
<i>Total net position</i>	\$ 156,712,282	\$ 148,665,517

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, 2017 and 2016

	2017	2016
<i>Operating revenues:</i>		
Water	\$ 19,220,906	\$ 18,576,440
Hydrant fees	1,612,517	1,334,022
Other	<u>352,119</u>	<u>281,091</u>
<i>Total operating revenue</i>	<u>21,185,542</u>	<u>20,191,553</u>
<i>Operating expenses:</i>		
Source of supply	4,642,200	4,954,207
Pumping	631,893	644,136
Transmission and distribution	1,151,935	1,209,270
Water treatment	292,808	275,355
Customer accounts	451,605	426,058
Administrative and general	3,397,322	3,097,133
Depreciation	2,349,326	2,330,514
Taxes other than income	<u>155,370</u>	<u>174,825</u>
<i>Total operating expenses</i>	<u>13,072,459</u>	<u>13,111,498</u>
<i>Operating income</i>	<u>8,113,083</u>	<u>7,080,055</u>
<i>Nonoperating income (expense):</i>		
Capital contributions	23,389	108,637
Interest income (expense)	<u>(89,707)</u>	<u>197,829</u>
<i>Net non-operating income (expense)</i>	<u>(66,318)</u>	<u>306,466</u>
<i>Increase in net position</i>	8,046,765	7,386,521
<i>Net position at beginning of year</i>	<u>148,665,517</u>	<u>141,278,996</u>
<i>Net position at end of year</i>	<u>\$ 156,712,282</u>	<u>\$ 148,665,517</u>

The accompany notes are an integral part of the financial statements

KENT COUNTY WATER AUTHORITY

Statement of Cash Flows

Year Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Cash received from customers	\$ 21,032,680	\$ 20,387,057
Cash paid to employees for services	2,028,817	1,021,304
Cash paid to suppliers for goods and services	(9,620,284)	(9,801,515)
Net cash provided by operating activities	13,441,213	11,606,846
Cash flows from investing activities:		
Interest income received	(87,295)	170,604
Net cash provided by investing activities	(87,295)	170,604
Cash flows from capital and related financial activities:		
Payments on debt	8,518,846	(1,713,077)
Capital additions	(19,665,565)	(9,864,085)
Capital contributions	23,389	108,637
Interest expense	-	-
Net cash used/or capital and related financing activities	(11,123,330)	(11,468,525)
Net decrease in cash and cash equivalents	2,230,588	308,925
Cash and cash equivalents, beginning of year	21,646,606	21,337,681
Cash and cash equivalents, end of year	23,877,194	21,646,606
Cash and cash equivalents, per the statement of net position		
Cash and cash equivalents	196,869	240,605
Restricted cash and cash equivalents held by trustee for current portion of long term debt	3,154,000	1,954,000
Restricted cash and cash equivalents held by trustee (Note 3)	27,321,295	14,896,487
Restricted cash and cash equivalents held by trustee-Infrastructure replacement (Note 3)	282,626	4,555,514
Total cash and cash equivalents, per the statement of net position	\$ 30,954,790	\$ 21,646,606
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 8,113,083	\$ 7,080,055
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation of bond issuance costs	2,349,326	2,330,514
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable, net	(129,496)	156,628
(Increase) decrease in unbilled water revenue	43,345	114,339
(Increase) decrease in material, supplies and inventory	16,242	(107,138)
(Increase) decrease in other assets	243,759	159,601
(Increase) decrease in NPL deferred outflows	30,848	(182,203)
Increase (decrease) in accounts payable	1,780,259	1,434,978
Increase (decrease) in accrued liabilities	48,181	(5,762)
Increase (decrease) in water quality protection charges payable	(66,711)	(75,463)
Increase (decrease) in other liabilities	1,012,377	701,297
Net cash provided by operating activities	\$ 13,441,213	\$ 11,606,846

The accompany notes are an integral part of the financial statements

KENT COUNTY WATER AUTHORITY

Statement of Fiduciary Net Position

June 30, 2017 and 2016

	<u>Pension Plan for KCWA</u>	
	<u>2017</u>	<u>2016</u>
ASSETS:		
Investments, at fair value	\$ 5,702,783	\$ 5,139,049
Total assets	<u>5,702,783</u>	<u>5,139,049</u>
LIABILITIES		
None	<u>-</u>	<u>-</u>
NET POSITION:		
Restricted for pension	<u>\$ 5,702,783</u>	<u>\$ 5,139,049</u>

The accompany notes are an integral part of the financial statements

KENT COUNTY WATER AUTHORITY

Statement of Changes in Fiduciary Net Position

For the Year Ended June 30, 2017 and 2016

	Pension Plan for KCWA	
	2017	2016
ADDITIONS:		
Contributions:		
Employer contributions	\$ 243,161	\$ 246,738
Total contributions	243,161	246,738
Investment income:		
Net investment income	587,562	(13,926)
Total investment income	587,562	(13,926)
Total additions	830,723	232,812
DEDUCTIONS:		
Actual and service benefits payments	266,989	263,800
Total deductions	266,989	263,800
Change in net position	563,734	(30,988)
Net Position - Beginning	5,139,049	5,170,037
Net Position - Ending	\$ 5,702,783	\$ 5,139,049

The accompany notes are an integral part of the financial statements

KENT COUNTY WATER AUTHORITY

Notes to the Financial Statements

June 30, 2017

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, 2017

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, 2017 was \$171,546. This estimate is based off of 5% of the most recent 90 days receivable and 10% of any receivable older than 90 days.

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.

KENT COUNTY WATER AUTHORITY

Notes to the Financial Statements

June 30, 2017

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.

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, 2017 and 2016, there were \$386,661 and \$522,608 in deferred outflows relating to pensions, respectively and \$1,556,771 and \$1,715,490 in deferred inflows relating to pensions and gains 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, 2016, 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 implemented the following new accounting pronouncements in 2017:

For the year ending June 30, 2017, the Authority implemented the following pronouncements issued by the GASB:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*
- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*

The implementation GASB Statements No. 73 and 74 had no material reporting impact for the Authority.

KENT COUNTY WATER AUTHORITY

Notes to the Financial Statements

June 30, 2017

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	\$	196,569
Cash equivalents		30,757,921
Petty cash		<u>300</u>
	\$	<u>30,954,790</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, 2017 was \$30,954,790 and the bank balance was \$30,988,065.

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, 2017, \$30,988,065 of the Authority's bank balance of \$30,757,927 was exposed to custodial credit risk as follows:

	Bank Balance
Insured (Federal depository insurance funds)	\$ 230,144
Uninsured	<u>30,757,921</u>
	<u>\$ 30,988,065</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.

KENT COUNTY WATER AUTHORITY

Notes to the Financial Statements

June 30, 2017

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	
	2017	2016
Money Market Treasury Obligation Fund	<u>\$ 30,757,921</u>	<u>\$ 21,406,001</u>
Total cash equivalents	<u>\$ 30,757,921</u>	<u>\$ 21,406,001</u>

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 \$282,626 and \$4,555,514 as of June 30, 2017 and 2016, 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)

KENT COUNTY WATER AUTHORITY

Notes to the Financial Statements

June 30, 2017

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, 2017 is as follows:

	<u>Balance at June 30, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2017</u>
Capital assets, not being depreciated:				
Construction in progress	\$ 13,371,328	\$ 11,755,964	\$ -	\$ 25,127,292
Land	<u>1,836,045</u>	<u>-</u>	<u>-</u>	<u>1,836,045</u>
Total capital assets, not being depreciated	<u>15,207,373</u>	<u>11,755,964</u>	<u>-</u>	<u>26,963,337</u>
Capital assets, being depreciated:				
Buildings and improvements	29,626,672	-	-	29,626,672
Machinery and equipment	16,456,675	123,862	-	16,580,537
Infrastructure	<u>110,162,336</u>	<u>252,168</u>	<u>-</u>	<u>110,414,504</u>
Total capital assets, being depreciated	156,245,683	376,030	-	156,621,713
Less accumulated depreciation	<u>26,322,250</u>	<u>2,349,326</u>	<u>-</u>	<u>28,671,576</u>
Total capital assets, being depreciated, net	<u>129,923,433</u>	<u>(1,973,296)</u>	<u>-</u>	<u>127,950,137</u>
Capital assets, net	<u>\$ 145,130,806</u>	<u>\$ 9,782,668</u>	<u>\$ -</u>	<u>\$ 154,913,474</u>

Interest costs of \$298,954 and \$588,627, offset by interest income of \$46,785 and \$423, were capitalized in 2017 and 2016, respectively.

KENT COUNTY WATER AUTHORITY

Notes to the Financial Statements

June 30, 2017

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 year ended June 30, 2017:

Description	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Amounts due within one year
Revenue bonds:					
July 2012 Series A bearing interest at 4%-5% and maturing in 2023	\$ 13,010,000	\$ -	\$ (1,540,000)	\$ 11,470,000	\$ 1,605,000
April 2017 Series A bearing interest at 2.035% and maturing in 2024	<u>-</u>	<u>12,000,000</u>	<u>-</u>	<u>12,000,000</u>	<u>1,665,000</u>
	<u>13,010,000</u>	<u>12,000,000</u>	<u>(1,540,000)</u>	<u>23,470,000</u>	<u>3,270,000</u>
Add (less):					
Unamortized discount	<u>(47,122)</u>	<u>-</u>	<u>7,746</u>	<u>\$ (39,376)</u>	<u>7,746</u>
	<u>(47,122)</u>	<u>-</u>	<u>7,746</u>	<u>(39,376)</u>	<u>7,746</u>
	<u>\$ 12,962,878</u>	<u>\$ -</u>	<u>\$ (1,532,254)</u>	<u>\$ 23,430,624</u>	<u>\$ 3,277,746</u>

KENT COUNTY WATER AUTHORITY

Notes to the Financial Statements

June 30, 2017

NOTE 5. LONG-TERM OBLIGATIONS (CONTINUED)

The annual debt service requirements of the general long-term bonds payable as of June 30, 2017 are as follows:

Fiscal year ended June 30:	Principal	Interest	Total
2018	\$ 3,270,000	\$ 718,560	\$ 3,988,560
2019	3,325,000	661,317	3,986,317
2020	3,445,000	541,420	3,986,420
2021	3,575,000	416,310	3,991,310
2022	3,695,000	285,989	3,980,989
2023-2024	6,160,000	240,163	6,400,163
	\$ 23,470,000	\$ 2,863,759	\$ 26,333,759

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, 2017 and 2016.

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, 2017 to be \$189,500. 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, 2017 were as follows:

	June 30, 2016	Additions	Payments	June 30, 2017	Amounts Due Within One Year
Compensated absences	\$ 158,194	\$ 31,306	\$ -	\$ 189,500	\$ 189,500

KENT COUNTY WATER AUTHORITY

Notes to the Financial Statements

June 30, 2017

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, 2017, pension plan membership consisted of the following:

Retirees and beneficiaries receiving benefits from the plan	31
Terminated members entitled to future benefits	16
Active plan members	<u>21</u>
Subtotal	<u><u>68</u></u>

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, 2017 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.

KENT COUNTY WATER AUTHORITY

Notes to the Financial Statements

June 30, 2017

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, 2017:

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

Concentrations

As of June 30, 2017, 5% or more of Plan assets were held in the following individual funds:

<u>Fund</u>	<u>Concentration</u>
Nationwide Fixed Fund	9.90%
Vanguard Mid-Cap Index	9.00%
Vanguard Growth Index	8.00%
Vanguard High Yield Corporate	8.00%
Vanguard Value Index	7.10%
American Fund AMCAP	7.00%
American Fund American Mutual	7.00%
LeggMason Core Bond Fund	6.00%
Prudential Core Bond Fund	6.00%

KENT COUNTY WATER AUTHORITY

Notes to the Financial Statements

June 30, 2017

NOTE 7. PENSION PLAN (CONTINUED)

Investments (Continued)

Rate of return

For the year ended June 30, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 7 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, 2017, 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	\$ -	\$ (358,002)
Assumption changes	231,092	-
Investment experience	155,569	-
Total	\$ 386,661	\$ (358,002)

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

Fiscal Year End	Expense Recognition
2018	\$ 67,112
2019	67,112
2020	22,585
2021	(56,088)
2022	(13,712)
After 2022	(58,350)

Net Pension Liability of the Authority

The components of the net pension liability of the Authority at June 30, 2017, were as follows:

Total pension liability	\$ 6,674,099
Plan fiduciary net position	(5,702,783)
Authorities' net pension liability	\$ 971,316
 Plan fiduciary net position as a percentage of the total pension liability	 85.45%

KENT COUNTY WATER AUTHORITY

Notes to the Financial Statements

June 30, 2017

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, 2017, 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	7.00 percent

Assumed mortality was updated to the sex-distinct IRS 2017 Combined Static Table as of January 1, 2017.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2016–June 30, 2017.

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, 2017 (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 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, 2017

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 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 percent) or 1-percentage-point higher (8 percent) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Authority's net pension liability	\$ 345,206	\$ 971,315	\$ 1,703,254

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:

Fiscal Year Beginning	<u>July 1, 2016</u>	<u>July 1, 2015</u>	<u>July 1, 2014</u>
Discount rate	4.00%	4.00%	4.00%
Census Date	7/1/2014	7/1/2014	7/1/2014
Mortality	IRS-2014	IRS-2014	IRS-2014

Medical coverage costs are assumed to increase 7% in fiscal 2015 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 4.5% in fiscal 2015 with trend rates decreasing 0.25% each year to an ultimate rate of 3.5% per year in fiscal 2019 and beyond.

KENT COUNTY WATER AUTHORITY

Notes to the Financial Statements

June 30, 2017

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, 2017	\$ 588,761	\$ 83,835	14.24%	\$ 4,162,001
June 30, 2016	568,965	74,075	13.02%	3,657,075
June 30, 2015	550,128	79,203	14.40%	3,162,185

The Authority's annual OPEB cost and net OPEB obligation for the year ended June 30, 2017 and 2016 was as follows:

	June 30, 2017	June 30, 2016
Annual required contribution	\$ 645,833	\$ 618,314
Interest on net OPEB obligation	146,283	126,487
Adjustment to annual required contribution	<u>(203,355)</u>	<u>(175,836)</u>
Annual OPEB cost (expense)	588,761	568,965
Contributions made	<u>(83,835)</u>	<u>(74,075)</u>
Increase in net OPEB obligation	504,926	494,890
Net OPEB obligation - beginning of year	<u>3,657,075</u>	<u>3,162,185</u>
Net OPEB obligation - end of year	<u>\$ 4,162,001</u>	<u>\$ 3,657,075</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%

KENT COUNTY WATER AUTHORITY

Notes to the Financial Statements

June 30, 2017

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, 2017 and 2016, water quality protection charges payable of \$59,401 and \$50,649, 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, 2017, 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, 2017

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. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 3, 2017, 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

Last Ten Fiscal Years
June 30, 2017

	<u>2017*</u>	<u>2016</u>	<u>2015</u>
Total pension liability			
Service cost	\$ 126,528	\$ 114,734	\$ 144,147
Interest	444,406	431,804	419,030
Experience (gain) or loss	(113,280)	(120,312)	(203,680)
Assumption changes	179,224	12,993	74,562
Benefit payments	<u>(266,989)</u>	<u>(263,800)</u>	<u>(260,720)</u>
Net change in total pension liability	369,889	175,419	173,339
Total pension liability - beginning	<u>6,304,210</u>	<u>6,128,791</u>	<u>5,955,452</u>
Total pension liability - ending (a)	<u>\$ 6,674,099</u>	<u>\$ 6,304,210</u>	<u>\$ 6,128,791</u>
 Pension fiduciary net position			
Contributions - employer	\$ 243,161	\$ 246,738	\$ 277,560
Expected investment return	375,678	379,448	369,051
Additional investment return	211,884	(393,374)	(222,627)
Other	<u>(266,989)</u>	<u>(263,800)</u>	<u>(260,720)</u>
Net change in plan fiduciary net position	563,734	(30,988)	163,264
Plan fiduciary net position - beginning	<u>5,139,049</u>	<u>5,170,037</u>	<u>5,006,773</u>
Plan fiduciary net position - ending (b)	<u>\$ 5,702,783</u>	<u>\$ 5,139,049</u>	<u>\$ 5,170,037</u>
 Authority's net pension liability (asset) - ending (a) - (b)	<u>\$ 971,316</u>	<u>\$ 1,165,161</u>	<u>\$ 958,754</u>

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

See independent auditors' report

Continued
33

KENT COUNTY WATER AUTHORITY

Required Supplementary Information

Schedule of Changes in the Authority's Net Pension Liability and Related Ratios

Last Ten Fiscal Years
June 30, 2017

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Total pension liability	\$6,674,098	\$6,304,210	\$6,128,791	\$5,955,452	\$5,813,927	\$5,723,004	\$5,351,926	\$5,061,493	\$4,998,203	\$5,073,463
Plan fiduciary net position	<u>5,702,783</u>	<u>5,139,049</u>	<u>5,170,037</u>	<u>5,006,773</u>	<u>4,897,501</u>	<u>4,188,518</u>	<u>3,784,648</u>	<u>3,853,105</u>	<u>3,499,204</u>	<u>2,940,501</u>
Authority's net pension liability (asset)	<u>\$ 971,315</u>	<u>\$ 1,165,161</u>	<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>
Plan fiduciary net position as a percentage of the total pension liability	85.45%	81.52%	84.36%	84.07%	84.24%	73.19%	70.72%	76.13%	70.01%	57.96%
Covered-employee payroll	1,996,345	1,963,460	1,798,468	1,916,160	1,840,222	1,671,148	1,699,872	1,614,790	1,669,110	1,755,040
Authority's net pension liability (asset) as a percentage of covered-employee payroll	48.65%	59.34%	53.31%	49.51%	49.80%	91.82%	92.20%	74.83%	89.81%	121.53%

See independent auditors' report

KENT COUNTY WATER AUTHORITY

Required Supplementary Information

Schedule of Contributions

Last Ten Fiscal Years
June 30, 2017

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 222,207	\$ 243,161	\$ 246,738	\$ 277,560	\$ 311,745	\$ 256,566	\$ 222,723	\$ 214,026	\$ 258,392	\$ 193,619
Contributions in relation to the										
actuarially determined contribution	222,207	243,161	246,738	277,560	311,745	256,566	222,723	214,026	260,000	193,619
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,608)	\$ -
Covered-employee payroll	1,996,345	1,963,460	1,798,468	1,916,160	1,840,222	1,671,148	1,699,872	1,614,790	1,669,110	1,755,040
Contributions as a percentage of covered-employee payroll	11.13%	12.38%	13.72%	14.49%	16.94%	15.35%	13.10%	13.25%	15.58%	11.03%

See independent auditors' report

KENT COUNTY WATER AUTHORITY

Required Supplementary Information

Schedule of Investment Returns

Last Ten Fiscal Years
June 30, 2017

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Annual money-weighted rate of return, net of investment expense	11.46%	-0.27%	2.92%	Not Avail	15.41%	11.88%	0.45%	12.08%	19.93%	-24.08%

See independent auditors' report

KENT COUNTY WATER AUTHORITY

Required Supplementary Information

Other Post Employment Benefits Schedule of Funding Progress

June 30, 2017

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 (5)	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%

See independent auditors' report

KENT COUNTY WATER AUTHORITY

Required Supplementary Information

Other Post Employment Benefits Schedule of Employer Contributions

June 30, 2017

Fiscal Year Ending	Annual OPEB Cost	Actual Plan Contributions	Percentage of OPEB Cost Contributed	Net OPEB Obligation
June 30, 2017	\$ 588,761	\$ 83,835	14.24%	\$ 4,162,001
June 30, 2016	568,965	74,075	13.02%	3,657,075
June 30, 2015	550,128	79,203	14.40%	3,162,185

Notes to OPEB RSI:

Valuation date	July 1, 2014
Actuarial cost method	Projected Unit Credit Method
Remaining amortization period	30-year level dollar basis, open
Asset valuation method	N/A

Actuarial assumptions:

Discount rate for liabilities	4.0%
Healthcare inflation rate:	
Initial medical/dental trend rates	7.0% / 4.5%
Ultimate medical/dental trend rates	5.0% / 3.5%

See independent auditors' report

HAGUE, SAHADY & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS
126 President Avenue
Fall River, MA 02720
TEL. (508) 675-7889
FAX (508) 675-7859
www.hague-sahady.com

*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
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, 2017, and the related notes to the financial statements, and have issued our report thereon dated September 3, 2017.

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, 2017