KENT COUNTY WATER AUTHORITY
WARWICK, RHODE ISLAND

ANNUAL FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

Kent County Water Authority

ANNUAL FINANCIAL STATEMENTS

June 30, 2018

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HAGUE, SAHADY & CO., P.C.

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the business-type activities of the Kent County Water Authority ("the Authority"), as of and for the years ended June 30, 2018, 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, 2018 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, 2018, 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, net other post-employment benefits liability and related ratios, schedule of Authority's contributions, and schedule of Authority's investment return, on pages 4-10 and 36-42 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, 2017, 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 August 29, 2018 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, Sahady & Co. PC

Fall River, Massachusetts
August 29, 2018

KENT COUNTY WATER AUTHORITY

Management's Discussion and Analysis (MD&A)

Year Ended June 30, 2018

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, 2018. 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 17-35 of this report.

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 $507 thousand under budget and $1.076 million higher than the prior year due to a rate increase.
- The Authority spent $245 thousand less on purchase of power than budgeted due to lower energy costs.

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 $165,754,137 as of June 30, 2018. This represents an increase in total net position of $9,619,617 or 6.16% from FY 2017 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:

Condensed Statement of Net Position

	2018	2017
Current assets	$ 7,727,689	$ 7,869,281
Other noncurrent assets	24,347,569	27,603,921
Capital assets, net	163,013,265	154,913,474
Total assets	195,088,523	190,386,676
Deferred outflows of resources		
NPL - investment experience	196,528	28,659
Total deferred outflows of resources	196,528	28,659
Current liabilities	5,607,491	7,218,088
Noncurrent liabilities	22,960,477	25,863,958
Total liabilities	28,567,968	33,082,046
Deferred inflows of resources		
Gain (loss) on refunding	962,946	1,198,769
Total deferred inflows of resources	962,946	1,198,769
Net position:		
Net investment in capital assets	142,813,265	141,687,041
Restricted for debt service	3,154,000	3,154,000
Restricted for infrastructure replacement	282,626	282,626
Unrestricted net position	19,504,246	11,010,853
Total net position	$ 165,754,137	$ 156,134,520

The table above reflects a decrease in current assets of $141,592 from FY 2017 to FY 2018. This decrease reflects an increase in accounts receivable and restricted cash due to bond issuance. There is also a significant increase in capital assets (net) of $8,099,791 from FY 2017 to FY 2018. This increase is the result of substantial progress that the Authority made in FY 2018 on the initiatives identified in the Capital Improvement Program (CIP).

In 2018, the current liabilities decreased by $1,610,597. This is the result of a decrease in supplies and other services needed.

The largest portion of the Authority's net position, 86.2%, 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 FY18, the Authority's net position totaled $165.7 million, an increase of $9.62 million or 6.16% from the previous year. Total assets in FY18 were $195.1 million, an increase of $4.7 million or 2.47% from the previous year. Total liabilities decreased by $4.5 million or 13.65%.

CHANGES IN NET POSITION

The Authority's ended the FY 2018 with an increase in net position of $9,619,617. 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

	2018	2017
Operating revenues:		
Water	$ 20,176,526	$ 19,220,906
Hydrant fees	1,776,110	1,612,517
Other	309,688	352,119
Total operating revenue	22,262,324	21,185,542
Operating expenses:		
Source of supply	4,580,739	4,642,200
Pumping	700,134	631,893
Transmission and distribution	1,090,491	1,151,935
Water treatment	427,799	292,808
Customer accounting	458,237	451,605
Administrative and general	2,998,719	3,397,322
Depreciation	2,354,705	2,349,326
Taxes other than income	181,743	155,370
Total operating expenses	12,792,567	13,072,459
Operating income	9,469,757	8,113,083
Nonoperating income (expense):		
Capital contributions	5,093	23,389
Interest income (expense)	144,767	(89,707)
Net non-operating income (expense)	149,860	(66,318)
Increase in net position	9,619,617	8,046,765
Net position at beginning of year, restated	156,134,520	148,087,755
Net position at end of year	$ 165,754,137	$ 156,134,520

REVENUES

Water user fees are the Authority's primary source of revenue, representing approximately 90.6% of total operating revenues. Fiscal Year 2018 water user fee revenue was $20,176,526 which is $955,620 more than the prior year. The increase in user fees is the combined effect of a rate increase. These PUC approved rate increases applied to both consumption and flat fees. FY 2018 other operating revenue decreased by $42,431.

The operating income for FY18 totaled $9.5 million, representing an increase of 16.7% from the previous year. This increase is a result of the changes discussed above.

EXPENSES

Total operating expenses in FY 2018 decreased $279,892 over the prior year. The decrease in operating expenses was driven most notably by a decrease in administrative and general of nearly $398 thousand, as well as, an increase in water treatment of $134 thousand.

Net non-operating income is $149,860 in the current year because of an increase in interest income.

Capital Assets and Debt Administration

CAPITAL ASSETS

At the end of FY 2018, the Authority had $163 million invested in capital assets. This amount represents an increase of $8.1 million, or 5.23% over last year. The following table summarizes the Authority's capital assets and changes therein, for the years ended June 30, 2018 and June 30, 2017.

Capital Assets and Debt Administration (CONTINUED)

CAPITAL ASSETS (CONTINUED)

	Balance at June 30, 2017	Increases	Decreases	Balance at June 30, 2018
Capital assets, not being depreciated:				
Construction in progress	$ 25,127,292	$ 10,059,269	$ 19,217,476	$ 15,969,085
Land	1,836,045	-	-	1,836,045
Total capital assets, not being depreciated	26,963,337	10,059,269	19,217,476	17,805,130
Capital assets, being depreciated:				
Buildings and improvements	29,626,672	4,308,145	-	33,934,817
Machinery and equipment	16,580,537	36,527	20,899	16,596,165
Infrastructure	110,414,504	15,268,030	-	125,682,534
Total capital assets, being depreciated	156,621,713	19,612,702	20,899	176,213,516
Less accumulated depreciation	28,671,576	2,354,704	20,899	31,005,381
Total capital assets, being depreciated, net	127,950,137	17,257,998	-	145,208,135
Capital assets, net	$ 154,913,474	$ 27,317,267	$ 19,217,476	$ 163,013,265

LONG-TERM DEBT

Currently the Authority has two General Revenue Bonds outstanding at the end of FY18, totaling $20.2 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 FY18, the Authority paid approximately $3.3 million in principal on outstanding issuances and $720 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.

BUDGET AND RATES

For FY19, the budget for operating revenues has decreased 1.5% from the previous year with operating & maintenance expenses decreasing by 8.1% over the previous year. The step increase tariff approved in January 2018 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 2018 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 (RIPUC). Both Authority's Board and the RIPUC must authorize all adjustments to user charges.

The Authority's rate increase was approved in January 2018 for an increase in rate revenues to be effective immediately.

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, 2018 and 2017

ASSETS

	2018	2017
Current assets:		
Cash and cash equivalents	$ 162,674	$ 196,869
Accounts receivable, less allowance of $154,176 in 2018 and $171,546 in 2017	2,813,661	3,055,725
Unbilled water revenue	1,216,760	1,096,651
Materials and supplies inventory	380,594	366,036
Restricted cash and cash equivalents held by trustee for current portion of long-term debt	3,154,000	3,154,000
Total current assets	7,727,689	7,869,281
Noncurrent assets:		
Restricted cash and cash equivalents held by trustee	24,064,943	27,321,295
Restricted cash and cash equivalents held by trust-Infrastructure replacement	282,626	282,626
Total noncurrent assets	24,347,569	27,603,921
Capital assets:		
Depreciable, net	145,208,135	127,950,137
Nondepreciable	17,805,130	26,963,337
Total capital assets	163,013,265	154,913,474
Total assets	$ 195,088,523	$ 190,386,676

DEFERRED OUTFLOWS OF RESOURCES

	2018	2017
Deferred outflows of resources:		
Pension related outflows	196,528	28,659
Total deferred outflows of resources	$ 196,528	$ 28,659

The accompany notes are an integral part of the financial statements

KENT COUNTY WATER AUTHORITY

Statement of Net Position

June 30, 2018 and 2017

LIABILITIES

	2018	2017
Current liabilities:		
Accounts payable	$ 1,675,399	$ 3,289,618
Accrued interest expense	322,468	320,724
Accrued liabilities	276,878	270,599
Water quality protection charges payable	-	59,401
Long-term debt due within one year	3,332,746	3,277,746
Total current liabilities	5,607,491	7,218,088
Noncurrent liabilities:		
Long-term debt, net	16,835,624	20,152,879
Net pension liability	1,186,356	971,316
Net OPEB liability	4,938,497	4,739,763
Total noncurrent liabilities	22,960,477	25,863,958
Total liabilities	28,567,968	33,082,046

DEFERRED INFLOWS OF RESOURCES

	2018	2017
Deferred inflows of resources:		
Gain on refunding	962,946	1,198,769
Total deferred inflows of resources	962,946	1,198,769

NET POSITION

	2018	2017
Net position:		
Net investment in capital assets	142,813,265	141,687,041
Restricted for debt service	3,154,000	3,154,000
Restricted for infrastructure replacement	282,626	282,626
Unrestricted net position	19,504,246	11,010,853
Total net position	$ 165,754,137	$ 156,134,520

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, 2018 and 2017

	2018	2017
Operating revenues:		
Water	$ 20,176,526	$ 19,220,906
Hydrant fees	1,776,110	1,612,517
Other	309,688	352,119
Total operating revenue	22,262,324	21,185,542
Operating expenses:		
Source of supply	4,580,739	4,642,200
Pumping	700,134	631,893
Transmission and distribution	1,090,491	1,151,935
Water treatment	427,799	292,808
Customer accounts	458,237	451,605
Administrative and general	2,998,719	3,397,322
Depreciation	2,354,705	2,349,326
Taxes other than income	181,743	155,370
Total operating expenses	12,792,567	13,072,459
Operating income	9,469,757	8,113,083
Nonoperating income (expense):		
Capital contributions	5,093	23,389
Interest income (expense)	144,767	(89,707)
Net non-operating income (expense)	149,860	(66,318)
Increase in net position	9,619,617	8,046,765
Net position at beginning of year, restated	156,134,520	148,087,755
Net position at end of year	$ 165,754,137	$ 156,134,520

The accompany notes are an integral part of the financial statements

KENT COUNTY WATER AUTHORITY

Statement of Cash Flows

Year Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Cash received from customers	$22,324,878	$21,032,680
Cash paid to employees for services	(1,362,035)	2,028,817
Cash paid to suppliers for goods and services	(10,452,420)	(9,620,284)
Net cash provided by operating activities	10,510,423	13,441,213
Cash flows from investing activities:		
Interest income received	508,115	247,688
Net cash provided by investing activities	508,115	247,688
Cash flows from capital and related financial activities:		
Payments on debt	(3,498,078)	8,518,846
Capital additions	(10,454,496)	(12,587,969)
Capital contributions	5,093	23,389
Interest expense	(361,604)	(334,983)
Net cash used/or capital and related financing activities	(14,309,085)	(4,380,717)
Net decrease in cash and cash equivalents	(3,290,547)	9,308,184
Cash and cash equivalents, beginning of year	30,954,790	21,646,606
Cash and cash equivalents, end of year	27,664,243	30,954,790
Cash and cash equivalents, per the statement of net position		
Cash and cash equivalents	162,674	196,869
Restricted cash and cash equivalents held by trustee for current portion of long term debt	3,154,000	3,154,000
Restricted cash and cash equivalents held by trustee (Note 3)	24,064,943	27,321,295
Restricted cash and cash equivalents held by trustee-Infrastructure replacement (Note 3)	282,626	282,626
Total cash and cash equivalents, per the statement of net position	$27,664,243	$30,954,790
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 9,469,757	$ 8,113,083
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation of bond issuance costs	2,354,705	2,349,326
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable, net	242,064	(129,496)
(Increase) decrease in unbilled water revenue	(120,109)	43,345
(Increase) decrease in material, supplies and inventory	(14,558)	16,242
(Increase) decrease in other assets	-	243,759
(Increase) decrease in NPL deferred outflows	(167,869)	30,848
Increase (decrease) in accounts payable	(1,614,219)	1,780,259
Increase (decrease) in accrued liabilities	6,279	48,181
Increase (decrease) in water quality protection charges payable	(59,401)	(66,711)
Increase (decrease) in other liabilities	413,774	1,012,377
Net cash provided by operating activities	$10,510,423	$13,441,213

The accompany notes are an integral part of the financial statements

KENT COUNTY WATER AUTHORITY

Statement of Fiduciary Net Position

June 30, 2018 and 2017

	Pension Plan for KCWA		OPEB Trust for KCWA	
	2018	2017	2018	2017
ASSETS:				
Investments, at fair value	$6,120,174	$5,702,783	$ 81,170	$ -
Total assets	6,120,174	5,702,783	81,170	-
LIABILITIES				
None	-	-	-	-
NET POSITION:				
Restricted for pension	$6,120,174	$5,702,783	$ 81,170	$ -

The accompany notes are an integral part of the financial statements

KENT COUNTY WATER AUTHORITY

Statement of Changes in Fiduciary Net Position

Year Ended June 30, 2018 and 2017

	Pension Plan for KCWA		OPEB Trust for KCWA	
	2018	2017	2018	2017
ADDITIONS:				
Contributions:				
Employer contributions	$ 222,207	$ 243,161	$ 164,292	$ 83,835
Total contributions	222,207	243,161	164,292	83,835
Investment income:				
Net investment income	459,748	587,562	1,170	-
Total investment income	459,748	587,562	1,170	-
Total additions	681,955	830,723	165,462	83,835
DEDUCTIONS:				
Actual and service benefits payments	264,564	266,989	84,292	83,835
Total deductions	264,564	266,989	84,292	83,835
Change in net position	417,391	563,734	81,170	-
Net Position - Beginning	5,702,783	5,139,049	-	-
Net Position - Ending	$6,120,174	$5,702,783	$ 81,170	$ -

The accompany notes are an integral part of the financial statements

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 of the State of Rhode Island (RIPUC).

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:

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, 2018 was $154,176. 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.

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, 2018 and 2017, there were a net of $196,528 and $28,659 in deferred outflows relating to pensions, respectively and $962,946 and $1,198,769 in deferred inflows relating to 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, 2017, 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 2018:

> For the fiscal year ending June 30, 2018, the Authority adopted the provisions of Statement No. 75 of the Governmental Accounting Standards Board, *Accounting and Financial reporting for Postemployment Benefit Plans Other than Pension plans* (GASB 75). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

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	$ 162,374
Cash equivalents	27,501,569
Fiduciary fund investment	6,201,344
Petty cash	300
	$ 33,865,587

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, 2018 was $33,865,587 and the bank balance was $33,920,058.

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, 2018, $33,865,587 of the Authority's bank balance of $33,920,058 was exposed to custodial credit risk as follows:

	Bank Balance
Insured (Federal depository insurance funds)	$ 217,145
Uninsured	33,702,913
	$ 33,920,058

Investment – Investment are stated at fair value which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Authority follows the guidance for fair value measurements and disclosures in accordance with GASB Statement No. 72, "Fair Value Measurement and Application".

GASB Statement No. 72 establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The fair value hierarchy is categorized into three levels based on the inputs as follows:

NOTE 3. CASH AND CASH EQUIVALENTS

Investment (Continued)

Level 1- Unadjusted quoted priced in active markets that are accessible at the measurement date for identical assets or liabilities.
Level 2- Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability.
Level 3- Unobservable inputs for the asset or liability (supported by little or no market activity). Level 3 inputs include management's own assumption about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risks).

Description	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Money Market Treasury				
Obligation Fund	$ 27,501,569	$ 27,501,569	$ -	$ -
Mututal Funds-Pension				
Ambcn Smcap Val Inst	62,706	62,706	-	-
Gdmnscs Comdty Strat Inst	60,997	60,997	-	-
Opp Dev Mkt Y	235,623	235,623	-	-
Vngrd Prec Mtls Mining Inv	59,267	59,267	-	-
Vngrd Realest Indx Inv	129,843	129,843	-	-
Amfds Europacfc Gr R6	233,115	233,115	-	-
Trowepr New Hrizns	64,049	64,049	-	-
Vngrd Devl Mkt Indx Inv	233,954	233,954	-	-
Vngrd Gr Indx Adml	496,050	496,050	-	-
Vngrd Smcap Gr Indx Inv	125,721	125,721	-	-
Vngrd Smcap Val Indx Adml	124,839	124,839	-	-
Amfds Amcap R6	433,527	433,527	-	-
Vngrd Mid-Cap Idx Fd As	554,569	554,569	-	-
Vngrd Indx Adml	424,459	424,459	-	-
Amfds Am Mut R6	428,604	428,604	-	-
Fnklntmp Glbl Bd Adv	302,413	302,413	-	-
Leggm Wstras Corplsbd	368,562	368,562	-	-
Pgim Ttl Rtn Bd	370,394	370,394	-	-
Vngrd Hi Yld Corp Inv	490,024	490,024		-
Vngrd Infl Prtct Sec Adml	310,538	310,538	-	-
Boa-Fixed	610,920	610,920	-	-
Mutual Funds-OPEB				
Vanguard	81,170	81,170	-	-
Total	$ 33,702,913	$ 33,702,913	$ -	$ -

NOTE 3. CASH AND CASH EQUIVALENTS

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.

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.

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 $282,626 as of June 30, 2018 and 2017, 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)

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, 2018 is as follows:

	Balance at June 30, 2017	Increases	Decreases	Balance at June 30, 2018
Capital assets, not being depreciated:				
Construction in progress	$ 25,127,292	$ 10,059,269	$ 19,217,476	$ 15,969,085
Land	1,836,045	-	-	1,836,045
Total capital assets, not being depreciated	26,963,337	10,059,269	19,217,476	17,805,130
Capital assets, being depreciated:				
Buildings and improvements	29,626,672	4,308,145	-	33,934,817
Machinery and equipment	16,580,537	36,527	20,899	16,596,165
Infrastructure	110,414,504	15,268,030	-	125,682,534
Total capital assets, being depreciated	156,621,713	19,612,702	20,899	176,213,516
Less accumulated depreciation	28,671,576	2,354,704	20,899	31,005,381
Total capital assets, being depreciated, net	127,950,137	17,257,998	-	145,208,135
Capital assets, net	$ 154,913,474	$ 27,317,267	$ 19,217,476	$ 163,013,265

Interest costs of $358,700 and $298,954, offset by interest income of $0 and $46,785, were capitalized in 2018 and 2017, respectively.

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, 2018:

Description	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Amounts due within one year
Revenue bonds:					
July 2012 Series A bearing interest at 4%-5% and maturing in 2023	$ 11,470,000	$ -	$ (1,605,000)	$ 9,865,000	$ 1,690,000
April 2017 Series A bearing interest at 2.035% and maturing in 2024	12,000,000	-	(1,665,000)	10,335,000	1,635,000
	23,470,000	-	(3,270,000)	20,200,000	3,325,000
Add (less):					
Unamortized discount	$ (39,376)	$ -	$ 7,746	$ (31,630)	$ 7,746
	(39,376)	-	7,746	(31,630)	7,746
	$ 23,430,624	$ -	$ (3,262,254)	$ 20,168,370	$ 3,332,746

The annual debt service requirements of the general long-term bonds payable as of June 30, 2018 are as follows:

	Principal	Interest	Total
Fiscal year ended June 30:			
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
	$ 20,200,000	$ 2,145,199	$ 22,345,199

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, 2018 and 2017.

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, 2018 to be $186,313. 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, 2018 were as follows:

	June 30, 2017	Additions	Payments	June 30, 2018	Amounts Due Within One Year
Compensated absences	$ 189,500	$ -	$ 3,187	$ 186,313	$ 186,313

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, 2018, pension plan membership consisted of the following:

Retirees and beneficiaries receiving benefits from the plan	30
Terminated members entitled to future benefits	16
Active plan members	23
Subtotal	69

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, 2018 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.

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, 2018:

Asset Class	Target Allocation
Domestic equity	45%
International equity	13%
Fixed income	30%
Real estate	2%
Cash	10%
Total	100%

Concentrations

As of June 30, 2018, 5% or more of Plan assets were held in the following individual funds:

Fund	Concentration
Nationwide Fixed Fund	10.00%
Vanguard Mid-Cap Index	9.10%
Vanguard Growth Index	8.10%
Vanguard High Yield Corporate	8.00%
American Fund AMCAP	7.00%
American Fund American Mutual	7.00%
Vanguard Value Index	6.90%
Prudential Total Return Bond Fund	6.10%
LeggMason Core Bond Fund	6.00%
Vanguard Inflation Protected Securities	5.10%

NOTE 7. PENSION PLAN (CONTINUED)

Investments (Continued)

Rate of return

For the year ended June 30, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 8.09 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, 2018, 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	$ 121,952	$ (321,826)
Assumption changes	369,428	-
Investment experience	26,974	-
Total	$ 518,354	$ (321,826)

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

Fiscal Year End	Expense Recognition
2019	$ 83,416
2020	38,889
2021	(39,784)
2022	2,593
2023	14,535
After 2023	96,879

Net Pension Liability of the Authority

The components of the net pension liability of the Authority at June 30, 2018, were as follows:

Total pension liability	$ 7,306,530
Plan fiduciary net position	(6,120,174)
Authoritys' net pension liability	$ 1,186,356
Plan fiduciary net position as a percentage of the total pension liability	83.76%

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, 2018, 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, 2018.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2017–June 30, 2018.

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, 2018 (see the discussion of the pension plan's investment policy) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Domestic equity	5.50%
International equity	5.75%
Fixed income	3.25%
Real estate	5.00%
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.

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	$ 1,983,734	$ 1,186,356	$ 505,471

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 Prescription Coverage (Part D) 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.

Funding Policy

The Authority's funding policy is to make retiree premium payments on a pay-as-you-go basis. Additional contributions may be made to and OPEB Trust account at the discretion of the Authority.

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

Medical coverage costs are assumed to increase 5% per year in fiscal 2018 and beyond. Dental coverage costs are assumed to increase 4% in fiscal 2018 with trend rates decreasing 0.25% each year to an ultimate rate of 3.5% per year in fiscal 2020 and beyond.

NOTE 8. OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

As of June 30, 2018, the plan membership data is as follows:

Description	Active Employees	Inactive or Beneficiaries Receiving Benefits	Total
Number	31	15	46

Investment policy:

Once money is contributed to the OPEB Trust, the money is invested in accordance with the Vanguard Growth Strategy adopted by the Authority's Board. The investment policy provides the fiduciaries who are responsible for plan investments with guidelines or general instructions concerning various types or categories of investments management decisions. The following was the Authority's adopted asset allocation policy for June 30, 2018.

Asset Class	Target Allocation
Domestic Equity	48.00%
International Equity	21.00%
Fixed Income	23.00%
Real Estate	8.00%
Cash	0.00%
Total	100.00%

Concentrations:

As of June 30, 2018, 5% or more of Plan assets were held in the following individual funds:

Vanguard Total Stock Market Index	48.3%
Vanguard Total International Stock Index	20.7%
Vanguard Total Bond Index	9.0%
Vanguard REIT Index	8.0%
Vanguard Intermediate-Term Investment Grade Fund	5.4%
Vanguard Inflation-Protected Securities Fund	5.0%

Rate of return:

For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense was 7%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

NOTE 8. OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Net OPEB Liability:

The components of the net OPEB liability of the Town at June 30, 2018 were as follows:

Total OPEB liability	$ 5,019,667
Plans fiduciary net position	81,170
Town's net OPEB liability	$ 4,938,497

Plan net position as a percentage of the total OPEB liability	1.62%

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Key assumptions

Description	Assumption
Single Equivalent Discount Rate	4.00%, net of OPEB plan investment expense, including inflation.
Inflation	2 - 2.50% as of June 30, 2018 and for future periods
Investment rate of return	7.00%, net of OPEB plan investment expense, including inflation.
Salary increases	N/A, benefits and amortizations are not based on salary

The long -term expected rate of return on plan investments is 7.00%. This rate is supported using a building-block method in which expected real rates of return (expected return net of inflation and investment expenses) are developed for each major asset class. These rates are combined by weighting the expected real rates by the target asset allocation and adding expected inflation. The target allocation and current estimates of the real rates of return for each major asset class are summarized below.

Asset Class	Long-term Expected Real Rate of Return
Domestic Equity	5.50%
International Equity	5.75%
Fixed Income	3.25%
Real Estate	5.00%
Cash	2.00%

NOTE 8. OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2017	$ 4,739,763	$ -	$ 4,739,763
Service cost	176,629	-	176,629
Interest on net OPEB liability and service cost	187,567	-	187,567
Differences between actual and expected experience	-	-	-
Changes in assumptions	-	-	-
Benefit payments, including refunds	(84,292)	(84,292)	-
Trust administrative expenses		-	-
Contributions - employer	-	164,292	(164,292)
Contributions - active employees		-	-
Net investment income	-	1,170	(1,170)
Net changes	279,904	81,170	198,734
Balances at June 30, 2018	$ 5,019,667	$ 81,170	$ 4,938,497

Discount Rate

The discount rate used to measure the total OPEB liability was 4.00 percent. The projection of cash flows used to determine the discount rate assumed that the Authority contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability of the Authority, as well as what the Authority's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.00 percent) or 1-percentage-point higher (5.00 percent) that the discount rate.

	Impact of 1% Change in Discount Rate		
	1% Decrease (3.00%)	Current discount rate (4.00%)	1% Increase (5.00%)
Total OPEB liability	5,941,315	4,938,497	4,168,450

NOTE 8. OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates

The following presents the net OPEB liability of the Authority, as well as what the Authority's net OPEB liability would be if it were calculated using healthcare cost 5.00 percent trend rates that are 1-percentage-point lower (4.0 percent) or 1-percentage-point higher (6.0 percent) than the current healthcare cost trend rates:

	Impact of 1% Change in Healthcare Trend Rate		
	1% Decrease (4.00%)	**Current trend rate (5.00%)**	**1% Increase (6.00%)**
Total OPEB liability	4,132,989	4,938,497	5,970,444

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, 2018 and 2017, water quality protection charges payable of $0 and $59,401, 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, 2018, the Authority had no pending contingencies to report.

NOTE 11. REGULATORY MATTERS

The Authority periodically submits rate and compliance fillings 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 takes part in a voluntary workers compensation marketplace with an A.M. Best's A+ rate insurance carrier (The Hartford).

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

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

NOTE 12. RESTATEMENT NOTE

	Proprietary Fund
Beginning balance, July 1, 2017	$(156,712,282)
To restate to eliminate OPEB obligation in accordance with GASB 75	(4,162,001)
To restate to include net OPEB liability in accordance with GASB 75	4,739,763
Beginning balance, July 1, 2017, restated	$(156,134,520)

NOTE 13. SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 29, 2018 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, 2018

	2018*	2017	2016	2015
Total pension liability				
Service cost	$ 131,181	$ 126,528	$ 114,734	$ 144,147
Interest	454,815	444,406	431,804	419,030
Experience (gain) or loss	134,135	(113,280)	(120,312)	(203,680)
Assumption changes	176,864	179,224	12,993	74,562
Benefit payments	(264,564)	(266,989)	(263,800)	(260,720)
Net change in total pension liability	632,431	369,889	175,419	173,339
Total pension liability - beginning	6,674,099	6,304,210	6,128,791	5,955,452
Total pension liability - ending (a)	$ 7,306,530	$ 6,674,099	$ 6,304,210	$ 6,128,791
Pension fiduciary net position				
Contributions - employer	$ 222,207	$ 243,161	$ 246,738	$ 277,560
Expected investment return	400,034	375,678	379,448	369,051
Additional investment return	59,714	211,884	(393,374)	(222,627)
Other	(264,564)	(266,989)	(263,800)	(260,720)
Net change in plan fiduciary net position	417,391	563,734	(30,988)	163,264
Plan fiduciary net position - beginning	5,702,783	5,139,049	5,170,037	5,006,773
Plan fiduciary net position - ending (b)	6,120,174	5,702,783	5,139,049	5,170,037
Authority's net pension liability (asset) - ending (a) - (b)	$ 1,186,356	$ 971,316	$ 1,165,161	$ 958,754

* Only four 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 Changes in the Authority's Net Pension Liability and Related Ratios

Last Ten Fiscal Years
June 30, 2018

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Total pension liability	$ 7,306,530	$ 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
Plan fiduciary net position	6,120,174	5,702,783	5,139,049	5,170,037	5,006,773	4,897,501	4,188,518	3,784,648	3,853,105	3,499,204
Authority's net pension liability (asset)	$ 1,186,356	$ 971,315	$ 1,165,161	$ 958,754	$ 948,679	$ 916,426	$ 1,534,486	$ 1,567,278	$ 1,208,388	$ 1,498,999
Plan fiduciary net position as a percentage of the total pension liability	83.76%	85.45%	81.52%	84.36%	84.07%	84.24%	73.19%	70.72%	76.13%	70.01%
Covered-employee payroll	2,063,078	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
Authority 's net pension liability (asset) as a percentage of covered-employee payroll	57.50%	48.65%	59.34%	53.31%	49.51%	49.80%	91.82%	92.20%	74.83%	89.81%

See independent auditors' report

KENT COUNTY WATER AUTHORITY

Required Supplementary Information

Schedule of Pension Contributions

Last Ten Fiscal Years
June 30, 2018

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	$ 262,152	$ 222,207	$ 243,161	$ 246,738	$ 277,560	$ 311,745	$ 256,566	$ 222,723	$ 214,026	$ 258,392
Contributions in relation to the actuarially determined contribution	262,152	222,207	243,161	246,738	277,560	311,745	256,566	222,723	214,026	260,000
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (1,608)
Covered-employee payroll	2,063,078	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
Contributions as a percentage of covered-employee payroll	12.71%	11.13%	12.38%	13.72%	14.49%	16.94%	15.35%	13.10%	13.25%	15.58%

See independent auditors' report

KENT COUNTY WATER AUTHORITY

Required Supplementary Information

Schedule of Pension Investment Returns

Last Ten Fiscal Years
June 30, 2018

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Annual money-weighted rate of return, net of investment expense	8.09%	11.46%	-0.27%	2.92%	Not Avail	15.41%	11.88%	0.45%	12.08%	19.93%

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

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KENT COUNTY WATER AUTHORITY

Required Supplementary Information

Net OPEB Liability and Related Ratios

Last Ten Fiscal Years
June 30, 2018

		June 30, 2018
Total OPEB liability		
Service cost	$	176,629
Interest on net OPEB liability and service cost		187,567
Differences between actual and expected experience		-
Changes of assumptions		-
Benefit payments, including refunds		(84,292)
Net change in total OPEB liability		279,904
Total OPEB liability - beginning		4,739,763
Total OPEB liability - ending	$	5,019,667
OPEB fiduciary net position		
Benefit payments, including refunds	$	(84,292)
Trust administrative expenses		-
Contributions - employer		164,292
Contribution - Active employees		-
Net investment income		1,170
Net change in plan fiduciary net position		81,170
Plan fiduciary net position - beginning		-
Plan fiduciary net position - ending	$	81,170
Plan's net pension liability - ending	$	4,938,497
End of year funding percentage		1.62%
Covered payroll	$	2,063,078
Net pension liability divided by covered payroll		239.38%
Rate of return on assets, net of investment expenses		2.39%

* First year of implementation of GASB 74/75, therefore only one year of the ten required data is available.

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KENT COUNTY WATER AUTHORITY

Required Supplementary Information

Schedule of OPEB Contributions

Last Ten Fiscal Years
June 30, 2018

	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009
Actuarial determined contribution	$ 450,263	$ 588,761	$ 568,965	$ 550,128	$ 610,799	$ 591,301	$ 572,805	$ 517,595	$ 501,063	$ 485,431
Contributions in relation to the actuarially determined contribution	164,292	83,835	74,075	79,203	92,877	103,866	110,408	98,195	87,753	94,635
Contribution deficiency (excess)	$ 285,971	$ 504,926	$ 494,890	$ 470,925	$ 517,922	$ 487,435	$ 462,397	$ 419,400	$ 413,310	$ 390,796
Covered-employee payroll	$ 2,063,078	$ 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
Contributions as a percentage of covered-employee payroll	7.96%	4.20%	3.77%	4.40%	4.85%	5.64%	6.61%	5.78%	5.43%	5.67%

** Actuarial determined contributions are based on the Annual Required Contributions calculated in the prior GASB 45 actuarial valuations.

See independent auditors' report

KENT COUNTY WATER AUTHORITY

Required Supplementary Information

Schedule of OPEB Investment Returns

Last Ten Fiscal Years
June 30, 2018

	June 30, 2018
Annual money-weighted rate of return, net of investment expense	2.39%

* First year of implementation of GASB 74/75, therefore only one year of the ten required data is available.

Notes to Required Supplementary Information:

Valuation Date:	Actuarially Determined Contribution was calculated as of June 30, 2018.
Actuarial Cost Method:	Entry Age Normal Level % of salary method where: •service Cost for each individual participant, payable from date of employment to date of retirement, is sufficient to pay for the participant's benefit at retirement
Asset-Valuation Method:	Market Value of Assets as of the Measurement Date, June 30, 2018.
Actuarial Assumptions:	
Investment Rate of Return:	4.00%, net of OPEB plan investment expense
Medical inflation	For medical/rx benefits, the trend rates have been reset to an initial rate of 9.00% decreasing by 0.50% annually to an ultimate rate of 5.00%
Inflation:	2-2.50% as of June 30, 2018 and for future periods
Salary Increases:	N/A, benefits and amortizations are not based on salary
Pre-Retirement Mortality:	Sex Distinct IRS 2018 Combined Static Table as for fiscal 2018
Assumed rate of retirement:	All participants are assumed to retire at age 60, or current age, if older.
Marriage assumptions	Not applicable, spousal benefits are not covered by the plan.
Changes in Assumptions:	Effective June 30, 2018 • Assumed mortality was updated to the sex-distinct IRS 2018 Combined Static Table as for fiscal 2018

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 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, 2018, and the related notes to the financial statements, and have issued our report thereon dated August 29, 2018.

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, Sahady & Co. PC

Fall River, Massachusetts
August 29, 2018