

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

ANNUAL FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2022 AND 2021



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KENT COUNTY WATER AUTHORITY

June 30, 2022

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

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities and the fiduciary funds of the Kent County Water Authority ("the Authority"), as of and for the year ended June 30, 2022, and the related notes of the financial statements, which collectively comprise of the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the Authority, as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained in sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Auditor's Responsibility (continued)

In performing an audit in accordance with generally accepted auditing standards and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Pension Plan information, and Other Post Employment Benefit information, as listed on the table of contents, be presented to supplement the basic financial statements. Such information, is the responsibility of management and 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.

Prior-Year Comparative Information

The financial statements include partial prior-year comparative information related to the statement of net position, the statement of revenues, expenses and changes in net position, and the statement of cash flows for the Authority's business-type activities and the statement of fiduciary net position and the statement of changes in the fiduciary net position for the Authority as well as the notes to the financial statements. Such information does not include all of the information required for a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended June 30, 2022, from which such partial information was derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2021 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Hague, Sahady & Co., CPA's, P.C.

Fall River, Massachusetts
August 30, 2022

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KENT COUNTY WATER AUTHORITY

Management's Discussion and Analysis (MD&A)

Years Ended June 30, 2022 and 2021

This section of the Authority's annual financial report presents our discussion and analysis of the Authority's financial performance during the fiscal years ended June 30, 2022 and 2021. Please read it in conjunction with the Authority's financial statements, which immediately follow this section.

The Kent County Water Authority ("the Authority") is a public benefit corporation created pursuant to 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

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The financial statements are organized as follows:

- The Statement of Net Position presents information on all of the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as "net position". Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.
- The Statement of Revenue, Expenses, and Changes in Net Position presents information showing how the Authority's net position changed during the most recent reporting period. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future periods (e.g., earned but unbilled revenue and earned but unused vacation leave).
- The Statement of Cash Flows presents information depicting the Authority's cash flow activities for the most recent reporting period and the effect that these activities had on the Authority's cash and cash equivalent balances.
- The Fiduciary Financial Statements provide information about net position restricted or held in trust for benefits under the Authority's employee benefit plan and changes in net position for benefits.
- The Notes to Financial Statements present additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages indicated on the table of contents of this report.

KENT COUNTY WATER AUTHORITY

Management's Discussion and Analysis (MD&A)

Years Ended June 30, 2022 and 2021

FINANCIAL HIGHLIGHTS

The Authority maintains a relatively strong financial performance. Management continues to carefully evaluate the Authority's finances to ensure optimum performance. In addition to meeting all debt covenants, outstanding debt and cash reserves were kept at levels appropriate for maintaining favorable bond ratings. The following are the key financial highlights:

- Net position increased \$5.0 million in fiscal year 2022 compared to \$7.8 million increase in fiscal year 2021, the difference in increase between years is mainly due new debt issued during the fiscal year and other operating results.
- Total assets and deferred outflow of resources were \$221.5 million in fiscal year 2022 compared to \$194.8 million in 2021, which exceeded total liabilities and deferred inflow of resources by \$190 million in fiscal year 2022 and \$185 million in fiscal year 2021.
- The Authority's debt to equity ratio was 3.00% at both June 30, 2022 and 2021, indicating the continuance of capacity to issue additional debt.

FINANCIAL ANALYSIS

The operations of the Authority are accounted for in a Proprietary Fund Type (Enterprise Fund). 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 Rhode Island Public Utilities Commission (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 deferred outflows of resources and liabilities and deferred inflows or resources of the Authority, as well as the net position. Over time, increases and decreases in the Authority's net position is the indicator of whether the financial health of the Authority is improving or deteriorating. The statement of operations of the Authority reflects all revenues earned and all expenses incurred for each fiscal year.

KENT COUNTY WATER AUTHORITY

Management's Discussion and Analysis (MD&A)

Years Ended June 30, 2022 and 2021

Condensed Statement of Net Position

	<u>2022</u>	<u>2021</u>
Current assets	\$ 6,136,901	\$ 8,077,819
Other noncurrent assets	35,908,944	16,049,692
Capital assets, net	<u>177,800,631</u>	<u>170,084,008</u>
Total assets	<u>219,846,476</u>	<u>194,211,519</u>
Deferred outflows of resources		
Deferred outflows of resources related to pension	1,451,939	601,762
Deferred outflows of resources related to OPEB	<u>46,205</u>	<u>-</u>
Total deferred outflows of resources	<u>1,498,144</u>	<u>601,762</u>
Current liabilities	4,407,624	2,681,842
Noncurrent liabilities	<u>24,821,954</u>	<u>3,740,033</u>
Total liabilities	<u>29,229,578</u>	<u>6,421,875</u>
Deferred inflows of resources		
Deferred inflows of resources related to pension	346,965	1,209,196
Deferred inflows of resources related to OPEB	1,697,208	1,924,107
Gain on refunding	<u>19,654</u>	<u>255,477</u>
Total deferred inflows of resources	<u>2,063,827</u>	<u>3,388,780</u>
Net position:		
Net investment in capital assets	157,800,631	170,084,008
Restricted for debt service	1,319,466	-
Restricted for infrastructure replacement	282,626	282,626
Unrestricted net position	<u>30,648,492</u>	<u>14,635,992</u>
Total net position	<u>\$ 190,051,215</u>	<u>\$ 185,002,626</u>

The table above reflects a decrease in current assets of \$1,940,918 from FY 2021 to FY 2022. This decrease reflects an increase in accounts receivable and a decrease in cash. There is also a significant increase in capital assets (net) of \$7,716,623 from FY 2021 to FY 2022. This increase is the result of the Authority capitalizing completed construction in progress and other projects and implementing and capitalizing the meter changeout program.

The largest portion of the Authority's net position, 83.0%, 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 FY22, the Authority's net position totaled \$190 million, an increase of \$5 million or 2.7% from the previous year. Total assets in FY22 were \$219 million, an increase of \$25.6 million or 13.2% from the previous year. Total liabilities increased by \$22.8 million or 355.1%, mainly due to the issuance of new revenue bonds.

KENT COUNTY WATER AUTHORITY

Management's Discussion and Analysis (MD&A)

Years Ended June 30, 2022 and 2021

CHANGES IN NET POSITION

The Authority ended fiscal year 2022 with an increase in net position of \$5,048,593. 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>2022</u>	<u>2021</u>
Operating revenues:		
Water	\$ 18,569,913	\$ 21,283,372
Hydrant fees	\$ 1,437,232	\$ 1,482,161
Other	\$ 373,815	\$ 192,320
Total operating revenue	<u>20,380,960</u>	<u>22,957,853</u>
Operating expenses:		
Source of supply	5,292,430	5,233,618
Pumping	1,356,256	1,052,151
Transmission and distribution	1,299,623	1,086,164
Water treatment	539,418	540,106
Customer accounts	513,653	463,934
Administrative and general	3,261,511	3,053,992
Depreciation	3,762,725	3,431,784
Taxes other than income	236,317	216,956
Total operating expenses	<u>16,261,933</u>	<u>15,078,705</u>
Operating income	<u>4,119,027</u>	<u>7,879,148</u>
Nonoperating income (expense):		
Capital contributions	712,257	96,465
Loss on defeasance	-	349,040
Interest income	3,438	4,921
Interest expense	213,869	137,252
Net non-operating income (expense)	<u>929,564</u>	<u>587,678</u>
Increase in net position	5,048,591	8,466,826
Net position at beginning of year	<u>185,700,704</u>	<u>177,233,878</u>
Net position at end of year	<u>\$ 190,749,295</u>	<u>\$ 185,700,704</u>

KENT COUNTY WATER AUTHORITY

Management's Discussion and Analysis (MD&A)

Years Ended June 30, 2022 and 2021

REVENUES

Water user fees are the Authority's primary source of revenue, representing approximately 91.1% of total operating revenues. Fiscal Year 2022 water user fee revenue was \$18,569,913 which is \$2,713,459 less than the prior year. Other operating revenue increased by \$181,495.

The operating income for fiscal year 2022 totaled \$4.1 million, representing a decrease of 47.7% from the previous year, which is due to COVID-19 and workforce returning to work.

EXPENSES

Total operating expenses in fiscal year 2022 increased by \$1.2 million over the prior year. The increase was mainly due to the increase of transmission and distribution expense, supply source fees and pumping expenses.

Net nonoperating income of \$929,564 is primarily related to an increase in capital contributions of \$615,792.

Capital Assets and Debt Administration

CAPITAL ASSETS

At the end of fiscal year 2022, the Authority had \$177.8 million invested in capital assets. This amount represents an increase of \$7.7 million, or 4.5% over last year. The following table summarizes the Authority's capital assets and changes therein, for the years ended June 30, 2022 and June 30, 2021.

	<u>FY 2022</u>	<u>FY 2021</u>
Capital assets		
Land	\$ 3,041,393	\$ 1,836,045
Construction in progress	8,607,580	11,547,709
Buildings and improvements	15,529,081	15,522,581
Infrastructure	179,046,287	167,756,794
Machinery and equipment	7,383,566	5,545,569
Vehicles	847,100	863,558
Total capital assets	<u>214,455,007</u>	<u>203,072,256</u>
Less accumulated depreciation	<u>36,654,375</u>	<u>32,988,248</u>
Capital assets, net	<u>\$ 177,800,632</u>	<u>\$ 170,084,008</u>

For more information relating to capital asset activity refer to Note 3 accompanying the basic financial statements.

KENT COUNTY WATER AUTHORITY

Management's Discussion and Analysis (MD&A)

Years Ended June 30, 2022 and 2021

LONG-TERM DEBT

During FY22, the Authority has two new General Revenue Bonds, totaling \$20,000,000 million at par value.

2022 Series "A" \$18,173,087

2022 Series "B" \$1,826,913

Currently the Authority has a Moody's rating of Aa2 and a S&P rating of AA-.

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.

For more information relating to long-term debt activity refer to Note 4 accompanying the basic financial statements.

ECONOMIC FACTORS

Management has evaluated its economic factors for FY2022. During the fiscal year of FY2022, Kent County Water Authority (KCWA) staffed 100% of the workforce in the office and in the field. KCWA maintained standard operations during these challenging times to ensure the continued delivery of safe drinking water to our customers.

KCWA participated in the RI Public Utility Commission's directive to halt the shut-off of services for non-payment throughout most of FY2022. The mailing of shut-off notices resumed as well as the actual shutting off services for non-payment. The resumption of our shut-off procedures as well as the continued offering of payment plans to all customers experiencing difficulty paying their water bills has been a vital and successful tool in encouraging customers to stay current with their bills. KCWA continues to pay close attention to the financial impact of COVID-19 on billings, cash collections and receivables.

When preparing the FY2023 Annual budget, historical data as well as anticipated expenditures were used as contributing factors. Budgeted revenues are estimated to decrease 3% from actual revenues from FY2022 and budgeted expenditures for FY2023 are estimated to in line with actual expenses from FY2022.

Regulatory Rate Filings

PUC Docket 5012 Abbreviated Rate Filing:

On January 31, 2020, the Authority submitted an Abbreviated Rate Filing to the Public Utility Commission ("the Commission"). The PUC docket number assigned to this filing was Docket 5012. A joint settlement was approved under this docket by the PUC effective September 1, 2020 to reduce metered rates for residential, commercial, industrial, and governmental meters sized two inches and less. All customers with large compound meters with bypass meters also had an effective decrease in their metered rates. Additionally, the settlement reduced public and private fire protection fees, paid off all outstanding long-term debt, absorbed credit card and ACH fees, created a new tariff class for all medium and large metered customers, and the creation of a new wholesale rate relative to supply Quonset Development Corporation in North Kingstown.

PUC Docket 5133-Tariff Advice Petition for Relief

On March 3, 2021, the Authority filed a Tariff Advice Petition for Relief with the Commission requesting the approval to move forward with converting all customers to monthly billing which once fully effectuated would lead to a decrease of \$1.00 per year for an average customer using 8,000 cubic feet of water per year. The switch to monthly billing occurred in three phases, beginning August 1, 2021 ending in October. The Authority and the Division of Public Utilities and Carriers (the "Division") reached an agreement on the Authority's Tariff Advice and Petition for Relief. The Settlement Agreement

KENT COUNTY WATER AUTHORITY

Management's Discussion and Analysis (MD&A)

Years Ended June 30, 2022 and 2021

ECONOMIC FACTORS (Continued)

was unanimously approved by the Public Utilities Commission (the "Commission") on June 29, 2021. The settlement details are as follows:

- One tariff change effective July 1, 2021.
- Transition to monthly billing for all small meter accounts (two inches and smaller) beginning August 1, 2021 with Cycle 1, followed by Cycle 2 in September, and Cycle 3 in October. All bills after July 1, 2021 will receive the same monthly service charge per meter size throughout the transition period.
- All public/private hydrants and non-metered fire lines started monthly billing on July 1, 2021 to coincide with all large meter accounts.
- Charge all private fire protection appliances owned and maintained by the customer based upon the service size of the connection to the property. Unmetered private fire hydrants maintained by the Authority will be charged per hydrant. No additional charge will be made for fire protection appliances owned and maintained by the customer after the service connection.
- The Authority shall use the unrestricted operating reserve to cover any additional costs and potential under-recovery during the transition period.

PUC Docket 5161 -Pass-Through Wholesale Rate filing

Providence Water Supply Board (PWSB) filed a multiyear step increase to its rates on December 2, 2019, which was approved by the Commission in Docket No.4994. The Authority purchases water at a wholesale rate from PWSB. Pursuant to Rhode Island General Laws ("RIGL"), § 39-3-38.1, the Authority may impose a retail rate adjustment as long as the Commission has approved the wholesale rate increase. The Authority must pass through wholesale rate costs to cover the increased expenses from PWSB. Pursuant to RIGL and the Rules of Practice and Procedure of the Rhode Island Public Utilities Commission.

PWSB' first approved step increase of wholesale water costs was 16.34% effective September 1, 2020. This cost did not affect Authority customers as it was absorbed as part of a settlement agreement under PUC Docket No. 5012 that decreased rates to customers.

PWSB's second step increase for wholesale water costs of was slated to be 4.02%, effective July 1, 2021. In an open meeting on June 29, 2021, the PUC ruled to further reduce revenue requirements to meet PWSB expenses on this step. This may potentially reduce the wholesale rate increase. This ruling increased retail customers rates by 0.83% The average retail customer that uses 2000 cubic feet (15,000 gallons) would see a yearly billing increase of approximately \$0.87 over the current rates for the same amount of water consumed. The wholesale rate to Quonset Development Corporation increased by 0.83% The PWSB third step that will be ruled on in 2022 is anticipated further lower the wholesale rate to the Authority which will reduce the costs to all Authority customers.

Water Quality and Resiliency

Our continued priorities have been and will be to comply with all requirements of the Safe Drinking Water Act and their Amendments. This assures our customers that they are receiving safe and healthy water throughout our system, and it is our continued pledge to improve our system and to strive for the highest quality and most efficient, cost-effective system possible. We have established, as our highest priority, improvement programs to facilitate resiliency and enhance water quality into the far reaches of the distribution system.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those interested. Questions concerning any information provided in this report or requests for additional information should be addressed to Kent County Water Authority 1072 Main Street, West Warwick, RI 02893.

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KENT COUNTY WATER AUTHORITY

Statement of Net Position

June 30, 2022 and 2021

ASSETS

	<u>2022</u>	<u>2021</u>
<i>Current assets</i>		
Cash and cash equivalents	\$ 1,934,789	\$ 4,511,497
Accounts receivable, less allowance of \$142,121 in 2022 and \$91,533 in 2021	2,367,821	1,630,865
Unbilled water revenue	-	1,523,565
Materials and supplies inventory	514,825	411,892
Restricted cash and cash equivalents held by trustee for current portion of long-term debt	1,319,466	-
<i>Total current assets</i>	<u>6,136,901</u>	<u>8,077,819</u>
<i>Noncurrent assets</i>		
Restricted cash and cash equivalents held by trustee	35,626,318	15,767,066
Restricted cash and cash equivalents held by trust - Infrastructure replacement	282,626	282,626
<i>Total noncurrent assets</i>	<u>35,908,944</u>	<u>16,049,692</u>
<i>Capital assets</i>		
Depreciable, net	166,151,659	156,700,254
Nondepreciable	11,648,972	13,383,754
<i>Total capital assets</i>	<u>177,800,631</u>	<u>170,084,008</u>
<i>Total assets</i>	<u>219,846,476</u>	<u>194,211,519</u>

DEFERRED OUTFLOWS OF RESOURCES

<i>Deferred outflows of resources</i>		
Deferred outflows of resources related to OPEB	46,205	-
Deferred outflows of resources related to pension	1,451,939	601,762
<i>Total deferred outflows of resources</i>	<u>1,498,144</u>	<u>601,762</u>

The accompanying notes are an integral part of the financial statements

KENT COUNTY WATER AUTHORITY

Statement of Net Position

June 30, 2022 and 2021

	2022	2021
LIABILITIES		
<i>Current liabilities</i>		
Accounts payable	3,292,413	2,456,142
Accrued interest expense	14,208	-
Accrued liabilities	262,649	233,446
Long-term debt due within one year	838,354	(7,746)
<i>Total current liabilities</i>	<u>4,407,624</u>	<u>2,681,842</u>
<i>Noncurrent liabilities</i>		
Long-term debt, net	19,161,000	(646)
Net pension liability	2,049,856	325,520
Net OPEB liability	3,611,098	3,415,159
<i>Total noncurrent liabilities</i>	<u>24,821,954</u>	<u>3,740,033</u>
<i>Total liabilities</i>	<u>29,229,578</u>	<u>6,421,875</u>

DEFERRED INFLOWS OF RESOURCES

<i>Deferred inflows of resources</i>		
Deferred inflows of resources related to pension	346,965	1,209,196
Deferred inflows of resources related to OPEB	1,697,208	1,924,107
Gain on refunding	19,654	255,477
<i>Total deferred inflows of resources</i>	<u>2,063,827</u>	<u>3,388,780</u>

NET POSITION

<i>Net position</i>		
Net investment in capital assets	157,800,631	170,084,008
Restricted for debt service	1,319,466	-
Restricted for infrastructure replacement	282,626	282,626
Unrestricted net position	30,648,492	14,635,992
<i>Total net position</i>	<u>\$ 190,051,215</u>	<u>\$ 185,002,626</u>

KENT COUNTY WATER AUTHORITY

Statement of Revenues, Expenses and Changes in Net Position

Years Ended June 30, 2022 and 2021

	2022	2021
<i>Operating revenues</i>		
Water	\$ 18,569,913	\$ 21,283,372
Hydrant fees	1,437,232	1,482,161
Other	373,815	192,320
<i>Total operating revenue</i>	20,380,960	22,957,853
<i>Operating expenses</i>		
Source of supply	5,292,430	5,233,618
Pumping	1,356,256	1,052,151
Transmission and distribution	1,299,623	1,086,164
Water treatment	539,418	540,106
Customer accounts	513,653	463,934
Administrative and general	3,261,511	3,053,992
Depreciation	3,762,725	3,431,784
Taxes other than income	236,317	216,956
<i>Total operating expenses</i>	16,261,933	15,078,705
<i>Operating income</i>	4,119,027	7,879,148
<i>Nonoperating income (expense)</i>		
Miscellaneous Income	712,257	96,465
Loss on defeasance	-	(349,040)
Interest income	3,438	4,921
Interest expense	213,869	137,252
<i>Net non-operating income (expense)</i>	929,564	(110,402)
<i>Increase in net position</i>	5,048,591	7,768,746
<i>Net position at beginning of year</i>	185,002,624	177,233,878
<i>Restatement of net position</i>	-	-
<i>Net position at end of year</i>	\$ 190,051,215	\$ 185,002,624

The accompany notes are an integral part of the financial statements

KENT COUNTY WATER AUTHORITY

Statement of Cash Flows

Years Ended June 30, 2022 and 2021

	2022	2021
<i>Cash flows from operating activities</i>		
Cash received from customers	\$ 21,167,569	\$ 23,779,695
Payments to employees	(3,142,682)	(3,076,758)
Payments to suppliers and services	(8,659,220)	(8,744,074)
Net cash provided (used) by operating activities	9,365,667	11,958,863
<i>Cash flows from capital and related financial activities</i>		
Capital additions	(11,479,348)	(9,692,481)
Capital contributions	712,257	96,464
Principal paid in debt	18,079,723	(13,658,077)
Interest paid on capital related debt	213,865	(211,788)
Interest expense	14,208	(212,236)
Net cash used by capital and related financing activities	7,540,705	(23,678,118)
<i>Cash flows from investing activities</i>		
Interest and dividends received	3,438	4,921
Net cash provided by investing activities	3,438	4,921
<i>Net increase (decrease) in cash and cash equivalents</i>	16,909,810	(11,714,334)
<i>Cash and cash equivalents, beginning of year</i>	20,561,189	31,680,256
<i>Cash and cash equivalents, end of year</i>	37,470,999	20,561,189
Cash and cash equivalents, per the statement of net position	1,934,789	4,511,497
Restricted cash and cash equivalents held by trustee		
for current portion of long term debt	1,319,466	-
Restricted cash and cash equivalents held by trustee (Note 2)	35,626,318	15,767,066
Restricted cash and cash equivalents held by trustee-Infrastructure replacement (Note 2)	282,626	282,626
Total cash and cash equivalents, per the statement of net position	\$ 39,163,199	\$ 20,561,189

KENT COUNTY WATER AUTHORITY

Statement of Cash Flows

Years Ended June 30, 2022 and 2021

Reconciliation of operating income to net cash provided by operating activities

Operating income	\$ 4,119,027	\$ 7,879,151
<i>Adjustments to reconcile operating income to net cash provided by operating activities</i>		
Depreciation expense	3,762,725	3,431,784
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable, net	(736,956)	1,190,580
(Increase) decrease in unbilled water revenue	1,523,565	(368,738)
(Increase) decrease in material, supplies and inventory	(102,933)	(26,607)
(Increase) decrease in NPL deferred outflows	(896,382)	211,199
Increase (decrease) in accounts payable	836,271	72,328
Increase (decrease) in accrued liabilities	29,205	(66,667)
Increase (decrease) in net pension liability (NPL)	1,724,336	(1,087,843)
Increase (decrease) in net OPEB liability (NOL)	195,939	(1,943,712)
Increase (decrease) in deferred inflows	(1,089,130)	2,667,388
<i>Net cash provided by operating activities</i>	<u>\$ 9,365,667</u>	<u>\$ 11,958,863</u>

KENT COUNTY WATER AUTHORITY

Statement of Changes in Fiduciary Net Position

June 30, 2022 and 2021

	OPEB and Pension Trust Fund	
	2022	2021
ASSETS		
Cash and cash equivalents	\$ -	\$ -
Investments, at fair value		
Fixed income	2,946,629	3,254,040
Equities	4,024,162	5,081,779
Real Estate	160,964	37,759
Total assets	7,131,755	8,373,578
LIABILITIES		
None	-	-
NET POSITION		
Held in trust for other post-employment benefits	437,867	433,537
Restricted for pension	6,693,888	7,940,041
TOTAL NET POSITION	\$ 7,131,755	\$ 8,373,578

KENT COUNTY WATER AUTHORITY

Statement of Changes in Fiduciary Net Position

June 30, 2022 and 2021

	OPEB and Pension Trust Fund	
	2022	2021
ADDITIONS		
Contributions		
Employer contributions	\$ 452,583	\$ 463,397
Total contributions	<u>452,583</u>	<u>463,397</u>
Investment income		
Net investment income	(1,183,431)	1,672,874
Total investment income	<u>(1,183,431)</u>	<u>1,672,874</u>
Total additions	<u>(730,848)</u>	<u>2,136,271</u>
DEDUCTIONS		
Actual and service benefits payments	<u>510,975</u>	<u>526,802</u>
Total deductions	<u>510,975</u>	<u>526,802</u>
Change in net position	(1,241,823)	1,609,469
Net Position - Beginning	<u>8,373,578</u>	<u>6,764,109</u>
Net Position - Ending	<u>\$ 7,131,755</u>	<u>\$ 8,373,578</u>

KENT COUNTY WATER AUTHORITY

Notes to the Financial Statements

June 30, 2022

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: proprietary and fiduciary.

The funds of the financial reporting entity are described below:

Proprietary Funds

Proprietary funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. 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 or 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 uses. The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority's Proprietary Fund are accounted for on a flow of economic resources management focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. The statement of net position presents information on the Authorities assets, deferred outflows, liabilities, and deferred inflows. Differences between these amounts are reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net position is segregated into three components: net investment in capital assets, restricted, and unrestricted net position.

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.

KENT COUNTY WATER AUTHORITY

Notes to the Financial Statements

June 30, 2022

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements (Continued)

Fiduciary Fund

Other Post-Employment Benefit Trust (OPEB) and Pension Trust funds are used to account for resources legally held in trust for the payment of benefits other than pensions. The OPEB Trust Fund accumulates resources for future retiree health and insurance benefits for eligible retirees.

OPEB and Pension trust fund financial statements are prepared on the accrual basis of accounting. Contributions are recognized when due. Investment income is recognized when earned and expenses (benefits and administration) are recognized when they are due and payable in accordance with the terms of the plan.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, it is the Authority's policy to use restricted resources first.

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".

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.

Marketable Securities - Marketable securities included in funds held by trustee are stated at fair value.

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, 2022 was \$142,121 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 - Depreciation is computed on the straight-line method over the estimated remaining useful lives of the applicable assets. The capitalization threshold is any individual item with a total cost equal to or greater than \$5,000. Maintenance and repairs are charged to expenses as incurred. Estimated useful lives are as follows:

	Years
Infrastructure	75
Building & Improvement	20
Machinery & Equipment	10
Vehicles	5

KENT COUNTY WATER AUTHORITY

Notes to the Financial Statements

June 30, 2022

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

Long-Term Debt - Long-term debt is reported as a liability in the Statement of Net Position. Bond premiums are deferred and amortized over the life of the bond. Long-term debt payables are reported net of the applicable bond premium.

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 reports 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, 2022 and 2021, there were \$1,498,144 and \$601,762 in deferred outflows relating to pensions and OPEB, and \$2,063,827 and \$3,388,780 deferred inflows related to pension, gains on refunding, and OPEB.

Operating Revenues and Expenses - Operating revenues and expenses for the Authority are those that result from providing water and collection service and related activities.

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, 2022, 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.

KENT COUNTY WATER AUTHORITY

Notes to the Financial Statements

June 30, 2022

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Standards – For the year ending June 30, 2022, the Authority implemented the following pronouncements issued by the GASB:

- The GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of Construction Period*. This Statement requires that interest cost incurred before the end of construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity. The requirements of this Statement were originally effective for reporting periods beginning after December 15, 2019, however it was postponed an additional year by GASB Statement 95. This Statement is now effective for reporting periods beginning after December 15, 2020. The District has determined that these requirements do not affect the financial reporting for the District.
- The GASB issued Statement No. 87, *Leases* in June 2017. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement were originally effective for periods beginning after December 15, 2019, however it was postponed an additional eighteen months by GASB Statement 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. This Statement is now effective for periods beginning after June 15, 2021. The District has determined that these requirements do not affect the financial reporting District.

Accounting standards that the Authority is currently reviewing for applicability and potential impacts in future financial statements include:

GASB Statement No. 90, *Majority Equity Interest – an amendment of GASB Statement No. 14 and No. 16*. This Statement is effective for the periods beginning after December 15, 2019. This statement improves the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government’s holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment or permanent fund. The Authority determined that these requirements are not expected to have a significant impact on the financial reporting of the Authority.

GASB Statement No. 91, *Conduit Debt Obligations*. This Statement is effective for reporting periods beginning after December 15, 2021. The primary objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer, establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required not disclosures. The Authority is in the process of evaluating this statement and will complete their evaluation prior to the required implementation date of Fiscal Year 2023.

KENT COUNTY WATER AUTHORITY

Notes to the Financial Statements

June 30, 2022

Accounting standards that the Authority is currently reviewing for applicability and potential impacts in future financial statements include (continued):

GASB Statement No. 92, *Omnibus 2020* was originally effective for reporting periods beginning after June 15, 2021. This statement addresses a variety of topics including, but not limited to, leases, financial reporting for Postemployment Benefit Plans Other Than Pension Plans, Fiduciary Activities, Measurement of Liabilities related to AROs. The Authority is in the process of evaluating this Statement and will evaluate it prior to the required implementation of FY23.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*. GASB Statement No. 93 assists state and local governments in the transition away from existing interbank offered rates (IBOR) to other reference rates because of global reference rate reform, wherein the London Interbank Offered Rate (LIBOR) is expected to cease to exist in its current form at the end of 2021. The objective of this Statement is to address implications that result from the replacement of an IBOR in Statement No. 53, Accounting and Financial Reporting for Derivative Instruments and Statement No. 87, Leases and other accounting and financial reporting implications. The impact of this standard will be evaluated by the Authority's management for fiscal year ending fiscal year 2023.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. GASB Statement No. 94 establishes standards of accounting and financial reporting for Public-Private and Public-Public Partnerships (PPPs) and Availability Payment Arrangements (APAs). The impact of this standard will be evaluated by the Authority's management for fiscal year 2024.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. GASB Statement No. 96 establishes standards of accounting and financial reporting for subscription-based information technology (SBITAs) for government end users. Under this Statement, a government generally should recognize a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability. The impact of this standard will be evaluated by the Authority's management for fiscal year 2022.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The impact of this standard will be evaluated by the Authority's management for fiscal year 2022

KENT COUNTY WATER AUTHORITY

Notes to the Financial Statements

June 30, 2022

NOTE 2. CASH AND CASH EQUIVALENTS

Cash Deposits – The Authority’s cash deposits are held in one financial institution. The carrying amount of deposits is separately displayed on the Statement of Net Position and Statement of Fiduciary Net Position as “cash and cash equivalents.”

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

	<u>Carrying Value of Deposits</u>
Business-Type Activities	39,046,275
Petty Cash	300
OPEB Trust Fund	437,867
Pension Trust Fund	<u>6,693,888</u>
Total Carrying Value	<u>\$ 46,178,330</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, 2022 was \$46,294,954 and the bank balance was \$46,178,030.

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, 2022, \$46,178,030 of the Authority’s bank balance of \$46,178,030 was exposed to custodial credit risk as follows:

Cash deposits	\$ 5,420,546
Cash and short term	37,228,411
Fiduciary fund investments	<u>7,131,755</u>
Total Bank Balance	<u>\$ 49,780,712</u>
Insured (FDIC)	\$ 250,000
Uninsured	<u>\$ 49,530,712</u>
	<u>\$ 49,780,712</u>

Investments – Investments 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:

KENT COUNTY WATER AUTHORITY

Notes to the Financial Statements

June 30, 2022

NOTE 2. CASH AND CASH EQUIVALENTS (CONTINUED)

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). Inputs include management’s own assumption about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risks).

<u>Investments:</u>	<u>June 30, 2022</u>	<u>Quoted Price in Active Market for Identical Assets (Level 1)*</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable (Level 3)</u>
Money Market Fund	\$35,908,944	\$ -	\$ -	\$35,908,944
Pension Fund:				
Specialty	125,389	125,389	-	-
International Stocks	794,004	794,004	-	-
Small-Cap Stocks	259,493	259,493	-	-
Mid-Cap Stocks	687,443	687,443	-	-
Large-Cap Stocks	1,997,380	1,997,380	-	-
Bonds	2,120,877	2,120,877	-	-
Other - Fixed	709,304	709,304	-	-
OPEB Fund:				
Vanguard	437,867	437,867	-	-
Total investments	<u>\$43,040,699</u>	<u>\$7,131,755</u>	<u>\$ -</u>	<u>\$35,908,944</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 \$18.2 million of general revenue bonds in April 2022, \$1.8 million of general revenue bonds in April 2022, 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, 2022

NOTE 2. CASH AND CASH EQUIVALENTS (CONTINUED)

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.

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, 2022 and 2021, 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.

KENT COUNTY WATER AUTHORITY

Notes to the Financial Statements

June 30, 2022

NOTE 3. CAPITAL ASSETS

The cost and activity of water capital assets in service and related accumulated depreciation for the year ended June 30, 2022 is as follows:

	Balance at 6/30/2021	Increases	Decreases	Balance at 6/30/2022
Capital assets, not being depreciated:				
Land	\$ 1,836,045	\$ 1,205,347	\$ -	\$ 3,041,392
Construction in progress	11,547,709	7,257,103	10,197,232	8,607,580
Total capital assets, not being depreciated	<u>13,383,754</u>	<u>8,462,450</u>	<u>10,197,232</u>	<u>11,648,972</u>
Capital assets, being depreciated:				
Buildings and improvements	15,522,581	6,500	-	15,529,081
Infrastructure	167,756,794	11,289,493	-	179,046,287
Machinery and equipment	5,545,569	1,837,997	-	7,383,566
Vehicles	863,558	80,140	96,598	847,100
Total capital assets, being depreciated	<u>189,688,502</u>	<u>13,214,130</u>	<u>96,598</u>	<u>202,806,034</u>
Accumulated depreciation				
Buildings and improvements	7,373,471	711,018	-	8,084,489
Infrastructure	24,242,034	2,312,020	-	26,554,054
Machinery and equipment	803,155	638,651	-	1,441,806
Vehicles	569,589	101,035	96,598	574,026
Total accumulated depreciation	<u>32,988,249</u>	<u>3,762,724</u>	<u>96,598</u>	<u>36,654,375</u>
Total capital assets, being depreciated, net	<u>156,700,254</u>	<u>9,451,406</u>	<u>-</u>	<u>166,151,659</u>
Capital assets, net	<u>\$ 170,084,008</u>	<u>\$ 17,913,856</u>	<u>\$ 10,197,232</u>	<u>\$ 177,800,631</u>

KENT COUNTY WATER AUTHORITY

Notes to the Financial Statements

June 30, 2022

NOTE 4. 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, 2022:

Description	Balance June 30, 2021	Additions	Reductions	Defeasance	Balance June 30, 2022	Amounts due within one year
Revenue bonds:						
April 2022 Series A bearing interest at 1.37%-2.74% and maturing in 2042	\$ -	\$ 18,173,087	\$ -	\$ -	\$ 18,173,087	\$ 733,000
April 2022 Series B bearing interest at 1.23%-2.190% and maturing in 2037	-	1,826,913	-	-	1,826,913	106,000
	-	20,000,000	-	-	20,000,000	839,000
Add (less):						
Unamortized discount	-	8,392	7,746	-	646	646
Total long-term liabilities	\$ -	\$ 19,991,608	\$ (7,746)	-	\$ 19,999,354	\$ 838,354

In June 30, 2022, The Authority's outstanding bonds from *direct borrowings* related to business type activities of \$20,000,000 are secured by the Authority's pledge of all revenues, monies, securities, receivables, and other funds 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, 2022 and 2021.

KENT COUNTY WATER AUTHORITY

Notes to the Financial Statements

June 30, 2022

NOTE 5. 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, 2022 to be \$186,611. The accrued vacation is reported on the Statement of Net Position as accrued liabilities.

The changes in compensated absences for the year ended June 30, 2022 were as follows:

	<u>June 30, 2021</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30, 2022</u>	<u>Amounts Due Within One Year</u>
Compensated absences	\$ 202,322	\$ -	\$ 15,711	\$ 186,611	\$ 14,929

NOTE 6. NET POSITION

KCWA's net position is presented in the following categories:

Net Investment in Capital Assets – Net investment in capital assets reflects the portion of net position associated with non-liquid capital assets, less outstanding capital assets related debt. The net investment in capital assets also includes cash or cash equivalents restricted for the acquisition of capital assets or debt service.

Restricted – This category represents external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This category represents the residual amount of net position not included in the net investment in capital assets or the restricted category.

Net position represents the difference between assets and liabilities. The net position amounts as of June 30, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Net investment in capital assets		
Capital assets	177,800,631	170,084,008
Bond, ST	-	-
Bond, LT	(20,000,000)	-
Total	157,800,631	170,084,008
Restricted for debt services	1,319,466	-
Restricted for infrastructure replacement	282,626	282,626
Unrestricted net assets	30,648,492	14,635,992
	<u>\$ 190,051,215</u>	<u>\$ 185,002,626</u>

KENT COUNTY WATER AUTHORITY

Notes to the Financial Statements

June 30, 2022

NOTE 7. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Net Pension Liability of the Authority

The components of the net pension liability of the Authority at June 30, 2022, were as follows:

Total pension liability	\$ 8,743,744
Plan fiduciary net position	<u>(6,693,888)</u>
Authority's net pension liability	<u><u>\$ 2,049,856</u></u>
Plan fiduciary net position as a percentage of the total pension liability	76.56%

Changes in Net Pension Liability (Asset)

	Total Pension Liability	Plan Fiduciary Net Position	Net Position Liability
Balance at June 30, 2021	\$ 8,265,561	\$ 7,940,041	\$ 325,520
Service cost	168,910		168,910
Interest on total pension liability	562,382		562,382
Differences between expected and actual experience	144,104		144,104
Changes in assumptions	19,011		19,011
Contributions - employer		277,832	(277,832)
Contributions - employee			-
Net investment income		(1,107,761)	1,107,761
Benefit payments	(416,224)	(416,224)	-
Administrative expenses			-
Other changes			-
Net changes	<u>478,183</u>	<u>(1,246,153)</u>	<u>1,724,336</u>
Balances at June 30, 2022	<u><u>\$ 8,743,743</u></u>	<u><u>\$ 6,693,888</u></u>	<u><u>\$ 2,049,856</u></u>

KENT COUNTY WATER AUTHORITY

Notes to the Financial Statements

June 30, 2022

NOTE 7. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2022 using the following actuarial assumptions, applied to all periods included in the measurement:

Discount rate	7.00% (7.25% prior to June 30, 2017)
Compensation increase	Salary is assumed to increase 3.00% annually
Social security wage base	The taxable wage base is assumed to increase 2.5% annually
Mortality	Mortality rates are assumed in accordance with the Sex-Distinct IRS 2022 combined static mortality table
Retirement	All participants are assumed to retire at age 62 or current age, if older
Disability	None assumed
Form of payment	Participants are assumed to elect the normal form of annuity
Marriage	75% of participants are assumed to be married; husbands are assumed to be three years older than wives
Employees	No new or rehired employees are assumed for valuation purposes
Termination	Termination of employment is assumed according to Scale T-1 from the Pension Actuary's Handbook. Representative termination rates are listed below and are the same for both males and females.

The actuarial assumptions used in the June 30, 2022 valuation were based on the results of an actuarial experience study for the period July 1, 2021–June 30, 2022.

KENT COUNTY WATER AUTHORITY

Notes to the Financial Statements

June 30, 2022

NOTE 7. DEFINED BENEFIT PENSION PLAN (CONTINUED)

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, 2022 (see the discussion of the pension plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Re: Rate of Retu</u>
Domestic equity	45%	5.50%
International equity	13%	5.75%
Fixed income	30%	3.25%
Real estate	2%	5.00%
Cash	<u>10%</u>	2.00%
Total	<u>100%</u>	

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.

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.

Concentrations

As of June 30, 2022, 5% or more of Plan assets were held in the following individual funds:

<u>Fund</u>	<u>Concentration</u>
LeggMason Core Bond Fund	10.60%
Nationwide Fixed Fund	10.60%
Prudential Total Return Bond Fund	10.60%
American Fund American Mutual	10.20%
Vanguard Mid-Cap Index	8.50%
American Fund AMCAP	7.30%
Vanguard Growth Index	7.30%
Vanguard Inflation Protected Bonds	5.30%
Vanguard High Yield Corporate Bond Fund	5.20%

KENT COUNTY WATER AUTHORITY

Notes to the Financial Statements

June 30, 2022

NOTE 7. DEFINED BENEFIT PENSION PLAN (CONTINUED)

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.

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	\$ 2,975,176	\$ 2,049,856	\$ 1,258,468

Pension expense and deferred outflows and deferred inflows of resources related to pension

For the year ended June 30, 2022, the Authority recognize pension expense of \$1,005,135. At June 30, 2022, the Authority reported deferred outflows or resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows	Deferred Inflows
Liability experience	\$ 415,822	\$ (339,889)
Assumption changes	256,653	(7,076)
Investment experience	779,464	-
Total	\$ 1,451,939	\$ (346,965)

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

Fiscal Year End	Expense Recognition
2023	211,412
2024	195,833
2025	139,106
2026	364,817
2027	40,607
After 2027	153,199
Total	1,104,974

KENT COUNTY WATER AUTHORITY

Notes to the Financial Statements

June 30, 2022

NOTE 8. OTHER POST EMPLOYMENT BENEFITS

General Information about the OPEB Plan

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.

Benefits Provided

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.

Employees Covered by Benefit Terms

At June 30, 2022 (the measurement date), the following employees were covered by the benefit terms:

<u>Description</u>	<u>Active Employees</u>	<u>Inactive or Beneficiaries Receiving Benefits</u>	<u>Total</u>
Number	32	17	49

KENT COUNTY WATER AUTHORITY

Notes to the Financial Statements

June 30, 2022

NOTE 8. OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Actuarial Assumptions

The total OPEB liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

<u>Description</u>	<u>Assumption</u>
Measurement Date	July 1, 2021
Reporting Date	June 30, 2022
Liability Interest Rate	4.66%
Plan Election	All eligible retirees are assumed to elect available coverage at age 62, switching coverage to Plan 65 at age 65, as applicable.
Health Care Trend Rates	Medical coverage costs are assumed to increase 5.0% per year in fiscal 2022 and beyond. Dental coverage costs are assumed to increase 3.5% in fiscal 2022 and beyond
Cost Method	Projected Unit Credit method. Benefits are accrued on service from date of hire to date of first eligibility.
Changes in Assumptions	The mortality assumption has been updated from the 2018 IRS static mortality table to Sex-Distinct IRS 2021 Combined Static Mortality Table.

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.

The long-term expected rate of return on OPEB 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 OPEB 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

KENT COUNTY WATER AUTHORITY

Notes to the Financial Statements

June 30, 2022

NOTE 8. OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic Equity	48%	5.50%
International Equity	21%	5.75%
Fixed Income	23%	3.25%
Real Estate	8%	5.00%
Cash	0%	2.00%
Total	<u>100%</u>	

Discount Rate

The single equivalent discount rate used to measure the total OPEB liability was 4.66 percent. The projection of cash flows used to determine the discount rate assumed that 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 OPEB payments for current active and inactive employees. 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.

Changes in the Net OPEB Liability

	<u>Total OPEB Liability</u>	<u>Increase (Decrease) Plan Fiduciary Net Position</u>	<u>Net OPEB Liability</u>
Balance at June 30, 2021	\$ 3,848,696	\$ 433,537	\$ 3,415,159
Service cost	118,202	-	118,202
Interest	176,818	-	176,818
Differences between actual and expected experience	-	-	-
Changes in assumptions	-	-	-
Benefit payments, including refunds	(94,751)	(94,751)	-
Administrative expenses	-	-	-
Contributions - employer	-	174,751	(174,751)
Contributions - active employees	-	-	-
Net investment income	-	(75,670)	75,670
Net changes	<u>200,269</u>	<u>4,330</u>	<u>195,939</u>
Balances at June 30, 2022	<u>\$ 4,048,965</u>	<u>\$ 437,867</u>	<u>\$ 3,611,098</u>

KENT COUNTY WATER AUTHORITY

Notes to the Financial Statements

June 30, 2022

NOTE 8. OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and 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 a discount rate that is 1-percentage-point lower (3.66 percent) or 1-percentage-point higher (5.66 percent) than the current discount rate:

	Impact of 1% Change in Discount Rate		
	1% Decrease (3.66%)	Current discount rate (4.66%)	1% Increase (5.66%)
Total OPEB liability	4,359,543	3,611,098	3,033,291

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 trend rates that are 1-percentage-point lower or 1-percentage-point higher 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	2,967,594	3,611,098	4,435,419

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan’s fiduciary net position is available in this report on the “Fiduciary Fund” pages.

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

For the year ended June 30, 2022, the Authority recognized OPEB expense of \$2,835. At June 30, 2022, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows	Deferred Inflows
Liability experience	\$ -	\$(1,339,792)
Assumption change	-	(357,416)
Investment experience	46,205	-
Total	\$ 46,205	\$(1,697,208)

KENT COUNTY WATER AUTHORITY

Notes to the Financial Statements

June 30, 2022

NOTE 8. OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

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

Year ended June 30:	
2023	\$ (164,539)
2024	\$ (163,450)
2025	(164,916)
2026	(150,814)
2027	(172,481)
After 2027	<u>(834,803)</u>

Payable to the OPEB Plan

At June 30, 2022, the Authority reported a payable of \$0 for the outstanding amount of contributions to the OPEB Trust required for the year ended June 30, 2022.

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, 2022 water quality protection charges payable of \$0.

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, 2022, 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.

KENT COUNTY WATER AUTHORITY

Notes to the Financial Statements

June 30, 2022

NOTE 12. FINANCIAL STATEMENTS FOR INDIVIDUAL PENSION AND OTHER POSTEMPLOYMENT BENEFIT TRUST FUNDS (OPEB)

GAAP requires that all pension and Other Postemployment Trust Funds (OPEB) be combined and presented in one column in the Fiduciary Funds financial statements and that the individual financial statements for each trust fund plan are reported in the notes to the financial statements. Provided below are the individual financial statements for the pension and OPEB plans that are included in the Fiduciary Funds as Pension and Other Postemployment Benefits Trust Funds, comparatively.

	OPEB Trust Fund		Pension Trust Fund	
	2022	2021	2022	2021
Assets				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
Investments, at fair value	433,537	433,537	6,693,888	7,940,041
Total Assets	433,537	433,537	6,693,888	7,940,041
Deferred outflows of resources				
None	-	-	-	-
Total deferred outflows of resources	-	-	-	-
Total assets and deferred outflows of resources	433,537	433,537	6,693,888	7,940,041
Liabilities				
None	-	-	-	-
Total liabilities	-	-	-	-
Deferred inflows of resources				
None	-	-	-	-
Total deferred inflows of resources	-	-	-	-
Net Position				
Held in trust for other post-employment benefits	433,537	433,537	-	-
Restricted for pension	-	-	6,693,888	7,940,041
Total net position	433,537	433,537	6,693,888	7,940,041
Total liabilities, deferred inflows of resources and net position	\$433,537	\$433,537	\$6,693,888	\$7,940,041

KENT COUNTY WATER AUTHORITY

Notes to the Financial Statements

June 30, 2022

NOTE 12. FINANCIAL STATEMENTS FOR INDIVIDUAL PENSION AND OTHER POSTEMPLOYMENT BENEFIT TRUST FUNDS (OPEB) (CONTINUED)

	OPEB Trust Fund		Pension Trust Fund	
	2022	2021	2022	2021
Additions				
Contributions				
Employer contributions	\$ 174,751	\$ 182,449	\$ 277,832	\$ 280,948
Total contributions	174,751	182,449	277,832	280,948
Investment income				
Net investment income	(75,670)	91,438	(1,107,761)	1,581,436
Total investment income	(75,670)	91,438	(1,107,761)	1,581,436
Total additions	99,081	273,887	(829,929)	1,862,384
DEDUCTIONS				
Actual and service benefits payments	94,751	102,449	416,224	424,353
Total deductions	94,751	102,449	416,224	424,353
Change in net position	4,330	171,438	(1,246,153)	1,438,031
Net Position - Beginning	433,537	262,099	1,438,031	-
Net Position - Ending	\$ 437,867	\$ 433,537	\$ 191,878	\$ 1,438,031

KENT COUNTY WATER AUTHORITY

Notes to the Financial Statements

June 30, 2022

NOTE 13. 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 13. SUBSEQUENT EVENTS

For the purposes of determining the effects of subsequent events of these financial statements, management has evaluated subsequent events which have occurred after June 30, 2022 and through August 15, 2022, the date which the financial statements were available to be issued.

KENT COUNTY WATER AUTHORITY

Required Supplementary Information

Schedule of Changes in Net Pension Liability (Asset) and Related Ratios

Last Ten Fiscal Years*

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Total pension liability							
Normal cost	\$ 168,910	\$ 159,470	\$ 145,857	\$ 136,977	\$ 131,181	\$ 126,528	\$ 114,734
Interest	562,382	538,295	503,298	498,457	454,815	444,406	431,804
Experience (gain) or loss	144,104	60,945	219,926	(252,079)	134,135	(113,280)	(120,312)
Assumption changes	19,011	15,831	14,824	(10,960)	176,864	179,224	12,993
Benefit payments	(416,224)	(424,353)	(380,719)	(266,738)	(264,564)	(266,989)	(263,800)
Net change in total pension liability	478,183	350,188	503,186	105,657	632,431	369,889	175,419
Total pension liability - beginning	<u>8,265,561</u>	<u>7,915,373</u>	<u>7,412,187</u>	<u>7,306,530</u>	<u>6,674,099</u>	<u>6,304,210</u>	<u>6,128,791</u>
Total pension liability - ending (a)	<u>\$8,743,744</u>	<u>\$8,265,561</u>	<u>\$7,915,373</u>	<u>\$7,412,187</u>	<u>\$7,306,530</u>	<u>\$6,674,099</u>	<u>\$6,304,210</u>
Pension fiduciary net position							
Employer contributions	\$ 277,832	\$ 280,948	\$ 249,230	\$ 262,152	\$ 222,207	\$ 243,161	\$ 246,738
Expected investment return	551,691	452,884	450,404	429,037	400,034	375,678	379,448
Additional investment return	(1,659,452)	1,128,552	(283,640)	(77,890)	59,714	211,884	(393,374)
Other	(416,224)	(424,353)	(380,719)	(266,738)	(264,564)	(266,989)	(263,800)
Net change in plan fiduciary net position	(1,246,153)	1,438,031	35,275	346,561	417,391	563,734	(30,988)
Plan fiduciary net position - beginning	<u>7,940,041</u>	<u>6,502,010</u>	<u>6,466,735</u>	<u>6,120,174</u>	<u>5,702,783</u>	<u>5,139,049</u>	<u>5,170,037</u>
Plan fiduciary net position - ending (b)	<u>6,693,888</u>	<u>7,940,041</u>	<u>6,502,010</u>	<u>6,466,735</u>	<u>6,120,174</u>	<u>5,702,783</u>	<u>5,139,049</u>
Net pension liability (asset) - ending (a) - (b)	<u>\$2,049,856</u>	<u>\$ 325,520</u>	<u>\$1,413,363</u>	<u>\$ 945,452</u>	<u>\$1,186,356</u>	<u>\$ 971,316</u>	<u>\$1,165,161</u>

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

See accompanying notes to the required supplementary information.

KENT COUNTY WATER AUTHORITY

Required Supplementary Information

Schedule of Changes in Net Pension Liability (Asset) and Related Ratios

Last Ten Fiscal Years*

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Total pension liability	\$8,743,743	\$8,265,561	\$7,915,373	\$7,412,187	\$7,306,530	\$6,674,098	\$6,304,210
Plan fiduciary net position	6,693,888	7,940,041	6,502,010	6,466,735	6,120,174	5,702,783	5,139,049
Net pension liability (asset)	<u>\$2,049,856</u>	<u>\$ 325,520</u>	<u>\$1,413,363</u>	<u>\$ 945,452</u>	<u>\$1,186,356</u>	<u>\$ 971,315</u>	<u>\$1,165,161</u>
End of year funding percentage	76.56%	96.06%	82.14%	87.24%	83.76%	85.45%	81.52%
Covered payroll**	2,529,836	2,345,125	2,286,296	2,248,514	2,063,078	1,996,345	1,963,460
Net pension liability as a percentage of covered payroll	81.03%	13.88%	61.82%	42.05%	57.50%	48.65%	59.34%

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

** Reflects revised definition per GASB 82.

See accompanying notes to the required supplementary information.

KENT COUNTY WATER AUTHORITY

Required Supplementary Information

Schedule of Employer Contributions

Last Ten Fiscal Years*

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Actuarially determined contribution	\$ 276,791	\$ 277,832	\$ 280,948	\$ 249,230	\$ 262,152	\$ 222,207	\$ 243,161
Contributions in relation to the actuarially determined contribution	<u>276,791</u>	<u>277,832</u>	<u>280,948</u>	<u>249,230</u>	<u>262,152</u>	<u>222,207</u>	<u>243,161</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll**	2,529,836	2,345,125	2,286,296	2,248,514	2,063,078	1,996,345	1,963,460
Contributions as a percentage of covered payroll	10.94%	11.85%	12.29%	11.08%	12.71%	11.13%	12.38%

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

** Reflects revised definition per GASB 82.

See accompanying notes to the required supplementary information.

KENT COUNTY WATER AUTHORITY

Required Supplementary Information

Schedule of Investment Returns

Last Ten Fiscal Years*

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Annual money-weighted rate of return net of investment expense	-14.07%	24.59%	2.61%	5.74%	8.09%	11.46%	-0.27%

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

See accompanying notes to the required supplementary information.

KENT COUNTY WATER AUTHORITY

Required Supplementary Information

Notes to the Required Supplementary Information – Net Pension Liability

For the Year Ended June 30, 2022

Discount rate	7.00% (7.25% prior to June 30, 2017)
Compensation increase	Salary is assumed to increase 3.00% annually
Social security wage base	The taxable wage base is assumed to increase 2.5% annually
Mortality	Mortality rates are assumed in accordance with the Sex-Distinct IRS 2022 combined static mortality table
Retirement	All participants are assumed to retire at age 62 or current age, if older
Disability	None assumed
Form of payment	Participants are assumed to elect the normal form of annuity
Marriage	75% of participants are assumed to be married; husbands are assumed to be three years older than wives
Employees	No new or rehired employees are assumed for valuation purposes
Termination	Termination of employment is assumed according to Scale T-1 from the Pension Actuary's Handbook. Representative termination rates are listed below and are the same for both males and females.

Age	Rate	Age	Rate	Age	Rate
20	5.44%	35	2.35%	50+	0.00%
25	4.89%	40	1.13%		
30	3.70%	45	0.27%		

See accompanying notes to the required supplementary information.

KENT COUNTY WATER AUTHORITY

Required Supplementary Information

Schedule of Changes in Net OPEB Liability and Related Ratios

Last Ten Fiscal Years*

	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Total OPEB liability				
Service cost	\$ 118,202	\$ 112,939	\$ 191,042	\$ 183,694
Interest on net OPEB liability and service cost	176,818	259,406	210,553	198,763
Differences between actual and expected experience	-	(1,612,108)	-	-
Changes of assumptions	-	(430,062)	-	-
Benefit payments, including refunds	<u>(94,751)</u>	<u>(102,449)</u>	<u>(95,054)</u>	<u>(87,695)</u>
Net change in total OPEB liability	200,269	(1,772,274)	306,541	294,762
Total OPEB liability - beginning	<u>3,848,696</u>	<u>5,620,970</u>	<u>5,314,429</u>	<u>5,019,667</u>
Total OPEB liability - ending (a)	<u>\$ 4,048,965</u>	<u>\$ 3,848,696</u>	<u>\$ 5,620,970</u>	<u>\$ 5,314,429</u>
OPEB fiduciary net position				
Benefit payments, including refunds	\$ (94,751)	\$ (102,449)	\$ (95,054)	\$ (87,695)
Trust administrative expenses	-	-	-	-
Contributions - employer	174,751	182,449	175,054	167,695
Contribution - Active employees	-	-	-	-
Net investment income	<u>(75,670)</u>	<u>91,438</u>	<u>7,474</u>	<u>13,455</u>
Net change in plan fiduciary net position	4,330	171,438	87,474	93,455
Plan fiduciary net position - beginning	<u>433,537</u>	<u>262,099</u>	<u>174,625</u>	<u>81,170</u>
Plan fiduciary net position - ending (b)	<u>\$ 437,867</u>	<u>\$ 433,537</u>	<u>\$ 262,099</u>	<u>\$ 174,625</u>
Plan's net pension liability - ending (a) - (b)	<u>\$ 3,611,098</u>	<u>\$ 3,415,159</u>	<u>\$ 5,358,871</u>	<u>\$ 5,139,804</u>
End of year funding percentage	10.81%	11.26%	4.66%	3.29%
Covered payroll	\$ 2,529,836	\$ 2,345,125	\$ 2,286,296	\$ 2,248,514
Net pension liability divided by covered payroll	142.74%	145.63%	234.39%	228.59%

*- This schedule is presented to illustrate the requirements to show information for 10 years. However, until a 10-year trend is compiled, OPEB plans should present information for those year for which information available.

See accompanying notes to the required supplementary information.

KENT COUNTY WATER AUTHORITY

Required Supplementary Information

Schedule of OPEB Contributions and Schedule of Money-weighted Rate of Return

Last Ten Fiscal Years*

	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019
Actuarial determined contribution	\$ 331,828	\$ 326,093	\$ 433,223	\$ 469,288
Contributions in relation to the actuarially determined contribution	174,751	182,449	175,054	167,695
Contribution deficiency (excess)	\$ 157,077	\$ 143,644	\$ 258,169	\$ 301,593
Covered payroll	\$ 2,529,836	\$ 2,345,125	\$ 2,286,296	\$ 2,248,514
Contributions as a percentage of covered payroll	6.91%	7.78%	7.66%	7.46%

	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019
Annual money-weighted rate of return, net of investment expense	-15.98%	30.27%	3.48%	11.10%

*- This schedule is presented to illustrate the requirements to show information for 10 years. However, until a 10-year trend is compiled, OPEB plans should present information for those year for which information available.

KENT COUNTY WATER AUTHORITY

Required Supplementary Information

Notes to the Required Supplementary Information OPEB

For the Year Ended June 30, 2022

Description	Assumption
Measurement Date	July 1, 2021
Reporting Date	June 30, 2022
Liability Interest Rate	4.66%
Plan Election	All eligible retirees are assumed to elect available coverage at age 62, switching coverage to Plan 65 at age 65, as applicable.
Health Care Trend Rates	Medical coverage costs are assumed to increase 5.0% per year in fiscal 2022 and beyond. Dental coverage costs are assumed to increase 3.5% in fiscal 2022 and beyond
Cost Method	Projected Unit Credit method. Benefits are accrued on service from date of hire to date of first eligibility.
Changes in Assumptions	The mortality assumption has been updated from the 2018 IRS static mortality table to Sex-Distinct IRS 2021 Combined Static Mortality Table.

See accompanying notes to the required supplementary information.

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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 of
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, 2022, and the related notes to the financial statements, and have issued our report thereon dated August 30, 2022.

Report on 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.

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.

A handwritten signature in cursive script that reads "Hague, Sahady & Co. PC".

Hague, Sahady & Co., CPA's, P.C.

Fall River, Massachusetts
August 30, 2022