

**KENT COUNTY WATER AUTHORITY**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
YEARS ENDED JUNE 30, 2012 AND 2011  
WITH  
REPORT OF INDEPENDENT AUDITORS**

**KENT COUNTY WATER AUTHORITY**

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YEARS ENDED JUNE 30, 2012 AND 2011**

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**REPORT OF INDEPENDENT AUDITORS**

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

We have audited the accompanying financial statements of the Kent County Water Authority (the Authority) as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the Authority as of June 30, 2012 and 2011 and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 25, 2012 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress for pension plan and other post-employment benefits on Pages 2 through 5 and Page 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the require 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.

Needham

Boston

Concord

Taunton

Providence

*Blary P. C.*

**KENT COUNTY WATER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION – UNAUDITED  
JUNE 30, 2012 AND 2011**

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

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

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

**Condensed Financial Information**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current Assets	\$ 6,466,348	\$ 6,135,505	\$ 3,387,177
Capital assets, net	112,445,894	102,382,408	101,713,870
Other noncurrent assets	29,851,709	34,948,250	31,926,350
Total assets	<u>148,763,951</u>	<u>143,466,163</u>	<u>137,027,397</u>
Current liabilities	5,321,658	5,141,999	4,686,575
Noncurrent liabilities	25,350,372	27,530,707	29,682,570
Total liabilities	<u>30,672,030</u>	<u>32,672,706</u>	<u>34,369,145</u>
Net assets:			
Invested in capital assets, net of related debt	100,151,376	93,098,199	93,844,901
Restricted for debt service	3,701,637	3,701,637	3,701,637
Restricted for infrastructure replacement	9,653,572	8,734,218	3,679,857
Unrestricted net assets	4,585,336	5,259,403	1,431,857
Total net assets	<u>118,091,921</u>	<u>110,793,457</u>	<u>102,658,252</u>
Total liabilities and net assets	<u>\$ 148,763,951</u>	<u>\$ 143,466,163</u>	<u>\$ 137,027,397</u>

**KENT COUNTY WATER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION – UNAUDITED  
JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenue:			
Water sales	\$ 18,392,361	\$ 19,097,536	\$ 16,270,620
Hydrant rentals	1,299,870	1,300,267	1,225,471
Other	245,452	322,411	300,097
Total operating revenue	<u>19,937,683</u>	<u>20,720,214</u>	<u>17,796,188</u>
Operating expenses:			
Source of supply	4,865,247	4,882,196	4,125,314
Pumping	499,927	537,850	555,989
Transmission and distribution	1,358,735	1,331,725	1,047,954
Water Treatment	275,480	296,326	282,042
Customer accounting	346,990	407,909	319,573
Administrative and general	2,706,786	2,458,279	2,577,943
Depreciation	1,763,928	1,617,170	1,510,967
Taxes other than income	159,229	182,161	146,881
Amortization	120,375	120,375	120,375
Total operating expenses	<u>12,096,697</u>	<u>11,833,991</u>	<u>10,687,038</u>
Operating income	7,840,986	8,886,223	7,109,150
Nonoperating income:			
Capital contributions	-	-	4,356
Interest income (expense)	(508,991)	(751,018)	(896,007)
Arbitrage rebate provision	(33,531)		
Change in net assets	<u>\$ 7,298,464</u>	<u>\$ 8,135,205</u>	<u>\$ 6,217,499</u>

In FY12, the Authority's net assets totaled \$118.5 million, an increase of \$7.6 million or 6% from the previous year. Total assets in FY12 were \$148.6 million, an increase of \$5.1 million or 3.6% from last year. Total liabilities decreased by \$2.5 million or 7.8% as a result of continuing debt service payments. The Authority's major capital expenditures included Capital Improvement Projects (funded by revenue bonds) and Infrastructure Projects (funded by water rates). In FY11, the Authority's net assets totaled \$110.8 million, an increase of \$8.1 million or 7.9% from the previous year. Total assets in FY11 were \$143.5 million, an increase of \$6.4 million or 4.7% from last year. Total liabilities decreased by \$1.7 million or 4.9% as a result of continuing debt service payments.

Water and fire protection charges for FY12 represented 98.8% of operating revenues. The remaining 1.2% includes inspection and turn-on fees, and late payment penalties. The operating revenue totaled \$19.9 million or 3.8% less than the prior year's revenue. This decrease can be attributed to conservation, closed businesses and foreclosed homes. Water and fire protection charges for FY11 represented 98.4% of operating revenues. The remaining 1.6% includes inspection and turn-on fees, and late payment penalties. The operating revenue totaled \$20.7 million or 16.4% more than prior year's revenue. This increase can be attributed to pass through rate increases approved by the PUC.

**KENT COUNTY WATER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION – UNAUDITED  
JUNE 30, 2012 AND 2011**

Total operating expenses for FY12 totaled \$12.1 million, which was \$263 thousand or 2.5% more than the operating expenses for the previous year. The increase is the result of an increase general and administrative costs compared to prior year. Total operating expenses for FY11 totaled \$11.8 million, which was \$1.1 million or 11% more than the operating expenses for the previous year. The increase is the result of an increase in water purchases compared to prior year.

The operating income for FY12 totaled \$7.8 million, representing a decrease of 11% from the previous year. This decrease is a result of the changes discussed above.

**Capital Assets**

In FY12, the Authority's project additions financed with bond proceeds totaled approximately \$335 thousand and included a storage tank and additional transmission lines. Infrastructure projects funded by rates totaled \$9.2 million, which was used primarily for water main installation.

In FY11, the Authority's project additions financed with bond proceeds totaled approximately \$6.6 million and included a primary pump station upgrade, wellfield storage treatment, and additional transmission lines. Infrastructure projects funded by rates totaled \$450 thousand, which was used primarily for water main installation.

The Authority's capital budget includes projected expenditures of \$11.3 million. Infrastructure projects under a state-mandated plan to replace old plant in service included projected expenditures of \$18.9 million over the same period.

**Debt Plan**

Currently the Authority has three series of General Revenue Bonds outstanding at the end of FY12, totaling \$28.8 million at par value.

2001 Series "A"	\$ 6,600,000
2002 Series "A"	17,710,000
2004 Series "A"	4,490,000

**KENT COUNTY WATER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION – UNAUDITED  
JUNE 30, 2012 AND 2011**

During FY12, the Authority paid approximately \$2.5 million in principal on outstanding issuances and \$1.2 million of interest on outstanding issuances.

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

**FY13 Budget and Rates**

For FY13, the budget for operating revenues will increase by 2.0%. A 6% increase is projected for operation and maintenance expenses.

**Request for Information**

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

**KENT COUNTY WATER AUTHORITY**

**STATEMENTS OF NET ASSETS  
JUNE 30, 2012 AND 2011**

**ASSETS**

	<u>2012</u>	<u>2011</u>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 434,085	\$ 503,758
Accounts receivable, less allowance of \$160,962 in 2012 and \$147,365 in 2011	2,815,657	2,575,878
Materials and supplies inventory	454,479	407,991
Other assets	62,127	52,878
Restricted cash held by trustee for current portion of long term debt	2,700,000	2,595,000
<b>Total current assets</b>	<u>6,466,348</u>	<u>6,135,505</u>
<b>Noncurrent assets:</b>		
Restricted cash and cash equivalents held by trustee (Note 3)	19,919,141	25,894,098
Restricted investment held by trustee-Infrastructure replacement (Note 3)	9,653,572	8,734,218
Capital assets:		
Depreciable, net (Note 4)	99,275,674	91,255,759
Nondepreciable (Note 4)	13,170,220	11,126,649
Deferred bond issuance costs, net	278,996	319,934
<b>Total noncurrent assets</b>	<u>142,297,603</u>	<u>137,330,658</u>
<b>TOTAL ASSETS</b>	<u>\$ 148,763,951</u>	<u>\$ 143,466,163</u>

**LIABILITIES AND NET ASSETS**

<b>Current liabilities:</b>		
Accounts payable	\$ 1,278,773	\$ 881,648
Accrued interest expense	565,176	613,551
Accrued liabilities	674,211	992,273
Water quality protection charges payable (Note 8)	89,885	59,527
Other liabilities	13,613	-
Long-term debt due within one year (Note 5)	2,700,000	2,595,000
<b>Total current liabilities</b>	<u>5,321,658</u>	<u>5,141,999</u>
<b>Noncurrent liabilities:</b>		
Accrued arbitrage rebate liability	33,531	-
Long-term debt, net (Note 5)	23,630,938	26,307,201
OPEB obligation, net (Note 7)	1,685,903	1,223,506
<b>Total long-term liabilities</b>	<u>25,350,372</u>	<u>27,530,707</u>
<b>Total liabilities</b>	<u>30,672,030</u>	<u>32,672,706</u>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	100,151,376	93,098,199
Restricted for debt service	3,701,637	3,701,637
Restricted for infrastructure replacement	9,653,572	8,734,218
Unrestricted net assets	4,585,336	5,259,403
<b>Total net assets</b>	<u>118,091,921</u>	<u>110,793,457</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 148,763,951</u>	<u>\$ 143,466,163</u>

SEE NOTES TO FINANCIAL STATEMENTS.



**KENT COUNTY WATER AUTHORITY**

**STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS  
YEARS ENDED JUNE 30, 2012 AND 2011**

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	<u>2012</u>	<u>2011</u>
<b>Operating revenues:</b>		
Water	\$ 18,392,361	\$ 19,097,536
Hydrant rentals	1,299,870	1,300,267
Other	245,452	322,411
<b>Total operating revenues</b>	<u>19,937,683</u>	<u>20,720,214</u>
<b>Operating expenses:</b>		
Source of supply	4,865,247	4,882,196
Pumping	499,927	537,850
Transmission and distribution lines	1,358,735	1,331,725
Water treatment	275,480	296,326
Customer accounts and salaries and supplies	346,990	407,909
Administrative and general	2,706,786	2,458,279
Depreciation	1,763,928	1,617,170
Taxes other than income	159,229	182,161
Amortization	120,375	120,375
<b>Total operating expenses</b>	<u>12,096,697</u>	<u>11,833,991</u>
<b>Operating income</b>	<u>7,840,986</u>	<u>8,886,223</u>
<b>Non-operating income (expenses) :</b>		
Interest income	29,991	36,597
Interest expense	(538,982)	(787,615)
Arbitrage rebate provision	(33,531)	-
<b>Net non-operating income (expense)</b>	<u>(542,522)</u>	<u>(751,018)</u>
<b>Increase in net assets</b>	7,298,464	8,135,205
<b>Net assets at beginning of year</b>	<u>110,793,457</u>	<u>102,658,252</u>
<b>Net assets at end of year</b>	<u>\$ 118,091,921</u>	<u>\$ 110,793,457</u>

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SEE NOTES TO FINANCIAL STATEMENTS.

**KENT COUNTY WATER AUTHORITY**

**STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b><i>Cash flows from operating activities:</i></b>		
Cash received from customers	\$ 19,697,905	\$ 21,062,883
Cash paid to employees for services	(1,332,102)	(1,141,176)
Cash paid to suppliers for goods and services	(7,994,463)	(8,276,155)
<b><i>Net cash provided by operating activities</i></b>	<u>10,371,340</u>	<u>11,645,552</u>
<b><i>Cash flows from investing activities:</i></b>		
Interest income received	29,991	36,597
<b><i>Net cash provided by investing activities</i></b>	<u>29,991</u>	<u>36,597</u>
<b><i>Cash flows from capital and related financing activities:</i></b>		
Payments on debt	(2,595,000)	(2,500,000)
Capital additions	(12,183,549)	(2,207,234)
Interest expense	(643,058)	(888,439)
<b><i>Net cash used for capital and related financing activities</i></b>	<u>(15,421,607)</u>	<u>(5,595,673)</u>
<b><i>Net increase (decrease) in cash and cash equivalents</i></b>	(5,020,276)	6,086,476
<b><i>Cash and cash equivalents, beginning of year</i></b>	<u>37,727,074</u>	<u>31,640,598</u>
<b><i>Cash and cash equivalents, end of year</i></b>	<u>\$ 32,706,798</u>	<u>\$ 37,727,074</u>
<b><i>Reconciliation of operating income to net cash provided by operating activities:</i></b>		
Operating income	\$ 7,840,986	\$ 8,886,223
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization of bond issuance costs	1,884,303	1,737,545
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable, net	(239,778)	342,668
(Increase) decrease in material, supplies and inventory	(46,488)	(14,480)
(Increase) decrease in other assets	(9,249)	(52,878)
Increase (decrease) in accounts payable	397,125	313,804
Increase (decrease) in accrued liabilities	38,073	24,097
Increase (decrease) in water quality protection charges payable	30,358	(10,827)
Increase (decrease) in other liabilities	476,010	419,400
<b><i>Net cash provided by operating activities</i></b>	<u>\$ 10,371,340</u>	<u>\$ 11,645,552</u>

SEE NOTES TO FINANCIAL STATEMENTS.

**KENT COUNTY WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012 AND 2011**

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**1. ORGANIZATION**

**a) Primary Government**

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

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

**b) 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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Authority conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies followed by the Authority:

**a) Basis of Presentation**

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

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

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

(CONTINUED)

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**KENT COUNTY WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**b) Operating and Nonoperating Revenue**

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

**c) Utility Plant**

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

**d) 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.

**e) Materials and Supplies Inventory**

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

**f) Proprietary Activity Accounting and Financial Reporting**

The Authority has elected to apply accounting standards applicable to the private sector issued on or before November 30, 1989 unless those standards conflict with or contradict pronouncements of GASB.

**g) 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.

**h) Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

**i) Bond Issue Costs**

Expenses related to the issuance of Bonds are amortized on a straight-line basis over the life of the bonds, which approximates the effective interest method.

(CONTINUED)

**KENT COUNTY WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***j) Recently Issued Accounting Standards***

The Authority has implemented the following new accounting pronouncements:

- ✓ GASB Statement No. 64 – Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53, effective for the Authority's fiscal year ending June 30, 2012. The adoption of this Statement did not have an impact on the Authority's financial position or results of operation.

The Authority will adopt the following new accounting pronouncement in future years:

- ✓ GASB Statement No. 60 – Accounting and Financial Reporting for Service Concession Arrangement, effective for the Authority's fiscal year ending June 30, 2013.
- ✓ GASB Statement No. 61 – The Financial Reporting entity: Omnibus an amendment of GASB Statements No. 14 and No. 34, effective for the Authority's fiscal year ending June 30, 2013.
- ✓ GASB Statement No. 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, effective for the Authority's fiscal year ending June 30, 2013.
- ✓ GASB Statement No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, effective for the Authority's fiscal year ending June 30, 2013.
- ✓ GASB Statement No. 65 – Items Previously Reported as Assets and Liabilities, effective for the Corporation's fiscal year ending June 30, 2014.
- ✓ GASB Statement No. 66 – Technical Corrections – an amendment of GASB Statements No. 10 and No 62, effective for the Corporation's fiscal year ending June 30, 2014.
- ✓ GASB Statement No. 67 – Financial Reporting of Pension Plans – and amendment of GASB Statement No. 25, effective for the Corporation's fiscal year ending June 30, 2014.
- ✓ GASB Statement No. 68 – Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, effective for the Corporation's fiscal year ending June 30, 2015.

The impact of these pronouncements on the Authority's financial statements for future years has yet to be determined.

(CONTINUED)

**KENT COUNTY WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**3. CASH, CASH EQUIVALENTS AND INVESTMENTS**

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

**a) Custodial Credit Risk**

Custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned. As of June 30, 2012 and 2011, bank balances totaling \$618,022 and \$544,869, respectively, are fully FDIC insured, and \$0 is uninsured and uncollateralized.

**b) Interest Rate Risk**

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

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

Investments are valued at fair value. All of the Authority's debt investments have maturities of less than one year from the end of the reporting period. The components and fair values of the Authority's investments are presented below:

<u>Investment type</u>	<u>Fair value</u>	
	<u>2012</u>	<u>2011</u>
Money Market Treasury Obligation Fund	\$ 30,969,739	\$ 35,920,329
U.S Treasuries	1,302,974	1,302,987
Total investments	<u>\$ 32,272,713</u>	<u>\$ 37,223,316</u>

The Authority established an "Infrastructure Replacement Fund" in conformity with all applicable provisions of state and federal laws including the federal Safe Drinking Water Act (42 USC Section 300f et seq.); Chapter 46-13 of the General Laws of Rhode Island, Public Drinking Water Supply. The dedicated fund for infrastructure replacement was \$9,653,572 and \$8,734,218 as of June 30, 2012 and 2011, respectively.

**c) Credit Risk**

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

	<u>Credit Rating</u>
Money Market Treasury obligation fund	Aaa (Moody's)
U.S. Treasuries	Aaa (Moody's)

(CONTINUED)

**KENT COUNTY WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**4. CAPITAL ASSETS**

The cost and activity of water capital assets in service and related accumulated depreciation for the year ended June 30, 2012 is as follows:

	<u>Balance at June 30, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2012</u>
Capital assets, not being depreciated:				
Construction in progress	\$ 9,290,604	\$ 11,554,835	\$ 9,511,264	\$ 11,334,175
Land	1,836,045	-	-	1,836,045
Total capital assets, not being depreciated	<u>11,126,649</u>	<u>11,554,835</u>	<u>9,511,264</u>	<u>13,170,220</u>
Capital assets, being depreciated:				
Buildings and improvements	2,817,123	-	-	2,817,123
Machinery and equipment	15,805,058	272,579	-	16,077,637
Infrastructure	89,189,176	9,511,264	-	98,700,440
Total capital assets, being depreciated	<u>107,811,357</u>	<u>9,783,843</u>	<u>-</u>	<u>117,595,200</u>
Less accumulated depreciation	<u>16,555,598</u>	<u>1,763,928</u>		<u>18,319,526</u>
Total capital assets, being depreciated, net	<u>91,255,759</u>	<u>8,019,915</u>	<u>-</u>	<u>99,275,674</u>
Capital assets, net	<u>\$ 102,382,408</u>	<u>\$ 19,574,750</u>	<u>\$ 9,511,264</u>	<u>\$ 112,445,894</u>

The cost and activity of water capital assets in service and related accumulated depreciation for the year ended June 30, 2011 is as follows:

	<u>Balance at June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2011</u>
Capital assets, not being depreciated:				
Construction in progress	\$ 14,085,091	\$ 2,257,171	\$ 7,051,658	\$ 9,290,604
Land	1,836,045	-	-	1,836,045
Total capital assets, not being depreciated	<u>15,921,136</u>	<u>2,257,171</u>	<u>7,051,658</u>	<u>11,126,649</u>
Capital assets, being depreciated:				
Buildings and improvements	2,817,123	-	-	2,817,123
Machinery and equipment	15,776,518	28,540	-	15,805,058
Infrastructure	82,137,518	7,051,658	-	89,189,176
Total capital assets, being depreciated	<u>100,731,159</u>	<u>7,080,198</u>	<u>-</u>	<u>107,811,357</u>
Less accumulated depreciation	<u>14,938,425</u>	<u>1,617,173</u>	<u>-</u>	<u>16,555,598</u>
Total capital assets, being depreciated, net	<u>85,792,734</u>	<u>5,463,025</u>	<u>-</u>	<u>91,255,759</u>
Capital assets, net	<u>\$ 101,713,870</u>	<u>\$ 7,720,196</u>	<u>\$ 7,051,658</u>	<u>\$ 102,382,408</u>

(CONTINUED)

**KENT COUNTY WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**4. CAPITAL ASSETS (Continued)**

Interest costs of \$642,827 and \$499,442, offset by interest income of \$21,932 and \$38,970, were capitalized in 2012 and 2011, respectively.

**5. LONG-TERM OBLIGATIONS**

The Authority issues revenue bonds to support various projects. The following is a summary of the bond activity for the years ended June 30, 2012 and 2011:

<u>Description</u>	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2012</u>	<u>Amounts due within one year</u>
Revenue bonds:					
July 2001 Series A bearing interest at 3.5%-5% and maturing in 2022	\$ 6,600,000	\$ -	\$ (465,000)	\$ 6,135,000	\$ 490,000
December 2002 Series A bearing interest at 2%-5% and maturing in 2024	17,710,000	-	(1,030,000)	16,680,000	1,070,000
April 2004 Series A bearing interest at 2%-4% and maturing in 2014	4,490,000	-	(1,100,000)	3,390,000	1,140,000
	<u>28,800,000</u>	<u>-</u>	<u>(2,595,000)</u>	<u>26,205,000</u>	<u>2,700,000</u>
Add (less):					
Unamortized discount	(12,053)	-	1,205	(10,848)	-
Unamortized premium	332,670	-	(56,905)	275,765	-
Unamortized loss on refunding	(218,416)	-	79,437	(138,979)	-
	<u>102,201</u>	<u>-</u>	<u>23,737</u>	<u>125,938</u>	<u>-</u>
	<u>\$ 28,902,201</u>	<u>\$ -</u>	<u>\$ (2,571,263)</u>	<u>\$ 26,330,938</u>	<u>\$ 2,700,000</u>

(CONTINUED)



**KENT COUNTY WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**5. LONG-TERM OBLIGATIONS (Continued)**

Description	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Amounts due within one year
Revenue bonds:					
July 2001 Series A bearing interest at 3.5%-5% and maturing in 2022	\$ 7,045,000	\$ -	\$ (445,000)	\$ 6,600,000	\$ 465,000
December 2002 Series A bearing interest at 2%-5% and maturing in 2024	18,700,000	-	(990,000)	17,710,000	1,030,000
April 2004 Series A bearing interest at 2%-4% and maturing in 2014	5,555,000	-	(1,065,000)	4,490,000	1,100,000
	<u>31,300,000</u>	<u>-</u>	<u>(2,500,000)</u>	<u>28,800,000</u>	<u>2,595,000</u>
Add (less):					
Unamortized discount	(13,258)	-	1,205	(12,053)	-
Unamortized premium	389,575	-	(56,905)	332,670	-
Unamortized loss on refunding	(297,853)	-	79,437	(218,416)	-
	<u>78,464</u>	<u>-</u>	<u>23,737</u>	<u>102,201</u>	<u>-</u>
	<u>\$ 31,378,464</u>	<u>\$ -</u>	<u>\$ (2,476,263)</u>	<u>\$ 28,902,201</u>	<u>\$ 2,595,000</u>

The annual debt service requirements of the general long-term bonds payable as of June 30, 2012 are as follows:

	Principal	Interest	Total
Fiscal year ended June 30:			
2013	\$ 2,700,000	\$ 1,177,889	\$ 3,877,889
2014	2,800,000	1,069,686	3,869,686
2015	2,760,000	961,310	3,721,310
2016	1,770,000	861,662	2,631,662
2017	1,855,000	771,037	2,626,037
2018-2022	10,825,000	2,285,268	13,110,268
2023-2024	3,495,000	176,209	3,671,209
	<u>\$ 26,205,000</u>	<u>\$ 7,303,061</u>	<u>\$ 33,508,061</u>

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

The Authority must meet certain financial covenants. The Authority was in compliance with all such covenants at June 30, 2012 and 2011.

(CONTINUED)

**KENT COUNTY WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**6. PENSION PLAN**

**a) Plan Description**

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

At June 30, 2012 and 2011, the Plan membership consisted of the following:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Retirees and beneficiaries receiving benefits	25	24
Terminated vested participants	9	8
Active with vested benefits	<u>31</u>	<u>32</u>
Total membership	<u><u>65</u></u>	<u><u>64</u></u>

**b) Funding Status and Funding Progress**

The funded status of the Plan as of January 1, 2012, the most recent actuarial valuation, is as follows:

Actuarially accrued liability (AAL)	\$ 5,351,926
Actuarial value of plan assets	<u>3,980,253</u>
Unfunded actuarial accrued liabilities (UAAL)	<u><u>\$ 1,371,673</u></u>
Funded ratio (actuarial value of plan assets/AAL)	74.4%
Covered payroll (active plan members)	\$ 1,721,275
UAAL as a percentage of covered payroll	79.7%

In the January 1, 2012 actuarial valuation, the Authority utilized the aggregate actuarial method to determine the annual required employer contributions. This method does not identify or separately amortize unfunded actuarial liabilities. Therefore, the entry age method was used to prepare the funded status of the Plan. The actuarial assumptions included 7.25% investment rate of return, projected salary increases of 3.0%, and no cost-of-living adjustments. The actuarial value of assets was determined using the fair value of investments. The Plan's unfunded actuarial accrued liability is being amortized to approximate the level percent of aggregate compensation.

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

(CONTINUED)

**KENT COUNTY WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**6. PENSION PLAN (Continued)**

**c) Funding Policy**

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

The schedule of employer contributions are as follows:

<u>Plan Year Ended December 31,</u>	<u>Minimum Required Contribution</u>	<u>Actual Annual Contribution</u>	<u>Percentage Contributed</u>
2009	\$ 193,619	\$ 193,619	100.0%
2010	\$ 258,392	\$ 260,000	100.6%
2011	\$ 214,026	\$ 214,026	100.0%
2012	\$ 256,556	\$ 256,556	100.0%

**7. OTHER POST EMPLOYMENT BENEFITS**

**a) Plan Description**

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

**b) Funding Policy**

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

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

Fiscal Year Beginning	<u>7/1/11</u>	<u>7/1/10</u>
Discount rate	4.00%	4.00%
Census Date	7/1/2011	7/1/2008
Mortality	IRS-2008	IRS-2008

(CONTINUED)

**KENT COUNTY WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**7. OTHER POST EMPLOYMENT BENEFITS (Continued)**

**b) Funding Policy (Continued)**

Medical coverage costs are assumed to increase 8.5% in fiscal 2012 with trend rates decreasing 0.5% each year to an ultimate rate of 5.0% per year in fiscal 2019 and beyond. Dental coverage costs are assumed to increase 5.25% in fiscal 2012 with trend rates decreasing 0.25% each year to an ultimate rate of 3.5% per year in fiscal 2019 and beyond.

**Three - Year Trend Information**

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Actual Plan Contributions</u>	<u>Percentage of OPEB cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2012	\$ 572,805	\$ 110,408	19.27%	\$ 1,685,903
June 30, 2011	\$ 517,595	\$ 98,195	18.97%	\$ 1,223,506
June 30, 2010	\$ 501,063	\$ 87,753	17.51%	\$ 804,106

The Authority's annual OPEB cost and net OPEB obligation for the year ended June 30, 2012 and 2011 was as follows:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Annual required contribution	\$ 591,899	\$ 530,144
Interest on net OPEB obligation	48,940	32,164
Adjustment to annual required contribution	<u>(68,034)</u>	<u>(44,713)</u>
Annual OPEB cost(expense)	572,805	517,595
Contributions made	<u>(110,408)</u>	<u>(98,195)</u>
Increase in net OPEB obligation	462,397	419,400
Net OPEB obligation-beginning of year	1,223,506	804,106
Net OPEB obligation-end of year	<u><u>\$ 1,685,903</u></u>	<u><u>\$ 1,223,506</u></u>

**c) Schedule of Funding Progress**

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (AVA) (1)</u>	<u>Actuarial Accrued Liability (AAL) (2)</u>	<u>Unfunded AAL (UAAL) (2)-(1) (3)</u>	<u>AVA as a percent of AAL (1)/(2) (4)</u>	<u>Covered Payroll (5)</u>	<u>UAAL as a Percent of Covered payroll (3)/(5) (6)</u>
7/1/2011	N/A	\$5,077,569	\$5,077,569	N/A	\$ 1,671,141	303.84%
7/1/2008	N/A	\$5,094,885	\$5,094,885	N/A	\$ 1,669,117	305.24%

(CONTINUED)

**KENT COUNTY WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

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**8. 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, 2012 and 2011, water quality protection charges payable of \$89,885 and \$59,527, respectively, represented funds collected from customers that are required to be paid to the Rhode Island Water Resources Board.

**9. 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.

**10. REGULATORY MATTERS**

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

**11. RISK MANAGEMENT**

***Insurance Held***

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

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

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

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

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

Long-term disability is covered by the State's temporary disability insurance for the first 26 weeks of medical coverage and lost wages. Thereafter, the Authority maintains a third-party insured employee disability program that provides for longer-term disability.

(CONTINUED)

**KENT COUNTY WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

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**12. SUBSEQUENT EVENTS**

Subsequent to June 30, 2012, the Authority entered into a refunding bond agreement, to pay off the 2001 Series 2 and 2002 Series A bonds. This agreement, effective July 18, 2012, created a new bond obligation of \$17,490,000, which retired \$23,505,000 in existing bonded debt.

(CONCLUDED)

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***REQUIRED SUPPLEMENTARY INFORMATION***

**KENT COUNTY WATER AUTHORITY**

**SCHEDULING OF FUNDING PROGRESS FOR PENSION PLAN AND  
OTHER POST EMPLOYMENT BENEFITS  
JUNE 30, 2012**

**Required supplementary information**

**Kent County Water Authority's Schedule of Funding Progress for the Pension Plan is as follows:**

<u>Plan Year Ended December 31,</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Under (over) AAL (UAAL) (b) - (a) (c)</u>	<u>Funded Ratio (a)/(b)</u>	<u>Covered Payroll (d)</u>	<u>UAAL as % of Covered Payroll ((b-a)/d)</u>
2009	\$ 3,528,601	\$ 5,073,463	\$ 1,544,862	69.6%	\$ 1,719,191	89.9%
2010	\$ 3,928,333	\$ 4,998,203	\$ 1,069,870	78.6%	\$ 1,663,231	64.3%
2011	\$ 3,976,358	\$ 5,061,493	\$ 1,085,135	78.6%	\$ 1,750,853	62.0%
2012	\$ 3,980,253	\$ 5,351,926	\$ 1,371,673	74.4%	\$ 1,721,275	79.7%

**Kent County Water Authority's Schedule of Funding Progress for the Other Post Employment Benefits is as follows:**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (AVA) (1)</u>	<u>Actuarial Accrued Liability (AAL) (2)</u>	<u>Unfunded AAL (UAAL) (2)-(1) (3)</u>	<u>AVA as a percent of AAL (1)/(2) (4)</u>	<u>Covered Payroll (5)</u>	<u>UAAL as a Percent of Covered payroll (3)/(5) (6)</u>
7/1/2011	N/A	\$5,077,569	\$5,077,569	N/A	\$ 1,671,141	303.84%
7/1/2008	N/A	\$5,094,885	\$5,094,885	N/A	\$ 1,669,117	305.24%

SEE REPORT OF INDEPENDENT AUDITORS



**REPORT OF INDEPENDENT AUDITORS 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**

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

We have audited the basic financial statements of the Kent County Water Authority (the Authority) as of and for the year ended June 30, 2012, and have issued our report thereon dated September 25, 2012. 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.

Internal Control over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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 Authority's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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.

We noted certain matters that we reported to the Board of Directors and management of Kent County Water Authority, in a separate letter dated September 25, 2012.

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

*Brian P. C.*

Providence, Rhode Island  
September 25, 2012