

**KENT COUNTY WATER AUTHORITY**

**FINANCIAL STATEMENTS  
AND  
REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2014 AND 2013  
WITH  
INDEPENDENT AUDITORS' REPORT**

**KENT COUNTY WATER AUTHORITY**

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JUNE 30, 2014 AND 2013**

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## ***INDEPENDENT AUDITORS' REPORT***

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 year ended June 30, 2014, and the related notes to the financial statements, as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves procedures to obtain audit evidence about the amounts and disclosures in the financial statements. These procedures selected depend on the auditors' judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Kent County Water Authority as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

### ***Adjustments to Prior Period Financial Statements***

The financial statements of Kent County Water Authority as of and for the year ended June 30, 2013, were audited by other auditors whose opinion dated October 17, 2013, on those statements was unmodified. As discussed in Note 12, Kent County Water Authority has restated its 2013 financial statements during the current year in accordance with the implementation of GASB No. 65 – Items Previously Reported as Assets and Liabilities and also to correct the presentation of recording the unbilled water revenue. The other auditors reported on the 2013 financial statements before the restatement.

As part of our audit of the 2014 financial statements, we also audited the adjustments described in Note 12 that were applied to restate the 2013 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We are not engaged to audit, review, or apply any procedures to the 2013 financial statements of Kent County Water Authority other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2013 financial statements as a whole.

### **Prior Period Financial Statements**

The financial statements of Kent County Water Authority as of June 30, 2013, were audited by Braver P.C. whose practice was combined with Marcum LLP as of January 1, 2014, and whose report dated October 17, 2013 expressed an unmodified opinion on those statements.

### **Other Matters**

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress for pension plan and other post-employment benefits on Pages 4-7 and 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated December 2, 2014 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

*Marcum LLP*

Providence, Rhode Island  
December 2, 2014

**KENT COUNTY WATER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION – UNAUDITED  
JUNE 30, 2014 AND 2013**

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

**Condensed Financial Information**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current assets	\$ 7,830,899	\$ 7,855,938	\$ 6,466,348
Other noncurrent assets	17,991,046	20,653,775	29,572,713
Capital assets, net	<u>134,302,565</u>	<u>127,270,430</u>	<u>112,445,894</u>
Total assets	<u>160,124,510</u>	<u>155,780,143</u>	<u>148,484,955</u>
Current liabilities	5,595,246	6,928,257	5,321,658
Noncurrent liabilities	<u>17,123,646</u>	<u>19,154,420</u>	<u>25,350,372</u>
Total liabilities	<u>22,718,892</u>	<u>26,082,677</u>	<u>30,672,030</u>
Deferred inflows of resources			
Gain (loss) on refunding	<u>1,906,238</u>	<u>2,142,061</u>	<u>(1,239,134)</u>
Net position:			
Net investment in capital assets	123,258,736	117,520,795	100,151,376
Restricted for debt service	4,194,000	4,504,000	3,701,637
Restricted for infrastructure replacement	6,277,494	9,051,691	9,653,572
Unrestricted net position	<u>1,769,150</u>	<u>(3,521,081)</u>	<u>5,545,474</u>
Total net position	<u>\$ 135,499,380</u>	<u>\$ 127,555,405</u>	<u>\$ 119,052,059</u>

**KENT COUNTY WATER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION – UNAUDITED  
JUNE 30, 2014 AND 2013**

**Condensed Financial Information (Continued)**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenue:			
Water sales	\$ 17,743,307	\$ 18,209,485	\$ 18,392,361
Hydrant rentals	1,306,816	1,300,128	1,299,870
Other	385,883	363,933	245,452
Total operating revenue	<u>\$ 19,436,006</u>	<u>\$ 19,873,546</u>	<u>\$ 19,937,683</u>
Operating expenses:			
Source of supply	\$ 4,254,854	\$ 4,451,264	\$ 4,865,247
Pumping	686,839	567,628	499,927
Transmission and distribution	1,096,973	1,248,066	1,358,735
Water treatment	448,504	269,490	275,480
Customer accounting	368,239	370,849	346,990
Administrative and general	3,126,241	3,192,964	2,706,786
Depreciation	1,935,848	1,801,294	1,763,928
Taxes other than income	167,504	164,772	159,229
Amortization	-	-	40,938
Total operating expenses	<u>12,085,002</u>	<u>12,066,327</u>	<u>12,017,260</u>
Operating income	7,351,004	7,807,219	7,920,423
Nonoperating income (expense):			
Capital contributions	846,405	652,280	-
Interest income (expense)	(253,434)	(104,947)	(508,991)
Arbitrage rebate provision	-	(33,863)	(33,531)
Other	-	182,657	(79,437)
Net non-operating income (expense)	<u>592,971</u>	<u>696,127</u>	<u>(621,959)</u>
Increase in net position	7,943,975	8,503,346	7,298,464
Net position at beginning of year	<u>127,555,405</u>	<u>119,052,059</u>	<u>111,753,595</u>
Net position at end of year	<u>\$ 135,499,380</u>	<u>\$ 127,555,405</u>	<u>\$ 119,052,059</u>

In FY14, the Authority's net position totaled \$135.8 million, an increase of \$8.2 million or 6% from the previous year. Total assets in FY14 were \$160.5 million, an increase of \$4.7 million or 3% from last year. Total liabilities decreased by \$3.5 million or 12% as a result of debt service payments and 2012 bond refunding. The Authority's major capital expenditures included Capital Improvement Projects (funded by revenue bonds) and Infrastructure Projects (funded by water rates). In FY13, the Authority's net position totaled \$127.6 million, an increase of \$8.6 million or 7% from the previous year. Total assets in FY13 were \$155.8 million, an increase of \$7.3 million or 5% from last year. Total liabilities decreased by \$2.5 million or 8.1% as a result of continuing debt service payments.

**KENT COUNTY WATER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION – UNAUDITED  
JUNE 30, 2014 AND 2013**

**Condensed Financial Information (Continued)**

Water and fire protection charges for FY14 represented 98.5% of operating revenues. The remaining 1.5% includes inspection and turn-on fees, and late payment penalties. The operating revenue totaled \$19.4 million or 2.3% less than the prior year's revenue. The decrease can be attributed to conservation, closed businesses and foreclosed homes. Water and fire protection charges for FY13 represented 98.2% of operating revenues. The remaining 1.8% includes inspection and turn-on fees, and late payment penalties. The operating revenue totaled \$19.8 million or .5% less than prior year's revenue. This decrease can be attributed to conservation, closed businesses and foreclosed homes.

Total operating expenses for FY14 totaled \$12.1 million, which was approximately the same as the previous year. Total operating expenses for FY13 totaled \$12.1 million, which was \$50 thousand or .4% more than the operating expenses for the previous year. The increase is the result of an increase in general and administrative costs compared to the prior year and a decrease in purchased water.

The operating income for FY14 totaled \$7.3 million, representing a decrease of 7% from the previous year. This decrease is a result of the changes discussed above.

**Capital Assets**

In FY14, the Authority's infrastructure projects funded by rates totaled \$9.7 million, which was used primarily for water main installation.

**Debt Plan**

Currently the Authority has two series of General Revenue Bonds outstanding at the end of FY14, totaling \$16.9 million at par value.

2004 Series "A"	\$ 1,070,000
2012 Series "A"	\$15,920,000

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



**KENT COUNTY WATER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION – UNAUDITED  
JUNE 30, 2014 AND 2013**

**Debt Plan (Continued)**

During FY14, the Authority paid approximately \$2.6 million in principal on outstanding issuances and \$800,000 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.

**FY14 Budget and Rates**

For FY14, the budget for operating revenues will increase by 1.5%. A 2% 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 POSITION  
JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b><u>ASSETS</u></b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 735,581	\$ 798,256
Accounts receivable, less allowance of \$166,797 in 2014 and \$168,145 in 2013	2,809,738	2,843,905
Unbilled water revenue	1,074,248	1,129,449
Materials and supplies inventory	483,762	473,669
Other assets	232,570	60,659
Restricted cash and cash equivalents held by trustee for current portion of long term debt	2,495,000	2,550,000
<b>Total current assets</b>	<u>7,830,899</u>	<u>7,855,938</u>
<b>Noncurrent assets:</b>		
Restricted cash and cash equivalents held by trustee (Note 3)	11,713,552	11,602,084
Restricted cash and cash equivalents held by trustee-Infrastructure replacement (Note 3)	6,277,494	9,051,691
<b>Total noncurrent assets</b>	<u>17,991,046</u>	<u>20,653,775</u>
<b>Capital assets:</b>		
Depreciable, net (Note 4)	107,129,109	98,181,349
Nondepreciable (Note 4)	27,173,456	29,089,081
<b>TOTAL ASSETS</b>	<u>160,124,510</u>	<u>155,780,143</u>
<b><u>LIABILITIES</u></b>		
<b>Current liabilities:</b>		
Accounts payable	1,528,728	2,504,559
Accrued interest expense	339,651	403,683
Accrued liabilities	1,104,690	1,394,984
Water quality protection charges payable (Note 8)	127,177	42,263
Other liabilities	-	32,768
Long-term debt due within one year (Note 5)	2,495,000	2,550,000
<b>Total current liabilities</b>	<u>5,595,246</u>	<u>6,928,257</u>
<b>Noncurrent liabilities:</b>		
Accrued arbitrage rebate liability	-	33,863
Long-term debt, net (Note 5)	14,432,386	16,947,219
OPEB obligation, net (Note 7)	2,691,260	2,173,338
<b>Total noncurrent liabilities</b>	<u>17,123,646</u>	<u>19,154,420</u>
<b>Total liabilities</b>	<u>22,718,892</u>	<u>26,082,677</u>
<b>Deferred inflows of resources:</b>		
Gain on refunding	1,906,238	2,142,061
<b><u>NET POSITION</u></b>		
<b>Net position:</b>		
Net investment in capital assets	123,258,736	117,520,795
Restricted for debt service	4,194,000	4,504,000
Restricted for infrastructure replacement	6,277,494	9,051,691
Unrestricted net position	1,769,150	(3,521,081)
<b>Total net position</b>	<u>\$ 135,499,380</u>	<u>\$ 127,555,405</u>

The accompanying notes are an integral part of the financial statements.

**KENT COUNTY WATER AUTHORITY**

**STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION  
YEAR ENDED JUNE 30, 2014**

	<u>2014</u>	<u>2013</u>
<b><i>Operating revenues:</i></b>		
Water	\$ 17,743,307	\$ 18,209,485
Hydrant rentals	1,306,816	1,300,128
Other	385,883	363,933
<b><i>Total operating revenues</i></b>	<u>19,436,006</u>	<u>19,873,546</u>
<b><i>Operating expenses:</i></b>		
Source of supply	4,254,854	4,451,264
Pumping	686,839	567,628
Transmission and distribution lines	1,096,973	1,248,066
Water treatment	448,504	269,490
Customer accounts and salaries and supplies	368,239	370,849
Administrative and general	3,126,241	3,192,964
Depreciation	1,935,848	1,801,294
Taxes other than income	167,504	164,772
<b><i>Total operating expenses</i></b>	<u>12,085,002</u>	<u>12,066,327</u>
<b><i>Operating income</i></b>	<u>7,351,004</u>	<u>7,807,219</u>
<b><i>Non-operating income (expenses) :</i></b>		
Capital contributions	846,405	652,280
Interest income	18,934	38,586
Interest expense	(272,368)	(143,533)
Arbitrage rebate provision	-	(33,863)
Other	-	182,657
<b><i>Net non-operating income (expense)</i></b>	<u>592,971</u>	<u>696,127</u>
<b><i>Increase in net position</i></b>	7,943,975	8,503,346
<b><i>Net position at beginning of year, as restated</i></b>	<u>127,555,405</u>	<u>119,052,059</u>
<b><i>Net position at end of year</i></b>	<u>\$ 135,499,380</u>	<u>\$ 127,555,405</u>

The accompanying notes are an integral part of the financial statements.

**KENT COUNTY WATER AUTHORITY**

**STATEMENTS OF CASH FLOWS  
YEAR ENDED JUNE 30, 2014**

	<u>2014</u>	<u>2013</u>
<b><i>Cash flows from operating activities:</i></b>		
Cash received from customers	\$ 19,525,375	\$ 19,818,268
Cash paid to employees for services	(1,228,073)	(1,258,560)
Cash paid to suppliers for goods and services	(9,838,821)	(7,515,645)
<b><i>Net cash provided by operating activities</i></b>	<u>8,458,481</u>	<u>11,044,063</u>
<b><i>Cash flows from investing activities:</i></b>		
Interest income received	18,934	38,586
<b><i>Net cash provided by investing activities</i></b>	<u>18,934</u>	<u>38,586</u>
<b><i>Cash flows from capital and related financing activities:</i></b>		
Proceeds from long term debt	-	17,290,000
Payments on debt	(2,550,000)	(22,858,271)
Payments of debt issuance costs	-	(143,606)
Capital additions	(8,298,419)	(13,897,106)
Interest expense	(409,400)	(178,433)
<b><i>Net cash used for capital and related financing activities</i></b>	<u>(11,257,819)</u>	<u>(19,787,416)</u>
<b><i>Net decrease in cash and cash equivalents</i></b>	(2,780,404)	(8,704,767)
<b><i>Cash and cash equivalents, beginning of year</i></b>	24,002,031	32,706,798
<b><i>Cash and cash equivalents, end of year</i></b>	<u>\$ 21,221,627</u>	<u>\$ 24,002,031</u>
<b><i>Cash and cash equivalents, per the statement of net position</i></b>		
Cash and cash equivalents	\$ 735,581	\$ 798,256
Restricted cash and cash equivalents held by trustee for current portion of long term debt	2,495,000	2,550,000
Restricted cash and cash equivalents held by trustee (Note 3)	11,713,552	11,602,084
Restricted cash and cash equivalents held by trustee-Infrastructure replacement (Note 3)	6,277,494	9,051,691
<b><i>Total cash and cash equivalents, per the statement of net position</i></b>	<u>\$ 21,221,627</u>	<u>\$ 24,002,031</u>
<b><i>Reconciliation of operating income to net cash provided by operating activities:</i></b>		
Operating income	\$ 7,351,004	\$ 7,807,219
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation of bond issuance costs	1,935,848	1,801,294
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable, net	34,168	(28,249)
(Increase) decrease in unbilled water revenue	55,201	(27,029)
Increase in material, supplies and inventory	(10,093)	(19,190)
(Increase) decrease in other assets	(171,911)	1,468
Increase in accounts payable	(975,831)	1,225,788
Increase in accrued liabilities	(74,317)	39,965
Increase (decrease) in water quality protection charges payable	84,914	(47,622)
Increase in other liabilities	229,498	290,419
<b><i>Net cash provided by operating activities</i></b>	<u>\$ 8,458,481</u>	<u>\$ 11,044,063</u>

The accompanying notes are an integral part of the financial statements.

**KENT COUNTY WATER AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

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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.

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**KENT COUNTY WATER AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

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

**a) Basis of Presentation (Continued)**

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.

**b) 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 Rhode Island Public Utility Commission (RIPUC). Depreciation expense is not reflected for construction in progress until it is placed in service. The Authority capitalizes interest costs as part of the cost of constructing transmission and distribution facilities.

**c) 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.

**d) Materials and Supplies Inventory**

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

**e) 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.

**f) 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.

(CONTINUED)

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**KENT COUNTY WATER AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

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

***g) 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. At June 30, 2014 and 2013, there were no deferred outflows of resources.

In addition to liabilities, the statement of financial position can report a separate section for deferred inflows of resources. This separate section represents the acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until a later date. At June 30, 2014 and 2013, there were \$1,906,238 and \$2,142,061 in deferred inflows relating to gain on refunding, respectively.

***h) Reclassifications***

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

***i) Recently Issued Accounting Standards***

The Authority has implemented the following new accounting pronouncements:

The Authority has implemented GASB No. 65, Items Previously Reported as Assets and Liabilities, for the year ended June 30, 2014.

The Authority has implemented GASB No. 66 – Technical Corrections – 2012 – an amendment of GASB Statement No. 10 and No. 62, for the year ended June 30, 2014. The adoption of this Statement did not have an impact on the Authority’s financial position or results of operations.

The Authority has implemented GASB No. 67 – Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25, for the year ended June 30, 2014. The adoption of this Statement did not have an impact on the Authority’s financial position or results of operations.

The Authority has implemented GASB No. 70 – Accounting and Financial Reporting for Nonexchange Financial Guarantees, for the year ended June 30, 2014. The adoption of this Statement did not have an impact on the Authority’s financial position or results of operations.

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**KENT COUNTY WATER AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

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

**i) Recently Issued Accounting Standards (Continued)**

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

- ✓ GASB Statement No. 68 – Financial Reporting for Pensions – an amendment of GASB Statement No. 27, effective for the Authority’s fiscal year ending June 30, 2015.
- ✓ GASB Statement No. 69 – Government Combinations and Disposals of Government operations, effective for the Authority’s fiscal year ending June 30, 2015.
- ✓ GASB Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment to GASB Statement No. 68, effective for the Authority’s fiscal year ending June 30, 2015.

The impact of these new pronouncements on the Authority’s financial statements has not been determined.

**3. CASH AND CASH EQUIVALENTS**

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

**a) Custodial Credit Risk**

The Company has a potential concentration of credit risk in that it maintains deposits with a financial institution in excess of amounts insured by the Federal Deposit Insurance Corporation (“FDIC”).

**b) Interest Rate Risk**

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

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

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**KENT COUNTY WATER AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**3. CASH AND CASH EQUIVALENTS (Continued)**

**b) Interest Rate Risk (Continued)**

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

<u>Cash equivalent type</u>	<u>Fair value</u>	
	<u>2014</u>	<u>2013</u>
Money Market Treasury		
Obligation Fund	\$ 19,183,047	\$ 21,900,783
U.S Treasuries	<u>1,302,999</u>	<u>1,302,992</u>
Total cash equivalents	<u>\$ 20,486,046</u>	<u>\$ 23,203,775</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 \$6,277,494 and \$9,051,691 as of June 30, 2014 and 2013, 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 cash equivalents 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 THE FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**4. CAPITAL ASSETS**

The cost and activity of water capital assets in service and related accumulated depreciation for the year ended June 30, 2014 is as follows:

	<b>Balance at June 30, 2013</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance at June 30, 2014</b>
Capital assets, not being depreciated:				
Construction in progress	\$ 27,253,036	\$ 7,969,535	\$ 9,885,160	\$ 25,337,411
Land	1,836,045	-	-	1,836,045
Total capital assets, not being depreciated	<u>29,089,081</u>	<u>7,969,535</u>	<u>9,885,160</u>	<u>27,173,456</u>
Capital assets, being depreciated:				
Buildings and improvements	2,817,123	152,044	-	2,969,167
Machinery and equipment	16,103,626		-	16,103,626
Infrastructure	99,252,170	10,731,564		109,983,734
Total capital assets, being depreciated	118,172,919	10,883,608	-	129,056,527
Less accumulated depreciation	<u>19,991,570</u>	<u>1,935,848</u>		<u>21,927,418</u>
Total capital assets, being depreciated, net	<u>98,181,349</u>	<u>8,947,760</u>	-	<u>107,129,109</u>
Capital assets, net	<u>\$ 127,270,430</u>	<u>\$ 16,917,295</u>	<u>\$ 9,885,160</u>	<u>\$ 134,302,565</u>

(CONTINUED)

**KENT COUNTY WATER AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**4. CAPITAL ASSETS (Continued)**

The cost and activity of water capital assets in service and related accumulated depreciation for the year ended June 30, 2013 is as follows:

	<b>Balance at June 30, 2012</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance at June 30, 2013</b>
Capital assets, not being depreciated:				
Construction in progress	\$ 11,334,175	\$ 15,918,861	\$ -	\$ 27,253,036
Land	1,836,045	-		1,836,045
Total capital assets, not being depreciated	<u>13,170,220</u>	<u>15,918,861</u>		<u>29,089,081</u>
Capital assets, being depreciated:				
Buildings and improvements	2,817,123	-	-	2,817,123
Machinery and equipment	16,077,638	25,988	-	16,103,626
Infrastructure	98,700,440	652,280	100,550	99,252,170
Total capital assets, being depreciated	117,595,201	678,268	100,550	118,172,919
Less accumulated depreciation	<u>18,319,526</u>	<u>1,772,594</u>	<u>100,550</u>	<u>19,991,570</u>
Total capital assets, being depreciated, net	<u>99,275,675</u>	<u>(1,094,326)</u>	<u>-</u>	<u>98,181,349</u>
Capital assets, net	<u>\$ 112,445,895</u>	<u>\$ 14,824,535</u>	<u>\$ -</u>	<u>\$ 127,270,430</u>

Interest costs of \$612,503 and \$964,958, offset by interest income of \$7,218 and \$13,207, were capitalized in 2014 and 2013, respectively.

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**KENT COUNTY WATER AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**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, 2014 and 2013:

<u>Description</u>	<u>Balance June 30, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2014</u>	<u>Amounts due within one year</u>
Revenue bonds:					
April 2004 Series A bearing interest at 2%-4% and maturing in 2014	\$ 2,250,000	\$ -	\$ (1,180,000)	\$ 1,070,000	\$ 1,070,000
July 2012 Series A bearing interest at 4%-5% and maturing in 2023	17,290,000	-	(1,370,000)	15,920,000	1,425,000
	<u>19,540,000</u>	<u>-</u>	<u>(2,550,000)</u>	<u>16,990,000</u>	<u>2,495,000</u>
Add (less):					
Unamortized discount	(70,359)	-	7,745	(62,614)	-
Unamortized premium	27,578	-	(27,578)	-	-
	<u>(42,781)</u>	<u>-</u>	<u>(19,833)</u>	<u>(62,614)</u>	<u>-</u>
	<u>\$ 19,497,219</u>	<u>\$ -</u>	<u>\$ (2,569,833)</u>	<u>\$ 16,927,386</u>	<u>\$ 2,495,000</u>

(CONTINUED)

**KENT COUNTY WATER AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

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

<b>Description</b>	<b>Balance June 30, 2012</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2013</b>	<b>Amounts due within one year</b>
Revenue bonds:					
July 2001 Series A bearing interest at 3.5%-5% and maturing in 2022	\$ 6,135,000	\$ -	\$ (6,135,000)	\$ -	\$ -
December 2002 Series A bearing interest at 2%-5% and maturing in 2024	16,680,000	-	(16,680,000)	-	-
April 2004 Series A bearing interest at 2%-4% and maturing in 2014	3,390,000	-	(1,140,000)	2,250,000	1,180,000
July 2012 Series A bearing interest at 4%-5% and maturing in 2023		17,290,000	-	17,290,000	1,370,000
	<u>26,205,000</u>	<u>17,290,000</u>	<u>(23,955,000)</u>	<u>19,540,000</u>	<u>2,550,000</u>
Add (less):					
Unamortized discount	(10,848)	(77,459)	17,948	(70,359)	-
Unamortized premium	275,765	-	(248,187)	27,578	-
Unamortized loss on refunding	(138,979)	-	138,979	-	-
	<u>125,938</u>	<u>(77,459)</u>	<u>(91,260)</u>	<u>(42,781)</u>	<u>-</u>
	<u>\$ 26,330,938</u>	<u>\$ 17,212,541</u>	<u>\$ (24,046,260)</u>	<u>\$ 19,497,219</u>	<u>\$ 2,550,000</u>

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

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**KENT COUNTY WATER AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

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

The annual debt service requirements of the general long-term bonds payable as of June 30, 2014 are as follows:

Fiscal year ended June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 2,495,000	\$ 741,056	3,236,056
2016	1,485,000	664,800	2,149,800
2017	1,540,000	604,300	2,144,300
2018	1,605,000	533,375	2,138,375
2019	1,690,000	451,000	2,141,000
2020-2024	8,175,000	945,625	9,120,625
	<u>\$ 16,990,000</u>	<u>\$ 3,940,156</u>	<u>\$ 20,930,156</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, 2014 and 2013.

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**KENT COUNTY WATER AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2014 AND 2013**

**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, 2014 and 2013, the Plan membership consisted of the following:

	<b><u>June 30, 2014</u></b>	<b><u>June 30, 2013</u></b>
Retirees and beneficiaries receiving benefits	22	24
Terminated vested participants	11	10
Active with vested benefits	<u>30</u>	<u>31</u>
Total membership	<u><u>63</u></u>	<u><u>65</u></u>

**b) Funding Status and Funding Progress**

The funded status of the Plan as of January 1, 2014, the most recent actuarial valuation, is as follows:

Actuarially accrued liability (AAL)	\$ 5,813,927
Actuarial value of plan assets	<u>4,553,626</u>
Unfunded actuarial accrued liabilities (UAAL)	<u>\$ 1,260,301</u>
Funded ratio (actuarial value of plan assets/AAL)	78.3%
Covered payroll (active plan members)	\$ 1,973,630
UAAL as a percentage of covered payroll	63.9%

In the January 1, 2014 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.

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