

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

ANNUAL FINANCIAL STATEMENTS

*YEARS ENDED JUNE 30, 2019 AND 2018*

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Kent County Water Authority

ANNUAL FINANCIAL STATEMENTS

*June 30, 2019 and 2018*

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

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

*Independent Auditor's Report*

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the Kent County Water Authority ("the Authority"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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

*Continued*

## **Opinion**

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, 2019, 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.

## **Other Matters**

### *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's aggregate remaining fund information. 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, 2018, from which such partial information was derived.

### *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, 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 September 3, 2019 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. PC*

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

Fall River, Massachusetts  
September 3, 2019

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# **KENT COUNTY WATER AUTHORITY**

## **Management's Discussion and Analysis (MD&A)**

**Years Ended June 30, 2019 and 2018**

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, 2019 and 2018. 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 assets available for benefits under the Authority's employee benefit plan and changes in net assets 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 18-39 of this report.

# KENT COUNTY WATER AUTHORITY

## Management's Discussion and Analysis (MD&A)

Years Ended June 30, 2019 and 2018

### FINANCIAL HIGHLIGHTS

The Authority's 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 \$2.5 million in fiscal year 2019 compared to \$9.6 million increase in fiscal year 2018, the difference in increase between years is mainly due to a restatement in the valuation of capital assets.
- Total assets and deferred outflow of resources were \$195 million in fiscal year 2019 compared to \$196 million in 2018, which exceeded total liabilities and deferred inflow of resources by \$168 million in fiscal year 2019 and \$165 million in fiscal year 2018.
- The Authority's debt to equity ratio was 10.02 % and 12.17 % at June 30, 2019 and 2018, respectively, 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).

During fiscal year 2019, the Authority adopted the provisions of GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements* and GASB Statement No. 89, *Accounting for Interest Cost Incurred before End of Construction Period*. The adoption of these statement does not include any retroactive adjustments to reflect in the financial statements.

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 increasing or decreasing. 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, 2019 and 2018

### Condensed Statement of Net Position

	<u>2019</u>	<u>2018</u>
Current assets	\$ 8,091,602	\$ 7,727,689
Other noncurrent assets	28,022,092	24,347,569
Capital assets, net	158,031,326	163,013,265
Total assets	<u>194,145,020</u>	<u>195,088,523</u>
Deferred outflows of resources		
Deferred outflows of resources related to pension	461,074	518,354
Total deferred outflows of resources	<u>461,074</u>	<u>518,354</u>
Current liabilities	5,599,300	5,607,491
Noncurrent liabilities	19,499,118	22,960,477
Total liabilities	<u>25,098,418</u>	<u>28,567,968</u>
Deferred inflows of resources		
Deferred inflows of resources related to pension	525,390	321,826
Deferred inflows of resources related to OPEB	5,059	-
Gain on refunding	727,123	962,946
Total deferred inflows of resources	<u>1,257,572</u>	<u>1,284,772</u>
Net position:		
Net investment in capital assets	141,156,326	142,813,265
Restricted for debt service	3,154,000	3,154,000
Restricted for infrastructure replacement	282,626	282,626
Unrestricted net position	<u>23,657,152</u>	<u>19,504,246</u>
Total net position	<u>\$ 168,250,104</u>	<u>\$ 165,754,137</u>

The table above reflects an increase in current assets of \$363,913 from FY 2018 to FY 2019. This increase reflects an increase in accounts receivable and increase in cash. There is also a significant decrease in capital assets (net) of \$4,981,939 from FY 2018 to FY 2019. This decrease is the result of the Authority restating the capital assets of the Authority in FY19.

The largest portion of the Authority's net position, 83.9%, 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 FY19, the Authority's net position totaled \$168.2 million, an increase of \$2.5 million or 1.51% from the previous year. Total assets in FY19 were \$194.1 million, a decrease of \$943,503 or .48% from the previous year. Total liabilities decreased by \$3.5 million or 12.14%.

# KENT COUNTY WATER AUTHORITY

## Management's Discussion and Analysis (MD&A)

Years Ended June 30, 2019 and 2018

### CHANGES IN NET POSITION

The Authority ended the FY 2019 with an increase in net position of \$9,241,789. 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>2019</u>	<u>2018</u>
Operating revenues:		
Water	\$ 20,999,987	\$ 20,176,526
Hydrant fees	1,803,879	1,776,110
Other	415,885	309,685
Total operating revenue	<u>23,219,751</u>	<u>22,262,321</u>
Operating expenses:		
Source of supply	4,677,939	4,580,739
Pumping	902,394	700,134
Transmission and distribution	1,364,776	1,090,491
Water treatment	471,796	427,799
Customer accounting	474,952	458,237
Administrative and general	3,230,409	2,998,719
Depreciation	2,865,633	2,354,705
Taxes other than income	200,831	181,743
Total operating expenses	<u>14,188,730</u>	<u>12,792,567</u>
Operating income	<u>9,031,021</u>	<u>9,469,754</u>
Nonoperating income (expense):		
Capital contributions	5,153	5,094
Interest income	584,876	278,294
Interest expense	(379,261)	(133,527)
Net non-operating income (expense)	<u>210,768</u>	<u>149,861</u>
Increase in net position	9,241,789	9,619,615
Net position at beginning of year, restated	<u>159,008,315</u>	<u>156,134,522</u>
Net position at end of year	<u>\$ 168,250,104</u>	<u>\$ 165,754,137</u>

# KENT COUNTY WATER AUTHORITY

## Management's Discussion and Analysis (MD&A)

Years Ended June 30, 2019 and 2018

### REVENUES

Water user fees are the Authority's primary source of revenue, representing approximately 90.4% of total operating revenues. Fiscal Year 2019 water user fee revenue was \$20,999,987 which is \$823,461 more than the prior year and other operating revenue increased by \$106,200.

The operating income for FY19 totaled \$9.0 million, representing a decrease of 4.6% from the previous year.

### EXPENSES

Total operating expenses in FY 2019 increased by \$1,396,163 over the prior year. The increase in operating expenses was driven most notably by an increase in depreciation expense of \$510,928, pumping \$202,260, transmission and distribution of \$274,285, and administrative and general of \$231,690.

Net non-operating income is \$210,768 in the current year because of an increase in interest income.

### Capital Assets and Debt Administration

#### CAPITAL ASSETS

At the end of FY 2019, the Authority had \$158 million invested in capital assets. This amount represents a decrease of \$4.98 million, or 3.1% over last year. The following table summarizes the Authority's capital assets and changes therein, for the years ended June 30, 2019 and June 30, 2018.

	<u>FY 2019</u>	<u>FY 2018</u>
<b>Capital assets</b>		
Land	\$ 1,836,045	\$ 1,836,045
Construction in progress	9,546,667	15,969,085
Buildings and improvements	15,504,665	33,934,817
Infrastructure	156,259,566	125,682,534
Machinery and equipment	783,459	16,596,165
Vehicles	793,823	-
<b>Total capital assets</b>	<u>184,724,225</u>	<u>194,018,646</u>
Less accumulated depreciation	<u>26,692,899</u>	<u>31,005,381</u>
<b>Capital assets, net</b>	<u>\$ 158,031,326</u>	<u>\$ 163,013,265</u>

# KENT COUNTY WATER AUTHORITY

## Management's Discussion and Analysis (MD&A)

Years Ended June 30, 2019 and 2018

### LONG-TERM DEBT

Currently the Authority has two General Revenue Bonds outstanding at the end of FY19, totaling \$16,875,000 million at par value.

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

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

During FY19, the Authority paid approximately \$3.3 million in principal on outstanding issuances and \$607 thousand of interest on outstanding issuances.

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

### BUDGET AND RATES

For FY20, the budget for operating revenues has increased 5.7% from the previous year with operating & maintenance expenses increasing by 9.8% over the previous year.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Authority is governed by a 7-member appointed Board. KCWA is also regulated by the Rhode Island Public Utilities Commission (RIPUC). Both Authority's Board and the RIPUC must authorize all adjustments to user charges. There are no rate adjustments authorized for FY20.

### 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 Executive Director or Director of Finance and Human Resources at P.O. Box 192, West Warwick, RI 02893.

# KENT COUNTY WATER AUTHORITY

## Statement of Net Position

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
<i><b>Current assets</b></i>		
Cash and cash equivalents	\$ 504,164	\$ 162,674
Accounts receivable, less allowance of \$156,805 in 2019 and \$154,176 in 2018	2,906,372	2,813,661
Unbilled water revenue	1,131,702	1,216,760
Materials and supplies inventory	395,364	380,594
Restricted cash and cash equivalents held by trustee for current portion of long-term debt	3,154,000	3,154,000
<i><b>Total current assets</b></i>	<u>8,091,602</u>	<u>7,727,689</u>
<i><b>Noncurrent assets</b></i>		
Restricted cash and cash equivalents held by trustee	27,739,466	24,064,943
Restricted cash and cash equivalents held by trust Infrastructure replacement	282,626	282,626
<i><b>Total noncurrent assets</b></i>	<u>28,022,092</u>	<u>24,347,569</u>
<i><b>Capital assets</b></i>		
Depreciable, net	146,648,614	145,208,135
Nondepreciable	11,382,712	17,805,130
<i><b>Total capital assets</b></i>	<u>158,031,326</u>	<u>163,013,265</u>
<i><b>Total assets</b></i>	<u>194,145,020</u>	<u>195,088,523</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
<i><b>Deferred outflows of resources</b></i>		
Deferred outflows of resources related to pension	461,074	518,354
<i><b>Total deferred outflows of resources</b></i>	<u>\$ 461,074</u>	<u>\$ 518,354</u>

# KENT COUNTY WATER AUTHORITY

## Statement of Net Position

June 30, 2019 and 2018

### LIABILITIES

	<u>2019</u>	<u>2018</u>
<b><i>Current liabilities</i></b>		
Accounts payable	\$ 1,622,979	\$ 1,675,399
Accrued interest expense	268,489	322,468
Accrued liabilities	270,578	276,878
Long-term debt due within one year	3,437,254	3,332,746
<b><i>Total current liabilities</i></b>	<u>5,599,300</u>	<u>5,607,491</u>
<b><i>Noncurrent liabilities</i></b>		
Long-term debt, net	13,413,862	16,835,624
Net pension liability	945,452	1,186,356
Net OPEB liability	5,139,804	4,938,497
<b><i>Total noncurrent liabilities</i></b>	<u>19,499,118</u>	<u>22,960,477</u>
<b><i>Total liabilities</i></b>	<u>25,098,418</u>	<u>28,567,968</u>

### DEFERRED INFLOWS OF RESOURCES

<b><i>Deferred inflows of resources</i></b>		
Deferred inflows of resources related to pension	525,390	321,826
Deferred inflows of resources related to OPEB	5,059	-
Gain on refunding	727,123	962,946
<b><i>Total deferred inflows of resources</i></b>	<u>1,257,572</u>	<u>1,284,772</u>

### NET POSITION

<b><i>Net position</i></b>		
Net investment in capital assets	141,156,326	142,813,266
Restricted for debt service	3,154,000	3,154,000
Restricted for infrastructure replacement	282,626	282,626
Unrestricted net position	23,657,152	19,504,245
<b><i>Total net position</i></b>	<u>\$ 168,250,104</u>	<u>\$ 165,754,137</u>

## KENT COUNTY WATER AUTHORITY

### Statement of Revenues, Expenses and Changes in Net Position

Years Ended June 30, 2019 and 2018

	<b>2019</b>	<b>2018</b>
<b><i>Operating revenues</i></b>		
Water	\$ 20,999,987	\$ 20,176,526
Hydrant fees	1,803,879	1,776,110
Other	415,885	309,685
<b><i>Total operating revenue</i></b>	<b>23,219,751</b>	<b>22,262,321</b>
<b><i>Operating expenses</i></b>		
Source of supply	4,677,939	4,580,739
Pumping	902,394	700,134
Transmission and distribution	1,364,776	1,090,491
Water treatment	471,796	427,799
Customer accounts	474,952	458,237
Administrative and general	3,230,409	2,998,719
Depreciation	2,865,633	2,354,705
Taxes other than income	200,831	181,743
<b><i>Total operating expenses</i></b>	<b>14,188,730</b>	<b>12,792,567</b>
<b><i>Operating income</i></b>	<b>9,031,021</b>	<b>9,469,754</b>
<b><i>Nonoperating income (expense)</i></b>		
Capital contributions	5,153	5,094
Interest income	584,876	278,294
Interest expense	(379,261)	(133,527)
<b><i>Net non-operating income (expense)</i></b>	<b>210,768</b>	<b>149,861</b>
<b><i>Increase in net position</i></b>	<b>9,241,789</b>	<b>9,619,615</b>
<b><i>Net position at beginning of year, restated</i></b>	<b>159,008,315</b>	<b>156,134,522</b>
<b><i>Net position at end of year</i></b>	<b>\$ 168,250,104</b>	<b>\$ 165,754,137</b>

# KENT COUNTY WATER AUTHORITY

## Statement of Cash Flows

Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Cash flows from operating activities</b>		
Cash received from customers	\$ 23,212,098	\$ 22,324,878
Payments to employees	220,006	(1,362,035)
Payments to suppliers and services	<u>(11,390,287)</u>	<u>(10,452,420)</u>
Net cash provided (used) by operating activities	<u>12,041,817</u>	<u>10,510,423</u>
<b>Cash flows from capital and related financial activities</b>		
Principal paid on debt	(3,553,077)	(3,498,078)
Capital additions	2,116,306	(10,454,496)
Capital contributions	5,153	5,093
Interest received/accrued	(53,979)	1,744
Interest expense	<u>(379,261)</u>	<u>(361,604)</u>
Net cash used by capital and related financing activities	<u>(1,864,858)</u>	<u>(14,307,341)</u>
<b>Cash flows from investing activities</b>		
Interest and dividends	<u>584,876</u>	<u>506,371</u>
Net cash used by investing activities	<u>584,876</u>	<u>506,371</u>
<b>Net decrease in cash and cash equivalents</b>	10,761,835	(3,290,547)
<b>Cash and cash equivalents, beginning of year</b>	<u>27,664,243</u>	<u>30,954,790</u>
<b>Cash and cash equivalents, end of year</b>	38,426,078	27,664,243
Cash and cash equivalents, per the statement of net position	504,164	162,674
Restricted cash and cash equivalents held by trustee		
for current portion of long term debt	3,154,000	3,154,000
Restricted cash and cash equivalents held by trustee (Note 3)	27,739,466	24,064,943
Restricted cash and cash equivalents held by trustee-Infrastructure replacement (Note 3)	<u>282,626</u>	<u>282,626</u>
Total cash and cash equivalents, per the statement of net position	<u>\$ 31,680,256</u>	<u>\$ 27,664,243</u>

# KENT COUNTY WATER AUTHORITY

## Statement of Cash Flows

Years Ended June 30, 2019 and 2018

### Reconciliation of operating income to net cash provided by operating activities

Operating income	\$ 9,031,021	\$ 9,469,754
<b>Adjustments to reconcile operating income to net cash provided by operating activities</b>		
Depreciation expense	\$ 2,865,633	\$ 2,354,705
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable, net	(92,711)	242,064
(Increase) decrease in unbilled water revenue	85,058	(120,109)
(Increase) decrease in material, supplies and inventory	(14,770)	(14,558)
(Increase) decrease in NPL deferred outflows	57,280	(131,693)
Increase (decrease) in accounts payable	(52,420)	(1,614,219)
Increase (decrease) in accrued liabilities	(6,300)	6,279
Increase (decrease) in water quality protection charges payable	-	(59,401)
Increase (decrease) in net pension liability (NPL)	(240,904)	215,040
Increase (decrease) in net OPEB liability (NOL)	201,307	198,734
Increase (decrease) in deferred inflows	208,623	(36,176)
<b>Net cash provided by operating activities</b>	<u>\$ 12,041,817</u>	<u>\$ 10,510,420</u>

# KENT COUNTY WATER AUTHORITY

## Statement of Fiduciary Net Position

June 30, 2019 and 2018

	Pension Trust		OPEB Trust	
	2019	2018	2019	2018
<b>ASSETS</b>				
Investments, at fair value	\$ 6,466,735	\$ 6,120,174	\$ 174,625	\$ 81,170
<b>Total assets</b>	<u>6,466,735</u>	<u>6,120,174</u>	<u>174,625</u>	<u>81,170</u>
<b>LIABILITIES</b>				
None	-	-	-	-
<b>NET POSITION</b>				
Held in trust for other post-employment benefits	-	-	174,625	81,170
Restricted for pension	<u>6,466,735</u>	<u>6,120,174</u>	<u>-</u>	<u>-</u>
<b>TOTAL NET POSITION</b>	<u>\$ 6,466,735</u>	<u>\$ 6,120,174</u>	<u>\$ 174,625</u>	<u>\$ 81,170</u>

**KENT COUNTY WATER AUTHORITY**  
Statement of Changes in Fiduciary Net Position  
Years Ended June 30, 2019 and 2018

	Pension Trust		OPEB Trust	
	2019	2018	2019	2018
<b>ADDITIONS</b>				
<b>Contributions</b>				
Employer contributions	\$ 262,152	\$ 222,207	\$ 167,695	\$ 164,292
<b>Total contributions</b>	<u>262,152</u>	<u>222,207</u>	<u>167,695</u>	<u>164,292</u>
<b>Investment income</b>				
Net investment income	351,147	459,748	13,455	1,170
<b>Total investment income</b>	<u>351,147</u>	<u>459,748</u>	<u>13,455</u>	<u>1,170</u>
<b>Total additions</b>	<u>613,299</u>	<u>681,955</u>	<u>181,150</u>	<u>165,462</u>
<b>DEDUCTIONS</b>				
Actual and service benefits payments	266,738	264,564	87,695	84,292
<b>Total deductions</b>	<u>266,738</u>	<u>264,564</u>	<u>87,695</u>	<u>84,292</u>
<b>Change in net position</b>	346,561	417,391	93,455	81,170
<b>Net Position - Beginning</b>	<u>6,120,174</u>	<u>5,702,783</u>	<u>81,170</u>	<u>-</u>
<b>Net Position - Ending</b>	<u>\$ 6,466,735</u>	<u>\$ 6,120,174</u>	<u>\$ 174,625</u>	<u>\$ 81,170</u>

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2019

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Primary Government*

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

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

#### *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.

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2019

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED)

#### *Fund Financial Statements (Continued)*

##### Proprietary Funds (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.

##### 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.

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2019

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**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, 2019 was \$156,805. 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

**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. Bonds payable 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 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, 2019 and 2018, there were \$461,074 and \$518,354 in deferred outflows relating to pensions, and \$1,257,572 and \$1,284,772 in deferred inflows related to pension, gains on refunding, and OPEB.

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2019

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**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, 2018, 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.

**During the fiscal year ending June 30, 2019, the Authority adopted the following new accounting standards issued by GASB –**

The GASB issued Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements in March 2018. This Statement improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The requirements of this Statement are effective for periods beginning after June 15, 2018. **Management has adopted the applicable requirements of this new standard in Fiscal Year 2019.**

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 are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. Changes adopted to conform to the provisions of this Statement should be applied prospectively. **The Authority has completed the process of evaluating GASB 89, and management has early adopted the applicable requirements of this new standard.**

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2019

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The GASB issued Statement No. 83, Certain Asset Retirement Obligations in November 2016. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The requirements of this Statement are effective for periods beginning after June 15, 2018. In Fiscal year 2019, the Authority determined that these requirements do not affect the financial reporting for the Authority.

The GASB issued Statement No. 84, Fiduciary Activities in January 2017. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement are effective for periods beginning after December 15, 2018. In Fiscal year 2019, the Authority determined that these requirements do not affect the financial reporting for the Authority.

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 are effective for periods beginning after December 15, 2019. In Fiscal year 2019, the Authority determined that these requirements do not affect the financial reporting for the Authority, consequently this Statement is not currently applicable.

The GASB issued Statement No. 90, Major Equity Interests, an amendment of GASB Statements No. 14 and No. 61 in August 2018. 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 (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2019

### NOTE 2. CASH AND CASH EQUIVALENTS

**Cash Deposits** - The Authority's cash deposits are in one financial institution. The carrying amount of deposits is separately displayed on the Statement of Net Position as "cash and cash equivalents".

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

	<u>Bank Balance</u>
Insured (Federal depository insurance funds)	\$ 250,000
Uninsured	<u>38,122,701</u>
	<u>\$38,372,701</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, 2019 was \$38,321,916 and the bank balance was \$38,372,701.

**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, 2019, \$38,122,701 of the Authority's bank balance of \$38,372,701 was exposed to custodial credit risk as follows:

Cash deposits	\$ 555,249
Cash and short term	31,176,092
Fiduciary fund investment	<u>6,641,360</u>
	<u>\$38,372,701</u>

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

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

**KENT COUNTY WATER AUTHORITY**

Notes to the Financial Statements

June 30, 2019

**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, 2019</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>
<b>Money Market Fund</b>	\$31,176,092	\$31,176,092	\$ -	\$ -
<b>Pension Fund:</b>				
Specialty	256,077	256,077	-	-
International Stocks	791,563	791,563	-	-
Small-Cap Stocks	323,449	323,449	-	-
Mid-Cap Stocks	658,685	658,685	-	-
Large-Cap Stocks	1,895,218	1,895,218	-	-
Bonds	1,919,898	1,919,898	-	-
Other - Fixed	621,845	621,845	-	-
<b>OPEB Fund:</b>				
Vanguard	174,625	174,625	-	-
<b>Total investments</b>	<u>\$ 37,817,452</u>	<u>\$ 37,817,452</u>	<u>\$ -</u>	<u>\$ -</u>

***Interest Rate Risk***

Funds held by the Authority are invested in accordance with the Authority’s investment policy. This investment policy does not limit investment maturities as a means of limiting its exposure to fair value losses arising from interest rates.

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

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2019

### 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, 2019 and 2018, 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, 2019

### NOTE 3. CAPITAL ASSETS

The cost and activity of water capital assets in service and related accumulated depreciation for the year ended June 30, 2019 is as follows:

	Balance at 6/30/2018	Restatements	Restated Beginning Balance	Increases	Decreases	Balance at 6/30/2019
<b>Capital assets, not being depreciated:</b>						
Land	\$ 1,836,045	\$ -	\$ 1,836,045	\$ -	\$ -	\$ 1,836,045
Construction in progress	15,969,085	-	15,969,085	4,725,349	11,147,767	9,546,667
Total capital assets, not being depreciated	17,805,130	-	17,805,130	4,725,349	11,147,767	11,382,712
<b>Capital assets, being depreciated:</b>						
Buildings and improvements	33,934,817	(18,442,902)	15,491,915	12,750	-	15,504,665
Infrastructure	125,682,534	20,028,553	145,711,087	10,548,479	-	156,259,566
Machinery and equipment	16,596,165	(16,151,574)	444,591	338,868	-	783,459
Vehicles	-	641,985	641,985	151,838	-	793,823
Total capital assets, being depreciated	176,213,516	(13,923,938)	162,289,578	11,051,935	-	173,341,513
<b>Accumulated depreciation</b>						
Buildings and improvements	-	5,214,736	5,214,736	720,640	-	5,935,376
Infrastructure	31,005,381	(13,121,243)	17,884,138	2,013,137	-	19,897,275
Machinery and equipment	-	235,709	235,709	54,900	-	290,609
Vehicles	-	492,682	492,682	76,956	-	569,638
<b>Total accumulated depreciation</b>	31,005,381	(7,178,116)	23,827,265	2,865,633	-	26,692,898
Total capital assets, being depreciated, net	145,208,135	(6,745,822)	138,462,313	8,186,302	-	146,648,614
<b>Capital assets, net</b>	\$ 163,013,265	\$ (6,745,822)	\$ 156,267,443	\$ 12,911,651	\$ 11,147,767	\$ 158,031,326

The Authority implemented GASB 89 in the current year. Per new standard interest cost is expensed in the year that is incurred. Therefore, interest cost won't be included in capital assets as of June 30, 2019.

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2019

### 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, 2019:

Description	Balance June 30, 2018	Additions	Reductions	Balance June 30, 2019	Amounts due within one year
Revenue bonds:					
July 2012 Series A bearing interest at 4%-5% and maturing in 2023	\$ 9,865,000	\$ -	\$ 1,690,000	\$ 8,175,000	\$ 1,775,000
April 2017 Series A bearing interest at 2.035% and maturing in 2024	<u>10,335,000</u>	<u>-</u>	<u>1,635,000</u>	<u>8,700,000</u>	<u>1,670,000</u>
	<u>20,200,000</u>	<u>-</u>	<u>3,325,000</u>	<u>16,875,000</u>	<u>3,445,000</u>
Add (less):					
Unamortized discount	<u>31,630</u>	<u>-</u>	<u>7,746</u>	<u>23,884</u>	<u>7,746</u>
Total long-term liabilities	<u>\$20,168,370</u>	<u>\$ -</u>	<u>\$3,317,254</u>	<u>\$16,851,116</u>	<u>\$3,437,254</u>

The annual debt service requirements of the general long-term bonds payable as of June 30, 2019 are as follows:

Fiscal year ended June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 3,445,000	\$ 541,420	\$ 3,986,420
2021	3,575,000	416,310	3,991,310
2022	3,695,000	285,989	3,980,989
2023	3,030,000	170,329	3,200,329
2024	<u>3,130,000</u>	<u>69,834</u>	<u>3,199,834</u>
	<u>\$16,875,000</u>	<u>\$1,483,882</u>	<u>\$18,358,882</u>

The Authority's outstanding notes from direct borrowings and direct placements related to business type activities of \$16,875,000 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, 2019 and 2018.

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2019

### 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, 2019 to be \$171,105. The accrued vacation is reported on the Statement of Net Position as other accrued expenses.

The changes in compensated absences for the year ended June 30, 2019 were as follows:

	<u>June 30, 2018</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30, 2019</u>	<u>Amounts Due Within One Year</u>
Compensated absences	<u>\$ 186,313</u>	<u>\$ -</u>	<u>\$ 15,208</u>	<u>\$ 171,105</u>	<u>\$ 16,136</u>

### 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.

### NOTE 7. DEFINED BENEFIT PENSION PLAN

#### **General Information about the Pension Plan**

##### *Plan description*

The Kent County Water Authority administers the pension plan (plan) a single-employer defined benefit pension plan that provides pensions for all permanent full-time general employees of the Authority.

##### *Benefits provided*

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

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2019

### NOTE 7. DEFINED BENEFIT PENSION PLAN (CONTINUED)

#### *Plan membership*

At June 30, 2019, pension plan membership consisted of the following:

Retirees and beneficiaries receiving benefits from the plan	23
Terminated members entitled to future benefits	16
Active plan members	<u>32</u>
Subtotal	<u>71</u>

#### *Contributions*

In the January 1, 2019 actuarial valuation, the Authority utilized the aggregate actuarial method to determine the annual required employer contributions. This method does not identify or separately amortize unfunded actuarial liabilities. Therefore, the entry age method was used to prepare the funded status of the Plan. The actuarial value of assets was determined using the fair value of investments.

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

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.

### **Net Pension Liability of the Authority**

The components of the net pension liability of the Authority at June 30, 2019, were as follows:

Total pension liability	\$ 7,412,187
Plan fiduciary net position	<u>(6,466,735)</u>
Authority's net pension liability	<u>\$ 945,452</u>
Plan fiduciary net position as a percentage of the total pension liability	87.24%

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2019

### NOTE 7. DEFINED BENEFIT PENSION PLAN (CONTINUED)

#### Changes in Net Pension Liability (Asset)

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
<b>Balance at June 30, 2018</b>	\$ 7,306,530	\$ 6,120,174	\$ 1,186,356
Service cost	136,977	-	136,977
Interest on total pension liability	498,457	-	498,457
Differences between expected and actual experience	(252,079)	-	(252,079)
Changes in assumptions	(10,960)	-	(10,960)
Contributions - employer	-	262,152	(262,152)
Contributions - employee	-	-	-
Net investment income	-	351,147	(351,147)
Benefit payments	(266,738)	(266,738)	-
Administrative expenses	-	-	-
Other changes	-	-	-
<b>Net changes</b>	<u>105,657</u>	<u>346,561</u>	<u>(240,904)</u>
<b>Balances at June 30, 2019</b>	<u>\$ 7,412,187</u>	<u>\$ 6,466,735</u>	<u>\$ 945,452</u>

*Actuarial assumptions.* The total pension liability was determined by an actuarial valuation as of June 30, 2019, 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 2019 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	Participant 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

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period July 1, 2018–June 30, 2019.

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2019

### 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, 2019 (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 Real Rate of Return</u>
Domestic equity	45%	5.50%
International equity	13%	5.75%
Fixed income	30%	3.25%
Real estate	2%	5.00%
Cash	10%	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, 2019, 5% or more of Plan assets were held in the following individual funds:

<u>Fund</u>	<u>Concentration</u>
Nationwide Fixed Fund	9.60%
Vanguard Mid-Cap Index	9.10%
Vanguard Growth Index	8.10%
Vanguard High Yield Corporate	7.90%
American Fund AMCAP	7.10%
American Fund American Mutual	7.00%
Prudential Total Return Bond Fund	6.00%
LeggMason Core Bond Fund	6.00%

**KENT COUNTY WATER AUTHORITY**

Notes to the Financial Statements

June 30, 2019

**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:

	<u>1% Decrease</u> <u>(6.00%)</u>	<u>Current</u> <u>Discount</u> <u>Rate (7.00%)</u>	<u>1% Increase</u> <u>(8.00%)</u>
Authority's net pension liability	\$ 1,746,464	\$ 945,452	\$ 261,707

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

For the year ended June 30, 2019, the Authority recognize pension expense of \$307,670. At June 30, 2019, the Authority reported deferred outflows or resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred</u> <u>Outflows</u>	<u>Deferred</u> <u>Inflows</u>
Liability experience	\$ 109,769	\$ (515,401)
Assumption changes	330,900	(9,989)
Investment experience	20,405	-
Total	<u>\$ 461,074</u>	<u>\$ (525,390)</u>

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

<u>Fiscal</u> <u>Year End</u>	<u>Expense</u> <u>Recognition</u>
2020	31,168
2021	(47,505)
2022	(5,128)
2023	6,814
2024	(8,764)
After 2024	(40,901)

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2019

### 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, 2019 (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	14	46

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2019

### NOTE 8. OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

#### *Actuarial Assumptions*

The total OPEB liability in the June 30, 2019 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>
<b>Measurement Date</b>	July 1, 2017
<b>Reporting Date</b>	June 30, 2019
<b>Liability Interest Rate</b>	4.00%
<b>Plan Election</b>	All eligible retirees are assumed to elect available coverage at age 62, switching coverage to Plan 65 at age 65, as applicable.
<b>Health Care Trend Rates</b>	Medical coverage costs are assumed to increase 5.0% per year in fiscal 2018 and beyond. dental coverage costs are assumed to increase 4.0% in fiscal 2018 with trend rates decreasing 0.25% each year to an ultimate rate of 3.5% per year in fiscal 2020 and beyond.
<b>Cost Method</b>	Projected Unit Credit method. Benefits are accrued on service from date of hire to date of first eligibility.
<b>Changes in Assumptions</b>	The mortality assumption has been updated from the 2014 IRS static mortality table to Sex-Distinct IRS 2019 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, 2019

**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%
<b>Total</b>	<u>100%</u>	

*Discount Rate*

The single equivalent discount rate used to measure the total OPEB liability was 4.00 percent. The projection of cash flows used to determine the discount rate assumed that 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**

	<b>Increase (Decrease)</b>		
	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Liability</u>
<b>Balance at June 30, 2018</b>	\$ 5,019,667	\$ 81,170	\$ 4,938,497
Service cost	183,694	-	183,694
Interest	198,763	-	198,763
Differences between actual and expected experience	-	-	-
Changes in assumptions	-	-	-
Benefit payments, including refunds	(87,695)	(87,695)	-
Administrative expenses	-	-	-
Contributions - employer	-	167,695	(167,695)
Contributions - active employees	-	-	-
Net investment income	-	13,455	(13,455)
Net changes	<u>294,762</u>	<u>93,455</u>	<u>201,307</u>
<b>Balances at June 30, 2019</b>	<u>\$ 5,314,429</u>	<u>\$ 174,625</u>	<u>\$ 5,139,804</u>

**KENT COUNTY WATER AUTHORITY**

Notes to the Financial Statements

June 30, 2019

**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 (3.00 percent) or 1-percentage-point higher (5.00 percent) than the current discount rate:

	<b>Impact of 1% Change in Discount Rate</b>		
	<b>1% Decrease (3.00%)</b>	<b>Current discount rate (4.00%)</b>	<b>1% Increase (5.00%)</b>
Total OPEB liability	6,179,424	5,139,804	4,340,597

*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:

	<b>Impact of 1% Change in Healthcare Trend Rate</b>		
	<b>1% Decrease (3.00%)</b>	<b>Current trend rate ( 4.00%)</b>	<b>1% Increase (5.00%)</b>
Total OPEB liability	4,258,989	5,139,804	6,272,788

*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, 2019, the Authority recognized OPEB expense of \$286,366. At June 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b><u>Deferred Outflows</u></b>	<b><u>Deferred Inflows</u></b>
Liability experience	\$ -	\$ -
Assumption change	-	-
Investment experience	-	<u>(5,059)</u>
Total	<u>\$ -</u>	<u>\$ (5,059)</u>

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2019

### 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:	
2020	\$ (1,323)
2021	(1,323)
2022	(1,323)
2023	(1,090)
2024	-
After 2024	<u>-</u>
Subtotal - all years	<u>\$ (5,059)</u>

#### Payable to the OPEB Plan

At June 30, 2019, the Authority reported a payable of \$0 for the outstanding amount of contributions to the OPEB Trust required for the year ended June 30, 2019.

### 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, 2019 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, 2019, 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, 2019

### NOTE 12. RISK MANAGEMENT

#### *Insurance Held*

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

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

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

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

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

### NOTE 13. RESTATEMENT

The following restatement was recorded to beginning fund balance/net position:

	<b>Proprietary Fund</b>
Beginning balance, July 1, 2018	\$ 165,754,137
To correct error in prior year capital asset presented amounts	<u>(6,745,822)</u>
Beginning balance, July 1, 2018, restated	<u>\$ 159,008,315</u>

### NOTE 14. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 3, 2019, the date the financial statements were available to be issued. No subsequent events were identified.

# KENT COUNTY WATER AUTHORITY

## Required Supplementary Information

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

Last Ten Fiscal Years\*

For the Year Ended June 30, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Total pension liability</b>					
Normal cost	\$ 136,977	\$ 131,181	\$ 126,528	\$ 114,734	\$ 144,147
Interest	498,457	454,815	444,406	431,804	419,030
Experience (gain) or loss	(252,079)	134,135	(113,280)	(120,312)	(203,680)
Assumption changes	(10,960)	176,864	179,224	12,993	74,562
Benefit payments	(266,738)	(264,564)	(266,989)	(263,800)	(260,720)
<b>Net change in total pension liability</b>	105,657	632,431	369,889	175,419	173,339
<b>Total pension liability - beginning</b>	7,306,530	6,674,099	6,304,210	6,128,791	5,955,452
<b>Total pension liability - ending (a)</b>	<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>
<b>Pension fiduciary net position</b>					
Employer contributions	\$ 262,152	\$ 222,207	\$ 243,161	\$ 246,738	\$ 277,560
Expected investment return	429,037	400,034	375,678	379,448	369,051
Additional investment return	(77,890)	59,714	211,884	(393,374)	(222,627)
Other	(266,738)	(264,564)	(266,989)	(263,800)	(260,720)
<b>Net change in plan fiduciary net position</b>	346,561	417,391	563,734	(30,988)	163,264
<b>Plan fiduciary net position - beginning</b>	6,120,174	5,702,783	5,139,049	5,170,037	5,006,773
<b>Plan fiduciary net position - ending (b)</b>	<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>
<b>Net pension liability (asset) - ending (a) - (b)</b>	<u>\$ 945,452</u>	<u>\$ 1,186,356</u>	<u>\$ 971,316</u>	<u>\$ 1,165,161</u>	<u>\$ 958,754</u>

\* Only five 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\*

For the Year Ended June 30, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability	\$ 7,412,187	\$ 7,306,530	\$ 6,674,098	\$ 6,304,210	\$ 6,128,791
Plan fiduciary net position	6,466,735	6,120,174	5,702,783	5,139,049	5,170,037
Net pension liability (asset)	<u>\$ 945,452</u>	<u>\$ 1,186,356</u>	<u>\$ 971,315</u>	<u>\$ 1,165,161</u>	<u>\$ 958,754</u>
End of year funding percentage	87.24%	83.76%	85.45%	81.52%	84.36%
Covered payroll**	2,248,514	2,063,078	1,996,345	1,963,460	1,798,468
Net pension liability as a percentage of covered payroll	42.05%	57.50%	48.65%	59.34%	53.31%

\* Only five 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\*

For the Year Ended June 30, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 249,230	\$ 262,152	\$ 222,207	\$ 243,161	\$ 246,738
Contributions in relation to the actuarially determined contribution	<u>249,230</u>	<u>262,152</u>	<u>222,207</u>	<u>243,161</u>	<u>246,738</u>
Contribution deficiency (excess)	<u>\$ -</u>				
Covered payroll**	2,248,514	2,063,078	1,996,345	1,963,460	1,798,468
Contributions as a percentage of covered payroll	11.08%	12.71%	11.13%	12.38%	13.72%

\* Only five 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\*

For the Year Ended June 30, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual money-weighted rate of return net of investment expense	5.74%	8.09%	11.46%	-0.27%	2.92%

\* Only five 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

For the Year Ended June 30, 2019

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 2019 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	Participant 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.

<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>
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

For the Year Ended June 30, 2019

	<b>June 30, 2019</b>	<b>June 30, 2018</b>
<b>Total OPEB liability</b>		
Service cost	\$ 183,694	\$ 176,629
Interest on net OPEB liability and service cost	198,763	187,567
Differences between actual and expected experience	-	-
Changes of assumptions	-	-
Benefit payments, including refunds	(87,695)	(84,292)
<b>Net change in total OPEB liability</b>	294,762	279,904
Total OPEB liability - beginning	5,019,667	4,739,763
<b>Total OPEB liability - ending (a)</b>	<b>\$ 5,314,429</b>	<b>\$ 5,019,667</b>
<b>OPEB fiduciary net position</b>		
Benefit payments, including refunds	\$ (87,695)	\$ (84,292)
Trust administrative expenses	-	-
Contributions - employer	167,695	164,292
Contribution - Active employees	-	-
Net investment income	13,455	1,170
<b>Net change in plan fiduciary net position</b>	93,455	81,170
Plan fiduciary net position - beginning	81,170	-
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 174,625</b>	<b>\$ 81,170</b>
<b>Plan's net pension liability - ending (a) - (b)</b>	<b>\$ 5,139,804</b>	<b>\$ 4,938,497</b>
<b>End of year funding percentage</b>	3.29%	1.62%
<b>Covered payroll</b>	\$ 2,248,514	\$ 2,063,078
<b>Net pension liability divided by covered payroll</b>	228.59%	239.38%

\*\* - Per GASB Statement No. 75, the Authority is not required to retrospectively present its' 10-year RSI schedules, as this information was not available at transition and historical information was not measured in accordance with the parameters of GASB Statement No. 75.

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, 2019

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Actuarial determined contribution	\$ 469,288	\$ 450,263
Contributions in relation to the actuarially determined contribution	167,695	164,292
Contribution deficiency (excess)	<u>\$ 301,593</u>	<u>\$ 285,971</u>
Covered payroll	\$ 2,248,514	\$ 2,063,078
Contributions as a percentage of covered payroll	7.46%	7.96%
	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Annual money-weighted rate of return, net of investment expense	11.10%	2.39%

\*\* - Per GASB Statement No. 75, the Authority is not required to retrospectively present its' 10-year RSI schedules, as this information was not available at transition and historical information was not measured in accordance with the parameters of GASB Statement No. 75.

See accompanying notes to the required supplementary information.

# KENT COUNTY WATER AUTHORITY

## Required Supplementary Information

### Notes to the Required Supplementary Information - OPEB

Last Ten Fiscal Years  
June 30, 2019

<b>Description</b>	<b>Assumption</b>
<b>Measurement Date</b>	July 1, 2017
<b>Reporting Date</b>	June 30, 2019
<b>Liability Interest Rate</b>	4.00%
<b>Plan Election</b>	All eligible retirees are assumed to elect available coverage at age 62, switching coverage to Plan 65 at age 65, as applicable.
<b>Health Care Trend Rates</b>	Medical coverage costs are assumed to increase 5.0% per year in fiscal 2018 and beyond. dental coverage costs are assumed to increase 4.0% in fiscal 2018 with trend rates decreasing 0.25% each year to an ultimate rate of 3.5% per year in fiscal 2020 and beyond.
<b>Cost Method</b>	Projected Unit Credit method. Benefits are accrued on service from date of hire to date of first eligibility.
<b>Changes in Assumptions</b>	The mortality assumption has been updated from the 2014 IRS static mortality table to Sex-Distinct IRS 2019 Combined Static Mortality Table.

See accompanying notes to the required supplementary information.

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

## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Kent County Water Authority, as of and for the year ended June 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated September 03, 2019.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kent County Water Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kent County Water Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Kent County Water Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses, however, material weaknesses may exist that have not been identified.

*Continued*

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kent County Water Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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

Fall River, Massachusetts  
September 03, 2019