KCWA

Kent County Water Authority

January 6, 2017

Mr. Graham Waters
Town Manager
Coventry Town Hall
1670 Flat River Road
Coventry RI 02816

Re: Kent County Water Authority Annual Report FY 2016

Dear Mr. Waters:

In accordance with the enabling legislation of the Kent County Water Authority please find, herewith, a copy of the annual report of the Kent County Water Authority, which is to be presented to each of the Councils in our service area. We think you will find it complete and concise and provide the necessary information into the operations of the Kent County Water Authority for the proceeding fiscal year. The Chairman's report to the customers is also attached explaining the audit and the previous fiscal year.

This is being forwarded for your information as Town Manager of Coventry. A separate copy has been forwarded to the Town Council President for presentation to the Coventry Town Council. If we can be of any assistance or if you would like further information, please feel free to contact myself at any time and we would be more than happy to provide you whatever is necessary.

Very truly yours,
Kent County Water Authority

Timothy J. Brown, P.E.
General Manager Chief Engineer

cc: Board Members

TB/ym

PO Box 192
West Warwick, RI 02893-0192
401-821-9300
www.kentcountywater.org

ANNUAL REPORT

FISCAL YEAR 2016

Kent County Water Authority
P. O. Box 192, 1072 Main Street
West Warwick, Rhode Island 02893

KENT COUNTY WATER AUTHORITY

JUNE 30, 2016

BOARD MEMBERS
(AS OF JUNE 30, 2016)

Robert B. Boyer, West Warwick, **Chairman**

Peter O. Masterson, East Greenwich, **Vice-Chairman**

Edward S. Inman III, Coventry, **Secretary**

Joseph E. Gallucci, Warwick, **Treasurer**

Frank A. Giorgio, West Warwick, **Member**

FISCAL AGENT

Bank of New York Mellon, Boston, Massachusetts

AUDITORS

Hague, Sahady & Co., Certified Public Accountants P.C.

Kent County Water Authority

Report to Customers:
January 2017

Our purpose without question is to provide water to the public that is affordable and meets all requirements both federal and state for potability. This requires a delivery structure that is reliable and functional under all demand conditions including fire flow for public safety. We like other New England water suppliers have been and continue to see sales decreasing from previous years. This fiscal year saw new lows not seen in the last 26 years. We believe they are stabilizing to a new norm for our water supply, but must remain guarded until the pattern supports this.

We continue to reduce expenditures to match revenues where ever possible to achieve a balanced budget and have done so over the last few years. This method does have a limit as sales are not expected to change in the foreseeable future. We did seek a rate increase this fiscal year, but a decision will not be rendered until next fiscal year. As a regulated utility we have certain programming budgets that are restricted for specific uses. These have allowed us continuous funding of our capital programs through our infrastructure renewal and replacement fund. The Mishnock Treatment Facility operates daily supplying water to our customers. This is critical to our future, allowing us use of our own supply of water, securing its quality and supply capacity. The support that we have seen from our customers on our construction programs is gratifying.

Total operating revenues were up $501,386 for fiscal year 2016 over the previous year. Operating expenses decreased by $66,299 from the previous fiscal year. Total net operating income at the end of the year was $7,080,055, up $567,685 dollars from the previous fiscal year. Fiscal year long-term debt obligation was in the amount of $13,010,000 for 2012 Series "A" General Revenue Bond. Approximately $1.5 million was paid on principal and $665,000 was in interest. A portion of that cash is held in trust and segregated in the respective project and debt service account for the bond issue sold. These funds are expended for the Capital Programs including design services and construction. The funds are allocated fully through completion of each program. We continue to provide sufficient coverage as required by our bond covenants and our PUC rate order.

Once again, our financial statements are prepared utilizing the Government Accounting Standards Board as we are classified as a public benefit corporation and a district designation of a political subdivision by the State Legislature. The annual report presented, includes all current GASB Statements, including No. 68, No. 27, and No. 71. Implementation of GASB Statement No. 69 had no impact for the Authority. It is our pleasure to report that our 2016 financial statements continue to demonstrate the sound and consistent operation of the Kent County Water Authority.

Our continued priorities have been and will be to comply with all requirements of the Safe Drinking Water Act and their Amendments. This assures our customers that they are receiving safe and healthy water throughout our system and it is our continued pledge to improve our

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West Warwick, RI 02893-0192
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system and to strive for the highest quality and most efficient, cost-effective system possible. We have established, as our highest priority, improvement programs to become more self-sufficient and decrease dependency on the Providence Water Supply. This not only will provide detailed hands-on control with cost efficiency, but the ability to access multiple supply sources for our varying demand conditions and provide redundancy when needed.

We believe strongly in conservation as the foremost demand management technique that we have available to us. Wise use of water is a goal we all must practice. We continue to distribute conservation devices to all customers that request them as they provide a simple effective approach to reducing use.

The Authority maintains a Standard & Poor's Rating of AA- and a Moody's rating of Aa3.

As the Chairman of the Kent County Water Authority, I would like to thank my fellow Board members: Vice Chairman, Mr. Peter Masterson; Secretary, Mr. Edward Inman, III; Treasurer, Mr. Joseph Gallucci and Mr. Frank Giorgio III for their cooperation, diligence and their foresight into the future of the Authority. I would also like to welcome our new member from Coventry Mr. Scott Duckworth, who replaced Mr. Inman as of July of 2016. Certainly, we cannot forget to mention our employees of the Authority for their continued support and service each day of the year. Our customers who continue to support our efforts in the cost effective modernization of the system, deserve a thank you from us. Great accomplishments each year have been achieved by the professionalism of everyone involved with the Authority. We look forward to the continued support of our customers as we implement our programs this year and in meeting our regulatory obligations.

Robert B. Boyer, Chairman
Kent County Water Authority

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401-821-9300
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KENT COUNTY WATER AUTHORITY
WARWICK, RHODE ISLAND

ANNUAL FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

KENT COUNTY WATER DEPARTMENT
WARWICK, RHODE ISLAND

June 30, 2016

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HAGUE, SAHADY & CO., P.C.

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

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Kent County Water Authority ("the Authority"), as of and for the years ended June 30, 2016 and June 30, 2015, and the related notes to the financial statements, which collectively comprises the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the Rhode Island Public Utilities Commission (RIPUC). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the June 30, 2016 financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the RIPUC.

Continued

Basis of Accounting

The financial statements are prepared on the basis of the financial reporting provisions of RIPUC, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of RIPUC. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and Pension Plan 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 2, 2016 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Restriction on Use

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

Hague, Sahady & Co. PC

Fall River, Massachusetts
September 2, 2016

Our discussion and analysis of the Kent County Water Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2016. It should be read in conjunction with basic financial statements.

The Kent County Water Authority (the Authority) is a public benefit corporation created pursuant to an existing under Chapter 1740 of the Public Laws of 1946, at Chapter 16 of Title 39 of the Rhode Island General Laws (1956), as amended, and is subject to the supervisory and regulatory powers of the State Public Utilities Commission (PUC).

The Authority provides water supply services through metered sales in the communities of Coventry, Warwick, West Warwick, East Greenwich, West Greenwich, and in smaller sections of Cranston, Scituate, and North Kingstown. The Authority is responsible for operating and maintaining the water supply system.

FINANCIAL STATEMENTS

Our discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements, which consist of the financial statements and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

The financial statements report information about the Authority based upon an accrual accounting method similar to those used by private sector companies. The financial statements include a Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; Statement of Cash Flows; and Notes to the Financial Statements.

The Statement of Net Position presents the financial position of the Authority on the accrual basis of accounting, with the exception of fine assessments and monitoring fees that are recorded on a cash basis. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

All the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its user fees and other charges.

The final required financial statement is the Statement of Cash Flows. The purpose of this statement is to provide information about the changes in cash and cash equivalents, resulting from operating, capital and related financing, noncapital financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of assets.

The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the statements. The notes to the financial statements can be found on pages 14-29 of this report.

Continued

FINANCIAL HIGHLIGHTS

The Authority's financial condition is strong and the Authority's performance for the current year exceeded the budget. The following are the key financial highlights:

- User fees were $6 thousand over budget and $422 thousand higher than the prior year.
- The Authority spent nearly $600 thousand more on purchase of water than budgeted.
- The Authority spent roughly $138 thousand less than budgeted on pumping power in the current year.

FINANCIAL ANALYSIS

NET POSITION

Net position over time may serve as a useful indicator of a government's financial position. In the case of the Authority, assets plus deferred outflows of resources exceeded liabilities plus deferred inflows of resources by $148,665,517 as of June 30, 2016. This represents an increase in total net position of $7,386,521 or 5.23% from FY 2015 and demonstrates that the financial position of the Authority is improving.

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

Continued

Condensed Statement of Net Position

	2016	2015
Current assets	$ 6,563,437	$ 6,824,247
Other noncurrent assets	19,452,001	19,205,696
Capital assets, net	145,130,806	137,597,235
Total assets	171,146,244	163,627,178
Deferred inflows of resources		
NPL - assumption changes	74,332	68,485
NPL - investment experience	448,276	178,102
Total deferred inflows of resources	522,608	246,587
Current liabilties	5,042,729	3,661,201
Noncurrent liabilities	16,245,116	17,076,073
Total liabilties	21,287,845	20,737,274
Deferred inflows of resources		
Gain (loss) on refunding	1,434,592	1,670,415
NPL - liability experience	280,898	187,080
Total deferred inflows of resources	1,715,490	1,857,495
Net position:		
Net investment in capital assets	133,119,611	124,615,042
Restricted for debt service	1,954,000	1,954,000
Restricted for infrastructure replacement	4,555,514	7,287,048
Unrestricted net position	9,036,392	7,422,906
Total net position	$ 148,665,517	$ 141,278,996

The table above reflects a decrease in current assets of $260,810 from FY 2015 to FY 2016. This decrease reflects a decrease in accounts receivable and prepaid expenses. There is also a significant increase in capital assets (net) of $7,533,571 from FY 2015 to FY 2016. This increase is the result of substantial progress that the Authority made in FY 2016 on the initiatives identified in the Capital Improvement Program (CIP).

In 2016, the current liabilities increased by $1,381,528. This is the result of an increase in the current portion of the long-term loans payable as well as accounts payable.

The largest portion of the Authority's net position, 89.5%, 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 FY16, the Authority's net position totaled $148.7 million, an increase of $7.4 million or 5.23% from the previous year. Total assets in FY16 were $171.1 million, an increase of $7.5 million or 4.60% from the previous year. Total liabilities increased by $551 thousand or 2.65%.

Continued

CHANGES IN NET POSITION

The Authority's ended the FY 2016 with an increase in net position of $7,386,521. 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

	2016	2015
Operating revenues:		
Water	$ 18,576,440	$ 18,125,293
Hydrant fees	1,334,022	1,309,184
Other	281,091	255,690
Total operating revenue	20,191,553	19,690,167
Operating expenses:		
Source of supply	4,954,207	4,999,638
Pumping	644,136	812,335
Transmission and distribution	1,209,270	1,164,782
Water treatment	275,355	310,572
Customer accounting	426,058	413,059
Administrative and general	3,097,133	3,140,852
Depreciation	2,330,514	2,159,019
Taxes other than income	174,825	177,540
Total operating expenses	13,111,498	13,177,797
Operating income	7,080,055	6,512,370
Nonoperating income (expense):		
Capital contributions	108,637	215,505
Interest income (expense)	197,829	420
Arbitrage rebate provision	-	-
Other	-	-
Net non-operating income (expense)	306,466	215,925
Increase in net position	7,386,521	6,728,295
Net position at beginning of year	141,278,996	134,550,701
Net position at end of year	$ 148,665,517	$ 141,278,996

Continued

REVENUES

User fees are the Authority's primary source of revenue, representing approximately 92.00% of total operating revenues. Fiscal Year 2016 user fee revenue was $18,576,440 which is $451,147 more than the prior year. The increase in user fees is the combined effect of a pass through rate increase. These PUC approved rate increases applied to both consumption and flat fees. FY 2016 other operating revenue increased by $90,541.

The operating income for FY16 totaled $7.1 million, representing an increase of 8.72% from the previous year. This decrease is a result of the changes discussed above.

EXPENSES

Total operating expenses in FY 2016 decreased $66,299 over the prior year. The decrease in operating expenses was driven most notably by a decrease in pumping costs of nearly $168 thousand, as well as, an increase in depreciation expenses of almost $175 thousand.

Non-operating income increased $90,541 as a result of increased capitalized interest expense.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At the end of FY 2016, the Authority had $145.1 million invested in net capital assets. This amount represents an increase of $7.5 million, or 5.48% over last year. The following table summarizes the Authority's capital assets and changes therein, for the years ended June 30, 2016 and June 30, 2015.

Continued

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

CAPITAL ASSETS (CONTINUED)

	Balance at June 30, 2015	Increases	Decreases	Balance at June 30, 2016
Capital assets, not being depreciated:				
Construction in progress	$ 15,805,178	$ 9,197,614	$ 11,631,464	$ 13,371,328
Land	1,836,045	-	-	1,836,045
Total capital assets, not being depreciated	17,641,223	9,197,614	11,631,464	15,207,373
Capital assets, being depreciated:				
Buildings and improvements	17,517,440	12,109,232	-	29,626,672
Machinery and equipment	16,365,247	91,428	-	16,456,675
Infrastructure	110,051,890	110,446	-	110,162,336
Total capital assets, being depreciated	143,934,577	12,311,106	-	156,245,683
Less accumulated depreciation	23,978,565	2,343,685	-	26,322,250
Total capital assets, being depreciated, net	119,956,012	9,967,421	-	129,923,433
Capital assets, net	$ 137,597,235	$ 19,165,035	$ 11,631,464	$ 145,130,806

LONG-TERM DEBT

Currently the Authority has one General Revenue Bonds outstanding at the end of FY16, totaling $13.0 million at par value.

2012 Series "A"	$13,010,000

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

During FY16, the Authority paid approximately $1.5 million in principal on outstanding issuances and $665 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.

Continued

BUDGET AND RATES

For FY17, the budget for operating revenues will remain consistent with the previous year. A 3.6% decrease is projected for operation and maintenance expenses.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Authority is governed by a 5-member appointed Board (Board) and is also regulated by the Rhode Island Public Utilities Commission (PUC). Both Authority's Board and the PUC must authorize all adjustments to user charges.

The Authority filed a General Rate Filing with the PUC on April 8, 2016 for a 16.99% increase in rate revenues to be effective January 8, 2017. Included is a request for two step increases of 3.85% in FY2018 and 6.28% in FY2019.

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 Treasurer at P.O. Box 192, West Warwick, RI 02893.

KENT COUNTY WATER AUTHORITY

Statement of Net Position

June 30, 2016

ASSETS

	2016	2015
Current assets:		
Cash and cash equivalents	$ 240,605	$ 177,985
Accounts receivable, less allowance of $182,721 in 2016 and $182,721 in 2015	2,769,601	2,926,229
Unbilled water revenue	1,025,657	1,139,996
Materials and supplies inventory	489,416	382,278
Other assets	84,158	243,759
Restricted cash and cash equivalents held by trustee for current portion of long-term debt	1,954,000	1,954,000
Total current assets	6,563,437	6,824,247
Noncurrent assets:		
Restricted cash and cash equivalents held by trustee	14,896,487	11,918,648
Restricted cash and cash equivalents held by trust-Infrastructure replacement	4,555,514	7,287,048
Total noncurrent assets	19,452,001	19,205,696
Capital assets:		
Depreciable, net	129,923,432	119,956,012
Nondepreciable	15,207,374	17,641,223
Total capital assets	145,130,806	137,597,235
Total assets	$ 171,146,244	$ 163,627,178

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources:		
NPL - assumption changes	74,332	68,485
NPL - investment return	448,276	178,102
Total deferred outflows of resources	$ 522,608	$ 246,587

The accompany notes are an integral part of the financial statements

KENT COUNTY WATER AUTHORITY

Statement of Net Position (Continued)

June 30, 2016

LIABILITIES

	2016	2015
Current liabilities:		
Accounts payable	$ 2,944,337	$ 1,509,359
Accrued interest expense	291,087	318,312
Accrued liabilities	216,656	222,418
Water quality protection charges payable	50,649	126,112
Long-term debt due within one year	1,540,000	1,485,000
Total current liabilities	5,042,729	3,661,201
Noncurrent liabilities:		
Long-term debt, net	11,422,879	12,955,133
Net pension liability	1,165,162	958,755
OPEB obligation, net	3,657,075	3,162,185
Total noncurrent liabilities	16,245,116	17,076,073
Total liabilities	21,287,845	20,737,274

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources:		
Gain on refunding	1,434,592	1,670,415
NPL - liability experience	280,898	187,080
Total deferred inflows of resources	1,715,490	1,857,495

NET POSITION

Net position:		
Net investment in capital assets	133,119,611	124,615,042
Restricted for debt service	1,954,000	1,954,000
Restricted for infrastructure replacement	4,555,514	7,287,048
Unrestricted net position	9,036,392	7,422,906
Total net position	$ 148,665,517	$ 141,278,996

The accompany notes are an integral part of the financial statements

KENT COUNTY WATER AUTHORITY

Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2016

	2016	2015
Operating revenues:		
Water	$ 18,576,440	$ 18,125,293
Hydrant fees	1,334,022	1,309,184
Other	281,091	255,690
Total operating revenue	20,191,553	19,690,167
Operating expenses:		
Source of supply	4,954,207	4,999,638
Pumping	644,136	812,335
Transmission and distribution	1,209,270	1,164,782
Water treatment	275,355	310,572
Customer accounts	426,058	413,059
Administrative and general	3,097,133	3,140,852
Depreciation	2,330,514	2,159,019
Taxes other than income	174,825	177,540
Total operating expenses	13,111,498	13,177,797
Operating income	7,080,055	6,512,370
Nonoperating income (expense):		
Capital contributions	108,637	215,505
Interest income (expense)	197,829	420
Net non-operating income (expense)	306,466	215,925
Increase in net position	7,386,521	6,728,295
Net position at beginning of year	141,278,996	134,550,701
Net position at end of year	$ 148,665,517	$ 141,278,996

The accompany notes are an integral part of the financial statements

KENT COUNTY WATER AUTHORITY

Statement of Cash Flows

Year Ended June 30, 2016

	2016	2015
Cash flows from operating activities:		
Cash received from customers	$ 20,387,057	$ 19,506,863
Cash paid to employees for services	1,021,304	(1,579,651)
Cash paid to suppliers for goods and services	(9,801,515)	(9,828,979)
Net cash provided by operating activities	11,606,846	8,098,233
Cash flows from investing activities:		
Interest income received	170,604	194,166
Net cash provided by investing activities	170,604	194,166
Cash flows from capital and related financial activities:		
Payments on debt	(1,713,077)	(2,723,076)
Capital additions	(9,864,085)	(5,669,194)
Capital contributions	108,637	215,505
Interest expense	-	420
Net cash used/or capital and related financing activities	(11,468,525)	(8,176,345)
Net decrease in cash and cash equivalents	308,925	116,054
Cash and cash equivalents, beginning of year	21,337,681	21,221,627
Cash and cash equivalents, end of year	21,646,606	21,337,681
Cash and cash equivalents, per the statement of net position		
Cash and cash equivalents	240,605	177,985
Restricted cash and cash equivalents held by trustee for current portion of long term debt	1,954,000	1,954,000
Restricted cash and cash equivalents held by trustee (Note 3)	14,896,487	11,918,648
Restricted cash and cash equivalents held by trustee-Infrastructure replacement (Note 3)	4,555,514	7,287,048
Total cash and cash equivalents, per the statement of net position	$ 21,646,606	$ 21,337,681
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 7,080,055	$ 6,512,370
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation of bond issuance costs	2,330,514	2,159,019
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable, net	156,628	(116,491)
(Increase) decrease in unbilled water revenue	114,339	(65,748)
(Increase) decrease in material, supplies and inventory	(107,138)	101,484
(Increase) decrease in other assets	159,601	(11,189)
(Increase) decrease in NPL deferred outflows	(182,203)	(59,507)
Increase (decrease) in accounts payable	1,434,978	(19,369)
Increase (decrease) in accrued liabilities	(5,762)	(882,272)
Increase (decrease) in water quality protection charges payable	(75,463)	(1,065)
Increase (decrease) in other liabilities	701,297	481,001
Net cash provided by operating activities	$ 11,606,846	$ 8,098,233

The accompany notes are an integral part of the financial statements

The financial statements of the Kent County Water Authority (the Authority) have been prepared in conformity with the Rhode Island Public Utilities Commission (RIPUC) regulatory basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following notes to the financial statements are an integral part of the Authority's financial statements.

NOTE 1. Reporting Entity

Primary Government

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

Component Units

Component Units are included in the Authority's reporting entity if their operational and financial relationships with the Authority are significant. Pursuant to the criteria established by the Governmental Accounting Standards Board (GASB), no component units were identified for inclusion in the accompanying financial statements.

The Authority is considered a related organization of the State of Rhode Island for financial reporting purposes. The Authority is reported as a related organization of the State of Rhode Island, and not as a component unit, based on the criteria of GASB Statement No. 14 "The Financial Reporting Entity", as amended by GASB Statement No. 39 "Determining Whether Certain Organizations are Component Units" and as amended by GASB Statement No. 61 "Financial Reporting Entity - Omnibus".

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Authority conform to the RIPUC regulatory basis of accounting. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies followed by the Authority:

Continued

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

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

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

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

When restricted and unrestricted resources are available for use, it is the Authority's practice to use restricted resources first.

Cash and Cash Equivalents - Cash and cash equivalents and restricted cash (held by trustee) include highly liquid investments with a maturity of three months or less when purchased. Restricted cash has been classified as noncurrent as it primarily represents unspent bond proceeds restricted for future capital spending.

Receivables - Fixed fees for water usage are billed to all customers in advance on a monthly basis. Consumption based fees are billed in arrears on a monthly basis, based on estimated and actual water consumption meter readings.

The allowance for doubtful accounts for June 30, 2016 was $182,721.

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

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

Construction in progress - Construction in progress consists of the capital projects' design, planning and construction costs. Upon completing the project and finalizing the financial transaction, the construction in progress is transferred into the completed project capital asset account. Once transferred, the Authority will start to depreciate the completed capital project.

Capital Contributions - Capital contributions consist of property, plant, and equipment paid for by customers for water installations. Once the installation is complete, the property, plant, and equipment transfer to the Authority.

Continued

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Deferred Outflows/inflows of Resources - In addition to assets, the statement of financial position can report a separate section for deferred outflows of resources. This separate section represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until that later date.

In addition to liabilities, the statement of financial position can report a separate section for deferred inflows of resources. This separate section represents the acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until a later date. At June 30, 2016 and 2015, there were $522,608 and $246,587 in deferred outflows relating to pensions, respectively and $1,715,490 and $1,857,495 in deferred inflows relating to pensions and gains on refunding, respectively.

Income Taxes - The Authority is exempt from Federal and State income taxes.

Regulatory - The Authority is a regulated utility, and its rates are set by the PUC. For rate-making purposes, depreciation expense is excluded while principal payments and capital outlays are included in the total expenses to arrive at a regulatory net income (loss). For this reason, the net income (loss) on a regulatory basis differs from the change in net position in the audited financial statements, which are prepared in conformance with generally accepted accounting principles.

Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Summarized Financial Information - The financial information for the year June 30, 2014, presented for comparative purposes is not intended to be a complete financial statement presentation. Certain amounts in the prior year financial statements may have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Recently Issued Accounting Standards - The Authority implemented the following new accounting pronouncements in 2015:

For the year ending June 30, 2015, the Authority implemented the following pronouncements issued by the GASB:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*
- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*

The implementation GASB Statements No. 68 and 71 represented a significant change in the accounting and reporting of pension expense and the related liability. For the first time, the Authority recognized its long-term obligation for pension benefits as a liability to more comprehensively measure the annual costs of pension benefits. The implementation of this Statement also expanded pension related note disclosures and required supplementary information. As a result of this change in accounting principle, the Authority has restated its beginning net position within the business-type activities. The implementation of GASB Statement No. 69 had no material reporting impact for the Authority.

Continued

NOTE 3. CASH AND CASH EQUIVALENTS

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

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

Cash deposits	$ 240,305
Cash equivalents	21,406,001
Petty cash	300
	$ 21,646,606

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, 2016 was $21,646,606 and the bank balance was $21,790,361.

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, 2016, $21,283,343 of the Authority's bank balance of $21,790,361 was exposed to custodial credit risk as follows:

	Bank Balance
Insured (Federal depository insurance funds)	$ 507,018
Collateralized with securities held by pledging financial institution's or its agent, in the Authority's name	21,283,343
	$ 21,790,361

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.

Continued

NOTE 3. CASH AND CASH EQUIVALENTS

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.

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:

	Fair value	
Cash equivalent type	2016	2015
Money Market Treasury Obligation Fund	$ 21,406,001	$ 21,159,696
Total cash equivalents	$ 21,406,001	$ 21,159,696

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 $4,555,514 and $7,287,494 as of June 30, 2016 and 2015, 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)

Continued

NOTE 3. CASH AND CASH EQUIVALENTS

Concentration of credit risk - The Authority's investment policy is not specific but states that investments shall be diversified to minimize the risk of loss that may occur due to concentration in a specific maturity, a specific issue or a specific class of securities.

NOTE 4. CAPITAL ASSETS

The cost and activity of water capital assets in service and related accumulated depreciation for the year ended June 30, 2016 is as follows:

	Balance at June 30, 2015	Increases	Decreases	Balance at June 30, 2016
Capital assets, not being depreciated:				
Construction in progress	$ 15,805,178	$ 9,197,614	$ 11,631,464	$ 13,371,328
Land	1,836,045	-	-	1,836,045
Total capital assets, not being depreciated	17,641,223	9,197,614	11,631,464	15,207,373
Capital assets, being depreciated:				
Buildings and improvements	17,517,440	12,109,232	-	29,626,672
Machinery and equipment	16,365,247	91,428	-	16,456,675
Infrastructure	110,051,890	110,446	-	110,162,336
Total capital assets, being depreciated	143,934,577	12,311,106	-	156,245,683
Less accumulated depreciation	23,978,565	2,343,685	-	26,322,250
Total capital assets, being depreciated, net	119,956,012	9,967,421	-	129,923,433
Capital assets, net	$ 137,597,235	$ 19,165,035	$ 11,631,464	$ 145,130,806

Interest costs of $588,627 and $466,234, offset by interest income of $423 and $420, were capitalized in 2016 and 2015, respectively.

Continued

NOTE 5. LONG-TERM OBLIGATIONS

The Authority issues revenue bonds to support various projects. The following is a summary of the bond activity for the years ended June 30, 2016 and 2015:

Description	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016	Amounts due within one year
Revenue bonds:					
July 2012 Series A bearing interst at 4%-5% and maturing in 2023	$ 14,495,000	$ -	$ (1,485,000)	$ 13,010,000	$ 1,540,000
	14,495,000	-	(1,485,000)	13,010,000	1,540,000
Add (less):					
Unamortized discount	(54,868)	-	7,746	$ (47,122)	(7,746)
	(54,868)	-	7,746	(47,122)	(7,746)
	$ 14,440,132	$ -	$ (1,477,254)	$ 12,962,878	$ 1,532,254

Continued

NOTE 5. LONG-TERM OBLIGATIONS (CONTINUED)

The annual debt service requirements of the general long-term bonds payable as of June 30, 2016 are as follows:

Fiscal year ended June 30:	Principal	Interest	Total
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	1,775,000	364,375	2,139,375
2021	1,870,000	273,250	2,143,250
2022-2024	4,530,000	308,000	4,838,000
	$ 13,010,000	$ 2,534,300	$ 15,544,300

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, 2016 and 2015.

NOTE 6 - COMPENSATED ABSENCES

The Authority's employees are granted vacation and sick leave in varying amounts based on years of service with the Authority. At the termination of service, an employee is paid for accumulated unused vacation leave. The Authority has determined that the dollar value of accumulated accrued vacation leave, valued at the current rate of pay, at June 30, 2016 to be $158,194. 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, 2016 were as follows:

	June 30, 2015	Additions	Payments	June 30, 2016	Amounts Due Within One Year
Compensated absences	$ 154,899	$ 3,295	$ -	$ 158,194	$ 158,194

Continued

NOTE 7. PENSION PLAN

Summary of Significant Accounting Policies

Method used to value investments

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Real estate assets are reported at fair value utilizing an income approach to valuation. By contract, an independent appraisal is obtained once every year to determine the fair market value of the real estate assets.

Plan Description

Plan administration

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

Plan membership

At June 30, 2016, pension plan membership consisted of the following:

Retirees and beneficiaries receiving benefits from the plan	31
Terminated members entitled to future benefits	14
Active plan members	22
Subtotal	67

Benefits provided

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

Contributions

In the January 1, 2015 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.

Continued

NOTE 7. PENSION PLAN (CONTINUED)

Contributions (Continued)

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

Investments

Investment policy

The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the board of directors by a majority vote of its members. It is the policy of the board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of June 30, 2016:

Asset Class	Target Allocation
Fixed income	25%
Domestic equity	44%
International equity	12%
Real estate	4%
Cash	15%
Total	100%

Concentrations

As of June 30, 2016, 5% or more of Plan assets were held in the following individual funds:

Fund	Concentration
Nationwide Fixed Fund	14.80%
Vanguard Mid-Cap Index	9.10%
Vanguard Growth Index	8.00%
Vanguard High Yield Corporate	8.00%
American Fund AMCAP	7.10%
Vanguard Value Index	7.10%
American Fund American Mutual	7.00%
LeggMason Core Bond Fund	6.00%
Prudential Core Bond Fund	6.00%
Franklin Templeton Global Bond Fund	5.00%

Continued

NOTE 7. PENSION PLAN (CONTINUED)

Investments (Continued)

Rate of return

For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 7.25 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Deferred Retirement Option Program

As of June 30, 2016, the Plan has deferred pension liability as summarized below. These deferred items will be recognized in future pension expense. These deferred items are detailed as follows:

	Deferred Outflows	Deferred Inflows
Liability experience	$ -	$ (280,898)
Assumption changes	74,332	-
Investment experience	448,276	-
Total	$ 522,608	$ (280,898)

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

Fiscal Year End	Expense Recognition
2017	$ 103,852
2018	103,853
2019	103,853
2020	59,326
2021	(19,348)
After 2021	(109,826)

Net Pension Liability of the Authority

The components of the net pension liability of the Authority at June 30, 2016, were as follows:

Total pension liability	$ 6,304,210
Plan fiduciary net position	(5,139,049)
Authoritys' net pension liability	$ 1,165,161
Plan fiduciary net position as a percentage of the total pension liability	81.52%

Continued

NOTE 7. PENSION PLAN (CONTINUED)

Net Pension Liability of the Authority (Continued)

Actuarial assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.00 percent to 2.50 percent
Social security wage base	The taxable wage base is assumed to increase 2.5% annually.
Salary increases	Salary is assumed to increase 3.00% annually
Liability interest rate	7.25 percent

Assumed mortality was updated from the sex-distinct IRS 2015 Combined Static Table to the sex-distinct IRS 2016 Combined Static Table as of January 1, 2016.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2015–June 30, 2016.

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, 2016 (see the discussion of the pension plan's investment policy) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed income	3.50%
Domestic equity	5.75%
International equity	5.85%
Real estate	5.50%
Cash	2.00%

Discount rate

The discount rate used to measure the total pension liability was 7.25 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.

Continued

NOTE 7. PENSION PLAN (CONTINUED)

Net Pension Liability of the Authority (Continued)

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

The following presents the net pension liability of the Authority, calculated using the discount rate of 7.25 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 (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Authority's net pension liability	$ 1,860,099	$ 1,165,161	$ 570,390

NOTE 8. OTHER POST EMPLOYMENT BENEFITS

Plan Description

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

Funding Policy

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

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

Fiscal Year Beginning	July 1, 2014	July 1, 2012
Discount rate	4.00%	4.00%
Census Date	7/1/2011	7/1/2011
Mortality	IRS-2008	IRS-2008

Medical coverage costs are assumed to increase 7.5% in fiscal 2015 with trend rates decreasing 0.5% each year to an ultimate rate of 5.0% per year in fiscal 2019 and beyond. Dental coverage costs are assumed to increase 4.5% in fiscal 2015 with trend rates decreasing 0.25% each year to an ultimate rate of 3.5% per year in fiscal 2019 and beyond.

Continued

NOTE 8. OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Funding Policy (Continued)

Three-Year Trend Information

Fiscal Year Ending	Annual OPEB Cost	Actual Plan Contributions	Percentage of OPEB Cost Contributed	Net OPEB Obligation
June 30, 2016	$ 568,965	$ 74,075	13.02%	$ 3,657,075
June 30, 2015	550,128	79,203	14.40%	3,162,185
June 30, 2014	610,799	92,877	15.21%	2,691,260

The Authority's annual OPEB cost and net OPEB obligation for the year ended June 30, 2016 and 2015 was as follows:

	June 30, 2016	June 30, 2015
Annual required contribution	$ 618,314	$ 592,128
Interest on net OPEB obligation	126,487	107,650
Adjustment to annual required contribution	(175,836)	(149,650)
Annual OPEB cost (expense)	568,965	550,128
Contributions made	(74,075)	(79,203)
Increase in net OPEB obligation	494,890	470,925
Net OPEB obligation - beginning of year	3,162,185	2,691,260
Net OPEB obligation - end of year	$ 3,657,075	$ 3,162,185

Schedule of Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (l)	Actuarial Accrued Liability (AAL) (2)	Unfunded AAL (UAAL) (2)-(l) (3)	AVA as a percent of AAL (1)/(2) (4)	Covered Payroll (d)	UAAL as a Percent of of Covered Payroll (3)/(5) (6)
7/1/2014	N/A	$4,278,597	$ 4,278,597	N/A	$ 1,993,673	214.61%
7/1/2011	N/A	$5,077,569	$ 5,077,569	N/A	$ 1,671,141	303.84%

Continued

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, 2016 and 2015, water quality protection charges payable of $50,649 and $126,112, respectively, represented funds collected from customers that are required to be paid to the Rhode Island Water Resources Board.

NOTE 10. COMMITMENTS AND CONTINGENCIES

During the ordinary course of its operations, the Authority is a party to various claims, legal actions and complaints, and adequately provides for losses and accrues liabilities for losses when they are both probable and can be reasonably estimated.

As of June 30, 2016, the Authority had no pending contingencies to report.

NOTE 11. REGULATORY MATTERS

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

NOTE 12. RISK MANAGEMENT

Insurance Held

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

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

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

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

Continued

NOTE 12. RISK MANAGEMENT (CONTINUED)

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

NOTE 13. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 2, 2016, the date the financial statements were available to be issued. No subsequent events were identified.

KENT COUNTY WATER AUTHORITY

Required Supplementary Information

Schedule of Changes in the Authority's
Net Pension Liability and Related Ratios (Unaudited)

Last Ten Fiscal Years
June 30, 2016

	2016*	2015
Total pension liability		
Service cost	$ 114,734	$ 144,147
Interest	431,804	419,030
Experience (gain) or loss	(120,312)	(203,680)
Assumption changes	12,993	74,562
Benefit payments	(263,800)	(260,720)
Net change in total pension liability	175,419	173,339
Total pension liability - beginning	6,128,791	5,955,452
Total pension liability - ending (a)	$ 6,304,210	$ 6,128,791
Pension fiduciary net position		
Contributions - employer	$ 246,738	$ 277,560
Expected investment return	379,448	369,051
Additional investment return	(393,374)	(222,627)
Other	(263,800)	(260,720)
Net change in plan fiduciary net position	(30,988)	163,264
Plan fiduciary net position - beginning	5,170,037	5,006,773
Plan fiduciary net position - ending (b)	$ 5,139,049	$ 5,170,037
Authority's net pension liability (asset) - ending (a) - (b)	$ 1,165,161	$ 958,754

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

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Continued

KENT COUNTY WATER AUTHORITY

Required Supplementary Information

Schedule of Changes in the Authority's Net Pension Liability and Related Ratios (Unaudited)

Last Ten Fiscal Years
June 30, 2016

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Total pension liability	$ 6,304,210	$ 6,128,791	$ 5,955,452	$ 5,813,927	$ 5,723,004	$ 5,351,926	$ 5,061,493	$ 4,998,203	$ 5,073,463	$ 4,812,595
Plan fiduciary net position	5,139,049	5,170,037	5,006,773	4,897,501	4,188,518	3,784,648	3,853,105	3,499,204	2,940,501	3,932,168
Authority's net pension liability (asset)	$ 1,165,161	$ 958,754	$ 948,679	$ 916,426	$ 1,534,486	$ 1,567,278	$ 1,208,388	$ 1,498,999	$ 2,132,962	$ 880,427
Plan fiduciary net position as a percentage of the total pension liability	81.52%	84.36%	84.07%	84.24%	73.19%	70.72%	76.13%	70.01%	57.96%	81.71%
Covered-employee payroll	1,963,460	1,798,468	1,916,160	1,840,222	1,671,148	1,699,872	1,614,790	1,669,110	1,755,040	1,713,024
Authority 's net pension liability (asset) as a percentage of covered-employee payroll	59.34%	53.31%	49.51%	49.80%	91.82%	92.20%	74.83%	89.81%	121.53%	51.40%

See independent auditors' report

KENT COUNTY WATER AUTHORITY

Required Supplementary Information

Schedule of Investment Returns (Unaudited)

Last Ten Fiscal Years
June 30, 2015

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution	$ 243,161	$ 246,738	$ 277,560	$ 311,745	$ 256,566	$ 222,723	$ 214,026	$ 258,392	$ 193,619	$ 154,574
Contributions in relation to the actuarially determined contribution	243,161	246,738	277,560	311,745	256,566	222,723	214,026	260,000	193,619	206,000
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (1,608)	$ -	$ (51,426)
Covered-employee payroll	1,963,460	1,798,468	1,916,160	1,840,222	1,671,148	1,699,872	1,614,790	1,669,110	1,755,040	1,713,024
Contributions as a percentage of covered-employee payroll	12.38%	13.72%	14.49%	16.94%	15.35%	13.10%	13.25%	15.58%	11.03%	12.03%

See independent auditors' report

KENT COUNTY WATER AUTHORITY

Required Supplementary Information

Schedule of Investment Returns (Unaudited)

Last Ten Fiscal Years
June 30, 2015

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Annual money-weighted rate of return, net of investment expense	5.77%	2.92%	Not Avail	15.41%	11.88%	0.45%	12.08%	19.93%	-24.08%	5.28%

See independent auditors' report

HAGUE, SAHADY & CO., P.C.

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 ONA N 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, 2016, and the related notes to the financial statements, and have issued our report thereon dated September 2, 2016.

Internal Control Over Financial Reporting

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

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

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

Continued

Compliance and Other Matters

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

Purpose of this Report

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

Hague, Sahady & Co. PC

Fall River, Massachusetts
September 2, 2016