

# KENT COUNTY WATER AUTHORITY

## BOARD MEETING MINUTES

October 20, 2011

The Board of Directors of the Kent County Water Authority held its monthly meeting in the Joseph D. Richard Board Room at the office of the Authority on October 20, 2011.

Chairman, Robert B. Boyer opened the meeting at 3:30 p.m. Board Members, Mr. Gallucci, Mr. Masterson, Mr. Giorgio and Mr. Inman were present together with the General Manager, Timothy J. Brown, Technical Service Director, John R. Duchesneau Director of Administration and Finance, Joanne Gershkoff and Legal Counsel, Lewis J. Paras and other interested parties. Board Member Gallucci led the group in the pledge of allegiance.

The minutes of the Board meeting of September 15, 2011 were moved for approval by Board Member Giorgio and seconded by Board Member Gallucci and were unanimously approved.

### **Guests:**

### **High Service Requests**

None.

### **Auditors:**

### **Braver PC, Audit Results**

James D. Wilkinson, CPA/CITP, shareholder of Braver PC appeared before the Board and highlighted the results of the audit on Kent County Water Authority. Mr. Wilkinson noted that Kent County Water Authority showed an increase in revenue of \$2 million. Payments on bonds resulted in a reduction of bond principal in the sum of \$2.5 million. Administration costs decreased by \$120,000 and there were no compliance deficiencies noted. Mr. Wilkinson thanked the General Manager and Director of Administration and Finance, Joanne Gershkoff, for cooperation with the auditors in providing information for the audit report.

It was moved by Board Member Inman and seconded by Board Member Masterson to accept the audit report submitted by Braver, PC as evidenced and attached as "A" and it was unanimously,

VOTED: To accept the audit report submitted by Braver, PC as evidenced and attached as "A".

### **Interviews Underwriter Services:**

Maureen Gurghigian was present for the interviews on behalf of Kent County Water Authority.

### **Roosevelt Cross**

Frank Delvecchio, Vice President and Manager of the Providence Office of Roosevelt & Cross appeared before the Board and stated that Roosevelt & Cross was founded in 1996 and has 71 employees and the company is 100% employee owned. Roosevelt & Cross works exclusively on municipal bonds and does no other business such as mortgages and other investment banking business.

The company has a New England presence with offices in Boston and Providence and is financially sound as it did not take any TARP funds during the financial banking crisis. Roosevelt & Cross has the ability to handle large deals but more often does deal between \$5 million - \$20 million which is the range needed by Kent County Water Authority. Roosevelt & Cross recently did a \$1 million issue with East Greenwich and was ranked fourth nationally in 2010 regarding issues of \$10 million or less and third nationally in 2009. The General Manager asked Mr. Delvecchio how Roosevelt & Cross would guarantee seeing that Kent County Water Authority paper would be sold at the lowest cost and Mr. Delvecchio responded that the company has a strong retail focus and distribution to local investors but also has the ability to work with out of state investors as well.

### **Barclays Capital**

Paul R. Haley, Managing Director of Public Finance, Patrick F. Landers, Director of Public Finance, Frank Vitiello, Director and Brandon Wolanski, Assistant Vice President appeared before the Board on behalf of Barclays Capital. Mr. Haley stated that Barclays Capital is the investment banking arm of Barclays Bank and he highlighted the Rhode Island experience that Barclays Capital has been involved in which is further noted in the presentation booklet that was handed to the Board at the presentation. Mr. Haley noted that the individuals present were part of an experience team in water revenue bond issues with Mr. Vitiello having 25 years experience in revenue bonds and Mr. Landers has been involved in \$30 billion of transactions in municipal bonds. Mr. Landers spoke and noted that his experience in the water supply industry goes back to his father who was water commissioner for the Palmer District in Massachusetts and Mr. Landers has worked on water supply issues across the country. Mr. Landers recommended that Kent County Water Authority get a second bond rating, particularly from Moody's as that would result in them being able to issue bonds at a lower interest

rate.

Mr. Wolanski then spoke and referenced page 5 of the presentation booklet noting that Kent County Water Authority refinancing efforts would result in present day value savings of \$2,061,995.00.

Mr. Vitiello then spoke and echoed Mr. Landers recommendation on getting a second bond rating as it is important and it can save the Authority a lot of money. Mr. Haley then concluded the presentation reviewing page 7 of the presentation booklet which highlights why Kent County Water Authority should go with Barclays Capital.

The General Manager then asked why it was necessary for Kent County Water Authority to get a second bond rating and why Moody's as opposed to Fitch. Mr. Vitiello responded that Moody's is more stringent in their bond rating and buyers would treat a Moody's rating better than they would from Fitch, again potentially lowering the cost for Kent County Water Authority. Mr. Vitiello also noted that Barclays conducts an extensive pre-marketing campaign trying to educate investors before the purchase thereby placing Kent County Water Authority in a better position once the bonds are issued.

### **Janney Montgomery Scott**

Kimberly Welsh, Team Leader, Steve Pitassi, Retail Distribution, Sara Desens, Quantitative Analysis, appeared before the Board on behalf of Janney Montgomery Scott and distributed to the Board a presentation booklet. Ms. Welsh noted that she has 23 years experience in Rhode Island water issues and that Janney Montgomery Scott places more bonds into retail distribution. Janney Montgomery Scott did not take TARP funds and did not get involved in any subprime loans, is privately funded, and has a strong marketing plan for Kent County Water Authority. Ms. Welsh also directed the Board to page 4 of the presentation booklet noting that Janney Montgomery Scott has provided services for Rhode Island Clean Water Finance Agency saving \$5 million in interest costs, the State of Rhode Island COPs resulting in lowering the interest cost a full 12 basis points and Rhode Island Student Loan Authority which resulted in pricing levels 30% better than RISLA had done with Bank of America/Merrill Lynch.

Steve Pitassi also spoke noting that Janney Montgomery Scott has 26 employees in the Providence office and highlighted that it had hired Joe Hassett as a consultant in 2009. Mr. Pitassi noted that the S&P upgrading recently received by Kent County Water Authority is quite an accomplishment and should be promoted as part of any marketing campaign and in fact he suggested that should be placed in a conspicuous location within the Authority facility.

Sara Desens spoke and stated that she was involved in the Rhode Island Clean Water Funding transaction and noted that Kent County Water Authority refinancing will result in \$1 million present value savings over the term of the refinancing.

The General Manager again asked with regard to a second rating with either Moody's or Fitch and Mr. Pitassi indicated that it could result in a better interest rate but Ms. Welsh noted that that would only occur if Moody's gave a better rating than S&P. Ms. Welsh indicated that Kent County Water Authority should have discussions with Moody's but if it does not appear that a better rating will result, it is probably not worth pursuing a second rating. Board Member Masterson asked if Kent County Water Authority could be involved in offering the bonds to the rate payers and Ms. Welsh indicated that it could be accomplished in a similar fashion as was done in East Greenwich.

After the presentations, a thorough discussion ensued with Board Member Gallucci stating that he was impressed with Barclays and found them to be the best due to their size and board member Inman stated that Kent County Water Authority would be fine with any of the three. Board Member Giorgio stated that Barclays probably would be the best with Board Member Masterson stating that KCWA could be too small for Barclays. It was the consensus of the Board that Barclays would provide the level of service and expertise that would be in the best interest of KCWA at a fair and reasonable price.

There was further discussion with input from Maureen Gurghigian.

It was moved by Board Member Gallucci and seconded by Board Member Masterson to award the underwriting services proposal to Barclays Capital with the General Manager to negotiate downward the proposal of not more than \$112,881.75 (\$5.21 per \$1,000) as Barclays would provide the level of service and expertise that would be in the best interest of KCWA and it was unanimously,

VOTED: To award the underwriting services to Barclays Capital with the General Manager to negotiate downward the proposal of not more than \$112,881.75 (\$5.21 per \$1,000) as Barclays would provide the level of service and expertise that would be in the best interest of KCWA.

## **LEGAL MATTERS**

### **Harris Mills**

The company has gone into receivership. Kent County Water Authority is owed \$3,676.58. Legal Counsel will monitor for proof of claim filing. A permanent receiver was appointed. A proof of claim prepared and forwarded to the General Manager for signature on September 17, 2008 and will be filed in the Kent County Superior Court and sent to the receiver. Proof of Claim was filed and sent to Received on September 19, 2008. The proof of claim deadline was December 1, 2008. Legal counsel will continue to monitor for payment on claim. As of May 12, 2009, there has been no change in status. Petition to sell was filed by Receiver in Kent County Superior Court

on June 5, 2009. Offer to property made which will allow for partial payment of claims. Legal Counsel will monitor progress of sale.

There has been no further progress regarding the sale of the Harris Mill complex in the receivership matter. Legal Counsel to contact the Receiver for a status report. New offers to purchase have come in which could allow Kent County Water Authority claim in this matter to be paid out of the receivership proceeds. As of September 14, 2009 the previous offer did not materialize. A new offer is being pursued. Legal Counsel will continue to monitor the progress of the sale. The receivership case is in the Supreme Court. On October 1, 2010 the Court approved the sale of the property and the allowed disbursements including payment of Kent County Water Authority bill. This office will continue to monitor payment. On May 13, 2011 Legal Counsel sent a letter to Counsel for potential buyer inquiring as to the status of the sale. Legal Counsel followed up with counsel for Buyer on June 14, 2011 regarding response to May 13, 2011 correspondence. On July 18, 2011 Legal Counsel was informed by Buyer's Counsel that the sale is on hold pending resolution of Supreme Court Appeals in receivership case. There has been no further word as of October 19, 2011.

#### Hope Mill Village Associates

The company is in receivership. Kent County Water Authority is owed \$1,632.44. Legal Counsel to prepare and file Proof of Claim. Proof of Claim was prepared and was forwarded to the General Manager for signatures. Proof of Claim was filed in Kent County Superior Court and was sent to the receiver on August 28, 2008 and as of this date this case is still pending. Hope Mill filed Chapter 11 Bankruptcy on August 20, 2008. Kent County Water Authority was not listed as a creditor. The proof of claim was prepared and signed by the General Manager on November 14, 2008 and was filed with the Bankruptcy Court on November 18, 2008, The proof of claim filing deadline was the end of November, 2008. Pursuant to the plan of reorganization filed by Debtor on November 22, 2008, Kent County Water Authority will be paid in full upon confirmation of the plan by the Bankruptcy Court and Legal Counsel will continue to monitor. As of February 17, 2009 the Court has not scheduled a hearing for confirmation of plan. Debtor will be filing an Amended Plan in March 2009. Legal Counsel will continue to monitor. As of July 16, 2009 the Debtor has not filed an Amended Plan.

The Bankruptcy Court hearing was to be held on August 19, 2009 regarding a motion filed by Hope Mill to convert Chapter 11 to Chapter 7. Legal counsel will monitor the hearing and how the disposition of the hearing will affect the claim of Kent County Water Authority. The hearing was held on December 17, 2009. Assets purchased pursuant to Asset Purchase Agreement. Kent County Water Authority charges to be paid pursuant to Asset Purchase Agreement. Legal Counsel will follow up regarding timetable of payment to Kent County Water Authority. Legal Counsel spoke with Attorney DeAngelis on February 17, 2010 for status on payment to Kent County Water Authority.

Legal Counsel spoke with Attorney DeAngelis on May 13, 2010 and Mr. DeAngelis stated that a final closing has yet to be scheduled, but should be scheduled in the near future. There has been no progress on scheduling a closing as of October 19, 2011.

#### West Greenwich Technology Tank/Rockwood

This matter may be in litigation in that Rockwood Corporation had failed to take any steps and continually denied Kent County Water Authority efforts to take any steps in the painting issues inside of the tank and on February 16, 2009 their surety, Lincoln General Insurance Company, denied the claim as well. The matter was reviewed between the General Manager and Legal Counsel. Rockwood sent a proposal to Legal Counsel on March 31, 2009 and the General Manager weighed the same and a response was sent to Rockwood on April 24, 2009. On May 2, 2009 Rockwood sent another proposal and the General Manager responded to the same on May 8, 2009 requesting a written remedial plan proposal within ten days. On May 8, 2009 Rockwood responded by asking the General Manager to reconsider his position. On May 12, 2009 the General Manager sent correspondence to Rockwood stating the Authority will await Rockwood comments to KCWA letter of May 8, 2009. On May 13, 2009 Rockwood provided an additional response to the KCWA letter of May 8, 2009 with questions. On May 13, 2009 the General Manager sent correspondence agreeing to provide Rockwood with more time to complete a plan of remediation for an additional 10 days. On May 14, 2009, Rockwood sent a response and the General Manager, Merithew and Rockwood to have an informal meeting to work out details. The meeting took place and the Authority is monitoring the efforts of Rockwood to remedy the situation. The tank was recently dry inspected and the vendor remediated the same. Kent County Water Authority is awaiting final inspection of the tank with respect to the remediation. Rockwood has performed work at the site and it is necessary to have a final inspection after the tank has been filled. The tank has been filled and inspection is moving forward. This has been concluded. However, inspection followed which disclosed that there were more paint issues. On July 22, 2010, Legal Counsel notified the Bonding Company regarding action to correct. This will be further discussed by the General Manager in IFR projects. This matter is being discussed which may include litigation and KCWA is awaiting final restoration plans from the vendor. On March 16, 2011 and March 17, 2011, the General Manager received email communications from Rockwood requesting KCWA response to Rockwood performing its February 18th proposal on March 21, 2011. Further, the email stated that Mr. Northrop is no longer with Lincoln and provided an alternate contact for forwarding of the claim of KCWA.

On March 29, 2011 Legal Counsel sent correspondence to Mr. Northrop's successor, Paul Poppish pursuant to Mr. Law of Rockwood. After receiving no reply, Legal Counsel sent a follow up letter to Mr. Poppish on April 13, 2011. On May 16, 2011, Legal Counsel called Lincoln General and Mr. Poppish is no longer with the company and was directed to Mr. Bob Griffith and Legal Counsel spoke with him and

was asked to send the correspondence to him which was accomplished on even date. No response was received from Mr. Griffith and Legal Counsel sent a follow up letter on June 9, 2011.

On July 14, 2011 Legal Counsel had a telephone conference with Bob Griffith from Lincoln General who stated that he would get something out to Legal Counsel the beginning of the week of July 18, 2011 and a letter was received on July 17, 2011 stating that he would discuss it with his insured and would respond thereafter. On August 5, 2011, Legal Counsel sent a follow up letter to Mr. Griffith since no response was received.

### Comptroller of the Currency

On October 16, 2008, Kent County Water Authority resolved to change the Trustee from US Bank to Bank of NY Mellon regarding 2001/2002/2004 bond issue trust administration to be effective January 23, 2009. That on October 17, 2008, Kent County Water Authority timely notified US Bank concerning the transfer of trusteeship. On approximately January 20, 2009, the US Bank announced that it would require \$6,650.00 as transfer fees to accomplish ownership to the Bank of NY Mellon. Additionally, the US Bank kept \$1,667.67 of fees that were previously unused. That in order for the closing and transfer to take place, Kent County Water Authority on January 22, 2009 paid the sum of \$6,650.00 under protest and stated its displeasure with the US Bank and thereby stating that it would not jeopardize its bondholders and therefore paid the same and also sent a copy to the Controller of the Currency. On March 4, 2009 the Controller of the Currency stated that the US Bank would be replying directly to Kent County Water Authority. On March 11, 2009 Kent County Water Authority received a response from US Bank which was totally unsatisfactory. On March 31, 2009, Kent County Water Authority notified the Controller of the Currency concerning the unsatisfactory response of US Bank dated March 11, 2009 and reiterated its position. On June 30, 2009 US Bank sent a check in the amount of \$1,666.67 and it was received by Legal Counsel on July 6, 2009, saying that the same was a bookkeeping error as exhibited on the check. That on July 7, 2009 Kent County Water Authority sent a letter to US Bank with a copy to the Controller of the Currency that the amount for advance services paid was acknowledged and that Kent County Water Authority has not acknowledged its exception to extracting at the 11th hour ransom of \$6,650.00 on January 12, 2009 and it will continued pursuit of its claim with the Controller of the Currency. A follow up letter was sent to the Controller of the Currency on August 21, 2009 and will await a response. A follow up letter was sent on December 17, 2009. The General Manager received a response from the Comptroller of the Currency on January 8, 2010 and on January 11, 2010, Legal Counsel received a response letter from the Comptroller of the Currency which deemed that the complaint is still active. Legal Counsel has been monitoring the status via the website provided by the Comptroller and there is no updated status as of May 20, 2010 and Legal Counsel sent follow up letters on May 20, 2010, September 15, 2010, October 8, 2010 and November 17, 2010. In response to follow-up letters, status of claim via website has

been changed to "Review in Process". Legal Counsel sent another follow up letter on February 16, 2011. Still awaiting reply which for this agency is glacial.

On July 18, 2011, Legal Counsel sent certified correspondence to John Walsh, Acting Controller of the Currency asking for guidance or a resolution to this matter. The letter included the ten unanswered letters. A response letter dated July 25, 2011 was received by Legal Counsel on August 1, 2011 stating that the letter of July 18, 2011 was referred to the Comptroller of the Currency Customer Assistance Group.

On September 2, 2011, Legal Counsel received a response from the Comptroller of the Currency dated August 29, 2011 which refers to their previous response dated January 8, 2010.

#### Spectrum Properties, The Oaks, Coventry, Rhode Island

Legal Counsel for the developer forwarded on July 13, 2009 to Kent County Water Authority Legal Counsel for comment on the proposed form of easement deeds with respect to the residential subdivision. On July 29, 2009, Legal Counsel for Kent County Water Authority sent a response to Attorney William Landry setting forth comments to the proposed form of deeds. Legal Counsel received revised deeds from Attorney Landry on September 10, 2009 and they have been forwarded to the General Manager for review and have been approved by the General Manager. On September 24, 2009, Legal Counsel forwarded to Attorney Landry correspondence stating that the form of easement deed has been approved by Kent County Water Authority and for Attorney Landry to forward the original executed deeds to Kent County Water Authority for execution of acceptance. Legal Counsel has not received the deeds to date therefore Legal Counsel forwarded status inquiry correspondence to Attorney Landry on November 18, 2009. Attorney Landry replied to Legal Counsel on November 23, 2009 stating that the developer is in the midst of scheduling a final approval hearing with the Town and Attorney Landry will provide Legal Counsel for KCWA with the anticipated timetable for final approval and recording of the deeds upon Mr. Landry's receipt of this information.

Legal Counsel was pursuing Attorney Landry for status of his receipt of timetable for municipal approvals. Legal Counsel telephoned Attorney Landry and left a voicemail message as to status and subsequently forwarded correspondence to Attorney Landry on March 11, 2010. On May 11, 2010, Legal Counsel forwarded subsequent correspondence to Attorney Landry inquiring as to the status of the matter. The Developer contacted Legal Counsel directly and informed her that final approvals have not been received. Sanford J. Resnick, Esq. forwarded correspondence on September 17, 2010 to the Chairman informing of his representation of the developer and a request to appear before the Board to discuss inspection fees.

Mr. Resnick appeared at the May 19, 2011 Board Meeting and the staffs are working together with the Developer and Legal Counsel. Mr. Resnick will draft

agreements with respect to flushing and constructing the water line. On August 15, 2011 Legal Counsel left a message with Mr. Resnick for status update and as of October 18, 2011 Legal Counsel has not received a response.

### Natgun

Counsel for Natgun corporation was to present another proposal for Kent County Water Authority to review and none has been received by Legal Counsel to date albeit the attorney for Natgun had asked Legal Counsel for time to provide a document in lieu of a release. The matter stands as Kent County Water Authority is aware that Natgun is litigating with Parkside which refuses to provide a release. Kent County Water Authority is protected due to the hold back on the contract. The Natgun matter has been settled and release paperwork is being drafted to be forwarded to the parties.

### Cardi Corporation, DPUC

A hearing on this matter was scheduled at the DPUC for September 16, 2011 relating to Dig Safe/Excavation issues but was continued for purposes of obtaining discovery and the parties met on October 12, 2011 to discuss the Dig Safe law application. An order was received from the PUC on October 14, 2011 confirming that KCWA withdrew its appeal in this matter as the parties resolved the matter to their mutual satisfaction.

### **Director of Finance Report:**

Joanne Gershkoff, Finance Director, explained and submitted the financial report and comparative balance sheets, statements of revenues, expenditures and cash receipts, disbursements and FY 2010-2011 attached as “B” through September, 2011, and after thorough discussion with regard to the sales and revenue shortfalls. The restricted accounts were all funded for the period.

Board Member Gallucci moved and seconded by Board Member Masterson to accept the reports and attach the same as an exhibit and that the same be incorporated by reference and be made a part of these minutes and it was unanimously,

VOTED: That the financial report, comparative balance sheet and statement of revenues, expenditure and cash receipts, disbursements and FY 2010-2011 attached as “B” through September, 2011 be approved as presented and be incorporated herein and are made a part hereof.

### **Point of Personal Privilege and Communications:**

The Chairman noted that the Treatment Plant construction was going smoothly and he commended the process as well as those who were involved in the construction.

Board Member Masterson noted that dead timber in the area was a concern and the General Manager said this was the result of natural process occurring and as opposed to anything being done by Kent County Water Authority.

## **GENERAL MANAGER/CHIEF ENGINEER'S REPORT**

### **Old Business**

### **New Business:**

#### **Salary Benefits, TDI Action**

#### **Revised Employee Handbook Approval**

A lengthy discussion occurred regarding the proposed revisions to the employee handbook approval and salary benefits, TDI action. Board Member Gallucci in referencing page 3 of the revised Employee Handbook stated that the supplemental payment plan effective date should be amended to January 1, 2010 and the Chairman concurred with Board Member Gallucci. The General Manager indicated that the January 1, 2010 effective date might result in employees qualifying in the supplemental payment plan program who are no longer injured or no longer are employed with Kent County Water Authority which would have to be reflected in a change in the Kent County Water Authority budget which was of great concern to the General Manager.

The discussion then turned to the second paragraph of page 3 proposed revision to the employee handbook regarding the subrogation provision. Board Member Gallucci noted that he recommends that the subrogation provision be deleted from the revised Employee Handbook and made a motion to adopt the proposed revision to the employee handbook with a deletion of the subrogation provision and which was seconded by Board Member Giorgio.

The General Manager cautioned to the Board that he recommended against deleting the subrogation provision as it would result in Kent County Water Authority funding third party settlements since the purpose of the provision is to make Kent County Water Authority whole on any payments made on the supplemental payment plan in third party situations.

Board Member Inman noted that he rethought his original objection to the subrogation provision and Board Member Masterson also opined that the subrogation provision remain intact. The concern of the Board was whether the subrogation provision would take away compensation that the employee would be entitled to as a result of a third party action. Legal Counsel gave a detailed summary demonstrating that the inclusion of the subrogation provision placed the Kent County Water Authority in the similar position as Workers' Compensation Carrier, TDI or any health care insurance

provider. Mr. Paras opined that those entities are all entitled to reimbursement for compensation paid to the employee upon the receipt of a third party settlement. He noted that the subrogation provision would not affect any settlement in that it would not take away any pain and suffering damages from the employee. In response to a question by Board Member Inman, Legal Counsel indicated that the subrogation provision puts the Authority in a revenue neutral position. Mr. Paras stated that failure to include subrogation provision would negatively affect Kent County Water Authority revenue in that it might result in incalculable losses including the opportunity to recoup the benefits paid to the employee which would result in increase costs to the Authority which is in contravention to its mission, especially as the Authority is looking to lower its costs as much as possible in these trying economic times.

After further discussion, it was stated by Board Members Gallucci and Giorgio that the motion was withdrawn deleting the subrogation provision. The matter was continued for further discussion regarding the subrogation provision. Board Member Masterson stated that Legal Counsel shall provide a detailed memo explaining the effect of including the subrogation provision in the proposed revisions to the Employee Handbook.

#### DEM Land Purchase & Easement Seven Mile Road Tank Site

The General Manager referenced his memo dated October 4, 2011 as evidenced and attached as "C".

The General Manager noted that the Department of Environmental Management is interested in purchasing 27,000 square feet of property adjacent to an area of 3.5 acres that Kent County Water Authority owns in the Seven Mile Road tank property.

The Department of Environmental Management is also looking for an additional 8,000 square feet for a construction easement as the Department of Environmental Management is interested in constructing a spillway to divert flood water in the area. The Department of Environmental Management presented an appraisal of a cost estimate of \$28,700.00.

It was moved by Board Member Inman and seconded by Board Member Gallucci that Kent County Water Authority accept the offer of the Department of Environmental Management to purchase the Seven Mile Road property in the sum of \$28,700 or more and it was unanimously,

VOTED: To accept the offer of the Department of Environmental Management to purchase the Seven Mile Road property in the sum of \$28,700 or more.

#### Approval Water Street Replacement/East Greenwich Sewer Program Contract Approval

The General Manager provided an overview of the need for the construction of a new 8 inch water main on Water Street from King Street to Queen Road in East Greenwich. The General Manager also outlined an agreement between Kent County Water Authority and James J. Geremia Associates, Inc. for engineering services regarding the water main. The cost of the agreement for Kent County Water Authority is a lump sum fee of \$3,140.00.

It was moved by Board Member Masterson and it was seconded by Board Member Gallucci to approve the East Greenwich Sewer Program Contract including the Kent County Water Authority 8 inch water main for engineering services with James J. Geremia Associates, Inc. in the sum of \$3,140.00 as evidenced and attached as “D” and it was unanimously,

VOTED: To approve the East Greenwich Sewer Program Contract including the Kent County Water Authority 8 inch water main for engineering services with James J. Geremia Associates, Inc. in the sum of \$3,140.00 as evidenced and attached as “D”.

#### Bond Counsel Negotiation Results, Selection of Bond Counsel

The General Manager submitted a memo dated October 4, 2011 as evidenced and attached as “E” which described the discussion and negotiations with Partridge, Snow & Hahn and Edwards, Wildman & Palmer, LLP. He stated that Partridge, Snow & Hahn proposed a blended rate of \$290.00/hour for services and Edwards, Wildman & Palmer LLP offered \$365.00/hour with a fee cap of \$35,000.00 along with \$1,900.00 in transcript fees.

It was moved by Board Member Inman and seconded by Board Member Masterson to engage Partridge, Snow and Hahn as Bond Counsel for the blended rate of \$290.00/hour per attorney for Bond Counsel services and it was unanimously,

VOTED: To engage Partridge, Snow and Hahn as Bond Counsel for the blended rate of \$290.00/hour per attorney for Bond Counsel services.

#### Warwick Sewer Authority Contract Request

The General Manager reviewed correspondence dated September 27, 2011 as evidenced and attached as “F” from the Warwick Sewer Authority which referenced the fact that the Warwick Sewer Authority will soon begin quarterly billing and has asked Kent County Water Authority for consumption records on a quarterly basis and that it was proposed that the agreement be modified to reflect the transfer of information on a quarterly basis for a fee of \$0.25 per record. The General Manager indicated that the fee should remain at \$1.00 for each service record and Board Member Gallucci opined that no act should be taken at this time and that further discussion should be done between the Authority and the City of Warwick on this issue. It was the sense of the

Board to not act on this proposal at this time.

**CAPITAL PROJECTS:**  
**INFRASTRUCTURE PROJECTS**

All Capital Projects and Infrastructure Projects were addressed by the General Manager and described to the Board by the General Manager with general discussion following and are evidenced and attached as “G”.

Board Member Inman made a Motion to adjourn, seconded by Board Member Masterson and it was unanimously voted by the Board Members present,

VOTED: To adjourn the meeting at 6:33 p.m.

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Secretary Pro Tempore

# **EXHIBIT A**

Kent County Water Board Meeting

October 20, 2011

**KENT COUNTY WATER AUTHORITY**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
YEARS ENDED JUNE 30, 2011 AND 2010  
WITH  
REPORT OF INDEPENDENT AUDITORS**

KENT COUNTY WATER AUTHORITY

**TABLE OF CONTENTS**  
**YEARS ENDED JUNE 30, 2011 AND 2010**

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	<u>Page (s)</u>
Report of Independent Auditors .....	1
Management's Discussion and Analysis.....	2 - 5
<b>Financial Statements:</b>	
Statements of Net Assets .....	6
Statements of Revenues, Expenses and Changes in Net Assets .....	7
Statements of Cash Flows .....	8
Notes to Financial Statements .....	9 - 19
<b>Required Supplementary Information:</b>	
Schedule of Funding Progress for Pension Plan and Other Post Employment Benefits .....	20
<b>Accompanying Information to Basic Financial Statements</b>	
Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	21 - 22

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**REPORT OF INDEPENDENT AUDITORS**

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

We have audited the accompanying financial statements of the Kent County Water Authority (the Authority) as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of June 30, 2011 and 2010 and the respective changes in its financial position and, where applicable, cash flows therefore for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 22, 2011 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis and schedule of funding progress for pension plan and other post-employment benefits on pages 2 through 5 and page 20 are a required part of the basic financial statements but are supplementary information required by accounting principles general accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Providence, Rhode Island  
September 22, 2011

*Braver PC*

Needha  
Bostc  
Concor  
Taunto

**KENT COUNTY WATER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION – UNAUDITED  
JUNE 30, 2011 AND 2010**

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

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

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

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

**Condensed Financial Information**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current Assets	\$ 3,540,505	\$ 3,387,177	\$ 3,094,146
Capital assets, net	102,382,408	101,713,870	95,718,207
Other noncurrent assets	37,543,250	31,926,350	33,993,649
<b>Total assets</b>	<u><u>143,466,163</u></u>	<u><u>137,027,397</u></u>	<u><u>132,806,002</u></u>
Current liabilities	5,141,999	4,686,575	4,619,726
Noncurrent liabilities	27,530,707	29,682,570	31,745,523
<b>Total liabilities</b>	<u><u>32,672,706</u></u>	<u><u>34,369,145</u></u>	<u><u>36,365,249</u></u>
Net assets:			
Invested in capital assets, net of related debt	93,098,199	93,844,901	86,890,478
Restricted for debt service	3,701,637	3,701,637	3,332,545
Restricted for infrastructure replacement	8,734,218	3,679,857	-
Unrestricted net assets	5,259,403	1,431,857	6,217,730
<b>Total net assets</b>	<u><u>110,793,457</u></u>	<u><u>102,658,252</u></u>	<u><u>96,440,753</u></u>
<b>Total liabilities and net assets</b>	<u><u>\$ 143,466,163</u></u>	<u><u>\$ 137,027,397</u></u>	<u><u>\$ 132,806,002</u></u>

**KENT COUNTY WATER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION – UNAUDITED  
JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenue:			
Water sales	\$ 19,097,536	\$ 16,270,620	\$ 16,280,667
Hydrant rentals	1,300,267	1,225,471	1,179,267
Other	322,411	300,097	252,252
Total operating revenue	<u>20,720,214</u>	<u>17,796,188</u>	<u>17,712,186</u>
Operating expenses:			
Source of supply	4,882,196	4,125,314	4,263,881
Pumping	537,850	555,989	652,455
Transmission and distribution	1,331,725	1,047,954	1,020,207
Water Treatment	296,326	282,042	232,176
Customer accounting	407,909	319,573	327,975
Administrative and general	2,458,279	2,577,943	2,606,718
Depreciation	1,617,170	1,510,967	1,392,172
Taxes other than income	182,161	146,881	158,379
Amortization	120,375	120,375	120,376
Total operating expenses	<u>11,833,991</u>	<u>10,687,038</u>	<u>10,774,339</u>
Operating income	8,886,223	7,109,150	6,937,847
Nonoperating income:			
Capital contributions	-	4,356	1,108,259
Interest income (expense)	(751,018)	(896,007)	(710,304)
Change in net assets	<u>\$ 8,135,205</u>	<u>\$ 6,217,499</u>	<u>\$ 7,335,802</u>

In FY11, the Authority's net assets totaled \$110.8 million, an increase of \$8.1 million or 8% from the previous year. Total assets in FY11 were \$143 million, an increase of \$6.4 million or 4.7% from last year. Total liabilities decreased by \$1.7 million or 5% as a result of continuing debt service payments. The Authority's major capital expenditures included Capital Improvement Projects (funded by revenue bonds) and Infrastructure Projects (funded by water rates). In FY10, the Authority's net assets totaled \$102.6 million, an increase of \$6.2 million or 6% from the previous year. Total assets in FY10 were \$137 million, an increase of \$4.2 million or 3% from last year. Total liabilities decreased by \$1.9 million or 5.5% as a result of continuing debt service payments.

Water and fire protection charges for FY11 represented 98.4% of operating revenues. The remaining 1.6% includes inspection and turn-on fees, and late payment penalties. The operating revenue totaled \$20.7 million or 1.6% more than the prior year's revenue. This increase can be attributed to pass through rate increases approved by the PUC. Water and fire protection charges for FY10 represented 98.3% of operating revenues. The remaining 1.7% includes inspection and turn-on fees, and late payment penalties. The operating revenue totaled \$17.8 million or 5% more than prior year's revenue. This increase can be attributed to pass through rate increases approved by the PUC.

**KENT COUNTY WATER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION – UNAUDITED  
JUNE 30, 2011 AND 2010**

Total operating expenses for FY11 totaled \$11.8 million, which was \$1.1 million or 11% more than the operating expenses for the previous year. The increase is the result of a increase in water purchases compared to prior year. Total operating expenses for FY10 totaled \$10.7 million, which was \$87 thousand or .8% less than the operating expenses for the previous year. The decrease is the result of a decrease in water purchases compared to prior year.

The operating income for FY11 totaled \$8.9 million, representing an increase of 25% from the previous year. This increase is a result of the changes discussed above.

**Capital Assets**

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

In FY10, the Authority's project additions financed with bond proceeds totaled approximately \$600 thousand and included a primary pump station upgrade, wellfield storage treatment, and additional transmission lines. Infrastructure projects funded by rates totaled \$6.1 million, which was used primarily for water main installation.

The Authority's capital budget includes projected expenditures of \$22.2 million. Infrastructure projects under a state-mandated plan to replace old plant in service includes projected expenditures of \$22.6 million over the same period.

**Debt Plan**

Currently the Authority has three series of General Revenue Bonds outstanding at the end of FY11, totaling \$28.8 million at par value.

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

**KENT COUNTY WATER AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
REQUIRED SUPPLEMENTARY INFORMATION – UNAUDITED  
JUNE 30, 2011 AND 2010**

During FY11, the Authority paid approximately \$2.5 million in principal on outstanding issuances and \$1.3 million of interest on outstanding issuances.

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

**FY12 Budget and Rates**

For FY12, the budget for operating revenues will decrease by 6.1%. A 9% decrease is projected for operation and maintenance expenses.

**Request for Information**

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

**KENT COUNTY WATER AUTHORITY**

**STATEMENTS OF NET ASSETS  
JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b><u>ASSETS</u></b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 503,758	\$ 75,120
Accounts receivable, less allowance of \$147,365 in 2011 and \$103,683 in 2010	2,575,878	2,918,546
Materials and supplies inventory	407,991	393,511
Other assets	52,878	-
<b>Total current assets</b>	<u>3,540,505</u>	<u>3,387,177</u>
<b>Noncurrent assets:</b>		
Restricted cash and cash equivalents held by trustee (Note 3)	28,489,098	27,885,621
Restricted investment held by trustee-Infrastructure replacement (Note 3)	8,734,218	3,679,857
Capital assets:		
Depreciable, net (Note 4)	91,255,759	85,792,734
Nondepreciable (Note 4)	11,126,649	15,921,136
Deferred bond issuance costs, net	319,934	360,872
<b>Total noncurrent assets</b>	<u>139,925,658</u>	<u>133,640,220</u>
<b>TOTAL ASSETS</b>	<u>\$ 143,466,163</u>	<u>\$ 137,027,397</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 881,648	\$ 567,844
Accrued interest expense	613,551	658,675
Accrued liabilities	992,273	889,702
Water quality protection charges payable (Note 8)	59,527	70,354
Long-term debt due within one year (Note 5)	2,595,000	2,500,000
<b>Total current liabilities</b>	<u>5,141,999</u>	<u>4,686,575</u>
<b>Noncurrent liabilities:</b>		
Long-term debt, net (Note 5)	26,307,201	28,878,464
OPEB obligation, net (Note 7)	1,223,506	804,106
<b>Total long-term liabilities</b>	<u>27,530,707</u>	<u>29,682,570</u>
<b>Total liabilities</b>	<u>32,672,706</u>	<u>34,369,145</u>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	93,098,199	93,844,901
Restricted for debt service	3,701,637	3,701,637
Restricted for infrastructure replacement	8,734,218	3,679,857
Unrestricted net assets	5,259,403	1,431,857
<b>Total net assets</b>	<u>110,793,457</u>	<u>102,658,252</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 143,466,163</u>	<u>\$ 137,027,397</u>

SEE NOTES TO FINANCIAL STATEMENTS.

**KENT COUNTY WATER AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES**  
**AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b>Operating revenues:</b>		
Water	\$ 19,097,536	\$ 16,270,620
Hydrant rentals	1,300,267	1,225,471
Other	322,411	300,097
<b>Total operating revenues</b>	<b>20,720,214</b>	<b>17,796,188</b>
<b>Operating expenses:</b>		
Source of supply	4,882,196	4,125,314
Pumping	537,850	555,989
Transmission and distribution lines	1,331,725	1,047,954
Water treatment	296,326	282,042
Customer accounts and salaries and supplies	407,909	319,573
Administrative and general	2,458,279	2,577,943
Depreciation	1,617,170	1,510,967
Taxes other than income	182,161	146,881
Amortization	120,375	120,375
<b>Total operating expenses</b>	<b>11,833,991</b>	<b>10,687,038</b>
<b>Operating income</b>	<b>8,886,223</b>	<b>7,109,150</b>
<b>Non-operating income (expenses) :</b>		
Capital contributions	-	4,356
Interest income	36,597	6,915
Interest expense	(787,615)	(902,922)
<b>Net non-operating income (expense)</b>	<b>(751,018)</b>	<b>(891,651)</b>
<b>Increase in net assets</b>	<b>8,135,205</b>	<b>6,217,499</b>
<b>Net assets at beginning of year</b>	<b>102,658,252</b>	<b>96,440,753</b>
<b>Net assets at end of year</b>	<b>\$ 110,793,457</b>	<b>\$ 102,658,252</b>

SEE NOTES TO FINANCIAL STATEMENTS.

**KENT COUNTY WATER AUTHORITY**

**STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b><i>Cash flows from operating activities:</i></b>		
Cash received from customers	\$ 21,062,883	\$ 17,437,226
Cash paid to employees for services	(1,141,176)	(1,280,545)
Cash paid to suppliers for goods and services	(8,276,155)	(7,532,116)
<b><i>Net cash provided by operating activities</i></b>	<u>11,645,552</u>	<u>8,624,565</u>
<b><i>Cash flows from investing activities:</i></b>		
Interest income received	36,597	6,915
<b><i>Net cash provided by investing activities</i></b>	<u>36,597</u>	<u>6,915</u>
<b><i>Cash flows from capital and related financing activities:</i></b>		
Payments on debt	(2,500,000)	(2,415,000)
Capital additions	(2,207,234)	(7,205,331)
Interest expense	(888,439)	(1,058,606)
<b><i>Net cash used for capital and related financing activities</i></b>	<u>(5,595,673)</u>	<u>(10,678,937)</u>
<b><i>Net increase (decrease) in cash and cash equivalents</i></b>	6,086,476	(2,047,457)
<b><i>Cash and cash equivalents, beginning of year</i></b>	<u>31,640,598</u>	<u>33,688,055</u>
<b><i>Cash and cash equivalents, end of year</i></b>	<u>\$ 37,727,074</u>	<u>\$ 31,640,598</u>
<b><i>Reconciliation of operating income to net cash provided by operating activities:</i></b>		
Operating income	\$ 8,886,223	\$ 7,109,150
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization of bond issuance costs	1,737,545	1,631,342
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable, net	342,668	(358,963)
(Increase) decrease in material, supplies and inventory	(14,480)	32,773
(Increase) decrease in other assets	(52,878)	12,062
Increase (decrease) in accounts payable	313,804	(173,800)
Increase (decrease) in accrued liabilities	24,097	3,930
Increase (decrease) in water quality protection charges payable	(10,827)	(26,777)
Increase (decrease) in other liabilities	419,400	394,848
<b><i>Net cash provided by operating activities</i></b>	<u>\$ 11,645,552</u>	<u>\$ 8,624,565</u>

Noncash capital and related financing activities:

Noncash acquisition of capital assets totaled \$0 and \$4,356 in 2011 and 2010, respectively.

SEE NOTES TO FINANCIAL STATEMENTS.

**KENT COUNTY WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

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**1. ORGANIZATION**

**a) Primary Government**

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

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

**b) Component Units**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**a) Basis of Presentation**

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

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

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

(CONTINUED)

**KENT COUNTY WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

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

**b) Operating and Nonoperating Revenue**

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

**c) Utility Plant**

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

**d) Capital Contributions**

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

**e) Materials and Supplies Inventory**

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

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

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

**g) Cash and Cash Equivalents**

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

**h) Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**i) Bond Issue Costs**

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

(CONTINUED)

**KENT COUNTY WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

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

**j) Reclassifications**

Certain accounts from 2010 have been reclassified to conform to the 2011 presentation.

**k) Recently Issued Accounting Standards**

The Authority has implemented the following new accounting pronouncements:

- ✓ GASB Statement No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions, effective for the Authority's fiscal year ending June 30, 2011. The adoption of this Statement did not have an impact on the Authority's financial position or results of operation.
- ✓ GASB Statement No. 59 – Financial Instruments Omnibus, effective for the Authority's fiscal year ending June 30, 2011. The adoption of this Statement did not have an impact on the Authority's financial position or results of operation.

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

- ✓ GASB Statement No. 60 – Accounting and Financial Reporting for Service Concession Arrangement, effective for the Authority's fiscal year ending June 30, 2013.
- ✓ GASB Statement No. 61 – The Financial Reporting entity: Omnibus an amendment of GASB Statements No. 14 and No. 34, effective for the Authority's fiscal year ending June 30, 2013.
- ✓ GASB Statement No. 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, effective for the Authority's fiscal year ending June 30, 2013.
- ✓ GASB Statement No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, effective for the Authority's fiscal year ending June 30, 2013.
- ✓ GASB Statement No. 64 – Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53, effective for the Authority's fiscal year ending June 30, 2012.

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

(CONTINUED)

KENT COUNTY WATER AUTHORITY

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

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

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

**a) Custodial Credit Risk**

Custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned. As of June 30, 2011 and 2010, bank balances totaling \$544,869 and \$291,491, respectively, are fully FDIC insured, and \$0 and \$63,549 are uninsured and uncollateralized.

**b) Interest Rate Risk**

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

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

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

<u>Investment type</u>	<u>Fair value</u>	
	<u>2011</u>	<u>2010</u>
Money Market Treasury Obligation Fund	\$ 35,920,329	\$ 30,285,681
U.S Treasuries	1,302,987	1,279,797
Total investments	<u>\$ 37,223,316</u>	<u>\$ 31,565,478</u>

The Authority established an "Infrastructure Replacement Fund" in conformity with all applicable provisions of state and federal laws including the federal Safe Drinking Water Act (42 USC Section 300f et seq.); Chapter 46-13 of the General Laws of Rhode Island, Public Drinking Water Supply. The dedicated fund for infrastructure replacement was \$8,734,218 and \$3,679,857 as of June 30, 2011 and 2010, respectively.

**c) Credit Risk**

The Authority has not adopted a formal policy related to credit risk. The Authority's investments are as follows:

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

(CONTINUED)

**KENT COUNTY WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011 AND 2010**

**4. CAPITAL ASSETS**

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

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

The cost and activity of water capital assets in service and related accumulated depreciation for the year ended June 30, 2010 is as follows:

	<u>Balance at June 30, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2010</u>
Capital assets, not being depreciated:				
Construction in progress	\$ 14,498,139	\$ 7,466,949	\$ 7,879,997	\$ 14,085,091
Land	1,836,045	-	-	1,836,045
Total capital assets, not being depreciated	<u>16,334,184</u>	<u>7,466,949</u>	<u>7,879,997</u>	<u>15,921,136</u>
Capital assets, being depreciated:				
Buildings and improvements	2,817,123	-	-	2,817,123
Machinery and equipment	7,856,840	7,919,678	-	15,776,518
Infrastructure	82,137,518	-	-	82,137,518
Total capital assets, being depreciated	<u>92,811,481</u>	<u>7,919,678</u>	<u>-</u>	<u>100,731,159</u>
Less accumulated depreciation	<u>13,427,458</u>	<u>1,510,967</u>	<u>-</u>	<u>14,938,425</u>
Total capital assets, being depreciated, net	<u>79,384,023</u>	<u>6,408,711</u>	<u>-</u>	<u>85,792,734</u>
Capital assets, net	<u>\$ 95,718,207</u>	<u>\$ 13,875,660</u>	<u>\$ 7,879,997</u>	<u>\$ 101,713,870</u>

(CONTINUED)

**KENT COUNTY WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

**4. CAPITAL ASSETS**

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

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

The cost and activity of water capital assets in service and related accumulated depreciation for the year ended June 30, 2010 is as follows:

	<u>Balance at June 30, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2010</u>
Capital assets, not being depreciated:				
Construction in progress	\$ 14,498,139	\$ 7,466,949	\$ 7,879,997	\$ 14,085,091
Land	1,836,045	-	-	1,836,045
Total capital assets, not being depreciated	<u>16,334,184</u>	<u>7,466,949</u>	<u>7,879,997</u>	<u>15,921,136</u>
Capital assets, being depreciated:				
Buildings and improvements	2,817,123	-	-	2,817,123
Machinery and equipment	7,856,840	7,919,678	-	15,776,518
Infrastructure	82,137,518	-	-	82,137,518
Total capital assets, being depreciated	<u>92,811,481</u>	<u>7,919,678</u>	<u>-</u>	<u>100,731,159</u>
Less accumulated depreciation	<u>13,427,458</u>	<u>1,510,967</u>	<u>-</u>	<u>14,938,425</u>
Total capital assets, being depreciated, net	<u>79,384,023</u>	<u>6,408,711</u>	<u>-</u>	<u>85,792,734</u>
Capital assets, net	<u>\$ 95,718,207</u>	<u>\$ 13,875,660</u>	<u>\$ 7,879,997</u>	<u>\$ 101,713,870</u>

(CONTINUED)

**KENT COUNTY WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

**4. CAPITAL ASSETS (Continued)**

Interest costs of \$499,442 and \$418,605, offset by interest income of \$38,970 and \$18,783, were capitalized in 2011 and 2010, respectively.

**5. LONG-TERM OBLIGATIONS**

The Authority issues revenue bonds to support various projects. The following is a summary of the bond activity for the years ended June 30, 2011 and 2010:

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

(CONTINUED)

**KENT COUNTY WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

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

Description	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Amounts due within one year
Revenue bonds:					
July 2001 Series A bearing interest at 3.5%-5% and maturing in 2022	\$ 7,475,000	\$ -	\$ (430,000)	\$ 7,045,000	\$ 445,000
December 2002 Series A bearing interest at 2%-5% and maturing in 2024	19,655,000	-	(955,000)	18,700,000	990,000
April 2004 Series A bearing interest at 2%-4% and maturing in 2014	6,585,000	-	(1,030,000)	5,555,000	1,065,000
	<u>33,715,000</u>	<u>-</u>	<u>(2,415,000)</u>	<u>31,300,000</u>	<u>2,500,000</u>
Add (less):					
Unamortized discount	(14,463)	-	1,205	(13,258)	-
Unamortized premium	446,480	-	(56,905)	389,575	-
Unamortized loss on refunding	(377,290)	-	79,437	(297,853)	-
	<u>54,727</u>	<u>-</u>	<u>23,737</u>	<u>78,464</u>	<u>-</u>
	<u>\$ 33,769,727</u>	<u>\$ -</u>	<u>\$ (2,391,263)</u>	<u>\$ 31,378,464</u>	<u>\$ 2,500,000</u>

The annual debt service requirements of the general long-term bonds payable as of June 30, 2011 are as follows:

Fiscal year ended June 30:	Principal	Interest	Total
2012	\$ 2,595,000	\$ 1,285,885	\$ 3,880,885
2013	2,700,000	1,177,889	3,877,889
2014	2,800,000	1,069,686	3,869,686
2015	2,760,000	961,310	3,721,310
2016-2020	9,790,000	3,334,632	13,124,632
2021-2024	8,155,000	759,544	8,914,544
	<u>\$ 28,800,000</u>	<u>\$ 8,588,946</u>	<u>\$ 37,388,946</u>

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

The Authority must meet certain financial covenants. The Authority was in compliance with all such covenants at June 30, 2011 and 2010.

(CONTINUED)

**KENT COUNTY WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

**6. PENSION PLAN**

**a) Plan Description**

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

At June 30, 2011 and 2010, the Plan membership consisted of the following:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Retirees and beneficiaries receiving benefits	24	23
Terminated vested participants	8	8
Active with vested benefits	<u>32</u>	<u>31</u>
Total membership	<u>64</u>	<u>62</u>

**b) Funding Status and Funding Progress**

The funded status of the Plan as of January 1, 2011, the most recent actuarial valuation, is as follows:

Actuarially accrued liability (AAL)	\$ 5,061,493
Actuarial value of plan assets	<u>3,976,358</u>
Unfunded actuarial accrued liabilities (UAAL)	<u>\$ 1,085,135</u>
Funded ratio (actuarial value of plan assets/AAL)	78.6%
Covered payroll (active plan members)	\$ 1,750,853
UAAL as a percentage of covered payroll	62.0%

In the January 1, 2011 actuarial valuation, the Authority utilized the aggregate actuarial method to determine the annual required employer contributions. This method does not identify or separately amortize unfunded actuarial liabilities. Therefore, the entry age method was used to prepare the funded status of the Plan. The actuarial assumptions included 7.25% investment rate of return, projected salary increases of 3.0%, and no cost-of-living adjustments. The actuarial value of assets was determined using the fair value of investments. The Plan's unfunded actuarial accrued liability is being amortized to approximate the level percent of aggregate compensation.

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

(CONTINUED)

**KENT COUNTY WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

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**6. PENSION PLAN (Continued)**

**c) Funding Policy**

The Authority's funding policy provides for employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due. The Authority's contributions to the Plan for the years ended June 30, 2011, 2010, and 2009 were \$214,026, \$260,000, and \$193,619, respectively. The required contributions for the plan years June 30, 2011, 2010, and 2009 were \$214,026, \$258,392, and \$193,619, respectively. The contribution requirements of the Authority are established and may be amended by the Authority's board of directors.

**7. POST RETIREMENT BENEFITS**

**a) Plan Description**

The Authority' 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 retiree on or after age 62. Spousal and / or family health coverage is not provided for under the postretirement program. The Authority will provide eligible retirees continued individual health and dental insurance comparable to the active employee plans. Retirees age 65 and older are eligible for an individual Medicare Supplement Plan as well as continued dental coverage. The full cost of postretirement medical and dental coverage is provided by the Authority. Eligible retirees receive term life insurance in the amount of \$2,000. The Authority provides the full cost of this insurance. Prior to the adoption of GASB 45, the Authority funded these post retirement benefits as a pay as you go basis.

**b) Funding Policy**

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

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

Fiscal Year Beginning	<u>7/1/10</u>	<u>7/1/09</u>
Discount rate	4.00%	4.00%
Census Date	7/1/2008	7/1/2008
Mortality	IRS-2008	IRS-2008

The initial health and dental care trend rate have been set at a 10.0% increase for the current fiscal year, decreasing 0.5% annually to an ultimate rate 5.0% per year for the health plans and a 6.0% increase for the current fiscal year, decreasing 0.25 annually to an ultimate rate of 3.5% per year for the dental plan.

(CONTINUED)

**KENT COUNTY WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

**7. POST RETIREMENT BENEFITS (Continued)**

**b) Funding Policy (Continued)**

**Three - Year Trend Information**

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Actual Plan Contributions</u>	<u>Percentage of OPEB cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2011	\$ 517,595	\$ 98,195	18.97%	\$ 1,223,506
June 30, 2010	\$ 501,063	\$ 87,753	17.51%	\$ 804,106
June 30, 2009	\$ 485,431	\$ 94,635	19.50%	\$ 390,796

The Authority's annual OPEB cost and net OPEB obligation for the year ended June 30, 2011 and 2010 was as follows:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Annual required contribution	\$ 530,144	\$ 507,162
Interest on net OPEB obligation	32,164	15,632
Adjustment to annual required contribution	<u>(44,713)</u>	<u>(21,731)</u>
Annual OPEB cost(expense)	517,595	501,063
Contributions made	<u>(98,195)</u>	<u>(87,753)</u>
Increase in net OPEB obligation	419,400	413,310
Net OPEB obligation-beginning of year	804,106	390,796
Net OPEB obligation-end of year	<u>\$ 1,223,506</u>	<u>\$ 804,106</u>

**c) Schedule of Funding Progress**

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (AVA) (1)</u>	<u>Actuarial Accrued Liability (AAL) (2)</u>	<u>Unfunded AAL (UAAL) (2)-(1) (3)</u>	<u>AVA as a percent of AAL (1)/(2) (4)</u>	<u>Covered Payroll (5)</u>	<u>UAAL as a Percent of Covered payroll (3)/(5) (6)</u>
7/1/08	N/A	\$5,094,895	\$5,094,895	N/A	\$ 1,669,117	305.24%

(CONTINUED)

**KENT COUNTY WATER AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

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**8. WATER QUALITY PROTECTION CHARGES PAYABLE**

Pursuant to the rules and procedures of the Public Drinking Water Protection Program as promulgated by the Rhode Island Water Resources Board, the Authority's 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 waster 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, 2011 and 2010, water quality protection charges payable of \$59,527 and \$70,354, respectively, represented funds collected from customers that are required to be paid to the Rhode Island Water Resources Board.

**9. COMMITMENTS AND CONTINGENCIES**

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

**10. REGULATORY MATTERS**

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

**11. RISK MANAGEMENT**

***Insurance Held***

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

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

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

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

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

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

(CONCLUDED)



**KENT COUNTY WATER AUTHORITY**  
**SCHEDULING OF FUNDING PROGRESS**  
**JUNE 30, 2011**

**Required supplementary information**

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

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

**Schedule of Contributions from Employer:**

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

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

Actuarial Valuation Date	Actuarial Value of Assets (AVA) <u>(1)</u>	Actuarial Accrued Liability (AAL) <u>(2)</u>	Unfunded AAL (UAAL) <u>(2)-(1)</u> <u>(3)</u>	AVA as a percent of AAL <u>(1)/(2)</u> <u>(4)</u>	Covered Payroll <u>(5)</u>	UAAL as a Percent of Covered payroll <u>(3)/(5)</u> <u>(6)</u>
7/1/08	N/A	\$5,094,895	\$5,094,895	N/A	\$ 1,669,117	305.24%

SEE REPORT OF INDEPENDENT AUDITORS



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

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

We have audited the basic financial statements of the Kent County Water Authority (the Authority) as of and for the year ended June 30, 2011, and have issued our report thereon dated September 22, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis.

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

Compliance and Other Matters

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



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

We noted certain matters that we reported to Board of Directors and management of Kent County Water Authority, in a separate letter dated September 22, 2011.

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

*Beam-PC*

Providence, Rhode Island

September 22, 2011

# **EXHIBIT B**

Kent County Water Board Meeting

October 20, 2011

KENT COUNTY WATER AUTHORITY  
CASH RECEIPTS & DISBURSEMENTS  
FY 2011 - 2012

	JULY 2011	AUGUST 2011	SEPTEMBER 2011	OCTOBER 2011	NOVEMBER 2011	DECEMBER 2011	JANUARY 2012	FEBRUARY 2012	MARCH 2012	APRIL 2012	MAY 2012	JUNE 2012	RATE REVENUE FY 10-11	RATE REVENUE FY 11-12
BEGINNING MONTH BALANCE	37,726,775	34,181,115	34,175,000										JUL 1,608,840	1,458,444.12
<b>CASH RECEIPTS:</b>													AUG 1,588,117	1,422,222.99
Collections	1,966,570	1,533,789	1,507,240										SEP 3,697,980	3,425,570.55
Interest Earned	24,595	287	312										OCT 1,740,472	
Other													NOV 1,193,207	
<b>TOTAL CASH RECEIPTS</b>	<b>39,717,940</b>	<b>35,715,191</b>	<b>35,682,553</b>										DEC 2,315,872	
<b>CASH DISBURSEMENTS:</b>													MAR 1,879,971	
Purchased Water	619,643	317,621	298,557										APR 1,119,045	
Electric Power	24,408	25,012	34,274										MAY 912,317	
Payroll	143,753	186,550	149,225										JUN 2,042,267	
Operations	67,012	78,251	42,183											
Employee Benefits	282,802	109,906	53,346											
Legal	2,856	1,765	2,715											
Materials	166,404	129,947	51,562											
Insurance	60,983	122,022	1,048											
Sales Taxes	27,682	12,489	11,623											
Refunds	251	7,874	547											
Rate Case														
Conservation														
Pilot	8,265													
Capital Expenditures (Other)														
Mishnock Well/Storage/Pump/T 221C	7,666	8,257	12,282											
Read School House 234C			148,807											
2007 Infrastructure 284B	213,665													
2009 A Infrastructure 243C	270,845													
2009 B Infrastructure 248C	316,733	488,950	590,595											
U. S. Bank - Debt Service (P. & I.)	3,264,328													
Water Protection	59,527.62	51,547	50,282											
<b>TOTAL DISBURSEMENTS</b>	<b>5,536,825</b>	<b>1,540,191</b>	<b>1,447,045</b>											
BALANCE END OF MONTH	34,181,115	34,175,000	34,235,508											

Kent County water Authority  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

AS OF 08/2011

ACCOUNT DESCRIPTION	C U R R E N T M O N T H			Y E A R - T O - D A T E		
	BUDGET	ACTUAL	ACTUAL OVER/ UNDER BUDGET	BUDGET	ACTUAL	ACTUAL OVER/ UNDER BUDGET
<b>REVENUES</b>						
1-4150 MERCHANDISING & JOBBING	416.66		-416.66	833.32	3617.61	2784.29
1-4160 M & J COSTS & EXPENSES	1500.00	2359.68	859.68	3000.00	3007.22	7.22
1-4190 INTEREST & DIVIDEND INC.	7500.00	287.23	-7212.77	15000.00	25703.79	10703.79
1-4210 MISC. NON-OPER. INCOME	2083.33		-2083.33	4166.66		-4166.66
TOTALS FOR OTHER INCOME	11499.99	2646.91	-8853.08	22999.98	32328.62	9328.64
1-461A METERED SALES - GC	1136282.83	1198292.38	62009.55	2272565.66	2375092.91	102527.25
1-461B METERED SALES - IC	290093.66	171661.50	-118432.16	580187.32	409621.32	-170566.00
1-4640 SALES -PUBLIC AUTHORITIES	62229.08	52269.11	-9959.97	124458.16	95952.88	-28505.28
1-4710 MISC. SERVICE REVENUE	14172.16	7157.40	-7014.76	28344.32	20217.90	-8126.42
1-4740 OTHER WATER REVENUES	3750.00	3726.56	-23.44	7500.00	7546.94	46.94
TOTALS FOR OPERATING REVENUE ACCTS.	1506527.73	1433106.95	-73420.78	3013055.46	2908431.95	-104623.51
TOTALS FOR REVENUES	1518027.72	1435753.86	-82273.86	3036055.44	2940760.57	-95294.87
<b>EXPENDITURES</b>						
1-6020 PURCHASED WATER	402500.00	298556.64	103943.36	805000.00	616177.22	188822.78
1-6140 MAINTENANCE OF WELLS	20.00		20.00	40.00		40.00
TOTALS FOR SOURCE OF SUPPLY EXPENSES	402520.00	298556.64	103963.36	805040.00	616177.22	188862.78
1-6210 FUEL FOR PUMPING	95.83	19.18	76.65	191.66	38.36	153.30
1-6230 POWER PURCHASED	36500.00	25012.39	11487.61	73000.00	25012.39	47987.61
1-624A PUMPING LABOR	3333.33	5761.51	-2428.18	6666.66	9826.83	-3160.17
1-624B PUMPING EXPENSES	289.16		289.16	578.32		578.32
1-6310 MAINT STRUCT & IMPROVE	2358.33	2211.67	146.66	4716.66	7295.24	-2578.58
1-6330 MAINT PUMPING EQUIPMENT	3166.66	3302.18	-135.52	6333.32	4921.67	1411.65
TOTALS FOR PUMPING EXPENSES	45743.31	36306.93	9436.38	91486.62	47094.49	44392.13
1-6410						

Kent County water Authority  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

AS OF 08/2011

ACCOUNT DESCRIPTION	----- C U R R E N T M O N T H -----			----- Y E A R - T O - D A T E -----		
	BUDGET	ACTUAL	ACTUAL OVER/ UNDER BUDGET	BUDGET	ACTUAL	ACTUAL OVER/ UNDER BUDGET
CHEMICALS	13775.00	9739.20	4035.80	27550.00	26805.49	744.51
1-642A						
OPERATION LABOR	6391.66	7478.48	-1086.82	12783.32	13426.20	-642.88
1-642B						
OPERATION EXPENSES	3041.66	4581.00	-1539.34	6083.32	4441.00	1642.32
1-6520						
MAINT WATER TREAT EQUIP	133.33		133.33	266.66		266.66
TOTALS FOR WATER TREATMENT EXPENSES	23341.65	21798.68	1542.97	46683.30	44672.69	2010.61
1-662A						
T & D LABOR	2108.33	624.84	1483.49	4216.66	624.84	3591.82
1-662B						
T & D SUPPLIES & EXP	5354.16	5540.49	-186.33	10708.32	7519.39	3188.93
1-663A						
T & D METER LABOR	3829.16	5233.77	-1404.61	7658.32	8186.62	-528.30
1-663B						
T & D METER SUPP & EXP	1095.83	88.20	1007.63	2191.66	88.20	2103.46
1-6650						
T & D MISC	937.50		937.50	1875.00		1875.00
1-6710						
MAINT STRUCT & IMPROV	520.83		520.83	1041.66		1041.66
1-6720						
MAINT RESERVOIR & STDPIPE	1041.66	1553.42	-511.76	2083.32	3608.80	-1525.48
1-6730						
MAINT T & D MAINS	48893.75	60994.78	-12101.03	97787.50	124663.26	-26875.76
1-6750						
MAINT SERVICES	22208.33	14331.83	7876.50	44416.66	27430.62	16986.04
1-6760						
MAINT METERS	6060.83	5998.77	62.06	12121.66	9894.95	2226.71
1-6770						
MAINT HYDRANTS	7250.00	10618.93	-3368.93	14500.00	15872.42	-1372.42
1-6790						
TRANSFER TO CONSTRUCTION	-927.91		-927.91	-1855.82		-1855.82
TOTALS FOR TRANS. & DISTR. EXPENSES	98372.47	104985.03	-6612.56	196744.94	197889.10	-1144.16
1-902A						
METER READING LABOR	10516.75	6637.13	3879.62	21033.50	11461.46	9572.04
1-902B						
METER READING SUPP & EXP	186.25		186.25	372.50	216.73	155.77
1-903A						
CUSTOMER RECORDS LABOR	14779.66	17150.64	-2370.98	29559.32	30622.49	-1063.17
1-903B						
CUSTOMER RECORDS SUPP	5683.33	4289.89	1393.44	11366.66	5448.94	5917.72
TOTALS FOR CUSTOMER ACCT. EXPENSES	31165.99	28077.66	3088.33	62331.98	47749.62	14582.36
1-9200						
ADM & GENERAL SALARIES	26274.41	28803.15	-2528.74	52548.82	51712.50	836.32
1-9210						
OFFICE SUPPLIES & EXP	11083.33	5694.31	5389.02	22166.66	26159.81	-3993.15
1-9230						
OUTSIDE SERVICES	10416.66	1800.00	8616.66	20833.32	10865.00	9968.32

REPORT DATE 10/12/2011  
 SYSTEM DATE 10/12/2011  
 FILES ID Z

Kent County water Authority  
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PAGE 3  
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ACCOUNT DESCRIPTION	C U R R E N T M O N T H			Y E A R - T O - D A T E		
	BUDGET	ACTUAL	ACTUAL OVER/ UNDER BUDGET	BUDGET	ACTUAL	ACTUAL OVER/ UNDER BUDGET
1-9240 PROPERTY INSURANCE	124000.00	117767.00	6233.00	234287.00	178710.00	55577.00
1-9250 INJURIES & DAMAGES	50.83		50.83	101.66		101.66
1-9260 EMPLOYEE PENSION & BENEF	54868.60	52565.59	2303.01	331737.20	382298.98	-50561.78
1-9280 REGULATORY COMM EXP	5625.00		5625.00	11250.00		11250.00
1-930B MISC GENERAL EXPENSE	1125.00	1250.00	-125.00	2250.00	2521.15	-271.15
1-930C MISC GENERAL EXPENSE	3000.00		3000.00	6000.00		6000.00
1-932A MAINT GENERAL PLANT	9166.66	9919.18	-752.52	18333.32	23114.60	-4781.28
1-932B MAINT VEHICLES	12416.66	10214.59	2202.07	24833.32	19672.97	5160.35
1-9330 UNASSIGNED TIME VAC HOL	17901.91	26222.02	-8320.11	35803.82	48637.84	-12834.02
TOTALS FOR ADM. & GENERAL EXPENSES	275929.06	254235.84	21693.22	760145.12	743692.85	16452.27
1-4030 DEPRECIATION EXPENSE	96666.66	96666.67	-.01	193333.32	193333.34	-.02
1-4080 TAXES OTHER THAN INCOME	12541.66	25792.57	-13250.91	25083.32	48543.65	-23460.33
1-4270 INTEREST-LONG TERM DEBT	107157.00	107157.00		214314.00	214314.00	
1-4280 AMORTIZATION OF DEBT DISC	5833.33	5833.33		11666.66	11666.66	
TOTALS FOR OTHER EXPENSES	222198.65	235449.57	-13250.92	444397.30	467857.65	-23460.35
TOTALS FOR EXPENDITURES	1099271.13	979410.35	119860.78	2406829.26	2165133.62	241695.64
EXCESS OF REVENUE OVER EXPENDITURES FOR general	418756.59	456343.51	37586.92	629226.18	775626.95	146400.77
OTHER ADJUSTMENTS TO FUND BALANCE						