

REGIONAL WATER RESOURCE AGENCY

***FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION***

Years Ended June 30, 2015 and 2014

(With Independent Auditor's Report Thereon)

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Regional Water Resource Agency

Report on the Financial Statements

We have audited the accompanying financial statements of the Regional Water Resource Agency as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Regional Water Resource Agency as of June 30, 2015 and 2014, and the changes in its financial position, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 16 to the financial statements, in 2015 the Regional Water Resource Agency adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the pension schedules on pages 3-10 and 35-37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Regional Water Resource Agency. The accompanying Schedules of Revenues, Expenses, Capital Outlay and Debt Proceeds - Budget and Actual (Schedules) are presented for purposes of additional analysis and are not a required part of the financial statements.

The Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedules are fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2015, on our consideration of the Regional Water Resource Agency'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 *Governmental Auditing Standards* in considering the Regional Water Resource Agency's internal control over financial reporting and compliance.

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Regional Water Resource Agency, (RWRA), we offer readers of our financial statements this narrative overview and analysis of the financial activities of RWRA for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with our financial statements, which begin on page 11.

FINANCIAL HIGHLIGHTS

- The assets of RWRA exceeded its liabilities at the close of the current fiscal year by \$44.5 million (net position). Of this amount, \$1.4 million (unrestricted net position) may be used to meet RWRA's ongoing obligations to customers and creditors.
- RWRA's total net position decreased by \$3.1 million in 2015. This represents a 6.5% change from the 2014 balance.
- The operating revenues of RWRA increased by \$1.6 million to \$17.7 million at the close of the current fiscal year. This represents a 9.8% change from 2014.
- The operating expenses excluding depreciation increased by \$0.8 million to \$12.7 million at the close of the current fiscal year. This represents a 6.4% change from 2014.
- RWRA's total borrowed amount decreased by \$0.2 million during the current fiscal year to \$29.9 million. This represents a 0.5% change from 2014.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to RWRA's basic financial statements. RWRA's basic financial statements are comprised of two components: 1) enterprise fund financial statements and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Enterprise Fund Financial Statements are designed to provide readers with a broad overview of RWRA's finances, in a manner similar to a private-sector business.

- **Statement of Net Position** – This financial statement presents information on RWRA's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of RWRA is improving or deteriorating.
- **Statement of Revenues, Expenses and Changes in Net Position** – This financial statement identifies the revenues generated and the expenses incurred presenting how RWRA's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows; thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, (e.g. earned but unused vacation leave).

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements, Continued

- **Statement of Cash Flows** – This financial statement provides information relating to RWRA's cash receipts and cash expenditures during the fiscal year. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the fiscal year.

The basic enterprise fund financial statements can be found on pages 11 through 15 of this report.

Notes to financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 16 through 34 of this report.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of financial position. In the case of RWRA, assets exceeded liabilities by \$44,493,539 at the close of the current fiscal year.

The largest portion of RWRA's net position (89%) reflects its investment in capital assets, net of related debt used to acquire those assets that is still outstanding. RWRA uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although RWRA's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	<u>Condensed Statements of Net Position</u>	
	<u>2015</u>	<u>2014</u>
Current and other assets	\$ 12,094,623	\$ 9,988,743
Capital assets	69,634,998	69,301,643
Deferred outflows of resources	720,966	13,523
Total assets and deferred outflows of resources	<u>82,450,587</u>	<u>79,303,909</u>
Long-term liabilities	33,276,218	28,116,927
Other liabilities	4,069,830	3,613,418
Deferred inflows of resources	611,000	-
Total liabilities and deferred inflows of resources	<u>37,957,048</u>	<u>31,730,345</u>
Net position:		
Net investment in capital assets	39,671,168	39,166,603
Restricted	3,410,049	3,388,267
Unrestricted	1,412,322	5,018,694
Total net position	<u>\$ 44,493,539</u>	<u>\$ 47,573,564</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis, Continued

	<u>Condensed Statements of Revenues, Expenses and Change in Net Position</u>	
	<u>2015</u>	<u>2014</u>
Revenues:		
Operating revenues	\$ 17,697,276	\$ 16,121,783
Investment income	96,991	111,771
Contributions	1,708,107	1,376,462
Other revenues	<u>530,220</u>	<u>1,016,607</u>
Total revenues	<u>20,032,594</u>	<u>18,626,623</u>
Expenses:		
Operating expenses (excluding depreciation)	12,721,102	11,960,694
Depreciation expense	4,009,617	4,045,454
Interest expense	476,859	491,302
Other	<u>255,041</u>	<u>651,803</u>
Total expenses	<u>17,462,619</u>	<u>17,149,253</u>
Change in net position	<u>2,569,975</u>	<u>1,477,370</u>
Net position – beginning of year	<u>47,573,564</u>	<u>46,096,194</u>
Cumulative effect of change in accounting principle	<u>(5,650,000)</u>	<u>-</u>
Net position – beginning of year, as restated	<u>41,923,564</u>	<u>-</u>
Net position – end of year	<u>\$ 44,493,539</u>	<u>\$ 47,573,564</u>

RWRA's net position decreased by \$3,080,025 during the current year. Operating revenues increased by \$1,575,493, while operating expenses and depreciation increased \$724,571 from fiscal year 2014 levels. Key elements of these changes are explained in greater detail under the Review of Operations section. The cumulative effect of change in accounting principle decreased the net position \$5,650,000 in fiscal year 2015. This is the result of the new Governmental Accounting Standards Board net pension liability requirements. More detailed information on RWRA's pension is presented in Note 8 of the notes to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset and Debt Administration

Capital Assets – RWRA's investment in capital assets as of June 30, 2015, amounts to \$69,634,998 (net of accumulated depreciation). Investment in capital assets increased by approximately 0.5% during the year. Below is a comparison of the items that make up capital assets as of June 30, 2015, with that of June 30, 2014.

	<u>2015</u>	<u>2014</u>
Land and Improvements	\$ 788,319	\$ 704,647
Sewage Treatment Plants	18,544,934	19,848,440
Sewers	44,892,794	40,053,807
Equipment	3,209,354	2,828,127
Construction in Progress	<u>2,199,597</u>	<u>5,866,622</u>
 Total capital assets	 <u>\$ 69,634,998</u>	 <u>\$ 69,301,643</u>

Major capital asset activity for the current fiscal year included:

Current Year Projects, begun in a prior year, completed during the fiscal year:

Parkview Drive Area Basin/Chamber (\$371,331 total)	\$ 354,023
Cured-In-Place-Pipe Lining in various sewers (\$370,417 total)	349,832
Murphy Building Security Fence (\$70,391 total)	70,285
Locust Street Lift Station Upgrade (\$1,690,292 total)	68,056
Riverport #2 Pump Station Rehab (\$46,340 total)	37,911
East Plant Chlorine Tank Rehab (\$26,867 total)	14,217
Dublin Lane Outfall Rehabilitation (\$3,400,319 total)	-

Current Year Projects, begun and completed during the fiscal year:

Vehicles for operations	\$ 652,322
Replacement/Repairs of various pumps	338,650
Ragu Pump Station Force Main Repair	151,291
Renovations at Treatment Plants/Pump Stations	101,344
HorseFork Force Main Repair	31,332
Training Facility Pipe in Backlot of Operations Building	30,735
Thompson-Berry Park Cured-In-Place-Pipe Equipment	27,025
Thompson-Berry Park Sewer Rehab, Phase 2	25,261
East Plant Parking Lot Repair	13,281
Scanner/Plotter Equipment	8,495

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset and Debt Administration, Continued

Current Year Projects, begun during the fiscal year, not completed at year end:

Frederica 2nd to 3rd CSO Separation	\$	132,426
Max Rhodes Chlorine Contact Tank #1 Rehab		79,092
Thruston-Dermont Road Extension Phase 2		40,905
Center Street Tunnel Rehab - 6th & Hathaway		14,197
Southtown Western Sewer Remediation		13,665
Riverport 1 - Harbor Road Force Main Repair		11,700
Airpark Pump Station Rehab		1,997
Southwest Master Pump Station		635
Max Rhodes Plant Driveway Improvement		326

Current Year Projects, begun during a prior fiscal year, not completed at year end:

Old Hartford Road CSO Interceptor (\$464,795 to date)	\$	444,046
Fifth & Orchard Sewer Repair (\$359,757 to date)		348,994
Sunrise Drive Sewer Extension (\$163,548 to date)		143,075
Masonville Sewer Extension (\$195,510 to date)		139,763
Harsh Ditch CSO Separation/Downstream Improv. (\$54,158 to date)		28,992
Locust Hills Sewer Extension (\$661,412 to date)		14,794
Pleasant View Estates Assessment (\$5,475 to date)		-

More detailed information on RWRA's capital assets is presented in Note 4 of the notes to the financial statements.

Long-Term Debt - At the end of the current fiscal year, RWRA had \$29,871,168 in bonds and loans outstanding versus \$30,044,604 last year, a decrease of 0.6%. The decrease is a result of \$2,491,463 in scheduled debt payments, along with additional borrowing of \$750,000 for Harsh Ditch CSO Separation joint project with the City of Owensboro, \$571,468 for Sunrise Drive Sewer Extension/Harsh Combined Sewer Overflow (CSO) Separation, \$353,918 for Parkview Drive CSO Separation, \$301,535 for Cured-In-Place-Pipe capital projects, \$176,310 for Masonville Sewer Extension, \$83,460 for Locust Hills Sewer Extension, and \$81,336 for the Locust Street Lift Station Upgrade.

RWRA has one bond issue outstanding and one loan from the City of Owensboro. Other long-term obligations of RWRA include net pension liability, accrued compensated absences and loans from the Kentucky Infrastructure Authority. RWRA's net pension liability is a newly required amount, for the first time this fiscal year along with all state and local governments, by the Governmental Accounting Standards Board. Note 8 of the notes to the financial statements include additional information regarding RWRA's pension plan. More detailed information on RWRA's long-term liabilities is presented in Note 5 of the notes to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Review of Operations

Operational Revenues – Sewer Service Charges include five elements: the Wastewater User Charge, the Basic Service Charge, an Environmental Improvement Monthly Fee, an Environmental Improvement Volume Charge, and Transported Waste.

Effective July 1, 2014, each metered customer was charged a Basic Service Charge, a flat amount of \$11.95/month; this charge included the first 1,500 gallons of wastewater usage. Usage above 1,500 gallons was charged \$4.15/1,000 gallons as the Wastewater User Charge. Effective January 1, 2015, the fixed component grew by the same flat amount of \$11.95/month including only the first 750 gallons of wastewater usage. Usage above 750 gallons continued to be charged \$4.15/1,000 gallons. Revenue received from the Wastewater User Charge, the primary operational revenue source, saw a \$1,045,391 increase from the previous year from \$9,201,112 in fiscal year 2014 to \$10,246,503 in fiscal year 2015, a 11.4% increase. The Basic Service Charge saw a \$374,377 increase from fiscal year 2014 to 2015.

The Environmental Improvement Monthly Charge remained at the \$1.00/month flat amount charged to all metered customers. In fiscal year 2015, this amounted to \$350,873; a \$2,256 or 0.6% increase from the prior year. A volume charge for all non-residential customers was charged for usage in excess of 15,000 gallons/month; the charge is \$0.07/1,000 gallons. In fiscal year 2015, revenue from this source was \$96,557; a \$1,538 or 1.6% increase from the prior year.

Also included in the Sewer Service Charge total is Transported Waste, which is wastewater brought to the treatment plants from various domestic and commercial sources. Revenue from Transported Waste increased from \$727,158 in fiscal year 2014 to \$894,509 in fiscal year 2015, an increase of 23%.

The total revenue from the five components of Sewer Service Charge increased from \$14,194,504 in fiscal year 2014 to \$15,785,417 in fiscal year 2015, an increase of 11%.

Operational Expenses – Total operational expenses, excluding depreciation, increased from \$11,960,694 in fiscal year 2014 to \$12,721,102 in fiscal year 2015, an increase of \$760,408, or 6.4%. The largest portion of this increase, \$572,366, relates to addressing the Clean Water Act Combined Sewer Overflow (CSO) initiative by contributing to the City of Owensboro's Harsh Ditch Separation Project in 2015. Additionally, contracted sewer repairs increased \$160,942 related to the greater commitment to sewer maintenance utilizing contractual services to address high priority repairs in 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Long-Term Trends

Capital Program – Extension of sewer service remains an area of importance. The Masonville and Hayden Road Area (including Daniels Lane (South), Fox Chase and Covent Garden subdivisions) Sewer Extension projects are budgeted for the coming year. In addition to extensions of sewer service, RWRA is undertaking several projects associated with its Clean Water Act Combined Sewer Overflow (CSO) initiative. Future projects budgeted for this coming year include a key component for environmental improvement which is the Southwest Master Pump Station System Improvements, the Scherm Ditch/Princeton Parkway CSO Separation Project and the Ultra Violet Light Disinfection Systems Project.

RWRA remains committed to maintaining and upgrading the existing infrastructure. Major capital rehabilitation projects include Treatment Plant Electrical and Driveway Upgrades, Cured-in-Place-Pipe Lining, and Tunnel Sewer Manhole Rehabilitation.

RWRA also remains committed to investing in technological and communication improvements in order to more efficiently monitor and control the treatment plants and the various lift stations in the RWRA collection system.

A major factor that will have a financial impact on RWRA's long-term future are requirements of the Clean Water Act related to Combined Sewers, such as those located in Owensboro. Communities with combined sewer systems are required to prepare a Long-Term Control Plan (LTCP) to reduce the impact of combined sewer overflows (CSOs). RWRA prepared and submitted a "Framework" document which outlines RWRA's eventual approach to the community's LTCP. On June 12, 2013, RWRA's "Framework" document was approved by the Kentucky Division of Water (KDOW) and the U.S. Environmental Protection Agency (EPA). RWRA submitted the Owensboro community's Long-Term Control Plan to KDOW and EPA on September 12, 2014. RWRA staff met with representatives of KDOW and EPA on October 15, 2014, to formally present its LTCP and address questions from either of the regulating authorities. On February 26, 2015, RWRA received a letter from EPA with questions regarding its submitted Long-Term Control Plan to which RWRA responded in a timely manner. On June 11, 2015, RWRA received a letter from KDOW with questions requesting more detail about its submitted Long-Term Control Plan and RWRA submitted its response to KDOW. Currently, RWRA is awaiting a response from EPA and KDOW regarding these recent submittals and continues to provide KDOW and EPA with additional information for clarification purposes of the submitted LTCP. The total eventual costs associated with the implementation of the LTCP for the community are not known at this time and negotiations associated with the capital improvements shall be part of the LTCP approval process. There are, however, several projects associated with CSO improvements included in RWRA's 2015-16 budget.

Long-Term Debt – Projects budgeted for sewer extensions and Clean Water Act improvements in the amount of \$12,642,500 will be financed by borrowing. We will continue to look for opportunities that offer savings on restructuring RWRA's debt in the future.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Long-Term Trends, Continued

Cash and Reserves – The RWRA Board has maintained designated reserves for a number of years. As a part of the Kentucky Infrastructure Authority (KIA) loan agreements, \$2,500,000 has been designated as a reserve. RWRA's one bond issue outstanding also maintains designated reserves in the amount of \$910,049 in fiscal year 2015. In previous years, the Board had also designated \$2,000,000 as an emergency capital reserve, \$1,000,000 as an operating reserve, and \$500,000 for renewal and replacement. It is intended to stay at or above these levels of reserve.

Requests for Information

This financial report is designed to provide readers with a general overview of RWRA's finances and to show RWRA's accountability for the receipts and uses of funds. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, at 1722 Pleasant Valley Road, Owensboro, Kentucky, 42303.

REGIONAL WATER RESOURCE AGENCY

STATEMENTS OF NET POSITION

June 30, 2015 and 2014

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and cash equivalents	\$ 350	\$ 350
Equity in external investment pool	5,166,465	3,508,232
Due from Owensboro Municipal Utilities	1,744,308	1,460,031
Other receivables	1,548,444	1,445,997
Prepaid supplies	166,374	125,487
Other	<u>58,633</u>	<u>60,379</u>
Total current assets	<u>8,684,574</u>	<u>6,600,476</u>
Noncurrent assets:		
Restricted assets	3,410,049	3,388,267
Capital assets:		
Property, plant and equipment, net	<u>69,634,998</u>	<u>69,301,643</u>
Total noncurrent assets	<u>73,045,047</u>	<u>72,689,910</u>
Total assets	<u>81,729,621</u>	<u>79,290,386</u>
Deferred outflows of resources:		
Deferred charges on refunding	4,507	13,523
Pension deferred outflows	<u>716,459</u>	<u>-</u>
Total deferred outflows of resources	<u>720,966</u>	<u>13,523</u>
Total assets and deferred outflows of resources	<u>\$ 82,450,587</u>	<u>\$ 79,303,909</u>

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES,
AND NET POSITION**

Current liabilities:		
Accounts payable	\$ 883,131	\$ 559,019
Accrued liabilities	196,842	213,014
Compensated absences	42,831	25,679
Current maturities of long-term debt	2,822,470	2,682,080
Contracts and retainage payable	<u>124,556</u>	<u>133,626</u>
Total current liabilities	<u>4,069,830</u>	<u>3,613,418</u>
Noncurrent liabilities:		
Compensated absences	777,907	784,070
Net pension liability	5,477,000	-
Long-term debt	<u>27,021,311</u>	<u>27,332,857</u>
Total noncurrent liabilities	<u>33,276,218</u>	<u>28,116,927</u>
Total liabilities	<u>37,346,048</u>	<u>31,730,345</u>
Deferred inflows of resources:		
Pension deferred inflows	<u>611,000</u>	<u>-</u>
Net position:		
Net investment in capital assets	39,671,168	39,166,603
Restricted for equipment replacement	2,500,000	2,500,000
Restricted for debt service	910,049	888,267
Unrestricted	<u>1,412,322</u>	<u>5,018,694</u>
Total net position	<u>44,493,539</u>	<u>47,573,564</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 82,450,587</u>	<u>\$ 79,303,909</u>

See Notes to Financial Statements

REGIONAL WATER RESOURCE AGENCY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Sewer service charges	\$ 15,785,417	\$ 14,194,504
Industrial surcharge	873,259	940,930
Sewer taps	113,846	91,987
Storm water	599,980	488,246
Other	<u>324,774</u>	<u>406,116</u>
 Total operating revenues	 <u>17,697,276</u>	 <u>16,121,783</u>
 Operating expenses:		
Field operations:		
Salaries, wages and benefits	1,833,966	1,868,282
Maintenance	830,264	706,817
Utilities	8,424	6,305
Supplies	133,943	164,564
Other	<u>46,321</u>	<u>49,976</u>
	<u>2,852,918</u>	<u>2,795,944</u>
Treatment plant operations:		
Salaries, wages and benefits	704,888	719,660
Maintenance	1,002	2,690
Utilities	1,170,508	1,185,149
Supplies	512,098	536,692
Other	<u>459,376</u>	<u>458,162</u>
	<u>2,847,872</u>	<u>2,902,353</u>
Maintenance operations:		
Salaries, wages and benefits	876,614	762,306
Maintenance	194,852	223,044
Utilities	457,901	482,802
Supplies	97,490	63,141
Other	<u>8,532</u>	<u>4,979</u>
	<u>1,635,389</u>	<u>1,536,272</u>
Agency administration:		
Salaries, wages and benefits	985,881	1,016,759
Maintenance	15,935	3,578
Utilities	39,810	30,870
Supplies	32,312	37,679
Other	<u>902,666</u>	<u>863,744</u>
	<u>1,976,604</u>	<u>1,952,630</u>
Operations administration:		
Salaries, wages and benefits	283,982	349,675
Maintenance	38,542	14,294
Utilities	30,020	30,865
Supplies	7,211	6,341
Other	<u>113</u>	<u>8,913</u>
	<u>359,868</u>	<u>410,088</u>

See Notes to Financial Statements

REGIONAL WATER RESOURCE AGENCY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION, Concluded

Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating expenses, Continued:		
Engineering:		
Salaries, wages and benefits	964,234	977,478
Maintenance	11,369	3,813
Utilities	4,705	4,534
Supplies	30,066	22,543
Other	826,433	257,928
	<u>1,836,807</u>	<u>1,266,296</u>
Contractual services:		
Salaries, wages and benefits	240,311	244,370
Maintenance	651,140	91,828
Utilities	1,431	1,491
Supplies	38,309	50,978
Other	280,453	708,444
	<u>1,211,644</u>	<u>1,097,111</u>
Depreciation	<u>4,009,617</u>	<u>4,045,454</u>
Total operating expenses	<u>16,730,719</u>	<u>16,006,148</u>
Operating income	<u>966,557</u>	<u>115,635</u>
Nonoperating revenues (expenses):		
Gain (loss) on sale of capital assets	(24,379)	119,770
Investment income	96,991	111,771
Miscellaneous revenue	42,559	278,330
State contract revenue	230,662	618,507
State contract expense	(230,662)	(618,507)
Interest expense	(476,859)	(491,302)
Other income (expense)	256,999	(33,296)
Total nonoperating revenues (expenses)	<u>(104,689)</u>	<u>(14,727)</u>
Income before capital contributions	861,868	100,908
Capital contributions	<u>1,708,107</u>	<u>1,376,462</u>
Change in net position	<u>2,569,975</u>	<u>1,477,370</u>
Net position, beginning of year, before restatement	47,573,564	46,096,194
Cumulative effect of change in accounting principle	<u>(5,650,000)</u>	<u>-</u>
Net position, beginning of year, as restated	<u>41,923,564</u>	<u>-</u>
Net position, end of year	<u>\$ 44,493,539</u>	<u>\$ 47,573,564</u>

See Notes to Financial Statements

REGIONAL WATER RESOURCE AGENCY

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Receipts from customers	\$ 17,206,935	\$ 16,069,104
Other receipts (payments)	281,820	(11,976)
Payments to suppliers for goods or services	(6,555,325)	(5,870,637)
Payments to or on behalf of employees	<u>(6,173,518)</u>	<u>(5,909,064)</u>
Net cash provided by operating activities	<u>4,759,912</u>	<u>4,277,427</u>
Cash flows from capital and related financing activities:		
Principal payments under debt obligation	(2,491,463)	(2,307,452)
Proceeds from issuance of long-term debt	2,318,027	2,456,712
Interest paid	(465,563)	(480,004)
Gain (loss) on sale of property, plant and equipment	(24,379)	119,770
Acquisition and construction of property, plant and equipment	(3,705,778)	(3,795,176)
Capital grants	121,355	146,446
Capital contributions	<u>1,070,913</u>	<u>1,022,447</u>
Net cash used in capital and related financing activities	<u>(3,176,888)</u>	<u>(2,837,257)</u>
Cash flows from investing activities:		
Investment income	<u>96,991</u>	<u>111,771</u>
Net cash provided by investing activities	<u>96,991</u>	<u>111,771</u>
Net increase in cash and cash equivalents	1,680,015	1,551,941
Cash and cash equivalents, beginning of year	<u>6,896,849</u>	<u>5,344,908</u>
Cash and cash equivalents, end of year	<u>\$ 8,576,864</u>	<u>\$ 6,896,849</u>
Included in the following balance sheet captions:		
Reconciliation to cash and cash equivalents:		
Cash and cash equivalents	\$ 350	\$ 350
Equity in external investment pool	5,166,465	3,508,232
Restricted assets	<u>3,410,049</u>	<u>3,388,267</u>
	<u>\$ 8,576,864</u>	<u>\$ 6,896,849</u>

See Notes to Financial Statements

REGIONAL WATER RESOURCE AGENCY

STATEMENTS OF CASH FLOWS, Concluded

Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating income	\$ 966,557	\$ 115,635
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	4,009,617	4,045,454
Miscellaneous nonoperating income (expense)	281,820	(11,976)
Change in assets and liabilities:		
Decrease (increase) in assets:		
Due from Owensboro Municipal Utilities	(284,277)	(149,386)
Other operating receivables	(206,064)	96,707
Prepaid supplies and other	(39,141)	(10,701)
Increase (decrease) in liabilities:		
Accounts payable	324,112	51,441
Accrued liabilities	(16,172)	25,452
Compensated absences	10,989	4,014
Contracts and retainage payable	(9,070)	110,787
Net pension liability and deferrals	<u>(278,459)</u>	<u>-</u>
 Net cash provided by operating activities	 <u>\$ 4,759,912</u>	 <u>\$ 4,277,427</u>
 Noncash investing and capital activities:		
Unrealized gain (loss) on equity in external investment pool and the revenue bond debt service reserve	\$ (31,507)	\$ 26,658
Contributed sewers	\$ 637,194	\$ 354,015

See Notes to Financial Statements

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2015 and 2014

1. **Organization and Summary of Significant Accounting Policies**

The Financial Reporting Entity

The Regional Water Resource Agency (Agency) was created by the enactment of identical ordinances by the City of Owensboro (City) and Daviess County Fiscal Court (County) in 1994 for the purpose of managing, controlling and operating regional comprehensive wastewater facilities within Daviess County.

In 1995, the City of Owensboro Municipal Sewer System transferred all existing assets, liabilities, easements, personnel, control, management, and authority to the Agency. The Agency is a related organization of the City and the County.

The financial statements of the Agency have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

To determine the appropriate reporting entity for the Agency, its relationship with the City and County was considered in terms of financial accountability as defined in Statement No. 61 of the Governmental Accounting Standards Board (GASB), *The Financial Reporting Entity*. Based on the application of these criteria, the Agency is not a component unit of the City or County and all governmental entities operating within the City and County are excluded from the Agency's financial statements. Although four of the seven members of the Agency's Board of Directors are appointed by the City of Owensboro, the City is not financially accountable for the Agency. In addition, there is no potential for the Agency to provide specific financial benefit to, or impose specific financial burdens on, the City or County, and the Agency is not fiscally dependent on the City or County.

Basis of Accounting

The Agency is accounted for as a proprietary fund and uses a flow of economic resources measurement focus and the full accrual basis of accounting.

The Agency considers wastewater treatment and sewer construction/engineering revenues and costs that are directly related to these services to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating.

Revenue Recognition

The Agency recognizes revenues as services are rendered to customers.

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2015 and 2014

1. **Organization and Summary of Significant Accounting Policies, Continued**

Cash and Cash Equivalents

The Agency's cash and cash equivalents are considered to be cash on hand, the equity in the external investment pool, demand deposits, and all highly liquid assets (including restricted assets) with a maturity of three months or less from the date of acquisition.

Customer Accounts Receivable

Customer accounts receivable included in due from Owensboro Municipal Utilities and other receivables on the statements of net position are stated at face value, less an allowance for uncollectible accounts of \$2,750 at June 30, 2015 and 2014.

Prepaid Supplies

Prepaid supplies consist of expendable supplies held for consumption and are valued at the lower of cost (first-in, first-out) or market. The cost is recorded as an asset at the time individual inventory items are purchased and as an expenditure when used (consumption method).

Restricted Assets

Certain assets are restricted as required by long-term debt agreements.

Property, Plant and Equipment

All capital assets are valued at historical cost or estimated historical cost if actual cost is not available.

Maintenance and repairs of property are charged to maintenance expense when incurred; replacements and betterments are capitalized.

Depreciation has been provided over the estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

Buildings	30 years
New sewers	50 years
Equipment	3-10 years

Bonds and Related Premiums, Discounts, and Issuance Costs

Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, as are deferred charges on refunding. Bonds payable are reported net of the applicable bond premiums or discounts. Bond issuance costs are expensed when bonds are issued.

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2015 and 2014

1. **Organization and Summary of Significant Accounting Policies, Continued**

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans, and additions to / deductions from the pension plans' net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Compensated Absences

Compensated absences obligations arise from amounts due to Agency employees for vested amounts of vacation pay and sick pay, which will be payable in the future.

Income Taxes

The Agency is exempt from federal and state income taxes and, accordingly, the financial statements include no provision for such taxes.

Net Position

The Agency classifies net position in the financial statements as follows:

1. Net investment in capital assets includes the Agency's capital assets (net of accumulated depreciation) reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net position includes assets that have third-party (statutory, bond covenant, or granting agency) limitations on their use. The Agency typically uses restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use until a future project.
3. Unrestricted net position typically includes unrestricted liquid assets. The Board of Directors has the authority to revisit or alter this designation.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, 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.

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2015 and 2014

2. Deposits and Investments

External Investment Pool

The Agency participates in an external investment pool sponsored by the City. The equity position of the Agency in the pool is determined by the fair value per share of the pool's underlying portfolio. The pool is not registered with the SEC and is not subject to regulatory oversight. Investments are valued at the market quotation on the last business day of the fiscal year, obtained from brokers or available published services. Investment income is allocated to the Agency by the City based on the Agency's average equity position. Participants' shares sold and redeemed are determined using specific identification of the participants' cost basis equity position in the investment pool.

The Agency follows the investment policies of the City. Information regarding the authorized investments, deposit and investment policies, investment classifications, average interest rates and maturities, interest rate risk, credit risk, custodial credit risk, fair values, and collateralizations of the City's external investment pool may be obtained from the City's Comprehensive Annual Financial Report for the years ended June 30, 2015 and 2014.

The Agency's equity in the pool is reflected in the statement of net position as follows at June 30:

	<u>2015</u>	<u>2014</u>
Current assets:		
Equity in external investment pool	\$ 5,166,465	\$ 3,508,232
Noncurrent assets:		
Restricted assets	<u>2,706,851</u>	<u>2,695,745</u>
	<u>\$ 7,873,316</u>	<u>\$ 6,203,977</u>

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2015 and 2014

2. Deposits and Investments, Continued

External Investment Pool, Continued

Investment earnings consisted of the following for the years ended June 30:

	<u>External Investment Pool</u>	<u>Revenue Bond Debt Service Reserve</u>	<u>Total</u>
	<u>2015</u>		
Interest and dividends	\$ 111,731	\$ 16,767	\$ 128,498
Unrealized gain (loss)	<u>(28,807)</u>	<u>(2,700)</u>	<u>(31,507)</u>
	<u>\$ 82,924</u>	<u>\$ 14,067</u>	<u>\$ 96,991</u>
	<u>2014</u>		
Interest and dividends	\$ 76,231	\$ 8,882	\$ 85,113
Unrealized gain (loss)	<u>21,509</u>	<u>5,149</u>	<u>26,658</u>
	<u>\$ 97,740</u>	<u>\$ 14,031</u>	<u>\$ 111,771</u>

3. Restricted Assets

Assets are restricted for the following purposes at June 30:

	<u>2015</u>	<u>2014</u>
Equity in external investment pool:		
Maintenance and replacement reserve - KIA	\$ 2,500,000	\$ 2,500,000
Revenue bond debt service reserve	<u>206,851</u>	<u>195,745</u>
	2,706,851	2,695,745
Cash with trustee:		
Revenue bond debt service reserve	<u>703,198</u>	<u>692,522</u>
	<u>\$ 3,410,049</u>	<u>\$ 3,388,267</u>

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2015 and 2014

4. Property, Plant and Equipment

Property, plant and equipment activity for the year ended June 30, 2015, was as follows:

	Balance June 30, <u>2014</u>	<u>Additions</u>	<u>Deletions</u>	Balance June 30, <u>2015</u>
Utility assets:				
Land	\$ 704,647	\$ -	\$ -	\$ 704,647
Land improvements	-	83,672	-	83,672
Sewers	60,180,108	6,882,095	-	67,062,203
Equipment	9,493,310	1,174,018	(525,889)	10,141,439
Sewage treatment plant	<u>49,146,676</u>	<u>30,735</u>	<u>-</u>	<u>49,177,411</u>
Total, at original cost	<u>119,524,741</u>	<u>8,170,520</u>	<u>(525,889)</u>	<u>127,169,372</u>
Accumulated depreciation:				
Sewers	(20,126,301)	(2,043,107)	-	(22,169,408)
Equipment	(6,665,183)	(632,268)	365,365	(6,932,086)
Sewage treatment plant	<u>(29,298,236)</u>	<u>(1,334,242)</u>	<u>-</u>	<u>(30,632,478)</u>
Total accumulated depreciation	<u>(56,089,720)</u>	<u>(4,009,617)</u>	<u>365,365</u>	<u>(59,733,972)</u>
Construction in progress	<u>5,866,622</u>	<u>1,414,608</u>	<u>(5,081,632)</u>	<u>2,199,598</u>
Property, plant and equipment, net	<u>\$ 69,301,643</u>	<u>\$ 5,575,511</u>	<u>\$ (5,242,156)</u>	<u>\$ 69,634,998</u>

Depreciation expense totaled \$4,009,617 and \$4,045,454 for the years ended June 30, 2015 and 2014, respectively.

Additions to utility assets – sewers reflected above includes capital contributions recorded in the statements of revenues, expenses and changes in net position totaling \$1,708,107 and \$1,376,462 for the years ended June 30, 2015 and 2014, respectively.

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2015 and 2014

5. Long-Term Debt

Long-term debt at June 30 consisted of the following:

Wastewater Revenue Bonds:	<u>2015</u>	<u>2014</u>
2007 Series A:		
4.00%, due serially 2016 to 2019	\$ 1,280,000	\$ 1,870,000
4.125%, due 2020	240,000	240,000
4.25%, due 2021	250,000	250,000
4.375%, due 2024	815,000	815,000
4.375%, due 2027	<u>930,000</u>	<u>930,000</u>
	3,515,000	4,105,000

Kentucky Infrastructure Authority Federally Assisted Wastewater Revolving Loans, for various sewer system improvements, due in semi-annual principal and interest payments:

<u>Loan Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>		
A99-04	1.0%	2023	11,272,697	12,619,579
A06-02	1.0%	2027	4,678,912	5,028,626
A07-08	1.0%	2028	993,012	1,061,386
A10-13	1.0%	2032	5,900,894	5,956,051
A12-14	2.0%	2033	354,892	271,432
A12-15	1.0%	2033	1,304,065	1,002,530
A13-17	1.75%	2035	571,468	-
A13-028	1.75%	2035	176,310	-
A14-008	1.75%	2035	353,918	-
Note payable, related party			<u>750,000</u>	<u>-</u>
Total long-term debt			29,871,168	30,044,604
Less current maturities			(2,822,470)	(2,682,080)
Plus unamortized bond premiums			6,364	6,895
Less unamortized bond discounts			<u>(33,751)</u>	<u>(36,562)</u>
			\$ <u>27,021,311</u>	\$ <u>27,332,857</u>

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2015 and 2014

5. Long-Term Debt, Continued

The following is a summary of certain provisions for the issuance of the Owensboro-Daviess County Regional Water Resource Agency Wastewater Revenue Refunding and Improvement Bonds, 2007 Series A:

The 2007 Series A bonds maturing on or after January 1, 2018, are subject to redemption prior to maturity at the option of the Agency, on or after January 1, 2017, in whole or in part, at a redemption price equal to the principal amount to be redeemed, plus accrued interest to the date of redemption.

The 2007 Series A bonds maturing January 1, 2024, are subject to mandatory sinking fund redemption at a redemption price equal to 100% of principal amount as follows:

<u>Year</u>	<u>Amount</u>
January 1, 2022	\$260,000
January 1, 2023	\$270,000
January 1, 2024	\$285,000

Bonds maturing January 1, 2027, are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of principal as follows:

<u>Year</u>	<u>Amount</u>
January 1, 2025	\$295,000
January 1, 2026	\$310,000
January 1, 2027	\$325,000

The bonds are secured by and payable solely from the pledged receipts derived from the collection of rates, rentals and charges for the services rendered by the Agency. In addition, the Agency is subject to certain covenants relating to rates, reserves, and debt service coverage.

Proceeds from the 2007 bonds, which were issued to defease the 1996 Series A bonds, were placed in an irrevocable trust to provide for all future debt service requirements on the 1996 bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Agency's financial statements. At June 30, 2015, \$425,000 of bonds outstanding are considered defeased.

The note payable, related party is due to the City of Owensboro for the Agency's contribution towards certain joint sewer system improvements payable in semi-annual installments of \$20,734, including interest at 1%, through June, 2035.

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2015 and 2014

5. Long-Term Debt, Continued

The following is a summary of long-term debt activity for the year ended June 30, 2015:

	Balance June 30, <u>2014</u>	<u>Additions</u>	<u>Deductions</u>	Balance June 30, <u>2015</u>	Amounts Due Within <u>One Year</u>
Revenue Bonds:					
2007 Series A	\$ 4,105,000	\$ -	\$ (590,000)	\$ 3,515,000	\$ 610,000
KIA Loans:					
A99-04	12,619,579	-	(1,346,883)	11,272,696	1,360,385
A06-02	5,028,626	-	(349,714)	4,678,912	353,220
A07-08	1,061,386	-	(68,373)	993,013	69,059
A10-13	5,956,051	81,336	(136,493)	5,900,894	275,504
A12-14	271,432	83,460	-	354,892	14,592
A12-15	1,002,530	301,535	-	1,304,065	59,210
A13-017	-	571,468	-	571,468	24,093
A13-028	-	176,310	-	176,310	7,433
A14-008	-	353,918	-	353,918	14,921
Note payable, related party	-	750,000	-	750,000	34,053
	<u>30,044,604</u>	<u>2,318,027</u>	<u>(2,491,463)</u>	<u>29,871,168</u>	<u>2,822,470</u>
Deferred amounts:					
For issuance premiums	6,895	-	(531)	6,364	-
For issuance discounts	<u>(36,562)</u>	<u>-</u>	<u>2,811</u>	<u>(33,751)</u>	<u>-</u>
	<u>\$ 30,014,937</u>	<u>\$ 2,318,027</u>	<u>\$ (2,489,183)</u>	<u>\$ 29,843,781</u>	<u>\$ 2,822,470</u>

Annual debt service requirements are as follows:

Year ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 2,822,470	\$ 405,607	\$ 3,228,077
2017	2,450,148	366,424	2,816,572
2018	2,483,062	334,710	2,817,772
2019	2,511,216	302,457	2,813,673
2020	2,544,611	269,512	2,814,123
2021-2025	10,281,054	843,056	11,124,110
2026-2030	4,345,958	263,524	4,609,482
2031-2035	<u>2,432,649</u>	<u>73,130</u>	<u>2,505,779</u>
Total	<u>\$ 29,871,168</u>	<u>\$ 2,858,420</u>	<u>\$ 32,729,588</u>

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2015 and 2014

6. **Compensated Absences**

The Agency compensates persons leaving employment for any reason for all unused vacation days, not to exceed the number of days earned for two years.

The qualifying retiree may choose from one of the following options for sick time benefits:

1. To receive a cash payment equal to 50% of their current salary value of accumulated sick leave up to 100 days (800 hours) and 100% for accumulated sick leave in excess of 100 days for employees hired before July 1, 2015, or 75% for accumulated sick leave in excess of 60 days for employees hired after July 1, 2015;
2. To apply the value of all accumulated sick leave as a credit toward years of service, included in the calculation of pension benefits; or
3. To elect a combination of Option 1 and Options 2.

Persons who leave employment for reasons other than retirement are paid only for unused accumulated sick leave in excess of 100 days along with 25% of the sick time beyond 60 days and up to 100 days.

In addition, compensatory time is forfeited upon termination of employment except for the qualifying retiree. Upon retirement, all eligible employees shall have the option to reduce the amount of their vacation/sick payout by the equivalent amount of accumulated compensatory time and the current calculated employer portion of retirement on this compensatory time.

The cost of these benefits is recognized as an expenditure when paid and totaled \$65,244 and \$43,871, for the years ended June 30, 2015 and 2014, respectively. Six and five participants received benefits in fiscal years 2015 and 2014, respectively.

7. **Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Agency has two items that qualify for reporting in this category: the deferred charge on refunding reported in the statement of net position totaling \$4,507 and \$13,523 at June 30, 2015 and 2014, respectively, and the pension deferred outflows totaling \$716,459 at June 30, 2015 and 2014. A deferred charge on refunded debt results from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The pension deferred outflows are described in Note 8 to the financial statements.

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2015 and 2014

7. **Deferred Outflows/Inflows of Resources, Continued**

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Agency has one item which qualifies for reporting in this category: the pension deferred inflows totaling \$611,000 at June 30, 2015, as described in Note 8 to the financial statements.

8. **Pension Plan**

Plan Description

The Agency contributes to the County Employees Retirement System (CERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by Kentucky Retirement Systems (KRS) that covers all regular full-time members employed in nonhazardous positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS. Kentucky Revised Statute Section 61.645 assigns the authority to establish and amend benefit provisions to the Board of Trustees of Kentucky Retirement Systems (Board). CERS issues a publicly available financial report that can be obtained at www.kyret.ky.gov.

Benefits Provided

CERS provides for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of members under certain circumstances. Retirement benefits are determined using a formula which considers the member's final compensation; benefit factors set by statute which vary depending upon the type / amount of service, participation date, and retirement date; and years of service. Plan members with a participation date prior to September 1, 2008, are eligible to retire with full benefits at any time with 27 or more years of service credit, or at age 65 with at least 48 months of service credit. Plan members with a participation date on or after September 1, 2008, are eligible to retire with full benefits at age 57 if the member's age and years of service equal 87, or at age 65 with at least 60 months of service credit.

Contributions

Per Kentucky Revised Statutes Section 78.545(33), contribution requirements of the active employees and the participating employers are established and may be amended by the KRS Board. Plan members who began participating in CERS prior to September 1, 2008, are required to contribute 5% of their annual creditable compensation. For Plan members who

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2015 and 2014

8. Pension Plan, Continued

Contributions, Continued

began participating in CERS on or after September 1, 2008, the contribution rate is 6%. The Agency's actuarially determined contribution rate for the year ended June 30, 2015, was 17.67% of annual creditable compensation. Contributions to CERS by the Agency were \$719,940 and \$733,305 for the years ended June 30, 2015 and 2014, respectively.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the Agency reported a liability of \$5,477,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Agency's proportion of the net pension liability was based on a projection of the Agency's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2014, the Agency's proportion was 0.168806%.

For the year ended June 30, 2015, the Agency recognized pension expense of \$441,481. At June 30, 2015, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on plan investments	\$ -	\$ 611,000
Agency contributions subsequent to the measurement date	716,459	-
Total	\$ 716,459	\$ 611,000

The \$716,459 of deferred outflows of resources resulting from the Agency's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2015 and 2014

8. Pension Plan, Continued

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions, Continued

Year ending June 30,	
2016	\$ 152,750
2017	152,750
2018	152,750
2019	<u>152,750</u>
	<u>\$ 611,000</u>

Actuarial Assumptions

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 %
Salary increases	4.5% average, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006, and the 1994 Group Annuity Mortality Table for all other members.

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2005 – June 30, 2008.

The long-term expected rate of return on pension plan investments is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2015 and 2014

8. Pension Plan, Continued

Actuarial Assumptions, Continued

assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which cover a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	30%	8.45%
International equity	22%	8.85%
Emerging market equity	5%	10.5%
Private equity	7%	11.25%
Real estate	5%	7%
Core US fixed income	10%	5.25%
High-yield US fixed income	5%	7.25%
Non US fixed income	5%	5.5%
Commodities	5%	7.75%
TIPS	5%	5%
Cash	1%	3.25%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 29 year amortization period of the unfunded actuarial accrued liability. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2015 and 2014

8. Pension Plan, Continued

Sensitivity of the Agency's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Agency's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	<u>Discount rate</u>	<u>Agency's proportionate share of net pension liability</u>
1% decrease	6.75%	\$7,207,000
Current discount rate	7.75%	\$5,477,000
1% increase	8.75%	\$3,948,000

Plan Fiduciary Net Position

Detailed information about the CERS fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report.

Payables to the Pension Plan

The Agency reported payables of \$33,335 and \$29,855 for the outstanding amount of contributions due to CERS for the years ended June 30, 2015 and 2014, respectively.

9. Deferred Compensation

The Agency offers its employees participation in a deferred compensation program administered by the Kentucky Public Employees' Deferred Compensation Authority. This program offers a plan authorized by Section 457(b) of the Internal Revenue Code and a plan authorized by Section 404(k) of the Internal Revenue Code. Both plans are available to all employees and permit them to defer up to 25% of their compensation (subject to limits) until future years. The Agency makes no contributions to these plans.

10. Rate Structure

The Agency's rate structure is approved by a Rate Review Board comprised of the elected officials of the Owensboro City Commission and the Daviess County Fiscal Court, sitting as a single body. The Rate Review Board was established for the sole purpose of approving any rates, rentals, charges and borrowings recommended to them by the Regional Water Resource Agency Board of Directors. During the first six months of fiscal year 2015, the

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2015 and 2014

10. Rate Structure, Continued

monthly Basic Service Charge, which provides up to 1,500 gallons of wastewater treatment services was \$11.95, the Wastewater User Charge was \$4.15 per 1,000 gallons (\$3.11 per 100 cubic feet) for all usage above 1,500 gallons of wastewater and the monthly Environmental Improvement Fee was \$1.00.

Effective January 2015, the Basic Service Charge changed to provide up to only 750 gallons of wastewater treatment services, while remaining at the rate of \$11.95 per month.

Effective July 2015, the Wastewater User Charge will increase to \$4.39 per 1,000 gallons (\$3.29 per 100 cubic feet) for all usage above 750 gallons and the Environmental Improvement Fee will increase to \$2.95 per month.

11. Risk Management

The Agency is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters for which the Agency carries commercial insurance.

The Agency has established a self-insurance plan through a third-party administrator for its employees' health insurance coverage. The plan provides for specific claims coverage up to \$45,000 per employee, and maximum aggregate claims and administrative costs up to \$1,257,868 and \$1,260,286, for plan years ending October 31, 2015 and 2014, respectively. The Agency purchases reinsurance through the administrator for claims in excess of those limits. Premiums are established by the administrator to cover administrative costs, claims costs, and reinsurance costs. Claims are paid weekly; therefore, a claims liability has not been reflected in the financial statements. Total claims and administrative expenses totaled \$898,597 and \$1,035,172 for the years ended June 30, 2015 and 2014, respectively. Settled claims have not exceeded insurance coverage for 2015 or 2014, nor has there been any reduction in insurance coverage from the prior year.

12. Related Party Transactions

The Agency has entered into an agreement for financial management, IT, and GIS services with the City. Fees paid for these services in the normal course of business were \$379,648 and \$373,328 for the years ended June 30, 2015 and 2014, respectively, of which none was payable at each fiscal year end.

Amounts paid to Daviess County Fiscal Court for landfill services for the years ended June 30, 2015 and 2014, totaled \$416,586 and \$422,345, of which \$26,540 and \$26,907 was payable at each fiscal year end, respectively.

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2015 and 2014

13. Major Customer

The Agency has a major industrial customer for which wastewater treatment services are provided. Service income from the customer totaled \$2,084,386 and \$1,895,939 or 11.8% of operating revenues for the fiscal years ended June 30, 2015 and 2014, respectively. Accounts receivable for the customer totaled \$129 and \$153,008 at June 30, 2015 and 2014, respectively.

14. Commitments and Contingencies

Long-Term Control Plan

On September 4, 2007, the Agency agreed to and entered into a Consent Judgment in Franklin Circuit Court with the Commonwealth of Kentucky's Environmental and Public Protection Cabinet (Cabinet) which alleged that the Agency is in violation of Section 402(q)(1) of the Clean Water Act, 33 U.S.C. 1342(q)(1), which required the Agency to fully implement the Nine Minimum Controls by January 1, 1997, and to submit a written Long-Term Control Plan (LTCP) to the Cabinet. The Consent Judgment required the Agency to develop and submit a Framework Document on or before September 5, 2008, for the LTCP.

This Framework Document was submitted on September 2, 2008. The Consent Judgment further required that the Agency develop and submit the Final LTCP on or before September 5, 2009. This deadline was extended due to the delay in the Agency receiving comments from the U.S. Environmental Protection Agency (EPA) and the Cabinet on its Framework Document. Based on this extension, it was agreed that the Agency would have nine months from the date the EPA, the Cabinet and the Agency reach an agreement on the Agency's approach for the LTCP. Further, the Agency was required to submit a document outlining the Agency's Wastewater User Regulation, Capital Improvement Projects List, Sewer Overflow Response Protocol, Nine Minimum Controls and other documentation as required by governing agencies. These documents were timely submitted by the Agency. These documents have been approved by the Cabinet.

On June 12, 2013, RWRA received a letter from the EPA and Kentucky Division of Water (KDOW) approving RWRA's Framework Document. This letter outlined items that both KDOW and EPA would require as part of RWRA's Long-Term Control Plan and eventual documentation. RWRA submitted the Owensboro community's Long-Term Control Plan to KDOW and EPA on September 12, 2014. RWRA Staff met with representatives of KDOW and EPA on October 15, 2014, to formally present its LTCP and address any questions from either of the regulating authorities. On February 26, 2015, RWRA received a letter from EPA with questions regarding its submitted Long-Term Control Plan to which RWRA responded in a timely manner. On June 11, 2015, RWRA received a letter from KDOW with questions requesting more detail about its submitted Long-Term Control Plan and RWRA submitted its response to KDOW. Currently, RWRA is awaiting a response from EPA and KDOW regarding these recent submittals and continues to provide KDOW and EPA with additional information for clarification purposes of the submitted LTCP.

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2015 and 2014

14. Commitments and Contingencies, Continued

Long-Term Control Plan, Continued

The Agency neither admits nor denies the alleged violations but acknowledges that CSO discharges occur and accepts the obligations imposed by the Consent Judgment. The costs associated with the implementation of the LTCP for the community are not known at this time and negotiations associated with the capital improvements shall be part of the LTCP approval process. The enforcement actions initiated by the Cabinet and EPA are typical of communities that have combined sewers and the potential for combined sewer overflows. In the opinion of the Agency, the resolution of any violations and the implementation of the LTCP will not result in a material adverse affect on the operations, property or finances of the Agency.

15. Reclassifications

Certain amounts in 2014 have been reclassified for comparative purposes to conform with the 2015 presentation.

16. Impact of Recently Issued Accounting Principles

In fiscal year 2015, the Agency implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASBS No. 68), which amends or supersedes the accounting and financial reporting guidance for pensions that are provided to the employees of state and local governmental employers through pension plans administered through trusts. The objective is to improve accounting and financial reporting for pensions by state and local governments.

Under GASBS No. 68, the liability to be recognized by participating employers is measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position. The pension expense and deferred outflows of resources and deferred inflows of resources related to pensions that are required to be recognized by an employer result primarily from changes in the components of the net pension liability, as detailed in Note 8 to financial statements.

In the financial statements, the implementation of GASBS No. 68 resulted in a reduction of beginning net position of \$5,650,000. Accordingly, net position at June 30, 2014, previously reported at \$47,573,564 has been restated as \$41,923,564 to reflect this change. Deferred outflows and inflows related to the implementation of GASBS No. 68 are disclosed in Note 8 to the financial statements.

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2015 and 2014

16. Impact of Recently Issued Accounting Principles, Continued

Management has not retrospectively applied this change to prior years' financial statements because Kentucky Retirement Systems completed its first actuarial valuation to comply with GASBS No. 68 for the County Employees Retirement System (CERS) as of June 30, 2014. That valuation was used for valuing pension-related balances as of June 30, 2015. Such actuarial valuations were not completed for prior years; therefore, the information was not available to apply GASBS No. 68 retrospectively. As a result, the current period's financial statements are not comparable with those of any prior periods.

REGIONAL WATER RESOURCE AGENCY

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM

Last 10 Fiscal Years *

	<u>2015</u>
Agency's proportion of the net pension liability	0.168806%
Agency's proportionate share of the net pension liability	\$ 5,477,000
Agency's covered-employee payroll	\$ 3,881,975
Agency's proportionate share of the net pension liability as a percentage of its covered-employee payroll	141.09%
Plan fiduciary net position as a percentage of the total pension liability	66.80%

* Presented for those years for which the information is available.

REGIONAL WATER RESOURCE AGENCY
SCHEDULE OF CONTRIBUTIONS
COUNTY EMPLOYEES RETIREMENT SYSTEM

Last 10 Fiscal Years *

	<u>2015</u>
Contractually required contributions	\$ 719,940
Contributions in relation to the contractually required contributions	<u>(719,940)</u>
Contribution deficiency (excess)	<u>\$ -</u>
Agency's covered-employee payroll	\$ 4,074,363
Contributions as a percentage of covered-employee payroll	17.67%

* Presented for those years for which the information is available.

REGIONAL WATER RESOURCE AGENCY

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
COUNTY EMPLOYEES RETIREMENT SYSTEM**

Year Ended June 30, 2015

Changes of Benefit Terms

None

Changes of Assumptions

None

REGIONAL WATER RESOURCE AGENCY
SCHEDULES OF REVENUES, EXPENSES, CAPITAL OUTLAY AND DEBT PROCEEDS
—BUDGET AND ACTUAL

Years Ended June 30, 2015 and 2014

	2015			2014			Variance with Final Budget Favorable (Unfavorable)	
	Budget		Final	Budget		Final		Actual
	Original	Final		Original	Final			
Operating revenues:								
Sewer service charges	\$ 14,411,318	\$ 15,211,318	\$ 15,785,417	\$ 14,492,330	\$ 14,194,504	\$ 14,194,504	\$ (297,826)	
Industrial surcharge	900,000	900,000	873,259	650,000	940,930	940,930	290,930	
Sewer taps	100,000	100,000	113,846	100,000	91,987	91,987	(8,013)	
Storm water	420,700	420,700	599,980	408,447	488,246	488,246	79,799	
Other	195,000	295,000	324,774	236,250	406,116	406,116	119,866	
Total operating revenues	\$ 16,027,018	\$ 16,927,018	\$ 17,697,276	\$ 15,937,027	\$ 16,121,783	\$ 16,121,783	\$ 184,756	
Operating expenses:								
Field operations:								
Salaries, wages and benefits	\$ 1,991,948	\$ 1,984,803	\$ 1,833,966	\$ 1,956,338	\$ 1,881,438	\$ 1,868,282	\$ 13,156	
Maintenance	577,250	831,899	830,264	640,000	733,000	706,817	26,183	
Utilities	7,980	8,425	8,424	5,940	6,640	6,305	335	
Supplies	198,000	151,050	133,943	189,500	173,230	164,564	8,666	
Other	61,500	48,500	46,321	61,500	51,600	49,976	1,624	
	2,836,678	3,024,677	2,852,918	2,853,278	2,845,908	2,795,944	49,964	
Treatment plant operations:								
Salaries, wages and benefits	761,188	758,188	704,888	730,387	723,137	719,660	3,477	
Maintenance	7,000	1,553	1,002	31,000	6,500	2,690	3,810	
Utilities	1,156,500	1,172,880	1,170,508	1,157,270	1,197,270	1,185,149	12,121	
Supplies	558,500	521,799	512,098	553,500	563,540	536,692	26,848	
Other	451,100	466,798	459,376	494,500	483,582	458,162	25,420	
	2,934,288	2,921,218	2,847,872	2,966,657	2,974,029	2,902,353	71,676	
Maintenance operations:								
Salaries, wages and benefits	947,583	943,083	876,614	762,079	765,709	762,306	3,403	
Maintenance	293,500	203,000	194,852	280,000	261,015	223,044	37,971	
Utilities	484,732	471,732	457,901	484,060	498,725	482,802	15,923	
Supplies	105,000	97,965	97,490	105,500	85,318	63,141	22,177	
Other	7,500	8,700	8,532	6,000	6,000	4,979	1,021	
	1,838,315	1,724,480	1,635,389	1,637,639	1,616,767	1,536,272	80,495	
Agency administration:								
Salaries, wages and benefits	936,781	1,044,195	985,881	1,014,675	1,019,905	1,016,759	3,146	
Maintenance	19,750	16,860	15,935	7,500	5,000	3,578	1,422	
Utilities	40,745	39,810	39,810	33,080	33,000	30,870	2,130	
Supplies	53,400	40,775	32,312	47,000	43,090	37,679	5,411	
Other	942,902	926,132	902,666	900,963	877,913	863,744	14,169	
	1,993,578	2,068,707	1,976,604	2,003,218	1,978,908	1,952,630	26,278	

REGIONAL WATER RESOURCE AGENCY
SCHEDULES OF REVENUES, EXPENSES, CAPITAL OUTLAY AND DEBT PROCEEDS
—BUDGET AND ACTUAL, Continued

Years Ended June 30, 2015 and 2014

	2015				2014			
	Budget		Actual	Variance with Final Budget Favorable (Unfavorable)	Budget		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final			Original	Final		
Operating expenses, Continued:								
Operations administration:								
Salaries, wages and benefits	305,457	305,077	283,982	21,095	362,005	352,175	349,675	2,500
Maintenance	44,880	44,880	38,542	6,338	6,000	16,964	14,294	2,670
Utilities	32,780	32,780	30,020	2,760	32,830	32,830	30,865	1,965
Supplies	14,000	13,785	7,211	6,574	14,000	11,000	6,341	4,659
Other	500	500	113	387	55,000	10,000	8,913	1,087
	<u>397,617</u>	<u>397,022</u>	<u>359,868</u>	<u>37,154</u>	<u>469,835</u>	<u>422,969</u>	<u>410,088</u>	<u>12,881</u>
Engineering:								
Salaries, wages and benefits	1,061,886	1,027,267	964,234	63,033	955,871	985,831	977,478	8,353
Maintenance	16,000	16,000	11,369	4,631	7,500	4,915	3,813	1,102
Utilities	5,400	5,400	4,705	695	4,860	4,860	4,534	376
Supplies	35,500	37,750	30,066	7,684	37,500	31,185	22,543	8,642
Other	380,500	936,267	826,433	109,834	248,200	436,700	257,928	178,772
	<u>1,499,286</u>	<u>2,022,684</u>	<u>1,836,807</u>	<u>185,877</u>	<u>1,253,931</u>	<u>1,463,491</u>	<u>1,266,296</u>	<u>197,195</u>
Contractual services:								
Salaries, wages and benefits	259,710	256,735	240,311	16,424	256,460	246,710	244,370	2,340
Maintenance	465,000	683,959	651,140	32,819	155,000	104,570	91,828	12,742
Utilities	1,380	1,435	1,431	4	1,500	1,500	1,491	9
Supplies	113,500	56,895	38,309	18,586	66,500	57,500	50,978	6,522
Other	291,300	285,314	280,453	4,861	462,800	708,980	708,444	536
	<u>1,130,890</u>	<u>1,284,338</u>	<u>1,211,644</u>	<u>72,694</u>	<u>942,260</u>	<u>1,119,260</u>	<u>1,097,111</u>	<u>22,149</u>
Depreciation	-	-	4,009,617	(4,009,617)	-	-	4,045,454	(4,045,454)
Total operating expenses	<u>12,630,652</u>	<u>13,443,126</u>	<u>16,730,719</u>	<u>(3,287,593)</u>	<u>12,126,818</u>	<u>12,421,332</u>	<u>16,006,148</u>	<u>(3,584,816)</u>
Capital outlay	<u>12,777,000</u>	<u>15,220,090</u>	<u>3,795,177</u>	<u>11,424,913</u>	<u>7,075,000</u>	<u>10,481,931</u>	<u>2,245,697</u>	<u>8,236,234</u>
Total operating expenses and capital outlay	<u>\$ 25,407,652</u>	<u>\$ 28,663,216</u>	<u>\$ 20,525,896</u>	<u>\$ 8,137,320</u>	<u>\$ 19,201,818</u>	<u>\$ 22,903,263</u>	<u>\$ 18,251,845</u>	<u>\$ 4,651,418</u>
Nonoperating revenues (expenses):								
Gain on sale of capital assets	\$ 135,000	\$ 135,000	\$ (24,379)	\$ (159,379)	\$ 82,500	\$ 82,500	\$ 119,770	\$ 37,270
Investment income	54,061	54,061	96,991	42,930	52,119	73,561	111,771	38,210
Miscellaneous revenue	20,000	68,343	42,559	(25,784)	220,000	300,000	278,330	(21,670)
State contract revenue	-	-	230,662	(230,662)	-	-	618,507	618,507
State contract expense	-	-	(230,662)	(230,662)	-	-	(618,507)	(618,507)
Interest expense	(504,465)	(504,465)	(476,859)	27,606	(474,431)	(474,431)	(491,302)	(16,871)
Miscellaneous expense	(11,105)	(26,508)	256,999	283,507	-	-	(33,296)	(33,296)
	<u>(296,509)</u>	<u>(273,569)</u>	<u>(104,689)</u>	<u>168,880</u>	<u>(119,812)</u>	<u>(18,370)</u>	<u>(14,727)</u>	<u>3,643</u>
Total nonoperating revenues (expenses)	<u>(10,355,000)</u>	<u>(12,087,149)</u>	<u>2,456,712</u>	<u>14,543,861</u>	<u>6,923,000</u>	<u>6,923,000</u>	<u>976,372</u>	<u>(5,946,628)</u>
Debt proceeds	<u>(10,651,509)</u>	<u>(12,360,718)</u>	<u>2,352,023</u>	<u>14,712,741</u>	<u>6,803,188</u>	<u>6,904,630</u>	<u>961,645</u>	<u>(5,942,985)</u>
Total nonoperating revenues (expenses) and debt proceeds	<u>\$ (10,651,509)</u>	<u>\$ (12,360,718)</u>	<u>\$ 2,352,023</u>	<u>\$ 14,712,741</u>	<u>\$ 6,803,188</u>	<u>\$ 6,904,630</u>	<u>\$ 961,645</u>	<u>\$ (5,942,985)</u>



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

Board of Directors
Regional Water Resource Agency

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Regional Water Resource Agency as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated November 5, 2015.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Owensboro, Kentucky
November 5, 2015

A handwritten signature in black ink that reads "Renee Hancock CPAs PSC". The signature is written in a cursive style with a large initial "R".