

REGIONAL WATER RESOURCE AGENCY

***FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION***

Years Ended June 30, 2016 and 2015

(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, 2016 and 2015, 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, 2016 and 2015, 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.

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 37-39 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 October 24, 2016, 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, 2016. 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 \$48.3 million (net position). Of this amount, \$2.6 million (unrestricted net position) may be used to meet RWRA's ongoing obligations to customers and creditors.
- RWRA's total net position increased by \$3.8 million in 2016. This represents a 8.6% change from the 2015 balance.
- The operating revenues of RWRA increased by \$2 million to \$19.6 million at the close of the current fiscal year. This represents a 11% change from 2015.
- The operating expenses excluding depreciation increased by \$0.5 million to \$13.2 million at the close of the current fiscal year. This represents a 3.8% change from 2015.
- RWRA's total borrowed amount decreased by \$1.3 million during the current fiscal year to \$28.5 million. This represents a 4.5% change from 2015.

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 disbursements 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 36 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 \$48,333,858 at the close of the current fiscal year.

The largest portion of RWRA's net position (87%) 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>2016</u>	<u>2015</u>
Current and other assets	\$ 14,168,885	\$ 12,094,623
Capital assets	70,969,696	69,634,998
Deferred outflows of resources	1,523,845	720,966
Total assets and deferred outflows of resources	<u>86,662,426</u>	<u>82,450,587</u>
Long-term liabilities	34,208,359	33,276,218
Other liabilities	4,120,209	4,069,830
Deferred inflows of resources	-	611,000
Total liabilities and deferred inflows of resources	<u>38,328,568</u>	<u>37,957,048</u>
Net position:		
Net investment in capital assets	42,290,287	39,671,168
Restricted	3,433,804	3,410,049
Unrestricted	2,609,767	1,412,322
Total net position	<u>\$ 48,333,858</u>	<u>\$ 44,493,539</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis, Continued

	<u>Condensed Statements of Revenues, Expenses and Change in Net Position</u>	
	<u>2016</u>	<u>2015</u>
Revenues:		
Operating revenues	\$ 19,642,314	\$ 17,687,562
Investment income	138,991	96,991
Capital contributions	1,151,567	1,708,107
Other revenues	<u>946,541</u>	<u>530,220</u>
Total revenues	<u>21,879,413</u>	<u>20,022,880</u>
Expenses:		
Operating expenses (excluding depreciation)	13,190,457	12,711,388
Depreciation expense	4,236,095	4,009,617
Interest expense	467,356	476,859
Other	<u>145,186</u>	<u>255,041</u>
Total expenses	<u>18,039,094</u>	<u>17,452,905</u>
Change in net position	<u>3,840,319</u>	<u>2,569,975</u>
Net position – beginning of year	44,493,539	47,573,564
 Cumulative effect of change in accounting principle	 <u>-</u>	 <u>(5,650,000)</u>
 Net position – beginning of year, as restated	 <u>44,493,539</u>	 <u>41,923,564</u>
 Net position – end of year	 <u>\$ 48,333,858</u>	 <u>\$ 44,493,539</u>

RWRA's net position increased by \$3,840,319 during the current year. Operating revenues increased by \$1,954,752, while operating expenses and depreciation increased \$705,547 from fiscal year 2015 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 beginning net position \$5,650,000 in fiscal year 2015, which was the result of the 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, 2016, total \$70,969,696 (net of accumulated depreciation). Investment in capital assets increased by approximately 1.9% during the year. Below is a comparison of the items that comprise capital assets as of June 30, 2016, with that of June 30, 2015.

	<u>2016</u>	<u>2015</u>
Land and Improvements	\$ 1,177,826	\$ 788,319
Sewage Treatment Plants	17,421,187	18,544,934
Sewers	46,225,705	44,892,794
Equipment	3,349,332	3,209,354
Construction in Progress	<u>2,795,646</u>	<u>2,199,597</u>
 Total capital assets	 <u>\$ 70,969,696</u>	 <u>\$ 69,634,998</u>

Major capital asset activity for the current fiscal year included:

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

Southtown Western Sewer Remediation (\$695,371 to date)	\$ 681,706
Riverport 1 Harbor Rd Force Main Repair (\$256,252 total)	244,552
Max Rhoads Plant Driveway Improvements (\$389,507 total)	389,181
Max Rhoads Chlorine Contact Tank #1 (\$153,116 total)	74,024
Airpark Pump Station Rehab (\$47,771 total)	45,774
Frederica 2nd to 3rd CSO Separation (\$160,198 total)	27,772
Thruston-Dermont Road Extension Phase 2 (\$59,029 total)	18,124
Fifth & Orchard Sewer Repair (\$363,468 total)	3,711
Sunrise Drive Sewer Extension (\$164,071 total)	523
Locust Hills Sewer Extension (\$661,665 total)	253
Harsh Ditch Separation/Fairgrounds Area (\$17,922 total)	-

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

Cured In Place Pipe Rehabilitation	\$ 651,306
Vehicles for Operations	493,007
Replacement/Repairs of various pumps	276,609
Scherm Ditch/Princeton Pkwy CSO Separation	101,894
Renovations at Treatment Plants/Pump Stations	100,998
Riverport 1 Pump Station Renovations	67,622
Installation of Access Control Panels, Security/Locks	29,761
Upsizing of Sewer Line in Deer Valley Subdivision	24,587
Mall Force Main Repair - Salem Drive	17,229
VoIP Phone System	12,052

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset and Debt Administration, Continued

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

Hayden Road Area Sewer Extension	\$	68,783
Ultraviolet Disinfection System		63,200
Summit #1 Pump Station Rehab		34,041
David Hawes Plant Headworks/Bar Screen Upgrade		31,462
Cured In Place Pipe Rehab		27,270
Summit #3 Pump Station Rehab		19,189
David Hawes Plant Electrical Upgrade		12,939
David Hawes Plant Generator Replacement		5,993
Max Rhoads Press Building Repair		5,864
Central Tunnel Sewer Manhole Rehab		3,750
Ravine Sewer Upgrade Phase 2		103

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

Center Street Tunnel Rehab - 6th & Hathaway (\$1,168,074 to date)	\$	1,153,877
Harsh Ditch CSO Separation/Downstream Impr. (\$303,727 to date)		267,491
Masonville Sewer Extension (\$429,108 to date)		233,598
Southwest Master Pump Station (\$150,433 to date)		149,798
Old Hartford Road CSO Interceptor (\$466,218 to date)		1,423
Pleasant View Estates Sewer Extension (\$5,491 to date)		16

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 \$28,531,967 in bonds and loans outstanding versus \$29,871,168 last year, a decrease of 4.5%. The decrease is the result of \$2,716,910 in scheduled debt payments, along with additional borrowing of \$1,032,810 for Cured-In-Place-Pipe capital projects, \$241,740 for Sunrise Drive Sewer Extension/Harsh Combined Sewer Overflow (CSO) Separation, and \$103,159 for Masonville Sewer Extension.

RWRA has one bond issue outstanding, as well as one loan from the City of Owensboro. Other long-term obligations of RWRA include the net pension liability, accrued compensated absences and loans from the Kentucky Infrastructure Authority. RWRA's net pension liability was first required to be reported in fiscal year 2015 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/Customer Service Charge, an Environmental Improvement Monthly Fee, an Environmental Improvement Volume Charge, and Transported Waste.

Effective July 1, 2015, each metered customer was charged a Basic Service Charge, a flat amount of \$11.95/month; this charge included the first 750 gallons of wastewater usage. Usage above 750 gallons was charged \$4.39/1,000 gallons as the Wastewater User Charge. Effective January 1, 2016, the Basic Service Charge transitioned to a Customer Services Charge and grew by the same flat amount of \$11.95/month including 0 gallons of wastewater usage. Usage continued to be charged \$4.39/1,000 gallons. Revenue received from the Wastewater User Charge, the primary operational revenue source, saw a \$1,111,091 increase from the previous year from \$10,246,503 in fiscal year 2015 to \$11,357,594 in fiscal year 2016, a 10.8% increase. The Basic/Customer Service Charge saw a \$47,979 increase from fiscal year 2015 to 2016. An increase in the Customer Service Charge, approved in December 2014, took effect July 1, 2016. The Customer Service Charge increased from \$11.95 per month for each metered customer to \$12.95 per month. The Wastewater User Charge remained at \$4.39 per 1,000 gallons per month.

The Environmental Improvement Monthly Charge increased from \$1.00/month to \$2.95/month flat amount charged to all metered customers, effective July 1, 2015. In fiscal year 2016, this amounted to \$1,068,026; a \$687,153 or 196% increase from the prior year. A Volume Charge for all non-single-family-residential customers was charged for usage in excess of 15,000 gallons/month; the charge increase from \$0.07/1,000 gallons to \$0.21/1,000 gallons, effective July 1, 2015. In fiscal year 2016, revenue from this source was \$265,618; a \$169,060 or 175% increase from the prior year. An increase in the Environmental Improvement Monthly Charge and Volume Charge, approved in December 2014, took effect July 1, 2016. The Monthly Charge became \$3.95/month flat amount charged to all metered customers and the Volume Charge became \$0.28 per 1,000 gallons in excess of 15,000 gallons/month for all non-single-family-residential customers.

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 decreased from \$894,509 in fiscal year 2015 to \$797,720 in fiscal year 2016, a decrease of 10.8%.

The total revenue from the five components of Sewer Service Charge increased from \$15,775,703 in fiscal year 2015 to \$17,689,513 in fiscal year 2016, an increase of 12%.

Operational Expenses – Total operational expenses, excluding depreciation, increased from \$12,711,388 in fiscal year 2015 to \$13,190,457 in fiscal year 2016, an increase of \$479,069, or 3.8%. This increase is primarily attributable to the increase in pension expense resulting from the 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

Long-Term Trends

Capital Program – Extension of sewer service remains an area of importance. The Pleasant View Estates and Woodland South Subdivision's Sewer Extension projects are budgeted for the coming year. RWRA has also budgeted for the anticipated extension to and decommissioning of the abandoned package plants located at Cedar Hills and Friendly Park Subdivisions in the coming year. More detailed information regarding the status of these package plants is described in Note 14 of the notes to the financial statements. In addition to extensions of sewer service, RWRA is undertaking several projects associated with its Clean Water Act Combined Sewer Overflow (CSO) initiative. Projects budgeted for this coming year include key components for environmental improvement: the Southwest Master Pump Station System Improvements, the Ultraviolet Light Disinfection Systems Project, and the design for phase 2 of the Ravine Sewer Upgrade.

RWRA remains committed to maintaining and upgrading the existing infrastructure. Major capital rehabilitation projects include Treatment Plant Upgrades, Pump Station 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 project budgeted for this coming year is the installation of Ultraviolet Disinfection Systems at the Treatment Plants.

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). 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). On July 22, 2016, the Kentucky Division of Water issued a letter approving RWRA's revised Long-Term Control Plan which, when fully implemented, will cost the community approximately \$30 million. On July 28, 2016, the Environmental Protection Agency issued a letter accepting RWRA's revised Long-Term Control Plan and rescinded its previously issued Administrative Order. An Order was entered by the Franklin Circuit Court on September 12, 2016, accepting RWRA's Long-Term Control Plan for attachment to its Consent Judgement. Several projects associated with CSO improvements are included in RWRA's 2016-17 budget.

Long-Term Debt – Projects budgeted for sewer extensions, Clean Water Act improvements, and other capital improvements to RWRA's system in the amount of \$13.6 million are committed to be financed by borrowing. As described in Note 16 to the notes to the financial statements, subsequent to year end, RWRA refunded the 2007 bond issue, which resulted in a significant reduction in future debt service expense.

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 \$933,804 in fiscal year 2016. 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, with the intention to stay at or above these levels of reserve.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2016 and 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents	\$ 350	\$ 350
Equity in external investment pool	6,732,238	5,166,465
Due from Owensboro Municipal Utilities	2,001,250	1,744,308
Other receivables	1,781,055	1,548,444
Prepaid supplies	162,062	166,374
Other	<u>58,126</u>	<u>58,633</u>
Total current assets	<u>10,735,081</u>	<u>8,684,574</u>
Noncurrent assets:		
Restricted assets	3,433,804	3,410,049
Capital assets:		
Property, plant and equipment, net	<u>70,969,696</u>	<u>69,634,998</u>
Total noncurrent assets	<u>74,403,500</u>	<u>73,045,047</u>
Total assets	<u>85,138,581</u>	<u>81,729,621</u>
Deferred outflows of resources:		
Deferred charges on refunding	-	4,507
Pension deferred outflows	<u>1,523,845</u>	<u>716,459</u>
Total deferred outflows of resources	<u>1,523,845</u>	<u>720,966</u>
Total assets and deferred outflows of resources	<u>\$ 86,662,426</u>	<u>\$ 82,450,587</u>

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

Current liabilities:		
Accounts payable	\$ 1,295,387	\$ 883,131
Accrued liabilities	84,956	196,842
Compensated absences	57,166	42,831
Current maturities of long-term debt	2,510,156	2,822,470
Contracts and retainage payable	<u>172,544</u>	<u>124,556</u>
Total current liabilities	<u>4,120,209</u>	<u>4,069,830</u>
Noncurrent liabilities:		
Compensated absences	739,692	777,907
Net pension liability	7,471,958	5,477,000
Long-term debt	<u>25,996,709</u>	<u>27,021,311</u>
Total noncurrent liabilities	<u>34,208,359</u>	<u>33,276,218</u>
Total liabilities	<u>38,328,568</u>	<u>37,346,048</u>
Deferred inflows of resources:		
Pension deferred inflows	<u>-</u>	<u>611,000</u>
Net position:		
Net investment in capital assets	42,290,287	39,671,168
Restricted for equipment replacement	2,500,000	2,500,000
Restricted for debt service	933,804	910,049
Unrestricted	<u>2,609,767</u>	<u>1,412,322</u>
Total net position	<u>48,333,858</u>	<u>44,493,539</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 86,662,426</u>	<u>\$ 82,450,587</u>

See Notes to Financial Statements

REGIONAL WATER RESOURCE AGENCY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Sewer service charges	\$ 17,689,513	\$ 15,775,703
Industrial surcharge	824,881	873,259
Sewer taps	97,654	113,846
Storm water	559,263	599,980
Other	<u>471,003</u>	<u>324,774</u>
 Total operating revenues	 <u>19,642,314</u>	 <u>17,687,562</u>
Operating expenses:		
Field operations:		
Salaries, wages and benefits	2,155,448	1,833,966
Maintenance	967,740	830,264
Utilities	10,069	8,424
Supplies	90,350	133,943
Other	<u>42,241</u>	<u>46,321</u>
	<u>3,265,848</u>	<u>2,852,918</u>
Treatment plant operations:		
Salaries, wages and benefits	839,736	704,888
Maintenance	2,373	1,002
Utilities	1,235,476	1,170,508
Supplies	493,406	512,098
Other	<u>548,137</u>	<u>459,376</u>
	<u>3,119,128</u>	<u>2,847,872</u>
Maintenance operations:		
Salaries, wages and benefits	1,004,846	876,614
Maintenance	215,514	194,852
Utilities	498,189	457,901
Supplies	120,907	97,490
Other	<u>7,990</u>	<u>8,532</u>
	<u>1,847,446</u>	<u>1,635,389</u>
Agency administration:		
Salaries, wages and benefits	1,006,711	985,881
Maintenance	18,034	15,935
Utilities	44,680	39,810
Supplies	48,974	32,312
Other	<u>910,233</u>	<u>892,952</u>
	<u>2,028,632</u>	<u>1,966,890</u>
Operations administration:		
Salaries, wages and benefits	342,683	283,982
Maintenance	41,687	38,542
Utilities	25,032	30,020
Supplies	9,458	7,211
Other	<u>-</u>	<u>113</u>
	<u>418,860</u>	<u>359,868</u>

See Notes to Financial Statements

REGIONAL WATER RESOURCE AGENCY

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

Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating expenses, Continued:		
Engineering:		
Salaries, wages and benefits	1,121,509	964,234
Maintenance	13,186	11,369
Utilities	5,348	4,705
Supplies	20,079	30,066
Other	<u>298,891</u>	<u>826,433</u>
	<u>1,459,013</u>	<u>1,836,807</u>
Contractual services:		
Salaries, wages and benefits	293,457	240,311
Maintenance	511,813	651,140
Utilities	1,434	1,431
Supplies	30,839	38,309
Other	<u>213,987</u>	<u>280,453</u>
	<u>1,051,530</u>	<u>1,211,644</u>
Depreciation	<u>4,236,095</u>	<u>4,009,617</u>
Total operating expenses	<u>17,426,552</u>	<u>16,721,005</u>
Operating income	<u>2,215,762</u>	<u>966,557</u>
Nonoperating revenues (expenses):		
Gain (loss) on sale of capital assets	192,029	(24,379)
Investment income	138,991	96,991
Miscellaneous revenue	754,512	42,559
State contract revenue	-	230,662
State contract expense	-	(230,662)
Interest expense	(467,356)	(476,859)
Other income (expense)	<u>(145,186)</u>	<u>256,999</u>
Total nonoperating revenues (expenses)	<u>472,990</u>	<u>(104,689)</u>
Income before capital contributions	2,688,752	861,868
Capital contributions	<u>1,151,567</u>	<u>1,708,107</u>
Change in net position	<u>3,840,319</u>	<u>2,569,975</u>
Net position, beginning of year, before restatement	44,493,539	47,573,564
Cumulative effect of change in accounting principle	<u>-</u>	<u>(5,650,000)</u>
Net position, beginning of year, as restated	<u>44,493,539</u>	<u>41,923,564</u>
Net position, end of year	<u>\$ 48,333,858</u>	<u>\$ 44,493,539</u>

See Notes to Financial Statements

REGIONAL WATER RESOURCE AGENCY

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Receipts from customers	\$ 19,248,973	\$ 17,206,935
Other receipts	506,167	281,820
Payments to suppliers for goods or services	(5,961,004)	(6,555,325)
Payments to or on behalf of employees	<u>(6,323,584)</u>	<u>(6,173,518)</u>
Net cash provided by operating activities	<u>7,470,552</u>	<u>4,759,912</u>
Cash flows from capital and related financing activities:		
Principal payments under debt obligation	(2,716,909)	(2,491,463)
Proceeds from issuance of long-term debt	1,377,709	2,318,027
Interest paid	(460,565)	(465,563)
Gain (loss) on sale of property, plant and equipment	192,029	(24,379)
Acquisition and construction of property, plant and equipment	(5,336,893)	(3,705,778)
Capital grants	6,947	121,355
Capital contributions	<u>917,667</u>	<u>1,070,913</u>
Net cash used in capital and related financing activities	<u>(6,020,015)</u>	<u>(3,176,888)</u>
Cash flows from investing activities:		
Investment income	<u>138,991</u>	<u>96,991</u>
Net cash provided by investing activities	<u>138,991</u>	<u>96,991</u>
Net increase in cash and cash equivalents	1,589,528	1,680,015
Cash and cash equivalents, beginning of year	<u>8,576,864</u>	<u>6,896,849</u>
Cash and cash equivalents, end of year	<u>\$ 10,166,392</u>	<u>\$ 8,576,864</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	6,732,238	5,166,465
Restricted assets	<u>3,433,804</u>	<u>3,410,049</u>
	<u>\$ 10,166,392</u>	<u>\$ 8,576,864</u>

See Notes to Financial Statements

REGIONAL WATER RESOURCE AGENCY

STATEMENTS OF CASH FLOWS, Concluded

Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 2,215,762	\$ 966,557
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	4,236,095	4,009,617
Miscellaneous nonoperating income (expense)	506,167	281,820
Change in assets and liabilities:		
Decrease (increase) in assets:		
Due from Owensboro Municipal Utilities	(256,942)	(284,277)
Other operating receivables	(136,399)	(206,064)
Prepaid supplies and other	4,819	(39,141)
Increase (decrease) in liabilities:		
Accounts payable	412,256	324,112
Accrued liabilities	(111,886)	(16,172)
Compensated absences	(23,880)	10,989
Contracts and retainage payable	47,988	(9,070)
Net pension liability and deferrals	<u>576,572</u>	<u>(278,459)</u>
Net cash provided by operating activities	\$ <u>7,470,552</u>	\$ <u>4,759,912</u>
Noncash investing and capital activities:		
Unrealized gain (loss) on equity in external investment pool and the revenue bond debt service reserve	\$ (3,462)	\$ (31,507)
Contributed sewers	\$ 233,900	\$ 637,194

See Notes to Financial Statements

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2016 and 2015

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, 2016 and 2015

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, 2016 and 2015.

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, 2016 and 2015

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 plan, and additions to / deductions from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the plan. 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, 2016 and 2015

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, 2016 and 2015.

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

	<u>2016</u>	<u>2015</u>
Current assets:		
Equity in external investment pool	\$ 6,732,238	\$ 5,166,465
Noncurrent assets:		
Restricted assets	<u>2,709,821</u>	<u>2,706,851</u>
	<u>\$ 9,442,059</u>	<u>\$ 7,873,316</u>

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2016 and 2015

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>2016</u>		
Interest and dividends	\$ 127,827	\$ 14,626	\$ 142,453
Unrealized gain (loss)	<u>(9,620)</u>	<u>6,158</u>	<u>(3,462)</u>
	<u>\$ 118,207</u>	<u>\$ 20,784</u>	<u>\$ 138,991</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>

3. Restricted Assets

Assets are restricted for the following purposes at June 30:

	<u>2016</u>	<u>2015</u>
Equity in external investment pool:		
Maintenance and replacement reserve - KIA	\$ 2,500,000	\$ 2,500,000
Revenue bond debt service reserve	<u>209,821</u>	<u>206,851</u>
	2,709,821	2,706,851
Cash with trustee:		
Revenue bond debt service reserve	<u>723,983</u>	<u>703,198</u>
	<u>\$ 3,433,804</u>	<u>\$ 3,410,049</u>

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2016 and 2015

4. Property, Plant and Equipment

Property, plant and equipment activity for the year ended June 30, 2016, was as follows:

	Balance June 30, <u>2015</u>	<u>Additions</u>	<u>Deletions</u>	Balance June 30, <u>2016</u>
Utility assets:				
Land	\$ 704,647	\$ -	\$ -	\$ 704,647
Land improvements	83,672	389,507	-	473,179
Sewers	67,062,203	3,406,892	-	70,469,095
Equipment	10,141,439	979,619	(354,988)	10,766,070
Sewage treatment plant	<u>49,177,411</u>	<u>201,316</u>	<u>-</u>	<u>49,378,727</u>
Total, at original cost	<u>127,169,372</u>	<u>4,977,334</u>	<u>(354,988)</u>	<u>131,791,718</u>
Accumulated depreciation:				
Sewers	22,169,408	2,073,982	-	24,243,390
Equipment	6,932,086	837,051	(352,399)	7,416,738
Sewage treatment plant	<u>30,632,478</u>	<u>1,325,062</u>	<u>-</u>	<u>31,957,540</u>
Total accumulated depreciation	<u>59,733,972</u>	<u>4,236,095</u>	<u>(352,399)</u>	<u>63,617,668</u>
Construction in progress	<u>2,199,598</u>	<u>2,078,797</u>	<u>(1,482,749)</u>	<u>2,795,646</u>
Property, plant and equipment, net	<u>\$ 69,634,998</u>	<u>\$ 2,820,036</u>	<u>\$ (1,485,338)</u>	<u>\$ 70,969,696</u>

Depreciation expense totaled \$4,236,095 and \$4,009,617 for the years ended June 30, 2016 and 2015, respectively.

Additions to utility assets – sewers reflected above includes capital contributions recorded in the statements of revenues, expenses and changes in net position totaling \$1,151,567 and \$1,708,107 for the years ended June 30, 2016 and 2015, respectively.

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2016 and 2015

5. Long-Term Debt

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

Wastewater Revenue Bonds:	<u>2016</u>	<u>2015</u>
2007 Series A:		
4.00%, due serially 2017 to 2019	\$ 670,000	\$ 1,280,000
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>
	2,905,000	3,515,000

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	9,912,311	11,272,697
A06-02	1.0%	2027	4,325,691	4,678,912
A07-08	1.0%	2028	923,954	993,012
A10-13	1.0%	2032	5,625,389	5,900,894
A12-14	2.0%	2033	347,633	354,892
A12-15	1.0%	2033	2,336,875	1,304,065
A13-017	1.75%	2035	813,208	571,468
A13-028	1.75%	2035	279,469	176,310
A14-008	1.75%	2035	346,490	353,918
Note payable, related party			<u>715,947</u>	<u>750,000</u>
Total long-term debt			28,531,967	29,871,168
Less current maturities			(2,510,156)	(2,822,470)
Plus unamortized bond premiums			5,834	6,364
Less unamortized bond discounts			<u>(30,936)</u>	<u>(33,751)</u>
			\$ <u>25,996,709</u>	\$ <u>27,021,311</u>

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2016 and 2015

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.

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, 2016 and 2015

5. Long-Term Debt, Continued

The following is a summary of long-term debt activity for the year ended June 30, 2016:

	Balance June 30, <u>2015</u>	<u>Additions</u>	<u>Deductions</u>	Balance June 30, <u>2016</u>	Amounts Due Within <u>One Year</u>
Revenue Bonds:					
2007 Series A	\$ 3,515,000	\$ -	\$ (610,000)	\$ 2,905,000	\$ 215,000
KIA Loans:					
A99-04	11,272,696	-	(1,360,385)	9,912,311	1,374,023
A06-02	4,678,912	-	(353,221)	4,325,691	356,761
A07-08	993,013	-	(69,059)	923,954	69,751
A10-13	5,900,894	-	(275,505)	5,625,389	278,266
A12-14	354,892	-	(7,259)	347,633	14,738
A12-15	1,304,065	1,032,810	-	2,336,875	106,104
A13-017	571,468	241,740	-	813,208	34,284
A13-028	176,310	103,159	-	279,469	11,782
A14-008	353,918	-	(7,428)	346,490	15,052
Note payable, related party	<u>750,000</u>	<u>-</u>	<u>(34,053)</u>	<u>715,947</u>	<u>34,395</u>
	29,871,168	1,377,709	(2,716,910)	28,531,967	2,510,156
Deferred amounts:					
For issuance premiums	6,364	-	(530)	5,834	-
For issuance discounts	<u>(33,751)</u>	<u>-</u>	<u>2,815</u>	<u>(30,936)</u>	<u>-</u>
	<u>\$ 29,843,781</u>	<u>\$ 1,377,709</u>	<u>\$ (2,714,625)</u>	<u>\$ 28,506,865</u>	<u>\$ 2,510,156</u>

Annual debt service requirements are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 2,510,156	\$ 384,034	\$ 2,894,190
2018	2,543,775	351,616	2,895,391
2019	2,572,642	318,649	2,891,291
2020	2,606,759	284,981	2,891,740
2021	2,641,130	250,348	2,891,478
2022-2026	9,285,626	756,199	10,041,825
2027-2031	3,942,556	246,072	4,188,628
2032-2036	<u>2,429,323</u>	<u>67,920</u>	<u>2,497,243</u>
Total	<u>\$ 28,531,967</u>	<u>\$ 2,659,819</u>	<u>\$ 31,191,786</u>

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2016 and 2015

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 \$48,561 and \$65,244, for the years ended June 30, 2016 and 2015, respectively. Four and six participants received benefits in fiscal years 2016 and 2015, 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 \$0 and \$4,507 at June 30, 2016 and 2015, respectively, and the pension deferred outflows totaling \$1,523,845 and \$716,459, respectively at June 30, 2016 and 2015. 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, 2016 and 2015

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 \$0 and \$611,000, respectively at June 30, 2016 and 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 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 through its pension fund. 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. Plan members with a participating date on or after January 1, 2014, are eligible for retirement benefits under the provisions established for a hybrid Cash Balance Plan.

CERS also provides for retiree medical benefits through its insurance fund. Generally accepted accounting and financial reporting principles do not currently require recognition and reporting of the liabilities, deferred outflows of resources, deferred inflows of resources, and expense associated with this postemployment benefit. Therefore, such information has not been reflected in these financial statements.

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2016 and 2015

8. Pension Plan, Continued

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 to the pension fund. For Plan members who began participating in CERS on or after September 1, 2008, the contribution rate is 6%, of which 1% is contributed to the insurance fund. The Agency's actuarially determined contribution rate for the year ended June 30, 2016, was 17.06% of annual creditable compensation, of which 12.42% and 4.64% was contributed to the pension and insurance funds within CERS, respectively. Contributions to the CERS pension fund by the Agency were \$512,878 for the year ended June 30, 2016.

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

At June 30, 2016, the Agency reported a liability of \$7,471,958 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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 the June 30, 2015, measurement date, the Agency's proportion was 0.173786%, an increase of 0.004980% from its proportion measured as of June 30, 2014, of 0.168806%.

For the year ended June 30, 2016, the Agency recognized pension expense of \$1,089,450. At June 30, 2016, 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
Differences between expected and actual experience	\$ 62,095	\$ -
Changes of assumptions	753,465	-
Changes in proportion and differences between contributions and proportionate share of contributions	128,427	-
Net difference between projected and actual earnings on plan investments	66,980	-
Pension contributions subsequent to the measurement date	512,878	-
Total	\$ 1,523,845	\$ -

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2016 and 2015

8. Pension Plan, Continued

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

The \$512,878 of deferred outflows of resources resulting from the Agency's pension contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,	
2017	\$ 354,529
2018	354,529
2019	170,602
2020	<u>131,307</u>
	<u>\$ 1,010,967</u>

Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 %
Salary increases	4.00% average, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

Discount Rate

The discount rate used to measure the total pension liability was 7.50%, a decrease of 0.25% from the prior year rate of 7.75%. The discount rate does not use a municipal bond rate.

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2016 and 2015

8. Pension Plan, Continued

Projected Cash Flows

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 28 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

Long-Term Rate of Return

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. 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 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 covers a longer timeframe. 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.

Periods of Projected Benefit Payments

Projected future benefit payments for all current plan members were projected through 2117.

Assumed Asset Allocation

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2016 and 2015

8. Pension Plan, Continued

Assumed Asset Allocation, Continued

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Combined equity	44%	5.40%
Combined fixed income	19	1.50
Real return (diversified inflation strategies)	10	3.50
Real estate	5	4.50
Absolute return (diversified hedge funds)	10	4.25
Private equity	10	8.50
Cash equivalents	2	-0.25
Total	100%	

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 7.50%, 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 (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	Discount rate	Agency's proportionate share of net pension liability
1% decrease	6.50%	\$9,538,902
Current discount rate	7.50%	\$7,471,958
1% increase	8.50%	\$5,701,832

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.

Payable to the Pension Plan

The Agency reported payables of \$12,275 and \$33,335 for the outstanding amount of contributions due to the CERS pension fund for the years ended June 30, 2016 and 2015, respectively.

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2016 and 2015

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. The following rates were effective during fiscal year ending June 30, 2016.

Basic/Customer Service Charge

A monthly Basic Service Charge of \$11.95, which provided up to 750 gallons of wastewater treatment service, was charged to all RWRA Customers. Effective January 2016, this \$11.95 monthly charge provided 0 gallons of wastewater treatment services and became titled Customer Service Charge.

Wastewater User Charges

The Wastewater user charge was \$4.39 per 1,000 gallons of water usage (above any gallons included in the Basic Service Charge) for all Agency customers (i.e., industrial, commercial, residential, etc.).

Environmental Improvement Fee

A monthly fee for community environmental improvements was charged to all RWRA customers in the amount of \$2.95.

For non-single-family-residential customers whose monthly billable volume exceeded 15,000 gallons, a volume surcharge in the amount of \$0.21 per 1,000 gallons was charged on the volume above 15,000 gallons.

Quality Surcharge

Commercial/Industrial customers with high-strength waste above the RWRA discharge limits were assessed quality surcharges. Biochemical Oxygen Demand (B.O.D.) and Total Suspended Solids (T.S.S.) were \$0.220 and \$0.212 per pound, respectively, for strength exceeding 265mg/l. Quality surcharges for customers exceeding 100 mg/l of Fats, Oils and Grease (F.O.G.) was \$.221 per pound.

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2016 and 2015

10. Rate Structure, Continued

Capacity Fee

The Capacity fee for each Equivalent Residential Unit (ERU) was \$525.00. Qualified existing users were allowed to pay the \$525.00 in 240 monthly installments of \$3.76/month. ERU calculation methodology remained unchanged.

System Development Fee

The System Development Fee for each original ERU in the pre-2000 service areas was \$1,053. Qualified existing users are allowed to pay this fee in 240 monthly installments of \$4.95/month. Between 2000 and 2013, users were charged a System Development Fee of \$1,320.00 and qualified existing users were allowed to pay this fee in 240 monthly installments of \$6.21/month. Current developing areas have a System Development Fee per ERU of \$2,178.00. Qualified existing users are allowed to pay this amount in 240 monthly installments of \$13.78/month. All customers requiring a permit for new construction were assessed the applicable System Development Fee as a part of the permit application process.

Assessment Fees

When RWRA constructs necessary wastewater facilities in unsewered areas, all costs associated with the capital construction (i.e., construction, engineering, easement acquisition, etc.) are assessed on a pro-rata basis to all benefited properties within an assessment zone. RWRA notifies property owners and they can elect to pay the related costs in a lump sum or may finance the assessment amount over a 20-year period. Owners choosing to finance their assessment shall have an apportionment warrant (lien) filed on the benefited property.

Connection Fee

The Connection Fee is a one-time charge, per connection to the Agency system. This fee may range from \$300 per residential unit up to \$1,000 per unit for commercial, industrial and institutional.

Disposal of Transported Waste

The Agency assesses a fee for the treatment and proper disposal of acceptable waste transported to an Agency facility. The applicable wastewater user charges and surcharges are applied to determine the transported waste charge to be used for a specific waste discharged at RWRA facilities. The base fee for domestic waste was \$5.11 per 100 gallons, which increased to \$5.15 per 100 gallons beginning January 1, 2016. The calculated charge for non-domestic waste (i.e., industrial, commercial, etc.) varies depending on the nature, origin and strength of the waste. The disposal charges for yellow and brown grease were \$0.10 and \$0.07 per gallon, respectively, for waste collected and delivered from within Daviess County. For all waste types collected and delivered to RWRA from outside Daviess County, the disposal charge is doubled. In addition, qualified haulers pay an annual \$200 fee for a disposal permit.

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2016 and 2015

10. Rate Structure, Continued

Industrial Monitoring

Industries that require or request RWRA to perform a sample or test on their discharge reimburses the Agency for the laboratory testing costs.

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, excluding run-in claims incurred in the prior year, up to \$1,029,159 and \$1,102,113, for plan years ending October 31, 2016 and 2015, 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 \$1,202,751 and \$898,597 for the years ended June 30, 2016 and 2015, respectively. Settled claims have not exceeded insurance coverage for 2016 or 2015, 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 \$345,872 and \$373,328 for the years ended June 30, 2016 and 2015, respectively, of which none was payable at each fiscal year end.

The Agency also has a note payable to the City as described in Note 5.

Amounts paid to Daviess County Fiscal Court for landfill services for the years ended June 30, 2016 and 2015, totaled \$393,248 and \$416,586, of which \$28,912 and \$26,540 was payable at each fiscal year end, respectively.

13. Major Customer

The Agency had a major industrial customer for which wastewater treatment services were provided in fiscal year 2015. Service income from the customer totaled \$2,084,386 or 11.8% of operating revenues for the fiscal year, of which \$129 was receivable at June 30, 2015. There were no major customers for the year ended June 30, 2016.

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2016 and 2015

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.

On July 22, 2016, the Kentucky Division of Water issued a letter approving RWRA's revised Long-Term Control Plan which, when fully implemented, will cost the community approximately \$30 million. On July 28, 2016, the Environmental Protection Agency issued a letter accepting RWRA's revised Long-Term Control Plan and rescinded its previously issued Administrative Order. An Order was entered by the Franklin Circuit Court on September 12, 2016, accepting RWRA's Long-Term Control Plan for attachment to its Consent Judgment.

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2016 and 2015

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 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.

Long-Term Debt

As of June 30, 2016, RWRA has received Conditional Commitment Letters for future borrowing through the Kentucky Infrastructure Authority totaling approximately \$13.6 million to finance various planned sewer improvement projects. Assistance agreements have not yet been executed.

Package Plants

On March 30, 2015, both Cedar Hills Sanitation Disposal Corporation and Friendly Park Development, Inc. filed a Motion to Abandon their respective package plants with the Public Service Commission (PSC). Through subsequent negotiations between RWRA, Daviess County Fiscal Court (DCFC), PSC, and the Kentucky Division of Water (KDOW), it has been agreed upon that RWRA will extend its existing collector system out to both plants, and decommission the failing plants once connected. RWRA will be appointed the receiver of both entities (package plants and the respective collector systems) toward the end of 2016. Once appointed, RWRA will begin the process of the design and construction of the extensions. It is anticipated RWRA will have both neighborhoods connected to its system within the next four to five years. It is anticipated that during the receivership phase, RWRA will operate and manage both plants with a combination of RWRA personnel and contractor services. A portion of the cost of this work will be paid by the Daviess County Fiscal Court. The balance of the cost will be passed onto the residents of Cedar Hills and Friendly Park. The estimated cost of the extension to the two package plants is not known as of this time because the design of the system has not yet begun.

15. 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 amended or superseded the accounting and financial reporting guidance for pensions that are provided to the employees

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2016 and 2015

15. Impact of Recently Issued Accounting Principles, Continued

of state and local governmental employers through pension plans administered through trusts. The objective was to improve accounting and financial reporting for pensions by state and local governments.

In the financial statements, the implementation of GASBS No. 68 resulted in a \$5,650,000 reduction of beginning net position. Accordingly, net position at June 30, 2014, previously reported at \$47,573,564 was restated as \$41,923,564 to reflect this change.

16. Subsequent Events

On October 11, 2016, RWRA issued Wastewater Revenue Refunding Bonds, Series 2016 in the amount of \$2,570,000. Interest rates range from 2.00% to 2.125% and the bonds mature on January 1, 2027. Proceeds of the bonds were used to defease the Wastewater Revenue Bonds 2007 Series A.

REGIONAL WATER RESOURCE AGENCY

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

Last 10 Fiscal Years *

	<u>2016</u>	<u>2015</u>
Agency's proportion of the net pension liability	0.173786%	0.168806%
Agency's proportionate share of the net pension liability	\$ 7,471,958	\$ 5,477,000
Agency's covered-employee payroll	\$ 4,074,363	\$ 3,881,975
Agency's proportionate share of the net pension liability as a percentage of its covered-employee payroll	183.39%	141.09%
Plan fiduciary net position as a percentage of the total pension liability	59.97%	66.80%

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

REGIONAL WATER RESOURCE AGENCY
SCHEDULE OF CONTRIBUTIONS
COUNTY EMPLOYEES RETIREMENT SYSTEM
PENSION FUND

Last 10 Fiscal Years *

	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 512,878	\$ 519,337
Contributions in relation to the contractually required contributions	<u>(512,878)</u>	<u>(519,337)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Agency's covered-employee payroll	\$ 4,129,449	\$ 4,074,363
Contributions as a percentage of covered-employee payroll	12.42%	12.75%

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

REGIONAL WATER RESOURCE AGENCY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
COUNTY EMPLOYEES RETIREMENT SYSTEM
PENSION FUND

Year Ended June 30, 2016

Changes of Benefit Terms

None

Changes of Assumptions

The assumed investment rate of return was decreased from 7.75% to 7.50%.

The assumed rate of inflation was reduced from 3.50% to 3.25%.

The assumed rate of wage inflation was reduced from 1.00% to 0.75%.

Payroll growth assumption was reduced from 4.50% to 4.00%.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

REGIONAL WATER RESOURCE AGENCY

SCHEDULES OF REVENUES, EXPENSES, CAPITAL OUTLAY AND DEBT PROCEEDS
—BUDGET AND ACTUAL

Years Ended June 30, 2016 and 2015

	2016				2015			
	Budget		Actual	Variance with Final Budget Favorable (Unfavorable)	Budget		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final			Original	Final		
Operating revenues:								
Sewer service charges	\$ 18,249,224	\$ 18,201,230	\$ 17,689,513	\$ (511,717)	\$ 14,411,318	\$ 15,211,318	\$ 15,775,703	\$ 564,385
Industrial surcharge	865,000	865,000	824,881	(40,119)	900,000	900,000	873,259	(26,741)
Sewer taps	100,000	100,000	97,654	(2,346)	100,000	100,000	113,846	13,846
Storm water	433,321	433,321	559,263	125,942	420,700	420,700	599,980	179,280
Other	418,910	418,910	471,003	52,093	195,000	295,000	324,774	29,774
Total operating revenues	\$ 20,066,455	\$ 20,018,461	\$ 19,642,314	\$ (376,147)	\$ 16,027,018	\$ 16,927,018	\$ 17,687,562	\$ 760,544
Operating expenses:								
Field operations:								
Salaries, wages and benefits	\$ 2,074,016	\$ 2,059,016	\$ 2,155,448	\$ (96,432)	\$ 1,991,948	\$ 1,984,803	\$ 1,833,966	\$ 150,837
Maintenance	725,000	970,031	967,740	2,291	577,250	831,899	830,264	1,635
Utilities	11,000	11,000	10,069	931	7,980	8,425	8,424	1
Supplies	195,500	105,567	90,350	15,217	198,000	151,050	133,943	17,107
Other	58,500	50,975	42,241	8,734	61,500	48,500	46,321	2,179
	<u>3,064,016</u>	<u>3,196,589</u>	<u>3,265,848</u>	<u>(69,259)</u>	<u>2,836,678</u>	<u>3,024,677</u>	<u>2,852,918</u>	<u>171,759</u>
Treatment plant operations:								
Salaries, wages and benefits	807,000	814,500	839,736	(25,236)	761,188	758,188	704,888	53,300
Maintenance	7,500	5,885	2,373	3,512	7,000	1,553	1,002	551
Utilities	1,197,500	1,238,665	1,235,476	3,189	1,156,500	1,172,880	1,170,508	2,372
Supplies	561,000	515,185	493,406	21,779	558,500	521,799	512,098	9,701
Other	465,300	578,995	548,137	30,858	451,100	466,798	459,376	7,422
	<u>3,038,300</u>	<u>3,153,230</u>	<u>3,119,128</u>	<u>34,102</u>	<u>2,934,288</u>	<u>2,921,218</u>	<u>2,847,872</u>	<u>73,346</u>
Maintenance operations:								
Salaries, wages and benefits	992,877	977,777	1,004,846	(27,069)	947,583	943,083	876,614	66,469
Maintenance	300,500	262,663	215,514	47,149	293,500	203,000	194,852	8,148
Utilities	463,076	513,176	498,189	14,987	484,732	471,732	457,901	13,831
Supplies	109,700	122,400	120,907	1,493	105,000	97,965	97,490	475
Other	7,500	7,990	7,990	-	7,500	8,700	8,532	168
	<u>1,873,653</u>	<u>1,884,006</u>	<u>1,847,446</u>	<u>36,560</u>	<u>1,838,315</u>	<u>1,724,480</u>	<u>1,635,389</u>	<u>89,091</u>
Agency administration:								
Salaries, wages and benefits	1,018,164	1,018,164	1,006,711	11,453	936,781	1,044,195	985,881	58,314
Maintenance	21,650	22,648	18,034	4,614	19,750	16,860	15,935	925
Utilities	45,006	45,006	44,680	326	40,745	40,745	39,810	935
Supplies	50,600	62,065	48,974	13,091	53,400	40,775	32,312	8,463
Other	1,000,510	990,550	910,233	80,317	942,902	926,132	892,952	33,180
	<u>2,135,930</u>	<u>2,138,433</u>	<u>2,028,632</u>	<u>109,801</u>	<u>1,993,578</u>	<u>2,068,707</u>	<u>1,966,890</u>	<u>101,817</u>

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

Years Ended June 30, 2016 and 2015

	2016				2015			
	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	315,023	323,423	342,683	(19,260)	318,457	305,077	283,982	21,095
Maintenance	45,950	47,150	41,687	5,463	44,880	44,880	38,542	6,338
Utilities	32,780	33,082	25,032	8,050	32,780	32,780	30,020	2,760
Supplies	14,250	14,333	9,458	4,875	14,000	13,785	7,211	6,574
Other	400	-	-	-	500	500	113	387
	<u>408,403</u>	<u>417,988</u>	<u>418,860</u>	<u>(872)</u>	<u>410,617</u>	<u>397,022</u>	<u>359,868</u>	<u>37,154</u>
Engineering:								
Salaries, wages and benefits	1,071,479	1,071,479	1,121,509	(50,030)	1,061,886	1,027,267	964,234	63,033
Maintenance	16,500	16,455	13,186	3,269	16,000	16,000	11,369	4,631
Utilities	5,580	5,580	5,348	232	5,400	5,400	4,705	695
Supplies	38,800	38,095	20,079	18,016	35,500	39,100	30,066	9,034
Other	368,100	367,053	298,891	68,162	380,500	936,267	826,433	109,834
	<u>1,500,459</u>	<u>1,498,662</u>	<u>1,459,013</u>	<u>39,649</u>	<u>1,499,286</u>	<u>2,024,034</u>	<u>1,836,807</u>	<u>187,227</u>
Contractual services:								
Salaries, wages and benefits	265,018	279,218	293,457	(14,239)	259,710	256,735	240,311	16,424
Maintenance	615,000	526,484	511,813	14,671	465,000	683,959	651,140	32,819
Utilities	2,160	2,160	1,434	726	1,380	1,435	1,431	4
Supplies	63,700	54,146	30,839	23,307	113,500	56,895	38,309	18,586
Other	280,500	228,600	213,987	14,613	291,300	285,314	280,453	4,861
	<u>1,226,378</u>	<u>1,090,608</u>	<u>1,051,530</u>	<u>39,078</u>	<u>1,130,890</u>	<u>1,284,338</u>	<u>1,211,644</u>	<u>72,694</u>
Depreciation	-	-	4,236,095	(4,236,095)	-	-	4,009,617	(4,009,617)
Total operating expenses	<u>13,247,139</u>	<u>13,379,516</u>	<u>17,426,552</u>	<u>(4,047,036)</u>	<u>12,643,652</u>	<u>13,444,476</u>	<u>16,721,005</u>	<u>(3,276,529)</u>
Capital outlay	<u>18,003,500</u>	<u>21,180,931</u>	<u>5,339,483</u>	<u>15,841,448</u>	<u>12,777,000</u>	<u>15,220,090</u>	<u>3,795,177</u>	<u>11,424,913</u>
Total operating expenses and capital outlay	<u>\$ 31,250,639</u>	<u>\$ 34,560,447</u>	<u>\$ 22,766,035</u>	<u>\$ 11,794,412</u>	<u>\$ 25,420,652</u>	<u>\$ 28,664,566</u>	<u>\$ 20,516,182</u>	<u>\$ 8,148,384</u>
Nonoperating revenues (expenses):								
Gain on sale of capital assets	\$ 217,132	\$ 217,132	\$ 192,029	\$ (25,103)	\$ 135,000	\$ 135,000	\$ (24,379)	\$ (159,379)
Investment income	78,520	78,520	138,991	60,471	54,061	54,061	96,991	42,930
Miscellaneous revenue	20,000	640,000	754,512	114,512	20,000	68,343	42,559	(25,784)
State contract revenue	-	-	-	-	-	-	230,662	230,662
State contract expense	-	-	-	-	-	-	(230,662)	(230,662)
Interest expense	(530,976)	(530,976)	(467,356)	63,620	(504,465)	(504,465)	(476,859)	27,606
Miscellaneous expense	(1,300)	(52,220)	(145,186)	(92,966)	(1,105)	(26,508)	256,999	283,507
Total nonoperating revenues (expenses)	<u>(216,624)</u>	<u>352,456</u>	<u>472,990</u>	<u>120,534</u>	<u>(296,509)</u>	<u>(273,569)</u>	<u>(104,689)</u>	<u>168,880</u>
Debt proceeds	<u>(13,394,500)</u>	<u>(14,144,500)</u>	<u>1,377,709</u>	<u>15,522,209</u>	<u>(10,355,000)</u>	<u>(12,087,149)</u>	<u>2,456,712</u>	<u>14,543,861</u>
Total nonoperating revenues (expenses) and debt proceeds	<u>\$ (13,611,124)</u>	<u>\$ (13,792,044)</u>	<u>\$ 1,850,699</u>	<u>\$ 15,642,743</u>	<u>\$ (10,651,509)</u>	<u>\$ (12,360,718)</u>	<u>\$ 2,352,023</u>	<u>\$ 14,712,741</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, 2016, and the related notes to the financial statements, and have issued our report thereon dated October 24, 2016.

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.

 Riney Hancock CPAs PSC

Owensboro, Kentucky
October 24, 2016