

REGIONAL WATER RESOURCE AGENCY

***FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION***

Years Ended June 30, 2017 and 2016

(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 business-type activities and the fiduciary activities of the Regional Water Resource Agency (RWRA) as of and for the year ended June 30, 2017, and the business-type activities of RWRA as of and for the year ended June 30, 2016, and the related notes to the financial statements, which comprise RWRA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the fiduciary activities of the Regional Water Resource Agency as of June 30, 2017 and 2016, and the respective changes in financial position, and, where applicable, cash flows thereof 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 3-9 and 41-43 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2017, 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.

Ricardo Hancock CPAs PSC

Owensboro, Kentucky
November 15, 2017

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, 2017. We encourage readers to consider the information presented here in conjunction with our financial statements, which begin on page 10.

FINANCIAL HIGHLIGHTS

- The assets of RWRA exceeded its liabilities at the close of the current fiscal year by \$53.5 million (net position). Of this amount, \$5.9 million (unrestricted net position) may be used to meet RWRA's ongoing obligations to customers and creditors.
- RWRA's total net position increased by \$5.2 million in 2017. This represents a 10.7% change from the 2016 balance.
- The operating revenues of RWRA increased by \$1.7 million to \$21.4 million at the close of the current fiscal year. This represents a 8.9% change from 2016.
- The operating expenses excluding depreciation increased by \$0.8 million to \$14 million at the close of the current fiscal year. This represents a 6.4% change from 2016.

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 10 through 14 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 15 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 \$53,539,855 at the close of the current fiscal year.

The largest portion of RWRA's net position (84%) 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.

	Condensed Statements of Net Position	
	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 17,905,142	\$ 14,168,885
Capital assets	73,596,555	70,969,696
Deferred outflows of resources	2,204,025	1,523,845
Total assets and deferred outflows of resources	<u>93,705,722</u>	<u>86,662,426</u>
Long-term liabilities	35,516,645	34,208,359
Other liabilities	4,649,222	4,120,209
Deferred inflows of resources	-	-
Total liabilities and deferred inflows of resources	<u>40,165,867</u>	<u>38,328,568</u>
Net position:		
Net investment in capital assets	44,748,290	42,290,287
Restricted	2,830,569	3,433,804
Unrestricted	5,960,996	2,609,767
Total net position	<u>\$ 53,539,855</u>	<u>\$ 48,333,858</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis, Continued

	<u>Condensed Statements of Revenues, Expenses and Change in Net Position</u>	
	<u>2017</u>	<u>2016</u>
Revenues:		
Operating revenues	\$ 21,407,439	\$ 19,642,314
Investment income	127,189	138,991
Capital contributions	1,977,837	1,151,567
Other revenues	<u>577,531</u>	<u>946,541</u>
 Total revenues	 <u>24,089,996</u>	 <u>21,879,413</u>
Expenses:		
Operating expenses (excluding depreciation)	14,037,317	13,190,457
Depreciation expense	4,298,918	4,236,095
Interest expense	357,371	467,356
Other	<u>190,393</u>	<u>145,186</u>
 Total expenses	 <u>18,883,999</u>	 <u>18,039,094</u>
 Change in net position	 5,205,997	 3,840,319
 Net position – beginning of year	 <u>48,333,858</u>	 <u>44,493,539</u>
 Net position – end of year	 <u>\$ 53,539,855</u>	 <u>\$ 48,333,858</u>

RWRA's net position increased by \$5,205,997 during the current year. Operating revenues increased by \$1,765,125, while operating expenses and depreciation increased \$909,683 from fiscal year 2016 levels. Key elements of these changes are explained in greater detail under the Review of Operations section.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset and Debt Administration

Capital Assets – RWRA's investment in capital assets as of June 30, 2017, amounts to \$73,596,555 (net of accumulated depreciation). Investment in capital assets increased by approximately 3.7% during the year. Below is a comparison of the items that make up capital assets as of June 30, 2017, with that of June 30, 2016.

	<u>2017</u>	<u>2016</u>
Land and Improvements	\$ 1,177,826	\$ 1,177,826
Sewage Treatment Plants	16,621,300	17,421,187
Sewers	45,696,139	46,225,705
Equipment	3,385,277	3,349,332
Construction in Progress	<u>6,716,013</u>	<u>2,795,646</u>
 Total capital assets	 <u>\$ 73,596,555</u>	 <u>\$ 70,969,696</u>

Major capital asset activity for the current fiscal year included:

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

Summit #1 Pump Station Rehab (\$64,931 total)	\$ 30,890
Summit #3 Pump Station Rehab (\$50,954 total)	31,765
Max Rhoads Press Building Repair (\$518,114 total)	512,250
Old Hartford Road CSO Interceptor (\$470,218 to date)	4,000

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

Brookfield Subdivision Sanitary Sewer Line Upsizing	\$ 5,849
Vehicles for Operations	449,119
Replacement/Repairs of Various Pumps	234,458
Renovations at Treatment Plants/Pump Stations	55,916
Metal Lathe	7,565
Infosense Sewer Line Rapid Assessment Tool	19,900
Off Road Yard Tractor (Used)	65,195

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset and Debt Administration, Continued

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

RWRA Camera Replacement/Surveillance Upgrade	\$	22,951
East 2nd St. Sewer Separation		1,250
Sorgho-Woodland South Ph. 2		23,472
Cedar Hills Sewer Extension (Design)		34,753
Friendly Park Sewer Extension (Design)		59,353
Cedar Hills Pkg Plant Rehab		12,000

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

David Hawes Plant Misc. Upgrades (\$325,418 to date)	\$	253,913
Center Street Tunnel Rehab - 6th & Hathaway (\$1,168,074 to date)		-
Harsh Ditch CSO Separation/Downstream Improv. (\$312,595 to date)		8,868
Masonville Sewer Extension (\$1,381,145 to date)		952,037
Southwest Master Pump Station (\$357,541 to date)		207,108
Pleasant View Estates Sewer Extension (\$32,729 to date)		27,238
Hayden Road Area Sewer Extension (\$316,376 to date)		247,593
Max Rhoads Ultra Violet Disinfection System (\$2,031,805 to date)		1,989,716
Cured In Place Pipe Rehab (\$557,265 to date)		529,995
Central Tunnel Sewer Manhole Rehab (\$3,750 to date)		-
Ravine Sewer Upgrade Phase 2 (\$75,534 to date)		75,430

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 \$28,566,630 in bonds and loans outstanding versus \$28,531,967 last year, an increase of .01%.

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 required amount, for the first time 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, 2016, each metered customer was charged a Basic Service Charge, a flat amount of \$12.95/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 fixed component transitioned to a Customer Services Charge and grew by the same flat amount of \$12.95/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 \$588,055 increase from the previous year from \$11,357,594 in fiscal year 2016 to \$11,945,649 in fiscal year 2017, a 5.2% increase. The Basic/Customer Service Charge saw a \$388,040 increase from fiscal year 2016 to 2017. An increase in the Customer Service Charge, approved in December 2014, took effect July 1, 2016. The Customer Service Charge grew 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 \$2.95/month to \$3.95/month flat amount charged to all metered customers, effective July 1, 2016. In fiscal year 2017, this amounted to \$1,409,631; a \$371,605 or 35% 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 increase from \$0.21/1,000 gallons to \$0.28/1,000 gallons, effective July 1, 2016. In fiscal year 2017, revenue from this source was \$363,729; a \$98,112 or 37% increase from the prior year. An increase in the Environmental Improvement Monthly Charge and Volume Charge, approved in December 2014, took effect July 1, 2017. 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-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 increased from \$796,415 in fiscal year 2016 to \$996,852 in fiscal year 2017, an increase of 25%.

The total revenue from the five components of Sewer Service Charge increased from \$17,689,513 in fiscal year 2016 to \$19,325,245 in fiscal year 2017, an increase of 9%.

Operational Expenses – Total operational expenses, excluding depreciation, increased from \$13,190,457 in fiscal year 2016 to \$14,037,317 in fiscal year 2017, an increase of \$846,860, or 6.4%. The largest portion of this increase, \$478,896, was an increase in personnel costs, approximately 7% more in 2017 than in fiscal year 2016. This was due to several factors, including a pay study being performed and resulting in a 3.27 % increase given to all eligible employees effective July 1, 2016, the replacement of the Director of Finance & Administration position filled in April 2017, which included an overlap. Also a Finance & Administration Assistant position was created.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Long-Term Trends

Capital Program – Extension of sewer service remains an area of importance. RWRA has also budgeted for the anticipated extension and/or replacement 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 are located in Note 15 of the notes to the financial statements. In addition to extensions of sewer service, RWRA is undertaking several projects in the approved Long-Term Control Plan (LTCP) which is associated with the Clean Water Act's Combined Sewer Overflow (CSO) initiative. Projects budgeted for this coming year include a key component for environmental improvement which is the Southwest Master Pump Station System Improvements, the Ultraviolet Light Disinfection Systems Project, and the construction of 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 couple of projects budgeted for this coming year includes the completion of the installation of Ultraviolet Disinfection System at the Max Rhoads Wastewater Treatment Plant and the installation of the Ultraviolet Disinfection System at the David Hawes Wastewater Treatment Plant and the upgrade of the sludge processing at the Max Rhoads Plant.

Long-Term Debt – Projects budgeted for sewer extensions and Clean Water Act improvements in the amount of \$12,600,000 will be financed by borrowing. We will continue to look for opportunities that offer savings on restructuring RWRA's debt in the future.

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 \$330,569 in fiscal year 2017. 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, 2017 and 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 350	\$ 350
Equity in external investment pool	10,794,661	6,732,238
Due from Owensboro Municipal Utilities	1,992,846	2,001,250
Accounts receivable	1,951,934	1,677,896
Grant receivables	-	103,159
Due from fiduciary funds	100,720	-
Prepaid supplies	160,008	162,062
Other current assets	74,054	58,126
	<hr/>	<hr/>
Total current assets	15,074,573	10,735,081
Noncurrent assets:		
Restricted assets	2,830,569	3,433,804
Capital assets:		
Property, plant and equipment, net	73,596,555	70,969,696
	<hr/>	<hr/>
Total noncurrent assets	76,427,124	74,403,500
Total assets	<hr/>	<hr/>
	91,501,697	85,138,581
Deferred outflows of resources:		
Deferred charges on refunding	81,902	-
Pension deferred outflows	2,122,123	1,523,845
	<hr/>	<hr/>
Total deferred outflows of resources	2,204,025	1,523,845
Total assets and deferred outflows of resources	<hr/> \$ 93,705,722	<hr/> \$ 86,662,426

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

Current liabilities:		
Accounts payable	\$ 1,499,127	\$ 1,295,387
Accrued liabilities	110,028	84,956
Compensated absences	43,333	57,166
Current maturities of long-term debt	2,651,687	2,510,156
Contracts and retainage payable	345,047	172,544
	<hr/>	<hr/>
Total current liabilities	4,649,222	4,120,209
Noncurrent liabilities:		
Compensated absences	807,401	739,692
Net pension liability	8,775,811	7,471,958
Long-term debt	25,933,433	25,996,709
	<hr/>	<hr/>
Total noncurrent liabilities	35,516,645	34,208,359
Total liabilities	<hr/>	<hr/>
	40,165,867	38,328,568
Deferred inflows of resources:		
Pension deferred inflows	-	-
	<hr/>	<hr/>
Net position:		
Net investment in capital assets	44,748,290	42,290,287
Restricted for maintenance and equipment replacement	2,500,000	2,500,000
Restricted for debt service	330,569	933,804
Unrestricted	5,960,996	2,609,767
	<hr/>	<hr/>
Total net position	53,539,855	48,333,858
Total liabilities, deferred inflows of resources, and net position	<hr/> \$ 93,705,722	<hr/> \$ 86,662,426

See Notes to Financial Statements

REGIONAL WATER RESOURCE AGENCY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Sewer service charges	\$ 19,325,245	\$ 17,689,513
Industrial surcharge	933,314	824,881
Sewer taps	89,050	97,654
Storm water	772,761	559,263
Other	<u>287,069</u>	<u>471,003</u>
 Total operating revenues	 <u>21,407,439</u>	 <u>19,642,314</u>
Operating expenses:		
Field operations:		
Salaries, wages and benefits	2,197,398	2,155,448
Maintenance	1,057,314	967,740
Utilities	10,058	10,069
Supplies	82,275	90,350
Other	<u>45,087</u>	<u>42,241</u>
	<u>3,392,132</u>	<u>3,265,848</u>
Treatment plant operations:		
Salaries, wages and benefits	907,932	839,736
Maintenance	1,287	2,373
Utilities	1,382,441	1,235,476
Supplies	565,936	493,406
Other	<u>662,367</u>	<u>548,137</u>
	<u>3,519,963</u>	<u>3,119,128</u>
Maintenance operations:		
Salaries, wages and benefits	1,105,560	1,004,846
Maintenance	170,153	215,514
Utilities	528,594	498,189
Supplies	106,600	120,907
Other	<u>23,788</u>	<u>7,990</u>
	<u>1,934,695</u>	<u>1,847,446</u>
Agency administration:		
Salaries, wages and benefits	1,147,279	1,006,711
Maintenance	15,385	18,034
Utilities	42,854	44,680
Supplies	32,521	48,974
Other	<u>917,839</u>	<u>910,233</u>
	<u>2,155,878</u>	<u>2,028,632</u>
Operations administration:		
Salaries, wages and benefits	341,485	342,683
Maintenance	40,538	41,687
Utilities	25,062	25,032
Supplies	10,990	9,458
Other	<u>-</u>	<u>-</u>
	<u>418,075</u>	<u>418,860</u>

See Notes to Financial Statements

REGIONAL WATER RESOURCE AGENCY

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

Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating expenses, Continued:		
Engineering:		
Salaries, wages and benefits	1,244,885	1,121,509
Maintenance	12,512	13,186
Utilities	5,429	5,348
Supplies	41,722	20,079
Other	136,827	298,891
	<u>1,441,375</u>	<u>1,459,013</u>
Contractual services:		
Salaries, wages and benefits	298,747	293,457
Maintenance	494,232	511,813
Utilities	1,435	1,434
Supplies	30,094	30,839
Other	350,691	213,987
	<u>1,175,199</u>	<u>1,051,530</u>
Depreciation	<u>4,298,918</u>	<u>4,236,095</u>
Total operating expenses	<u>18,336,235</u>	<u>17,426,552</u>
Operating income	<u>3,071,204</u>	<u>2,215,762</u>
Nonoperating revenues (expenses):		
Gain (loss) on sale of capital assets	97,753	192,029
Investment income	127,189	138,991
Grant revenue	453,882	103,159
Miscellaneous revenue	25,896	651,353
Interest expense	(357,371)	(467,356)
Other income (expense)	(190,393)	(145,186)
Total nonoperating revenues (expenses)	<u>156,956</u>	<u>472,990</u>
Income before capital contributions	3,228,160	2,688,752
Capital contributions	<u>1,977,837</u>	<u>1,151,567</u>
Change in net position	5,205,997	3,840,319
Net position, beginning of year	<u>48,333,858</u>	<u>44,493,539</u>
Net position, end of year	<u>\$ 53,539,855</u>	<u>\$ 48,333,858</u>

See Notes to Financial Statements

REGIONAL WATER RESOURCE AGENCY

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Receipts from customers	\$ 20,940,365	\$ 19,248,973
Receipts from interfund services provided	100,720	-
Other receipts	(164,497)	506,167
Payments to suppliers for goods or services	(6,431,662)	(5,961,004)
Payments to or on behalf of employees	<u>(6,458,763)</u>	<u>(6,323,584)</u>
Net cash provided by operating activities	<u>7,986,163</u>	<u>7,470,552</u>
Cash flows from capital and related financing activities:		
Principal payments under debt obligation	(2,415,905)	(2,716,909)
Proceeds from issuance of long-term debt	2,785,568	1,377,709
Debt defeasance	(378,519)	-
Interest paid	(352,162)	(460,565)
Change in restricted assets	603,235	(23,755)
Gain (loss) on sale of property, plant and equipment	97,753	192,029
Acquisition and construction of property, plant and equipment	(5,848,414)	(5,336,893)
Capital grants	557,041	6,947
Capital contributions	<u>900,474</u>	<u>917,667</u>
Net cash used in capital and related financing activities	<u>(4,050,929)</u>	<u>(6,043,770)</u>
Cash flows from investing activities:		
Investment income	<u>127,189</u>	<u>138,991</u>
Net cash provided by investing activities	<u>127,189</u>	<u>138,991</u>
Net increase in cash and cash equivalents	4,062,423	1,565,773
Cash and cash equivalents, beginning of year	<u>6,732,588</u>	<u>5,166,815</u>
Cash and cash equivalents, end of year	<u>\$ 10,795,011</u>	<u>\$ 6,732,588</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	<u>10,794,661</u>	<u>6,732,238</u>
	<u>\$ 10,795,011</u>	<u>\$ 6,732,588</u>

See Notes to Financial Statements

REGIONAL WATER RESOURCE AGENCY

STATEMENTS OF CASH FLOWS, Concluded

Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 3,071,204	\$ 2,215,762
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	4,298,918	4,236,095
Miscellaneous nonoperating income (expense)	(164,497)	506,167
Change in assets and liabilities:		
Decrease (increase) in assets:		
Due from Owensboro Municipal Utilities	8,404	(256,942)
Accounts receivable	(274,038)	(136,399)
Due from fiduciary funds	(100,720)	-
Prepaid supplies	2,054	4,312
Other current assets	(15,928)	507
Increase (decrease) in liabilities:		
Accounts payable	203,740	412,256
Accrued liabilities	25,072	(111,886)
Compensated absences	53,876	(23,880)
Contracts and retainage payable	172,503	47,988
Net pension liability and deferrals	<u>705,575</u>	<u>576,572</u>
Net cash provided by operating activities	<u>\$ 7,986,163</u>	<u>\$ 7,470,552</u>
Noncash investing and capital activities:		
Unrealized gain (loss) on equity in external investment pool and the revenue bond debt service reserve	\$ (39,710)	\$ (3,462)
Contributed sewers	\$ 1,077,363	\$ 233,900

See Notes to Financial Statements

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2017 and 2016

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

The Financial Reporting Entity

The Regional Water Resource Agency (RWRA) 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 RWRA. RWRA is a related organization of the City and the County.

The financial statements of RWRA 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 RWRA, 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, RWRA is not a component unit of the City or County and all governmental entities operating within the City and County are excluded from RWRA's financial statements. Although four of the seven members of RWRA's Board of Directors are appointed by the City of Owensboro, the City is not financially accountable for RWRA. In addition, there is no potential for RWRA to provide specific financial benefit to, or impose specific financial burdens on, the City or County, and RWRA is not fiscally dependent on the City or County.

RWRA also reports two fiduciary funds for Cedar Hills Sanitation Disposal Corporation and Friendly Park Development Co. The reporting focus for fiduciary funds is on net position and changes in net position, using accounting principles similar to proprietary funds. The activity of the corporations is not available to support RWRA's operations, and therefore is reported in these agency funds under receivership agreements, as disclosed in Note 15. RWRA was granted receivership during FY 2017, and therefore net position and changes in net position are not reported for the year ended June 30, 2016.

Basis of Accounting

RWRA is accounted for as a proprietary (enterprise) fund and uses a flow of economic resources measurement focus and the full accrual basis of accounting.

RWRA 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.

The fiduciary funds are accounted for using the economic resources measurement focus and the full accrued basis of accounting.

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2017 and 2016

1. Organization and Summary of Significant Accounting Policies, Continued

Revenue Recognition

RWRA recognizes revenues as services are rendered to customers.

Cash and Cash Equivalents

RWRA's cash and cash equivalents are considered to be cash on hand, the unrestricted equity in the external investment pool, demand deposits, and all highly liquid 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, 2017 and 2016.

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

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2017 and 2016

1. Organization and Summary of Significant Accounting Policies, Continued

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.

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, revenues are recognized when earned. Contributions are recognized when due, pursuant to legal (or statutory) requirements. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

Compensated Absences

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

Income Taxes

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

Net Position

RWRA classifies net position in the financial statements as follows:

1. Net investment in capital assets includes RWRA'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. RWRA 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.

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2017 and 2016

1. Organization and Summary of Significant Accounting Policies, Continued

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.

Recently Issued Accounting Standards

The following recently issued accounting standard has been early-implemented by RWRA at June 30, 2017:

GASBS No. 84 Fiduciary Activities

In January of 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 84 to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. Governments with activities meeting the criteria are required to present a statement of fiduciary net position and a statement of changes in fiduciary net position. The Statement describes four fiduciary funds that should be reported, one of which is custodial funds. The fiduciary funds reported by RWRA described under the Basis of Accounting above meet the criteria for custodial funds, and therefore RWRA elected to early-implement this Statement in the first year of this fiduciary activity.

The following recently issued accounting standard is expected to impact the financial statements of RWRA in future periods:

GASBS No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

In June of 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 75 to improve accounting and financial reporting for postemployment benefits other than pensions (other postemployment benefits or OPEB) provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense / expenditures, as well as the related required disclosures and required supplementary information. The Statement is effective for fiscal years beginning after June 15, 2017. RWRA is currently evaluating the impact that the standard will have on its financial statements.

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2017 and 2016

2. Deposits and Investments

External Investment Pool

RWRA participates in an external investment pool sponsored by the City. The equity position of RWRA 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 RWRA by the City based on RWRA'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.

RWRA 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, 2017 and 2016.

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

	<u>2017</u>	<u>2016</u>
Current assets:		
Equity in external investment pool	\$ 10,794,661	\$ 6,732,238
Noncurrent assets:		
Restricted assets	<u>2,546,321</u>	<u>2,709,821</u>
	<u>\$ 13,340,982</u>	<u>\$ 9,442,059</u>

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2017 and 2016

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>2017</u>		
Interest and dividends	\$ 165,414	\$ 1,485	\$ 166,899
Unrealized gain (loss)	(39,710)	-	(39,710)
	<u>\$ 125,704</u>	<u>\$ 1,485</u>	<u>\$ 127,189</u>
	<u>2016</u>		
Interest and dividends	\$ 127,827	\$ 14,626	\$ 142,453
Unrealized gain (loss)	(9,620)	6,158	(3,462)
	<u>\$ 118,207</u>	<u>\$ 20,784</u>	<u>\$ 138,991</u>

3. Restricted Assets

Assets are restricted for the following purposes at June 30:

	<u>2017</u>	<u>2016</u>
Equity in external investment pool:		
Maintenance and replacement reserve - KIA	\$ 2,500,000	\$ 2,500,000
Revenue bond debt service reserve	46,321	209,821
	<u>2,546,321</u>	<u>2,709,821</u>
Cash with trustee:		
Revenue bond debt service reserve	284,248	723,983
	<u>\$ 2,830,569</u>	<u>\$ 3,433,804</u>

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2017 and 2016

4. Property, Plant and Equipment

Property, plant and equipment activity for the year ended June 30, 2017, was as follows:

	Balance June 30, <u>2016</u>	<u>Additions</u>	<u>Deletions</u>	Balance June 30, <u>2017</u>
Utility assets:				
Land	\$ 704,647	\$ -	\$ -	\$ 704,647
Land improvements	473,179	-	-	473,179
Sewers	70,469,095	1,553,430	-	72,022,525
Equipment	10,766,070	948,038	(231,273)	11,482,835
Sewage treatment plant	<u>49,378,727</u>	<u>518,114</u>	<u>-</u>	<u>49,896,841</u>
Total, at original cost	<u>131,791,718</u>	<u>3,019,582</u>	<u>(231,273)</u>	<u>134,580,027</u>
Accumulated depreciation:				
Sewers	24,243,390	2,082,996	-	26,326,386
Equipment	7,416,738	897,921	(217,101)	8,097,558
Sewage treatment plant	<u>31,957,540</u>	<u>1,318,001</u>	<u>-</u>	<u>33,275,541</u>
Total accumulated depreciation	<u>63,617,668</u>	<u>4,298,918</u>	<u>(217,101)</u>	<u>67,699,485</u>
Construction in progress	<u>2,795,646</u>	<u>4,445,678</u>	<u>(525,311)</u>	<u>6,716,013</u>
Property, plant and equipment, net	\$ <u>70,969,696</u>	\$ <u>3,166,342</u>	\$ <u>(539,483)</u>	\$ <u>73,596,555</u>

Depreciation expense totaled \$4,298,918 and \$4,236,095 for the years ended June 30, 2017 and 2016, respectively.

Additions to utility assets – sewers reflected above includes capital contributions recorded in the statements of revenues, expenses and changes in net position totaling \$1,977,837 and \$1,151,567 for the years ended June 30, 2017 and 2016, respectively.

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2017 and 2016

5. Long-Term Debt

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

Wastewater Revenue Bonds:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>2017</u>	<u>2016</u>
2007 A Series	4.0 – 4.375%	2027	\$ -	\$ 2,905,000
2016 A Series	2.0 – 2.125%	2027	<u>2,350,000</u>	<u>-</u>
			2,350,000	2,905,000

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	8,538,288	9,912,311
A06-02	1.0%	2027	3,968,930	4,325,691
A07-08	1.0%	2028	854,203	923,954
A10-13	1.0%	2032	5,347,123	5,625,389
A12-14	2.0%	2033	322,895	347,633
A12-15	1.0%	2033	2,283,955	2,336,875
A13-017	1.75%	2035	813,208	813,208
A13-028	1.75%	2035	809,775	279,469
A14-008	1.75%	2035	331,439	346,490
A15-027	1.75%	2037	219,174	-
A15-099	1.75%	2036	1,960,589	-
A16-026	2.75%	2023	75,499	-
Note payable, related party			<u>681,552</u>	<u>715,947</u>
Total long-term debt			28,566,630	28,531,967
Less current maturities			(2,651,687)	(2,510,156)
Plus unamortized bond premiums			18,490	5,834
Less unamortized bond discounts			<u>-</u>	<u>(30,936)</u>
			\$ <u>25,933,433</u>	\$ <u>25,996,709</u>

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2017 and 2016

5. Long-Term Debt, Continued

The following is a summary of long-term debt activity for the year ended June 30, 2017:

	Balance June 30, <u>2016</u>	<u>Additions</u>	<u>Deductions</u>	Balance June 30, <u>2017</u>	Due Within <u>One Year</u>
Revenue Bonds:					
2007 Series A	\$ 2,905,000	\$ -	\$ (2,905,000)	\$ -	\$ -
2016 Series A	-	2,570,000	(220,000)	2,350,000	220,000
KIA Loans:					
A99-04	9,912,311	-	(1,374,023)	8,538,288	1,387,798
A06-02	4,325,691	-	(356,761)	3,968,930	360,338
A07-08	923,954	-	(69,751)	854,203	70,450
A10-13	5,625,389	-	(278,266)	5,347,123	281,056
A12-14	347,633	-	(14,738)	332,895	15,034
A12-15	2,336,875	-	(52,920)	2,283,955	106,635
A13-017	813,208	-	-	813,208	34,284
A13-028	279,469	530,306	-	809,775	34,140
A14-008	346,490	-	(15,051)	331,439	15,316
A15-027	-	219,174	-	219,174	9,240
A15-099	-	1,960,589	-	1,960,589	82,657
A16-026	-	75,499	-	75,499	-
Note payable, related party	<u>715,947</u>	<u>-</u>	<u>(34,395)</u>	<u>681,552</u>	<u>34,739</u>
	28,531,967	5,355,568	(5,320,905)	28,566,630	2,651,687
Deferred amounts:					
For issuance premiums	5,834	19,843	(7,187)	18,490	-
For issuance discounts	<u>(30,936)</u>	<u>-</u>	<u>30,936</u>	<u>-</u>	<u>-</u>
	\$ <u>28,506,865</u>	\$ <u>5,375,411</u>	\$ <u>(5,297,156)</u>	\$ <u>28,585,120</u>	\$ <u>2,651,687</u>

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

In fiscal year 2017, the 2016A refunding bonds were issued to retire all of the outstanding balance of the 2007A bond issue, to provide for debt service savings over the next several years, and to obtain economic gains (difference between the present values of the debt service payments on the old and new debt). The net proceeds of the refunding bonds issued were used to purchase securities which were placed in irrevocable trusts with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the related liability for those bonds has been removed from RWRA's liabilities. A summary of this refunding is as follows:

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2017 and 2016

5. Long-Term Liabilities, Continued

Refunding bonds:	
Issue	2016A
Amount	\$ 2,570,000
Range of interest rates	2.0 - 2.125%
Closing date	10/11/2019
Refunded bonds:	
Issue	2007A
Amount	\$ 2,905,000
Range of interest rates	4.0 - 4.375%
Debt service savings	\$ 799,022
Economic gain	\$ 724,640
Number of year affected	10
Type of defeasance	Full

The outstanding balance of the 2007A defeased bonds is \$2,690,000 at June 30, 2017.

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

Annual debt service requirements are as follows:

Year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 2,651,687	\$ 402,494	\$ 3,054,181
2019	2,691,828	367,446	3,059,274
2020	2,723,365	331,365	3,054,730
2021	2,755,202	294,271	3,049,473
2022	2,782,341	256,137	3,038,478
2023-2027	8,353,620	784,963	9,138,583
2028-2032	3,874,810	312,668	4,187,478
2033-2037	<u>2,733,777</u>	<u>89,959</u>	<u>2,823,736</u>
Total	\$ <u>28,566,630</u>	\$ <u>2,839,303</u>	\$ <u>31,405,933</u>

The amount of interest expense on long-term debt totaled \$ 357,371, and \$467,356, respectively for the fiscal years ended June 30, 2017 and 2016.

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2017 and 2016

6. **Compensated Absences**

RWRA 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 \$8,604 and \$48,561, for the years ended June 30, 2017 and 2016, respectively. Seven and four participants received benefits in fiscal years 2017 and 2016, 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. RWRA has two items that qualify for reporting in this category: the deferred charge on refunding reported in the statement of net position totaling \$81,902 and \$0 at June 30, 2017 and 2016, respectively, and the pension deferred outflows totaling \$2,122,123 and \$1,523,845, respectively at June 30, 2017 and 2016. 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, 2017 and 2016

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. RWRA has one item which qualifies for reporting in this category: the pension deferred inflows totaling \$0 at both June 30, 2017 and 2016, as described in Note 8 to the financial statements.

8. **Pension Plan**

Plan Description

RWRA 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). KRS 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, 2017 and 2016

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. RWRA's actuarially determined contribution rate for the year ended June 30, 2017, was 18.68% of annual creditable compensation, of which 13.95% and 4.73% was contributed to the pension and insurance funds within CERS, respectively. Contributions to the CERS pension fund by RWRA were \$597,297 for the year ended June 30, 2017.

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

At June 30, 2017, RWRA reported a liability of \$8,775,811 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. RWRA's proportion of the net pension liability was based on a projection of RWRA'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, 2016, measurement date, RWRA's proportion was 0.178239%, an increase of 0.004453% from its proportion measured as of June 30, 2015, of 0.173786%.

For the year ended June 30, 2017, RWRA recognized pension expense of \$1,302,872. At June 30, 2017, RWRA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 38,313	\$ -
Changes of assumptions	464,896	-
Changes in proportion and differences between contributions and proportionate share of contributions	196,601	-
Net difference between projected and actual earnings on plan investments	825,016	-
Pension contributions subsequent to the measurement date	<u>597,297</u>	<u>-</u>
Total	<u>\$ 2,122,123</u>	<u>\$ -</u>

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2017 and 2016

8. Pension Plan, Continued

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

The \$597,297 of deferred outflows of resources resulting from RWRA'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, 2018. 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,	
2018	\$ 593,364
2019	409,437
2020	337,877
2021	<u>184,148</u>
	<u>\$ 1,524,826</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%, representing no change from the prior year rate of 7.50%. The discount rate does not use a municipal bond rate.

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2017 and 2016

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, 2017 and 2016

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

The following presents RWRA's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what RWRA'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	RWRA's proportionate share of net pension liability
1% decrease	6.50%	\$10,936,078
Current discount rate	7.50%	\$8,775,811
1% increase	8.50%	\$6,924,027

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

RWRA reported payables of \$12,046 and \$8,936 for the outstanding amount of contributions due to CERS pension for the years ended June 30, 2017 and 2016, respectively.

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2017 and 2016

9. **Post-Employment Health Care Benefits**

Plan Description

RWRA contributes to the Kentucky Retirement Systems Insurance fund (Insurance Fund), a cost-sharing multiple-employer postemployment health care plan administered by the Kentucky Retirement Systems (KRS). The Insurance Fund was established to provide hospital and medical insurance for members receiving benefits from the Kentucky Employees Retirement System (KERS), the County Employees Retirement System (CERS), and the State Police Retirement System (SPRS). The Insurance Fund pays a prescribed contribution for whole or partial payments of required premiums to purchase hospital and medical insurance, based on years of service, for retirees and certain eligible beneficiaries. The authority to establish and amend benefit provisions rests with the Kentucky General Assembly. KRS issues a publicly available financial report that can be obtained at www.kyret.ky.gov.

Funding Policy

Per Kentucky Revised Statutes 78.545(33), contribution requirements are established and may be amended by the KRS Board. RWRA was required to contribute at actuarially determined rates of 4.73%, 4.64%, and 4.92% of covered payroll for the fiscal years ended June 30, 2017, 2016, and 2015, respectively. No member contributions are required. RWRA's contributions to the Insurance Fund for the years ending June 30, 2017, 2016, and 2015 were \$202,525, \$191,606, and \$197,595, respectively, which equaled the required contributions each year.

10. **Deferred Compensation**

RWRA 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. RWRA makes no contributions to these plans.

11. **Rate Structure**

RWRA'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, 2017.

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2017 and 2016

11. Rate Structure, Continued

Customer Service Charge

A monthly Customer Service Charge of \$12.95 was charged to all RWRA Customers.

Wastewater User Charges

The Wastewater User Charge was \$4.39 per 1,000 gallons of water usage 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 \$3.95.

For non-single-family-residential customers whose monthly billable volume exceeded 15,000 gallons, a volume surcharge in the amount of \$0.28 per 1,000 gallons was charged on the volume above 15,000 gallons.

Quality Surcharge

Commercial/Industrial customers with high-strength waste above 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.

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.

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2017 and 2016

11. Rate Structure, Continued

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 RWRA 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

RWRA assesses a fee for the treatment and proper disposal of acceptable waste transported to an RWRA 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 \$5.20 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.

Industrial Monitoring

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

12. Risk Management

RWRA 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 RWRA carries commercial insurance.

RWRA 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 \$1,191,647 and \$1,029,159, for plan years ending October 31, 2017 and 2016, respectively. RWRA purchases reinsurance through the

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2017 and 2016

12. Risk Management, Continued

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 \$1,277,003 and \$1,202,751 for the years ended June 30, 2017 and 2016, respectively. Settled claims have not exceeded insurance coverage for 2017 or 2016, nor has there been any reduction in insurance coverage from the prior year.

13. Related Party Transactions

RWRA 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 \$326,307 and \$373,328 for the years ended June 30, 2017 and 2016, respectively, of which none was payable at each fiscal year end.

RWRA 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, 2017 and 2016, totaled \$414,368 and \$416,586, of which \$30,119 and \$28,912 was payable at each fiscal year end, respectively.

14. Interfund Transactions

Interfund transactions related to the fiduciary funds were as follows for the year ended June 30, 2017:

	<u>Cedar Hills</u>	<u>Friendly Park</u>	<u>Total</u>
Due from fiduciary funds:			
Cash advances	\$ 50,000	\$ 50,000	\$ 100,000
Interest charged on cash advances	360	360	720
	<u>\$ 50,360</u>	<u>\$ 50,360</u>	<u>\$ 100,720</u>
Charges for maintenance and operations costs	<u>\$ 19,930</u>	<u>\$ 25,764</u>	<u>\$ 45,694</u>

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2017 and 2016

15. Commitments and Contingencies

Long-Term Control Plan

On July 22, 2016, the Kentucky Division of Water issued a letter approving RWRA's revised Long-Term Control Plan (LTCP) 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.

As required in the approved LTCP, RWRA is currently working on projects to obtain the goals agreed upon.

RWRA 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 RWRA, 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 RWRA.

Long-Term Debt

As of June 30, 2017, funds available for RWRA to borrow under existing Kentucky Infrastructure Authority (KIA) Assistance Agreements totaled approximately \$11.4 million. In addition, RWRA has received Conditional Commitment Letters for future borrowing through the KIA totaling approximately \$1.2 million at June 30, 2017, to finance various planned sewer improvement projects, for which 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 was appointed the receiver of both entities (package plants and the respective collector systems) on January 1, 2017. RWRA has begun the process of design of the extensions and anticipates going to construction in

REGIONAL WATER RESOURCE AGENCY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2017 and 2016

15. Commitments and Contingencies

Package Plants, Continued

early 2018. It is anticipated RWRA will have both neighborhoods connected to its system within the next four to five years. 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 been completed.

Litigation

RWRA is a defendant in a lawsuit relating to a Kentucky Transportation Cabinet contractor. Management is of the opinion that any judgment rendered against RWRA will be covered by insurance. The resolution of this matter cannot be determined at this time.

Tax Increment Financing Projects

Tax Increment Financing (TIF) will partially fund the David Hawes Plant UV Project and a portion of the Ragu Pump Station upgrades. As of this time, neither the amount of the financing nor the schedule to receive the funds is clear. It is anticipated that a Memorandum of Agreement will be reached between RWRA and the City of Owensboro in 2018.

16. Subsequent Event

Precision Piping and Mechanical, Inc.

On December 8, 2016, RWRA entered into a contract with Precision Piping and Mechanical, Inc. (PPMI) for \$2,672,810 to install UV disinfection treatment at RWRA's Max Rhoads Wastewater Treatment Plant. On September 11, 2017, PPMI informed RWRA that PPMI was declaring bankruptcy and ceasing all operations, at which time PPMI was approximately 62% complete on the contract. RWRA is currently working with the bonding company to hire a completion contractor to finish the project. RWRA does not believe that any legal action, nor any adverse effect to RWRA, will result from the bankruptcy. RWRA anticipates that this matter will be resolved by early 2018.

REGIONAL WATER RESOURCE AGENCY

**STATEMENT OF FIDUCIARY NET POSITION (DEFICIT)
CEDAR HILLS SANITATION DISPOSAL CORPORATION**

June 30, 2017

	Custodial <u>Fund</u>
ASSETS	
Cash	\$ 28,872
Accounts receivable	<u>-</u>
Total assets	<u>28,872</u>
LIABILITIES	
Due to RWRA	50,360
Accounts payable	<u>4,632</u>
Total liabilities	<u>54,992</u>
NET POSITION (DEFICIT)	
Held in trust for receivership	\$ <u><u>(26,120)</u></u>

See Notes to Financial Statements

REGIONAL WATER RESOURCE AGENCY

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION (DEFICIT)
CEDAR HILLS SANITATION DISPOSAL CORPORATION**

Year Ended June 30, 2017

	Custodial <u>Fund</u>
Additions:	
Sewer service charges	\$ 33,197
Interest income	174
	<hr/>
Total additions:	33,371
	<hr/>
Deductions:	
Maintenance	1,720
Supplies	2,902
Utilities non-City	2,859
Utilities communications	630
Contractual Services	50,338
Insurance	108
Billing expenses	454
Professional services	120
Interest expense	360
	<hr/>
Total deductions	59,491
	<hr/>
Change in net position	(26,120)
Net position, beginning of year	-
	<hr/>
Net position (deficit), end of year	\$ <u><u>(26,120)</u></u>

See Notes to Financial Statements

REGIONAL WATER RESOURCE AGENCY

**STATEMENT OF FIDUCIARY NET POSITION (DEFICIT)
FRIENDLY PARK DEVELOPMENT CO.**

June 30, 2017

	Custodial <u>Fund</u>
ASSETS	
Cash	\$ 38,779
Accounts receivable	<u>-</u>
Total assets	<u>38,779</u>
LIABILITIES	
Due to RWRA	50,360
Accounts payable	<u>3,142</u>
Total liabilities	<u>53,502</u>
NET POSITION (DEFICIT)	
Held in trust for receivership	\$ <u><u>(14,723)</u></u>

See Notes to Financial Statements

REGIONAL WATER RESOURCE AGENCY

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION (DEFICIT)
FRIENDLY PARK DEVELOPMENT CO.**

Year Ended June 30, 2017

	Custodial <u>Fund</u>
Additions:	
Sewer service charges	\$ 24,425
Contributions - Daviess County Fiscal Court	14,750
Interest income	<u>259</u>
 Total additions	 <u>39,434</u>
 Deductions:	
Maintenance	2,455
Supplies	2,409
Utilities non-City	1,978
Utilities communications	468
Contractual services	46,191
Insurance	33
Billing expenses	263
Interest expense	<u>360</u>
 Total deductions	 <u>54,157</u>
 Change in net position	 (14,723)
 Net position, beginning of year	 <u>-</u>
 Net position (deficit), end of year	 \$ <u><u>(14,723)</u></u>

See Notes to Financial Statements

REGIONAL WATER RESOURCE AGENCY

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

Last 10 Fiscal Years *

	<u>2017</u>	<u>2016</u>	<u>2015</u>
RWRA's proportion of the net pension liability	0.178239%	0.173786%	0.168806%
RWRA's proportionate share of the net pension liability	\$ 8,775,811	\$ 7,471,958	\$ 5,477,000
RWRA's covered payroll	\$ 4,129,449	\$ 4,074,363	\$ 3,881,975
RWRA's proportionate share of the net pension liability as a percentage of its covered payroll	212.52%	183.39%	141.09%
Plan fiduciary net position as a percentage of the total pension liability	55.50%	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>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 597,297	\$ 512,878	\$ 519,337
Contributions in relation to the contractually required contributions	<u>(597,297)</u>	<u>(512,878)</u>	<u>(519,337)</u>
Contribution deficiency (excess)	\$ <u> -</u>	\$ <u> -</u>	\$ <u> -</u>
 RWRA's covered payroll	 \$ 4,282,024	 \$ 4,129,449	 \$ 4,074,363
Contributions as a percentage of covered payroll	13.95%	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, 2017

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.



**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 business-type activities and the fiduciary activities of the Regional Water Resource Agency as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated November 15, 2017.

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

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
November 15, 2017