

***REGIONAL WATER RESOURCE AGENCY***

***FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION***

***Years Ended June 30, 2018 and 2017***

***(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 years ended June 30, 2018 and 2017, 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, 2018 and 2017, 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.

## **Change in Accounting Principle**

As discussed in Note 13 to the financial statements, in 2018 RWRA adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-9 and the pension and other postemployment benefits schedules on pages 41-45 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 16, 2018, 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.

Owensboro, Kentucky  
November 16, 2018

*Ring David CPA, PSC*

## 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, 2018. 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 \$56.6 million (net position). Of this amount, \$8.1 million (unrestricted net position) may be used to meet RWRA's ongoing obligations to customers and creditors.
- RWRA's total net position increased by \$3.1 million in 2018. This represents a 5.7% change from the 2017 balance.
- The operating revenues of RWRA increased by \$1.6 million to \$23 million at the close of the current fiscal year. This represents a 7.6% change from 2017.
- The operating expenses excluding depreciation increased by \$1.3 million to \$15.3 million at the close of the current fiscal year. This represents a 9.3% change from 2017.

### 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 \$56,636,436 at the close of the current fiscal year.

The largest portion of RWRA's net position (79%) 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	
	2018	2017
Current and other assets	\$ 23,890,452	\$ 17,905,142
Capital assets	78,279,467	73,596,555
Deferred outflows of resources	<u>3,813,077</u>	<u>2,204,025</u>
Total assets and deferred outflows of resources	<u>105,982,996</u>	<u>93,705,722</u>
Long-term liabilities	43,780,638	35,516,645
Other liabilities	5,032,924	4,649,222
Deferred inflows of resources	<u>532,998</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>49,346,560</u>	<u>40,165,867</u>
Net position:		
Net investment in capital assets	45,702,122	44,748,290
Restricted	2,775,587	2,830,569
Unrestricted	<u>8,158,727</u>	<u>5,960,996</u>
Total net position	<u>\$ 56,636,436</u>	<u>\$ 53,539,855</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Financial Analysis, Continued

	<u>Condensed Statements of Revenues, Expenses and Change in Net Position</u>	
	<u>2018</u>	<u>2017</u>
Revenues:		
Operating revenues	\$ 23,051,295	\$ 21,405,811
Investment income	244,135	127,189
Capital contributions	2,091,992	1,979,465
Other revenues	<u>357,576</u>	<u>577,531</u>
Total revenues	<u>25,744,998</u>	<u>24,089,996</u>
Expenses:		
Operating expenses (excluding depreciation)	15,352,946	14,037,317
Depreciation expense	4,291,237	4,298,918
Interest expense	395,499	357,371
Other	<u>72,709</u>	<u>190,393</u>
Total expenses	<u>20,112,391</u>	<u>18,883,999</u>
Change in net position	<u>5,632,607</u>	<u>5,205,997</u>
Net position – beginning of year, as restated	<u>51,003,829</u>	<u>48,333,858</u>
Net position – end of year	<u>\$ 56,636,436</u>	<u>\$ 53,539,855</u>

RWRA's net position increased by \$3,096,581 during the current year, when considering the \$(2,536,026) restatement of the beginning of year balance for the cumulative change in accounting principle for OPEB. Operating revenues increased by \$1,645,484, while operating expenses and depreciation increased \$1,307,948 from fiscal year 2017 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, 2018, amounts to \$78,279,467 (net of accumulated depreciation). Investment in capital assets increased by approximately 6.3% during the year. Below is a comparison of the items that make up capital assets as of June 30, 2018, with that of June 30, 2017.

	<u>2018</u>	<u>2017</u>
Land and Improvements	\$ 1,177,826	\$ 1,177,826
Sewage Treatment Plants	15,399,551	16,621,300
Sewers	48,936,417	45,696,139
Equipment	3,366,505	3,385,277
Construction in Progress	<u>9,399,168</u>	<u>6,716,013</u>
Total capital assets	<u>\$ 78,279,467</u>	<u>\$ 73,596,555</u>

Major capital asset activity for the current fiscal year included:

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

Sorgho-Woodland South Ph. 2 (\$453,823 total)	\$ 430,350
Masonville Sewer Extension (\$1,517,826 total)	136,682
Cured In Place Pipe Rehab F/Y 16-1 (\$665,959 total)	108,694
RWRA Camera Replacement/Surveillance Upgrade (\$74,784 total)	51,833
Harsh Ditch CSO Separation/Downstream Improv. (\$346,650 total)	34,055
Center Street Tunnel Rehab - 6th & Hathaway (\$1,168,074 total)	

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

Vactor/Freightliner Jet Rodder	\$ 387,947
Replacement/Repairs of Various Pumps	124,463
Bobcat T770 Compact Track Loaders (2)	121,565
Bobcat E85 T4 R Compact Excavator	96,696
Vehicles for Operations	78,213
Renovations at Treatment Plants/Pump Stations	46,111
MRP Clarifier Sandblasting/Repaint	40,786
Replacement Control Cables for Inspection Cameras	19,716
Inspection Push Camera	11,200
New 2015 Bobcat 72" Rotary Cutter-Hydraulic Brush Mower	7,285
Cooling System for Max Rhoads MCC Building	7,100

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Capital Asset and Debt Administration, Continued

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

Cured In Place Pipe Rehab F/Y 17-1	\$	487,823
Thompson Land Development-Saddle Pointe Trace Upsizing/Extension		69,697
Pump Station Rehab-Veach		19,533
The Shoppes at 3800 Frederica St. Upsizing/Extension		13,205

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

Southwest Master Pump Station (\$3,295,586 to date)	\$	2,938,045
Max Rhoads Ultra Violet Disinfection System (\$2,929,561 to date)		897,756
Hayden Road Area Sewer Extension (\$1,049,847 to date)		733,471
David Hawes Plant Misc. Upgrades (\$601,734 to date)		276,316
Cedar Hills Sewer Extension (Design) (\$246,860 to date)		212,107
Cedar Hills Pkg Plant Rehab (\$200,997 to date)		200,997
Pleasant View Estates Sewer Extension (\$187,985 to date)		155,256
Ravine Sewer Upgrade Phase 2 (\$205,899 to date)		130,365
Friendly Park Sewer Extension (Design) (\$84,675 to date)		25,322
East 2nd St. Sewer Separation (\$2,017 to date)		767
Central Tunnel Sewer Manhole Rehab (\$3,750 to date)		-

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

Long-Term Debt - At the end of the current fiscal year, RWRA had \$32,115,487 in bonds and loans outstanding versus \$28,566,630 last year, an increase of 12%.

RWRA has one bond issue outstanding and one loan from the City of Owensboro. Other long-term obligations of RWRA include net pension and OPEB liabilities, accrued compensated absences and loans from the Kentucky Infrastructure Authority. RWRA's net OPEB liability is a required amount, for the first time in fiscal year 2018 along with all state and local governments, by the Governmental Accounting Standards Board. Note 6 of the notes to the financial statements include additional information regarding RWRA's pension and OPEB 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 six elements: the Wastewater User Charge, the Customer Service Charge, an Environmental Improvement Monthly Fee, an Environmental Improvement Volume Charge, a Capacity Fee, and Transported Waste.

Effective July 1, 2017, the Customer Service Charge was revised to be dependent on the size of the meter providing service, with the 1" meter being considered as the base with a charge of \$14.05. Customers with a meter larger than 1" were billed based on the comparison of the square of the meter size to a typical 1" meter, with any meters larger than 6" being billed at the rate for a 6" meter. Usage was charged \$4.39/1,000 gallons as the Wastewater User Charge. Revenue received from the Wastewater User Charge, the primary operational revenue source, saw a \$71,746 decrease from the previous year from \$11,945,649 in fiscal year 2017 to \$11,873,903 in fiscal year 2018, a .7% decrease. The Customer Service Charge saw a \$889,331 increase from fiscal year 2017 to 2018. An increase in the Customer Service Charge, approved in December 2014, took effect July 1, 2017. The Customer Service Charge grew from \$12.95 per month for each metered customer to a \$14.05 per month base rate. The Wastewater User Charge remained at \$4.39 per 1,000 gallons per month.

The Environmental Improvement Monthly Charge increased from \$3.95/month to \$5.15/month flat amount charged to all metered customers, effective July 1, 2017. In fiscal year 2018, this amounted to \$1,857,866; a \$448,234 or 31% 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 increased from \$0.28/1,000 gallons to \$0.35/1,000 gallons, effective July 1, 2017. In fiscal year 2018, revenue from this source was \$448,496; a \$84,767 or 23% increase from the prior year.

The Capacity Fee was revised to be charged to every customer of RWRA that is connected to the system. A monthly Capacity Fee of \$0.53 was charged to all RWRA customers with a 1" water meter or less. Those with a meter larger than 1" were billed based on the comparison of the square of the meter size to a typical 1" meter. Revenue from this source was \$217,435 in fiscal year 2018.

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 \$996,852 in fiscal year 2017 to \$1,030,109 in fiscal year 2018, an increase of 3%.

The total revenue from the six components of Sewer Service Charge increased from \$19,323,617 in fiscal year 2017 to \$20,911,115 in fiscal year 2018, an increase of 8%.

Operational Expenses – Total operational expenses, excluding depreciation, increased from \$14,037,317 in fiscal year 2017 to \$15,352,946 in fiscal year 2018, an increase of \$1,315,629, or 9%. The largest portion of this increase was due to an increase of \$660,716 in the year end entry to record Net Pension Liability and Net OPEB Liability.

## 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 plant located at Cedar Hills Subdivision in the coming year. More detailed information regarding the status of this package plant is located in Note 12 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 completion of 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 David Hawes Wastewater Treatment Plant, the extension of sewer service to the Friendly Park Subdivisions, 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 \$7,677,508, 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 \$275,587 in fiscal year 2018. 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, 2018 and 2017

**ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

	<u>2018</u>	<u>2017</u>
<b>Current assets:</b>		
Cash	\$ 350	\$ 350
Equity in external investment pool	16,643,174	10,794,661
Due from Owensboro Municipal Utilities	1,988,402	1,992,846
Accounts receivable	2,054,373	1,951,934
Due from fiduciary funds	102,570	100,720
Prepaid supplies	235,293	160,008
Other current assets	<u>90,703</u>	<u>74,054</u>
Total current assets	<u>21,114,865</u>	<u>15,074,573</u>
<b>Noncurrent assets:</b>		
Restricted assets	2,775,587	2,830,569
Capital assets, net	<u>78,279,467</u>	<u>73,596,555</u>
Total noncurrent assets	<u>81,055,054</u>	<u>76,427,124</u>
Total assets	<u>102,169,919</u>	<u>91,501,697</u>
<b>Deferred outflows of resources:</b>		
Deferred charges on refunding	73,911	81,902
Pension deferred outflows	2,765,804	2,122,123
Other postemployment benefits deferred outflows	<u>973,362</u>	<u>-</u>
Total deferred outflows of resources	<u>3,813,077</u>	<u>2,204,025</u>
<b>Total assets and deferred outflows of resources</b>	<u>\$ 105,982,996</u>	<u>\$ 93,705,722</u>

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

<b>Current liabilities:</b>		
Accounts payable	\$ 1,385,026	\$ 1,499,127
Accrued liabilities	117,652	110,028
Compensated absences	38,344	43,333
Current maturities of long-term debt	2,972,819	2,651,687
Contracts and retainage payable	<u>519,083</u>	<u>345,047</u>
Total current liabilities	<u>5,032,924</u>	<u>4,649,222</u>
<b>Noncurrent liabilities:</b>		
Compensated absences	859,111	807,401
Net pension liability	10,243,873	8,775,811
Net other postemployment benefits liability	3,518,300	-
Long-term debt	<u>29,159,354</u>	<u>25,933,433</u>
Total noncurrent liabilities	<u>43,780,638</u>	<u>35,516,645</u>
Total liabilities	<u>48,813,562</u>	<u>40,165,867</u>
<b>Deferred inflows of resources:</b>		
Pension deferred inflows	348,789	-
Other postemployment benefits deferred inflows	<u>184,209</u>	<u>-</u>
Total deferred inflows of resources	<u>532,998</u>	<u>-</u>
<b>Net position:</b>		
Net investment in capital assets	45,702,122	44,748,290
Restricted for maintenance and equipment replacement	2,500,000	2,500,000
Restricted for debt service	275,587	330,569
Unrestricted	<u>8,158,727</u>	<u>5,960,996</u>
Total net position	<u>56,636,436</u>	<u>53,539,855</u>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<u>\$ 105,982,996</u>	<u>\$ 93,705,722</u>

See Notes to Financial Statements

**REGIONAL WATER RESOURCE AGENCY**

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

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Operating revenues:</b>		
Sewer service charges	\$ 20,911,115	\$ 19,323,617
Industrial surcharge	1,014,101	933,314
Sewer taps	99,694	89,050
Storm water	741,948	772,761
Other	<u>284,437</u>	<u>287,069</u>
 Total operating revenues	 <u>23,051,295</u>	 <u>21,405,811</u>
<b>Operating expenses:</b>		
Field operations:		
Salaries, wages and benefits	2,492,486	2,197,398
Maintenance	1,074,904	1,057,314
Utilities	10,194	10,058
Supplies	94,409	82,275
Other	<u>39,773</u>	<u>45,087</u>
	<u>3,711,766</u>	<u>3,392,132</u>
Treatment plant operations:		
Salaries, wages and benefits	1,031,504	907,932
Maintenance	2,970	1,287
Utilities	1,566,895	1,382,441
Supplies	519,693	565,936
Other	<u>667,759</u>	<u>662,367</u>
	<u>3,788,821</u>	<u>3,519,963</u>
Maintenance operations:		
Salaries, wages and benefits	1,296,067	1,105,560
Maintenance	198,520	170,153
Utilities	582,104	528,594
Supplies	88,881	106,600
Other	<u>17,432</u>	<u>23,788</u>
	<u>2,183,004</u>	<u>1,934,695</u>
Agency administration:		
Salaries, wages and benefits	1,324,904	1,147,279
Maintenance	17,274	15,385
Utilities	41,382	42,854
Supplies	50,756	32,521
Other	<u>954,234</u>	<u>917,839</u>
	<u>2,388,550</u>	<u>2,155,878</u>
Operations administration:		
Salaries, wages and benefits	418,077	341,485
Maintenance	42,204	40,538
Utilities	29,944	25,062
Supplies	10,530	10,990
Other	<u>-</u>	<u>-</u>
	<u>500,755</u>	<u>418,075</u>

See Notes to Financial Statements

**REGIONAL WATER RESOURCE AGENCY**

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

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Operating expenses, Continued:</b>		
Engineering:		
Salaries, wages and benefits	1,425,118	1,244,885
Maintenance	22,922	12,512
Utilities	5,027	5,429
Supplies	47,228	41,722
Other	122,224	136,827
	<u>1,622,519</u>	<u>1,441,375</u>
Contractual services:		
Salaries, wages and benefits	338,805	298,747
Maintenance	35,082	47,068
Utilities	1,434	1,435
Supplies	57,799	30,094
Other	724,411	797,855
	<u>1,157,531</u>	<u>1,175,199</u>
Depreciation	<u>4,291,237</u>	<u>4,298,918</u>
Total operating expenses	<u>19,644,183</u>	<u>18,336,235</u>
Operating income	<u>3,407,112</u>	<u>3,069,576</u>
<b>Nonoperating revenues (expenses):</b>		
Gain (loss) on sale of capital assets	211,671	97,753
Investment income	244,135	127,189
Grant revenue	130,398	453,882
Miscellaneous revenue	15,507	25,896
Interest expense	(395,499)	(357,371)
Other income (expense)	(72,709)	(190,393)
Total nonoperating revenues (expenses)	<u>133,503</u>	<u>156,956</u>
Income before capital contributions	3,540,615	3,226,532
Capital contributions	<u>2,091,992</u>	<u>1,979,465</u>
Change in net position	<u>5,632,607</u>	<u>5,205,997</u>
Net position, beginning of year, before restatement	53,539,855	48,333,858
Cumulative effect of change in accounting principle	<u>(2,536,026)</u>	<u>-</u>
Net position, beginning of year, as restated	<u>51,003,829</u>	<u>48,333,858</u>
Net position, end of year	<u>\$ 56,636,436</u>	<u>\$ 53,539,855</u>

See Notes to Financial Statements

**REGIONAL WATER RESOURCE AGENCY**

**STATEMENTS OF CASH FLOWS**

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Cash flows from operating activities:</b>		
Receipts from customers	\$ 22,848,880	\$ 20,938,737
Receipts from interfund services provided	102,570	100,720
Other receipts	(57,202)	(164,497)
Payments to suppliers for goods or services	(7,057,984)	(6,431,662)
Payments to or on behalf of employees	(6,906,325)	(6,458,763)
	<u>8,929,939</u>	<u>7,984,535</u>
<b>Net cash provided by operating activities</b>		
<b>Cash flows from capital and related financing activities:</b>		
Principal payments on long-term debt	(3,077,751)	(2,415,905)
Proceeds from issuance of long-term debt	6,626,608	2,785,568
Debt defeasance	-	(378,519)
Interest paid	(389,312)	(352,162)
Change in restricted assets	54,982	603,235
Gain (loss) on sale of capital assets	211,671	97,753
Acquisition and construction of capital assets	(7,800,547)	(5,848,414)
Capital grants	130,398	557,041
Capital contributions	918,390	902,102
	<u>(3,325,561)</u>	<u>(4,049,301)</u>
<b>Net cash used in capital and related financing activities</b>		
<b>Cash flows from investing activities:</b>		
Investment income	244,135	127,189
	<u>244,135</u>	<u>127,189</u>
<b>Net cash provided by investing activities</b>		
<b>Net increase in cash and cash equivalents</b>	5,848,513	4,062,423
<b>Cash and cash equivalents, beginning of year</b>	10,795,011	6,732,588
<b>Cash and cash equivalents, end of year</b>	<u>\$ 16,643,524</u>	<u>\$ 10,795,011</u>
<b>Included in the following balance sheet captions:</b>		
Reconciliation to cash and cash equivalents:		
Cash	\$ 350	\$ 350
Equity in external investment pool	16,643,174	10,794,661
	<u>\$ 16,643,524</u>	<u>\$ 10,795,011</u>

See Notes to Financial Statements

**REGIONAL WATER RESOURCE AGENCY**

**STATEMENTS OF CASH FLOWS, Concluded**

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 3,407,112	\$ 3,069,576
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	4,291,237	4,298,918
Miscellaneous nonoperating income (expense)	(57,202)	(164,497)
Change in assets and liabilities:		
Decrease (increase) in assets and deferred outflows:		
Due from Owensboro Municipal Utilities	4,444	8,404
Accounts receivable	(102,439)	(274,038)
Due from fiduciary funds	(1,850)	(100,720)
Prepaid supplies	(75,285)	2,054
Other current assets	(16,649)	(15,928)
Increase (decrease) in liabilities and deferred inflows:		
Accounts payable	(114,101)	203,740
Accrued liabilities	7,624	25,072
Compensated absences	46,721	53,876
Contracts and retainage payable	174,036	172,503
Net pension liability and deferrals	1,173,170	705,575
Net other postemployment benefits liability and deferrals	193,121	-
Net cash provided by operating activities	\$ <u>8,929,939</u>	\$ <u>7,984,535</u>
<b>Noncash investing and capital activities:</b>		
Unrealized gain (loss) on equity in external investment pool and the revenue bond debt service reserve	\$ (54,549)	\$ (39,710)
Contributed sewers	\$ 1,173,602	\$ 1,077,363
Debt forgiveness	\$ 188,097	\$ -

See Notes to Financial Statements

# REGIONAL WATER RESOURCE AGENCY

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2018 and 2017

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### 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 GASB Statement No. 61, *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 12. 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 accrual basis of accounting.

**REGIONAL WATER RESOURCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

Years Ended June 30, 2018 and 2017

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**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 and the unrestricted equity in the external investment pool.

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, 2018 and 2017.

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.

Capital Assets

All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. RWRA has established a threshold of \$5,000 for capitalization of depreciable assets.

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, 2018 and 2017

### 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.

#### Pension and Other Postemployment Benefits

For purposes of measuring the net liabilities, the deferred outflows of resources and deferred inflows of resources, and expense related to pensions and other postemployment benefits (OPEB), information about the fiduciary net position of the pension / OPEB plans, and additions to / deductions from the pension / OPEB plans' fiduciary net position have been determined on the same basis as they are reported by the pension / OPEB plans. 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.

#### Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet reports a separate section for deferred outflows of resources. This separate financial statement element, 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/expenditure) until that time.

In addition to liabilities, the statement of financial position and/or balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element, 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.

#### 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.

#### Net Position

RWRA classifies net position in the financial statements as follows:

# REGIONAL WATER RESOURCE AGENCY

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2018 and 2017

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

#### Net Position, Continued

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.

#### 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 was 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 was implemented by RWRA at June 30, 2018:

# REGIONAL WATER RESOURCE AGENCY

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2018 and 2017

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

#### Recently Issued Accounting Standards, Continued

*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. The cumulative effect of this change in accounting principle is disclosed in Note 13.

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

*GASBS No. 88 Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements*

In March of 2018, the GASB issued Statement No. 88 to improve the information that is disclosed in notes to government financial statements related to debt. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The statement is effective for fiscal years beginning after June 15, 2018. RWRA is currently evaluating the impact that the standard will have on its financial statements.

### 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

**REGIONAL WATER RESOURCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

Years Ended June 30, 2018 and 2017

**2. Deposits and Investments, Continued**

External Investment Pool, Continued

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, 2018 and 2017.

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

	<u>2018</u>	<u>2017</u>
Current assets:		
Equity in external investment pool	\$ 16,643,174	\$ 10,794,661
Noncurrent assets:		
Restricted assets	<u>2,500,000</u>	<u>2,546,321</u>
	<u>\$ 19,143,174</u>	<u>\$ 13,340,982</u>

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>2018</u>	
Interest and dividends	\$ 296,029	\$ 2,655	\$ 298,684
Unrealized gain (loss)	<u>(51,694)</u>	<u>(2,855)</u>	<u>(54,549)</u>
	<u>\$ 244,335</u>	<u>\$ (200)</u>	<u>\$ 244,135</u>
		<u>2017</u>	
Interest and dividends	\$ 165,414	\$ 1,485	\$ 166,899
Unrealized gain (loss)	<u>(39,710)</u>	<u>-</u>	<u>(39,710)</u>
	<u>\$ 125,704</u>	<u>\$ 1,485</u>	<u>\$ 127,189</u>

**REGIONAL WATER RESOURCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

Years Ended June 30, 2018 and 2017

**3. Restricted Assets**

Assets are restricted for the following purposes at June 30:

	<u>2018</u>	<u>2017</u>
Revenue bond debt service reserve:		
Cash with trustee	\$ 275,587	\$ 284,248
Equity in external investment pool	-	46,321
	<u>275,587</u>	<u>330,569</u>
Maintenance and replacement reserve - KIA:		
Equity in external investment pool:	<u>2,500,000</u>	<u>2,500,000</u>
	<u>\$ 2,775,587</u>	<u>\$ 2,830,569</u>

**4. Capital Assets**

Capital assets activity for the year ended June 30, 2018, was as follows:

	<u>Balance June 30, 2017</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2018</u>
Capital assets:				
Land	\$ 704,647	\$ -	\$ -	\$ 704,647
Land improvements	473,179	-	-	473,179
Sewers	72,022,525	5,325,933	-	77,348,458
Equipment	11,482,835	975,080	(652,790)	11,805,125
Sewage treatment plant	<u>49,896,841</u>	<u>40,786</u>	<u>-</u>	<u>49,937,627</u>
Total capital assets	<u>134,580,027</u>	<u>6,341,799</u>	<u>(652,790)</u>	<u>140,269,036</u>
Accumulated depreciation:				
Sewers	26,326,386	2,085,655	-	28,412,041
Equipment	8,156,444	884,161	(601,985)	8,438,620
Sewage treatment plant	<u>33,216,655</u>	<u>1,321,421</u>	<u>-</u>	<u>34,538,076</u>
Total accumulated depreciation	<u>67,699,485</u>	<u>4,291,237</u>	<u>(601,985)</u>	<u>71,388,737</u>
Construction in progress	<u>6,716,013</u>	<u>6,321,290</u>	<u>(3,638,135)</u>	<u>9,399,168</u>
Capital assets, net	<u>\$ 73,596,555</u>	<u>\$ 8,371,852</u>	<u>\$ (3,688,940)</u>	<u>\$ 78,279,467</u>

Depreciation expense totaled \$4,291,237 and \$4,298,918 for the years ended June 30, 2018 and 2017, respectively.

Additions to sewers reflected above includes capital contributions recorded in the statements of revenues, expenses and changes in net position totaling \$2,091,992 and \$1,979,465 for the years ended June 30, 2018 and 2017, respectively.

**REGIONAL WATER RESOURCE AGENCY**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2018 and 2017

**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>2018</u>		<u>2017</u>
2016 A Series	2.0 – 2.125%	2027	\$	2,130,000	\$	2,350,000

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		7,150,490	8,538,288
A06-02	1.0%	2027		3,608,592	3,968,930
A07-08	1.0%	2028		783,752	854,203
A10-13	1.0%	2034		5,066,067	5,347,123
A12-14	2.0%	2035		317,861	332,895
A12-15	1.0%	2036		2,177,321	2,283,955
A13-017	1.75%	2037		840,523	813,208
A13-028	1.75%	2038		873,183	809,775
A14-008	1.75%	2035		316,123	331,439
A15-002	1.75%	2038		2,990,992	-
A15-027	1.75%	2037		912,877	219,174
A15-099	1.75%	2038		2,968,061	1,960,589
A16-026	2.75%	2023		201,963	75,499
A16-082	1.75%	2019		9,900	-
A18-026	1.75%	2038		581,221	-
B17-014	1.75%	2038		142,472	-
B17-015	1.75%	2038		397,276	-
Note payable, related party				646,813	681,552
Total long-term debt				32,115,487	28,566,630
Less current maturities				(2,972,819)	(2,651,687)
Plus unamortized bond premiums				16,686	18,490
			\$	<u>29,159,354</u>	\$ <u>25,933,433</u>

**REGIONAL WATER RESOURCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

Years Ended June 30, 2018 and 2017

**5. Long-Term Debt, Continued**

The following is a summary of long-term debt activity for the year ended June 30, 2018:

	Balance June 30, <u>2017</u>	<u>Additions</u>	<u>Deductions</u>	Balance June 30, <u>2018</u>	Due Within <u>One Year</u>
Revenue Bonds:					
2016 Series A	\$ 2,350,000	\$ -	\$ (220,000)	\$ 2,130,000	\$ 220,000
KIA Loans:					
A99-04	8,538,288	-	(1,387,798)	7,150,490	1,401,710
A06-02	3,968,930	-	(360,338)	3,608,592	363,950
A07-08	854,203	-	(70,450)	783,753	71,157
A10-13	5,347,123	-	(281,056)	5,066,067	283,873
A12-14	332,895	-	(15,034)	317,861	15,336
A12-15	2,283,955	-	(106,635)	2,177,320	107,704
A13-017	813,208	44,798	(17,483)	840,523	36,512
A13-028	809,775	63,408	-	873,183	36,813
A14-008	331,439	-	(15,316)	316,123	15,585
A15-002	-	2,990,992	-	2,990,992	126,098
A15-027	219,174	693,703	-	912,877	38,486
A15-099	1,960,589	1,576,374	(568,902)	2,968,061	125,131
A16-026	75,499	126,465	-	201,964	38,217
A16-082	-	9,900	-	9,900	9,900
A18-026	-	581,221	-	581,221	24,504
B17-014	-	142,471	-	142,471	6,006
B17-015	-	397,276	-	397,276	16,749
Note payable, related party	<u>681,552</u>	<u>-</u>	<u>(34,739)</u>	<u>646,813</u>	<u>35,088</u>
	28,566,630	6,626,608	(3,077,751)	32,115,487	2,972,819
Deferred amounts:					
For issuance premiums	<u>18,490</u>	<u>-</u>	<u>(1,804)</u>	<u>16,686</u>	<u>-</u>
	<u>\$ 28,585,120</u>	<u>\$ 6,626,608</u>	<u>\$ (3,079,555)</u>	<u>\$ 32,132,173</u>	<u>\$ 2,972,819</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, RWRA defeased a prior bond issue by placing the proceeds of the 2016 Series A bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability relating to the defeased bonds are not included in RWRA's financial statements. On June 30, 2018, \$2,465,000 of bonds outstanding are considered defeased.

# REGIONAL WATER RESOURCE AGENCY

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2018 and 2017

### 5. Long-Term Debt, Continued

The KIA loans are the primary source of funding for various sewer maintenance, extension and replacement projects.

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,	Principal	Interest	Total
2019	\$ 2,972,819	\$ 414,109	\$ 3,386,928
2020	2,999,463	377,876	3,377,339
2021	3,036,400	341,376	3,377,776
2022	3,068,739	304,426	3,373,165
2023	3,106,482	267,020	3,373,502
2024-2028	7,905,924	887,128	8,793,052
2029-2033	5,166,868	520,029	5,686,897
2034-2038	<u>3,858,792</u>	<u>169,998</u>	<u>4,028,790</u>
Total	\$ <u>32,115,487</u>	\$ <u>3,281,962</u>	\$ <u>35,397,449</u>

The amount of interest expense on long-term debt totaled \$395,499, and \$357,371, respectively, for the fiscal years ended June 30, 2018 and 2017.

### 6. Pension and Other Postemployment Benefits

#### Plan Description

RWRA contributes to the County Employees Retirement System (CERS), which is a cost-sharing multiple-employer defined benefit pension / OPEB plan administered by Kentucky Retirement Systems (KRS) that covers members employed in 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 RWRA 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](http://www.kyret.ky.gov).

# REGIONAL WATER RESOURCE AGENCY

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2018 and 2017

### 6. Pension and Other Postemployment Benefits, Continued

#### Benefits Provided

CERS provides for retirement, disability, and death benefits to system members through its Pension Fund, as well as other postemployment benefits (OPEB) for hospital and medical insurance through its Insurance 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 4 years 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 5 years of service credit.

Other postemployment benefits provided by CERS consist of prescribed contributions for whole or partial payments of required premiums to purchase hospital and medical insurance.

#### Contributions

State statute requires active members to contribute 5% of creditable compensation. For members participating on or after September 1, 2008, an additional 1% of creditable compensation is required. This amount is credited to the Insurance Fund and is non-refundable to the member. Employers contribute at the rate determined by the KRS Board to be necessary for the actuarial soundness of the systems, as required by KRS 61.565 and KRS 61.752.

RWRA's actuarially determined contribution rates and contribution amounts, based on annual creditable compensation, for the year ended June 30, 2018, were as follows:

	<u>Contribution Rates</u>	<u>Contributions</u>
Pension	14.48%	\$ 640,206
OPEB	4.70%	207,802
Total	<u>19.18%</u>	<u>\$ 848,008</u>

**REGIONAL WATER RESOURCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

Years Ended June 30, 2018 and 2017

**6. Pension and Other Postemployment Benefits, Continued**

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

The net pension and OPEB liabilities reported as of June 30, 2018, were measured as of June 30, 2017, and the total pension and OPEB liabilities used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. RWRA's proportion of the liabilities was based on a projection of RWRA's long-term share of contributions to the plan relative to the projected contributions of all participating entities, actuarially determined. At the June 30, 2017, measurement date, RWRA's pension and OPEB proportion was 0.175010%, a decrease of 0.003229% from its proportion measured as of June 30, 2016, of 0.178239%.

RWRA's pension and OPEB liabilities and expense as of and for the year ended June 30, 2018, were as follows:

	<u>Net Pension Liability</u>	<u>Net OPEB Liability</u>
Proportionate Share	\$ 10,243,873	\$ 3,518,300
Pension/OPEB Expense	\$ 1,815,609	\$ 401,647

At June 30, 2018, RWRA reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	<u>Pension</u>		<u>OPEB</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 12,706	\$ 260,033	\$ -	\$ 9,772
Changes of assumptions	1,890,272	-	765,560	-
Net difference between projected and actual earnings on plan investments	126,704	-	-	166,273
Changes in proportion and differences between contributions and proportionate share of contributions	95,916	88,756	-	8,164
Contributions subsequent to the measurement date	<u>640,206</u>	<u>-</u>	<u>207,802</u>	<u>-</u>
Total	\$ <u>2,765,804</u>	\$ <u>348,789</u>	\$ <u>973,362</u>	\$ <u>184,209</u>

**REGIONAL WATER RESOURCE AGENCY**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2018 and 2017

**6. Pension and Other Postemployment Benefits, Continued**

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

The \$640,206 and \$207,802 of deferred outflows of resources resulting from RWRA's pension and OPEB contributions subsequent to the measurement date will be recognized as a reduction of the net pension and OPEB liabilities in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension and OPEB expense as follows:

Year ending June 30,	Pension	OPEB
2019	\$ 823,097	\$ 100,027
2020	759,358	100,027
2021	325,892	100,027
2022	(131,538)	100,027
2023	-	141,596
2024	-	39,647
	\$ 1,776,809	\$ 581,351

Actuarial Assumptions

The total pension / OPEB liabilities in the June 30, 2016, actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Salary increases	2.00% average
Investment rate of return	6.25%, net of investment expenses
Healthcare cost trend rates (OPEB)	Initial trend starting at 7.50% for Pre-65, or 5.5% for Post-65, and gradually decreasing to an ultimate trend rate of 5% over a period of 5 years for Pre-65, or 2 years for Post-65

Mortality rates were based on the following assumptions and assume a margin for future mortality improvement:

# REGIONAL WATER RESOURCE AGENCY

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2018 and 2017

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### 6. Pension and Other Postemployment Benefits, Continued

#### Actuarial Assumptions, Continued

Pre-retirement mortality: RP-2000 Combined Mortality Table projected with Scale BB to 2013. Male mortality rates are multiplied by 50% and female mortality rates are multiplied by 30%.

Post-retirement mortality (non-disabled): RP-2000 Combined Mortality Table projected with Scale BB to 2013. Female mortality rates are set back one year.

Post-retirement mortality (disabled): RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013. Male mortality rates are set back four years.

The actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2013.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the tables below.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US equity	17.50%	5.97%
International equity	17.50	7.85%
Global bonds	4.00	2.63%
Global credit	2.00	3.63%
High yield	7.00	5.75%
Emerging market debt	5.00	5.50%
Private credit	10.00	8.75%
Real estate	5.00	7.63%
Absolute return	10.00	5.63%
Real returns	10.00	6.13%
Private equity	10.00	8.25%
Cash	2.00	1.88%
Total	<u>100%</u>	

**REGIONAL WATER RESOURCE AGENCY**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2018 and 2017

**6. Pension and Other Postemployment Benefits, Continued**

Discount Rate

The discount rates used to measure the total pension / OPEB liabilities at the measurement dates and changes since the prior year were as follows:

	Pension	OPEB
Discount rate, June 30, 2016	7.50%	6.89%
Increase (decrease)	(1.25)	(1.05)
Discount rate, June 30, 2017	6.25%	5.84%

The discount rate of 6.25% used to measure the total pension liability was based on the expected rate of return on pension plan investments. The discount rate of 5.84% used to measure the total OPEB liability was based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.56%, as reported in Fidelity Index’s “20-Year Municipal GO AA Index” as of June 30, 2017.

The projection of cash flows used to determine the discount rates is based on the assumption that each participating employer in CERS will contribute the actuarially determined contribution rates, which are determined using a closed funding period (26 years as of June 30, 2017), as well as the actuarial assumptions and methods adopted by the KRS Board of Trustees. Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from the system.

Sensitivity of RWRA’s Proportionate Share of the Liabilities to Changes in the Discount Rate

The following presents RWRA’s proportionate share of the net pension / OPEB liabilities, as well as what RWRA’s proportionate share of the net pension/OPEB liabilities would be if they were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Library’s Proportionate Share			
	Discount Rate	Net pension Liability	Discount Rate	Net OPEB Liability
1% decrease	5.25%	\$ 12,919,738	4.84%	\$ 4,476,841
Current discount rate	6.25%	\$ 10,243,873	5.84%	\$ 3,518,300
1% increase	7.25%	\$ 8,005,532	6.84%	\$ 2,720,642

**REGIONAL WATER RESOURCE AGENCY**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2018 and 2017

**6. Pension and Other Postemployment Benefits, Continued**

Sensitivity of RWRA’s Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents RWRA’s proportionate share of the net OPEB liability, as well as what RWRA’s proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Healthcare Cost Trend Rate		Library’s Proportionate Share of Net OPEB Liability
1% decrease	7.5% Pre-65 or 5.5% Post-65 decreasing to 4%	\$	2,698,717
Current healthcare cost trend rate	8.5% Pre-65 or 5.5% Post-65 decreasing to 5%	\$	3,518,300
1% increase	9.5% Pre-65 or 5.5% Post-65 decreasing to 6%	\$	4,583,709

Plan Fiduciary Net Position

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

Payables to the Pension / OPEB Plans

RWRA reported the following payables for the outstanding amount of pension/OPEB contributions due to CERS for the year ended June 30, 2018.

	Pension		OPEB
\$	14,410	\$	4,677

**7. 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.

# REGIONAL WATER RESOURCE AGENCY

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2018 and 2017

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### 8. 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, 2018.

#### Customer Service Charge

A monthly Customer Service Charge of \$14.05 was charged to all RWRA customers with a 1" water meter or less. Those with a meter larger than 1" were billed based on the comparison of the square of the meter size to a typical 1" meter.

#### 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 \$5.15.

For non-single-family-residential customers whose monthly billable volume exceeded 15,000 gallons, a volume surcharge in the amount of \$0.35 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 was revised to be charged to every customer of RWRA that is connected to the system. A monthly Capacity Fee of \$0.53 was charged to all RWRA customers with a 1" water meter or less. Those with a meter larger than 1" were billed based on the comparison of the square of the meter size to a typical 1" meter.

# REGIONAL WATER RESOURCE AGENCY

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2018 and 2017

### 8. Rate Structure, Continued

#### 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 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. 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 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 \$5.26 per 100 gallons, beginning July 1, 2017. 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 \$0.1012 and \$0.0708 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 are required to test, or request RWRA to perform a test on a sample of their discharge, reimburses RWRA for the laboratory testing costs.

# REGIONAL WATER RESOURCE AGENCY

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2018 and 2017

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### **9. 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, lasers at \$55,000 and \$135,000, and maximum aggregate claims and administrative costs, excluding run-in claims incurred in the prior year, up to \$1,460,373 and \$1,191,647, for plan years ending October 31, 2018 and 2017, respectively. RWRA 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 \$1,361,188 and \$1,277,003 for the years ended June 30, 2018 and 2017, respectively. Settled claims have not exceeded insurance coverage for 2018 or 2017, nor has there been any reduction in insurance coverage from the prior year.

### **10. 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 \$324,230 and \$326,307 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017, totaled \$414,696 and \$414,368, of which \$36,224 and \$30,119 was payable at each fiscal year end, respectively.

### **11. Interfund Transactions**

Interfund transactions related to the fiduciary funds were as follows for the year ended June 30, 2018:

**REGIONAL WATER RESOURCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

Years Ended June 30, 2018 and 2017

**11. Interfund Transactions, Continued**

	Cedar Hills	Friendly Park	Total
Due from fiduciary funds:			
Cash advances	\$ 50,000	\$ 50,000	\$ 100,000
Interest charged on cash advances	360	360	720
Balance, June 30, 2017	50,360	50,360	100,720
Interest charged on cash advances	925	925	1,850
Balance, June 30, 2018	\$ 51,285	\$ 51,285	\$ 102,570
Charges for maintenance and operations costs:			
Year end June 30, 2017	\$ 19,930	\$ 25,764	\$ 45,694
Year end June 30, 2018	25,318	8,694	34,012

**12. 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, 2018, funds available for RWRA to borrow under existing Kentucky Infrastructure Authority (KIA) Assistance Agreements totaled approximately \$11.8 million. In addition, RWRA has received Conditional Commitment Letters for future borrowing through the KIA totaling approximately \$2 million at June 30, 2018, to finance various planned sewer improvement projects, for which assistance agreements have not yet been executed.

# REGIONAL WATER RESOURCE AGENCY

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2018 and 2017

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### 12. Commitments and Contingencies, Continued

#### 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 immediately began the process of design of the extensions. The trunk line for the Friendly Park Package Plant was designed and bid in early 2018. The construction is currently in progress with completion anticipated in summer 2019. The trunk line for the Cedar Hills Package Plant has been designed and is currently under review by Kentucky Division of Water. It is anticipated to be bid in early 2019. 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 Friendly Park is \$1,458,095. The cost of the Cedar Hills system is unknown as it has not been bid as of this time.

#### Litigation

RWRA is a defendant in a lawsuit relating to a Kentucky Transportation Cabinet contractor. The trial of this matter concluded in October 2018, but judgment has not been rendered to date.

#### 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 2019.

#### 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 working with the bonding company to hire a completion contractor to finish the project. The project was rebid and Consolidated

# REGIONAL WATER RESOURCE AGENCY

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2018 and 2017

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### 12. Commitments and Contingencies, Continued

#### Precision Piping and Mechanical, Inc., Continued

Mechanical, Inc. (CMI) was awarded the project. CMI immediately began work to complete the unfinished project. The work has now been completed and RWRA is negotiating the Project closeout documents with the bonding company. 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 in late 2018.

### 13. Impact of Recently Issued Accounting Principles

In fiscal year 2018, RWRA implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (GASBS No. 75), which amends or supersedes the accounting and financial reporting guidance for Postemployment benefits other than pensions (other postemployment benefits or OPEB) provided to the employees of state and local governmental employers. The objective is to improve accounting and financial reporting for OPEB by state and local governments.

Under GASBS No. 75, the liability to be recognized by participating employers is measured as the portion of the present value of projected benefit payments to be provided through the OPEB plan to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. The OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB that are required to be recognized by an employer result primarily from changes in the components of the net OPEB liability, as detailed in Note 6 to financial statements.

In the financial statements, the implementation of GASBS No. 75 resulted in a reduction of beginning net position of \$2,536,026. Accordingly, net position at June 30, 2017, previously reported at \$53,539,855 has been restated as \$51,003,829 to reflect this change.

Management has not retrospectively applied this change to the prior years' financial statements. The actuarial valuation used to comply with GASBS No. 75 for the County Employees Retirement System (CERS) as of June 30, 2016. This valuation was used by Kentucky Retirement Systems to calculate employers' OPEB-related balances as of June 30, 2017, the plan measurement date, and such balances were reflected in these financial statements as of the June 30, 2018, reporting date, as required under the standards. Such calculations were not completed for prior years; therefore, the information was not available to apply GASBS No. 75 retrospectively. As a result, the current period's financial statements are not comparable with those of any prior periods.

**REGIONAL WATER RESOURCE AGENCY**

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

June 30, 2018 and 2017

	<u>Custodial Fund</u>	
	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash	\$ <u>40,092</u>	\$ <u>28,872</u>
<b>Total assets</b>	<u>40,092</u>	<u>28,872</u>
<b>LIABILITIES</b>		
Due to RWRA	51,285	50,360
Accounts payable	<u>2,765</u>	<u>4,632</u>
<b>Total liabilities</b>	<u>54,050</u>	<u>54,992</u>
<b>NET POSITION (DEFICIT)</b>		
Held in trust for receivership	\$ <u><u>(13,958)</u></u>	\$ <u><u>(26,120)</u></u>

See Notes to Financial Statements

**REGIONAL WATER RESOURCE AGENCY**

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

Years Ended June 30, 2018 and 2017

	Custodial Fund	
	2018	2017
Additions:		
Sewer service charges	\$ 79,805	\$ 33,197
Interest income	605	174
Total additions:	80,410	33,371
Deductions:		
Maintenance	2,887	1,720
Supplies	3,528	2,902
Utilities non-City	6,691	2,859
Utilities communications	1,260	630
Contractual services	50,392	50,338
Insurance	219	108
Billing expenses	1,421	454
Professional services	925	120
Interest expense	925	360
Total deductions	68,248	59,491
Change in net position	12,162	(26,120)
Net position (deficit), beginning of year	(26,120)	-
Net position (deficit), end of year	\$ (13,958)	\$ (26,120)

See Notes to Financial Statements

**REGIONAL WATER RESOURCE AGENCY**

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

June 30, 2018 and 2017

	<u>Custodial Fund</u>	
	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash	\$ <u>91,207</u>	\$ <u>38,779</u>
<b>Total assets</b>	<u>91,207</u>	<u>38,779</u>
<b>LIABILITIES</b>		
Due to RWRA	51,285	50,360
Accounts payable	<u>2,313</u>	<u>3,142</u>
<b>Total liabilities</b>	<u>53,598</u>	<u>53,502</u>
<b>NET POSITION (DEFICIT)</b>		
Held in trust for receivership	\$ <u><u>37,609</u></u>	\$ <u><u>(14,723)</u></u>

See Notes to Financial Statements

**REGIONAL WATER RESOURCE AGENCY**

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

Years Ended June 30, 2018 and 2017

	Custodial Fund	
	2018	2017
Additions:		
Sewer service charges	\$ 59,479	\$ 24,425
Contributions - Daviess County Fiscal Court	35,250	14,750
Interest income	1,399	259
Total additions	96,128	39,434
Deductions:		
Maintenance	1,307	2,455
Supplies	3,392	2,409
Utilities non-City	4,487	1,978
Utilities communications	936	468
Contractual services	30,933	46,191
Insurance	67	33
Billing expenses	824	263
Professional services	925	-
Interest expense	925	360
Total deductions	43,796	54,157
Change in net position	52,332	(14,723)
Net position (deficit), beginning of year	(14,723)	-
Net position (deficit), end of year	\$ 37,609	\$ (14,723)

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>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
RWRA's proportion of the net pension liability	0.175010%	0.178239%	0.173786%	0.168806%
RWRA's proportionate share of the net pension liability	\$ 10,243,873	\$ 10,243,873	\$ 7,471,958	\$ 5,477,000
RWRA's covered payroll	\$ 4,282,024	\$ 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	239.23%	248.07%	183.39%	141.09%
Plan fiduciary net position as a percentage of the total pension liability	55.30%	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>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 640,206	\$ 597,297	\$ 512,878	\$ 519,337
Contributions in relation to the contractually required contributions	<u>(640,206)</u>	<u>(597,297)</u>	<u>(512,878)</u>	<u>(519,337)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
 RWRA's covered payroll	 \$ 4,421,311	 \$ 4,282,024	 \$ 4,129,449	 \$ 4,074,363
Contributions as a percentage of covered payroll	14.48%	13.95%	12.42%	12.75%

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

**REGIONAL WATER RESOURCE AGENCY**

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

Last 10 Fiscal Years \*

	<u>2018</u>
RWRA's proportion of the net OPEB liability	0.175010%
RWRA's proportionate share of the net OPEB liability	\$ 3,518,300
RWRA's covered payroll	\$ 4,282,024
RWRA's proportionate share of the net OPEB liability as a percentage of its covered payroll	82.16%
Plan fiduciary net position as a percentage of the total OPEB liability	52.4%

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

**REGIONAL WATER RESOURCE AGENCY**

**SCHEDULE OF CONTRIBUTIONS  
COUNTY EMPLOYEES RETIREMENT SYSTEM  
INSURANCE FUND**

Last 10 Fiscal Years \*

	<u>2018</u>
Contractually required contributions	\$ 207,802
Contributions in relation to the contractually required contributions	<u>(207,802)</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>
RWRA's covered payroll	\$ 4,421,311
Contributions as a percentage of covered payroll	4.70%

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

**REGIONAL WATER RESOURCE AGENCY**

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

Year Ended June 30, 2018

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Changes of Benefit Terms

None

Changes of Assumptions

Pension and OPEB:

The assumed investment return was changed from 7.50% to 6.25%.

The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service.

The payroll growth assumption (applicable for the amortization of unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%.

OPEB:

The single discount rate changed from 6.89% to 5.84%.



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, 2018, and the related notes to the financial statements, and have issued our report thereon dated November 16, 2018.

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 16, 2018