

***REGIONAL WATER RESOURCE AGENCY***

***FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION***

***Years Ended June 30, 2019 and 2018***

***(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, 2019 and 2018, and the related notes to the financial statements, which comprise RWRA's 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 audits. We conducted our audits 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, 2019 and 2018, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance 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 on pages 3-9 and the pension and other postemployment benefits schedules on pages 40-44 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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, 2019, 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 the effectiveness of RWRA's 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 15, 2019

*Ring Hanock CPAs 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, 2019. 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 \$64.6 million (net position). Of this amount, \$13.2 million (unrestricted net position) may be used to meet RWRA's ongoing obligations to customers and creditors.
- RWRA's total net position increased by \$8.02 million in 2019. This represents a 14% change from the 2018 balance.
- The operating revenues of RWRA increased by \$923,084 to \$23.9 million at the close of the current fiscal year. This represents a 4% change from 2018.
- The operating expenses excluding depreciation increased by \$577,555 to \$15.93 million at the close of the current fiscal year. This represents a 3.7% change from 2018.

### 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 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 35 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 \$64,660,221 at the close of the current fiscal year.

The largest portion of RWRA's net position (75%) reflects its investment in capital assets, net of related debt used to acquire those assets that is still outstanding. RWRA uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although RWRA's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	<u>Condensed Statements of Net Position</u>	
	<u>2019</u>	<u>2018</u>
Current and other assets	\$ 29,984,701	\$ 23,890,452
Capital assets	85,385,734	78,279,467
Deferred outflows of resources	3,359,351	3,813,077
Total assets and deferred outflows of resources	<u>118,729,786</u>	<u>105,982,996</u>
Long-term liabilities	47,670,424	43,780,638
Other liabilities	5,449,424	5,032,924
Deferred inflows of resources	949,717	532,998
Total liabilities and deferred inflows of resources	<u>54,069,565</u>	<u>49,346,560</u>
Net position:		
Net investment in capital assets	48,596,366	45,702,122
Restricted	2,783,226	2,775,587
Unrestricted	13,280,629	8,158,727
Total net position	<u>\$ 64,660,221</u>	<u>\$ 56,636,436</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Financial Analysis, Continued

	<u>Condensed Statements of Revenues, Expenses and Changes in Net Position</u>	
	<u>2019</u>	<u>2018</u>
Revenues:		
Operating revenues	\$ 23,974,379	\$ 23,051,295
Investment earnings	691,666	244,135
Capital contributions	3,391,951	2,091,992
Other revenues	<u>682,872</u>	<u>357,576</u>
Total revenues	<u>28,740,868</u>	<u>25,744,998</u>
Expenses:		
Operating expenses (excluding depreciation)	15,930,501	15,352,946
Depreciation expense	4,365,371	4,291,237
Interest expense	512,261	395,499
Other	<u>(91,050)</u>	<u>72,709</u>
Total expenses	<u>20,717,083</u>	<u>20,112,391</u>
Change in net position	<u>8,023,785</u>	<u>5,632,607</u>
Net position – beginning of year	<u>56,636,436</u>	<u>51,003,829</u>
Net position – end of year	<u>\$ 64,660,221</u>	<u>\$ 56,636,436</u>

RWRA's net position increased by \$8,023,785 during the current year. Operating revenues increased by \$923,084 while operating expenses and depreciation increased \$651,689 from fiscal year 2018 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, 2019, amounts to \$85,385,734 (net of accumulated depreciation). Investment in capital assets increased by approximately 9% during the year. Below is a comparison of the items that make up capital assets as of June 30, 2019, with that of June 30, 2018.

	<u>2019</u>	<u>2018</u>
Land and Improvements	\$ 1,177,826	\$ 1,177,826
Sewage Treatment Plants	14,199,204	15,399,551
Sewers	50,702,217	48,936,417
Equipment	6,786,545	3,366,505
Construction in Progress	<u>12,519,942</u>	<u>9,399,168</u>
Total capital assets	<u>\$ 85,385,734</u>	<u>\$ 78,279,467</u>

Major capital asset activity for the current fiscal year included:

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

Pleasant View Estates Sewer Extension (\$298,374 total)	\$ 110,390
Max Rhoads Plant UV (\$2,997,095 total)	67,535
Cured In Place Pipe Rehab F/Y 17-1 (\$529,260 total)	41,436
Hayden Road Area Sewer Extension (\$1,075,078 total)	25,231
Pump Station Rehab-Veach (\$41,730 total)	22,197
Cedar Hills Subdivision Sewer Rehab (\$203,150 total)	2,153

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

Breckenridge Tunnel Lining Emergency Repair	\$ 585,740
Vac-Con/Freightliner Jet Rodder	397,404
2018 Generac Model IDLC1250 Generator for Max Rhoads WWTP	292,820
Replacement/Repairs of Various Pumps	102,860
Vehicles for Operations	149,993
Breckenridge St. Tunnel Repair-Grouting at 18th & Breckenridge St.	103,495
MRP Clarifier #2 Center Pier Rehab & Trough Epoxy Coat	120,165
Bobcat E85 T4 R Compact Excavator	87,270
MRP Barscreen 3 Rebuild	73,826
Bobcat E35 3HP Compact Excavator	47,971
Pump Station Rehab-Time Drive	38,952
Small HVAC Replacement-Various Locations	34,306
Hydraulic Breakers/ Variable Frequency Drives/ Magmeters	30,893
2019 Cummins Stationary Generator-Grimes Avenue	25,577
Kubota RTV-XG850 Utility Vehicle	21,850
Inspection Push Camera 150'	11,200
New KSB Model KRT K040-250/17XG Sewage Pump	7,285
Rolling Steel Service Door For DHP Press Tower Building	6,229

## 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 Admin HVAC Renovation	\$	233,917
Horsefork Gravity Sewer		157,500
Tunnel Repl., Lining, & Repair-Center St. (Breckenridge St.)		86,824
Cured In Place Pipe Rehab F/Y 19-1 (large diameter pipe)		59,082
2019 Ford F550XL 2WD Supercab w/ Utility Truck Bed & Crane		55,723
Cured In Place Pipe Rehab F/Y 19-2 (small diameter pipe)		17,915

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

David Hawes Plant Misc. Upgrades (\$4,080,858 to date)	\$	3,479,124
Southwest Master Pump Station (\$6,439,841 to date)		3,144,255
Friendly Park Sewer Extension (\$849,410 to date)		764,735
The Shoppes at 3800 Frederica St. Upsizing/Ext. (\$118,205 to date)		105,000
Cedar Hills Sewer Extension (\$342,721 to date)		95,861
Thompson Land Dev.-Saddle Pointe Upsizing/Ext. \$74,197 to date)		4,500
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 \$35,967,147 in bonds, loans, and notes payable outstanding versus \$32,115,487 last year, an increase of 12%.

RWRA has one bond issue outstanding, one note payable to the City of Owensboro, and one note payable to the Daviess County Fiscal Court. Other long-term obligations of RWRA include net pension and OPEB liabilities, accrued compensated absences and loans from the Kentucky Infrastructure Authority. 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, 2018, the Customer Service Charge which is dependent on the size of the meter providing service, with the 1" meter being considered as the base, increased to \$15.15. 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. The Customer Service Charge saw a \$484,118 increase from fiscal year 2018 to 2019. The Wastewater User Charge remained at \$4.39 per 1,000 gallons per month. Revenue received from the Wastewater User Charge, the primary operational revenue source, saw a \$92,575 decrease from the previous year from \$11,876,466 in fiscal year 2018 to \$11,783,891 in fiscal year 2019, a .8% decrease.

The Environmental Improvement Monthly Charge increased from \$5.15/month to \$6.35/month flat amount charged to all metered customers, effective July 1, 2018. In fiscal year 2019, this amounted to \$2,309,255; a \$451,389 or 24% 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 \$0.35/1,000 gallons to \$0.42/1,000 gallons, effective July 1, 2018. In fiscal year 2019, revenue from this source was \$532,431; a \$83,935 or 18% increase from the prior year.

The Capacity Fee is 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 \$210,349 in fiscal year 2019.

Also included in the Sewer Service Charge total is Transported Waste, which is wastewater brought to the treatment plants from various domestic and commercial sources. Revenue from Transported Waste decreased from \$1,030,109 in fiscal year 2018 to \$1,012,733 in fiscal year 2019.

The total revenue from the six components of Sewer Service Charge increased from \$20,911,115 in fiscal year 2018 to \$21,829,712 in fiscal year 2019, an increase of 4%.

Operational Expenses – Total operational expenses, excluding depreciation, increased from \$15,352,946 in fiscal year 2018 to \$15,930,501 in fiscal year 2019, an increase of \$577,555, or 3.7%.

## 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 continuing for this coming year include a key component for environmental improvement which is the completion of the Southwest Master Pump Station System Improvements and the David Hawes Plant Ultraviolet Light Disinfection System Projects.

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 Cedar Hills Subdivision, 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 \$8,890,246, 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 \$283,226 in fiscal year 2019. 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, 2019 and 2018

**ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

	<u>2019</u>	<u>2018</u>
Current assets:		
Cash	\$ 350	\$ 350
Equity in external investment pool	22,185,634	16,643,174
Due from Owensboro Municipal Utilities	2,144,679	1,988,402
Accounts receivable	2,465,269	2,054,373
Due from fiduciary funds	105,038	102,570
Prepaid supplies	204,373	235,293
Other current assets	<u>96,132</u>	<u>90,703</u>
Total current assets	<u>27,201,475</u>	<u>21,114,865</u>
Noncurrent assets:		
Restricted assets	2,783,226	2,775,587
Capital assets, net	<u>85,385,734</u>	<u>78,279,467</u>
Total noncurrent assets	<u>88,168,960</u>	<u>81,055,054</u>
Total assets	<u>115,370,435</u>	<u>102,169,919</u>
Deferred outflows of resources:		
Deferred charges on refunding	65,921	73,911
Pension deferred outflows	2,359,695	2,765,804
Other postemployment benefits deferred outflows	<u>933,735</u>	<u>973,362</u>
Total deferred outflows of resources	<u>3,359,351</u>	<u>3,813,077</u>
<b>Total assets and deferred outflows of resources</b>	<b>\$ <u>118,729,786</u></b>	<b>\$ <u>105,982,996</u></b>

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

Current liabilities:		
Accounts payable	\$ 1,070,540	\$ 1,385,026
Accrued liabilities	131,961	117,652
Compensated absences	130,002	38,344
Current maturities of long-term debt	3,243,661	2,972,819
Contracts and retainage payable	<u>873,260</u>	<u>519,083</u>
Total current liabilities	<u>5,449,424</u>	<u>5,032,924</u>
Noncurrent liabilities:		
Compensated absences	805,466	859,111
Net pension liability	10,938,005	10,243,873
Net other postemployment benefits liability	3,188,585	3,518,300
Long-term debt	<u>32,738,368</u>	<u>29,159,354</u>
Total noncurrent liabilities	<u>47,670,424</u>	<u>43,780,638</u>
Total liabilities	<u>53,119,848</u>	<u>48,813,562</u>
Deferred inflows of resources:		
Pension deferred inflows	344,515	348,789
Other postemployment benefits deferred inflows	<u>605,202</u>	<u>184,209</u>
Total deferred inflows of resources	<u>949,717</u>	<u>532,998</u>
Net position:		
Net investment in capital assets	48,596,366	45,702,122
Restricted for maintenance and equipment replacement	2,500,000	2,500,000
Restricted for debt service	283,226	275,587
Unrestricted	<u>13,280,629</u>	<u>8,158,727</u>
Total net position	<u>64,660,221</u>	<u>56,636,436</u>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$ <u>118,729,786</u></b>	<b>\$ <u>105,982,996</u></b>

See Notes to Financial Statements

**REGIONAL WATER RESOURCE AGENCY**

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

Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Operating revenues:</b>		
Sewer service charges	\$ 21,829,712	\$ 20,911,115
Industrial surcharge	1,104,644	1,014,101
Sewer taps	147,281	99,694
Storm water	641,019	741,948
Other	<u>251,723</u>	<u>284,437</u>
 Total operating revenues	 <u>23,974,379</u>	 <u>23,051,295</u>
<b>Operating expenses:</b>		
Field operations:		
Salaries, wages and benefits	2,602,765	2,492,486
Maintenance	1,120,709	1,074,904
Utilities	9,610	10,194
Supplies	92,593	94,409
Other	<u>45,008</u>	<u>39,773</u>
	<u>3,870,685</u>	<u>3,711,766</u>
Treatment plant operations:		
Salaries, wages and benefits	1,124,856	1,031,504
Maintenance	7,150	2,970
Utilities	1,645,980	1,566,895
Supplies	298,077	520,101
Other	<u>594,346</u>	<u>667,759</u>
	<u>3,670,409</u>	<u>3,789,229</u>
Maintenance operations:		
Salaries, wages and benefits	1,130,429	1,296,067
Maintenance	188,725	198,520
Utilities	619,682	582,104
Supplies	81,170	88,881
Other	<u>14,127</u>	<u>17,432</u>
	<u>2,034,133</u>	<u>2,183,004</u>
Agency administration:		
Salaries, wages and benefits	1,373,047	1,324,904
Maintenance	18,964	17,274
Utilities	42,894	41,382
Supplies	30,568	51,049
Other	<u>1,021,914</u>	<u>954,234</u>
	<u>2,487,387</u>	<u>2,388,843</u>
Operations administration:		
Salaries, wages and benefits	436,886	418,077
Maintenance	44,308	42,204
Utilities	29,381	29,944
Supplies	12,436	11,977
Other	<u>-</u>	<u>-</u>
	<u>523,011</u>	<u>502,202</u>

See Notes to Financial Statements

**REGIONAL WATER RESOURCE AGENCY**

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

Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Operating expenses, Continued:</b>		
Engineering:		
Salaries, wages and benefits	1,677,905	1,425,118
Maintenance	19,265	22,922
Utilities	7,037	5,027
Supplies	38,489	45,080
Other	446,868	122,224
	<u>2,189,564</u>	<u>1,620,371</u>
Contractual services:		
Salaries, wages and benefits	349,462	338,805
Maintenance	44,960	35,082
Utilities	1,930	1,434
Supplies	48,954	57,799
Other	710,006	724,411
	<u>1,155,312</u>	<u>1,157,531</u>
Depreciation	<u>4,365,371</u>	<u>4,291,237</u>
Total operating expenses	<u>20,295,872</u>	<u>19,644,183</u>
Operating income	<u>3,678,507</u>	<u>3,407,112</u>
<b>Nonoperating revenues (expenses):</b>		
Gain (loss) on sale of capital assets	304,180	211,671
Investment earnings	691,666	244,135
Grant revenue	355,217	130,398
Miscellaneous revenue	23,475	15,507
Interest expense	(512,261)	(395,499)
Other income (expense)	91,050	(72,709)
Total nonoperating revenues (expenses)	<u>953,327</u>	<u>133,503</u>
Income before capital contributions	4,631,834	3,540,615
Capital contributions	<u>3,391,951</u>	<u>2,091,992</u>
Change in net position	<u>8,023,785</u>	<u>5,632,607</u>
Net position, beginning of year	<u>56,636,436</u>	<u>51,003,829</u>
Net position, end of year	<u>\$ 64,660,221</u>	<u>\$ 56,636,436</u>

See Notes to Financial Statements

**REGIONAL WATER RESOURCE AGENCY**

**STATEMENTS OF CASH FLOWS**

Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Cash flows from operating activities:</b>		
Receipts from customers	\$ 23,300,420	\$ 22,848,880
Receipts from interfund services provided	104,318	102,570
Other receipts (payments)	114,525	(57,202)
Payments to suppliers for goods or services	(7,169,969)	(7,057,984)
Payments to or on behalf of employees	(7,416,156)	(6,906,325)
	<u>8,933,138</u>	<u>8,929,939</u>
<b>Cash flows from capital and related financing activities:</b>		
Principal payments on long-term debt	(2,955,525)	(3,077,751)
Proceeds from issuance of long-term debt	6,807,185	6,626,608
Interest paid	(506,075)	(389,312)
Change in restricted assets	(7,639)	54,982
Gain (loss) on sale of capital assets	304,180	211,671
Acquisition and construction of capital assets	(10,393,042)	(7,800,547)
Capital grants	355,217	130,398
Capital contributions	2,313,355	918,390
	<u>(4,082,344)</u>	<u>(3,325,561)</u>
<b>Cash flows from investing activities:</b>		
Investment income	691,666	244,135
	<u>691,666</u>	<u>244,135</u>
Net increase in cash and cash equivalents	5,542,460	5,848,513
Cash and cash equivalents, beginning of year	16,643,524	10,795,011
Cash and cash equivalents, end of year	<u>\$ 22,185,984</u>	<u>\$ 16,643,524</u>
<b>Included in the following balance sheet captions:</b>		
Reconciliation to cash and cash equivalents:		
Cash	\$ 350	\$ 350
Equity in external investment pool	22,185,634	16,643,174
	<u>\$ 22,185,984</u>	<u>\$ 16,643,524</u>

See Notes to Financial Statements

**REGIONAL WATER RESOURCE AGENCY**

**STATEMENTS OF CASH FLOWS, Concluded**

Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 3,678,507	\$ 3,407,112
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	4,365,371	4,291,237
Miscellaneous nonoperating income (expense)	114,525	(57,202)
Change in assets and liabilities:		
Decrease (increase) in assets and deferred outflows:		
Due from Owensboro Municipal Utilities	(156,277)	4,444
Accounts receivable	(410,896)	(102,439)
Due from fiduciary funds	(2,468)	(1,850)
Prepaid supplies	30,920	(75,285)
Other current assets	(5,429)	(16,649)
Increase (decrease) in liabilities and deferred inflows:		
Accounts payable	(314,486)	(114,101)
Accrued liabilities	14,309	7,624
Compensated absences	38,013	46,721
Contracts and retainage payable	354,177	174,036
Net pension liability and deferrals	1,095,967	1,173,170
Net other postemployment benefits liability and deferrals	<u>130,905</u>	<u>193,121</u>
Net cash provided by operating activities	\$ <u>8,933,138</u>	\$ <u>8,929,939</u>
<b>Noncash investing and capital activities:</b>		
Unrealized gain (loss) on equity in external investment pool and the revenue bond debt service reserve	\$ 134,694	\$ (54,549)
Contributed sewers	\$ 1,078,596	\$ 1,173,602
Debt forgiveness	\$ 1,903	\$ 188,097

See Notes to Financial Statements

# REGIONAL WATER RESOURCE AGENCY

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

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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.

#### 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, 2019 and 2018

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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, 2019 and 2018.

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, 2019 and 2018

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### 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, 2019 and 2018

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

#### Net Position, Continued

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.

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.

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.

### 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, 2019 and 2018.

**REGIONAL WATER RESOURCE AGENCY**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

**2. Deposits and Investments, Continued**

External Investment Pool, Continued

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

	<u>2019</u>	<u>2018</u>
Current assets:		
Equity in external investment pool	\$ 22,185,634	\$ 16,643,174
Noncurrent assets:		
Restricted assets	<u>2,500,000</u>	<u>2,500,000</u>
	<u>\$ 24,685,634</u>	<u>\$ 19,143,174</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>2019</u>		
Interest and dividends	\$ 549,044	\$ 5,928	\$ 554,972
Unrealized gain (loss)	<u>134,762</u>	<u>1,932</u>	<u>136,694</u>
	<u>\$ 683,806</u>	<u>\$ 7,860</u>	<u>\$ 691,666</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>

**3. Restricted Assets**

Assets are restricted for the following purposes at June 30:

	<u>2019</u>	<u>2018</u>
Revenue bond debt service reserve:		
Cash with trustee	\$ 283,226	\$ 275,587
Maintenance and replacement reserve - KIA:		
Equity in external investment pool	<u>2,500,000</u>	<u>2,500,000</u>
	<u>\$ 2,783,226</u>	<u>\$ 2,775,587</u>

**REGIONAL WATER RESOURCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

Years Ended June 30, 2019 and 2018

**4. Capital Assets**

Capital assets activity for the year ended June 30, 2019, was as follows:

	Balance June 30, 2018	Increase	Decrease	Balance June 30, 2019
Capital assets:				
Land	\$ 704,647	\$ -	\$ -	\$ 704,647
Land improvements	473,179	-	-	473,179
Sewers	77,348,458	3,873,694	-	81,222,152
Equipment	11,805,125	4,361,031	(777,163)	15,388,993
Sewage treatment plant	49,937,627	126,394	-	50,064,021
Total capital assets	140,269,036	8,361,119	(777,163)	147,852,992
Accumulated depreciation:				
Sewers	28,412,041	2,107,894	-	30,519,935
Equipment	8,438,620	930,736	(766,908)	8,602,448
Sewage treatment plant	34,538,076	1,326,741	-	35,864,817
Total accumulated depreciation	71,388,737	4,365,371	(766,908)	74,987,200
Construction in progress	9,399,168	8,204,434	(5,083,660)	12,519,942
Capital assets, net	\$ 78,279,467	\$ 12,200,182	\$ (5,093,915)	\$ 85,385,734

Depreciation expense totaled \$4,365,371 and \$4,291,237 for the years ended June 30, 2019 and 2018, respectively.

Additions to sewers reflected above includes capital contributions recorded in the statements of revenues, expenses and changes in net position totaling \$1,078,596 and \$1,173,602 for the years ended June 30, 2019 and 2018, respectively.

# REGIONAL WATER RESOURCE AGENCY

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

### 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>2019</u>	<u>2018</u>
2016 A Series	2.0 – 2.125%	2027	\$	1,910,000	\$ 2,130,000

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		5,748,779	7,150,490
A06-02	1.0%	2027		3,244,642	3,608,592
A07-08	1.0%	2028		712,596	783,752
A10-13	1.0%	2034		4,782,194	5,066,067
A12-14	2.0%	2035		302,525	317,861
A12-15	1.0%	2036		2,069,617	2,177,321
A13-017	1.75%	2037		804,011	840,523
A13-028	1.75%	2038		836,370	873,183
A14-008	1.75%	2035		300,538	316,123
A15-002	1.75%	2039		6,038,882	2,990,992
A15-027	1.75%	2039		979,067	912,877
A15-099	1.75%	2038		2,936,626	2,968,061
A16-026	2.75%	2019		-	201,963
A16-082	1.75%	2019		-	9,900
A18-007	1.75%	2039		191,340	-
A18-026	1.75%	2038		3,731,181	581,221
B17-014	1.75%	2039		258,707	142,472
B17-015	1.75%	2038		408,347	397,276
Note payable, related party		2039		100,000	-
Note payable, related party		2035		611,725	646,813
Total long-term debt				35,967,147	32,115,487
Less current maturities				(3,243,661)	(2,972,819)
Plus unamortized bond premiums				14,882	16,686
			\$	<u>32,738,368</u>	<u>\$ 29,159,354</u>

**REGIONAL WATER RESOURCE AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

Years Ended June 30, 2019 and 2018

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

The following is a summary of long-term debt activity for the year ended June 30, 2019:

	Balance June 30, 2018	<u>Additions</u>	<u>Deductions</u>	Balance June 30, 2019	Due Within One Year
Revenue Bonds:					
2016 Series A	\$ 2,130,000	\$ -	\$ (220,000)	\$ 1,910,000	\$ 225,000
KIA Loans:					
A99-04	7,150,490	-	(1,401,711)	5,748,779	1,415,763
A06-02	3,608,592	-	(363,950)	3,244,642	367,599
A07-08	783,753	-	(71,157)	712,596	71,870
A10-13	5,066,067	-	(283,873)	4,782,194	286,719
A12-14	317,861	-	(15,336)	302,525	15,644
A12-15	2,177,320	-	(107,703)	2,069,617	108,783
A13-017	840,523	-	(36,512)	804,011	37,154
A13-028	873,183	-	(36,813)	836,370	37,460
A14-008	316,123	-	(15,585)	300,538	15,859
A15-002	2,990,992	3,047,890	-	6,038,882	254,595
A15-027	912,877	66,190	-	979,067	41,277
A15-099	2,968,061	90,842	(122,277)	2,936,626	131,527
A16-026	201,964	24,802	(226,766)	-	-
A16-082	9,900	100	(10,000)	-	-
A18-007	-	191,340	-	191,340	8,140
A18-026	581,221	3,149,960	-	3,731,181	157,304
B17-014	142,471	116,236	-	258,707	10,907
B17-015	397,276	19,825	(8,754)	408,347	17,738
Note payable, related party	-	100,000	-	100,000	4,882
Note payable, related party	646,813	-	(35,088)	611,725	35,440
	<u>32,115,487</u>	<u>6,807,185</u>	<u>(2,955,525)</u>	<u>35,967,147</u>	<u>3,243,661</u>
Deferred amounts:					
For issuance premiums	16,686	-	(1,804)	14,882	-
	<u>\$ 32,132,173</u>	<u>\$ 6,807,185</u>	<u>\$ (2,957,329)</u>	<u>\$ 35,982,029</u>	<u>\$ 3,243,661</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 the event of default, bondholders may take action they deem most effectual as listed in the bond statement.

**REGIONAL WATER RESOURCE AGENCY**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

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

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, 2019, \$2,235,000 of bonds outstanding are considered defeased.

The KIA loans are the primary source of funding for various sewer maintenance, extension and replacement projects. The loans 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 the event of default, KIA may take whatever legal action necessary to enforce its rights under the agreements.

The note payable, related party totaling \$611,725 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.

The note payable, related party currently recorded at \$100,000 is due to the Daviess County Fiscal Court for RWRA's contribution towards certain sewer system extensions. The final amount and terms of the debt have not yet been established in a formal agreement, but will be finalized upon completion of the project. Based on an expected interest rate of .25%, semi-annual installments are currently calculated to be \$2,565, including interest through June 2039.

Annual debt service requirements are as follows:

Year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 3,243,661	\$ 493,876	\$ 3,737,537
2021	3,284,420	453,567	3,737,987
2022	3,320,636	407,414	3,728,050
2023	3,362,314	371,424	3,733,738
2024	1,931,066	333,202	2,264,268
2025-2029	8,913,748	1,254,475	10,168,223
2030-2034	6,942,434	700,552	7,642,986
2035-2039	<u>4,968,868</u>	<u>208,653</u>	<u>5,177,521</u>
Total	\$ <u>35,967,147</u>	\$ <u>4,223,163</u>	\$ <u>40,190,310</u>

The amount of interest expense on long-term debt totaled \$512,261 and \$395,499, respectively, for the fiscal years ended June 30, 2019 and 2018.

# REGIONAL WATER RESOURCE AGENCY

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

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### 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).

#### 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.

**REGIONAL WATER RESOURCE AGENCY**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

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

Contributions, Continued

RWRA's actuarially determined contribution rates and contribution amounts, based on annual creditable compensation, for the year ended June 30, 2019, were as follows:

	<u>Contribution Rates</u>	<u>Contributions</u>
Pension	16.22%	\$ 754,640
OPEB	5.26	244,723
Total	<u>21.48%</u>	<u>\$ 999,363</u>

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, 2019, were measured as of June 30, 2018, and the total pension and OPEB liabilities used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017. 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. Changes in RWRA's pension and OPEB proportions as of the measurement dates were as follows:

	<u>Pension</u>	<u>OPEB</u>
June 30, 2017	0.175010%	0.175010%
Increase	0.004587	0.004580
June 30, 2018	<u>0.179597%</u>	<u>0.179590%</u>

RWRA's pension and OPEB liabilities and expense as of and for the year ended June 30, 2019, were as follows:

	<u>Net Pension Liability</u>	<u>Net OPEB Liability</u>
Proportionate Share	\$ 10,938,005	\$ 3,188,585
Pension/OPEB Expense	<u>\$ 1,853,916</u>	<u>\$ 376,691</u>

**REGIONAL WATER RESOURCE AGENCY**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

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

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

At June 30, 2019, RWRA reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Pension		OPEB	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 356,767	\$ 160,109	\$ -	\$ 371,587
Changes of assumptions	1,068,961	-	636,808	7,367
Net difference between projected and actual earnings on plan investments	-	131,153	-	219,631
Changes in proportion and differences between contributions and proportionate share of contributions	179,327	53,253	52,204	6,617
Contributions subsequent to the measurement date	754,640	-	244,723	-
Total	\$ 2,359,695	\$ 344,515	\$ 933,735	\$ 605,202

The \$754,640 and \$244,723 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension and OPEB expense as follows:

	Pension	OPEB
Year ending June 30,		
2020	\$ 930,624	\$ 19,653
2021	485,864	19,653
2022	(97,242)	19,653
2023	(58,706)	62,309
2024	-	(19,422)
2025	-	(18,036)
	\$ 1,260,540	\$ 83,810

# REGIONAL WATER RESOURCE AGENCY

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

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

#### Actuarial Assumptions

The total pension / OPEB liabilities in the June 30, 2017, actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Healthcare payroll growth rate	2.00%
Salary increases	3.05% average
Net investment rate	6.25%
Healthcare cost trend rates (OPEB)	Pre-65: Initial trend starting at 7.0% at January 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. Post-65: Initial trend starting at 5.0% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years

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 122013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2017, 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 following table.

**REGIONAL WATER RESOURCE AGENCY**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

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

Actuarial Assumptions, Continued

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US equity:		
US large cap	5.00%	4.50%
US mid cap	6.00	4.50%
US small cap	6.50	5.50%
Non US equity:		
International developed	12.50	6.50%
Emerging markets	5.00	7.25%
Global bonds	4.00	3.00%
Credit fixed:		
Global IG credit	2.00	3.75%
High yield	7.00	5.50%
EMD	5.00	6.00%
Illiquid private	10.00	8.50%
Private equity	10.00	6.50%
Real estate	5.00	9.00%
Absolute return	10.00	5.00%
Real return	10.00	7.00%
Cash	2.00	1.50%
Total	100.00%	

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, 2017	6.25%	5.84%
Increase (decrease)	-	0.01
Discount rate, June 30, 2018	6.25%	5.85%

**REGIONAL WATER RESOURCE AGENCY**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

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

Discount Rate, Continued

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 5.85% 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 3.62%, as reported in Fidelity Index’s “20-Year Municipal GO AA Index” as of June 30, 2018.

The projections of cash flows used to determine the discount rates assumed that local employers would contribute the actuarially determined contribution rates of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability.

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:

	RWRA’s Proportionate Share			
	Discount Rate	Net pension Liability	Discount Rate	Net OPEB Liability
1% decrease	5.25%	\$ 13,769,815	4.85%	\$ 4,141,460
Current discount rate	6.25%	\$ 10,938,005	5.85%	\$ 3,188,585
1% increase	7.25%	\$ 8,565,444	6.85%	\$ 2,376,909

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:

**REGIONAL WATER RESOURCE AGENCY**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

**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, Continued

	<u>Healthcare Cost Trend Rates</u>		<u>RWRA's Proportionate Share of Net OPEB Liability</u>
1% decrease	6.0% Pre-65 or 4.0% Post-65	\$	2,373,933
Current healthcare cost trend rates	7.0% Pre-65 or 5.0% Post-65	\$	3,188,585
1% increase	8.0% Pre-65 or 6.0% Post-65	\$	4,148,825

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

The RWRA reported the following payables for the outstanding amount of pension/OPEB contributions due to CERS for the year ended June 30, 2019.

	<u>Pension</u>		<u>OPEB</u>
	\$ 17,692		\$ 5,737

**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.

**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, 2019.

# REGIONAL WATER RESOURCE AGENCY

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

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### 8. Rate Structure, Continued

#### Customer Service Charge

A monthly Customer Service Charge of \$15.15 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 \$6.35.

For non-residential and non-single-family-residential customers whose monthly billable volume exceeded 15,000 gallons, a volume surcharge in the amount of \$0.42 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.

#### 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.

# REGIONAL WATER RESOURCE AGENCY

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

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### 8. 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 \$5.31 per 100 gallons, beginning July 1, 2018. 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 \$0.1021 and \$0.0715 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.

### 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 \$70,000 and \$135,000, and maximum aggregate claims and administrative costs, excluding run-in claims incurred in the prior year, up to \$1,479,983 and

**REGIONAL WATER RESOURCE AGENCY**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

**9. Risk Management, Continued**

\$1,460,373, for plan years ending October 31, 2019 and 2018, 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 \$1,416,276 and \$1,361,188 for the years ended June 30, 2019 and 2018, respectively. Settled claims have not exceeded insurance coverage for 2019 or 2018, 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 \$357,127 and \$324,230 for the years ended June 30, 2019 and 2018, respectively, of which none was payable at each fiscal year end.

Amounts paid to the County for landfill services for the years ended June 30, 2019 and 2018, totaled \$354,470 and \$414,696, of which \$24,135 and \$36,224 was payable at each fiscal year end, respectively.

RWRA also has notes payable to the City and the County as described in Note 5.

**11. Interfund Transactions**

Interfund transactions related to the fiduciary funds were as follows for the year ended June 30, 2019:

	<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	<u>1,285</u>	<u>1,285</u>	<u>2,570</u>
Balance, June 30, 2018	51,285	51,285	102,570
Interest charged on cash advances	<u>1,234</u>	<u>1,234</u>	<u>2,468</u>
Balance, June 30, 2019	<u>\$ 52,519</u>	<u>\$ 52,519</u>	<u>\$ 105,038</u>
Charges for maintenance and operations costs:			
Year end June 30, 2018	\$ 25,318	\$ 8,694	\$ 34,012
Year end June 30, 2019	12,851	2,228	15,079

# REGIONAL WATER RESOURCE AGENCY

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

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### 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, 2019, funds available for RWRA to borrow under existing Kentucky Infrastructure Authority (KIA) Assistance Agreements totaled approximately \$5.2 million. In addition, RWRA has received Conditional Commitment Letters for future borrowing through the KIA totaling approximately \$7 million at June 30, 2019, 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 was agreed upon that RWRA would 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. Under the receivership agreements, RWRA became responsible for the operation and management of both plants with a combination of RWRA personnel and contractor services, until such time as the communities could become part of the RWRA system.

The trunk line for the Friendly Park Package Plant was designed and bid in early 2018. Construction was completed in October of 2019 at a cost of approximately \$1.45 million.

# REGIONAL WATER RESOURCE AGENCY

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018

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### 12. Commitments and Contingencies, Continued

The trunk line for the Cedar Hills Package Plant has been bid and awarded, and construction began in the summer of 2019, with completion expected in the summer of 2020 at a cost of approximately \$2.6 million.

The cost of these projects is funded in part by federal grants and loans obtained by the Daviess County Fiscal Court and RWRA. The balance of the cost will be passed on to the residents of Friendly Park and Cedar Hills.

#### Litigation

RWRA is a defendant in a lawsuit relating to a Kentucky Transportation Cabinet contractor. The trial of this matter concluded in October 2018, and judgment was rendered in favor of RWRA in August of 2019. However, an appeal has been filed and, therefore, the outcome is not determinable 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 revenue 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 fiscal year 2020.

#### 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 worked with the bonding company to hire a completion contractor to finish the project. The project was rebid and Consolidated Mechanical, Inc. (CMI) was awarded the project. CMI immediately began work to complete the unfinished project. The work has now been completed and all close out documents with the bonding company were finalized. RWRA does not believe that any legal action, nor any adverse effect to RWRA, will result from the bankruptcy.

#### Burlington Civil, Inc.

On November 1, 2017, RWRA entered into a contract with Burlington Civil, Inc. (BCI) for \$2,557,902 to construct a pump station and force main and related appurtenances as part of the Southwest Master Pump Station project. On July 12, 2019, BCI informed RWRA that BCI was declaring bankruptcy and ceasing all operations, at which time BCI was approximately 80% complete on the contract. RWRA is working with the bonding company on obtaining a completion contractor to finish the project per the plans and specifications. Anticipated completion of this portion of the project is expected in June or July 2020.

**REGIONAL WATER RESOURCE AGENCY**

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

June 30, 2019 and 2018

	<u>Custodial Fund</u>	
	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Cash	\$ <u>61,212</u>	\$ <u>40,092</u>
<b>Total assets</b>	<u>61,212</u>	<u>40,092</u>
<b>LIABILITIES</b>		
Due to RWRA	52,519	51,285
Accounts payable	<u>3,252</u>	<u>2,765</u>
<b>Total liabilities</b>	<u>55,771</u>	<u>54,050</u>
<b>NET POSITION (DEFICIT)</b>		
Held in trust for receivership	\$ <u><u>5,441</u></u>	\$ <u><u>(13,958)</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, 2019 and 2018

	Custodial Fund	
	2019	2018
<b>Additions:</b>		
Sewer service charges	\$ 79,696	\$ 79,805
Interest income	1,271	605
Total additions:	80,967	80,410
<b>Deductions:</b>		
Maintenance	2,543	2,887
Supplies	4,409	3,528
Utilities non-City	6,771	6,691
Utilities communications	1,260	1,260
Contractual services	41,154	50,392
Insurance	219	219
Billing expenses	1,517	1,421
Professional services	2,461	925
Interest expense	1,234	925
Total deductions	61,568	68,248
Change in net position	19,399	12,162
Net position (deficit), beginning of year	(13,958)	(26,120)
Net position (deficit), end of year	\$ 5,441	\$ (13,958)

See Notes to Financial Statements

**REGIONAL WATER RESOURCE AGENCY**

**STATEMENTS OF FIDUCIARY NET POSITION  
FRIENDLY PARK DEVELOPMENT CO.**

June 30, 2019 and 2018

	<u>Custodial Fund</u>	
	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Cash	\$ <u>114,436</u>	\$ <u>91,207</u>
<b>Total assets</b>	<u>114,436</u>	<u>91,207</u>
<b>LIABILITIES</b>		
Due to RWRA	52,519	51,285
Accounts payable	<u>3,149</u>	<u>2,313</u>
<b>Total liabilities</b>	<u>55,668</u>	<u>53,598</u>
<b>NET POSITION</b>		
Held in trust for receivership	\$ <u><u>58,768</u></u>	\$ <u><u>37,609</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, 2019 and 2018

	Custodial Fund	
	2019	2018
Additions:		
Sewer service charges	\$ 58,436	\$ 59,479
Contributions - Daviess County Fiscal Court	-	35,250
Interest income	2,571	1,399
Total additions	61,007	96,128
Deductions:		
Maintenance	171	1,307
Supplies	3,907	3,392
Utilities non-City	3,668	4,487
Utilities communications	936	936
Contractual services	26,558	30,933
Insurance	67	67
Billing expenses	882	824
Professional services	2,425	925,000
Interest expense	1,234	925
Total deductions	39,848	43,796
Change in net position	21,159	52,332
Net position (deficit), beginning of year	37,609	(14,723)
Net position, end of year	\$ 58,768	\$ 37,609

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>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
RWRA's proportion of the net pension liability	0.179597%	0.175010%	0.178239%	0.173786%	0.168806%
RWRA's proportionate share of the net pension liability	\$ 10,938,005	\$ 10,243,873	\$ 8,775,811	\$ 7,471,958	\$ 5,477,000
RWRA's covered payroll	\$ 4,421,311	\$ 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	247.39%	239.23%	212.52%	183.39%	141.09%
Plan fiduciary net position as a percentage of the total pension liability	53.54%	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>2019</u>		<u>2018</u>		<u>2017</u>		<u>2016</u>		<u>2015</u>
Contractually required contributions	\$	754,640	\$	640,206	\$	597,297	\$	512,878	\$	519,337
Contributions in relation to the contractually required contributions		<u>(754,640)</u>		<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>	\$	<u>          -</u>
 RWRA's covered payroll	 \$	 4,652,530	 \$	 4,421,311	 \$	 4,282,024	 \$	 4,129,449	 \$	 4,074,363
Contributions as a percentage of covered payroll		16.22%		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>2019</u>	<u>2018</u>
RWRA's proportion of the net OPEB liability	0.179590%	0.175010%
RWRA's proportionate share of the net OPEB liability	\$ 3,188,585	\$ 3,518,300
RWRA's covered payroll	\$ 4,421,311	\$ 4,282,024
RWRA's proportionate share of the net OPEB liability as a percentage of its covered payroll	72.12%	82.16%
Plan fiduciary net position as a percentage of the total OPEB liability	57.62%	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>2019</u>	<u>2018</u>
Contractually required contributions	\$ 244,723	\$ 207,802
Contributions in relation to the contractually required contributions	<u>(244,723)</u>	<u>(207,802)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
RWRA's covered payroll	\$ 4,652,530	\$ 4,421,311
Contributions as a percentage of covered payroll	5.26%	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, 2019

Changes of Benefit Terms

2019	None
2018	None
2017	None
2016	None

Changes of Assumptions

2019 Pension and OPEB:

The salary increases assumption was changed from 2.00% to 3.05%.

OPEB:

The single discount rate changed from 5.84% to 5.85%.

2018 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%.

2017 None

2016 Pension:

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 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, 2019, and the related notes to the financial statements, and have issued our report thereon dated November 15, 2019.

**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.

Owensboro, Kentucky  
November 15, 2019

*Ringham & Co. PSC*