

**RED RIVER WASTEWATER  
AUTHORITY, INC.**

**AUDIT OF FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2019**

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## **Independent Auditor's Report**

To the Board of Directors  
Red River Wastewater Authority, Inc.  
Stanton, Kentucky

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of Red River Wastewater Authority, Inc., as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Red River Wastewater Authority, Inc.'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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

To the Board of Directors  
Red River Wastewater Authority, Inc.  
Stanton, Kentucky

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Red River Wastewater Authority, Inc., as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2019, on our consideration of Red River Wastewater Authority, Inc.'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 solely 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 Red River Wastewater Authority, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Red River Wastewater Authority, Inc.'s internal control over financial reporting and compliance.

*Morgan and Associates, LLC*

West Liberty, Kentucky

October 30, 2019

**RED RIVER WASTEWATER AUTHORITY, INC.**  
**STATEMENT OF NET POSITION**  
**June 30, 2019**

**ASSETS**

**CURRENT ASSETS**

Cash - Unrestricted	\$ 357,393
Prepaid Insurance	30,567
Accounts Receivable - Wastewater Fees	<u>166,165</u>
Total Current Assets	554,125

**NONCURRENT ASSETS**

Cash - Restricted for Debt Service	288,683
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**Capital Assets**

Land-Stanton WWTP Location	365,742
Waste Water Treatment Plant	11,107,920
Accumulated Depreciation	<u>7,125</u>

Total Capital Assets - Net of Depreciation	<u>11,480,787</u>
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Total Noncurrent Assets	<u>11,769,470</u>
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<b>TOTAL ASSETS</b>	<b>12,323,595</b>
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**LIABILITIES**

**CURRENT LIABILITIES**

Accounts Payable	16,233
Payroll Liabilities	376
Accrued Interest	45,937
Retirement Liability	1,212
Accrued Wages	5,039
Bond Payable	<u>89,000</u>

<b>TOTAL CURRENT LIABILITIES</b>	<b>157,797</b>
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**NONCURRENT LIABILITIES**

Bond Payable	<u>4,400,706</u>
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<b>TOTAL LIABILITIES</b>	<b>4,558,503</b>
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The accompanying notes are an integral part of the financial statements.

**RED RIVER WASTEWATER AUTHORITY, INC.**  
**STATEMENT OF NET POSITION**  
**June 30, 2019**

NET POSITION

Invested in Capital Assets, Net of Related Debt	6,945,144
Restricted for Debt Service	288,683
Unrestricted	<u>531,265</u>
 TOTAL NET POSITION	 <u><u>\$ 7,765,092</u></u>

The accompanying notes are an integral part of the financial statements.

**RED RIVER WASTEWATER AUTHORITY, INC.**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES**  
**IN NET POSITION**  
**For the Year Ended June 30, 2019**

OPERATING INCOME

Wastewater Income - Wastewater Fees	\$ 803,379
	803,379
Total Operating Income	803,379

OPERATING EXPENSES

Board Member Fees	19,800
Depreciation Expense	316,724
Insurance	49,153
Legal	6,565
Miscellaneous	173
Supplies	25,793
Water Testing Fees	21,535
Plant Expense	783
Professional Fees	16,905
Repair & Maintenance	18,320
Utilities	174,988
Fuel	420
Payroll Expenses	141,331
Retirement - Pension and OPEB	130,830
	923,320
Total Operating Expenses	923,320

NET OPERATING INCOME (LOSS) (119,941)

NON-OPERATING REVENUES (EXPENSES)

Interest Expense	(88,875)
	(88,875)
Total Non-Operating Revenues (Expenses)	(88,875)

CHANGE IN NET POSITION (208,816)

Net Position - Beginning	7,973,908
	7,973,908
Total Net Position - Ending	\$ 7,765,092

The accompanying notes are an integral part of the financial statements.

**RED RIVER WASTEWATER AUTHORITY, INC.**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended June 30, 2019**

CASH FLOWS FROM OPERATING ACTIVITIES

Customer Wastewater Fees	\$ 738,742
Payments to Vendors	(309,866)
Payments for Payroll & Related Expenses	<u>(289,741)</u>
Net Cash Provided (Used) by Operating Activities:	139,135

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital Outlay	(7,500)
Principal Payment on Long-Term Debt	(83,850)
Interest Payment	<u>(88,875)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities:	<u>(180,225)</u>

INCREASE (DECREASE) IN CASH (41,090)

CASH AT BEGINNING OF YEAR 687,166

CASH AT END OF YEAR \$ 646,076

Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:

Net Operating Income	\$ (119,941)
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	316,724
Increase (Decrease) Accounts Payable	4,998
(Increase) Decrease Accounts Receivable	(64,640)
Increase (Decrease) Accrued Wages	5,039
Increase (Decrease) Retirement Liability	1,212
Increase (Decrease) Payroll Liabilities	<u>(4,257)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 139,135</u></u>

Supplemental Information:

<u>Interest Charged to Expense</u>	<u><u>\$ 88,875</u></u>
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The accompanying notes are an integral part of the financial statements.

**RED RIVER WASTEWATER AUTHORITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Authority's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

A. Financial Reporting Entity

The Authority was incorporated in the Commonwealth of Kentucky as a nonprofit corporation in December 2008 under KRS Chapter 273.161 to 273.390, inclusive, Chapter 58.180, Chapter 65.210 to 65.300, and Chapter 76.232. The purpose for which the Authority is organized is exclusively to assist and cooperate with, and to act on behalf of, at the direction of and as the agency, instrumentality and constituted authority of the City of Clay City, City of Stanton and the Powell County Fiscal Court in effecting and maintaining high quality wastewater transmission, pumping and treatment services for the City of Clay City and the City of Stanton.

B. Basis of Presentation

The Authority's resources are allocated to and accounted for in these basic financial statements as an enterprise fund type of the proprietary fund group. The enterprise fund is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to its customers on a continuing basis be financed or recovered primarily through user charges, or where the governing body had decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other policies. Net position represents the amount available for future operations.

C. Proprietary Fund

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenditures) in net total position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Cash and Cash Equivalents

For the purpose of these financial statements, cash and cash equivalents consist of restricted and unrestricted cash on hand and demand deposits. Deposits are carried at cost, which approximates fair value.

**RED RIVER WASTEWATER AUTHORITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Budgeting**

In accordance with the Interlocal Agreement, the Authority shall establish and approve an annual budget, containing all anticipated cost and revenue sources for capital and operational activities. Monthly management reports to the board shall include year-to-date budget reports. A copy of the Authority's annual budget shall be provided to the Parties (City of Clay City, City of Stanton, and Powell County Fiscal Court) not later than April 1st of each year.

Project-length budgets, which generally encompass more than one fiscal year, are prepared for major construction projects. Project-length expenditure plans are prepared on the cash basis of accounting, which significantly differs from the accrual basis of accounting that the Authority uses in the preparation of its financial statements.

These managerial budgets that are prepared at the inception of a major construction project are not adopted by the Board as legally imposed restrictions on expenditures. Basically, the budgets provide management with a tool for estimating and monitoring cash flows in each fiscal period. Accordingly, budgetary comparisons are not presented in the accompanying financial statements.

**F. Property, Plant and Equipment**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the Authority's capitalization policy, are reported as a component of noncurrent assets. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction in Progress are not depreciated. Interest incurred during construction is capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 20,000	10-50

**G. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**RED RIVER WASTEWATER AUTHORITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

H. Net Position

Equity is classified as net position and displayed in three components:

- Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted net position – Consists of net position with constraints placed on the use either by (1) external groups; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted net position – All other net position that does not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

When both restricted and unrestricted resources are available for use, it is the Authority’s policy to use restricted resources first, then unrestricted resources as they are needed.

I. Allowance for Doubtful Accounts

Management has elected to record bad debt expense using the direct write-off method. Generally accepted accounting principles require that the allowance method be used to reflect bad debt expense. However, management does not believe the effect of the use of the direct write-off method to be materially different from the results that would be obtained if the allowance method is followed.

J. Accounts and Unbilled Receivables

Accounts receivable are stated at face amount. Unbilled receivables represent income earned during the current year, but not yet billed to the customer. The billing mailed on July 10, 2019 was for customer usage from May 30 through June 29, 2019. The entire amount is considered accounts receivable as of June 30, 2019. The billing mailed on August 18, 2019 was for usage from June 30 through August 1, 2019. One (1) day in June of this billing is considered unbilled receivables at June 30, 2019.

**NOTE 2 – CASH DEPOSITS WITH FINANCIAL INSTITUTIONS**

The Authority maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). KRS 66.480 authorizes the Authority to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Authority and the depository institution, signed by both parties, that is (a) in

**RED RIVER WASTEWATER AUTHORITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**NOTE 2 – CASH DEPOSITS WITH FINANCIAL INSTITUTIONS (Continued)**

writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. Except for approval reflected in official minutes of the board or committee, these requirements were met.

GASB Statement No. 72, Fair Value Measurement and Application, became effective in fiscal year 2016 which requires the measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques.

The carrying amount of the following financial instruments approximate fair value because of the short maturity of the instruments: cash equivalents.

*Custodial Credit Risk – Deposits*

Custodial credit risk is the risk that in the event of a depository institution failure, the Authority's deposits may not be returned. The Authority does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On June 30, 2019, the Authority's bank balance was \$617,170. These deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Deposits Covered by Federal Insurance	\$ 250,000
Deposits Collateralized	<u>367,170</u>
Total Bank Balance at June 30, 2019	<u>\$ 617,170</u>

**NOTE 3 – RESTRICTIONS ON CASH**

*Bond Sinking/Debt Reserve Fund*

The bond covenants requires one-sixth of the next succeeding interest payment and one-twelfth of the next succeeding principal payment of any current bond to be deposited monthly into this fund. The money that accumulates in this fund is to be used to pay current interest and principal on bonds as they come due. At June 30, 2019, a total of \$173,094 was required.

The bond covenants also require monthly payments in the amount of \$1,670 to be made until there is a balance of \$200,400 to be used for unusual or extraordinary expenses. As of June 30, 2019, Rural Development required a balance of \$80,160 in the reserve account.

The amount in the Sinking Fund/Debt Reserve account as of June 30, 2019 was \$288,683.

*Excess Construction Funds*

Per the Bond document, **Article 3 Construction Account: Interim Financing; Application of Proceeds; Arbitrage Limitations** Section 301. Construction Account; Application of Proceeds of Bonds; Other Transfers and Deposits

**RED RIVER WASTEWATER AUTHORITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**NOTE 3 – RESTRICTIONS ON CASH (Continued)**

*Excess Construction Funds (Continued)*

A. Application of Proceeds of Current Bonds

**(7) Disposition of Balance in Construction Account After completion of Project.** “When the project has been completed and all construction costs have been paid in full, as certified by the Engineers for the Authority and/or by Rural Development (RD), any balance then remaining in the Construction Account may, with the consent of RD, be applied to the cost of constructing additional improvements to the System (the “Additional Construction”). If such Additional Construction is to be undertaken by the Contractors previously engaged in the Project, such Additional Construction may be authorized by a change order.

If there is a balance remaining in the Construction Account after such Additional Construction, such balance (subject to legal requirements as to possible refund of any allocated portion of the balance derived from Grant Proceeds) shall be transferred to the Sinking Fund, whereupon said Construction Account shall be closed. Such remaining balance in the Construction Account so transferred to the Sinking fund shall be used by the Authority immediately to prepay principal installments due on the Current bonds in the inverse order of maturities without prepayment penalty, provided further that any balance insufficient to prepay at least \$100 of the principal payment falling due in any year on the Bonds will be transferred to the Debt Reserve Fund.”

The amount in the Construction Account as of June 30, 2019 was \$0. The Authority elected to close the Construction Account in FYE 6/30/2018 and transfer the money to the Operating and Maintenance Account.

**NOTE 4 – SICK AND VACATION LEAVE**

*Sick Leave/Personal Emergency Leave*

Full-time employees shall accrue sick leave time/personal emergency leave time at a rate of eight (8) hours per month worked, and may accrue an amount not to exceed four hundred-eighty (480) hours, which may be carried into a subsequent fiscal year.

Sick leave time for part-time permanent employees shall be accrued at a rate proportional to their regular work hours based on the accrual rate of full-time employees.

Accrued sick leave/personal emergency time is not paid upon retirement or termination of employment.

*Vacation Leave Time*

Vacation leave time for full-time employees shall be accrued at a rate of eighty (80) hours after the first year of employment, each year thereafter up to and through the 5<sup>th</sup> year. Thereafter, employees shall receive an additional eight (8) hours each successive year but not to exceed 120 hours in any year.

Vacation leave time for part-time employees shall be accrued at a rate proportional to their regular work hours based on the accrual rate for full-time employees.

**RED RIVER WASTEWATER AUTHORITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**NOTE 4 – SICK AND VACATION LEAVE (Continued)**

*Vacation Leave Time (Continued)*

The Authority's policies and procedures do not address the payout of accrued vacation upon termination; therefore, there is no liability for accrued absences included in the financial statements.

**NOTE 5 – PROPERTY, PLANT AND EQUIPMENT**

The Authority's major classes of utility capital assets and accumulated depreciation are shown below:

	Balance 6/30/2018	Additions	Disposals	Balance 6/30/2019
<b><u>Business Activities</u></b>				
Capital Assets not Being Depreciated:				
Land	\$ 365,742	\$	\$	\$ 365,742
Total Capital Assets not Being Depreciated	365,742			365,742
Capital Assets Being Depreciated:				
Wastewater Treatment Plant	12,515,966			12,515,966
Machinery & Equipment	17,250			17,250
Vehicles		7,500		7,500
Total Capital Assets Being Depreciated	12,533,216	7,500		12,540,716
Less Accumulated Depreciation for:				
Wastewater Plant	(1,095,147)	(312,899)		(1,408,046)
Machinery & Equipment	(13,800)	(3,450)		(17,250)
Vehicles		(375)		(375)
Total Accumulated Depreciation	(1,108,947)	(316,724)		(1,425,671)
Total Capital Assets, Being Depreciated, Net	11,424,269	(309,224)		11,115,045
Business-Type Activities Capital Assets, Net	<u>\$11,790,011</u>	<u>\$ (309,224)</u>	<u>\$ 0</u>	<u>\$11,480,787</u>

**NOTE 6 – RELATED PARTIES**

The Authority's legal counsel is the son-in-law of a board member of the Authority.

**NOTE 7 – RISK MANAGEMENT**

Significant losses are covered by commercial insurance. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

**RED RIVER WASTEWATER AUTHORITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**NOTE 8 – LONG TERM DEBT**

On February 22, 2013, the Authority issued \$4,900,000 in Sewer System Revenue Bonds from the United States Department of Agriculture (USDA), Rural Development for the purpose of financing the cost (not otherwise provided) of the construction of a new regional wastewater treatment facility. Semiannual interest payments at a 1.875% interest rate are required on January 1 and July 1 of each year beginning July 1, 2013, and annual principal payments are required on January 1 of each year beginning January 1, 2015. The bonds will be paid in full January 2052. As of June 30, 2019, the principal balance on these bonds was \$4,489,706. Debt service requirements are:

Fiscal Year Ended June 30	Principal	Interest
2020	\$ 89,000	\$ 84,094
2021	91,500	82,425
2022	93,500	80,709
2023	96,000	78,956
2024	98,500	77,156
2025-2029	530,500	357,141
2030-2034	600,000	304,875
2035-2039	678,500	245,748
2040-2044	768,500	178,857
2045-2049	869,000	103,115
2050-2052	574,706	21,460
	<u>\$ 4,489,706</u>	<u>\$ 1,614,536</u>

**NOTE 9 – CHANGES IN LONG-TERM LIABILITIES**

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Business-type Activities:</u>					
Revenue Bond	\$ 4,573,556	\$	\$ (83,850)	\$ 4,489,706	\$ 89,000
Long Term Liabilities	<u>\$ 4,573,556</u>	<u>\$ 0</u>	<u>\$ (83,850)</u>	<u>\$ 4,489,706</u>	<u>\$ 89,000</u>

**NOTE 10 – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through October 30, 2019, which is the date the financial statements were available to be issued.

**RED RIVER WASTEWATER AUTHORITY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**Note 11 - RETIREMENT**

The Authority has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems through the Powell County Fiscal Court. This is a cost-sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five (5) percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six (6) percent of their salary to be allocated as follows: 5% will go to the member's account and 1% will go to the KRS insurance fund. The Commission's contribution rate for nonhazardous employees was 21.48 percent.

The Commission's contribution for FY 2019 was \$25,177. The Authority also paid \$105,653 in back retirement for three employees hired in September 2013.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

# Morgan and Associates, LLC

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## **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**

To the Board of Directors  
Red River Wastewater Authority, Inc.  
Stanton, Kentucky

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 of Red River Wastewater Authority, Inc., as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Red River Wastewater Authority, Inc.'s basic financial statements, and have issued our report thereon dated October 30, 2019.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Red River Wastewater Authority, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Red River Wastewater Authority, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Red River Wastewater Authority, Inc.'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 a 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 considered to material weaknesses. However, material weaknesses may exist that have not been identified.

**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* (Continued)**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Red River Wastewater Authority, Inc.'s financial statements are free of 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying comment and recommendation as item 2019-001.

**Red River Wastewater Authority, Inc.'s Response to the Finding**

Red River Wastewater Authority, Inc.'s response to the finding identified in our audit is described in the accompanying comment and recommendation. Red River Wastewater Authority, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**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 that 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.

*Morgan and Associates, LLC*

Morgan and Associates, LLC  
West Liberty, Kentucky

October 30, 2019

**RED RIVER WASTEWATER AUTHORITY, INC.**  
**Comment and Recommendation**  
**For the Year Ended June 30, 2019**

**NONCOMPLIANCE**

**2019-001. The Authority Should Comply With Bond Covenants**

Condition: During our audit, we noted the following:

- Revenue Fund has not been established.
- The Sinking Fund is not invested in Certificates of Time Deposit or a savings account.
- The Construction Account was closed on approval of the Board and money transferred to the O&M Account during the FYE June 30, 2018; however, no authorization from Rural Development was noted, and the money was not used to pay outstanding debt.

Criteria: Pursuant to the bond documents:

- A separate account shall be established as a Revenue Fund. All revenues should be deposited here and then transferred to other accounts.
- All monies in the Sinking Fund shall be invested in Certificates of Time Deposit or savings accounts.
- Per the Bond document,

**Article 3 Construction Account: Interim Financing; Application of Proceeds; Arbitrage Limitations**

Section 301. Construction Account; Application of Proceeds of Bonds; Other Transfers and Deposits

**B. Application of Proceeds of Current Bonds**

**(7) Disposition of Balance in Construction Account After Completion of Project.**

“When the project has been completed and all construction costs have been paid in full, as certified by the Engineers for the Authority and/or by Rural Development (RD), any balance then remaining in the Construction Account may, with the consent of RD, be applied to the cost of constructing additional improvements to the System (the “Additional Construction”). If such Additional Construction is to be undertaken by the Contractors previously engaged in the Project, such Additional Construction may be authorized by a change order.

If there is a balance remaining in the Construction Account after such Additional Construction, such balance (subject to legal requirements as to possible refund of any allocated portion of the balance derived from Grant Proceeds) shall be transferred to the Sinking Fund, whereupon said Construction Account shall be closed. Such remaining balance in the Construction Account so transferred to the Sinking fund shall be used by the Authority immediately to prepay principal installments due on the Current bonds in the inverse order of maturities without prepayment penalty, provided further that any balance insufficient to prepay at least \$100 of the principal payment falling due in any year on the Bonds will be transferred to the Debt Reserve Fund.”

- Money can only be expended from the Construction account with written consent from Rural Development as long as any outstanding bonds are owned by Rural Development, and then, only by checks signed by the Chairman and Treasurer.

**RED RIVER WASTEWATER AUTHORITY, INC.**  
**Comment and Recommendation**  
**For the Year Ended June 30, 2019**

**NONCOMPLIANCE (Continued)**

**2019-001. The Authority Should Comply With Bond Covenants (Continued)**

Effect: The Authority may not be in compliance with bond requirements.

Cause: Lack of knowledge of bond requirements.

Recommendation: We recommend the Authority familiarize themselves with all bond covenants and comply with the bond requirements.

We also recommend that based on Article 3 Section B(7) of the bond documents, the Authority use the balance of the Construction Account to prepay the principal on bonds. This would be in addition to the regularly scheduled payment.

Response: "No Response."