

**Electric & Water Plant Board of the
City of Frankfort, Kentucky**

Financial Statements

Years Ended June 30, 2015 and 2014

**Electric & Water Plant Board
of the City of Frankfort, Kentucky**

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**Electric & Water Plant Board
of the City of Frankfort, Kentucky**

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Independent Auditor's Report

Members of the Electric and Water Plant Board
Frankfort, Kentucky

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Electric and Water Plant Board (the "Board") of the City of Frankfort, Kentucky as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Board'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 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 opinion.

Kentucky
Indiana
Ohio

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Independent Auditor's Report (Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Electric and Water Plant Board of the City of Frankfort, Kentucky, as of June 30, 2015 and 2014, and the changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphases of Matter

New GASB Implementation

As discussed in Note H to the financial statements, the Board adopted Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27* (GASB 68). The implementation resulted in a restatement of prior year net position (see Note I). Our opinion is not modified with respect to this matter

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10 and the GASB 68 schedules on pages 40 through 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Board's basic financial statements. The supplementary information, such as the comparative schedules of operating expenses, budgetary comparison information, and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non Profit Organizations are on pages 31 through 39 and page 46 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The comparative schedules of operating expenses, budgetary comparison information, and schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Independent Auditor's Report (Continued)

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2015 on our consideration of the Board'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 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 the Board's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Munger Chilton Madley, LLP". The signature is written in a cursive, flowing style.

October 20, 2015
Lexington, Kentucky

**Electric & Water Plant Board of the City of Frankfort, Kentucky
Management Discussion and Analysis
Years Ended June 30, 2015 and 2014**

The following discussion and analysis of the Electric & Water Plant Board (the "Board" or "FPB") of the City of Frankfort, Kentucky's financial performance provides an overview of the financial activities for the fiscal years ended June 30, 2015 and 2014. We encourage readers to consider the information presented here in conjunction with the Board's financial statements, which follow this section.

The Board was established under Kentucky Revised Statutes (KRS 96.176) as a combined Electric and Water System to operate, maintain, improve, and expand the respective facilities and began operations in 1943. In 1954 the Board created Community Television and appointed a separate Cable Board to provide Cable TV service to Frankfort and the surrounding area. In 1988, the Board took direct control of the Cable TV operation in order to provide additional services over a fiber optic network, as a public project (the Full Service Network). All three operations are combined together and presented on pages 11 through 13 of this audit report. Cable Telecommunications operations are separated from the Electric and Water operations on the audit report under "Supplementary Information" on pages 31 through 39. The Board has completed the upgrade of the cable system to fiber optics and is now able to provide a Full Service Network (FSN) with few exceptions, throughout the Cable Service Area. The Full Service Network includes Digital TV, HDTV, DVR, Broadband Service, Point to Point Fiber Service, Security Service, and Local and Long Distance Telephone Service.

Financial Highlights

The assets of the Board exceeded its liabilities at the close of the most recent fiscal year by \$61,906,006. Of this amount \$51,894,964 is invested in capital assets, \$3,431,693 is restricted for debt retirement, \$457,866 is restricted to retirement plans, \$62,500 is restricted for KIA reserves, and \$15,002,357 is restricted for capital projects.

The Board's net position increased \$3,158,222 during the current fiscal year.

Revenues

Gross income from user fees were \$89,044,962 for fiscal year 2015.

Expenses

Operating expenses were \$87,077,536 for fiscal year 2015.

Operating Expenses generally refer to the ordinary and necessary business expenses incurred in the day-to-day operations of the Board. They include such things as system maintenance, fleet maintenance, office supplies, customer service, fringe benefits, billing and accounting. These are current period expenses which are not otherwise capitalized as part of construction projects having a service life greater than one year. The term Operating Expense does not include interest expense, which relates to financing activities.

Financial Overview

The Board's financial statements are comprised of two components:

- Financial Statements; and
- Notes to the Financial Statements

Included as part of the Financial Statements are three different types (and names) of statements and their respective notes.

Electric & Water Plant Board of the City of Frankfort, Kentucky
Management Discussion and Analysis (Continued)
Years Ended June 30, 2015 and 2014

Financial Overview (Continued)

The three financial statement types:

1. The Statement of Net Position presents information on the Board's assets and liabilities with the difference between the two reported as Net Position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial condition of the Board is improving or deteriorating.
2. The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Board's net position changed between FY14 and FY15. Results of the Board's operations are reported as the underlying events occur, regardless of the timing of cash flows. This means that the Board's revenues and expenses are reported in the financial statements for some items that will result in cash flows (positive or negative) in some future year. This is the "accrual" basis of accounting and is further explained in Note B.
3. The Statement of Cash Flows presents the cash flow changes occurring during FY15 and FY14 in highly liquid cash and investments, including certain restricted cash accounts or cash-like assets. "Highly liquid" means it is, or can quickly be, turned into useable cash.

The Notes to Financial Statements provide additional information that is essential for a full and complete understanding of the information provided in the financial statements. The Notes to Financial Statements can be found on pages 14 through 30 of this report.

Financial Analysis

Account	June 30, 2015	June 30, 2014 (Restated)	Change	% Change
Statement of Net Position				
Capital Assets	\$ 99,150,729	\$ 94,240,883	\$ 4,909,846	5%
Current and other assets	46,993,159	34,273,613	12,719,546	37%
Total Assets	146,143,888	128,514,496	17,629,392	14%
Deferred outflows from pension	1,521,452	1,603,000	(81,548)	-5%
Total Assets and Deferred Outflows	147,665,340	130,117,496	17,547,844	13%
Long-term Liabilities	42,898,132	28,960,898	13,937,234	48%
Other Liabilities	41,070,202	42,408,814	(1,338,612)	-3%
Total Liabilities	83,968,334	71,369,712	12,598,622	18%
Deferred inflows from pension	1,791,000	-	1,791,000	100%
Total Liabilities and Deferred Inflows	85,759,334	71,369,712	14,389,622	20%
Net Position:				
Invested in capital assets	51,894,964	60,961,154	(9,066,190)	-15%
Restricted	18,954,416	2,882,162	16,072,254	558%
Unrestricted	(8,943,374)	(5,095,532)	(3,847,842)	76%
Total Net Position	\$ 61,906,006	\$ 58,747,784	\$ 3,158,222	5%

**Electric & Water Plant Board of the City of Frankfort, Kentucky
Management Discussion and Analysis (Continued)
Years Ended June 30, 2015 and 2014**

Financial Analysis (Continued)

Statement of Revenues, Expenses and Change in Net Position	For years ended			
	June 30, 2015	June 30, 2014	Change	% Change
Operating Revenues	\$ 89,044,962	\$ 90,732,032	\$ (1,687,070)	-2%
Operating Expenses	87,077,536	85,845,862	1,231,674	1%
Operating Income	1,967,426	4,886,170	(2,918,744)	-60%
Net Non-Operating Revenue (Expenses)	9,768	(245,871)	255,639	-104%
Capital Contributions	1,181,028	2,227,831	(1,046,803)	-47%
Change in Net Position	\$ 3,158,222	\$ 6,868,130	\$ (3,709,908)	-54%

Assets and Deferred Outflows of Resources

The Board's total assets and deferred outflows of resources increased \$17,547,844 from fiscal year 2014. The statement of net position indicates the most significant changes were in cash and cash equivalents and property, plant, and equipment, net of accumulated depreciation. Cash increased primarily due to the issuance of electric and water revenue bonds that are restricted for construction of a new administration building. Property, plant, and equipment increased due to capital investments outpacing depreciation expense.

Liabilities and Deferred Inflows of Resources

The Board's total liabilities and deferred inflows of resources increased \$14,389,622 from fiscal year 2014 primarily due to increases in long-term debt and deferred amounts from pension. The increase in long term debt is due to additional borrowing of \$15,130,000 through the issuance of the Electric and Water Revenue Bonds, Series 2015A that are restricted for the construction of a new administration building and additional borrowings of \$2,260,805 from the Kentucky Infrastructure Authority (KIA) for water treatment plant capital improvements. For a summary of the Board's revenue bonds, loans, and lease obligations see Note E beginning on page 21 in the notes to these financial statements.

Deferred amounts from the Board's pension increased by \$1,791,000 from fiscal year 2014. See Note H beginning on page 25 of this report for more information on the change in deferred amounts from pension.

Net Position

The Board's assets exceeded its liabilities by \$61,906,006 at the end of fiscal year 2015. This represents an increase of \$3,158,222 from fiscal year 2014.

The majority of the Board's net position, \$51,894,964 or 84% of total net position, is invested in capital assets, such as transmissions and distribution facilities, water treatment and distribution assets, and cable infrastructure, less any related debt used to acquire such assets that remained outstanding as of the end of fiscal year 2015.

An additional portion of the Board's net position, \$18,954,416 or 31% of total net position, represents resources that are subject to external restrictions on how they are used. Total restricted net position is composed of \$3,431,693 restricted for debt repayment, \$457,866 is restricted for retirement benefits for those few employees whom opted out of the CERS retirement plan, \$62,500 is to fulfill a loan covenant associated with lending from the KIA, and \$15,002,357 restricted for construction of a new administration building.

**Electric & Water Plant Board of the City of Frankfort, Kentucky
Management Discussion and Analysis (Continued)
Years Ended June 30, 2015 and 2014**

Capital Assets

The Board's investments in capital assets as of June 30, 2015 amounted to \$99,150,729 (net of accumulated depreciation). This includes investment in transmission and distribution related to infrastructure, as well as general items such as office equipment, vehicles, etc. Major capital assets events during the current fiscal year included:

Electric Division

- Replaced four 15kV distribution breakers
- Replaced two 69kV transmission breakers
- Distribution substation improvements
- Multiple overhead reconductor projects
- Finished Governors Place underground reconductor
- Voltage conversion from 8.3kV to 13.2kV with substation transformer replacement at East Main substation
- Overall general distribution system improvements
- Digital radio system upgrade

Water Division

- Water treatment plant backup generator project
- Meter replacement
- Water treatment plant MCC project
- Water treatment plant traveling screen project
- Greenhill and Atwood waterline replacement
- Cardwell Lane project
- Buffalo Trace project
- Overall distribution upgrades and improvements

Cable

- Design, planning, development and initial construction of Headend relocation project
- Continue rollout of cable modem leasing revenue stream - ending fiscal year with 3,700 units
- Ongoing purchase and installation of advanced set top boxes
- Launch of 15 new SD/HD channels and 25 TV Everywhere channels
- Hardware and software purchases to broadband distribution systems (CMTS)
- Installation meter replacements (15 units)
- Purchased and installed additional caching hardware to improve video on broadband experience for customers

General

- Fleet Replacements include 1-Small Bucket Truck (Cable), 1-Vermeer Plow (Cable), 1-Large Bucket Truck (Electric), 1-Backhoe Loader (Water), 1-Tractor w/HD Cutter, and 9 small class vehicles in accordance with FPB's fleet replacement policy.

**Electric & Water Plant Board of the City of Frankfort, Kentucky
Management Discussion and Analysis (Continued)
Years Ended June 30, 2015 and 2014**

Long-Term Debt

As of June 30, 2015, the Board had long-term bonded water debt outstanding of \$9,060,000. This total is composed of Electric and Water Revenue Bonds, Series 2009 and Series 2013, which are backed by electric and water revenue with year-end balances of \$5,495,000 and \$3,565,000, respectively.

As of June 30, 2015, the Board had three long-term lease financings outstanding with Farmers Bank & Capital Trust in Frankfort, Kentucky in the amount of \$13,863,392. One of these lease agreements was originated in fiscal year 2015 for the construction of a new cable headend and full service network field improvements up to \$9,000,000.

As of June 30, 2015, the Board had two outstanding loans totaling \$7,975,219 from the Kentucky Infrastructure Authority (KIA). The oldest KIA loan had a balance of \$5,658,200 at June 30, 2015 and was used for the chemical feed process upgrade at the water treatment plant. The second KIA loan was taken out during fiscal year 2014 to fund the purchase, construction, and installation of a generator at the water treatment plant. The generator loan has a 20 year term and interest rate of 1.75% with up to 10% principal forgiveness taken from each loan draw request. Multiple KIA generator loan draws were made during fiscal year 2015 totaling \$2,260,805 with principal forgiveness given in the amount of \$226,080 leaving balance due of \$2,317,019 at June 30, 2015. Both loans are secured on a subordinate basis to the Board's outstanding electric and water revenue bonds.

In fiscal year 2015 the Board issued \$15,130,000 in electric and water revenue bonds for the construction of a new administration building with a 25 year maturity. See Note E in the notes to these financial statements beginning on page 21 for more information on the Board's bonds, leases, and loans payable.

Budget

Every year the Board approves a one year budget and additional four year financial plan for all operations of the Board. Budgeted revenues and expenses are calculated based on historical trends, most recent financial results, and knowledge of future circumstances that will impact the financial performance of the Board. The budget and financial plan includes a comprehensive capital plan and cash reserve estimates based on projected financial performance. Budget versus actual financial reports are reviewed regularly by the Board and are presented on page 32 in the supplementary information section of this report for the year ended June 30, 2015.

The Future

Electric

The primary goals of the electric division are to continue strengthening the transmission/distribution system and improve power quality and reliability. During fiscal year 2016, the electric division will continue to perform upgrades of transmission/distribution lines and facilities, specifically breaker replacements and evaluations of new meter technologies. The division will continue to improve and expand the existing distribution substations to include increased SCADA functionality. This will give our system greater flexibility and redundancy. In fiscal year 2016, voltage conversions from 8.3kV to 13.2kV will continue to improve voltage quality and load capacity. We will continue aggressive tree trimming and spray programs to maintain low incidences of tree related outages. The electric division does not forecast the addition of any personnel positions over the next five years.

**Electric & Water Plant Board of the City of Frankfort, Kentucky
Management Discussion and Analysis (Continued)
Years Ended June 30, 2015 and 2014**

The Future (Continued)

Due to the annual formulated rate change from Kentucky Utilities (KU) this year being an 8% increase and in keeping with good utility practice, the Board passed the rate increase on to our retail customers. The pass thru of the rate increase and periodic cost-of-service studies ensures that the Board's retail rates will generate adequate revenue based on consideration of wholesale power cost (KU), operating expenses, as well as, adequate working capital and reserves. There is an annual 1% Board rate increase listed in the five-year plan. However, with the Federal Energy Regulatory Commission (FERC) approved formulated rate KU will continue to implement annual rate changes that the Board must pass on to its customers. The Board has no way of accurately estimating these changes and, therefore, has not included them in the five-year budget. Due to the rising costs of materials, pension and healthcare expenditures, general inflation, and maintaining minimum reserves, the Board anticipates the need to implement additional rate adjustments. As such, we will continue to conduct a cost of service study every few years in order to maintain rates necessary for the operations of the department while trying to minimize the need for large increases at any one time.

Water

The primary goal of the water division is to meet existing and future demand for safe, high quality water that exceeds regulatory standards at a reasonable rate. This will be accomplished by monitoring and maintaining the aging infrastructure of our water system and implementing projects to strengthen and improve our infrastructure. The following initiatives will be implemented to achieve these goals:

- Enhance water quality and flow characteristics through the systematic elimination of dead ends, the replacement of deteriorating mains, and the addition of mixing systems in our storage tanks
- Complete Phase 1 of the Reservoir Replacement project in fiscal year 2018
- Continue to replace aging subsystems original to the water treatment plant

Replacing the reservoir is a major undertaking that will require additional financing in order to maintain acceptable cash flow and reserve levels. While we do not anticipate the need to add any personnel positions over the next five years the water division does face rising operational costs, minimum reserve levels established by the Board, and higher debt service requirements due to recent debt financed capital additions. Based on these challenges, management anticipates the need to implement regular rate adjustments annually, which will minimize the need for large increases at any one time.

Cable Telecommunications

The primary goal of the cable telecommunications division is to meet the existing and anticipated future demands for services while assuring quality, reliable, and economical services. The primary focus of the division through fiscal year 2016 will be a headend relocation project and associated infrastructure improvements. Procurement of consultants, planning and development, construction and cutover of the Headend facility and infrastructure will consume the majority of capital funds during this period.

Cable TV providers around the country are experiencing cord-cutting as more video products move to the Internet. FPB Cable is not immune to these decreases in subscriber counts and the Board estimates the cable TV customer purchases (all cable tiers and VOD/PPV purchases) will continue to drop throughout the five-year plan. The decreases come with one positive - the customer becomes more reliant on their broadband connection and the ever increasing need for more bandwidth each month from FPB Cable/Telecom.

**Electric & Water Plant Board of the City of Frankfort, Kentucky
Management Discussion and Analysis (Continued)
Years Ended June 30, 2015 and 2014**

The Future (Continued)

Cable Telecommunications (Continued)

Modest growth is anticipated in broadband, high capacity Ethernet services and security services. Rental of cable modems and routers continues to grow and add a new revenue stream through the five-year plan. Stable dark fiber revenue is projected over the five-year plan.

The Board expects to continue to purchase set top boxes, but at a slower rate of installation due to slowing customer demand. FPB will begin testing a new Tivo-powered media player late in fiscal year 2016 that will allow for 6-tuner capability, whole-home DVR services, integrated modem, access to Over-the-top (OTT) services like Netflix, Amazon and YouTube - in addition to an integrated search feature for linear, DVR and cloud based VOD. Staff expects to make the service available to subscribers by late 2016.

Cable TV programming expenses will continue to be the largest expense budgeted within the division. FPB has little control over these expenditures with sports related programming being the largest culprit of increased cost. Staff expects programming costs to continue increasing around 7% to 10% per year while inflation hovers around 2% to 3%.

Residential landline business continues to sag in the US as more customers utilize their mobile devices. FPB expects small and medium size businesses to keep their lines and we look to gain some customers as incumbent telephone providers exit the wireline market in the next three to five years. Staff will review options and make recommendations to the Board in fiscal year 2016 regarding the possibility of outsourcing the telephone switching instead of investing in significant capital to maintain the services in-house.

Administrative and General

The Board continues to streamline processes and increase efficiency in departments that provide services to all divisions within the company with the goal of decreasing the pace of rate increases driven by issues discussed in the electric, water, and cable sections above. Costs that the Board's management has little to no control over, such as Retirement benefits (See Note H) and health insurance continue to generate pressure on the department to be able to offset cost increases from the other divisions.

Overall

Over the coming years, the Board has several significant capital projects planned that are needed to maintain the level of superior, reliable service that our customers have come to expect. We must also continue to move the company forward by implementing and utilizing cutting edge technologies to improve efficiency and performance. We will continue to monitor and manage costs in an ever changing regulatory environment in order to provide services at the most reasonable rates possible.

Electric & Water Plant Board of the City of Frankfort, Kentucky
Statements of Net Position
June 30, 2015 and 2014

Assets	2015	2014 (Restated)
Cash and cash equivalents	\$ 22,913,923	\$ 11,751,628
Investments	6,549,025	5,212,120
Receivables:		
Billed user fees, net	9,267,032	9,432,942
Unbilled user fees	1,461,200	1,630,900
Advertising	163,350	163,919
Other	804,468	645,858
Interest	-	2,956
Inventory	4,759,473	4,394,488
Prepaid expenses	552,385	436,745
Property, plant, and equipment, net	99,150,729	94,240,883
Cable acquisition cost	-	-
Insurance escrow account	64,437	135,892
Retirement plan assets:		
Cash and cash equivalents	4,413	4,303
Investments	453,453	461,862
Total Assets	<u>\$ 146,143,888</u>	<u>\$ 128,514,496</u>
Deferred Outflows of Resources		
Deferred amounts from pension	<u>\$ 1,521,452</u>	<u>\$ 1,603,000</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 147,665,340</u></u>	<u><u>\$ 130,117,496</u></u>
Liabilities and Net Position		
Liabilities		
Accounts and other payables	\$ 14,920,895	\$ 14,320,556
Accrued expenses	1,165,169	1,061,577
Customer deposits	2,578,304	2,664,251
Unearned revenues	2,007,201	1,892,599
KIA notes payable due in one year	368,715	319,831
Bonds and leases payable due in one year	3,988,918	3,999,000
Net pension liability	16,041,000	18,151,000
Long term debt		
Bonds and leases payable	35,291,628	23,026,329
KIA notes payable	7,606,504	5,934,569
Total Liabilities	<u>83,968,334</u>	<u>71,369,712</u>
Deferred Inflows of Resources		
Deferred amounts from pension	<u>\$ 1,791,000</u>	<u>\$ -</u>
Total Liabilities and Deferred Inflows of Resources	<u><u>\$ 85,759,334</u></u>	<u><u>\$ 71,369,712</u></u>
Net Position		
Net investment in capital assets	51,894,964	60,961,154
Restricted for debt retirement	3,431,693	2,380,997
Restricted for retirement plans	457,866	466,165
Restricted for KIA loan covenant	62,500	35,000
Restricted for construction	15,002,357	-
Unrestricted	(8,943,374)	(5,095,532)
Total Net Position	<u>61,906,006</u>	<u>58,747,784</u>
Total Liabilities and Deferred Inflows of Resources and Net Position	<u><u>\$ 147,665,340</u></u>	<u><u>\$ 130,117,496</u></u>

Electric & Water Plant Board of the City of Frankfort, Kentucky
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating Revenues		
User fees		
Electric	\$ 52,593,396	\$ 55,499,203
Water	9,356,932	9,437,234
Cable	<u>27,094,634</u>	<u>25,795,595</u>
Total Operating Revenues	<u>89,044,962</u>	<u>90,732,032</u>
Operating Expenses		
Electric	54,192,557	54,619,351
Water	8,195,594	8,283,068
Cable	<u>24,689,385</u>	<u>22,943,443</u>
Total Operating Expenses	<u>87,077,536</u>	<u>85,845,862</u>
Net Income From Operations	<u>1,967,426</u>	<u>4,886,170</u>
Non-operating Revenues (Expenses)		
Net merchandise sale	35,892	33,166
Rental revenue (expense)	540	(415)
Interest revenue	41,051	44,963
Other revenue	897,786	710,587
Interest expense	(1,026,738)	(1,104,631)
Retirement plan net (loss) gain	(6,512)	16,913
Gain on sale of fixed assets	<u>67,749</u>	<u>53,546</u>
Total Non-operating Revenues (Expenses)	<u>9,768</u>	<u>(245,871)</u>
Income Before Contributions	1,977,194	4,640,299
Capital Contributions	<u>1,181,028</u>	<u>2,227,831</u>
Change in Net Position	3,158,222	6,868,130
Net Position - Beginning of Year	<u>58,747,784</u>	<u>68,427,654</u>
GASB 68 Pension liability adjustment	-	(16,548,000)
Net Position - End of Year (Restated)	<u>\$ 61,906,006</u>	<u>\$ 58,747,784</u>

Electric & Water Plant Board of the City of Frankfort, Kentucky
Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities		
Cash received from users and customers	\$ 89,251,186	\$ 90,026,511
Cash payments to employees for services and benefits	(16,170,754)	(15,501,513)
Cash payments to suppliers of goods and services	(64,255,869)	(62,872,326)
Net Cash Provided by Operating Activities	<u>8,824,563</u>	<u>11,652,672</u>
Cash Flows from Capital and Related Financing Activities		
Purchases of capital assets	(10,427,502)	(5,442,195)
Proceeds from sale of capital assets	66,305	56,671
Principal paid on debt obligations	(4,312,906)	(7,257,695)
Interest paid on debt obligations	(1,026,738)	(1,104,631)
Proceeds from debt obligations	18,551,988	4,202,294
Net Cash Provided by (Used by) Capital and Related Financing Activities	<u>2,851,147</u>	<u>(9,545,556)</u>
Cash Flows from Noncapital Financing Activities		
Cash received from other non-operating revenues	<u>708,138</u>	<u>743,338</u>
Cash Flows from Investing Activities		
Receipt of interest	44,007	45,045
Purchase/sales of investments	(1,336,905)	(8,190)
Net Cash (Used by) Provided by Investing Activities	<u>(1,292,898)</u>	<u>36,855</u>
Net Change in Cash and Cash Equivalents	11,090,950	2,887,309
Cash and Cash Equivalents, Beginning of Year	<u>11,891,823</u>	<u>9,004,514</u>
Cash and Cash Equivalents, End of Year	<u>\$ 22,982,773</u>	<u>\$ 11,891,823</u>
Reconciliation of Cash and Cash Equivalents, End of Year:		
Cash and cash equivalents	\$ 22,913,923	\$ 11,751,628
Insurance escrow account	64,437	135,892
Cash and cash equivalents - retirement plan	4,413	4,303
	<u>\$ 22,982,773</u>	<u>\$ 11,891,823</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 1,967,426	\$ 4,886,170
Adjustment to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	6,665,059	7,198,046
Bad debts	454,632	90,000
Change in assets and liabilities		
Accounts and interest receivable	(277,063)	(1,116,601)
Inventory	(364,985)	(99,839)
Prepaid expenses	(115,640)	28,662
Deferred outflows	81,548	-
Accounts and other payables	600,339	248,430
Accrued expenses	103,592	96,724
Unearned revenue	114,602	82,197
Customer deposits	(85,947)	238,883
Pension liability	(2,110,000)	-
Deferred inflows	1,791,000	-
Net Cash Provided by Operating Activities	<u>\$ 8,824,563</u>	<u>\$ 11,652,672</u>
Supplemental Disclosure of Noncash Capital and Related Financing Activities:		
Contributed capital assets	<u>\$ 1,181,028</u>	<u>\$ 2,227,831</u>
Forgiveness of debt	<u>\$ 226,080</u>	<u>\$ 31,366</u>

Electric & Water Plant Board of the City of Frankfort, Kentucky
Notes to Financial Statements
June 30, 2015 and 2014

Note A - Nature of Organization and Operations

The Electric and Water Plant Board of the City of Frankfort, Kentucky (the "Board") was formed in April 1943 through the acquisition by the City of Frankfort of the entire capital stock of the Tri-City Utilities Company. The company was dissolved immediately after the acquisition of the capital stock. The properties and the operation of the combined electric and water system purchased were placed under the control of the Electric and Water Plant Board, which consists of five members appointed by the Mayor and approved by the City Commissioners. Since 1946 the Board operates as an independent entity under the provisions of the Kentucky Revised Statutes 96.172 through 96.188. The Board produces its own water supply and purchases electricity from the Kentucky Utilities Company. On January 1, 1988, the Electric and Water Plant Board acquired the assets and interests of Community Cable Services, Inc. Previously, the cable system was operated as an independent subsidiary of the Board and controlled by a separate Board of Directors. On January 1, 1989, the Electric and Water Plant Board assumed the ownership of the North Woodford Water District facilities in consideration for the assumption of its obligations and liabilities. The Kentucky Public Service Commission approved the acquisition on October 6, 1988. The Board bills and collects sewer charges for the City of Frankfort and school tax for the local city and county school boards.

The financial statements of the Board have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Note B - Summary of Significant Accounting Policies

The significant accounting principles and policies utilized by the Board are described below:

Reporting Entity

The Board is not considered a component unit of the City of Frankfort. The Board operates under the provisions of the Kentucky Revised Statutes mentioned above. Additionally, the City of Frankfort does not exercise financial, budgetary, accounting or administrative controls over the Board. Therefore, the financial statements of the Board are not included in the financial statements of the City of Frankfort.

Basis of Accounting

The Board is accounted for as an enterprise fund which is a type of proprietary fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has 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 purposes.

The focus of proprietary fund measurement is upon the determination of operating income, changes in net assets, financial position and cash flows. All proprietary funds are accounted for using the accrual basis of accounting.

Electric & Water Plant Board of the City of Frankfort, Kentucky
Notes to Financial Statements (Continued)
June 30, 2015 and 2014

Note B - Summary of Significant Accounting Policies (Continued)

Purpose of Various Internal Funds

Operating Funds

1. Water and Electric Revenue Fund - Chapter 96 of the Kentucky Revised Statutes provides that all revenues of the system shall be placed in this fund as collected. Distributions to other funds are made upon approval of the Electric and Water Plant Board in accordance with the requirements of each fund.
2. Operations and Maintenance Fund - This fund was created for the purpose of paying expenses of operating and maintaining the combined water works, electric power, cable, and full service network systems.
The amount necessary to meet these expenses is transferred to this fund as needed from the Revenue Fund accounts. Approval of expenditures from this fund is made by the Board upon presentation of request for reimbursement to this fund.

Restricted Funds

1. Electric and Water Revenue Bonds and Interest Sinking Fund - This fund was established in accordance with Kentucky Revised Statute 96.182. It provides that a reserve is to be accumulated over a ten year period to equal the average annual interest and principal requirements for such then outstanding.

Budgets and Budgetary Accounting

The Board follows these procedures in establishing budgetary data reflected in the financial statements:

1. Formal budgetary integration is employed as a management control device during the year for all funds.
2. The Board of Directors of the Electric and Water Plant Board approves the budget of the Board.
3. Unused appropriations of the annual budget lapse at the end of the year.
4. The budgeted amounts shown in the financial statements are the final authorized amounts as revised during the year.

Revenue Requirements

The Board is regulated by Kentucky Revised Statute 96.182 concerning the application of revenues earned by the Board. The provisions of Kentucky Revised Statute 96.182 are as follows:

Subject to the provisions of outstanding bonds and contracts, the Board shall apply all funds derived from operations (1) to the payment of operating expenses, (2) to the payment of bond interest and retirement, (3) to sinking fund requirements, (4) to the maintenance of a fund to meet depreciation and the improvements and extension of the plant in an amount equal to six percent (6%) of the undepreciated book value of its property, (5) to the maintenance of a cash working fund equal to one (1) month's revenue, and (6) to the payment of other obligations incurred in the operations and maintenance of the plant and the furnishings of service.

Electric & Water Plant Board of the City of Frankfort, Kentucky
Notes to Financial Statements (Continued)
June 30, 2015 and 2014

Note B - Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

The Board considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Statutes require that financial institutions pledge approved securities to secure those funds on deposit in an amount equal to the amount of those funds.

Investments

Investments of the Board consist of certificates of deposit which are stated at cost and approximate fair value.

Investments of the Board's retirement plan consist of marketable securities which are reported at fair market value. All investments of the retirement plan are held in trust by a bank. Under the terms of the retirement plan, the trustee has the power to hold, invest, reinvest, purchase insurance on the lives of members, control and disburse funds as set forth in the trust agreement.

Inventory

Materials and supplies inventory are stated at lower of cost or market using average cost to determine unit cost on all items with the exception of chemicals.

Accounts Receivable

Accounts receivable consist of user fees charged to customers for services. Electric and water fees are recorded as accounts receivable and revenue when customers are billed. Telecommunications fees are billed one month in advance and are recorded as unearned revenues when billed.

Allowance for Uncollectible Amounts

The Board records an allowance for doubtful accounts through a charge to earnings and a credit to valuation allowance based on its assessment of the current status of individual accounts. The allowance for doubtful accounts at June 30, 2015 and 2014 was \$205,000 and \$223,330, respectively.

Capital Assets

Capital assets include property, plant and equipment. Expenditures for items having a useful life greater than one year and a cost greater than \$1,000 are capitalized. Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair value. Depreciation is provided in amounts sufficient to expense the related cost of the depreciable assets to operations over their estimated useful lives on the straight-line basis. The estimated useful lives by type of asset are as follows:

Structure and improvements	30 years
Electric Distribution Systems	30 years
Water Distribution Systems	50 years
Cable Distribution System	15 years
Furniture and Equipment	5 - 10 years

Electric & Water Plant Board of the City of Frankfort, Kentucky
Notes to Financial Statements (Continued)
June 30, 2015 and 2014

Note B - Summary of Significant Accounting Policies (Continued)

Accumulated Compensated Absences

It is the Board's policy to permit employees to accumulate limited amounts of earned but unused vacation pay which will be paid to employees upon separation from the Board's service. Vacation pay is accrued in the period in which it is earned and is reflected in accrued expenses.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources, and pension expense, information about the Board's participation in the County Employees Retirement System of the Kentucky Retirement Systems (KRS) have been determined on the same basis (CERS) as they are reported by the KRS for the CERS plan. For this purpose, benefits including refunds of employee contributions are recognized when due and payable in accordance with the benefit terms of the CERS plan of KRS. The liability was measured at June 30, 2014.

The Board became a member of the County Employees' Retirement System (CERS) on July 1, 1988. Eligible employees were enrolled in CERS on that date. Both employer and the employees contribute to this plan. The total estimated cost of entering the system as of July 1, 1988 was \$2,989,322. The original plan for entering the system required annual payments for 24 years from funds available in the Electric and Water Plant Board Retirement Plan and the Board made the annual payments and paid off the balance owed in 2007. Certain employees remained covered by the Electric and Water Plant Board Retirement Plan which is frozen. The retirees currently being paid benefits continue to receive their monthly benefits from this retirement plan. The Board does not make any payments from the operating accounts related to the frozen pension plan and the Board may terminate the plan at any time with no obligation to fund any benefits. Upon termination, the trustee will compute the value of the trust and the beneficiaries will receive the remaining values as outlined in the plan. See the note below for discussion of assets and restrictions of net position related to the plan.

Restrictions of Net Position

Revenue bond sinking accounts are the resources accumulated for debt service payments. KIA loan covenant funds are resources accumulated for replacements and repairs. Retirement plan assets are accumulated in a trust fund to be used for the benefit of retirees of the pension plan noted above.

	2015	2014
Revenue Bond Sinking Reserve	\$ 3,431,693	\$ 2,380,997
Retirement Plan Assets (frozen retirement plan)	457,866	466,165
KIA loan covenant	62,500	35,000
Administration building construction account	15,002,357	-
Total Restricted Assets	\$ 18,954,416	\$ 2,882,162

Operating Revenues and Expenses

Operating revenues are those that are generated directly from the primary activity of the Board, such as charges for utility services. Operating expenses are necessary costs that have been incurred in order to provide the goods or services that are the primary activity.

Electric & Water Plant Board of the City of Frankfort, Kentucky
Notes to Financial Statements (Continued)
June 30, 2015 and 2014

Note B - Summary of Significant Accounting Policies (Continued)

GASB Statement No. 68

In June 2012 GASB, issued Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27* (Statement No. 68). Statement No. 68 established accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are administered through trust that have certain defined characteristics as well as with respect to non-employer governments that have a legal obligation to contribute to such plans. Statement No. 68 established standards for measuring and recognizing liabilities, deferred outflows and inflows of resources, and expenses/expenditures. For defined benefit payments, Statement No. 68 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. In addition, Statement No. 68 also addresses the related disclosure and required supplementary information requirements.

The Board adopted this pronouncement as of and for the year ended June 30, 2015 (See Note H and Note I). Accordingly, the Board's net position per the accompanying statement of revenues, expenses, and changes in net position for the year ended June 30, 2014 has been restated for the \$16,548,000 impact of the collective net pension liability as of June 30, 2014 (see also the pension liability per the accompanying statement of net position as of June 30, 2014). Net position as of July 1, 2013 was not restated. The Board's estimated proportionate share of the collective net pension liability as of June 30, 2013 was not measurable (the relevant information was not available). Additionally, it was not practical to determine the amounts of deferred outflows and inflows related to pensions as of June 30, 2014. Thus the accompanying statement of revenues, expenses, and changes in net position for the year ended June 2014 has not otherwise been restated (other than with respect to restating net position as of June 30, 2014).

For purposes of measuring the Board's estimated proportionate share of the collective net pension liability, deferred outflows and inflows of resources related to pension, and pension expense, information regarding the Board's participation in the Kentucky Retirement System (KRS) has been determined on the same basis as reported by the KRS. For this purpose, benefits are recognized when due and payable in accordance with the benefit terms of the CERS plan of KRS.

Note C - Investments

Investments of the Board are in certificates of deposit with maturity dates ranging from August 2015 to August 2016.

Interest Rate Risk – The Board has an investment policy, limiting investments to interest bearing accounts and certificates of deposit with a maturity of no greater than three years. The policy effectively manages the Boards exposure to fair value losses arising from increasing interest rates.

Credit Risk - State law limits the type of investment in which the Board may invest its funds. The Board's policy is within State guidelines.

Concentration of Credit - The Board places no limit on the amount it may invest in any one investment.

Electric & Water Plant Board of the City of Frankfort, Kentucky
Notes to Financial Statements (Continued)
June 30, 2015 and 2014

Note C - Investments (Continued)

Investments of the retirement plan are as follows:

June 30, 2015 Investment Type	Fair Value	Maturities	
		Less than 1	1-5
Mutual Funds	\$ 453,453	n/a	n/a
Total	<u>\$ 453,453</u>		

June 30, 2014 Investment Type	Fair Value	Maturities	
		Less than 1	1-5
Mutual Funds	461,862	n/a	n/a
Total	<u>\$ 461,862</u>		

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Board's deposits may not be returned to it. As of June 30, 2015 all deposits were fully issued and collateralized.

Note D - Capital Assets

The following is a summary of capital assets as of June 30, 2015 and 2014:

Capital Assets

Description	June 30, 2014	Additions	Retirements	June 30, 2015
Land	\$ 584,030	\$ -	\$ -	\$ 584,030
Structures & Improvements	14,563,966	15,015	-	14,578,981
Plant Infrastructure	138,646,969	2,133,122	-	140,780,091
Plant Equipment	33,336,441	249,342	-	33,585,783
Transport Equipment	5,521,216	653,562	364,604	5,810,174
Power Operated Equipment	2,833,560	361,282	88,996	3,105,846
Lab Equipment	55,637	-	-	55,637
Furniture & Fixtures	7,160,197	18,432	-	7,178,629
Garage Equipment	388,120	1,699	-	389,819
Computer Equipment	2,787,372	107,742	-	2,895,114
Communications Equipment	348,748	165,061	-	513,809
Miscellaneous Equipment	1,168,431	81,156	-	1,249,587
CIP	1,013,952	7,807,362	-	8,821,314
Total Fixed Assets	<u>\$ 208,408,639</u>	<u>\$ 11,593,775</u>	<u>\$ 453,600</u>	<u>\$ 219,548,814</u>

Electric & Water Plant Board of the City of Frankfort, Kentucky
Notes to Financial Statements (Continued)
June 30, 2015 and 2014

Note D - Capital Assets (Continued)

Accumulated Depreciation

Description	June 30, 2014	Additions	Retirements	June 30, 2015
Structures & Improvements	\$ 12,431,307	\$ 393,117	\$ -	\$ 12,824,424
Plant Infrastructure	74,866,818	4,720,475	-	79,587,293
Plant Equipment	17,357,388	837,841	-	18,195,229
Transport Equipment	3,136,927	449,412	361,559	3,224,780
Power Operated Equipment	2,301,170	161,196	88,996	2,373,370
Lab Equipment	53,312	344	-	53,656
Furniture & Fixtures	48,797	1,461	-	50,258
Garage Equipment	373,615	2,108	-	375,723
Computer Equipment	2,426,511	88,898	-	2,515,409
Communications Equipment	346,059	3,953	-	350,012
Miscellaneous Equipment	825,852	22,079	-	847,931
Total	<u>114,167,756</u>	<u>6,680,884</u>	<u>450,555</u>	<u>120,398,085</u>
Net Capital Assets	<u>\$ 94,240,883</u>	<u>\$ 4,912,891</u>	<u>\$ 3,045</u>	<u>\$ 99,150,729</u>

The Electric & Water Plant Board has several projects under construction at June 30, 2015. A summary of construction in progress is below:

CIP Detail	June 30, 2015
WTP Backup Generator	\$ 2,815,281
FPB Administration Bldg	1,760,694
Headend building and FSN field improvements	1,163,666
East Main Transformer	742,438
Governors Place Phase 2	266,016
KSU Boring Contract	202,987
KSU Boring Labor Contract	196,164
Backwash MCC & Air Breaker Repl.	148,911
KSU Sky Walk	138,128
Capital Plaza Main Breaker	126,070
Remote Read Meters FY14-15	84,637
Greenhill & Atwood Ave	77,818
SCADA Network Improvements	63,877
Cardwell Lane Roundabout	63,031
KSU Pedestrian Bridge	61,230
Thornhill Ovh Reconductoring Ph 2	51,592
Smartball 2014 Leak Detection	50,000
Misc Electric Projects	425,741
Misc Water Projects	350,815
Misc Cable Projects	10,762
Misc General Projects	21,456
Total	<u>\$ 8,821,314</u>

Electric & Water Plant Board of the City of Frankfort, Kentucky
Notes to Financial Statements (Continued)
June 30, 2015 and 2014

Note E - Bonds, Leases, Loans and KIA Payables

The following schedule summarizes the Board's revenue bonds, loans, and lease obligations:

Issue	Purpose of Issue	Original Issue	Interest Rate	Final Maturity	Amount Outstanding
2009 Electric & Water Revenue Bonds	Refund 1999 bonds and 2007 bond anticipation note	\$ 10,265,000	2.00% - 3.75%	12/1/2019	\$ 5,495,000
FSN Subordinate Lease Financing	Finance equipment and facilities to make the television segment of the system all digital	3,401,886	2.85%	9/30/2017	350,886
FSN Consolidated Lease Financing	Refinance FSN leases used for improvements and expansions of the system	22,937,506	2.85%	3/31/2022	13,512,506
2013 Electric & Water Bonds	Refinance note payable used for major improvements and additions to the electric and water systems.	3,920,000	2.00% - 3.50%	6/30/2024	3,565,000
2015A Electric & Water Bonds	Finance the construction of the new administrative building.	15,130,000	2% - 4.75%	12/1/2041	15,130,000
FSN Third-lien Lease	Finance the construction of a new headend facility and full service network improvements. Lease can be drawn up to \$9,000,000.	51,930	3.00%	12/31/2029	<u>51,930</u>
Premiums					38,105,322
					<u>1,175,224</u>
					<u>\$ 39,280,546</u>

Electric & Water Plant Board of the City of Frankfort, Kentucky
Notes to Financial Statements (Continued)
June 30, 2015 and 2014

Note E - Bonds, Leases, Loans and KIA Payables (Continued)

KIA Notes Payable: In February 2008 the Board entered into a revolving loan fund conditional commitment with KIA for \$6,841,000 for the purpose of the rehabilitation of chemical feed facilities. The loan bears a fixed interest rate of 1.00% for a period of 20 years. At June 30, 2015 and 2014, the outstanding balance was \$5,658,200 and \$5,972,106, respectively

In March 2013 the Board entered into a federally assisted drinking water revolving loan fund conditional commitment for \$4,000,000 for the purpose of constructing a generator for the water processing facilities. The loan bears a fixed interest rate 1.75% for a period of 20 years. Upon issuance of each draw KIA will forgive 10% of the draw up to a maximum of \$400,000. For the year ended June 30, 2015, the Board had draws of \$2,260,805 and KIA granted \$226,080 of debt forgiveness. For the year ended June 30, 2014 the Board had draws of \$313,660 and KIA granted \$31,366 of debt forgiveness.

Bonds, leases and KIA payable activity for the year ended June 30, 2015 and 2014 is as follows:

	Balance June 30, 2014	Increases	Decreases	Balance June 30, 2015	Amounts Due in One Year
Bonds and Leases Payable					
2009 Electric & Water Bonds	\$ 6,495,000	\$ -	\$ (1,000,000)	\$ 5,495,000	\$ 1,025,000
FSN Subordinated Lease	994,886	-	(644,000)	350,886	350,886
FSN Consolidated Lease	15,512,506	-	(2,000,000)	13,512,506	2,000,000
2013 Electric & Water Bonds	3,920,000	-	(355,000)	3,565,000	360,000
2012 Water BAN	-	-	-	-	-
2015A Electric & Water Bonds	-	15,130,000	-	15,130,000	250,000
FSN Third-Lien Lease	-	51,930	-	51,930	3,032
Bond Premium	102,937	1,109,253	(36,966)	1,175,224	-
	<u>\$ 27,025,329</u>	<u>\$ 16,291,183</u>	<u>\$ (4,035,966)</u>	<u>\$ 39,280,546</u>	<u>\$ 3,988,918</u>
KIA Loan - Chemical Feed	\$ 5,972,106	\$ -	\$ (313,906)	\$ 5,658,200	\$ 317,053
KIA Loan - Generator	282,294	2,260,805	(226,080)	2,317,019	51,662
	<u>\$ 6,254,400</u>	<u>\$ 2,260,805</u>	<u>\$ (539,986)</u>	<u>\$ 7,975,219</u>	<u>\$ 368,715</u>

Electric & Water Plant Board of the City of Frankfort, Kentucky
Notes to Financial Statements (Continued)
June 30, 2015 and 2014

Note E - Bonds, Leases, Loans and KIA Payables (Continued)

	Balance			Balance		Amounts Due in One Year
	June 30, 2013	Increases	Decreases	June 30, 2014		
Bonds and Leases Payable						
2009 Electric & Water Bonds	\$ 7,470,000	\$ -	\$ (975,000)	\$ 6,495,000	\$ 1,000,000	
FSN Subordinated Lease	1,638,886	-	(644,000)	994,886	644,000	
FSN Consolidated Lease	17,512,506	-	(2,000,000)	15,512,506	2,000,000	
2013 Electric & Water Bonds	3,327,906	-	(3,327,906)	-	-	
2012 Water BAN	-	3,920,000	-	3,920,000	355,000	
Bond Premium	80,528	34,798	(12,389)	102,937	-	
	<u>\$ 30,029,826</u>	<u>\$ 3,954,798</u>	<u>\$ (6,959,295)</u>	<u>\$ 27,025,329</u>	<u>\$ 3,999,000</u>	
KIA Loan - Chemical Feed	\$ 6,282,895	\$ -	\$ (310,789)	\$ 5,972,106	\$ 313,906	
KIA Loan - Generator	-	313,660	(31,366)	282,294	5,925	
	<u>\$ 6,282,895</u>	<u>\$ 313,660</u>	<u>\$ (342,155)</u>	<u>\$ 6,254,400</u>	<u>\$ 319,831</u>	

Bonds, leases and KIA payable activity for the year ended June 30, 2015 is as follows:

The maturities of principal and interest on the bonds and leases payable are as follows:

	Principal	Interest	Total
2016	\$ 3,988,918	\$ 1,189,038	\$ 5,177,956
2017	3,808,124	1,075,342	4,883,466
2018	3,863,219	959,010	4,822,229
2019	3,933,317	838,408	4,771,725
2020	3,998,417	713,049	4,711,466
2021-2026	7,581,212	2,446,798	10,028,010
2027-2031	2,802,115	1,801,708	4,603,823
2032-2036	3,240,000	1,343,719	4,583,719
2037-2042	4,890,000	604,381	5,494,381
Total	<u>\$ 38,105,322</u>	<u>\$ 10,971,453</u>	<u>\$ 49,076,775</u>

Electric & Water Plant Board of the City of Frankfort, Kentucky
Notes to Financial Statements (Continued)
June 30, 2015 and 2014

Note E - Bonds, Leases, Loans and KIA Payables (Continued)

The maturities of principal and interest on the KIA loans are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 368,715	\$ 95,887	\$ 464,602
2017	424,916	90,885	515,801
2018	429,966	85,819	515,785
2019	435,080	80,687	515,767
2020	440,260	75,490	515,750
2021-2025	2,281,361	297,133	2,578,494
2026-2030	2,421,215	156,816	2,578,031
2031-2035	1,173,706	27,560	1,201,266
Total	<u>\$ 7,975,219</u>	<u>\$ 910,277</u>	<u>\$ 8,885,496</u>

Note F - Risk Management

The Board is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters for which the Board carries commercial insurance.

The Board has elected to retain risk related to employees' health insurance. The Board has stop loss coverage with HHC on the self-insurance plan. There is a specific deductible of \$75,000 per employee per year, plus an additional liability corridor of \$75,000. There is no lifetime maximum benefit for members due to the Affordable Care Act.

The Board pays Medben a fee to administer this plan. The Board has an insurance escrow account set up as a liability to cover possible future health insurance claims. All claims are paid out of the general funds of the Board through a separate self-insurance checking account.

For the year ended June 30, 2015 and 2014, the Board had the following activity related to the future health insurance claims:

	<u>Future Health</u>
	<u>Insurance Claims</u>
Liability at June 30, 2013	\$ 309,861
Claims and changes in estimates in FY 2014	1,738,738
Claims paid in FY 2014	<u>(1,792,535)</u>
Liability at June 30, 2014	256,064
Claims and changes in estimates in FY 2015	1,765,951
Claims paid in FY 2015	<u>(1,707,907)</u>
Liability at June 30, 2015	<u>\$ 314,108</u>

Electric & Water Plant Board of the City of Frankfort, Kentucky
Notes to Financial Statements (Continued)
June 30, 2015 and 2014

Note G - Frankfort Plant Board Municipal Projects Corporation

In October of 1999, the Board of Directors of the Electric and Water Plant Board formed the Frankfort Plant Board Municipal Projects Corporation with the purpose of authorizing and approving the initial financing of the costs of the new improvements to and expansions of the Municipal Cable Television of the Plant Board. The Corporation will provide the lease for the cable system, as improved and expended, to the Plant Board and authorize the assignment of the Corporation's rights and interest under the lease to Farmers Bank & Capital Trust Company.

Note H - Retirement Plan

Plan description. Employees of the Electric & Water Plant Board are provided a defined benefit pension plan through the CERS, a cost-sharing multiple-employer defined pension plan administered by the KRS. The KRS was created by state statute under Kentucky Revised Statue Section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publically available financial report that can obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646.

Benefits provided. Kentucky Revised Statue Section 61.645 establishes the benefit terms and can be amended only by the Kentucky General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 65 with four years of service credit or after 27 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested or 25 years of service credit. Members vest with five years of service credit. Service related disability benefits are provided after five years of service.

Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands.

Employees covered by benefit terms. At the measurement date of June 30, 2014, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	125
Inactive employees entitled to but not yet receiving benefits	77
Active employees	<u>209</u>
Total	<u><u>411</u></u>

Electric & Water Plant Board of the City of Frankfort, Kentucky
Notes to Financial Statements (Continued)
June 30, 2015 and 2014

Note H - Retirement Plan (Continued)

Contributions. Contributions for employees are established in the statutes governing the KRS and may only be changed by the Kentucky General Assembly. Employees contribute 5% of salary if they were plan members prior to September 1, 2008. For employees that entered the plan after September 1, 2008, they are required to contribute 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). For the years ended June 30, 2015 and 2014, employer contributions for the Board were \$2,108,554 and \$2,142,754 based on a rate of 17.67% and 18.89% of covered payroll, respectively. By law, employer contributions are required to be paid. The KRS may intercept Board's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

The Electric & Water Plant Board also offers employees the option to participate in the Kentucky Public Employees 401(k) Deferred Compensation Plan. Participation in the plan is voluntary and the Electric & Water Plant Board makes no employer contributions to the plan.

Net Pension Liability

Electric & Water Plant Board's net pension liability (asset) was measured as of June 30, 2014, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date. (See Note I for a restatement related to the net pension liability.)

Actuarial assumptions. The total pension liability as of June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	4.0 percent
Salary increases	Representative values of the assumed annual rates of future salary increases from 4.75% - 13.0% for nonhazardous members and 4.5% - 20.0% for hazardous members, including inflation.
Investment rate of return	7.75% per annum, compounded annually for retirement and insurance benefits.

The rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Table for other members. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2014 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2005 through June 30, 2008. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

Electric & Water Plant Board of the City of Frankfort, Kentucky
Notes to Financial Statements (Continued)
June 30, 2015 and 2014

Note H - Retirement Plan (Continued)

Net Pension Liability (Continued)

The long-term expected rate of return on plan assets is reviewed as part of the regular experience study prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class (See chart below). These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The long-term expected rate of return on pension plan investments was established by the KRS Board of Trustees as 7.75 percent based on a blending of the factors described below.

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
Domestic Equity	8.45%	30.00%
International Equity	8.85%	22.00%
Emerging Market Equity	10.50%	5.00%
Private Equity	11.25%	7.00%
Real Estate	7.00%	5.00%
Core US Fixed Income	5.25%	10.00%
High Yield US Fixed Income	7.25%	5.00%
Non US Fixed Income	5.50%	5.00%
Commodities	7.75%	5.00%
TIPS	5.00%	5.00%
Cash	3.25%	1.00%
		100.00%

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the Electric & Water Plant Board will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the KRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Electric & Water Plant Board of the City of Frankfort, Kentucky
Notes to Financial Statements (Continued)
June 30, 2015 and 2014

Note H - Retirement Plan (Continued)

Net Pension Liability (Continued)

Sensitivity of the net pension liability (asset) to changes in the discount rate. The following presents the net pension liability (asset) of the Electric & Water Plant Board calculated using the discount rate of 7.75 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease <u>(6.75%)</u>	Current Discount Rate <u>(7.75%)</u>	1% Increase <u>(8.75%)</u>
Frankfort Plant Board's net pension liability	\$ 21,108,882	\$ 16,041,000	\$ 11,563,406

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension expense. For the year ended June 30, 2015, the Electric & Water Plant Board recognized pension expense of \$1,284,000.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2015, the Electric & Water Plant Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

The amount shown below for "Contributions subsequent to the measurement date of June 30, 2014," will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ (1,791,000)
Contributions subsequent to the measurement date of June 30, 2014	<u>1,521,452</u>	<u>-</u>
Total	<u>\$ 1,521,452</u>	<u>\$ (1,791,000)</u>

Electric & Water Plant Board of the City of Frankfort, Kentucky
Notes to Financial Statements (Continued)
June 30, 2015 and 2014

Note H - Retirement Plan (Continued)

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2016	\$ (447,750)
2017	(447,750)
2018	(447,750)
2019	<u>(447,750)</u>
	<u>\$ (1,791,000)</u>

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

Payable to the Pension Plan

At June 30, 2015, and 2014, the Electric & Water Plant Board reported a payable of \$161,964 and \$165,242 (included in the "Accrued expenses" amount on the Statement of Net Position) and for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2015, and 2014, respectively.

Note I - Restatement of Beginning Net Position Related to Fiscal Year 2014

Beginning net position for fiscal year 2014 was restated to implement *No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and record the beginning pension liability.

Statement of Net Position

Net position - June 30, 2014, prior to restatement	\$ 75,295,784
GASB 68 Pension liability adjustment	<u>(16,548,000)</u>
Net position - June 30, 2014 (Restated)	<u>\$ 58,747,784</u>

Note J - Deferred Compensation

Eligible employees can participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax-sheltered supplemental retirement plans for all state employees, public school and university employees, and employees of local political subdivisions that have elected to participate.

Electric & Water Plant Board of the City of Frankfort, Kentucky
Notes to Financial Statements (Continued)
June 30, 2015 and 2014

Note J - Deferred Compensation (Continued)

These deferred compensation plans permit all full-time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plan is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. A copy of this report may be requested by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 100, Frankfort, Kentucky 40601-8862 or by telephone at 502-573-7925.

Note K - Recent Pronouncements

In February 2015, the GASB issued *Statement No. 72, Fair Value and Measurement and Application*. The requirements of this statement are effective for financial statements for reporting periods beginning after June 15, 2015.

This statement establishes standards for valuation techniques to measure fair value. This statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. This statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques.

In June 2015, the GASB issued *Statement No. 75, Accounting and Reporting for Postemployment Other Than Pensions*. The provisions of this statement are effective for fiscal years beginning after June 15, 2017.

This statement establishes new accounting and financial reporting requirements for OPEB plans. The scope of this statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

The Electric & Water Plant Board is currently evaluating the impact that will result from adopting GASB No. 72 and GASB No. 75. Therefore, they are currently unable to disclose the impact of the adoption of these standards upon their financial position and results of operations.

SUPPLEMENTARY INFORMATION

Electric & Water Plant Board of the City of Frankfort, Kentucky
Combining Statement of Net Position - Electric & Water, Cable
June 30, 2015

Assets	Electric & Water	Cable	Total
Cash and cash equivalents	\$ 16,498,248	\$ 6,415,675	\$ 22,913,923
Investments	4,715,362	1,833,663	6,549,025
Receivables			
Billed user fees	6,686,626	2,580,406	9,267,032
Unbilled user fees	1,461,200	-	1,461,200
Advertising	-	163,350	163,350
Other	764,245	40,223	804,468
Inventory	3,923,464	836,009	4,759,473
Prepaid expenses	380,497	171,888	552,385
Property, plant, and equipment, net	76,894,183	22,256,546	99,150,729
Insurance escrow account	39,090	25,347	64,437
Retirement plan assets:			
Cash and cash equivalents	4,413	-	4,413
Investments	453,453	-	453,453
Total Assets	<u>\$ 111,820,781</u>	<u>\$ 34,323,107</u>	<u>\$ 146,143,888</u>
Deferred Outflows of Resources			
Deferred amounts from pension	<u>\$ 866,066</u>	<u>\$ 655,386</u>	<u>\$ 1,521,452</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 112,686,847</u>	<u>\$ 34,978,493</u>	<u>\$ 147,665,340</u>
Liabilities and Net Assets			
Liabilities			
Accounts and other payables	\$ 12,458,807	\$ 2,462,088	\$ 14,920,895
Accrued expenses	749,521	415,648	1,165,169
Customer deposits	2,438,348	139,956	2,578,304
Unearned revenues	-	2,007,201	2,007,201
KIA note payable due in one year	420,829	-	420,829
Bonds payable due in one year	1,554,025	2,431,861	3,985,886
Loan payable due in one year	-	3,032	3,032
Net pension liability	9,131,692	6,909,308	16,041,000
Long term debt			
Bonds payable	18,557,337	16,685,393	35,242,730
KIA note payable	7,554,390	-	7,554,390
Loan payable	-	48,898	48,898
Total Liabilities	<u>\$ 52,864,949</u>	<u>\$ 31,103,385</u>	<u>\$ 83,968,334</u>
Deferred Inflows of Resources			
Deferred amounts from pension	<u>\$ 1,019,566</u>	<u>\$ 771,434</u>	<u>\$ 1,791,000</u>
Total Liabilities and Deferred Inflows of Resources	<u>\$ 53,884,515</u>	<u>\$ 31,874,819</u>	<u>\$ 85,759,334</u>
Net Assets			
Invested in capital assets	48,807,602	3,087,362	51,894,964
Restricted for debt retirement	3,431,693	-	3,431,693
Restricted for retirement plans	457,866	-	457,866
Restricted assets - KIA loan restriction	62,500	-	62,500
Restricted for construction	10,143,694	4,858,663	15,002,357
Unrestricted	(4,101,023)	(4,842,351)	(8,943,374)
Total Net Assets	<u>58,802,332</u>	<u>3,103,674</u>	<u>61,906,006</u>
Total Liabilities and Deferred Inflows of Resources and Net Assets	<u>\$ 112,686,847</u>	<u>\$ 34,978,493</u>	<u>\$ 147,665,340</u>

See accompanying independent auditor's report

Electric & Water Plant Board of the City of Frankfort, Kentucky
Statement of Revenues, Expenses and Changes in Net Position - Budget to Actual
Year Ended June 30, 2015

	Budget	Actual	Variable Favorable (Unfavorable)
Operating Revenues			
User fees			
Electric	\$ 55,615,400	\$ 52,593,396	\$ (3,022,004)
Water	9,270,359	9,356,932	86,573
Cable	27,956,291	27,094,634	(861,657)
Total Operating Revenues	<u>92,842,050</u>	<u>89,044,962</u>	<u>(3,797,088)</u>
Operating Expenses			
Electric	53,927,464	54,192,557	(265,093)
Water	8,960,108	8,195,594	764,514
Cable	25,711,439	24,689,385	1,022,054
Total Operating Expenses	<u>88,599,011</u>	<u>87,077,536</u>	<u>1,521,475</u>
Net Income From Operations	<u>4,243,039</u>	<u>1,967,426</u>	<u>(2,275,613)</u>
Non-Operating Revenues (Expenses)			
Net merchandise sale	24,800	35,892	11,092
Rental revenue	-	540	540
Interest revenue	31,809	41,051	9,242
Other revenue	669,999	897,786	227,787
Interest expense	(829,799)	(1,026,738)	(196,939)
Retirement plan net gain	-	(6,512)	(6,512)
Gain on sale of fixed assets	-	67,749	67,749
Total Non-Operating (Expense) Revenues	<u>(103,191)</u>	<u>9,768</u>	<u>112,959</u>
Income Before Contributions	4,139,848	1,977,194	(2,162,654)
Capital Contributions	<u>1,514,000</u>	<u>1,181,028</u>	<u>(332,972)</u>
Change in Net Position	5,653,848	3,158,222	(2,495,626)
Net Position - Beginning of Year (Restated)	<u>58,747,784</u>	<u>58,747,784</u>	-
Net Position - End of Year	<u><u>\$ 64,401,632</u></u>	<u><u>\$ 61,906,006</u></u>	<u><u>\$ (2,495,626)</u></u>

See accompanying independent auditor's report

Electric & Water Plant Board of the City of Frankfort, Kentucky
Combining Statement of Revenues and Expenses - Electric, Water and
Telecommunications Divisions
Year Ended June 30, 2015

	<u>Electric</u>	<u>Water</u>	<u>Cable</u>	<u>Total</u>
Operating Revenues				
User fees	\$ 52,593,396	\$ 9,356,932	\$ 26,272,684	\$ 88,223,012
Advertising revenue	-	-	821,950	821,950
Total Operating Revenues	<u>52,593,396</u>	<u>9,356,932</u>	<u>27,094,634</u>	<u>89,044,962</u>
Operating Expenses	<u>54,192,557</u>	<u>8,195,594</u>	<u>24,689,385</u>	<u>87,077,536</u>
Net (Loss) Income from Operations	<u>(1,599,161)</u>	<u>1,161,338</u>	<u>2,405,249</u>	<u>1,967,426</u>
Non-Operating Revenues (Expenses)				
Net merchandise sales	12,914	6,881	16,097	35,892
Rental expenses	146	109	285	540
Interest revenues	6,608	25,254	9,189	41,051
Other revenue	322,674	361,308	213,804	897,786
Interest expense	(75,348)	(234,127)	(717,263)	(1,026,738)
Retirement plan net gain	(3,256)	(3,256)	-	(6,512)
Gain on sale of fixed assets	19,861	14,066	33,822	67,749
Total Non-Operating Revenues (Expenses)	<u>283,599</u>	<u>170,235</u>	<u>(444,066)</u>	<u>9,768</u>
(Loss) Income Before Contributions	<u>\$ (1,315,562)</u>	<u>\$ 1,331,573</u>	<u>\$ 1,961,183</u>	<u>\$ 1,977,194</u>

See accompanying independent auditor's report

Electric & Water Plant Board of the City of Frankfort, Kentucky
Detail Schedules of Budgeted and Actual Operating Expenses - Electric,
Water and Telecommunications Divisions
Year Ended June 30, 2015

Electric Division	Budgeted	Actual	Variable Favorable (Unfavorable)
Electricity purchased	\$ 44,875,900	\$ 44,535,869	\$ 340,031
Transmission	48,070	3,196	44,874
Distribution	2,118,431	2,514,618	(396,187)
Engineering	303,399	270,038	33,361
Total Electric Expense	<u>47,345,800</u>	<u>47,323,721</u>	<u>22,079</u>
Meter reading	223,157	237,571	(14,414)
Customer records and collection	357,726	357,094	632
Bad debts	151,100	274,780	(123,680)
Information technology	371,433	324,390	47,043
Total Office Expenses	<u>1,103,416</u>	<u>1,193,835</u>	<u>(90,419)</u>
Advertising	4,488	5,208	(720)
Administrative expenses	514,801	584,451	(69,650)
Board expenses	3,476	3,433	43
Social security expense	230,105	249,627	(19,522)
Legal and consulting fees	538,609	640,722	(102,113)
Insurance	231,464	227,720	3,744
Total Administrative Expenses	<u>1,522,943</u>	<u>1,711,161</u>	<u>(188,218)</u>
Benefits	760,896	706,649	54,247
Employees welfare	1,974	38,643	(36,669)
Pension expense	569,553	538,229	31,324
Total Employee Benefits Expenses	<u>1,332,423</u>	<u>1,283,521</u>	<u>48,902</u>
General expenses	39,682	34,488	5,194
Utilities	101,970	95,831	6,139
Depreciation and amortization	1,873,300	1,969,030	(95,730)
Cash contributions to city	15,110	84,314	(69,204)
Total General Expenses	<u>2,030,062</u>	<u>2,183,663</u>	<u>(153,601)</u>
Support services	199,789	176,092	23,697
Auto and truck repair	393,031	320,564	72,467
Total support services	<u>592,820</u>	<u>496,656</u>	<u>96,164</u>
Total Operating Expenses - Electric Division	<u>\$ 53,927,464</u>	<u>\$ 54,192,557</u>	<u>\$ (265,093)</u>

See accompanying independent auditor's report

Electric & Water Plant Board of the City of Frankfort, Kentucky
Detail Schedules of Budgeted and Actual Operating Expenses -
Electric, Water and Telecommunications Divisions (Continued)
Year Ended June 30, 2015

Water Division	Budgeted	Actual	Variable Favorable (Unfavorable)
Pump maintenance	\$ 141,000	\$ 74,049	\$ 66,951
Water treatment operations	1,025,200	779,533	245,667
Water treatment maintenance	299,500	219,260	80,240
Total Water Department Expense	<u>1,465,700</u>	<u>1,072,842</u>	<u>392,858</u>
Transmission and distribution expense	1,147,300	1,292,827	(145,527)
Engineering expense	312,100	285,745	26,355
Meter reading	170,643	181,646	(11,003)
Customer records and collection	266,758	265,442	1,316
Bad debts	29,691	54,010	(24,319)
Information technology	277,623	248,961	28,662
Total Office Expenses	<u>744,715</u>	<u>750,059</u>	<u>(5,344)</u>
Advertising	4,279	4,709	(430)
Administrative expenses	356,971	418,662	(61,691)
Board expenses	2,592	2,560	32
Social security expense	225,922	235,100	(9,178)
Legal and consulting fees	92,653	129,440	(36,787)
Insurance	315,507	310,404	5,103
Total Administrative Expenses	<u>997,924</u>	<u>1,100,875</u>	<u>(102,951)</u>
Benefits	737,588	735,013	2,575
Employees welfare	1,938	29,367	(27,429)
Pension expense	559,197	536,035	23,162
Total Employee Benefits Expenses	<u>1,298,723</u>	<u>1,300,415</u>	<u>(1,692)</u>
General expenses	29,591	26,532	3,059
Utilities expense	697,958	743,555	(45,597)
Depreciation and amortization	1,920,900	1,261,733	659,167
Cash contributions to city	2,969	16,573	(13,604)
Total General Expenses	<u>2,651,418</u>	<u>2,048,393</u>	<u>603,025</u>
Support services	135,423	126,594	8,829
Auto and truck repair	206,805	217,844	(11,039)
Total support services	<u>342,228</u>	<u>344,438</u>	<u>(2,210)</u>
Total Operating Expenses - Water Division	<u><u>\$ 8,960,108</u></u>	<u><u>\$ 8,195,594</u></u>	<u><u>\$ 764,514</u></u>

See accompanying independent auditor's report

Electric & Water Plant Board of the City of Frankfort, Kentucky
Detail Schedules of Budgeted and Actual Operating Expenses -
Electric, Water and Telecommunications Divisions (Continued)
Year Ended June 30, 2015

	Budgeted	Actual	Variable Favorable (Unfavorable)
Telecommunication Division			
Cable television expense	\$ 11,445,700	\$ 11,041,835	\$ 403,865
Cable C-10 expense	793,000	790,731	2,269
Cable FSN	2,922,000	3,078,750	(156,750)
Total Cable Expenses	<u>15,160,700</u>	<u>14,911,316</u>	<u>249,384</u>
Engineering expense	157,000	124,886	32,114
Customer records and collection	698,016	697,135	881
Bad debts	69,208	125,842	(56,634)
Information technology	649,247	616,653	32,594
Total Office Expenses	<u>1,416,471</u>	<u>1,439,630</u>	<u>(23,159)</u>
Advertising	8,233	9,210	(977)
Administrative expenses	851,280	938,807	(87,527)
Board expenses	6,783	6,698	85
Social security expense	418,373	359,889	58,484
Legal and consulting fees	129,138	191,890	(62,752)
Insurance	314,129	309,049	5,080
Total Administrative Expenses	<u>1,727,936</u>	<u>1,815,543</u>	<u>(87,607)</u>
Benefits	1,350,718	1,153,258	197,460
Employees welfare	3,589	23,052	(19,463)
Pension expense	1,035,550	810,516	225,034
Total Employee Benefits Expenses	<u>2,389,857</u>	<u>1,986,826</u>	<u>403,031</u>
General expenses	112,429	79,041	33,388
Utilities expense	362,872	339,370	23,502
Depreciation and amortization	3,800,000	3,434,296	365,704
Cash contributions to city	6,921	38,614	(31,693)
Total General Expenses	<u>4,282,222</u>	<u>3,891,321</u>	<u>390,901</u>
Support services expense	329,789	318,739	11,050
Auto and truck expense	247,464	201,124	46,340
Total support services	<u>577,253</u>	<u>519,863</u>	<u>57,390</u>
Total Operating Expenses - Telecommunication Division	<u>\$ 25,711,439</u>	<u>\$ 24,689,385</u>	<u>\$ 1,022,054</u>

See accompanying independent auditor's report

Electric & Water Plant Board of the City of Frankfort, Kentucky
Comparative Schedules of Operating Expenses -
Electric, Water and Telecommunications Divisions
Years Ended June 30, 2015 and 2014

Electric Division	<u>2015</u>	<u>2014</u>
Power costs	\$ 44,535,869	\$ 45,891,757
Electric transmission	3,196	26,637
Electric distribution	2,514,618	2,456,069
Engineering expense	<u>270,038</u>	<u>252,182</u>
Total Electric Operating Expense	<u>47,323,721</u>	<u>48,626,645</u>
Meter reading	237,571	205,429
Customer records and collection	357,094	335,920
Bad debts	274,780	55,674
Information technology	<u>324,390</u>	<u>299,258</u>
Total Office Expenses	<u>1,193,835</u>	<u>896,281</u>
Advertising	5,208	7,100
Administrative expenses	584,451	486,942
Board expenses	3,433	3,487
Social security expense	249,627	231,597
Legal and consulting fees	640,722	391,271
Insurance	<u>227,720</u>	<u>234,124</u>
Total Administrative Expenses	<u>1,711,161</u>	<u>1,354,521</u>
Benefits	706,649	706,474
Employees welfare	38,643	33,262
Pension expense	<u>538,229</u>	<u>618,459</u>
Total Employee Benefits Expenses	<u>1,283,521</u>	<u>1,358,195</u>
General expenses	34,488	28,708
Utilities	95,831	80,245
Depreciation and amortization	1,969,030	1,797,203
Cash contributions to city	<u>84,314</u>	<u>15,465</u>
Total General Expenses	<u>2,183,663</u>	<u>1,921,621</u>
Support services	176,092	180,255
Auto and truck repair	<u>320,564</u>	<u>281,833</u>
Total support services	<u>496,656</u>	<u>462,088</u>
Total Operating Expenses - Electric Division	<u>\$ 54,192,557</u>	<u>\$ 54,619,351</u>

See accompanying independent auditor's report

Electric & Water Plant Board of the City of Frankfort, Kentucky
Comparative Schedules of Operating Expenses - Electric,
Water and Telecommunications Divisions (Continued)
Years Ended June 30, 2015 and 2014

Water Division	2015	2014
Pump maintenance	\$ 74,049	\$ 8,139
Water treatment operations	779,533	838,198
Water treatment maintenance	219,260	178,877
Total Water Treatment Expense	<u>1,072,842</u>	<u>1,025,214</u>
Transmission and distribution expense	1,292,827	1,425,070
Engineering expense	285,745	275,596
Meter reading	181,646	151,039
Customer records and collection	265,442	248,821
Bad debts	54,010	9,612
Information technology	248,961	216,400
Total Office Expenses	<u>750,059</u>	<u>625,872</u>
Advertising	4,709	5,675
Administrative expenses	418,662	338,467
Board expenses	2,560	2,592
Social security expense	235,100	227,005
Legal and consulting fees	129,440	71,548
Insurance	310,404	285,988
Total Administrative Expenses	<u>1,100,875</u>	<u>931,275</u>
Benefits	735,013	692,744
Employees welfare	29,367	28,337
Pension expense	536,035	612,861
Total Employee Benefits Expenses	<u>1,300,415</u>	<u>1,333,942</u>
General expenses	26,532	21,348
Utilities	743,555	715,011
Depreciation and amortization	1,261,733	1,532,252
Cash contributions to city	16,573	2,670
Total General Expenses	<u>2,048,393</u>	<u>2,271,281</u>
Support services	126,594	124,671
Auto and truck repair	217,844	270,147
Total support services	<u>344,438</u>	<u>394,818</u>
Total Operating Expenses - Water Division	<u>\$ 8,195,594</u>	<u>\$ 8,283,068</u>

See accompanying independent auditor's report

Electric & Water Plant Board of the City of Frankfort, Kentucky
Comparative Schedules of Operating Expenses - Electric,
Water and Telecommunications Divisions (Continued)
Years Ended June 30, 2015 and 2014

Telecommunications Division	2015	2014
Cable television expense	\$ 11,041,835	\$ 9,718,967
Cable C-10 Expense	790,731	768,558
Cable FSN	3,078,750	2,620,185
Total Operations and Maintenance	<u>14,911,316</u>	<u>13,107,710</u>
Cable engineering expense	<u>124,886</u>	<u>113,021</u>
Total Cable Expenses	<u>15,036,202</u>	<u>13,220,731</u>
Customer records and collection	697,135	672,982
Bad debts	125,842	24,714
Information technology	616,653	501,350
Total Office Expenses	<u>1,439,630</u>	<u>1,199,046</u>
Advertising	9,210	11,240
Administrative expenses	938,807	795,476
Board expenses	6,698	7,006
Social security expense	359,889	348,846
Legal and consulting fees	191,890	85,172
Insurance	309,049	342,858
Total Administrative Expenses	<u>1,815,543</u>	<u>1,590,598</u>
Benefits	1,153,258	1,111,184
Employees welfare	23,052	37,939
Pension expense	810,516	928,749
Total Employee Benefits Expenses	<u>1,986,826</u>	<u>2,077,872</u>
General expenses	79,041	87,604
Utilities	339,370	343,800
Depreciation and amortization	3,434,296	3,868,591
Cash contributions to city	38,614	6,865
Total General Expenses	<u>3,891,321</u>	<u>4,306,860</u>
Support services expense	318,739	316,348
Auto and truck expense	201,124	231,988
Total support services expense	<u>519,863</u>	<u>548,336</u>
Total Operating Expenses - Telecommunication Division	<u>\$ 24,689,385</u>	<u>\$ 22,943,443</u>

See accompanying independent auditor's report

Electric & Water Plant Board of the City of Frankfort, Kentucky
Required Supplemental Information
Schedule of Electric & Water Plant Board's Net Pension Liability and Related
Ratios Based on Participation in County Employees Retirement System of KRS
Fiscal Year Ending June 30

	<u>2014</u>
Total Net Pension Liability for County Employees Retirement Systems	\$ 3,244,377,000
Employer's Proportion (Percentage) of Net Pension Liability	0.49%
Employer's Proportion (Amount) of Net Pension Liability	\$ 16,041,000
Employer's Covered-Employer payroll	\$ 11,431,022
Employer's Proportionate Share (Amount) of the Net Pension Liability As a Percentage of Employer's Covered-Employer Payroll	140.33%
Total Pension Plan's Fiduciary Net Position	\$ 6,528,146,000
Total Pension's Plan Pension Liability	\$ 9,772,523,000
Total Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability	66.80%

See accompanying independent auditors report.

**Electric & Water Plant Board of the City of Frankfort, Kentucky
 Required Supplemental Information
 Schedule of Electric & Water Plant Board's Contributions Based on Participation
 in the County Employees Retirement System of KRS
 Fiscal Year Ending June 30**

	<u>2015</u>
Actuarially determined contribution	\$ 1,521,452
Contributions in relation to the actuarially determined contribution	
	<u>1,521,452</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered-employee payroll	\$ 11,992,713
Contributions as a percentage covered- employee payroll	12.69%

NOTES TO SCHEDULES RELATED TO THE COUNTY EMPLOYEES RETIREMENT SYSTEM OF KRS INFORMATION

Valuation date: Actuarially determined contribution rates for 2015 were calculated based on the June 30, 2014 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	29 years
Asset valuation	5-year smoothed market
Inflation	4.0 percent
Salary increases	4.75% - 13.0%
Investment Rate of Return	7.75 percent, net of investment expense, including inflation
Retirement age	65 years or 27 years of service regardless of age.

See accompanying independent auditors report.

**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**

Members of the Electric and Water Plant Board
Frankfort, Kentucky

We have audited, 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, the financial statements of the business-type activities of the Electric and Water Plant Board (the "Board") of the City of Frankfort, Kentucky as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements and have issued our report thereon dated October 20, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board'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 Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as 2015 - 1 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board'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 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*.

**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)**

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.

A handwritten signature in black ink, reading "Munger Chilton Muddley, LLP". The signature is written in a cursive, flowing style.

October 20, 2015
Lexington, Kentucky

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133

Members of the Electric and Water Plant Board
Frankfort, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the Electric & Water Plant Board of the City of Frankfort, Kentucky's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Electric & Water Plant Board of the City of Frankfort, Kentucky's major federal programs for the year ended June 30, 2015. The Electric & Water Plant Board of the City of Frankfort, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Electric & Water Plant Board of the City of Frankfort, Kentucky's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Electric & Water Plant Board of the City of Frankfort, Kentucky's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Electric & Water Plant Board of the City of Frankfort, Kentucky's compliance.

Opinion on Each Major Federal Program

In our opinion, the Electric & Water Plant Board of the City of Frankfort, Kentucky complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133 (Continued)

Report on Internal Control Over Compliance

Management of the Electric & Water Plant Board of the City of Frankfort, Kentucky is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Electric & Water Plant Board of the City of Frankfort, Kentucky's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Electric & Water Plant Board of the City of Frankfort, Kentucky's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



October 20, 2015
Lexington, Kentucky

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Electric & Water Plant Board of the City of Frankfort, Kentucky
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

Federal grantor / pass through grantor / cluster and/or program title	Federal CFDA number	Federal expenditures
Environmental Protection Agency		
Passed through the Kentucky Infrastructure Authority		
Capitalization Grants For Drinking Water State Revolving Funds	66.468	<u>\$ 1,968,922</u>
Total expenditure of federal awards		<u><u>\$ 1,968,922</u></u>

See accompanying notes to the schedule of expenditures of federal awards

Electric & Water Plant Board of the City of Frankfort, Kentucky
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Electric & Water Plant Board of the City of Frankfort, Kentucky and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**Electric & Water Plant Board of the City of Frankfort, Kentucky
Schedule of Findings and Questioned Cost
Year Ended June 30, 2015**

Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on the financial statements of the Board.
2. A significant deficiency was disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the Board, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs were disclosed during the audit.
5. The auditor's report on compliance for the major federal award programs for the Board expresses an unmodified opinion on all major federal programs.
6. There were no findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs included:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.468	Capitalization Grants for Drinking Water State Revolving Funds

8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Electric & Water Plant Board of the City of Frankfort, Kentucky did not qualify as a low-risk auditee.

Findings - Financial Statement Audit

2015-1

Criteria: Capital assets and depreciation are manually tracked in excel.

Condition: There are a significant number of capital assets which makes it likely that there will be errors in the schedule due to the manual calculations involved.

Cause: The Board does not utilize a software to perform capital asset and depreciation tracking.

Effect: Capital asset updates and depreciation calculations are a manual process.

Response: The Company is currently in the process of preparing to implement new Fixed Assets software in FY'16; thus, no such implementation occurred during FY'15. Although, the process has improved, Fixed Assets continued to be tracked manually during FY'15. Management expects the software implementation to be completed in FY'16.

Findings and Questioned Costs - Major Federal Award Programs

No matters were reported.

Electric & Water Plant Board of the City of Frankfort, Kentucky
Schedule of Prior Year Findings
Year Ended June 30, 2014

2014-1

Criteria: Capital assets and depreciation are manually tracked in excel.

Condition: There are a significant number of capital assets which makes it likely that there will be errors in the schedule due to the manual calculations involved.

Cause: The Board does not utilize a software to perform capital asset and depreciation tracking.

Effect: Capital asset updates and depreciation calculations are a manual process.

Response: The finding has been repeated. See 2015-1.

2014-2

Criteria: Capital asset additions should be grouped by project and clearly identified in the depreciation schedules, assets not in use should be identified and removed from depreciation schedules, projects should not be depreciated until they are placed in service and amounts under the Board's capitalization threshold should be expensed.

Condition: Capital assets are not grouped by project so assets that are no longer in use cannot be identified and removed. Individual invoices related to projects are depreciated as soon as they are purchased, rather than being grouped with the project and depreciated only when placed in service. Assets under the Board's capitalization threshold are capitalized and depreciated. Vehicles and power operated equipment meeting FPB's capitalization policy are clearly identified, depreciated, and removed from depreciation schedules when sold or removed from service.

Cause: The Board does not have appropriate procedures in place over the accounting for capital assets. Management considers this to be a common problem in the utility industry due to the complexity in identifying certain asset locations (for example, sections of electric lines or sections of water distribution lines).

Effect: Capital asset schedules may contain assets no longer in use, depreciation is taken on assets prior to being placed into service, immaterial assets that should be expensed are capitalized.

Response: The finding was resolved.