

**BARBOURVILLE UTILITY COMMISSION
COMPONENT UNIT OF
CITY OF BARBOURVILLE, KENTUCKY
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

June 30, 2015

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Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Barbourville Utility Commission
Barbourville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Barbourville Utility Commission, component unit of City of Barbourville, Kentucky, which comprise the statements of net position as of June 30, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Commission'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Barbourville Utility Commission, component unit of City of Barbourville, Kentucky, as of June 30, 2015 and 2014, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 6 to the financial statements, the Commission changed its method of accounting for recording its proportionate share of the net pension liability as required by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The change was adopted as of July 1, 2014. Our opinion is not modified with respect to that 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 7 and pension schedules on pages 24 and 25 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 Barbourville Utility Commission's basic financial statements. The information on pages 21-23 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The information on pages 21-23 and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 audits 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 information on pages 21-23 and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The information on page 26 has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2015, on our consideration of the Barbourville Utility Commission'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 Commission's internal control over financial reporting and compliance.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
October 16, 2015

**BARBOURVILLE UTILITY COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

Our discussion and analysis of the Barbourville Utility Commission's financial performance provides an overview of the Commission's financial activities for the fiscal year ended June 30, 2015. Please read it in conjunction with the Commission's financial statements, which begin on page 8.

Effective July 1, 2014, the Commission adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The statement requires the liability of employers, such as the Commission, to employees for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position. The net position of the Commission has been restated for the cumulative effect of the adoption of this statement as explained in Note 6 to the financial statements.

FINANCIAL HIGHLIGHTS

- Change in net position decreased by \$5,641,000 from a \$2,884,000 increase to a \$2,757,000 decrease.
- Total liabilities increased by 30.33% from \$11,160,000 to \$14,545,000.
- Operating revenues increased by 0.30% from \$14,962,000 to \$15,007,000.
- Non-operating revenues decreased by \$2,622,000.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, and the Statements of Cash Flows (on pages 8 to 11) provide information about the activities and results of operations for the Barbourville Utility Commission. The Statements of Net Position and Statements of Revenues, Expenses, and Changes in Net Position include all assets and liabilities of the Commission using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statements of Net Position and Statements of Revenues, Expenses, and Changes in Net Position report the Commission's net position and changes in it. Net position is the difference between assets and liabilities, which is one way to measure the Commission's financial health, or financial position. Over time, increases or decreases in the Commission's net position is one indicator of whether its financial health is improving or deteriorating.

The primary focus of the Statement of Cash Flows is to provide information about the Commission's cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides information on the sources and uses of cash and the changes in cash balances during the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The additional financial data in the annual report gives supporting detail to the primary financial statements referred to previously.

THE UTILITY COMMISSION AS A WHOLE

The Utility Commission's net position decreased by \$2,757,000 for 2015 as compared to an increase of \$2,884,000 for 2014. Our analysis below focuses on the Statements of Net Position (Table 1) and the revenues and expenses (Table 2) of the Commission's business-type activities.

Table 1
Summary of Statements of Net Position
(dollars are in thousands)

	2015	2014	Amount of Change
Current and other assets	\$ 7,712	\$ 7,305	\$ 407
Capital assets	29,401	29,213	188
Total assets	<u>\$ 37,113</u>	<u>\$ 36,518</u>	<u>\$ 595</u>
Deferred outflows of resources	<u>\$ 339</u>	<u>--</u>	<u>\$ 339</u>
Long-term liabilities	\$ 11,295	\$ 7,115	\$ 4,180
Other liabilities	3,251	4,045	(794)
Total liabilities	<u>\$ 14,546</u>	<u>\$ 11,160</u>	<u>\$ 3,386</u>
Deferred inflows of resources	<u>\$ 305</u>	<u>--</u>	<u>\$ 305</u>
Net investment in capital assets	\$ 20,473	\$ 22,026	\$ (1,553)
Unrestricted	2,128	3,332	(1,204)
Total net position	<u>\$ 22,601</u>	<u>\$ 25,358</u>	<u>\$ (2,757)</u>

Total assets increased by \$595,000, deferred outflows of resources increased \$339,000, total liabilities increased by \$3,386,000 and deferred inflows of resources increased \$305,000, resulting in a decrease in net position of \$2,757,000 for 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Table 2
Summary of Statements of Revenues, Expenses, and Changes in Net Position
(dollars are in thousands)

	2015	2014	Amount of Change
Operating revenues	\$ 15,007	\$ 14,962	\$ 45
Operating expenses:			
Direct costs	\$ 11,087	\$ 10,772	\$ 315
Administrative and general	2,003	2,006	(3)
Depreciation	1,558	1,628	(70)
Total operating expenses	\$ 14,648	\$ 14,406	\$ 242
Operating income (loss)	\$ 359	\$ 556	\$ (197)
Non-operating revenues (expenses)	(14)	2,608	(2,622)
Income before distributions	\$ 345	\$ 3,164	\$ (2,819)
Distributions	(280)	(280)	--
Change in net position	\$ 65	\$ 2,884	\$ (2,819)
Cumulative effect of adoption of new accounting principle	\$ (2,822)	\$ --	\$ (2,822)

Operating revenues increased by \$45,000 and operating expenses increased by \$242,000 resulting in a total decrease in operating income of \$197,000. Distributions to the City of Barbourville remained at \$280,000. Non-operating revenues decreased from the prior year by \$2,622,000.

Approximately \$2,041,000 was spent on new capital assets for the year ended June 30, 2015. The following is a list of the major additions for the year:

Sewer plant expansion	\$ 1,290,831
Equipment	337,664
Digital simulcast project	252,915
Property improvements	138,231
Raw water upgrade	21,396

Long-term debt consists of four items. First, the Commission signed a thirty year, \$1,291,000 agreement with the Department of the Army, Corps of Engineers for the use of water storage space in the Laurel Lake Reservoir of which \$1,102,000 is outstanding at year end. The Commission made \$25,000 of principal payments for the year ended June 30, 2015. The agreement has an interest rate of 4.625% (adjusted at five year intervals) with principal and interest payments due annually in December.

Second, the Commission signed a thirty year, \$612,000 agreement with the Department of the Army, Corps of Engineers for the use of water storage space in the Laurel Lake Reservoir of which \$544,000 is outstanding at year end. The Commission made \$12,000 of principal payments for the year ended June 30, 2015. The agreement has an interest rate of 4.125% (adjusted at five year intervals) with principal and interest payments due annually in March.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Next, the Commission signed an agreement with the Kentucky Infrastructure Authority to provide up to \$4,000,000 in funds to upgrade the raw water intake system. The loan has an interest rate of 1% and 40% of each draw will be forgiven immediately when taken. The Commission utilized \$498,000 of the loan during 2015 and \$199,000 was forgiven. No principal payments are due until the project is complete and interest is payable beginning six months after the first draw. The balance outstanding at June 30, 2015 is \$2,400,000.

Last, the Commission signed an agreement with the Kentucky Infrastructure Authority to provide up to \$6,800,000 in funds for a sewer plant expansion. The loan has an interest rate of 1%. No principal payments are due until the project is complete and interest is payable beginning six months after the first draw. The balance outstanding at June 30, 2015 is \$4,881,000.

ECONOMIC FACTORS FOR NEXT YEAR

Revenue from cable services should increase due to scheduled increases in fees charged to customers for fiscal year 2016. The primary driver for these increases are rising programming costs associated with newly completed carriage agreements through NCTC and direct through broadcast stations. There are no planned rate increases for electric, water, or sewer for fiscal year 2016.

The Utility Commission completed work on a sewer plant expansion project during fiscal year 2015. The Commission will begin paying debt service of \$285,000 per year on the principal balance of \$5.2 million of the total project estimated cost of \$6.4 million with \$1.2 million forgiven.

The Utility Commission completed work on a raw-water line upgrade project that began in early 2012. The Commission will begin paying debt service of \$132,000 per year on the principal amount of \$2.4 million of the total project cost of \$4.0 million with \$1.6 million forgiven.

Another planned project is to replace two existing water tanks with a new one at a cost of \$700,000.

The Utility Commission is planning to begin a sanitary sewer rehab project to perform repairs to the existing gravity sewer collection lines to reduce significant sources of inflow and infiltration. The total project cost is estimated to be \$3,500,000. Funding will be provided through KIA with 0.75% interest and a 20 year term. Construction is set to begin in Spring 2016.

The Utility Commission plans to upgrade internet office and equipment with expected costs of \$70,000. Also, the Commission plans to replace cable nodes and sweep and balance the cable system for approximately \$100,000. Lastly, the Commission plans to implement a digital simulcast to begin the transition to a total digital system at a total cost of \$100,000.

BARBOURVILLE UTILITY COMMISSION
COMPONENT UNIT OF CITY OF BARBOURVILLE, KENTUCKY

STATEMENTS OF NET POSITION
June 30, 2015 and 2014

	2015	2014
ASSETS		
Current assets:		
Cash (Note 2)	\$ 1,861,855	\$ 2,574,114
Accounts receivable	1,224,232	1,367,739
Parts not in service	477,330	517,455
Total current assets	\$ 3,563,417	\$ 4,459,308
Restricted assets:		
Customers' deposits, certificates of deposit (Note 2)	\$ 853,751	\$ 830,402
Total restricted assets	\$ 853,751	\$ 830,402
Non-current assets:		
Investments, certificates of deposit (Notes 2 and 5)	\$ 1,991,675	\$ 2,015,024
Cash designated for purchase of investments, certificates of deposit	1,303,606	--
Capital assets (Notes 3 and 5)		
Land, water rights, and other non-depreciated assets	3,222,643	3,247,230
Utility plant and equipment, net of depreciation	26,177,874	25,966,537
Total non-current assets	\$ 32,695,798	\$ 31,228,791
Total assets	\$ 37,112,966	\$ 36,518,501
DEFERRED OUTFLOWS OF RESOURCES		
Pension plan contributions (Note 6)	\$ 338,579	\$ --
LIABILITIES		
Current liabilities:		
Current maturities of long-term debt (Note 5)	\$ 368,653	\$ 36,422
Accounts payable and accrued expenses	1,994,406	3,144,065
Accrued interest payable	33,556	34,329
Total current liabilities	\$ 2,396,615	\$ 3,214,816
Liabilities payable from restricted assets:		
Customers' deposits	\$ 853,751	\$ 830,402
Total liabilities payable from restricted assets	\$ 853,751	\$ 830,402
Non-current liabilities:		
Long-term debt, less current maturities (Note 5)	\$ 8,558,849	\$ 7,115,204
Net pension liability (Note 6)	2,736,000	--
Total non-current liabilities	\$ 11,294,849	\$ 7,115,204
Total liabilities	\$ 14,545,215	\$ 11,160,422
DEFERRED INFLOWS OF RESOURCES		
Differences on earnings of pension plan investments (Note 6)	\$ 305,000	\$ --
NET POSITION		
Net investment in capital assets	\$ 20,473,015	\$ 22,025,720
Unrestricted	2,128,315	3,332,359
Total net position	\$ 22,601,330	\$ 25,358,079

The Notes to Financial Statements are an integral part of these statements.

**BARBOURVILLE UTILITY COMMISSION
COMPONENT UNIT OF CITY OF BARBOURVILLE, KENTUCKY**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Years Ended June 30, 2015 and 2014**

	2015	2014
OPERATING REVENUES		
Charges for services	\$ 14,504,113	\$ 14,394,515
Penalties	223,269	224,558
Other operating revenues	279,557	342,440
Total operating revenues	\$ 15,006,939	\$ 14,961,513
OPERATING EXPENSES		
Direct expenses	\$ 11,086,822	\$ 10,772,068
Administrative and general	2,003,174	2,005,387
Depreciation	1,557,829	1,627,710
Total operating expenses	\$ 14,647,825	\$ 14,405,165
Operating income	\$ 359,114	\$ 556,348
NON-OPERATING REVENUES (EXPENSES)		
Investment income	\$ 30,919	\$ 34,756
Grant income (Note 8)	181,085	854,610
Rental income	34,531	36,571
Gain (loss) on sale of assets	(296,458)	22,152
Interest on long-term debt	(74,218)	(75,809)
Forgiveness of debt (Note 5)	199,221	1,778,852
Other (expenses)	(88,943)	(43,306)
Total non-operating revenues (expenses)	\$ (13,863)	\$ 2,607,826
Income before distributions	\$ 345,251	\$ 3,164,174
Distributions to City of Barbourville (Note 7)	(280,000)	(280,000)
Change in net position	\$ 65,251	\$ 2,884,174
Net position, beginning of year, as previously stated	25,358,079	22,473,905
Restatement due to adoption of GASB 68 and 71 (Note 6)	(2,822,000)	--
Net position, beginning of year, as restated	22,536,079	22,473,905
Net position, end of year	\$ 22,601,330	\$ 25,358,079

The Notes to Financial Statements are an integral part of these statements.

**BARBOURVILLE UTILITY COMMISSION
COMPONENT UNIT OF CITY OF BARBOURVILLE, KENTUCKY**

**STATEMENTS OF CASH FLOWS
Years Ended June 30, 2015 and 2014**

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 14,684,663	\$ 14,441,126
Cash payments to suppliers for goods and services	(11,655,213)	(9,315,706)
Cash payments to employees for services	(2,477,668)	(2,567,051)
Other operating revenues	279,557	342,440
Net cash provided by operating activities	\$ 831,339	\$ 2,900,809
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Distributions (to) City of Barbourville	\$ (280,000)	\$ (280,000)
Increase in customers' deposits, net	23,349	30,139
Net cash (used in) non-capital financing activities	\$ (256,651)	\$ (249,861)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from loan from governmental agency	\$ 2,011,520	\$ 6,015,035
Principal paid on loan from governmental agency	(36,420)	(34,866)
Interest paid on loan from governmental agency	(74,991)	(76,549)
Cash received from construction project grants	181,085	854,610
Proceeds from the sale of assets	--	22,152
Acquisition and construction of capital assets	(2,041,041)	(9,259,947)
Net cash provided by (used in) capital and related financing activities	\$ 40,153	\$ (2,479,565)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	\$ 30,919	\$ 34,756
Proceeds from sale of investments	--	640,001
Cash designated for purchase of investments	(1,303,606)	--
Other (expenses)	(54,413)	(6,735)
Net cash provided by (used in) investing activities	\$ (1,327,100)	\$ 668,022
Net increase (decrease) in cash	\$ (712,259)	\$ 839,405
CASH		
Beginning	2,574,114	1,734,709
Ending	\$ 1,861,855	\$ 2,574,114

The Notes to Financial Statements are an integral part of these statements.

**BARBOURVILLE UTILITY COMMISSION
COMPONENT UNIT OF CITY OF BARBOURVILLE, KENTUCKY**

**STATEMENTS OF CASH FLOWS (Continued)
Years Ended June 30, 2015 and 2014**

	2015	2014
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 359,114	\$ 556,348
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	\$ 1,557,829	\$ 1,627,710
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	143,507	(108,903)
Decrease in parts not in service	40,125	30,124
Increase (decrease) in accounts payable and accrued expenses	(1,149,657)	795,530
Deferred outflows of resources		
(Decrease) in net pension liability	(451,475)	--
Decrease in deferred outflows	26,896	--
Increase in deferred inflows	305,000	--
Total adjustments	\$ 472,225	\$ 2,344,461
Net cash provided by operating activities	\$ 831,339	\$ 2,900,809

The Notes to Financial Statements are an integral part of these statements.

**BARBOURVILLE UTILITY COMMISSION
COMPONENT UNIT OF CITY OF BARBOURVILLE, KENTUCKY**

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

Nature of operations

Barbourville Utility Commission (the Commission) is a component unit of the City of Barbourville, Kentucky. The Commission administers the operations formerly provided by the Barbourville Water and Electric Company and Barbourville CATV. The Commission is self-supporting and renders water, electric, sewer, cable, internet and flood wall services to local residents.

Basis of presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Principal operating revenues are charges to customers for utility services and principal operating expenses are the costs of providing such services, including administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements. Net position is segregated into net investment in capital assets, and unrestricted net position. The Commission applies all relevant GASB pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless they conflict with the GASB pronouncements. The financial statements present only the Barbourville Utility Commission and are not intended to present fairly the financial position of the City of Barbourville, Kentucky and the results of its operations and its cash flows of its proprietary and similar trust fund types in conformity with accounting principles generally accepted in the United States of America.

Accounts receivable

Accounts receivable are stated at face amount with no allowance for doubtful accounts. An allowance for doubtful accounts is not considered necessary because probable uncollectible accounts are immaterial.

Parts not in service

Parts not in service represents inventories of expendable supplies which are stated at lower of cost or market on a first-in, first-out basis. They are reported at cost and are recorded as expenditures at the time individual inventory items are used.

Restricted assets

Certain assets of the Commission are classified as restricted assets. They are restricted to fund customers' deposits.

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Investments

Investments consist of certificates of deposit and are carried at cost which approximates fair value, as determined by quoted prices for similar certificates of deposit in active markets.

Capital assets and depreciation

Utility plant and equipment with useful lives of more than one year are stated at cost, less accumulated depreciation. Equipment purchased with a cost greater than \$1,000 is capitalized. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events

Management has evaluated subsequent events through October 16, 2015, the date the financial statements were available to be issued.

Note 2. Cash and Investments

Custodial credit risk for deposits and investments is the risk that, in the event of failure by a financial institution, the Commission may not be able to recover the value of its deposits and investments or collateral securities that are in the possession of the financial institution.

At June 30, 2015, the book balance of the Commission's cash and investments was \$6,010,887, which consisted of \$1,861,855 in cash, \$2,845,426 in certificates of deposit, and an additional \$1,303,606 in cash designated by the Commission for the purchase of certificates of deposit subsequent to year-end. The entire bank balances were covered by federal depository insurance or by collateralized U.S. government agency and local government agency securities held by the Commission's agent in the Commission's name.

NOTES TO FINANCIAL STATEMENTS

Note 3. Capital Assets

The following table provides a summary of changes in capital assets:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capital assets not being depreciated:				
Land:				
Electric	\$ 6,864	\$ --	\$ --	\$ 6,864
Water	1,206,827	--	9,960	1,196,867
Sewer	129,930	--	14,627	115,303
Water Rights	1,903,609	--	--	1,903,609
Total capital assets not being depreciated	<u>\$ 3,247,230</u>	<u>\$ --</u>	<u>\$ 24,587</u>	<u>\$ 3,222,643</u>
Other capital assets:				
Plant:				
Electric	\$ 1,142,905	\$ --	\$ 157,007	\$ 985,898
Water	13,885,169	129,381	151,500	13,863,050
Sewer	10,106,285	1,290,829	80,011	11,317,103
Total plant	<u>\$ 25,134,359</u>	<u>\$ 1,420,210</u>	<u>\$ 388,518</u>	<u>\$ 26,166,051</u>
Equipment:				
Electric	\$ 2,788,109	\$ --	\$ 120,239	\$ 2,667,870
Water	12,632,835	133,404	171,792	12,594,447
Sewer	1,240,559	3,308	90,180	1,153,687
Cable	3,919,713	368,630	253,902	4,034,441
Joint facilities	4,120,025	115,484	192,005	4,043,504
Total equipment	<u>\$ 24,701,241</u>	<u>\$ 620,826</u>	<u>\$ 828,118</u>	<u>\$ 24,493,949</u>
Total other capital assets	<u>\$ 49,835,600</u>	<u>\$ 2,041,036</u>	<u>\$ 1,216,636</u>	<u>\$ 50,660,000</u>
Less accumulated depreciation for:				
Plant:				
Electric	\$ 822,219	\$ 32,479	\$ 89,751	\$ 764,947
Water	7,435,694	329,543	130,663	7,634,574
Sewer	2,726,741	114,203	72,235	2,768,709
Total plant	<u>\$ 10,984,654</u>	<u>\$ 476,225</u>	<u>\$ 292,649</u>	<u>\$ 11,168,230</u>
Equipment:				
Electric	\$ 2,092,784	\$ 55,720	\$ 87,077	\$ 2,061,427
Water	3,518,328	531,944	101,855	3,948,417
Sewer	1,040,094	27,073	64,714	1,002,453
Cable	3,446,015	211,709	233,716	3,424,008
Joint facilities	2,787,188	255,158	164,755	2,877,591
Total equipment	<u>\$ 12,884,409</u>	<u>\$ 1,081,604</u>	<u>\$ 652,117</u>	<u>\$ 13,313,896</u>
Total accumulated depreciation	<u>\$ 23,869,063</u>	<u>\$ 1,557,829</u>	<u>\$ 944,766</u>	<u>\$ 24,482,126</u>
Other capital assets, net	<u>\$ 25,966,537</u>			<u>\$ 26,177,874</u>
Capital assets, net	<u>\$ 29,213,767</u>			<u>\$ 29,400,517</u>

NOTES TO FINANCIAL STATEMENTS

Note 3. Capital Assets (Continued)

Included in current year capital additions is capitalized interest expense for both the raw water upgrade and sewer plant expansion. An additional \$10,729 for the sewer plant and \$17,799 for the raw water upgrade was capitalized.

Depreciation expense is computed by the straight-line method over the estimated useful lives of the assets. The range of useful lives and depreciation expense by utility is as follows:

	Range of Useful Lives	Depreciation Expense For The Year Ended	
		2015	2014
Electric	10-33 years	\$ 88,199	\$ 93,518
Water	5-50 years	861,487	837,032
Sewer	5-50 years	141,276	185,967
Cable	7 years	211,709	246,055
Joint facilities	4-10 years	255,158	265,138
		<u>\$ 1,557,829</u>	<u>\$ 1,627,710</u>

Note 4. Self-Insurance Program

The Commission is exposed to specific individual losses for employee health claims up to \$35,000 per incident. The Commission limits its losses through the use of stop-loss policies from re-insurers. The claims expense related to the self-insurance program was \$439,581 and \$496,473 for the years ended June 30, 2015 and 2014, respectively.

Note 5. Long-Term Debt

Changes in long-term debt for the year ended June 30, 2015 were as follows:

Description	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015	Due Within One Year
Note Payable (A)	\$ 1,126,595	\$ --	\$ 24,831	\$ 1,101,764	\$ 25,978
Note Payable (B)	555,961	--	11,591	544,370	12,070
Note Payable (C)	2,101,166	498,055	199,221	2,400,000	108,970
Note Payable (D)	3,367,904	1,513,464	--	4,881,368	221,635
	<u>\$ 7,151,626</u>	<u>\$ 2,011,519</u>	<u>\$ 235,643</u>	<u>\$ 8,927,502</u>	<u>\$ 368,653</u>

(A) On November 5, 2009, an agreement was made with the Department of the Army, Corps of Engineers for the use of water storage space in the Laurel Lake Reservoir. In consideration of this right, the Commission signed a note in the amount of \$1,291,299, with an interest rate of 4.625% adjusted at five-year intervals throughout the (30) thirty year repayment period, beginning December 2009. Principal and interest payments are payable annually on December 1.

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (continued)

- (B) On December 21, 2011, an agreement was made with the Department of the Army, Corps of Engineers for the use of water storage space in the Laurel Lake Reservoir. In consideration of this right, the Commission signed a note in the amount of \$612,310, with an interest rate of 4.125% adjusted at five-year intervals throughout the (30) thirty year repayment period, beginning March 2012. Principal and interest payments are payable annually on March 1.
- (C) On February 1, 2012, an agreement was made with the Kentucky Infrastructure Authority to borrow up to \$4,000,000 to upgrade the raw water intake system at an interest rate of 1%. Interest payments are due beginning six months after the first construction draw with principal due once the project is complete. In addition, 40% of each draw is forgiven at the time of request. The Commission utilized \$498,055 of the loan during the year ended June 30, 2015 and 40% was forgiven at the time of draw resulting in \$199,221 in debt forgiveness during the year.
- (D) On November 2, 2012, an agreement was made with the Kentucky Infrastructure Authority to borrow up to \$6,800,000 to expand the sewer plant at an interest rate of 1%. Interest payments are due on June 1 or December 1 immediately succeeding the date of the initial draw of funds. The Commission utilized \$1,513,464 of the loan during the year ended June 30, 2015. The maximum amount of \$1,200,000 was forgiven during the year ended June 30, 2014.

Aggregate maturities on principal payments required under these obligations for each of the succeeding five years are as follows:

Due Fiscal Year Ending June 30,	Amount
2016	\$ 368,653
2017	373,668
2018	378,790
2019	384,026
2020	389,379
2021-2025	2,031,583
2026-2030	2,185,515
2031-2035	2,359,600
2036-2040	423,129
2041-2045	33,159
	\$ 8,927,502

NOTES TO FINANCIAL STATEMENTS

Note 6. Retirement Plan

New Accounting Principle

Effective July 1, 2014, the Commission adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The statement requires the liability of employers, such as the Commission, to employees for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position. Net position of the Commission has been restated for the cumulative effect of the adoption of this statement as follows:

Net pension liability as of July 1, 2014	\$ (3,187,475)
Deferred outflows - Commission's 2014 pension contributions	<u>365,475</u>
Cumulative effect of adoption	<u><u>\$ (2,822,000)</u></u>

Plan Description: Effective January 1, 2000, the Barbourville Utility Commission elected to participate in the County Employees Retirement System (CERS), pursuant to Kentucky Revised Statute 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. All covered employees of the Commission are considered nonhazardous duty employees. Benefit contributions and provisions are established by statute. Historical trend information showing CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at 502-696-8800.

Benefits Provided: Benefits fully vest upon reaching five years of service. Aspects of benefits include retirement after 27 years of service or age 65. Employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Contributions: Covered employees are required to contribute 5.00% of their salary to the plan. Employees who begin participation on or after September 1, 2008 are required to contribute 6.00% of their salary to the plan. The Commission's contribution rate was 17.67%, 18.89%, and 19.55% for the years ended June 30, 2015, 2014 and 2013, respectively. The Commission made contributions to the plan in the amount of \$338,579, \$365,104 and \$367,637 for the years ended June 30, 2015, 2014 and 2013, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At June 30, 2015, the Commission reported a liability of \$2,736,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

NOTES TO FINANCIAL STATEMENTS

Note 6. Retirement Plan (Continued)

The Commission's proportion of the net pension liability was based on a projection of the Commission's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2014, the Commission's proportion was 0.084% for nonhazardous covered employees.

Pension expense totaled \$219,000 for the year ended June 30, 2015. As of June 30, 2015, the Commission had deferred outflows and inflows of resources related to its pension plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ --	\$ 305,000
Commission contributions subsequent to the measurement date	338,579	--
	\$ 338,579	\$ 305,000

The Commission's deferred outflows of resources totaling \$338,579 will be recognized as a reduction of the net pension liability during the year ending June 30, 2016. Amounts reported as deferred inflows of resources as of June 30, 2015 will be recognized into pension expense as follows:

Year Ending June 30:

2016	\$ 61,000
2017	61,000
2018	61,000
2019	61,000
2020	61,000
	\$ 305,000

Actuarial assumptions: The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to years included in the measurement:

Inflation:	3.5%	
Salary increases:	4.5%, average, including inflation	
Investment rate of return:	7.75%, net of pension plan investment expense, including inflation	

The rates of mortality for the year 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 Mortality Table for all 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 valuation were based on the results of an actuarial experience study for the period from July 1, 2005 through June 30, 2008.

NOTES TO FINANCIAL STATEMENTS

Note 6. Retirement Plan (Continued)

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	30%	8.45%
International Equity	22%	8.85%
Emerging Market Equity	5%	10.50%
Private Equity	7%	11.25%
Real Estate	5%	7.00%
Core US Fixed Income	10%	5.25%
High Yield US Fixed Income	5%	7.25%
Non US Fixed Income	5%	5.50%
Commodities	5%	7.75%
TIPS	5%	5.00%
Cash	1%	3.25%
	<u>100%</u>	

Discount rate: The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Commission's proportionate share of the net pension liability to changes in the discount rate: The following presents the Commission's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease - 6.75%	Current Discount Rate - 7.75%	1% Increase - 8.75%
Net Pension Liability - Nonhazardous	<u>\$ 3,600,541</u>	<u>\$ 2,736,000</u>	<u>\$ 1,972,370</u>

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued KRS financial report.

NOTES TO FINANCIAL STATEMENTS

Note 7. Distributions - City of Barbourville

The Barbourville Utility Commission is a component unit of the City of Barbourville and any excess monies available may be requested by the City for its general use.

The Commission distributed the following to the City for the years ended June 30, 2015 and 2014:

	Year Ended June 30,	
	2015	2014
Distributions to City of Barbourville	\$ 280,000	\$ 280,000

Note 8. Grant Income

The Commission recorded the following grant income for the years ended June 30, 2015 and 2014:

	Year Ended June 30,	
	2015	2014
Kentucky Infrastructure Authority	\$ 181,085	\$ 470,732
Kentucky Department of Transportation	-	383,878
	\$ 181,085	\$ 854,610

All

grant income from the Kentucky Infrastructure Authority was used for water line improvements and sewer plant expansion. The Kentucky Department of Transportation grant was used to help develop the industrial park.

Note 9. Subsequent Event

Subsequent to June 30, 2015, the Commission received two separate refunds from Kentucky Utilities related to Rate and Construction Work in Process settlements in the amount of \$203,400 and \$211,448, respectively. These amounts will be recognized in fiscal year 2016.

**BARBOURVILLE UTILITY COMMISSION
COMPONENT UNIT OF CITY OF BARBOURVILLE, KENTUCKY**

**SCHEDULE OF SELECTED ASSETS AND LIABILITIES
June 30, 2015**

	June 30, 2015
CASH	
On hand, petty cash and change fund maintained by imprest system	\$ 31,722
In bank, PNC Bank:	
Demand deposits	188,044
In bank, Commercial Bank:	
Demand deposits	1,642,089
	\$ 1,861,855

INVESTMENTS, CERTIFICATES OF DEPOSIT

Commercial: Cert. No.	Maturity Date	Interest Rate	June 30, 2015	
150007056	08/29/2015	0.75%	825,000	
150007057	08/29/2015	0.75%	1,095,000	
150022388	08/29/2015	0.75%	925,426	\$ 2,845,426

Less, amounts included as restricted assets:

Customer deposits	(853,751)
	\$ 1,991,675

ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Trade account, Kentucky Utilities Company (May and June 2015)	\$ 980,647
Other trade accounts	832,805
Accrued payroll taxes and benefits	48,437
Accrued vacation pay	132,517
	\$ 1,994,406

The amount due to Kentucky Utilities Company is for unbilled power purchased for May and June 2015.

CUSTOMERS' DEPOSITS

Electric customers	\$ 602,178
Water customers	251,573
	\$ 853,751

**BARBOURVILLE UTILITY COMMISSION
COMPONENT UNIT OF CITY OF BARBOURVILLE, KENTUCKY**

**SCHEDULE OF OPERATING INCOME DETAIL
Year Ended June 30, 2015**

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>
OPERATING REVENUES			
Charges for services	\$ 7,946,225	\$ 2,649,264	\$ 1,262,639
Penalties	44,654	44,654	44,654
Other operating revenues	48,428	80,028	30,901
Total operating revenues	<u>\$ 8,039,307</u>	<u>\$ 2,773,946</u>	<u>\$ 1,338,194</u>
OPERATING EXPENSES			
Direct expenses:			
Production costs:			
Purchased services	\$ 6,164,592	\$ --	\$ --
Supplies and expenses	1,778	333,759	178,664
Distribution costs:			
Salaries	492,392	660,541	221,670
Transportation	34,107	39,452	15,053
Maintenance	275,154	371,583	241,397
	<u>\$ 6,968,023</u>	<u>\$ 1,405,335</u>	<u>\$ 656,784</u>
Administrative and general expenses:			
Salaries:			
Office	\$ 69,884	\$ 73,151	\$ 67,810
Commissioners	1,440	1,440	1,440
Deferred compensation	88,514	73,024	28,767
Office supplies and expenses	42,226	36,311	37,795
Insurance	323,800	267,025	105,228
Payroll taxes	39,888	53,925	21,494
Professional fees	80,377	7,696	7,571
Bad debts, net of recoveries	184,164	--	--
Customer deposit interest	81	20	--
	<u>\$ 830,374</u>	<u>\$ 512,592</u>	<u>\$ 270,105</u>
Depreciation	<u>\$ 184,666</u>	<u>\$ 684,874</u>	<u>\$ 484,731</u>
Total operating expenses	<u>\$ 7,983,063</u>	<u>\$ 2,602,801</u>	<u>\$ 1,411,620</u>
Operating income (loss)	<u>\$ 56,244</u>	<u>\$ 171,145</u>	<u>\$ (73,426)</u>

Cable TV & Internet	2015
\$ 2,645,985	\$ 14,504,113
89,307	223,269
120,200	279,557
<u>\$ 2,855,492</u>	<u>\$ 15,006,939</u>
\$ 1,384,781	\$ 7,549,373
196,627	710,828
313,742	1,688,345
26,776	115,388
134,754	1,022,888
<u>\$ 2,056,680</u>	<u>\$ 11,086,822</u>
\$ 106,067	\$ 316,912
2,880	7,200
30,979	221,284
80,310	196,642
113,378	809,431
30,570	145,877
25,919	121,563
--	184,164
--	101
<u>\$ 390,103</u>	<u>\$ 2,003,174</u>
\$ 203,558	\$ 1,557,829
\$ 2,650,341	\$ 14,647,825
<u>\$ 205,151</u>	<u>\$ 359,114</u>

**BARBOURVILLE UTILITY COMMISSION
COMPONENT UNIT OF CITY OF BARBOURVILLE, KENTUCKY**

**SCHEDULE OF OPERATING INCOME DETAIL
Year Ended June 30, 2014**

	Electric	Water	Sewer
OPERATING REVENUES			
Charges for services	\$ 8,277,699	\$ 2,563,317	\$ 1,076,115
Penalties	44,912	44,911	44,912
Other operating revenues	84,045	88,363	30,644
Total operating revenues	\$ 8,406,656	\$ 2,696,591	\$ 1,151,671
 OPERATING EXPENSES			
Direct expenses:			
Production costs:			
Purchased services	\$ 6,299,920	\$ --	\$ --
Supplies and expenses	1,676	359,843	115,398
Distribution costs:			
Salaries	467,795	664,364	244,846
Transportation	46,170	32,045	14,260
Maintenance	208,153	237,044	150,953
	\$ 7,023,714	\$ 1,293,296	\$ 525,457
 Administrative and general expenses:			
Salaries:			
Office	\$ 71,563	\$ 71,548	\$ 67,419
Commissioners	1,440	1,440	1,440
Deferred compensation	146,042	120,484	47,463
Office supplies and expenses	39,439	36,449	35,157
Insurance	328,885	271,368	106,795
Payroll taxes	38,818	53,559	22,666
Professional fees	50,518	7,601	7,326
Bad debts, net of recoveries	83,696	--	--
Customer deposit interest	64	15	--
	\$ 760,465	\$ 562,464	\$ 288,266
 Depreciation	\$ 146,849	\$ 802,095	\$ 440,862
Total operating expenses	\$ 7,931,028	\$ 2,657,855	\$ 1,254,585
Operating income (loss)	\$ 475,628	\$ 38,736	\$ (102,914)

Cable TV & Internet	2014
\$ 2,477,384	\$ 14,394,515
89,823	224,558
139,388	342,440
<u>\$ 2,706,595</u>	<u>\$ 14,961,513</u>

\$ 1,192,317	\$ 7,492,237
245,871	722,788
318,391	1,695,396
44,294	136,769
128,728	724,878
<u>\$ 1,929,601</u>	<u>\$ 10,772,068</u>

\$ 103,344	\$ 313,874
2,880	7,200
51,115	365,104
72,569	183,614
115,010	822,058
31,266	146,309
18,008	83,453
--	83,696
--	79
<u>\$ 394,192</u>	<u>\$ 2,005,387</u>

<u>\$ 237,904</u>	<u>\$ 1,627,710</u>
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<u>\$ 2,561,697</u>	<u>\$ 14,405,165</u>
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<u><u>\$ 144,898</u></u>	<u><u>\$ 556,348</u></u>
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**BARBOURVILLE UTILITY COMMISSION
COMPONENT UNIT OF CITY OF BARBOURVILLE, KENTUCKY**

SCHEDULE OF COMMISSION'S PROPORTIONATE SHARE OF NET PENSION LIABILITY

	<u>2014</u>
NONHAZARDOUS	
Commission's proportion of net pension liability	0.084%
Commission's proportionate share of the net pension liability	\$ 2,736,000
Commission's covered-employee payroll	\$ 1,920,397
Commission's proportionate share of the net pension liability as a percentage of its employee-covered payroll	142.47%
Plan Fiduciary net position as a percentage of the total pension liability	66.80%

**BARBOURVILLE UTILITY COMMISSION
COMPONENT UNIT OF CITY OF BARBOURVILLE, KENTUCKY**

SCHEDULE OF COMMISSION CONTRIBUTIONS

	<u>2015</u>
NONHAZARDOUS	
Contractually required contribution	\$ 339,334
Contributions in relation to the contractually required contribution	<u>(339,334)</u>
Contribution deficiency (excess)	<u>\$ - -</u>
Commission's covered employee-payroll	\$ 1,920,397
Contributions as a percentage of covered-employee payroll	17.67%

**BARBOURVILLE UTILITY COMMISSION
COMPONENT UNIT OF CITY OF BARBOURVILLE, KENTUCKY**

**STATISTICAL DATA
(Unaudited)**

During the years ended June 30, 2015 and 2014, the system handled the following volume of services:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Electric kilowatt hours purchased	<u>95,064,000</u>	<u>96,888,000</u>
Water, number of gallons sold and or used by the Commission	<u>369,547,200</u>	<u>377,729,600</u>

**BARBOURVILLE UTILITY COMMISSION
 COMPONENT UNIT OF CITY OF BARBOURVILLE, KENTUCKY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2015**

Federal Grantor / Pass-Through Grantor / Program Title	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Environmental Protection Agency:			
Passed through the Kentucky Infrastructure Authority:			
Capitalization Grants for Clean Water State Revolving Funds	66.458	A12-09	<u>\$ 534,830</u>
Total Expenditures of Federal Awards			<u><u>\$ 534,830</u></u>

See accompanying note to schedule of expenditures of federal awards.

**BARBOURVILLE UTILITY COMMISSION
COMPONENT UNIT OF CITY OF BARBOURVILLE, KENTUCKY**

**NOTE TO 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 the Barbourville Utility Commission, component unit of City of Barbourville, 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*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note B. Subrecipients

There were no payments made to subrecipients for federal awards during the year ended June 30, 2015.



Jones, Nale & Mattingly PLC

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Commissioners
Barbourville Utility Commission
Barbourville, 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 Barbourville Utility Commission, a component unit of City of Barbourville, Kentucky, as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated October 16, 2015.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies (2015-001 and 2015-002).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Barbourville Utility Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Barbourville Utility Commission's Response to Findings

Barbourville Utility Commission's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Barbourville Utility Commission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jones, Nale & Mattingly PC

Louisville, Kentucky
October 16, 2015



Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Commissioners
Barbourville Utility Commission
Barbourville, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Barbourville Utility Commission'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 Barbourville Utility Commission's major federal programs for the year ended June 30, 2015. Barbourville Utility Commission'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 Barbourville Utility Commission'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 Barbourville Utility Commission'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 Barbourville Utility Commission's compliance.

Opinion on Each Major Federal Program

In our opinion, Barbourville Utility Commission, 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.

Report on Internal Control Over Compliance

Management of Barbourville Utility Commission 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 Barbourville Utility Commission'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 Barbourville Utility Commission'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.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
October 16, 2015

**BARBOURVILLE UTILITY COMMISSION
COMPONENT UNIT OF CITY OF BARBOURVILLE, KENTUCKY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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 Barbourville Utility Commission, component unit of the City of Barbourville, Kentucky.
2. Two significant deficiencies relating to the audit of the financial statements are reported in the **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.**
3. No instances of noncompliance material to the financial statements of the Barbourville Utility Commission were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133.**
5. The auditor's report on compliance for the major federal award program expresses an unmodified opinion.
6. There are no audit findings relative to the major federal award programs 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:

Capitalization Grants for Clean Water State Revolving Funds: CFDA No. 66.458
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Barbourville Utility Commission, component unit of the City of Barbourville, Kentucky, qualified as a low-risk auditee.

**BARBOURVILLE UTILITY COMMISSION
COMPONENT UNIT OF CITY OF BARBOURVILLE, KENTUCKY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2015**

FINDINGS—FINANCIAL STATEMENTS AUDIT

2015-001 Parts Not in Service

Criteria: Internal controls over parts not in service include controls over purchasing, valuing, storing, and using spare parts.

Condition: We noted that individuals purchase cable parts and use cable parts without any tracking.

Cause: Management has not implemented procedures to track all cable spare parts purchased, added to inventory, or removed from inventory.

Effect: Parts not in service shown in the financial records during the year are not an accurate reflection of the total value of parts available; however, all parts not in service are subject to an inventory count to determine inventory balances at year-end.

Recommendation: We recommend that all parts be ordered or purchased only by authorized individuals and that an authorized individual be responsible for adding and removing parts to storage.

Response: An individual currently oversees the purchasing, storage and issuance of parts for four of the five departments. This individual will assume oversight for all 5 departments, including cable, in the coming year.

2015-002 Accounts Receivable Subsidiary Ledger Reconciliation

Criteria: A system of internal controls includes controls to reconcile subsidiary accounts receivable ledger to the general ledger monthly.

Condition: We noted that subsidiary ledger is not reconciled monthly.

Cause: Management has opted to reconcile subsidiary ledger as needed.

Effect: Year-end reconciliation of the subsidiary ledger did not match the general ledger.

Recommendation: We recommend that the subsidiary ledger be reconciled monthly for accounts receivable.

Response: The Commission's management has advised us that they will begin reconciling the accounts receivable subsidiary ledger to the general ledger monthly.

FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAM AUDIT

None

**BARBOURVILLE UTILITY COMMISSION
COMPONENT UNIT OF CITY OF BARBOURVILLE, KENTUCKY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2014**

FINDINGS—FINANCIAL STATEMENTS AUDIT

2014-001 Financial Reporting

Criteria: A system of internal control over financial reporting includes controls over financial statement preparation, including footnote disclosures.

Condition: The Commission does not have a person with the complete knowledge to prepare the annual financial statements that include all the disclosures required by generally accepted accounting principles.

Cause: The Commission does not employ someone with the level of knowledge and training to prepare annual financial statements to include footnote disclosures.

Effect: The annual financial statements are prepared by management with assistance from their auditors.

Recommendation: To mitigate this finding the Commission would have to employ a person with this level of expertise.

Response: The Commission's management has advised us that they do not believe that the benefit of employing this level of expertise warrants the associated costs.

2014-002 Parts Not in Service

Criteria: Internal controls over parts not in service include controls over purchasing, valuing, storing, and using spare parts.

Condition: We noted that individuals purchase parts and use parts without any tracking.

Cause: Management has not implemented procedures to track all spare parts purchased, added to inventory, or removed from inventory.

Effect: Parts not in service shown in the financial records during the year are not an accurate reflection of the total value of parts available; however, all parts not in service are subject to an inventory count to determine inventory balances at year-end.

Recommendation: We recommend that all parts be ordered or purchased only by authorized individuals and that an authorized individual be responsible for adding and removing parts to storage.

Response: An individual currently oversees the purchasing, storage and issuance of parts for three of the five departments. This individual will assume oversight for all 5 departments in the coming year.

FINDINGS—FINANCIAL STATEMENTS AUDIT (Continued)

2014-003 Subsidiary Ledger Reconciliation

Criteria: A system of internal controls includes controls to reconcile subsidiary accounts payable and accounts receivable ledgers to the general ledger monthly.

Condition: We noted that subsidiary ledgers are not reconciled monthly.

Cause: Management has opted to reconcile subsidiary ledgers as needed.

Effect: Year-end reconciliations of the subsidiary ledgers did not match the general ledger.

Recommendation: We recommend that subsidiary ledgers be reconciled monthly for accounts payable and accounts receivable.

Response: The Commission's management has advised us that they will begin reconciling the accounts receivable and accounts payable subsidiary ledgers to the general ledger monthly.

FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAM AUDIT

None