

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

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**June 30, 2017**

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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, 2017 and 2016, 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 Barbourville Utility 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, 2017 and 2016, 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.

## **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 the purposes of additional analysis and is not a required part of the basic financial statements. The information on pages 21-23 is the responsibility of management and was 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 is 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 December 29, 2017, 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 Barbourville Utility Commission's internal control over financial reporting and compliance.

*Jones, Nale & Mattingly* PC

Louisville, Kentucky  
December 29, 2017

**BARBOURVILLE UTILITY COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2017**

Our discussion and analysis of the Barbourville Utility Commission's (the Commission) financial performance provides an overview of the Commission's financial activities for the fiscal year ended June 30, 2017. Please read it in conjunction with the Commission's financial statements, which begin on page 8.

**FINANCIAL HIGHLIGHTS**

- Change in net position decreased by \$70,025 from a \$112,780 increase to a \$42,755 increase.
- Total liabilities increased by 10.39% from \$15,107,000 to \$16,676,000.
- Operating revenues increased by 1.47% from \$15,447,000 to \$15,675,000.
- Non-operating revenues increased by \$224,432.

**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 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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**THE UTILITY COMMISSION AS A WHOLE**

The Commission's net position increased by \$42,000 for 2017 as compared to an increase of \$113,000 for 2016. 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)**

	2017	2016	Amount of Change
Current and other assets	\$ 10,590	\$ 9,395	\$ 1,195
Capital assets	28,042	27,971	71
Total assets	<u>38,632</u>	<u>37,366</u>	<u>1,266</u>
Deferred outflows of resources	<u>826</u>	<u>754</u>	<u>72</u>
Long-term liabilities	13,446	11,999	1,447
Other liabilities	<u>3,231</u>	<u>3,108</u>	<u>123</u>
Total liabilities	<u>16,677</u>	<u>15,107</u>	<u>1,570</u>
Deferred inflows of resources	<u>25</u>	<u>299</u>	<u>(274)</u>
Net investment in capital assets	19,540	19,119	421
Unrestricted	<u>3,216</u>	<u>3,595</u>	<u>(379)</u>
Total net position	<u>\$ 22,756</u>	<u>\$ 22,714</u>	<u>\$ 42</u>

Total assets increased by \$1,266,000, deferred outflows of resources increased \$72,000, total liabilities increased by \$1,570,000 and deferred inflows of resources decreased \$274,000, resulting in an increase in net position of \$42,000 for 2017.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

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

	Year Ended 2017	Year Ended 2016	Amount of Change
Operating revenues	\$ 15,675	\$ 15,447	\$ 228
Operating expenses:			
Direct costs	11,433	10,840	593
Administrative and general	2,315	2,381	(66)
Depreciation	1,645	1,615	30
Total operating expenses	15,393	14,836	557
Operating income	282	611	(329)
Non-operating revenues (expenses)	15	(209)	224
Income before distributions	297	402	(105)
Distributions	(255)	(289)	34
Change in net position	\$ 42	\$ 113	\$ (71)

Operating revenues increased by \$228,000 and operating expenses increased by \$557,000 resulting in a total decrease in operating income of \$329,000. Distributions to the City of Barbourville decreased by \$34,000. Non-operating revenues increased from the prior year by \$224,000.

Approximately \$2,086,000 was spent on new capital assets for the year ended June 30, 2017. The following is a list of the major additions for the year:

Machinery and equipment	\$ 440,854
Sewer rehabilitation	1,564,575
Industrial park improvements	81,093

Long-term debt consists of five 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 \$1,044,000 was outstanding at June 30, 2017. The Commission made \$29,000 of principal payments for the year ended June 30, 2017. The agreement has an interest rate of 3.50% (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 \$520,000 was outstanding at June 30, 2017. The Commission made \$13,000 of principal payments for the year ended June 30, 2017. 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 made \$110,000 in principal payments for the year ended June 30, 2017. The balance outstanding at June 30, 2017 was \$2,181,000.

Next, 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%. The Commission made \$238,000 in principal payments for the year ended June 30, 2017. The balance outstanding at June 30, 2017 was \$4,718,000.

Last, the Commission signed an agreement with the Kentucky Infrastructure Authority to provide up to \$1,856,000 in funds for a sewer rehab. The loan has an interest rate of 0.75%. The Commission utilized \$1,503,000 of the loan in 2017. The Commission had \$150,000 of the loan forgiven for the year ended June 30, 2017. The balance outstanding at June 30, 2017 is \$1,353,000.

### ECONOMIC FACTORS FOR NEXT YEAR

Revenue from cable services should increase due to scheduled increases in fees charged to customers for fiscal year 2018. The primary driver for these increases are rising programming costs associated with Retransmission Agreement renewals with local broadcasters from Lexington and Knoxville as well as annual increases associated with agreements through NCTC. There are no planned rate increases for electric, water, or sewer for fiscal year 2018.

The Boone Height Water Tank Project is to replace two existing water tanks with a new one and should begin in Spring 2018 at a cost of \$900,000. Project funding will be a combination of an ARC grant through USDA for \$500,000 and local funds in the amount of \$400,000.

The Commission also plans to clean, inspect, and paint three (3) water tanks Gilliam Hill, Apple Grove, and Girdler. The cost of this project is estimated at \$120,000.

The Commission has a sanitary sewer rehab project to perform repairs to the existing gravity sewer collection lines to reduce significant sources of inflow and infiltration that began in Fall 2016. The total project cost is \$2,800,000. Funding in the amount of \$1,850,000 will be provided through KIA with 0.75% interest and a 20-year term with 10% (\$185,000) debt forgiven. Loan repayment will begin once construction is complete.

The Commission has a project starting in Fall of 2017 to overbuild its existing Hybrid-Fiber-Coax (HFC) Cable system with a Fiber-to-the-Home (FTTH) project. The FTTH system will replace the outdated HFC system and will position the Commission to provide state of the art telecommunications for the next several decades. The Commission will be applying for grants through the ARC Power Initiative to fund the project. The project is estimated to cost \$4,000,000 and is planned to be completed by Summer 2019.

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

**STATEMENTS OF NET POSITION  
June 30, 2017 and 2016**

	2017	2016
<b>ASSETS</b>		
Current assets:		
Cash	\$ 2,610,257	\$ 3,571,534
Accounts receivable	1,298,493	1,207,796
Parts not in service	462,561	438,935
Total current assets	4,371,311	5,218,265
Restricted assets:		
Customers' deposits, certificates of deposit	907,956	900,062
Total restricted assets	907,956	900,062
Non-current assets:		
Investments, certificates of deposit	5,310,338	3,276,524
Capital assets		
Land, water rights, and other non-depreciated assets	2,851,604	3,222,643
Utility plant and equipment, net of depreciation	25,190,591	24,748,802
Total non-current assets	33,352,533	31,247,969
Total assets	\$ 38,631,800	\$ 37,366,296
 DEFERRED OUTFLOWS OF RESOURCES		
	\$ 826,242	\$ 753,892
 LIABILITIES		
Current liabilities:		
Current maturities of long-term debt	\$ 431,952	\$ 387,905
Accounts payable and accrued expenses	1,859,449	1,787,500
Accrued interest payable	31,683	32,455
Total current liabilities	2,323,084	2,207,860
Liabilities payable from restricted assets:		
Customers' deposits	907,956	900,062
Total liabilities payable from restricted assets	907,956	900,062
Non-current liabilities:		
Long-term debt, less current maturities	9,383,582	8,465,013
Net pension liability	4,061,660	3,533,964
Total non-current liabilities	13,445,242	11,998,977
Total liabilities	\$ 16,676,282	\$ 15,106,899
 DEFERRED INFLOWS OF RESOURCES		
Differences on earnings of pension plan investments	\$ 24,897	\$ 299,179
 NET POSITION		
Net investment in capital assets	19,540,469	19,118,527
Unrestricted	3,216,394	3,595,583
Total net position	\$ 22,756,863	\$ 22,714,110

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, 2017 and 2016**

	2017	2016
<b>OPERATING REVENUES</b>		
Charges for services	\$ 15,069,331	\$ 14,445,927
Penalties	214,868	210,712
Utility settlement refund	--	412,934
Other operating revenues	390,335	377,512
Total operating revenues	15,674,534	15,447,085
<b>OPERATING EXPENSES</b>		
Direct expenses	11,431,799	10,839,995
Administrative and general	2,315,356	2,380,651
Depreciation	1,644,734	1,615,165
Total operating expenses	15,391,889	14,835,811
Operating income	282,645	611,274
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Investment income	53,131	43,203
Grant income	--	2,915
Rental income	50,431	36,931
Loss on sale of assets	(19,838)	(61,005)
Interest on long-term debt	(130,326)	(134,187)
Forgiveness of debt	150,288	--
Other expenses, net	(88,578)	(97,181)
Total non-operating revenues (expenses)	15,108	(209,324)
Income before distributions	297,753	401,950
Distributions to City of Barbourville	(255,000)	(289,170)
Change in net position	42,753	112,780
Net position, beginning of year	22,714,110	22,601,330
Net position, end of year	\$ 22,756,863	\$ 22,714,110

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, 2017 and 2016**

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 15,153,470	\$ 14,620,829
Cash payments to suppliers for goods and services	(10,804,523)	(10,396,529)
Cash payments to employees for services	(2,673,213)	(2,563,554)
Cash received from utility settlement	--	412,934
Other operating revenues	390,337	377,512
Net cash provided by operating activities	2,066,071	2,451,192
 <b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Distributions to City of Barbourville	(255,000)	(289,170)
Increase in customers' deposits, net	7,894	46,311
Net cash (used in) non-capital financing activities	(247,106)	(242,859)
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from loan from governmental agency	1,502,878	310,448
Principal paid on loan from governmental agency	(389,978)	(385,032)
Interest paid on loan from governmental agency	(131,098)	(135,288)
Cash received from construction project grants	--	2,915
Cash received on sale of land	350,000	--
Acquisition and construction of capital assets	(2,086,522)	(247,098)
Net cash (used in) capital and related financing activities	(754,720)	(454,055)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	53,131	43,203
Purchase of investments	(2,041,708)	(1,331,160)
Cash designated for purchase of investments	--	1,303,606
Other expenses	(36,945)	(60,248)
Net cash (used in) investing activities	(2,025,522)	(44,599)
 Net increase (decrease) in cash	(961,277)	1,709,679
 <b>CASH</b>		
Beginning	3,571,534	1,861,855
Ending	\$ 2,610,257	\$ 3,571,534

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

COMPONENT UNIT OF CITY OF BARBOURVILLE, KENTUCKY

STATEMENTS OF CASH FLOWS (Continued)  
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 282,645	\$ 611,274
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,644,734	1,615,165
Change in assets and liabilities:		
Accounts receivable	(90,695)	16,436
Parts not in service	(23,626)	38,395
Deferred outflows	(72,350)	(415,313)
Accounts payable and accrued expenses	71,949	(206,908)
Net pension liability	527,696	797,964
Deferred inflows	(274,282)	(5,821)
Total adjustments	<u>1,783,426</u>	<u>1,839,918</u>
Net cash provided by operating activities	<u>\$ 2,066,071</u>	<u>\$ 2,451,192</u>

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 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 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 December 29, 2017, the date the financial statements were available to be issued.

### Note 2. Cash, Investments and Fair Values

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, 2017, the book balance of the Commission's cash and investments was \$8,828,551, which consisted of \$2,610,257 in cash and \$6,218,294 in certificates of deposit. 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.

United States generally accepted accounting principles (U.S. GAAP) provides a framework for fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The methodology for measuring fair value specifies a three-tier hierarchy of valuation techniques based upon whether the inputs to those valuation techniques are based on quoted prices of identical assets or liabilities (Level 1), significant other observable inputs (Level 2), or significant other unobservable inputs that reflect the Commission's own assumptions of market participant valuation (Level 3).

Financial instruments that are subject to fair value measurements are limited to investments. Fair values of these financial instruments have been valued using a market approach and are measured using Level 2 inputs. The fair value of short-term investments approximates its carrying amount due to the short-term nature of these instruments.

**NOTES TO FINANCIAL STATEMENTS**

Note 3. Capital Assets

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

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Capital assets not being depreciated:				
Land:				
Electric	\$ 6,864	\$ --	\$ --	\$ 6,864
Water	1,196,867	--	371,039	825,828
Sewer	115,303	--	--	115,303
Water Rights	1,903,609	--	--	1,903,609
Total capital assets not being depreciated	<u>3,222,643</u>	<u>--</u>	<u>371,039</u>	<u>2,851,604</u>
Other capital assets:				
Plant:				
Electric	980,606	--	--	980,606
Water	13,703,998	70,218	--	13,774,216
Sewer	11,015,411	10,875	--	11,026,286
Total plant	<u>25,700,015</u>	<u>81,093</u>	<u>--</u>	<u>25,781,108</u>
Equipment:				
Electric	2,441,051	73,487	--	2,514,538
Water	12,226,318	77,202	--	12,303,520
Sewer	1,033,182	1,564,575	--	2,597,757
Cable	2,732,360	151,783	--	2,884,143
Joint facilities	3,083,228	138,382	--	3,221,610
Total equipment	<u>21,516,139</u>	<u>2,005,429</u>	<u>--</u>	<u>23,521,568</u>
Total other capital assets	<u>47,216,154</u>	<u>2,086,522</u>	<u>--</u>	<u>49,302,676</u>
Less accumulated depreciation for:				
Plant:				
Electric	779,289	18,885	--	798,174
Water	7,718,558	337,493	--	8,056,051
Sewer	2,838,669	379,590	--	3,218,259
Total plant	<u>11,336,516</u>	<u>735,968</u>	<u>--</u>	<u>12,072,484</u>
Equipment:				
Electric	1,886,646	47,998	--	1,934,644
Water	4,074,525	521,576	--	4,596,101
Sewer	866,345	103,868	--	970,213
Cable	2,223,278	82,910	--	2,306,188
Joint facilities	2,080,042	152,414	--	2,232,456
Total equipment	<u>11,130,836</u>	<u>908,766</u>	<u>--</u>	<u>12,039,602</u>
Total accumulated depreciation	<u>22,467,352</u>	<u>1,644,734</u>	<u>--</u>	<u>24,112,086</u>
Other capital assets, net	<u>24,748,802</u>			<u>25,190,591</u>
Capital assets, net	<u>\$ 27,971,445</u>			<u>\$ 28,042,195</u>

## NOTES TO FINANCIAL STATEMENTS

### Note 3. Capital Assets (Continued)

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	
		2017	2016
Electric	10-33 years	\$ 66,883	\$ 68,402
Water	5-50 years	859,069	844,323
Sewer	5-50 years	483,458	404,711
Cable	7 years	82,910	119,872
Joint facilities	4-10 years	152,414	177,857
		\$ 1,644,734	\$ 1,615,165

### 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 \$423,258 and \$527,963 for the years ended June 30, 2017 and 2016, respectively.

### Note 5. Long-Term Debt

Changes in long-term debt for the year ended June 30, 2017 were as follows:

Description	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017	Due Within One Year
Note Payable (A)	\$ 1,073,502	\$ --	\$ 29,250	1,044,252	\$ 28,437
Note Payable (B)	532,300	--	12,568	519,732	13,086
Note Payable (C)	2,291,030	--	110,063	2,180,967	111,166
Note Payable (D)	4,956,086	--	238,093	4,717,993	240,481
Note Payable (E)	--	1,502,878	150,288	1,352,590	38,782
	\$ 8,852,918	\$ 1,502,878	\$ 540,262	\$ 9,815,534	\$ 431,952

(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. The interest rate at June 30, 2017 was 3.50%. 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 project was completed during the year ended June 30, 2015, and the Commission began making principal and interest payments during the year ended June 30, 2016.
- (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%. Principal and interest payments are due on June 1 and December 1 each year and the note is scheduled to be paid in full June 2035. The maximum amount of \$1,200,000 was forgiven during the year ended June 30, 2014.
- (E) On October 1, 2016, an agreement was made with the Kentucky Infrastructure Authority to borrow up to \$1,856,109 to rehab the sewer collection lines at an interest rate of 0.75%. Interest payments are due on June 1 or December 1 immediately succeeding the date of the initial draw of funds. The Commission utilized \$1,502,878 of the loan during the year ended June 30, 2017. The amount of \$150,288 was forgiven during the year ended June 30, 2017.

The annual debt service requirements to maturity for long-term debt are as follows:

Due Fiscal Year Ending June 30,	Principal	Interest
2018	\$ 431,952	\$ 172,169
2019	476,552	127,569
2020	482,638	121,483
2021	488,850	115,271
2022	495,194	108,927
2023-2027	2,493,226	527,382
2028-2032	2,753,970	266,638
2033-2037	1,927,819	1,092,788
2038-2042	265,333	214,848
	\$ 9,815,534	\$ 2,747,075

## NOTES TO FINANCIAL STATEMENTS

### Note 6. Retirement Plan

*Plan Description:* The 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 18.68%, 17.06%, and 17.67% for the years ended June 30, 2017, 2016 and 2015, respectively. The Commission made contributions to the plan in the amount of \$395,924, 336,482 and \$338,579 for the years ended June 30, 2017, 2016 and 2015, respectively.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:* At June 30, 2017, the Commission reported a liability of \$4,062,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. 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, 2016, the Commission's proportion was 0.082% for nonhazardous covered employees.

## NOTES TO FINANCIAL STATEMENTS

### Note 6. Retirement Plan (Continued)

Pension expense totaled \$395,924 for the year ended June 30, 2017. As of June 30, 2017, 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	\$ 286,379	\$ --
Change in assumptions	129,442	--
Net differences between projected and actual earnings on investments	13,299	--
Difference between actual and expected experience	4,822	--
Changes in proportion and differences between Commission's contributions and proportionate share of contributions	--	(24,897)
Commission contributions subsequent to the measurement date	392,300	--
	\$ 826,242	\$ (24,897)

The Commission's deferred outflows of resources totaling \$392,300 related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability during the year ending June 30, 2018. Other amounts reported as deferred inflows and outflows of resources as of June 30, 2017 will be recognized into pension expense as follows:

#### Year Ending June 30:

2018	180,510
2019	136,941
2020	91,594
	\$ 409,045

*Actuarial assumptions:* The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to years included in the measurement:

Inflation:	3.25%
Salary increases:	4.00%, average, including inflation
Investment rate of return:	7.50%, net of pension plan investment expense, including inflation

## NOTES TO FINANCIAL STATEMENTS

### Note 6. Retirement Plan (Continued)

The Mortality Table used for active members is RP-200 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (setback four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2013.

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
Combined Equity	44%	5.40%
Combined Fixed Income	19%	1.50%
Real Return (Diversified Inflation Strategies)	10%	3.50%
Real Estate	5%	4.50%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.50%
Cash Equivalent	2%	-0.25%
	<u>100%</u>	

*Discount rate:* The discount rate used to measure the total pension liability was 7.50%. 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 7.50%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

**NOTES TO FINANCIAL STATEMENTS**

Note 6. Retirement Plan (Continued)

*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 7.50%, 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 (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease - 6.50%	Current Discount Rate - 7.50%	1% Increase - 8.50%
Net Pension Liability - Nonhazardous	<u>\$ 5,061,486</u>	<u>\$ 4,061,660</u>	<u>\$ 3,204,610</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.

Note 7. Distributions - City of Barbourville

The 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, 2017 and 2016:

	Year Ended June 30,	
	2017	2016
Distributions to City of Barbourville	<u>\$ 255,000</u>	<u>\$ 289,170</u>

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

**SCHEDULE OF SELECTED ASSETS AND LIABILITIES  
June 30, 2017**

	June 30, 2017
<b>CASH</b>	
On hand, petty cash and change fund maintained by imprest system	\$ 31,722
In bank, PNC Bank:	
Demand deposits	412,742
In bank, Commercial Bank:	
Demand deposits	2,165,793
	\$ 2,610,257

**INVESTMENTS, CERTIFICATES OF DEPOSIT**

Commercial: <u>Cert. No.</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	June 30, 2017
1019389053	08/31/2017	0.70%	799,987
1019389045	08/31/2017	0.70%	1,378,883
1019389274	08/31/2017	0.70%	4,039,424
			\$ 6,218,294

Less, amounts included as restricted assets:

Customer deposits	(907,956)
	\$ 5,310,338

**ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Trade account, Kentucky Utilities Company (May and June 2017)	\$ 1,030,794
Other trade accounts	513,202
Accrued payroll taxes and benefits	97,857
Accrued vacation pay	217,596
	\$ 1,859,449

The amount due to Kentucky Utilities Company is for unbilled power purchased for May and June 2017.

**CUSTOMERS' DEPOSITS**

Electric customers	\$ 645,493
Water customers	262,463
	\$ 907,956

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

**SCHEDULE OF OPERATING INCOME DETAIL  
Year Ended June 30, 2017**

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 8,237,069	\$ 2,587,711	\$ 1,347,963
Penalties	42,974	42,973	42,974
Other operating revenues	121,441	102,241	44,989
Total operating revenues	<u>8,401,484</u>	<u>2,732,925</u>	<u>1,435,926</u>
<b>OPERATING EXPENSES</b>			
Direct expenses:			
Production costs:			
Purchased services	6,500,625	--	--
Supplies and expenses	1,864	298,429	120,909
Distribution costs:			
Salaries	526,257	694,484	238,961
Transportation	39,890	43,386	16,924
Maintenance	329,695	307,574	226,143
	<u>7,398,331</u>	<u>1,343,873</u>	<u>602,937</u>
Administrative and general expenses:			
Salaries:			
Office	84,638	87,331	74,748
Commissioners	1,440	1,440	1,440
Deferred compensation	230,796	190,406	75,008
Office supplies and expenses	38,121	40,210	32,972
Insurance	327,566	270,242	106,459
Payroll taxes	45,989	60,299	25,332
Professional fees	110,128	13,198	7,768
Bad debts, net of recoveries	43,086	--	--
Customer deposit interest	1,732	686	--
	<u>883,496</u>	<u>663,812</u>	<u>323,727</u>
Depreciation	<u>128,205</u>	<u>656,282</u>	<u>785,666</u>
Total operating expenses	<u>8,410,032</u>	<u>2,663,967</u>	<u>1,712,330</u>
Operating income (loss)	<u>\$ (8,548)</u>	<u>\$ 68,958</u>	<u>\$ (276,404)</u>

<u>Cable TV &amp; Internet</u>	<u>Total</u>
\$ 2,896,588	\$ 15,069,331
85,947	214,868
121,666	390,337
<u>3,104,201</u>	<u>15,674,536</u>
1,412,264	7,912,889
201,788	622,990
320,991	1,780,693
21,169	121,369
130,446	993,858
<u>2,086,658</u>	<u>11,431,799</u>
119,379	366,096
2,880	7,200
80,775	576,985
72,678	183,981
114,649	818,916
34,704	166,324
19,256	150,350
--	43,086
--	2,418
<u>444,321</u>	<u>2,315,356</u>
<u>74,581</u>	<u>1,644,734</u>
<u>2,605,560</u>	<u>15,391,889</u>
<u>\$ 498,641</u>	<u>\$ 282,647</u>

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

**SCHEDULE OF OPERATING INCOME DETAIL  
Year Ended June 30, 2016**

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 7,681,072	\$ 2,604,352	\$ 1,352,278
Penalties	42,142	42,143	42,142
Utility settlement refund	412,934	--	--
Other operating revenues	109,742	115,646	26,333
Total operating revenues	<u>8,245,890</u>	<u>2,762,141</u>	<u>1,420,753</u>
<b>OPERATING EXPENSES</b>			
Direct expenses:			
Production costs:			
Purchased services	5,727,304	--	--
Supplies and expenses	1,783	310,102	267,344
Distribution costs:			
Salaries	547,750	685,539	255,111
Transportation	35,962	36,179	26,672
Maintenance	307,540	291,385	131,205
	<u>6,620,339</u>	<u>1,323,205</u>	<u>680,332</u>
Administrative and general expenses:			
Salaries:			
Office	73,750	76,417	73,250
Commissioners	1,440	1,440	1,440
Deferred compensation	285,325	235,393	92,731
Office supplies and expenses	37,056	31,947	30,600
Insurance	322,607	266,161	104,888
Payroll taxes	42,440	52,648	23,112
Professional fees	113,035	7,543	7,543
Bad debts, net of recoveries	53,136	--	--
Customer deposit interest	999	421	--
	<u>929,788</u>	<u>671,970</u>	<u>333,564</u>
Depreciation	<u>138,547</u>	<u>649,845</u>	<u>715,230</u>
Total operating expenses	<u>7,688,674</u>	<u>2,645,020</u>	<u>1,729,126</u>
Operating income (loss)	<u>\$ 557,216</u>	<u>\$ 117,121</u>	<u>\$ (308,373)</u>

<u>Cable TV &amp; Internet</u>	<u>Total</u>
\$ 2,808,225	\$ 14,445,927
84,285	210,712
--	412,934
125,791	377,512
<u>3,018,301</u>	<u>15,447,085</u>

1,450,633	7,177,937
194,145	773,374
336,844	1,825,244
20,067	118,880
214,430	944,560
<u>2,216,119</u>	<u>10,839,995</u>

112,898	336,315
2,880	7,200
99,863	713,312
65,108	164,711
113,014	806,670
31,590	149,790
19,976	148,097
--	53,136
--	1,420
<u>445,329</u>	<u>2,380,651</u>

<u>111,543</u>	<u>1,615,165</u>
<u>2,772,991</u>	<u>14,835,811</u>

<u>\$ 245,310</u>	<u>\$ 611,274</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**

	2016	2015
<b>NONHAZARDOUS</b>		
Commission's proportion of net pension liability	0.082%	0.082%
Commission's proportionate share of the net pension liability	\$ 4,061,660	\$ 3,533,964
Commission's covered-employee payroll	\$ 1,972,346	\$ 1,920,397
Commission's proportionate share of the net pension liability as a percentage of its employee-covered payroll	205.93%	184.02%
Plan Fiduciary net position as a percentage of the total pension liability	55.50%	61.52%

\* June 30, 2016 and 2015 reflect the respective dates for the actuarial valuation.

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

**SCHEDULE OF COMMISSION CONTRIBUTIONS**

	2017	2016
<b>NONHAZARDOUS</b>		
Contractually required contribution	\$ 392,300	\$ 336,482
Contributions in relation to the contractually required contribution	(392,300)	(336,482)
Contribution deficiency (excess)	--	--
Commission's covered employee-payroll	\$ 2,100,107	\$ 1,972,346
Contributions as a percentage of covered-employee payroll	18.68%	17.06%

\* June 30, 2017 and 2016 reflect financial reporting dates

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

**STATISTICAL DATA  
(Unaudited)**

During the years ended June 30, 2017 and 2016, the system handled the following volume of services:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Electric kilowatt hours purchased	<u>90,480,000</u>	<u>89,928,000</u>
Water, number of gallons sold and or used by the commission	<u>349,700,100</u>	<u>356,323,900</u>



*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, 2017, and the related notes to the financial statements, and have issued our report thereon dated December 29, 2017.

**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 a certain deficiency in internal control, described in the accompanying schedule of audit findings that we consider to be a significant deficiency (2017-001).

### **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 finding identified in our audit is described in the accompanying schedule of audit findings. 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 PLC*

Louisville, Kentucky  
December 29, 2017

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

**SUMMARY SCHEDULE OF AUDIT FINDINGS  
Year Ended June 30, 2017**

**FINDINGS—FINANCIAL STATEMENTS AUDIT**

2017-001 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.

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended June 30, 2016**

**PRIOR FINDINGS—FINANCIAL STATEMENTS AUDIT**

2016-001 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.