

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

COMPREHENSIVE ANNUAL FINANCIAL REPORT

June 30, 2018

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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, 2018 and 2017, 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, 2018 and 2017, 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 29 through 32 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 26 through 28 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The information on pages 26 through 28 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 26 through 28 is fairly stated in all material respects in relation to the basic financial statements as a whole. The information on page 33 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 February 2, 2019, 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 PLC

Louisville, Kentucky
February 2, 2019

**BARBOURVILLE UTILITY COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

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, 2018. Please read it in conjunction with the Commission's financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

- Change in net position decreased by \$292,000 from a \$42,000 increase to a \$250,000 decrease.
- Total liabilities increased by 15.15% from \$16,677,000 to \$19,204,000.
- Operating revenues increased by 2.82% from \$15,675,000 to \$16,117,000.
- Non-operating revenues increased by \$329,000.

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 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 decreased by \$1,523,000 for 2018 as compared to an increase of \$42,000 for 2017. 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)

	2018	2017	Amount of Change
Current and other assets	\$ 8,753	\$ 10,590	\$ (1,837)
Capital assets	29,978	28,042	1,936
Total assets	<u>38,731</u>	<u>38,632</u>	<u>99</u>
Deferred outflows of resources	<u>2,279</u>	<u>826</u>	<u>1,453</u>
Long-term liabilities	16,062	13,446	2,616
Other liabilities	3,142	3,231	(89)
Total liabilities	<u>19,204</u>	<u>16,677</u>	<u>2,527</u>
Deferred inflows of resources	<u>573</u>	<u>25</u>	<u>548</u>
Net investment in capital assets	21,835	19,540	2,295
Unrestricted	(602)	3,216	(3,818)
Total net position	<u>\$ 21,233</u>	<u>\$ 22,756</u>	<u>\$ (1,523)</u>

Total assets increased by \$99,000, deferred outflows of resources increased by \$1,453,000, total liabilities increased by \$2,527,000, and deferred inflows of resources increased by \$548,000, resulting in a decrease in net position of \$1,523,000 for 2018.

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 2018	Year Ended 2017	Amount of Change
Operating revenues	\$ 16,117	\$ 15,675	\$ 442
Operating expenses:			
Direct costs	11,787	11,433	354
Administrative and general	2,726	2,315	411
Depreciation	1,903	1,645	258
Total operating expenses	16,416	15,393	1,023
Operating income	(299)	282	(581)
Non-operating revenues (expenses)	344	15	329
Income before distributions	45	297	(252)
Distributions	(295)	(255)	(40)
Change in net position	\$ (250)	\$ 42	\$ (292)

Operating revenues increased by \$442,000 and operating expenses increased by \$1,023,000 resulting in a total decrease in operating income of \$581,000. Distributions to the City of Barbourville increased by \$40,000. Non-operating revenues increased from the prior year by \$329,000.

Approximately \$3,839,000 was spent on new capital assets for the year ended June 30, 2018. The following is a list of the major additions for the year:

Machinery and equipment	\$ 3,025,838
Sewer rehabilitation	775,848
Industrial park improvements	37,380

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 \$1,013,000 was outstanding at June 30, 2018. The Commission made \$31,000 of principal payments for the year ended June 30, 2018. 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 \$505,000 was outstanding at June 30, 2018. The Commission made \$15,000 of principal payments for the year ended June 30, 2018. The agreement has an interest rate of 2.50% (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 \$111,000 in principal payments for the year ended June 30, 2018. The balance outstanding at June 30, 2018 was \$2,070,000.

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 \$240,000 in principal payments for the year ended June 30, 2018. The balance outstanding at June 30, 2018 was \$4,478,000.

Last, the Commission signed an agreement with the Kentucky Infrastructure Authority to provide up to \$1,856,000 in funds for a sewer rehab project. The loan has an interest rate of 0.75%. The Commission utilized \$1,503,000 of the loan in 2017 and the remaining \$353,000 in 2018. The Commission had \$186,000 of the loan forgiven as of June 30, 2018. The balance outstanding at June 30, 2018 is \$1,632,000.

ECONOMIC FACTORS FOR NEXT YEAR

Revenue from cable services should increase due to scheduled increases in fees charged to customers for fiscal year 2019. 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 2019.

The Boone Height Water Tank Project is to replace two existing water tanks with a new one and should begin in Spring 2019 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. About 60% of the project funds were expensed in fiscal year 2018 with the remaining 40% to be expended in fiscal year 2019.

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 begun 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 project is approximately 50% complete and should be finished by end of fiscal year 2019.

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

**STATEMENTS OF NET POSITION
June 30, 2018 and 2017**

	2018	2017
ASSETS		
Current assets:		
Cash	\$ 428,004	\$ 2,610,257
Accounts receivable	1,305,883	1,298,493
Parts not in service	741,943	462,561
Total current assets	2,475,830	4,371,311
Restricted assets:		
Customers' deposits, certificates of deposit	924,923	907,956
Total restricted assets	924,923	907,956
Non-current assets:		
Investments, certificates of deposit	5,352,716	5,310,338
Capital assets		
Land, water rights, and other non-depreciated assets	2,851,604	2,851,604
Utility plant and equipment, net of depreciation	27,126,188	25,190,591
Total non-current assets	35,330,508	33,352,533
Total assets	\$ 38,731,261	\$ 38,631,800
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions	\$ 1,799,106	\$ 826,242
Deferred outflows related to OPEB	479,620	--
Total deferred outflows of resources	\$ 2,278,726	\$ 826,242
LIABILITIES		
Current liabilities:		
Current maturities of long-term debt	\$ 480,112	\$ 431,952
Accounts payable and accrued expenses	1,708,617	1,859,449
Accrued interest payable	28,590	31,683
Total current liabilities	2,217,319	2,323,084
Liabilities payable from restricted assets:		
Customers' deposits	924,923	907,956
Total liabilities payable from restricted assets	924,923	907,956
Non-current liabilities:		
Long-term debt, less current maturities	9,216,405	9,383,582
Net pension liability	5,095,421	4,061,660
Net OPEB liability	1,750,043	--
Total non-current liabilities	16,061,869	13,445,242
Total liabilities	\$ 19,204,111	\$ 16,676,282
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions	\$ 481,083	\$ 24,897
Deferred inflows related to OPEB	91,627	--
Total deferred inflows of resources	\$ 572,710	\$ 24,897
NET POSITION		
Net investment in capital assets	21,834,976	19,540,469
Unrestricted (deficit)	(601,810)	3,216,394
Total net position	\$ 21,233,166	\$ 22,756,863

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, 2018 and 2017**

	2018	2017
OPERATING REVENUES		
Charges for services	\$ 15,617,808	\$ 15,069,331
Penalties	233,530	214,868
Other operating revenues	265,221	390,335
Total operating revenues	16,116,559	15,674,534
OPERATING EXPENSES		
Direct expenses	11,786,404	11,431,799
Administrative and general	2,725,541	2,315,356
Depreciation	1,903,468	1,644,734
Total operating expenses	16,415,413	15,391,889
Operating income (loss)	(298,854)	282,645
NON-OPERATING REVENUES (EXPENSES)		
Investment income	67,757	53,131
Grant income	349,227	--
Rental income	45,931	50,431
Loss on sale of assets	--	(19,838)
Interest expense	(125,465)	(130,326)
Forgiveness of debt	35,323	150,288
Other expenses, net	(28,937)	(88,578)
Total non-operating revenues (expenses)	343,836	15,108
Income before distributions	44,982	297,753
Distributions to City of Barbourville	(295,332)	(255,000)
Change in net position	(250,350)	42,753
Net position, beginning of year, as previously reported	22,756,863	22,714,110
Cumulative effect of adoption of new accounting principle	(1,273,347)	--
Net position, beginning of year, as restated	21,483,516	22,714,110
Net position, end of year	\$ 21,233,166	\$ 22,756,863

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, 2018 and 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 15,778,556	\$ 15,153,470
Cash payments to suppliers for goods and services	(11,373,215)	(10,804,523)
Cash payments to employees for services	(2,897,765)	(2,673,213)
Other operating revenues	265,221	390,337
Net cash provided by operating activities	1,772,797	2,066,071
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Distributions to City of Barbourville	(295,332)	(255,000)
Increase in customers' deposits, net	16,967	7,894
Net cash (used in) non-capital financing activities	(278,365)	(247,106)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from loan from governmental agencies	353,231	1,502,878
Principal paid on loan from governmental agencies	(436,925)	(389,978)
Interest paid on loan from governmental agencies	(128,558)	(131,098)
Cash received from construction project grants	349,227	--
Cash received on sale of land	--	350,000
Acquisition and construction of capital assets	(3,839,066)	(2,086,522)
Net cash (used in) capital and related financing activities	(3,702,091)	(754,720)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	67,757	53,131
Purchase of investments	(59,345)	(2,041,708)
Other income (expenses)	16,994	(36,945)
Net cash provided by (used in) investing activities	25,406	(2,025,522)
Net (decrease) in cash	(2,182,253)	(961,277)
CASH		
Beginning	2,610,257	3,571,534
Ending	\$ 428,004	\$ 2,610,257

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	<u>\$ (298,854)</u>	<u>\$ 282,645</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	1,903,468	1,644,734
Change in assets and liabilities:		
Accounts receivable	(7,390)	(90,695)
Parts not in service	(279,382)	(23,626)
Deferred outflows - Pension and OPEB	(1,452,484)	(72,350)
Accounts payable and accrued expenses	(150,831)	71,949
Net pension and OPEB liability	1,510,457	527,696
Deferred inflows - Pension and OPEB	<u>547,813</u>	<u>(274,282)</u>
Total adjustments	<u>2,071,651</u>	<u>1,783,426</u>
Net cash provided by operating activities	<u><u>\$ 1,772,797</u></u>	<u><u>\$ 2,066,071</u></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 accordance 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 net realizable value 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.

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.

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

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 accordance 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 February 2, 2019, 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, 2018 and 2017, the book balance of the Commission's cash and investments was \$6,705,643 and \$8,828,551, respectively, which consisted of \$428,004 and \$2,610,257, respectively, in cash and \$6,277,639 and \$6,218,294, respectively, 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, 2017	Increases	Decreases	Balance June 30, 2018
Capital assets not being depreciated:				
Land:				
Electric	\$ 6,864	\$ --	\$ --	\$ 6,864
Water	825,828	--	--	825,828
Sewer	115,303	--	--	115,303
Water Rights	1,903,609	--	--	1,903,609
Total capital assets not being depreciated	<u>2,851,604</u>	<u>--</u>	<u>--</u>	<u>2,851,604</u>
Other capital assets:				
Plant:				
Electric	980,606	--	--	980,606
Water	13,774,216	37,380	--	13,811,596
Sewer	11,026,286	2	740,254	10,286,034
Total plant	<u>25,781,108</u>	<u>37,382</u>	<u>740,254</u>	<u>25,078,236</u>
Equipment:				
Electric	2,514,538	--	--	2,514,538
Water	12,303,521	505,243	--	12,808,764
Sewer	2,597,757	775,847	--	3,373,604
Cable	2,884,143	2,446,130	--	5,330,273
Joint facilities	3,221,610	74,464	--	3,296,074
Total equipment	<u>23,521,569</u>	<u>3,801,684</u>	<u>--</u>	<u>27,323,253</u>
Total other capital assets	<u>49,302,677</u>	<u>3,839,066</u>	<u>740,254</u>	<u>52,401,489</u>
Less accumulated depreciation for:				
Plant:				
Electric	798,174	18,885	--	817,059
Water	8,056,051	344,772	--	8,400,823
Sewer	3,218,259	379,892	740,252	2,857,899
Total plant	<u>12,072,484</u>	<u>743,549</u>	<u>740,252</u>	<u>12,075,781</u>
Equipment:				
Electric	1,934,644	47,504	--	1,982,148
Water	4,596,101	529,652	--	5,125,753
Sewer	970,213	352,147	--	1,322,360
Cable	2,306,188	91,454	--	2,397,642
Joint facilities	2,232,456	139,162	--	2,371,618
Total equipment	<u>12,039,602</u>	<u>1,159,919</u>	<u>--</u>	<u>13,199,521</u>
Total accumulated depreciation	<u>24,112,086</u>	<u>1,903,468</u>	<u>740,252</u>	<u>25,275,302</u>
Other capital assets, net	<u>25,190,591</u>			<u>27,126,188</u>
Capital assets, net	<u>\$ 28,042,195</u>			<u>\$ 29,977,792</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	
		2018	2017
Electric	10-33 years	\$ 66,389	\$ 66,883
Water	5-50 years	874,424	859,069
Sewer	5-50 years	732,039	483,458
Cable	7 years	91,454	82,910
Joint facilities	4-10 years	139,162	152,414
		<u>\$ 1,903,468</u>	<u>\$ 1,644,734</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 \$641,757 and \$423,258 for the years ended June 30, 2018 and 2017, respectively.

Note 5. Long-Term Debt

Changes in long-term debt for the year ended June 30, 2018 were as follows:

Description	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018	Due Within One Year
Note Payable (A)	\$ 1,044,252	\$ --	\$ 31,275	1,012,977	\$ 31,334
Note Payable (B)	519,732	--	15,216	504,516	15,596
Note Payable (C)	2,180,967	--	111,166	2,069,801	112,280
Note Payable (D)	4,717,993	--	240,481	4,477,512	242,892
Note Payable (E)	1,352,590	353,231	74,110	1,631,711	78,010
	<u>\$ 9,815,534</u>	<u>\$ 353,231</u>	<u>\$ 472,248</u>	<u>\$ 9,696,517</u>	<u>\$ 480,112</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. The interest rate at June 30, 2018 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. The interest rate at June 30, 2018 was 2.50%. 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%. 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 \$1,600,000 was forgiven as of June 30, 2014.
- (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 as of 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 \$353,231 of the loan during the year ended June 30, 2018. The maximum amount of \$185,611 has been forgiven as of June 30, 2018, with \$35,323 forgiven during 2018.

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

Due Fiscal Year Ending June 30,	Principal	Interest
2019	\$ 480,112	\$ 124,746
2020	485,745	119,112
2021	491,467	113,391
2022	497,278	107,580
2023	503,183	101,676
2024-2028	2,607,844	416,438
2029-2033	2,770,563	253,725
2034-2038	1,627,315	92,641
2039-2043	233,010	13,394
	\$ 9,696,517	\$ 1,342,703

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 14.48%, 13.95%, and 12.42% for the years ended June 30, 2018, 2017 and 2016, respectively. The Commission made contributions to the plan in the amount of \$304,456, \$292,965 and \$244,965 for the years ended June 30, 2018, 2017 and 2016, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At June 30, 2018 and 2017, the Commission reported a liability of \$5,095,421 and \$4,061,660 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2017, the Commission's proportion was 0.087052% for nonhazardous covered employees.

NOTES TO FINANCIAL STATEMENTS

Note 6. Retirement Plan (Continued)

Pension expense totaled \$821,539 and \$395,924 for the year ended June 30, 2018 and 2017. As of June 30, 2018, 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
Change in assumptions	\$ 940,243	\$ - -
Net differences between projected and actual earnings on investments	403,551	(340,527)
Difference between actual and expected experience	6,320	(129,344)
Changes in proportion and differences between Commission's contributions and proportionate share of contributions	144,536	(11,212)
Commission contributions subsequent to the measurement date	304,456	- -
	\$ 1,799,106	\$ (481,083)

The Commission's deferred outflows of resources totaling \$304,456 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, 2019. Other amounts reported as deferred inflows and outflows of resources as of June 30, 2018 will be recognized into pension expense as follows:

Year Ending June 30:

2019	\$ 437,519
2020	442,576
2021	198,901
2022	(65,429)
	\$ 1,013,567

Actuarial assumptions: The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to years included in the measurement:

Inflation:	2.30%
Salary increases:	3.05%, average
Investment rate of return:	6.25%

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
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	2.00%	1.88%
	100.00%	

NOTES TO FINANCIAL STATEMENTS

Note 6. Retirement Plan (Continued)

Discount rate: The discount rate used to measure the total pension liability was 6.25%. 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 6.25%. 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 6.25%, 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 (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

	1% Decrease - 5.25%	Current Discount Rate - 6.25%	1% Increase - 7.25%
Net Pension Liability - Nonhazardous	\$ 6,426,427	\$ 5,095,421	\$ 3,982,044

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. Other Postemployment Benefits

Plan description: County Employees Retirement System consists of two plans, Non-Hazardous and Hazardous. Each plan is a cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan administered by the Kentucky Retirement Systems (KRS) under the provision of Kentucky Revised Statute 61.645. The plan covers all regular full-time members employed in non-hazardous and hazardous duty positions of each participating county, city, and any additional eligible local agencies electing to participate in CERS. The Commission participates in the nonhazardous plan.

Benefits provided: The KRS' Insurance Fund was established to provide hospital and medical insurance for eligible members receiving benefits from CERS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

The amount of contribution paid by the Insurance Fund is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

NOTES TO FINANCIAL STATEMENTS

Note 7. Other Postemployment Benefits (Continued)

<u>Portion Paid by Insurance Fund</u>	
<u>Years of Service</u>	<u>Paid by Insurance Fund (%)</u>
20 + Years	100.00%
15 - 19 Years	75.00%
10 - 14 Years	50.00%
4 - 9 Years	25.00%
< 4 Years	0.00%

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on, or after July 1, 2003 earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee's spouse receives \$10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.5% based upon Kentucky Revised Statutes. This benefit is not protected under the inviolable contract provisions of KRS 61.692. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

There was no legislation enacted during the 2017 legislative session that had a material change in benefit provisions for either system.

New Accounting Principle

Effective, July 1, 2017, the Commission adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The statement requires the liability of employers, such as the Commission, to employees for net OPEB liability to be measured as the portion of the present value of projected benefit payments to be provided through the OPEB plan to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB 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 OPEB liability as of July 1, 2017	\$ (1,372,682)
Deferred outflows - Commission's 2017 OPEB contributions	<u>99,335</u>
Cumulative effect of adoption	<u><u>\$ (1,273,347)</u></u>

NOTES TO FINANCIAL STATEMENTS

Note 7. Other Postemployment Benefits (Continued)

Contributions: Nonhazardous covered employees are required to contribute 5.00% of their salary to the plan. Nonhazardous covered 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 to the KRS Insurance Fund for nonhazardous employees was 4.70%, 4.73%, and 4.64% for the years ended June 30, 2018, 2017, and 2016, respectively.

Contributions to the KRS Insurance Fund from the Commission were \$98,822 and \$99,335 for the years ended June 30, 2018 and 2017, respectively.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: At June 30, 2018, the Commission reported a liability of \$1,750,043 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016. The total OPEB liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2017, using generally accepted actuarial principles. The Commission's proportion of the net OPEB liability was based on the Commission's share of contributions to the OPEB plan relative to the contributions of all participating employers. At June 30, 2018, the Commission's proportion was .087052% for nonhazardous covered employees.

For the year ended June 30, 2018, the Commission recognized OPEB expense of \$187,525. At June 30, 2018, the Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	\$ 380,798	\$ - -
Net differences between projected and actual earnings on investments	- -	(82,706)
Difference between actual and expected experience	- -	(4,861)
Changes in proportion and differences between Commission's contributions and proportionate share of contributions	- -	(4,060)
Commission contributions subsequent to the measurement date	98,822	- -
	\$ 479,620	\$ (91,627)

The Commission's deferred outflows of resources of \$98,822 related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability during the year ending June 30, 2019. Other amounts reported as deferred outflows and inflows of resources as of June 30, 2018 will be recognized into OPEB expense as follows:

NOTES TO FINANCIAL STATEMENTS

Note 7. Other Postemployment Benefits (Continued)

Year Ending June 30:

2019	\$	49,755
2020		49,755
2021		49,755
2022		49,755
2023		70,431
2024		19,720
		\$ 289,171

Actuarial assumptions: The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Pay
Amortization Period	28 Years, Closed
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Payroll Growth Rate	4.00%
Inflation	3.25%
Salary Increase	4.00%, Average
Investment Rate of Return	7.50%
Healthcare Cost Trend Rates (Pre-65)	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years
Healthcare Cost Trend Rates (Post-65)	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years

The mortality for active members in RP-2000 Combined Mortality Table projected with Scale BB to 2013 (male mortality rates are multiplied by 50% and female mortality rates are multiplied by 30%). The mortality table for healthy retired members and beneficiaries is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (female mortality rates are set back one year). The mortality table for disabled members is the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (male mortality rates are set back four years). 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 long-term expected return on plan assets was determined by using a building-block method in which best-estimate ranges of expected future real returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

NOTES TO FINANCIAL STATEMENTS

Note 7. Other Postemployment Benefits (Continued)

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
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	2.00%	1.88%
	100.00%	

Discount rate: The discount rate used to measure the total OPEB liability was 5.84% for nonhazardous. The single discount rate was based on the expected rate of return on the OPEB plan investments of 6.25% and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2017. Future contributions are projected in accordance with the KRS Board's current funding policy, which includes the requirement that each participating employer in KRS contribute the actuarially determined contribution rate, which is determined using a closed funding period (26 years as of June 30, 2017) and the actuarial assumptions and methods adopted by the Board of Trustees of KRS. Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from KRS. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the KRS's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of KRS's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

Sensitivity of the Commission's proportionate share of the net OPEB liability to changes in the discount rate: The following presents the Commission's proportionate share of the net OPEB liability calculated using the discount rate of 5.84% for nonhazardous, 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 (4.84% for nonhazardous) or 1-percentage-point higher (6.84% for nonhazardous) than the current rate:

NOTES TO FINANCIAL STATEMENTS

Note 7. Other Postemployment Benefits (Continued)

	1% Decrease - 4.84% Nonhazardous	Current Discount Rate - 5.84% Nonhazardous	1% Increase - 6.84% Nonhazardous
Net OPEB Liability - Nonhazardous	\$ 2,226,833	\$ 1,750,043	\$ 1,353,279

Sensitivity of the Commission's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates: The following presents the Commission's proportionate share of the net OPEB liability, as well as what the Commission's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Healthcare Cost Trend Rate	1% Increase
Net OPEB Liability - Nonhazardous	\$ 1,342,373	\$ 1,750,043	\$ 2,279,990

Changes of assumptions: Subsequent to the actuarial valuation date, but prior to the measurement dates, the KRS Board of Trustees adopted updated actuarial assumptions which will be used in performing the actuarial valuation as of June 30, 2017. Specifically, total OPEB liability as of June 30, 2017 is determined using a 2.30% price inflation assumption and an assumed rate of return of 6.25%.

Pension plan fiduciary net position: Detailed information about the OPEB plan's fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report on the KRS website at www.kyret.ky.gov.

Note 8. 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, 2018 and 2017:

	Year Ended June 30,	
	2018	2017
Distributions to City of Barbourville	\$ 295,332	\$ 255,000

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

**SCHEDULE OF SELECTED ASSETS AND LIABILITIES
June 30, 2018**

	June 30, 2018
CASH	
On hand, petty cash and change fund maintained by imprest system	\$ 31,722
In bank, PNC Bank:	
Demand deposits	197,052
In bank, Commercial Bank:	
Demand deposits	199,230
	\$ 428,004

INVESTMENTS, CERTIFICATES OF DEPOSIT

Commercial: <u>Cert. No.</u>	Maturity <u>Date</u>	Interest <u>Rate</u>	June 30, 2018
1020521518	08/31/2018	1.00%	807,622
1020521496	08/31/2018	1.00%	1,392,042
1020521747	08/31/2018	1.00%	4,077,975
			\$ 6,277,639
Less, amounts included as restricted assets:			
Customer deposits			(924,923)
			\$ 5,352,716

ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Trade account, Kentucky Utilities Company (May and June 2018)	\$ 1,171,905
Other trade accounts	249,329
Accrued payroll taxes and benefits	53,654
Accrued vacation pay	233,729
	\$ 1,708,617

The amount due to Kentucky Utilities Company is for unbilled power purchased for May and June 2018.

CUSTOMERS' DEPOSITS

Electric customers	\$ 657,483
Water customers	267,440
	\$ 924,923

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

**SCHEDULE OF OPERATING INCOME AND EXPENSES DETAIL
Year Ended June 30, 2018**

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>
OPERATING REVENUES			
Charges for services	\$ 8,762,713	\$ 2,570,246	\$ 1,358,906
Penalties	46,706	46,706	46,706
Other operating revenues	67,767	74,158	33,350
Total operating revenues	<u>8,877,186</u>	<u>2,691,110</u>	<u>1,438,962</u>
OPERATING EXPENSES			
Direct expenses:			
Production costs:			
Purchased services	7,009,495	--	--
Supplies and expenses	1,920	286,381	99,588
Distribution costs:			
Salaries	534,386	764,097	258,879
Transportation	37,317	53,699	20,998
Maintenance	161,327	265,232	143,937
	<u>7,744,445</u>	<u>1,369,409</u>	<u>523,402</u>
Administrative and general expenses:			
Salaries:			
Office	84,635	78,509	72,948
Commissioners	1,440	1,440	1,440
Deferred compensation	403,626	332,991	131,178
Office supplies and expenses	44,215	40,888	37,701
Insurance	303,263	250,192	98,561
Payroll taxes	45,254	63,627	25,449
Professional fees	105,877	7,635	7,635
Bad debts, net of recoveries	58,187	--	--
Customer deposit interest	3,055	1,239	--
	<u>1,049,552</u>	<u>776,521</u>	<u>374,912</u>
Depreciation	<u>123,292</u>	<u>665,366</u>	<u>1,029,830</u>
Total operating expenses	<u>8,917,289</u>	<u>2,811,296</u>	<u>1,928,144</u>
Operating income (loss)	<u>\$ (40,103)</u>	<u>\$ (120,186)</u>	<u>\$ (489,182)</u>

<u>Cable TV & Internet</u>	<u>Total</u>
\$ 2,925,943	\$ 15,617,808
93,412	233,530
89,946	265,221
<u>3,109,301</u>	<u>16,116,559</u>
1,405,025	8,414,520
255,886	643,775
359,642	1,917,004
27,711	139,725
100,884	671,380
<u>2,149,148</u>	<u>11,786,404</u>
133,840	369,932
2,880	7,200
141,269	1,009,064
81,954	204,758
106,142	758,158
37,951	172,281
20,520	141,667
--	58,187
--	4,294
<u>524,556</u>	<u>2,725,541</u>
<u>84,980</u>	<u>1,903,468</u>
<u>2,758,684</u>	<u>16,415,413</u>
<u>\$ 350,617</u>	<u>\$ (298,854)</u>

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

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

	Electric	Water	Sewer
OPERATING REVENUES			
Charges for services	\$ 8,237,069	\$ 2,587,711	\$ 1,347,963
Penalties	42,974	42,973	42,974
Other operating revenues	121,441	102,239	44,989
Total operating revenues	8,401,484	2,732,923	1,435,926
 OPERATING EXPENSES			
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
	7,398,331	1,343,873	602,937
 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	--
	883,496	663,812	323,727
Depreciation	128,205	656,282	785,666
Total operating expenses	8,410,032	2,663,967	1,712,330
Operating income (loss)	\$ (8,548)	\$ 68,956	\$ (276,404)

<u>Cable TV & Internet</u>	<u>Total</u>
\$ 2,896,588	\$ 15,069,331
85,947	214,868
121,666	390,335
<u>3,104,201</u>	<u>15,674,534</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>
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<u>2,605,560</u>	<u>15,391,889</u>
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<u>\$ 498,641</u>	<u>\$ 282,645</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

	June 30,			
	2017	2016	2015	2014
NONHAZARDOUS				
Commission's proportion of net pension liability	0.087052%	0.082493%	0.082194%	0.084334%
Commission's proportionate share of the net pension liability	\$ 5,095,421	\$ 4,061,660	\$ 3,533,964	\$ 2,736,000
Commission's covered-employee payroll	\$ 2,100,107	\$ 1,972,346	\$ 1,920,397	\$ 1,934,753
Commission's proportionate share of the net pension liability as a percentage of its employee-covered payroll	242.63%	205.93%	184.02%	141.41%
Plan Fiduciary net position as a percentage of the total pension liability	53.30%	55.50%	59.97%	66.80%

* June 30, 2017, 2016, 2015 and 2014 reflect the respective dates for the actuarial valuation.

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

SCHEDULE OF COMMISSION CONTRIBUTIONS - PENSION

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
NONHAZARDOUS					
Contractually required contribution	\$ 304,456	\$ 292,965	\$ 244,965	\$ 244,851	\$ 265,835
Contributions in relation to the contractually required contribution	<u>(304,456)</u>	<u>(292,965)</u>	<u>(244,965)</u>	<u>(244,851)</u>	<u>(265,835)</u>
Contribution deficiency (excess)	<u>\$ - -</u>	<u>\$ - -</u>	<u>\$ - -</u>	<u>\$ - -</u>	<u>\$ - -</u>
Commission's covered employee-payroll	\$ 2,102,594	\$ 2,100,107	\$ 1,972,346	\$ 1,920,397	\$ 1,934,753
Contributions as a percentage of covered-employee payroll	14.48%	13.95%	12.42%	12.75%	13.74%

* June 30, 2018, 2017, 2016, 2015 and 2014 reflect financial reporting dates.

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

SCHEDULE OF COMMISSION'S PROPORTIONATE SHARE OF NET OPEB LIABILITY

	2017
NONHAZARDOUS	
Commission's proportion of net OPEB liability	0.087052%
Commission's proportionate share of the net OPEB liability	\$ 1,750,043
Commission's covered-employee payroll	\$ 2,100,107
Commission's proportionate share of the net OPEB liability as a percentage of its employee-covered payroll	83.33%
Plan Fiduciary net position as a percentage of the total OPEB liability	52.40%

* June 30, 2017 reflect the respective date for the actuarial valuation.

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

SCHEDULE OF COMMISSION CONTRIBUTIONS - OPEB

	2018	2017
NONHAZARDOUS		
Contractually required contribution	\$ 98,822	\$ 99,335
Contributions in relation to the contractually required contribution	(98,822)	(99,335)
Contribution deficiency (excess)	\$ --	\$ --
Commission's covered employee-payroll	\$ 2,102,594	\$ 2,100,107
Contributions as a percentage of covered-employee payroll	4.70%	4.73%

* June 30, 2018 and 2017 reflect financial reporting dates.

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

**STATISTICAL DATA
(Unaudited)**

During the years ended June 30, 2018 and 2017, the system handled the following volume of services:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Electric kilowatt hours purchased	<u>91,896,000</u>	<u>90,480,000</u>
Water, number of gallons sold and or used by the commission	<u>348,107,700</u>	<u>349,700,100</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, 2018, and the related notes to the financial statements, and have issued our report thereon dated February 2, 2019.

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 (2018-001).

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 P.C.

Louisville, Kentucky
February 2, 2019

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

**SUMMARY SCHEDULE OF AUDIT FINDINGS
Year Ended June 30, 2018**

FINDINGS—FINANCIAL STATEMENTS AUDIT

2018-001 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, 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.