

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

COMPREHENSIVE ANNUAL FINANCIAL REPORT

June 30, 2019

CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1-3
MANAGEMENT'S DISCUSSION & ANALYSIS	4-7
FINANCIAL STATEMENTS	
Statements of Net Position	8
Statements of Revenues, Expenses, and Changes in Net Position	9
Statements of Cash Flows	10-11
Notes to Financial Statements	12-25
SUPPLEMENTARY INFORMATION	
Schedule of Selected Assets and Liabilities	26
Schedule of Operating Income Detail 2019	27
Schedule of Operating Income Detail 2018	28
Schedule of Commission's Proportionate Share of Net Pension Liability	29
Schedule of Commission Contributions - Pension	30
Schedule of Commission's Proportionate Share of Net OPEB Liability	31
Schedule of Commission Contributions - OPEB	32
Statistical Data (Unaudited)	33
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	34-35
Summary Schedule of Audit Findings	36
Summary Schedule of Prior Audit Findings	37



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, 2019 and 2018, 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, 2019 and 2018, 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 6, 2020, 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 P.C.

Louisville, Kentucky

February 6, 2020

**BARBOURVILLE UTILITY COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

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, 2019. Please read it in conjunction with the Commission's financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

- Change in net position increased by \$283,000 from a \$250,000 decrease to a \$33,000 increase.
- Total liabilities decreased by 4.45% from \$19,204,000 to \$18,385,000.
- Operating revenues decreased by 1.05% from \$16,117,000 to \$15,950,000.
- Non-operating revenues increased by \$999,000.

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 increased by \$33,000 for 2019 as compared to a decrease of \$1,523,000 for 2018. Our analysis below focuses on the Statements of Net Position (Table 1) and The Statements of Revenues, Expenses and Changes in Net Position (Table 2) of the Commission's business-type activities.

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

	2019	2018	Amount of Change
Current and other assets	\$ 8,101	\$ 8,753	\$ (652)
Capital assets	30,551	29,978	573
Total assets	<u>38,652</u>	<u>38,731</u>	<u>(79)</u>
Deferred outflows of resources	<u>1,776</u>	<u>2,279</u>	<u>(503)</u>
Long-term liabilities	15,403	16,062	(659)
Other liabilities	2,982	3,142	(160)
Total liabilities	<u>18,385</u>	<u>19,204</u>	<u>(819)</u>
Deferred inflows of resources	<u>777</u>	<u>573</u>	<u>204</u>
Net investment in capital assets	22,810	21,835	975
Unrestricted	(1,544)	(602)	(942)
Total net position	<u>\$ 21,266</u>	<u>\$ 21,233</u>	<u>\$ 33</u>

Total assets decreased by \$79,000, deferred outflows of resources decreased by \$503,000, total liabilities decreased by \$819,000 and deferred inflows of resources increased by \$204,000, resulting in an increase in net position of \$33,000 for 2019.

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 2019	Year Ended 2018	Amount of Change
Operating revenues	\$ 15,950	\$ 16,117	\$ (167)
Operating expenses:			
Direct costs	11,571	11,787	(216)
Administrative and general	3,234	2,726	508
Depreciation	2,086	1,903	183
Total operating expenses	16,891	16,416	475
Operating (loss)	(941)	(299)	(642)
Non-operating revenues	1,343	344	999
Income before distributions	402	45	357
Distributions	(369)	(295)	(74)
Change in net position	\$ 33	\$ (250)	\$ 283

Operating revenues decreased by \$167,000 and operating expenses increased by \$475,000 resulting in a total increase in operating loss of \$642,000. Distributions to the City of Barbourville increased by \$74,000. Non-operating revenues increased from the prior year by \$999,000.

Approximately \$2,660,000 was spent on new capital assets for the year ended June 30, 2019. The following is a list of the major additions for the year:

Machinery and equipment	\$ 2,424,898
Sewer rehabilitation	159,622
Industrial park improvements	75,065

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 \$982,000 was outstanding at June 30, 2019. The Commission made \$31,000 of principal payments for the year ended June 30, 2019. 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 \$489,000 was outstanding at June 30, 2019. The Commission made \$16,000 of principal payments for the year ended June 30, 2019. 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 \$112,000 in principal payments for the year ended June 30, 2019. The balance outstanding at June 30, 2019 was \$1,958,000.

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 \$243,000 in principal payments for the year ended June 30, 2019. The balance outstanding at June 30, 2019 was \$4,235,000.

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 made \$78,000 in principal payments for the year ended June 30, 2019. The balance outstanding at June 30, 2019 is \$1,554,000.

ECONOMIC FACTORS FOR NEXT YEAR

Revenue from cable services should increase due to scheduled increases in fees charged to customers for fiscal year 2020. 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.

The Commission has secured the services of NewGen Strategies to perform a financial performance and retail rate review for our electric system. This study should conclude in December 2019. The Commission plans to implement new electric rates around January 1, 2020.

There are no planned rate increases for internet, water, or sanitary sewer.

The Commission began a project 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 years. The FTTH project is roughly 80% complete and should be finished by end of the 2nd Quarter of FY2020.

The Commission has plans to repair or replace Gilliam Hill, RECC and Sampson Hill water tanks over the next 3-5 years. The cost to replace each tank is roughly \$500K for a total cost of \$1.5 Million to replace all 3 tanks. The Commission is seeking USDA assistance to replace the tanks as well as applying for low interest state revolving funds through KIA.

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

**STATEMENTS OF NET POSITION
June 30, 2019 and 2018**

	2019	2018
ASSETS		
Current assets:		
Cash	\$ 736,891	\$ 428,004
Accounts receivable	1,311,497	1,305,883
Parts not in service	469,788	741,943
Total current assets	2,518,176	2,475,830
Restricted assets:		
Customers' deposits, certificates of deposit	958,132	924,923
Total restricted assets	958,132	924,923
Non-current assets:		
Investments, certificates of deposit	4,624,869	5,352,716
Capital assets		
Land, water rights, and other non-depreciated assets	2,851,604	2,851,604
Utility plant and equipment, net of depreciation	27,699,759	27,126,188
Total non-current assets	35,176,232	35,330,508
Total assets	\$ 38,652,540	\$ 38,731,261
 DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions	\$ 1,358,467	\$ 2,278,726
Deferred outflows related to OPEB	417,377	-
Total deferred outflows of resources	\$ 1,775,844	\$ 2,278,726
 LIABILITIES		
Current liabilities:		
Current maturities of long-term debt	\$ 485,745	\$ 480,112
Accounts payable and accrued expenses	1,509,632	1,708,617
Accrued interest payable	28,116	28,590
Total current liabilities	2,023,493	2,217,319
Liabilities payable from restricted assets:		
Customers' deposits	958,132	924,923
Total liabilities payable from restricted assets	958,132	924,923
Non-current liabilities:		
Long-term debt, less current maturities	8,730,660	9,216,405
Net pension liability	5,166,649	5,095,421
Net OPEB liability	1,506,140	1,750,043
Total non-current liabilities	15,403,449	16,061,869
Total liabilities	\$ 18,385,074	\$ 19,204,111
 DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions	\$ 453,669	\$ 481,083
Deferred inflows related to OPEB	323,116	91,627
Total deferred inflows of resources	\$ 776,785	\$ 572,710
 NET POSITION		
Net investment in capital assets	22,810,062	21,834,976
Unrestricted (deficit)	(1,543,537)	(601,810)
Total net position	\$ 21,266,525	\$ 21,233,166

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, 2019 and 2018**

	2019	2018
OPERATING REVENUES		
Charges for services	\$ 15,453,660	\$ 15,617,809
Penalties	229,098	233,529
Other operating revenues	267,614	265,221
Total operating revenues	15,950,372	16,116,559
OPERATING EXPENSES		
Direct expenses	11,571,167	11,786,404
Administrative and general	3,234,201	2,725,541
Depreciation	2,086,014	1,903,468
Total operating expenses	16,891,382	16,415,413
Operating (loss)	(941,010)	(298,854)
NON-OPERATING REVENUES (EXPENSES)		
Investment income	126,809	67,757
Grant income	689,723	349,227
Rental income	29,891	45,931
Interest expense	(124,272)	(125,465)
Forgiveness of debt	-	35,323
Other income (expenses), net	620,795	(28,937)
Total non-operating revenues	1,342,946	343,836
Income before distributions	401,936	44,982
Distributions to City of Barbourville	(368,577)	(295,332)
Change in net position	33,359	(250,350)
Net position, beginning of year, as previously reported	21,233,166	22,756,863
Cumulative effect of adoption of new accounting principle	-	(1,273,347)
Net position, beginning of year, as restated	21,233,166	21,483,516
Net position, end of year	\$ 21,266,525	\$ 21,233,166

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, 2019 and 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 15,627,342	\$ 15,778,556
Cash payments to suppliers for goods and services	(11,143,390)	(11,373,215)
Cash payments to employees for services	(3,004,724)	(2,897,765)
Other operating revenues	918,300	282,215
Net cash provided by operating activities	2,397,528	1,789,791
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Distributions to City of Barbourville	(368,577)	(295,332)
Increase in customers' deposits, net	33,209	16,967
Net cash (used in) non-capital financing activities	(335,368)	(278,365)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from loan from governmental agencies	--	353,231
Principal paid on loan from governmental agencies	(480,112)	(436,925)
Interest paid on loan from governmental agencies	(124,746)	(128,558)
Cash received from construction project grants	689,723	349,227
Acquisition and construction of capital assets	(2,659,585)	(3,839,066)
Net cash (used in) capital and related financing activities	(2,574,720)	(3,702,091)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	126,809	67,757
Sale of investments	694,638	--
Purchase of investments	--	(59,345)
Net cash provided by investing activities	821,447	8,412
Net increase (decrease) in cash	308,887	(2,182,253)
CASH		
Beginning	428,004	2,610,257
Ending	\$ 736,891	\$ 428,004

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, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating (loss)	<u>\$ (941,010)</u>	<u>\$ (298,854)</u>
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation	2,086,014	1,903,468
Change in assets and liabilities:		
Accounts receivable	(5,614)	(7,390)
Parts not in service	272,155	(279,382)
Deferred outflows - Pension and OPEB	502,882	(1,452,484)
Accounts payable and accrued expenses	451,701	(133,837)
Net pension and OPEB liability	(172,675)	1,510,457
Deferred inflows - Pension and OPEB	<u>204,075</u>	<u>547,813</u>
Total adjustments	<u>3,338,538</u>	<u>2,088,645</u>
Net cash provided by operating activities	<u><u>\$ 2,397,528</u></u>	<u><u>\$ 1,789,791</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 City). 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 6, 2020, 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, 2019 and 2018, the book balance of the Commission's cash and investments was \$6,319,892 and \$6,705,643, respectively, which consisted of \$736,891 and \$428,004, respectively, in cash and \$5,583,001 and \$6,277,639, 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.

Accounting principles generally accepted in the United States of America 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, 2018	Increases	Decreases	Balance June 30, 2019
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	13,811,596	82,788	--	13,894,384
Sewer	10,286,034	--	--	10,286,034
Total plant	<u>25,078,236</u>	<u>82,788</u>	<u>--</u>	<u>25,161,024</u>
Equipment:				
Electric	2,514,538	240,450	--	2,754,988
Water	12,808,765	416,855	--	13,225,620
Sewer	3,373,604	159,622	--	3,533,226
Cable	5,330,273	853,202	--	6,183,475
Joint facilities	3,296,074	906,668	--	4,202,742
Total equipment	<u>27,323,254</u>	<u>2,576,797</u>	<u>--</u>	<u>29,900,051</u>
Total other capital assets	<u>52,401,490</u>	<u>2,659,585</u>	<u>--</u>	<u>55,061,075</u>
Less accumulated depreciation for:				
Plant:				
Electric	764,824	18,885	--	783,709
Water	8,453,056	335,755	--	8,788,811
Sewer	2,857,901	376,374	--	3,234,275
Total plant	<u>12,075,781</u>	<u>731,014</u>	<u>--</u>	<u>12,806,795</u>
Equipment:				
Electric	1,982,148	49,650	--	2,031,798
Water	5,125,753	538,243	--	5,663,996
Sewer	1,322,360	379,371	--	1,701,731
Cable	2,397,642	218,996	--	2,616,638
Joint facilities	2,371,618	168,740	--	2,540,358
Total equipment	<u>13,199,521</u>	<u>1,355,000</u>	<u>--</u>	<u>14,554,521</u>
Total accumulated depreciation	<u>25,275,302</u>	<u>2,086,014</u>	<u>--</u>	<u>27,361,316</u>
Other capital assets, net	<u>27,126,188</u>			<u>27,699,759</u>
Capital assets, net	<u>\$ 29,977,792</u>			<u>\$ 30,551,363</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	
		2019	2018
Electric	10-33 years	\$ 68,535	\$ 66,389
Water	5-50 years	873,998	874,424
Sewer	5-50 years	755,745	732,039
Cable	7 years	218,996	91,454
Joint facilities	4-10 years	168,740	139,162
		<u>\$ 2,086,014</u>	<u>\$ 1,903,468</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 \$323,117 and \$641,757 for the years ended June 30, 2019 and 2018, respectively.

Note 5. Long-Term Debt

Changes in long-term debt for the year ended June 30, 2019 were as follows:

Description	Balance July 1, 2018	Increases	Decreases	Balance June 30, 2019	Due Within One Year
Note Payable (A)	\$ 1,012,977	\$ --	\$ 31,333	981,644	\$ 32,430
Note Payable (B)	504,516	--	15,596	488,920	15,986
Note Payable (C)	2,069,801	--	112,280	1,957,521	113,406
Note Payable (D)	4,477,512	--	242,893	4,234,619	245,327
Note Payable (E)	1,631,711	--	78,010	1,553,701	78,596
	<u>\$ 9,696,517</u>	<u>\$ --</u>	<u>\$ 480,112</u>	<u>\$ 9,216,405</u>	<u>\$ 485,745</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, 2019 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, 2019 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 maximum amount of \$185,611 has been forgiven as of June 30, 2018.

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

Due Fiscal Year Ending June 30,	Principal	Interest
2020	\$ 485,745	\$ 119,112
2021	491,467	113,391
2022	497,278	107,580
2023	503,183	101,676
2024	509,181	95,677
2025-2029	2,639,326	384,955
2030-2034	2,804,761	219,529
2035-2039	1,140,358	69,739
2040-2044	145,106	6,300
	\$ 9,216,405	\$ 1,217,959

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 16.22%, 14.48%, and 13.95% for the years ended June 30, 2019, 2018 and 2017, respectively. The Commission made contributions to the plan in the amount of \$359,489, \$304,456 and \$292,965 for the years ended June 30, 2019, 2018 and 2017, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At June 30, 2019 and 2018, the Commission reported a liability of \$5,166,649 and \$5,095,421 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and 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, 2018, the Commission's proportion was 0.084834% for nonhazardous covered employees.

NOTES TO FINANCIAL STATEMENTS

Note 6. Retirement Plan (Continued)

Pension expense totaled \$843,942 and \$821,539 for the years ended June 30, 2019 and 2018. As of June 30, 2019, 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	\$ 504,932	\$ - -
Net differences between projected and actual earnings on investments	240,253	(302,204)
Difference between actual and expected experience	168,522	(75,629)
Changes in proportion and differences between Commission's contributions and proportionate share of contributions	85,271	(75,836)
Commission contributions subsequent to the measurement date	359,489	- -
	\$ 1,358,467	\$ (453,669)

The Commission's deferred outflows of resources totaling \$359,489 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, 2020. Other amounts reported as deferred inflows and outflows of resources as of June 30, 2019 will be recognized into pension expense (benefit) as follows:

Year Ending June 30:

2020	\$ 442,706
2021	204,493
2022	(74,160)
2023	(27,730)
	\$ 545,309

Actuarial assumptions: The total pension liability in the June 30, 2018 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 total pension liability, net pension liability, and sensitivity information as of June 30, 2018 were based on an actuarial valuation date of June 30, 2017. The total pension liability was rolled forward from the valuation date (June 30, 2017) to the plan's fiscal year ended June 30, 2018, using generally accepted actuarial principles.

The Mortality Table used for active members is RP-2000 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.

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 Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	2.00%	1.50%
	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	\$ 6,504,276	\$ 5,166,649	\$ 4,045,952

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 2019 legislative session that had a material change in benefit provisions for either system.

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 5.26%, 4.70%, and 4.73% for the years ended June 30, 2019, 2018, and 2017, respectively.

Contributions to the KRS Insurance Fund from the Commission were \$116,579 and \$98,822 for the years ended June 30, 2019 and 2018, respectively.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: At June 30, 2019 and 2018, the Commission reported a liability of \$1,506,140 and \$1,750,043, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018 and 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2018, 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, 2019, the Commission's proportion was .084834% for nonhazardous covered employees.

NOTES TO FINANCIAL STATEMENTS

Note 7. Other Postemployment Benefits (Continued)

For the year ended June 30, 2019 and 2018, the Commission recognized OPEB expense of \$166,408 and \$187,525. At June 30, 2019, 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	\$ 300,798	\$ (3,480)
Net differences between projected and actual earnings on investments	--	(103,743)
Difference between actual and expected experience	--	(175,521)
Changes in proportion and differences between Commission's contributions and proportionate share of contributions	--	(40,372)
Commission contributions subsequent to the measurement date	116,579	--
	\$ 417,377	\$ (323,116)

The Commission's deferred outflows of resources of \$116,579 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, 2020. Other amounts reported as deferred outflows and inflows of resources as of June 30, 2019 will be recognized into OPEB expense (benefit) as follows:

Year Ending June 30:

2020	\$ (2,404)
2021	(2,404)
2022	(2,404)
2023	17,744
2024	(20,834)
2025	(12,016)
	\$ (22,318)

NOTES TO FINANCIAL STATEMENTS

Note 7. Other Postemployment Benefits (Continued)

Actuarial assumptions: The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Pay
Amortization Period	27 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 Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	2.00%	1.50%
	100.00%	

Discount rate: The discount rate used to measure the total OPEB liability was 5.85% for nonhazardous. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.62%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

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 5.85% 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 (4.85% for nonhazardous) or 1-percentage-point higher (6.85% for nonhazardous) than the current rate:

NOTES TO FINANCIAL STATEMENTS

Note 7. Other Postemployment Benefits (Continued)

	1% Decrease - 4.85% Nonhazardous	Current Discount Rate - 5.85% Nonhazardous	1% Increase - 6.85% Nonhazardous
Net OPEB Liability - Nonhazardous	\$ 1,956,234	\$ 1,506,140	\$ 1,122,742

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	\$ 1,121,336	\$ 1,506,140	\$ 1,959,713

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, 2018. Specifically, total OPEB liability as of June 30, 2018 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 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, 2019 and 2018:

	Year Ended June 30,	
	2019	2018
Distributions to City of Barbourville	\$ 368,577	\$ 295,332

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

**SCHEDULE OF SELECTED ASSETS AND LIABILITIES
June 30, 2019**

	June 30, 2019
CASH	
On hand, petty cash and change fund maintained by imprest system	\$ 31,722
In bank, PNC Bank:	
Demand deposits	505,939
In bank, Commercial Bank:	
Demand deposits	199,230
	\$ 736,891

INVESTMENTS, CERTIFICATES OF DEPOSIT

Commercial: <u>Cert. No.</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>June 30, 2019</u>	
1021722266	08/31/2019	2.25%	1,420,795	
1021722428	08/31/2019	2.25%	4,162,206	\$ 5,583,001
Less, amounts included as restricted assets:				
Customer deposits				(958,132)
				\$ 4,624,869

ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Trade account, Kentucky Utilities Company (May 2019)	\$ 9,202
Trade account, Kentucky Municipal Energy Agency (June 2019)	491,320
Other trade accounts	664,824
Accrued payroll taxes and benefits	68,142
Accrued vacation pay	276,144
	\$ 1,509,632

The amount due to Kentucky Utilities and Kentucky Municipal Energy Agency is for unbilled power purchased for May and June 2019.

CUSTOMERS' DEPOSITS

Electric customers	\$ 686,635
Water customers	271,497
	\$ 958,132

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

**SCHEDULE OF OPERATING INCOME AND EXPENSES DETAIL
Year Ended June 30, 2019**

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>
OPERATING REVENUES			
Charges for services	\$ 8,403,865	\$ 2,579,228	\$ 1,351,790
Penalties	45,820	45,820	45,820
Other operating revenues	76,419	77,779	32,441
Total operating revenues	<u>8,526,104</u>	<u>2,702,827</u>	<u>1,430,051</u>
OPERATING EXPENSES			
Direct expenses:			
Production costs:			
Purchased services	6,356,595	--	--
Supplies and expenses	1,967	294,692	98,210
Distribution costs:			
Salaries	519,395	808,024	293,816
Transportation	48,787	59,468	20,861
Maintenance	386,542	325,009	237,600
	<u>7,313,286</u>	<u>1,487,193</u>	<u>650,487</u>
Administrative and general expenses:			
Salaries:			
Office	92,831	78,542	71,868
Commissioners	1,440	1,440	1,440
Deferred compensation	404,877	334,023	131,585
Office supplies and expenses	22,490	17,488	13,407
Office billing	21,295	21,295	21,295
Insurance	478,039	394,382	155,370
Payroll taxes	44,381	67,216	27,852
Professional fees	133,456	8,248	8,248
Bad debts, net of recoveries	48,001	--	--
Customer deposit interest	6,666	2,639	--
Advertising and marketing	1,457	1,710	1,457
	<u>1,253,476</u>	<u>925,273</u>	<u>431,065</u>
Depreciation	<u>142,387</u>	<u>695,064</u>	<u>1,077,299</u>
Total operating expenses	<u>8,709,149</u>	<u>3,107,530</u>	<u>2,158,851</u>
Operating income (loss)	<u>\$ (183,045)</u>	<u>\$ (404,703)</u>	<u>\$ (728,800)</u>

<u>Cable TV & Internet</u>	<u>Total</u>
\$ 3,118,777	\$ 15,453,660
91,638	229,098
80,975	267,614
3,291,390	15,950,372

1,346,374	7,702,969
176,099	570,968
386,396	2,007,631
32,978	162,094
178,354	1,127,505
2,120,201	11,571,167

145,526	388,767
2,880	7,200
141,706	1,012,191
32,604	85,989
42,591	106,476
167,314	1,195,105
40,671	180,120
17,336	167,288
--	48,001
--	9,305
29,135	33,759
590,628	3,234,201

171,264	2,086,014
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2,882,093	16,891,382
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\$ 409,297	\$ (941,010)
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**BARBOURVILLE UTILITY COMMISSION
COMPONENT UNIT OF CITY OF BARBOURVILLE, KENTUCKY**

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

	Electric	Water	Sewer
OPERATING REVENUES			
Charges for services	\$ 8,762,713	\$ 2,570,247	\$ 1,358,906
Penalties	46,706	46,705	46,706
Other operating revenues	67,767	74,158	33,350
Total operating revenues	8,877,186	2,691,110	1,438,962
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
	7,744,445	1,369,409	523,402
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	25,450
Professional fees	105,876	7,635	7,635
Bad debts, net of recoveries	58,187	--	--
Customer deposit interest	3,055	1,239	--
	1,049,551	776,521	374,913
Depreciation	123,292	665,366	1,029,830
Total operating expenses	8,917,288	2,811,296	1,928,145
Operating income (loss)	\$ (40,102)	\$ (120,186)	\$ (489,183)

<u>Cable TV & Internet</u>	<u>Total</u>
\$ 2,925,943	\$ 15,617,809
93,412	233,529
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	172,282
20,520	141,666
--	58,187
--	4,294
<u>524,556</u>	<u>2,725,541</u>

<u>84,979</u>	<u>1,903,468</u>
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<u>2,758,683</u>	<u>16,415,413</u>
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<u>\$ 350,618</u>	<u>\$ (298,854)</u>
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**BARBOURVILLE UTILITY COMMISSION
COMPONENT UNIT OF CITY OF BARBOURVILLE, KENTUCKY**

SCHEDULE OF COMMISSION'S PROPORTIONATE SHARE OF NET PENSION LIABILITY

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
NONHAZARDOUS					
Commission's proportion of net pension liability	0.084834%	0.087052%	0.082493%	0.082194%	0.084334%
Commission's proportionate share of the net pension liability	\$ 5,166,649	\$ 5,095,421	\$ 4,061,660	\$ 3,533,964	\$ 2,736,000
Commission's covered-employee payroll	\$ 2,102,594	\$ 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	245.73%	242.63%	205.93%	184.02%	141.41%
Plan Fiduciary net position as a percentage of the total pension liability	53.54%	53.30%	55.50%	59.97%	66.80%

* June 30, 2018, 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>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
NONHAZARDOUS						
Contractually required contribution	\$ 359,489	\$ 304,456	\$ 292,965	\$ 244,965	\$ 244,851	\$ 265,835
Contributions in relation to the contractually required contribution	<u>(359,489)</u>	<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>	<u>\$ --</u>
Commission's covered employee-payroll	\$ 2,216,332	\$ 2,102,594	\$ 2,100,107	\$ 1,972,346	\$ 1,920,397	\$ 1,934,753
Contributions as a percentage of covered-employee payroll	16.22%	14.48%	13.95%	12.42%	12.75%	13.74%

* June 30, 2019, 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

	2018	2017
NONHAZARDOUS		
Commission's proportion of net OPEB liability	0.084834%	0.087052%
Commission's proportionate share of the net OPEB liability	\$ 1,506,140	\$ 1,750,043
Commission's covered-employee payroll	\$ 2,102,594	\$ 2,100,107
Commission's proportionate share of the net OPEB liability as a percentage of its employee-covered payroll	71.63%	83.33%
Plan Fiduciary net position as a percentage of the total OPEB liability	57.62%	52.40%

* June 30, 2018 and 2017 reflect the respective date for the actuarial valuation.

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

SCHEDULE OF COMMISSION CONTRIBUTIONS - OPEB

	<u>2019</u>	<u>2018</u>	<u>2017</u>
NONHAZARDOUS			
Contractually required contribution	\$ 116,579	\$ 98,822	\$ 99,335
Contributions in relation to the contractually required contribution	(116,579)	(98,822)	(99,335)
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
Commission's covered employee-payroll	\$ 2,216,332	\$ 2,102,594	\$ 2,100,107
Contributions as a percentage of covered-employee payroll	5.26%	4.70%	4.73%

* June 30, 2019, 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, 2019 and 2018, the system handled the following volume of services:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Electric kilowatt hours purchased	<u>89,243,510</u>	<u>91,896,000</u>
Water, number of gallons sold and or used by the commission	<u>344,952,600</u>	<u>348,107,700</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, 2019, and the related notes to the financial statements, and have issued our report thereon dated February 6, 2020.

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 (2019-001).

Compliance and Other Matters

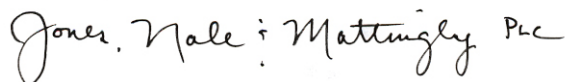
As part of obtaining reasonable assurance about whether Barbourville Utility Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a 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.



Louisville, Kentucky
February 6, 2020

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

**SUMMARY SCHEDULE OF AUDIT FINDINGS
Year Ended June 30, 2019**

FINDINGS—FINANCIAL STATEMENT AUDIT

2019-001 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 fiber internet parts and use fiber internet parts without any tracking.

Cause: Management has not implemented procedures to track all internet 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 five departments, including fiber internet, in the coming year.

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

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

FINDINGS—FINANCIAL STATEMENT 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 five departments, including cable, in the coming year.