

Knox County Utility Commission
Artemus, Kentucky

Independent Auditors' Report
And Financial Statements
For the Years Ended
December 31, 2015 and 2014

Knox County Utility Commission
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Independent Auditors' Report

To the Commissioners
Knox County Utility Commission
Artemus, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Knox County Utility Commission, (the Commission), as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 audits 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 auditors' 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 financial position of the business-type activities of the Knox County Utility Commission, as of December 31, 2015 and 2014, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 7 to the financial statements, during the year ended December 31, 2015, Knox County Utility Commission adopted new accounting guidance, *GASB Statement No. 68, Accounting and Financial Reporting for Pensions*. Accordingly, an adjustment has been made to net position as of December 31, 2014 to record the Commission's share of net pension liability. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of the Commission's Proportionate Share of the Net Pension Liability and the Schedule of Commission Contributions on pages 30-31 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Commission's basic financial statements. The accompanying departmental statements for the water and sewer departments are presented separately for the purpose of additional analysis and are not a required part of the basic financial statements.

The accompanying departmental statements for the water and sewer departments are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2016 on our consideration of the Knox County 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Knox County Utility Commission's internal control over financial reporting and compliance.

Christian Sturgeon & Associates, PSC

Christian Sturgeon & Associates, PSC
London, Kentucky

May 31, 2016

Knox County Utility Commission
 Statements of Net Position
 December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 654,452	\$ 606,439
Receivables, less allowance	104,680	84,441
Unbilled accounts receivable	78,378	56,587
Other receivables	-	3,825
Inventories	17,814	21,333
Other current assets	413	213
Total Current Assets	<u>855,737</u>	<u>772,838</u>
Noncurrent assets		
Restricted assets		
Restricted cash and cash equivalents	<u>35,558</u>	<u>92,976</u>
Capital Assets		
Land and improvements	44,619	44,619
Structures and improvements	511,387	510,886
Pumping equipment	182,816	142,436
Meters and meter installation	771,312	751,426
Hydrants	53,816	53,816
Storage tanks	1,148,102	1,148,102
Transmission and distribution plant	10,416,631	10,127,318
Vehicles and other equipment	426,792	415,206
Office equipment	59,650	58,090
Lift stations	344,195	344,195
Construction in progress	-	115,502
	<u>13,959,320</u>	<u>13,711,596</u>
Accumulated depreciation	<u>(6,233,437)</u>	<u>(6,000,426)</u>
Net Capital Assets	<u>7,725,883</u>	<u>7,711,170</u>
Total Noncurrent Assets	<u>7,761,441</u>	<u>7,804,146</u>
Total Assets	<u>8,617,178</u>	<u>8,576,984</u>
Deferred Outflows of Resources		
Bond issue costs, net of amortization	70,974	8,443
Deferred pension costs	118,824	-
Total Deferred Outflows of Resources	<u>189,798</u>	<u>8,443</u>

See accompanying notes to financial statements.

Knox County Utility Commission
 Statements of Net Position (Continued)
 December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Liabilities		
Current Liabilities		
Current portion of long-term debt	100,000	58,000
Accounts payable	39,497	42,965
Accrued interest payable	47	47
Accrued salaries and taxes payable	18,078	12,606
Total Current Liabilities	<u>157,622</u>	<u>113,618</u>
Noncurrent Liabilities		
Customer deposits	29,463	28,013
Net pension liability	513,737	-
Long-term debt, less current portion	2,340,000	2,419,000
Total Noncurrent Liabilities	<u>2,883,200</u>	<u>2,447,013</u>
Total Liabilities	<u>3,040,822</u>	<u>2,560,631</u>
Net Position		
Net investment in capital assets	5,285,883	5,234,170
Restricted	35,558	92,976
Unrestricted (as restated)	444,713	697,650
Total Net Position	<u>\$ 5,766,154</u>	<u>\$ 6,024,796</u>

Knox County Utility Commission
 Statements of Revenues, Expenses and Changes in Net Position
 For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating Revenues		
Water sales	\$ 1,220,337	\$ 1,099,122
Sewer sales	24,285	19,167
Service charges	13,335	13,620
Tap fees	18,840	16,848
Penalties	34,129	31,152
Other revenues	<u>5,559</u>	<u>6,954</u>
Total Operating Revenues	<u>1,316,485</u>	<u>1,186,863</u>
Operating Expenses		
Salaries and wages	310,928	286,288
Employee benefits	201,302	194,714
Purchased power	232,212	219,624
Utilities	60,016	64,664
Chemicals	51,959	53,667
Repairs and maintenance	34,058	30,080
Contracted services	21,042	23,167
Vehicle and equipment expenses	20,427	24,751
Insurance	33,596	30,823
Sewer treatment	25,100	17,346
Amortization	10,996	422
Depreciation	233,011	454,318
Bad debt expense, net of recoveries	17,607	13,777
Other operating expenses	<u>53,468</u>	<u>44,444</u>
Total Operating Expenses	<u>1,305,722</u>	<u>1,458,085</u>
Operating Income (Loss)	<u>10,763</u>	<u>(271,222)</u>
Nonoperating Revenues (Expenses)		
Interest income	4,027	4,598
Federal and state grants	198,571	114,549
Interest expense	<u>(91,425)</u>	<u>(114,109)</u>
Total Nonoperating Revenues (Expenses)	<u>111,173</u>	<u>5,038</u>
Change in Net Position	121,936	(266,184)
Net Position, Beginning of Year (as previously reported)	6,024,796	6,290,980
Prior period adjustment	<u>(380,578)</u>	<u>-</u>
Net Position, Beginning of Year (as restated)	<u>5,644,218</u>	<u>6,290,980</u>
Net Position, End of Year	<u>\$ 5,766,154</u>	<u>\$ 6,024,796</u>

See accompanying notes to financial statements.

Knox County Utility Commission
Statements of Cash Flows
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows From Operating Activities		
Receipts from customers	\$ 1,270,346	\$ 1,178,257
Receipts from other activities	5,559	6,954
Payments to employees	(291,121)	(289,853)
Payments to suppliers	(750,936)	(709,594)
Net Cash Provided by Operating Activities	<u>233,848</u>	<u>185,764</u>
Cash Flows From Capital and Related Financing Activities		
Purchases of property, plant and equipment	(247,724)	(167,935)
Proceeds on debt	2,550,000	-
Principal payments on debt	(2,587,000)	(56,000)
Interest payments on debt	(91,425)	(114,109)
Bond issuance costs	(73,527)	-
Federal, state and local grants	202,396	110,724
Net Cash Used by Capital and Related Financing Activities	<u>(247,280)</u>	<u>(227,320)</u>
Cash Flows From Investing Activities		
Interest on cash and investments	4,027	4,598
Net Cash Provided by Investing Activities	<u>4,027</u>	<u>4,598</u>
Net Decrease in Cash and Cash Equivalents	(9,405)	(36,958)
Cash and Cash Equivalents at Beginning of Year	<u>699,415</u>	<u>736,373</u>
Cash and Cash Equivalents at End of Year	<u>\$ 690,010</u>	<u>\$ 699,415</u>
Reconciliation of Cash at End of Year		
Cash and Cash Equivalents	\$ 654,452	\$ 606,439
Restricted Cash and Cash Equivalents	35,558	92,976
Total Cash at End of Year	<u>\$ 690,010</u>	<u>\$ 699,415</u>

Knox County Utility Commission
 Statements of Cash Flows (Continued)
 For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Reconciliation of Operating Income (Loss) to Net Cash		
Provided by Operating Activities:		
Operating income (loss)	\$ 10,763	\$ (271,222)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	233,011	454,318
Amortization	10,996	422
(Increase) Decrease in:		
Accounts receivable	(20,239)	(1,646)
Unbilled accounts receivable	(21,791)	(847)
Inventory	3,519	2,140
Prepaid expenses and other assets	(200)	10
Deferred pension costs	(118,824)	-
Increase (Decrease) in:		
Accounts payable	(3,468)	5,313
Customer deposits	1,450	841
Accrued expenses	5,472	(3,565)
Net pension liability	133,159	-
	<u>\$ 233,848</u>	<u>\$ 185,764</u>
Net Cash Provided by Operating Activities	<u>\$ 233,848</u>	<u>\$ 185,764</u>

Knox County Utility Commission
Notes to Financial Statements
December 31, 2015 and 2014

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

The Knox County Utility Commission, of Knox County, Kentucky (the Commission) was created in 2001 from a merger of the East Knox Water District and the Dewitt Water District. Water Districts are organized under Chapter 74 of the Kentucky Revised Statutes. The Commission is governed by a five person board of Commissioners which is appointed by the Knox County Fiscal Court. The Commission is regulated by the Kentucky Public Service Commission.

The Commission is a rural water utility system whose purpose is to provide water and sewer services to its customers in a portion of Knox County, Kentucky. The Commission's primary source of revenue is from water and sewer sales to its customers, including public bodies and local businesses in its service area.

Basis of Accounting, Financial Presentation and Measurement Focus

The basic financial statements of the Commission have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

The Commission applies all relevant Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements, in which case, GASB prevails. In addition, the Commission applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

The Statements of Net Position and Statements of Revenues, Expenses and Changes in Net Position display information about the Commission as a whole. These statements include all funds of the Commission. The statements distinguish between governmental and business-type activities. The Commission does not have any governmental activities.

The financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating income reported by the Commission includes revenues and expenses related to the continuing operation of water and sewer service for its customers. Principal operating revenues are charges to customers for services. Principal operating expenses are the costs of providing the services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Cash and Cash Equivalents

The Commission considers demand deposits and certificates of deposit with maturities of less than three months to be cash equivalents.

Knox County Utility Commission
Notes to Financial Statements (Continued)
December 31, 2015 and 2014

Note 1 - Summary of Significant Accounting Policies (Continued)

Investments

The Commission is authorized by state statute to invest in: 1) obligations of the United States and of its agencies and instrumentalities; 2) bonds or certificates of indebtedness of this state and of its agencies and instrumentalities; 3) shares of any savings and loan insured by an agency of the government of the United States up to the amount so insured; 4) interest bearing deposits in nationally chartered or state banks chartered in Kentucky and insured by an agency of the government of the United States up to the amount so insured, and in larger amounts provided such bank shall pledge as security obligations of the United States government, its agencies and instrumentalities.

Accounts Receivable

Receivables include amounts due from customers for water and sewer services. These receivables are due at the time the services are billed. Billing is completed monthly and accounts are considered past due on the twenty-first day after the end of each billing period. Accounts receivable are presented net of uncollectible accounts. The allowance amount is estimated using a percentage of accounts past due more than 90 days. At December 31, 2015 and 2014, the allowance for doubtful accounts totaled \$10,500 and \$10,500, respectively.

Unbilled Accounts Receivable

Estimated unbilled revenues from water and sewer sales are recognized at the end of each fiscal year on a pro rata basis. The estimated amount is based on billing during the month following the close of the fiscal year.

Inventories and Prepaid Expenses

Inventories consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost and are recorded as an expense at the time individual items are used. Prepaid expenses include payments to vendors that benefit future reporting periods and are reported on the consumption basis.

Capital Assets

The Commission's property, plant and equipment with useful lives of more than one year are stated at historical cost. 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 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.

Estimated useful lives for depreciable assets are as follows:

<u>Asset Classification</u>	<u>Range of Lives</u>
Structures and improvements	35-40 years
Transmission distribution mains	50-75 years
Meters and services	30-50 years
Other equipment and vehicles	5-20 years

Knox County Utility Commission
Notes to Financial Statements (Continued)
December 31, 2015 and 2014

Note 1 – Significant Accounting Policies (Continued)

Customer Deposits

The Commission collects and holds in escrow a \$40 deposit from customers to ensure collection of its water and sewer charges. Interest at an annual rate of 0.12% is paid on these deposits.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Position

Net position is comprised of the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net position is classified in the following three components:

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted – This component of net position consists of restricted assets less liabilities and deferred inflows of resources related to those assets. Restricted assets are those with limits on their use that are externally imposed constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of net amounts of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or the restricted component of net position.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the Commission would typically use restricted assets first, but reserves the right to selectively spend unrestricted assets first.

Pensions

For purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Knox County Utility Commission
Notes to Financial Statements (Continued)
December 31, 2015 and 2014

Note 2 – Restricted Assets

Under the terms of all loan resolutions, the Commission is required to maintain certain accounts and funds for the benefit and protection of the creditors. In addition, the Commission is also required to collect reasonable and sufficient rates and charges for services rendered, prohibited from selling, leasing or mortgaging any part of the system without prior approval, required to maintain the operating system in good condition and to carry adequate insurance on all properties to protect against loss or damage.

The resolutions require the Commission to establish a depreciation fund or reserve to be used to finance the cost of unusual repairs, renewals and replacements not included in the annual budget and to pay for future system extensions. The balance of these accounts at December 31, 2015 and 2014 was \$35,558 and \$92,976.

Note 3 – Kentucky Revised Statute

At December 31, 2015 and 2014, all of the cash of the Commission was covered by federal depository insurance and securities pledged as collateral on behalf of the Commission. In accordance with Kentucky Revised Statute (KRS) 91A.060, the deposits are to be insured by the Federal Depository Insurance Corporation or collateralized to the extent uninsured by any obligations permitted by KRS 41.240(4). According to KRS 41.240(4), financial institutions shall either pledge or provide as collateral securities or other obligations having an aggregate current face value or current quoted market value at least equal to the deposits. According to KRS 91A.060, the Commission is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, interest bearing deposits of insured savings and loans, or interest bearing deposits of insured national or state banks. For additional cash descriptive information, see Note 1.

Note 4 – Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. The Commission does not have a deposit policy for custodial credit risk. As of December 31, 2015 and 2014, \$440,747 and \$565,653 of the Commission's total deposits at banks of \$690,747 and \$815,653, respectively, were exposed to custodial credit risk as follows:

	<u>2015</u>	<u>2014</u>
Uninsured and uncollateralized	\$ -	\$ -
Uninsured and collateral held by pledging bank	440,747	565,653
Uninsured and collateral held by pledging bank's trust department not in the District's name	-	-
Total	\$ 440,747	\$ 565,653

Knox County Utility Commission
Notes to Financial Statements (Continued)
December 31, 2015 and 2014

Note 5 – Capital Assets

The following is a summary of capital asset transactions for the year ended December 31, 2015:

	Balance Dec. 31, 2014	Additions	Dispositions	Balance Dec. 31, 2015
Land and land improvements	\$ 44,619	\$ -	\$ -	\$ 44,619
Structures and improvements	510,886	501	-	511,387
Pumping equipment	142,436	40,380	-	182,816
Meters and meter installation	751,426	19,886	-	771,312
Hydrants	53,816	-	-	53,816
Storage tanks	1,148,102	-	-	1,148,102
Transmission and distribution plant	10,127,318	289,313	-	10,416,631
Vehicles and other equipment	415,206	11,586	-	426,792
Office equipment	58,090	1,560	-	59,650
Lift stations	344,195	-	-	344,195
Construction in progress	115,502	173,811	289,313	-
Totals at historical cost	<u>13,711,596</u>	<u>537,037</u>	<u>289,313</u>	<u>13,959,320</u>
Less accumulated depreciation for:				
Structures and improvements	420,003	5,687	-	425,690
Pumping equipment	95,109	5,344	-	100,453
Meters and meter installation	486,531	16,177	-	502,708
Hydrants	36,942	957	-	37,899
Storage tanks	498,762	24,214	-	522,976
Transmission and distribution plant	3,924,325	158,259	-	4,082,584
Vehicles and other equipment	373,594	11,590	-	385,184
Office equipment	45,864	3,135	-	48,999
Lift stations	119,296	7,648	-	126,944
Total accumulated depreciation	<u>6,000,426</u>	<u>233,011</u>	<u>-</u>	<u>6,233,437</u>
Capital assets - net	<u>\$ 7,711,170</u>	<u>\$ 304,026</u>	<u>\$ 289,313</u>	<u>\$ 7,725,883</u>

Knox County Utility Commission
Notes to Financial Statements (Continued)
December 31, 2015 and 2014

Note 5 – Capital Assets (Continued)

The following is a summary of capital asset transactions for the year ended December 31, 2014:

	Balance Dec. 31, 2013	Additions	Dispositions	Balance Dec. 31, 2014
Land and land improvements	\$ 44,619	\$ -	\$ -	\$ 44,619
Structures and improvements	508,160	2,726	-	510,886
Pumping equipment	131,664	10,772	-	142,436
Meters and meter installation	721,162	30,264	-	751,426
Hydrants	53,816	-	-	53,816
Storage tanks	1,148,102	-	-	1,148,102
Transmission and distribution plant	10,127,318	-	-	10,127,318
Vehicles and other equipment	409,727	5,479	-	415,206
Office equipment	54,898	3,192	-	58,090
Lift stations	344,195	-	-	344,195
Construction in progress	-	115,502	-	115,502
Totals at historical cost	<u>13,543,661</u>	<u>167,935</u>	<u>-</u>	<u>13,711,596</u>
Less accumulated depreciation for:				
Structures and improvements	405,872	14,131	-	420,003
Pumping equipment	83,835	11,274	-	95,109
Meters and meter installation	454,639	31,892	-	486,531
Hydrants	33,696	3,246	-	36,942
Storage tanks	454,452	44,310	-	498,762
Transmission and distribution plant	3,610,388	313,937	-	3,924,325
Vehicles and other equipment	354,354	19,240	-	373,594
Office equipment	43,363	2,501	-	45,864
Lift stations	105,509	13,787	-	119,296
Total accumulated depreciation	<u>5,546,108</u>	<u>454,318</u>	<u>-</u>	<u>6,000,426</u>
Capital assets - net	<u>\$ 7,997,553</u>	<u>\$ (286,383)</u>	<u>\$ -</u>	<u>\$ 7,711,170</u>

Knox County Utility Commission
Notes to Financial Statements (Continued)
December 31, 2015 and 2014

Note 6 – Long-Term Debt

On February 19, 2015 the Commission entered into an assistance agreement with the Kentucky Rural Water Finance Corporation (KRWFC) to borrow funds with a variable interest rate ranging from 2.25% to 3.50%. The Commission entered into the agreement and used all loan proceeds to advance refund all of their outstanding bonds which were composed of Series 2000 Waterworks Refunding and Improvement Revenue Bonds of approximately \$1.9 million, Series A and B 2002 Waterworks Refunding Revenue Bonds of approximately \$308,000, and Series 2002 Waterworks Revenue Bonds of approximately \$300,000, all with interest rates of 4.50%. As a result, the above named bonds are considered defeased, and the Commission has removed the liabilities from their accounts. The advanced refunding reduced total debt service payments over the next 26 years by approximately \$500,000.

The following is a summary of long-term debt transactions for the year ended December 31, 2015:

	<u>Balance</u> <u>Dec. 31, 2014</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2015</u>	<u>Due Within</u> <u>One Year</u>
Loan payable to Kentucky Rural Water Finance Corporation, payable annually in varying principal amounts, with final payment due January 1, 2039; interest payable on a semi-annual basis at rates varying from 2.25% to 3.5%	\$ -	\$ 2,550,000	\$ 110,000	\$ 2,440,000	\$ 100,000
Loan payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payment due January 1, 2034; interest payable on a semi-annual basis at the rate of 4.5%	307,000	-	307,000	-	-
Loan payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payment due January 1, 2040; interest payable on a semi-annual basis at the rate of 4.5%	1,871,000	-	1,871,000	-	-
Loan payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payment due June 1, 2042; interest payable on a semi-annual basis at the rate of 4.5%	299,000	-	299,000	-	-
	<u>\$ 2,477,000</u>	<u>\$ 2,550,000</u>	<u>\$ 2,587,000</u>	<u>\$ 2,440,000</u>	<u>\$ 100,000</u>

Knox County Utility Commission
Notes to Financial Statements (Continued)
December 31, 2015 and 2014

Note 6 – Long-Term Debt (Continued)

The following is a summary of long-term debt transactions for the year ended December 31, 2014:

	<u>Balance</u> <u>Dec. 31, 2013</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2014</u>	<u>Due Within</u> <u>One Year</u>
Loan payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payment due January 1, 2034; interest payable on a semi-annual basis at the rate of 4.5%	\$ 317,000	\$ -	\$ 10,000	\$ 307,000	\$ 10,000
Loan payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payment due January 1, 2040; interest payable on a semi-annual basis at the rate of 4.5%	1,911,000	-	40,000	1,871,000	42,000
Loan payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payment due June 1, 2042; interest payable on a semi-annual basis at the rate of 4.5%	<u>305,000</u>	<u>-</u>	<u>6,000</u>	<u>299,000</u>	<u>6,000</u>
	<u>\$ 2,533,000</u>	<u>\$ -</u>	<u>\$ 56,000</u>	<u>\$ 2,477,000</u>	<u>\$ 58,000</u>

Knox County Utility Commission
Notes to Financial Statements (Continued)
December 31, 2015 and 2014

Note 6 – Long-Term Debt (Continued)

The aggregate annual principal repayments on long-term debt are summarized as follows:

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 100,000	\$ 76,500	\$ 176,500
2017	95,000	74,250	169,250
2018	85,000	72,113	157,113
2019	85,000	70,200	155,200
2020	90,000	68,288	158,288
2021-2025	485,000	300,925	785,925
2026-2030	560,000	217,238	777,238
2031-2035	580,000	121,656	701,656
2036-2040	360,000	25,549	385,549
	<u>\$ 2,440,000</u>	<u>\$ 1,026,719</u>	<u>\$ 3,466,719</u>

Note 7 – Retirement Plan

Knox County Utility Commission adopted new accounting guidance, *GASB Statement No. 68, Accounting and Financial Reporting for Pensions* during the year ended December 31, 2015. In accordance with GASB 68, a prior period adjustment of \$380,578 was made to reduce beginning net position to record the Commission's share of net pension liability.

Plan Description

The Commission's full time employees are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, defined benefit, public employers retirement system administered by the Kentucky Retirement Systems (KRS). Under the provisions of Kentucky Revised Statute Section 6.645, the Board of Trustees of KRS administers CERS. The CERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Benefits Provided

The plan covers all regular full-time employees and provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

Knox County Utility Commission
Notes to Financial Statements (Continued)
December 31, 2015 and 2014

Note 7 – Retirement Plan (Continued)

Contributions

Funding for the plan is provided through payroll withholdings and contributions by the Commission. All employees meeting the requirements for membership are required to contribute a percentage of their gross wages. Employees hired before September 1, 2008 are withheld at the rate of 5% of the employee's total compensation subject to contribution. Employees hired on or after September 1, 2008 are withheld at the rate of 6% of the employees total compensation subject to contribution. Employer contribution rates are established and may be amended by the KRS Board of Trustees in compliance with the requirements of Kentucky Revised Statute 61.565. The Commission's required contribution rates for the years ended December 31, 2015 and 2014 were 17.06% and 17.67%, respectively, as actuarially determined and adopted by the KRS Board of Trustees.

The Commission's payroll for the years ended December 31, 2015, 2014, and 2013 that was covered by CERS was \$280,292, \$270,908, and \$259,876, respectively. The Commission's contribution requirement for CERS for the years ended December 31, 2015, 2014, and 2013 was \$48,686, \$49,509, and \$49,945, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2015, the Commission reported a liability of \$513,737 for their proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate 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 plan members, as actuarially determined. At June 30, 2015, the Commission's proportion was 0.011949%.

Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability were updated as follows:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- 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 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 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 assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

Knox County Utility Commission
Notes to Financial Statements (Continued)
December 31, 2015 and 2014

Note 7 – Retirement Plan (Continued)

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

For the year ended December 31, 2015, the Commission recognized pension expense of \$61,982. At December 31, 2015, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 4,269	\$ -
Net difference between projected and actual investment earnings on pension plan investments	4,605	-
Changes of assumptions	51,805	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	10,498	-
Pension contributions for the year ended December 31, 2015	47,647	-
Total	\$ 118,824	\$ -

The reported deferred inflows and outflows and pension expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. Deferred outflows/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date are not included. The net pension liability as of June 30, 2015, is based on the June 30, 2015 actuarial valuation. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period.

\$47,647 reported as deferred outflows of resources related to pensions resulting from Commission contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:

	2016	\$	21,163
	2017		21,163
	2018		10,216
	2019		9,640
	2020		375
	Thereafter		8,620
Total		\$	71,177

Knox County Utility Commission
Notes to Financial Statements (Continued)
December 31, 2015 and 2014

Note 7 – Retirement Plan (Continued)

Actuarial Assumptions

Total pension liability was determined by applying procedures to the actuarial valuation as of June 30, 2015. The financial reporting actuarial valuation as of June 30, 2015, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2015
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	28 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.00%, average, including inflation
Investment Rate of Return	7.50%, net of pension plan investment expense, including inflation

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 (set back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 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 long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the 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 capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Knox County Utility Commission
Notes to Financial Statements (Continued)
December 31, 2015 and 2014

Note 7 – Retirement Plan (Continued)

Actuarial Assumptions (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Combined equity	44%	5.40%
Combined fixed income	19%	1.50%
Real return (diversified inflation strategies)	10%	3.50%
Real estate	5%	4.50%
Absolute return (diversified hedge funds)	10%	4.25%
Private equity	10%	8.50%
Cash equivalent	2%	-0.25%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. 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 28 year amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2117.

Sensitivity of the Commission's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Commission's CERS pension plan, calculated using the discount rate of 7.50 percent, as well as what the CERS's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Commission's net pension liability	\$ 655,866	\$ 513,737	\$ 392,041

Payable to the Pension Plan

At December 31, 2015, the Commission reported a payable of \$5,644 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2015.

Note 8 – Risk Management

The Commission is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the Commission carries commercial insurance. There have been no significant reductions in coverage for the year and settlements have not exceeded coverage in the past three years.

Note 9 - Subsequent Events

Management of the Commission has evaluated subsequent events through May 31, 2016, the date on which the financial statements were available to be issued.

Knox County Utility Commission
 Departmental Statements of Net Position - Water Department
 December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 647,666	\$ 594,158
Receivables, less allowance	103,151	82,024
Unbilled accounts receivable	78,378	56,587
Other receivables	-	3,825
Inventories	17,814	21,333
Other current assets	413	213
Total Current Assets	847,422	758,140
Noncurrent assets		
Restricted assets		
Restricted cash and cash equivalents	35,558	92,976
Capital Assets		
Land and improvements	44,619	44,619
Structures and improvements	511,387	510,886
Pumping equipment	168,467	128,887
Meters and meter installation	771,217	751,331
Hydrants	53,816	53,816
Storage tanks	1,148,102	1,148,102
Transmission and distribution plant	9,886,781	9,597,468
Vehicles and other equipment	426,078	414,492
Office equipment	59,650	58,090
Construction in progress	-	115,502
	13,070,117	12,823,193
Accumulated depreciation	(5,998,798)	(5,782,645)
Net Capital Assets	7,071,319	7,040,548
Total Noncurrent Assets	7,106,877	7,133,524
Total Assets	7,954,299	7,891,664
Deferred Outflows of Resources		
Bond issue costs, net of amortization	70,974	8,443
Deferred pension costs	118,824	-
Total Deferred Outflows of Resources	189,798	8,443

Knox County Utility Commission
 Departmental Statements of Net Position - Water Department (Continued)
 December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Liabilities		
Current Liabilities		
Current portion of long-term debt	100,000	58,000
Accounts payable	39,469	41,425
Accrued interest payable	47	47
Accrued salaries and taxes payable	18,078	12,606
Total Current Liabilities	<u>157,594</u>	<u>112,078</u>
Noncurrent Liabilities		
Customer deposits	29,463	28,013
Net pension liability	513,737	-
Long-term debt	2,340,000	2,419,000
Total Noncurrent Liabilities	<u>2,883,200</u>	<u>2,447,013</u>
Total Liabilities	<u>3,040,794</u>	<u>2,559,091</u>
Net Position		
Net investment in capital assets	4,631,319	4,563,548
Restricted	35,558	92,976
Unrestricted (as restated)	436,426	684,492
Total Net Position	<u>\$ 5,103,303</u>	<u>\$ 5,341,016</u>

Knox County Utility Commission
 Departmental Statements of Revenues, Expenses and Changes in Net Position - Water Department
 For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating Revenues		
Water sales	\$ 1,220,337	\$ 1,099,122
Service charges	13,335	13,620
Tap fees	18,840	16,848
Penalties	34,129	31,152
Other revenues	<u>5,559</u>	<u>6,954</u>
Total Operating Revenues	<u>1,292,200</u>	<u>1,167,696</u>
Operating Expenses		
Salaries and wages	309,905	285,620
Employee benefits	201,227	194,655
Purchased power	232,212	219,624
Utilities	58,655	63,469
Chemicals	51,959	53,667
Repairs and maintenance	34,058	29,861
Contracted services	21,042	23,167
Vehicle and equipment expenses	20,427	24,751
Insurance	33,596	30,823
Amortization	10,996	422
Depreciation	216,153	428,488
Bad debt expense, net of recoveries	16,809	13,777
Other operating expenses	<u>53,469</u>	<u>44,378</u>
Total Operating Expenses	<u>1,260,508</u>	<u>1,412,702</u>
Operating Income (Loss)	<u>31,692</u>	<u>(245,006)</u>
Nonoperating Revenues (Expenses)		
Interest income	4,027	4,598
Federal and state grants	198,571	114,549
Interest expense	<u>(91,425)</u>	<u>(114,109)</u>
Total Nonoperating Revenues (Expenses)	<u>111,173</u>	<u>5,038</u>
Change in Net Position	142,865	(239,968)
Net Position, Beginning of Year (as previously reported)	5,341,016	5,580,984
Prior period adjustment	<u>(380,578)</u>	<u>-</u>
Net Position, Beginning of Year (as restated)	<u>4,960,438</u>	<u>5,580,984</u>
Net Position, End of Year	<u>\$ 5,103,303</u>	<u>\$ 5,341,016</u>

Knox County Utility Commission
 Departmental Statements of Cash Flows - Water Department
 For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows From Operating Activities		
Receipts from customers	\$ 1,245,173	\$ 1,161,036
Receipts from other activities	5,559	6,954
Payments to employees	(290,098)	(289,185)
Payments to suppliers	(722,091)	(690,913)
Net Cash Provided by Operating Activities	<u>238,543</u>	<u>187,892</u>
Cash Flows From Capital and Related Financing Activities		
Purchases of property, plant and equipment	(246,924)	(167,225)
Proceeds on debt	2,550,000	-
Principal payments on debt	(2,587,000)	(56,000)
Interest payments on debt	(91,425)	(114,109)
Bond issuance costs	(73,527)	-
Federal, state and local grants	202,396	110,724
Net Cash Used by Capital and Related Financing Activities	<u>(246,480)</u>	<u>(226,610)</u>
Cash Flows From Investing Activities		
Interest on cash and investments	4,027	4,598
Net Cash Provided by Investing Activities	<u>4,027</u>	<u>4,598</u>
Net Decrease in Cash and Cash Equivalents	(3,910)	(34,120)
Cash and Cash Equivalents at Beginning of Year	<u>687,134</u>	<u>721,254</u>
Cash and Cash Equivalents at End of Year	<u>\$ 683,224</u>	<u>\$ 687,134</u>
Reconciliation of Cash at End of Year		
Cash and Cash Equivalents	\$ 647,666	\$ 594,158
Restricted Cash and Cash Equivalents	35,558	92,976
Total Cash at End of Year	<u>\$ 683,224</u>	<u>\$ 687,134</u>

Knox County Utility Commission
 Departmental Statements of Cash Flows - Water Department (Continued)
 For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Reconciliation of Operating Income (Loss) to Net Cash		
Provided by Operating Activities:		
Operating income (loss)	\$ 31,692	\$ (245,006)
Adjustments to reconcile operating income (loss)		
to net cash provided (used) by operating activities		
Depreciation	216,153	428,488
Amortization	10,996	422
(Increase) Decrease in:		
Accounts receivable	(21,127)	300
Unbilled accounts receivable	(21,791)	(847)
Inventory	3,519	2,140
Other current assets	(200)	10
Deferred pension costs	(118,824)	-
Increase (Decrease) in:		
Accounts payable	(1,956)	5,109
Customer deposits	1,450	841
Accrued expenses	5,472	(3,565)
Net pension liability	133,159	-
	<u>133,159</u>	<u>-</u>
Net Cash Provided by Operating Activities	<u>\$ 238,543</u>	<u>\$ 187,892</u>

Knox County Utility Commission
 Departmental Statements of Net Position - Sewer Department
 December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 6,786	\$ 12,281
Receivables, less allowance	<u>1,529</u>	<u>2,417</u>
Total Current Assets	<u>8,315</u>	<u>14,698</u>
Noncurrent assets		
Capital Assets		
Pumping equipment	14,349	13,549
Meters and meter installation	95	95
Transmission and distribution plant	529,850	529,850
Vehicles and other equipment	714	714
Lift stations	<u>344,195</u>	<u>344,195</u>
	889,203	888,403
Accumulated depreciation	<u>(234,639)</u>	<u>(217,781)</u>
Net Capital Assets	<u>654,564</u>	<u>670,622</u>
Total Noncurrent Assets	<u>654,564</u>	<u>670,622</u>
Total Assets	<u>662,879</u>	<u>685,320</u>
Liabilities and Net Position		
Liabilities		
Current Liabilities		
Accounts payable	<u>28</u>	<u>1,540</u>
Total Liabilities	<u>28</u>	<u>1,540</u>
Net Position		
Net investment in capital assets	654,564	670,622
Unrestricted	<u>8,287</u>	<u>13,158</u>
Total Net Position	<u>\$ 662,851</u>	<u>\$ 683,780</u>

Knox County Utility Commission
 Departmental Statements of Revenues, Expenses and Changes in Net Position - Sewer Department
 For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating Revenues		
Sewer sales	\$ 24,285	\$ 19,167
Total Operating Revenues	<u>24,285</u>	<u>19,167</u>
Operating Expenses		
Salaries and wages	1,023	668
Employee benefits	75	59
Utilities	1,361	1,195
Repairs and maintenance	-	219
Sewer treatment	25,100	17,346
Depreciation	16,858	25,830
Bad debt expense, net of recoveries	798	-
Other operating expenses	<u>(1)</u>	<u>66</u>
Total Operating Expenses	<u>45,214</u>	<u>45,383</u>
Operating Loss	<u>(20,929)</u>	<u>(26,216)</u>
Change in Net Position	(20,929)	(26,216)
Net Position, Beginning of Year	<u>683,780</u>	<u>709,996</u>
Net Position, End of Year	<u>\$ 662,851</u>	<u>\$ 683,780</u>

Knox County Utility Commission
 Departmental Statements of Cash Flows - Sewer Department
 For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows From Operating Activities		
Receipts from customers	\$ 25,173	\$ 17,221
Payments to employees	(1,023)	(668)
Payments to suppliers	(28,845)	(18,681)
Net Cash Used by Operating Activities	<u>(4,695)</u>	<u>(2,128)</u>
Cash Flows From Capital and Related Financing Activities		
Purchases of property, plant and equipment	<u>(800)</u>	<u>(710)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(800)</u>	<u>(710)</u>
Net Decrease in Cash and Cash Equivalents	(5,495)	(2,838)
Cash and Cash Equivalents at Beginning of Year	<u>12,281</u>	<u>15,119</u>
Cash and Cash Equivalents at End of Year	<u>\$ 6,786</u>	<u>\$ 12,281</u>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:		
Operating loss	\$ (20,929)	\$ (26,216)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities		
Depreciation	16,858	25,830
(Increase) Decrease in:		
Accounts receivable	888	(1,946)
Increase (Decrease) in:		
Accounts payable	<u>(1,512)</u>	<u>204</u>
Net Cash Used by Operating Activities	<u>\$ (4,695)</u>	<u>\$ (2,128)</u>

Knox County Utility Commission
 Schedule of the Commission's Proportionate Share of the Net Pension Liability
 County Employee's Retirement System (CERS) Pension Plan
 Last Ten Fiscal Years*

	2015
Commission's proportion of the net pension liability (asset)	0.011949%
Commission's proportionate share of the net pension liability (asset)	\$ 513,737
Commission's covered-employee payroll	\$ 280,292
Commission's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	183.29%
Plan fiduciary net position as a percentage of the total pension liability	59.97%

Source: Kentucky Retirement Systems

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten year trend is compiled, the Commission will present information for those years for which information is available.

* The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

Knox County Utility Commission
 Schedule of the Commission's Contributions
 County Employee's Retirement System (CERS) Pension Plan
 Last Ten Fiscal Years*

	2015
Contractually required contribution	\$ 48,686
Contributions in relation to the contractually required contribution	(48,686)
Contribution deficiency (excess)	\$ -
District's covered-employee payroll	\$ 280,292
Contributions as a percentage of covered-employee payroll	17.37%

Source: Kentucky Retirement Systems

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten year trend is compiled, the Commission will present information for those years for which information is available.

* The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

See independent auditors' report.



Independent Auditors' 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
Knox County Utility Commission
Artemus, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Knox County Utility Commission, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Knox County Utility Commission's basic financial statements, and have issued our report thereon dated May 31, 2016.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses (See 2015-1 and 2015-2).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Knox County 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*.

Knox County Utility Commission's Response to Findings

Knox County Utility Commission's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Knox County 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.

Christian Sturgeon & Associates, PSC

Christian Sturgeon & Associates, PSC
London, Kentucky

May 31, 2016

Knox County Utility Commission
Schedule of Findings and Responses
December 31, 2015

2015-1

Criteria:

As discussed in *Standards for Internal Control in the Federal Government* published by the General Accounting Office of the United States, internal control is an integral component of an organization's management that provides reasonable assurance that an objective of reliable financial reporting is being achieved. Organizations should implement procedures to ensure this objective is achieved.

Condition:

During the audit procedures performed, instances of this objective not being completely achieved were noted.

Cause:

The Commission's limited internal resources prevents the preparation of financial statements and related note disclosures in accordance with generally accepted accounting principles.

Effect:

The Commission was unable to prepare their financial statements and related note disclosures in accordance with generally accepted accounting principles.

Views of responsible officials and planned corrective actions:

The Commission feels that it would not be cost beneficial to hire the personnel required to complete these tasks.

2015-2

Criteria:

As discussed in *Standards for Internal Control in the Federal Government* published by the General Accounting Office of the United States, internal control is an integral component of an organization's management that provides reasonable assurance that an objective of reliable financial reporting is being achieved. Organizations should implement procedures to ensure this objective is achieved.

Condition:

During the audit procedures performed, instances of this objective not being completely achieved were noted.

Cause:

The size of the Commission's office staff does not allow proper segregation of duties with regard to cash collections, billing, accounts receivable bookkeeping, and payroll processing.

Effect:

This condition creates a weakness in internal controls which could result in unauthorized transactions being processed.

Views of responsible officials and planned corrective actions:

The Commission feels that it would not be cost beneficial to hire the personnel required to complete these tasks.