

Knox County Utility Commission  
Artemus, Kentucky

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Independent Auditors' Report  
And Financial Statements  
For the Years Ended  
December 31, 2013 and 2012

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, 2013 and 2012, 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, 2013 and 2012, 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.

## **Other Matters**

### Required Supplementary Information

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 financial statements. The 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 March 28, 2014 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Knox County Utility Commission's internal control over financial reporting and compliance.

*Christian Sturgeon & Associates, PSC*

Christian Sturgeon & Associates, PSC  
London, Kentucky

March 28, 2014

Knox County Utility Commission  
 Statements of Net Position  
 December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 646,675	\$ 507,449
Investments	-	107,977
Receivables, less allowance	82,795	83,088
Unbilled accounts receivable	55,740	60,857
Inventories	23,473	24,688
Other current assets	223	207
<b>Total Current Assets</b>	<u>808,906</u>	<u>784,266</u>
<b>Noncurrent assets</b>		
<b>Restricted assets</b>		
Restricted cash and cash equivalents	<u>89,698</u>	<u>92,880</u>
<b>Capital Assets</b>		
Land and improvements	44,619	44,619
Structures and improvements	508,160	506,837
Pumping equipment	131,664	125,822
Meters and meter installation	721,162	704,237
Hydrants	53,816	53,816
Storage tanks	1,148,102	1,148,102
Transmission and distribution plant	10,127,318	10,119,405
Vehicles and other equipment	409,727	403,697
Office equipment	54,898	52,465
Lift stations	344,195	344,195
	<u>13,543,661</u>	<u>13,503,195</u>
Accumulated depreciation	<u>(5,546,108)</u>	<u>(5,075,724)</u>
<b>Net Capital Assets</b>	<u>7,997,553</u>	<u>8,427,471</u>
<b>Other Assets</b>		
Bond issue costs, net of amortization	<u>8,865</u>	<u>9,287</u>
<b>Total Other Assets</b>	<u>8,865</u>	<u>9,287</u>
<b>Total Noncurrent Assets</b>	<u>8,096,116</u>	<u>8,529,638</u>
<b>Total Assets</b>	<u>8,905,022</u>	<u>9,313,904</u>

Knox County Utility Commission  
 Statements of Net Position (Continued)  
 December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Liabilities		
Current Liabilities		
Current portion of long-term debt	56,000	52,000
Accounts payable	37,652	27,821
Accrued interest payable	47	47
Accrued salaries and taxes payable	16,171	18,234
Total Current Liabilities	109,870	98,102
Noncurrent Liabilities		
Customer deposits	27,172	28,099
Long-term debt, less current portion	2,477,000	2,533,000
Total Noncurrent Liabilities	2,504,172	2,561,099
Total Liabilities	2,614,042	2,659,201
Net Position		
Net investment in capital assets	5,464,553	5,842,471
Restricted	89,698	92,880
Unrestricted	736,729	719,352
Total Net Position	\$ 6,290,980	\$ 6,654,703

Knox County Utility Commission  
 Statements of Revenues, Expenses and Changes in Net Position  
 For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating Revenues		
Water sales	\$ 1,086,674	\$ 1,119,411
Sewer sales	18,360	14,528
Service charges	15,195	15,825
Tap fees	18,479	22,474
Penalties	30,162	30,185
Other revenues	<u>6,358</u>	<u>8,151</u>
Total Operating Revenues	<u>1,175,228</u>	<u>1,210,574</u>
Operating Expenses		
Salaries and wages	276,661	267,104
Employee benefits	175,401	174,126
Purchased power	209,756	208,563
Utilities	58,945	55,602
Chemicals	57,407	57,384
Repairs and maintenance	32,791	32,123
Contracted services	21,895	26,711
Vehicle and equipment expenses	25,497	25,891
Insurance	31,245	33,687
Sewer treatment	14,916	9,921
Amortization	422	444
Depreciation	470,384	473,756
Bad debt expense, net of recoveries	11,947	13,248
Other operating expenses	<u>44,135</u>	<u>46,932</u>
Total Operating Expenses	<u>1,431,402</u>	<u>1,425,492</u>
Operating Loss	<u>(256,174)</u>	<u>(214,918)</u>
Nonoperating Revenues (Expenses)		
Interest income	4,759	16,641
Federal and state grants	4,158	14,010
Interest expense	<u>(116,466)</u>	<u>(119,708)</u>
Total Nonoperating Revenues (Expenses)	<u>(107,549)</u>	<u>(89,057)</u>
Change in Net Position	(363,723)	(303,975)
Net Position, Beginning of Year	<u>6,654,703</u>	<u>6,958,678</u>
Net Position, End of Year	<u>\$ 6,290,980</u>	<u>\$ 6,654,703</u>

See accompanying notes to financial statements.

Knox County Utility Commission  
 Statements of Cash Flows  
 For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash Flows From Operating Activities		
Receipts from customers	\$ 1,173,353	\$ 1,184,525
Receipts from other activities	6,358	8,151
Payments to employees	(278,724)	(267,318)
Payments to suppliers	(672,905)	(695,645)
Net Cash Provided by Operating Activities	<u>228,082</u>	<u>229,713</u>
Cash Flows From Capital and Related Financing Activities		
Purchases of property, plant and equipment	(40,466)	(100,255)
Principal payments on debt	(52,000)	(113,000)
Interest payments on debt	(116,466)	(119,708)
Federal, state and local grants	4,158	14,010
Net Cash Used by Capital and Related Financing Activities	<u>(204,774)</u>	<u>(318,953)</u>
Cash Flows From Investing Activities		
Interest on cash and investments	4,759	15,943
Proceeds from sale of investments	107,977	-
Net Cash Provided by Investing Activities	<u>112,736</u>	<u>15,943</u>
Net Increase (Decrease) in Cash and Cash Equivalents	136,044	(73,297)
Cash and Cash Equivalents at Beginning of Year	<u>600,329</u>	<u>673,626</u>
Cash and Cash Equivalents at End of Year	<u>\$ 736,373</u>	<u>\$ 600,329</u>
Reconciliation of Cash at End of Year		
Cash and Cash Equivalents	\$ 646,675	\$ 507,449
Restricted Cash and Cash Equivalents	89,698	92,880
Total Cash at End of Year	<u>\$ 736,373</u>	<u>\$ 600,329</u>

See accompanying notes to financial statements.



Knox County Utility Commission  
Statements of Cash Flows (Continued)  
For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Reconciliation of Operating Loss to Net Cash		
Provided by Operating Activities:		
Operating loss	\$ (256,174)	\$ (214,918)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	470,384	473,756
Amortization	422	444
Loss on retirement of debt	-	1,021
(Increase) Decrease in:		
Accounts receivable	293	(2,544)
Unbilled accounts receivable	5,117	(18,212)
Other receivables	-	3,013
Inventory	1,215	7,214
Prepaid expenses and other assets	(16)	(107)
Increase (Decrease) in:		
Accounts payable	9,831	(19,585)
Customer deposits	(927)	(155)
Accrued expenses	(2,063)	(214)
	<u>\$ 228,082</u>	<u>\$ 229,713</u>
Net Cash Provided by Operating Activities	<u>\$ 228,082</u>	<u>\$ 229,713</u>

Knox County Utility Commission  
Notes to Financial Statements  
December 31, 2013 and 2012

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 Statement of Net Position and Statement 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, 2013 and 2012

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.

The Commission's investments consist of certificates of deposits with maturity dates of three months or more. Certificates of deposit in excess of FDIC insurance coverage are collateralized by securities held by the pledging institution.

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, 2013 and 2012, 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.

Knox County Utility Commission  
Notes to Financial Statements (Continued)  
December 31, 2013 and 2012

Note 1 – Significant Accounting Policies (Continued)

Capital Assets (Continued)

Estimated useful lives for depreciable assets are as follows:

<u>Asset Classification</u>	<u>Range of Lives</u>
Structures and improvements	10-40 years
Transmission distribution mains	50 years
Meters and services	20 years
Other equipment and vehicles	5-10 years

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 0.6% 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

In 2012, the Commission adopted new accounting guidance, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and 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.

Knox County Utility Commission  
Notes to Financial Statements (Continued)  
December 31, 2013 and 2012

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, 2013 and 2012 was \$89,698 and \$92,880.

Note 3 – Kentucky Revised Statute

At December 31, 2013 and 2012, 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, 2013 and 2012, \$592,655 and \$566,116 of the Commission's total deposits at banks of \$842,655 and \$816,116, respectively, were exposed to custodial credit risk as follows:

	<u>2013</u>	<u>2012</u>
Uninsured and uncollateralized	\$ -	\$ -
Uninsured and collateral held by pledging bank	592,655	566,116
Uninsured and collateral held by pledging bank's trust department not in the District's name	-	-
Total	<u>\$ 592,655</u>	<u>\$ 566,116</u>

Knox County Utility Commission  
Notes to Financial Statements (Continued)  
December 31, 2013 and 2012

Note 5 – Capital Assets

The following is a summary of capital asset transactions for the year ended December 31, 2013:

	Balance Dec. 31, 2012	Additions	Dispositions	Balance Dec. 31, 2013
Land and land improvements	\$ 44,619	\$ -	\$ -	\$ 44,619
Structures and improvements	506,837	1,323	-	508,160
Pumping equipment	125,822	5,842	-	131,664
Meters and meter installation	704,237	16,925	-	721,162
Hydrants	53,816	-	-	53,816
Storage tanks	1,148,102	-	-	1,148,102
Transmission and distribution plant	10,119,405	7,913	-	10,127,318
Vehicles and other equipment	403,697	6,030	-	409,727
Office equipment	52,465	2,433	-	54,898
Lift stations	344,195	-	-	344,195
Totals at historical cost	<u>13,503,195</u>	<u>40,466</u>	<u>-</u>	<u>13,543,661</u>
Less accumulated depreciation for:				
Structures and improvements	387,499	18,373	-	405,872
Pumping equipment	73,259	10,575	-	83,834
Meters and meter installation	423,219	31,420	-	454,639
Hydrants	30,438	3,258	-	33,696
Storage tanks	408,531	45,922	-	454,453
Transmission and distribution plant	3,288,198	322,190	-	3,610,388
Vehicles and other equipment	331,713	22,641	-	354,354
Office equipment	41,146	2,217	-	43,363
Lift stations	91,721	13,788	-	105,509
Total accumulated depreciation	<u>5,075,724</u>	<u>470,384</u>	<u>-</u>	<u>5,546,108</u>
Capital assets - net	<u>\$ 8,427,471</u>	<u>\$ (429,918)</u>	<u>\$ -</u>	<u>\$ 7,997,553</u>

Knox County Utility Commission  
Notes to Financial Statements (Continued)  
December 31, 2013 and 2012

Note 5 – Capital Assets (Continued)

The following is a summary of capital asset transactions for the year ended December 31, 2012:

	Balance Dec. 31, 2011	Additions	Dispositions	Balance Dec. 31, 2012
Land and land improvements	\$ 44,619	\$ -	\$ -	\$ 44,619
Structures and improvements	497,407	9,430	-	506,837
Pumping equipment	108,133	17,689	-	125,822
Meters and meter installation	683,078	21,159	-	704,237
Hydrants	53,816	-	-	53,816
Storage tanks	1,148,102	-	-	1,148,102
Transmission and distribution plant	10,104,184	15,221	-	10,119,405
Vehicles and other equipment	377,616	26,081	-	403,697
Office equipment	41,790	10,675	-	52,465
Lift stations	344,195	-	-	344,195
Totals at historical cost	<u>13,402,940</u>	<u>100,255</u>	<u>-</u>	<u>13,503,195</u>
Less accumulated depreciation for:				
Structures and improvements	368,603	18,896	-	387,499
Pumping equipment	63,931	9,328	-	73,259
Meters and meter installation	392,254	30,965	-	423,219
Hydrants	27,180	3,258	-	30,438
Storage tanks	360,997	47,534	-	408,531
Transmission and distribution plant	2,965,368	322,830	-	3,288,198
Vehicles and other equipment	306,118	25,595	-	331,713
Office equipment	39,584	1,562	-	41,146
Lift stations	77,933	13,788	-	91,721
Total accumulated depreciation	<u>4,601,968</u>	<u>473,756</u>	<u>-</u>	<u>5,075,724</u>
Capital assets - net	<u>\$ 8,800,972</u>	<u>\$ (373,501)</u>	<u>\$ -</u>	<u>\$ 8,427,471</u>

Knox County Utility Commission  
Notes to Financial Statements (Continued)  
December 31, 2013 and 2012

Note 6 – Long-Term Debt

The following is a summary of long-term debt transactions for the year ended December 31, 2013:

	<u>Balance</u> <u>Dec. 31, 2012</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2013</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%	\$ 326,000	\$ -	\$ 9,000	\$ 317,000	\$ 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%	1,949,000	-	38,000	1,911,000	40,000
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>310,000</u>	<u>-</u>	<u>5,000</u>	<u>305,000</u>	<u>6,000</u>
	<u>\$ 2,585,000</u>	<u>\$ -</u>	<u>\$ 52,000</u>	<u>\$ 2,533,000</u>	<u>\$ 56,000</u>



Knox County Utility Commission  
Notes to Financial Statements (Continued)  
December 31, 2013 and 2012

Note 6 – Long-Term Debt (Continued)

The following is a summary of long-term debt transactions for the year ended December 31, 2012:

	<u>Balance</u> <u>Dec. 31, 2011</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2012</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%	\$ 335,000	\$ -	\$ 9,000	\$ 326,000	\$ 9,000
Loan payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payment due January 1, 2029; interest payable on a semi-annual basis at the rate of 5.0%	62,000	-	62,000	-	-
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%	1,986,000	-	37,000	1,949,000	38,000
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>315,000</u>	<u>-</u>	<u>5,000</u>	<u>310,000</u>	<u>5,000</u>
	<u>\$ 2,698,000</u>	<u>\$ -</u>	<u>\$ 113,000</u>	<u>\$ 2,585,000</u>	<u>\$ 52,000</u>

Knox County Utility Commission  
Notes to Financial Statements (Continued)  
December 31, 2013 and 2012

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>
2014	\$ 56,000	\$ 115,266	\$ 171,266
2015	58,000	112,718	170,718
2016	61,000	110,079	171,079
2017	63,000	107,302	170,302
2018	67,000	104,436	171,436
2019-2023	380,000	473,948	853,948
2024-2028	477,000	379,021	856,021
2029-2033	592,000	260,253	852,253
2034-2038	605,000	124,550	729,550
2039-2043	174,000	10,470	184,470
	<u>\$ 2,533,000</u>	<u>\$ 1,798,043</u>	<u>\$ 4,331,043</u>

Note 7 – Retirement Plan

The Commission's full time employees are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, public employers retirement system. Funding for the plan is provided through payroll withholdings and contributions by the Commission. 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. The Commission's contribution rate for the years ended December 31, 2013 and 2012 were 18.89% and 19.55%, respectively.

The Commission's payroll for the years ended December 31, 2013, 2012, and 2011 that was covered by CERS was \$259,876, \$246,987, and \$240,261, respectively.

The Commission's contribution requirement for CERS for the years ended December 31, 2013, 2012, and 2011 was \$49,945, \$47,546, and \$43,230, respectively.

Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

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.

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.

Knox County Utility Commission  
Notes to Financial Statements (Continued)  
December 31, 2013 and 2012

Note 9 - Subsequent Events

Management of the Commission has evaluated subsequent events through March 28, 2014, 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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 631,556	\$ 492,918
Investments	-	107,977
Receivables, less allowance	82,324	81,881
Unbilled accounts receivable	55,740	60,857
Inventories	23,473	24,688
Other current assets	<u>223</u>	<u>207</u>
<b>Total Current Assets</b>	<u>793,316</u>	<u>768,528</u>
<b>Noncurrent assets</b>		
<b>Restricted assets</b>		
Restricted cash and cash equivalents	<u>89,698</u>	<u>92,880</u>
<b>Capital Assets</b>		
Land and improvements	44,619	44,619
Structures and improvements	508,160	506,837
Pumping equipment	118,825	115,204
Meters and meter installation	721,067	704,142
Hydrants	53,816	53,816
Storage tanks	1,148,102	1,148,102
Transmission and distribution plant	9,597,468	9,589,555
Vehicles and other equipment	409,013	402,983
Office equipment	<u>54,898</u>	<u>52,465</u>
	12,655,968	12,617,723
Accumulated depreciation	<u>(5,354,157)</u>	<u>(4,909,346)</u>
<b>Net Capital Assets</b>	<u>7,301,811</u>	<u>7,708,377</u>
<b>Other Assets</b>		
Bond issue costs, net of amortization	<u>8,865</u>	<u>9,287</u>
<b>Total Other Assets</b>	<u>8,865</u>	<u>9,287</u>
<b>Total Noncurrent Assets</b>	<u>7,400,374</u>	<u>7,810,544</u>
<b>Total Assets</b>	<u>8,193,690</u>	<u>8,579,072</u>

Knox County Utility Commission  
 Departmental Statements of Net Position - Water Department (Continued)  
 December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Liabilities		
Current Liabilities		
Current portion of long-term debt	56,000	52,000
Accounts payable	36,316	26,758
Accrued interest payable	47	47
Accrued salaries and taxes payable	16,171	18,234
Total Current Liabilities	108,534	97,039
Noncurrent Liabilities		
Customer deposits	27,172	28,099
Long-term debt	2,477,000	2,533,000
Total Noncurrent Liabilities	2,504,172	2,561,099
Total Liabilities	2,612,706	2,658,138
Net Position		
Net investment in capital assets	4,768,811	5,123,377
Restricted	89,698	92,880
Unrestricted	722,475	704,677
Total Net Position	\$ 5,580,984	\$ 5,920,934

Knox County Utility Commission  
 Departmental Statements of Revenues, Expenses and Changes in Net Position - Water Department  
 For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating Revenues		
Water sales	\$ 1,086,674	\$ 1,119,411
Service charges	15,195	15,825
Tap fees	18,479	22,474
Penalties	29,856	30,185
Other revenues	<u>6,358</u>	<u>8,151</u>
Total Operating Revenues	<u>1,156,562</u>	<u>1,196,046</u>
Operating Expenses		
Salaries and wages	276,131	266,550
Employee benefits	175,362	174,086
Purchased power	209,756	208,563
Utilities	58,086	54,573
Chemicals	57,407	57,384
Repairs and maintenance	32,609	32,123
Contracted services	21,895	26,711
Vehicle and equipment expenses	25,497	25,891
Insurance	31,245	33,687
Amortization	422	444
Depreciation	444,811	448,207
Bad debt expense, net of recoveries	11,893	13,161
Other operating expenses	<u>43,849</u>	<u>46,814</u>
Total Operating Expenses	<u>1,388,963</u>	<u>1,388,194</u>
Operating Loss	<u>(232,401)</u>	<u>(192,148)</u>
Nonoperating Revenues (Expenses)		
Interest income	4,759	16,641
Federal and state grants	4,158	14,010
Interest expense	<u>(116,466)</u>	<u>(119,708)</u>
Total Nonoperating Revenues (Expenses)	<u>(107,549)</u>	<u>(89,057)</u>
Change in Net Position	(339,950)	(281,205)
Net Position, Beginning of Year	<u>5,920,934</u>	<u>6,202,139</u>
Net Position, End of Year	<u>\$ 5,580,984</u>	<u>\$ 5,920,934</u>

Knox County Utility Commission  
 Departmental Statements of Cash Flows - Water Department  
 For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash Flows From Operating Activities		
Receipts from customers	\$ 1,153,951	\$ 1,170,154
Receipts from other activities	6,358	8,151
Payments to employees	(278,194)	(266,764)
Payments to suppliers	(656,842)	(684,898)
Net Cash Provided by Operating Activities	<u>225,273</u>	<u>226,643</u>
Cash Flows From Capital and Related Financing Activities		
Purchases of property, plant and equipment	(38,245)	(100,255)
Principal payments on debt	(52,000)	(113,000)
Interest payments on debt	(116,466)	(119,708)
Federal, state and local grants	4,158	14,010
Net Cash Used by Capital and Related Financing Activities	<u>(202,553)</u>	<u>(318,953)</u>
Cash Flows From Investing Activities		
Interest on cash and investments	4,759	15,943
Proceeds from sale of investments	107,977	-
Net Cash Provided by Investing Activities	<u>112,736</u>	<u>15,943</u>
Net Increase (Decrease) in Cash and Cash Equivalents	135,456	(76,367)
Cash and Cash Equivalents at Beginning of Year	<u>585,798</u>	<u>662,165</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 721,254</u></u>	<u><u>\$ 585,798</u></u>
Reconciliation of Cash at End of Year		
Cash and Cash Equivalents	\$ 631,556	\$ 492,918
Restricted Cash and Cash Equivalents	89,698	92,880
Total Cash at End of Year	<u><u>\$ 721,254</u></u>	<u><u>\$ 585,798</u></u>

Knox County Utility Commission  
 Departmental Statements of Cash Flows - Water Department (Continued)  
 For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Reconciliation of Operating Loss to Net Cash		
Provided by Operating Activities:		
Operating loss	\$ (232,401)	\$ (192,148)
Adjustments to reconcile operating loss		
to net cash provided (used) by operating activities		
Depreciation	444,811	448,207
Amortization	422	444
Loss on retirement of debt	-	1,021
(Increase) Decrease in:		
Accounts receivable	(443)	(2,387)
Unbilled accounts receivable	5,117	(18,212)
Other receivables	-	3,013
Inventory	1,215	7,214
Prepaid expenses and other assets	(16)	(107)
Increase (Decrease) in:		
Accounts payable	9,558	(20,033)
Customer deposits	(927)	(155)
Accrued expenses	(2,063)	(214)
	<u>\$ 225,273</u>	<u>\$ 226,643</u>
Net Cash Provided by Operating Activities	<u>\$ 225,273</u>	<u>\$ 226,643</u>



Knox County Utility Commission  
 Departmental Statements of Net Position - Sewer Department  
 December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 15,119	\$ 14,531
Receivables, less allowance	471	1,207
<b>Total Current Assets</b>	<u>15,590</u>	<u>15,738</u>
<b>Noncurrent assets</b>		
<b>Capital Assets</b>		
Pumping equipment	12,839	10,618
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>
	887,693	885,472
Accumulated depreciation	<u>(191,951)</u>	<u>(166,378)</u>
<b>Net Capital Assets</b>	<u>695,742</u>	<u>719,094</u>
<b>Total Noncurrent Assets</b>	<u>695,742</u>	<u>719,094</u>
<b>Total Assets</b>	<u>711,332</u>	<u>734,832</u>
<b>Liabilities and Net Position</b>		
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	<u>1,336</u>	<u>1,063</u>
<b>Total Liabilities</b>	<u>1,336</u>	<u>1,063</u>
<b>Net Position</b>		
Net investment in capital assets	695,742	719,094
Unrestricted	<u>14,254</u>	<u>14,675</u>
<b>Total Net Position</b>	<u>\$ 709,996</u>	<u>\$ 733,769</u>

Knox County Utility Commission  
 Departmental Statements of Revenues, Expenses and Changes in Net Position - Sewer Department  
 For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating Revenues		
Sewer sales	\$ 18,360	\$ 14,528
Penalties	<u>306</u>	<u>-</u>
Total Operating Revenues	<u>18,666</u>	<u>14,528</u>
Operating Expenses		
Salaries and wages	530	554
Employee benefits	39	40
Utilities	859	1,029
Repairs and maintenance	182	-
Sewer treatment	14,916	9,921
Depreciation	25,573	25,549
Bad debt expense, net of recoveries	54	87
Other operating expenses	<u>286</u>	<u>118</u>
Total Operating Expenses	<u>42,439</u>	<u>37,298</u>
Operating Loss	<u>(23,773)</u>	<u>(22,770)</u>
Change in Net Position	(23,773)	(22,770)
Net Position, Beginning of Year	<u>733,769</u>	<u>756,539</u>
Net Position, End of Year	<u>\$ 709,996</u>	<u>\$ 733,769</u>

Knox County Utility Commission  
 Departmental Statements of Cash Flows - Sewer Department  
 For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash Flows From Operating Activities		
Receipts from customers	\$ 19,402	\$ 14,371
Payments to employees	(530)	(554)
Payments to suppliers	<u>(16,063)</u>	<u>(10,747)</u>
Net Cash Provided by Operating Activities	<u>2,809</u>	<u>3,070</u>
Cash Flows From Capital and Related Financing Activities		
Purchases of property, plant and equipment	<u>(2,221)</u>	<u>-</u>
Net Cash Used by Capital and Related Financing Activities	<u>(2,221)</u>	<u>-</u>
Net Increase in Cash and Cash Equivalents	588	3,070
Cash and Cash Equivalents at Beginning of Year	<u>14,531</u>	<u>11,461</u>
Cash and Cash Equivalents at End of Year	<u>\$ 15,119</u>	<u>\$ 14,531</u>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:		
Operating loss	\$ (23,773)	\$ (22,770)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities		
Depreciation	25,573	25,549
(Increase) Decrease in:		
Accounts receivable	736	(157)
Increase (Decrease) in:		
Accounts payable	<u>273</u>	<u>448</u>
Net Cash Provided by Operating Activities	<u>\$ 2,809</u>	<u>\$ 3,070</u>



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, 2013, 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 March 28, 2014.

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 2013-1 and 2013-2)

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 result 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

March 28, 2014

Knox County Utility Commission  
Schedule of Findings and Responses  
December 31, 2013

2013-1

**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.*

2013-2

**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.*