

Knox County Utility Commission
Artemus, Kentucky

Independent Auditors' Report
And Financial Statements
For the Years Ended
December 31, 2016 and 2015

Knox County Utility Commission
Table of Contents

	<u>Page</u>
Independent Auditors' Report	1-3
Basic Financial Statements	
Statements of Net Position	4-5
Statements of Revenues, Expenses and Changes in Net Position	6
Statements of Cash Flows	7-8
Notes to Financial Statements	9-23
Supplementary Information	
Departmental Statements of Net Position - Water Department	24-25
Departmental Statements of Revenues, Expenses and Changes in Net Position - Water Department	26
Departmental Statements of Cash Flows - Water Department	27-28
Departmental Statements of Net Position - Sewer Department	29
Departmental Statements of Revenues, Expenses and Changes in Net Positon - Sewer Department	30
Departmental Statements of Cash Flows - Sewer Department	31
Required Supplementary Information	
Schedule of the Commission's Proportionate Share of the Net Pension Liability	32
Schedule of the Commission's Pension Contributions	33
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 <i>Government Auditing Standards</i>	34-35
Schedule of Findings and Responses	36

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, 2016 and 2015, 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, 2016 and 2015, 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

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 the Commission's Pension Contributions on pages 32-33 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 June 30, 2017 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

June 30, 2017

Knox County Utility Commission
Statements of Net Position
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 823,814	\$ 654,452
Receivables, less allowance	99,087	104,680
Unbilled accounts receivable	75,720	78,378
Inventories	26,601	17,814
Other current assets	614	413
Total Current Assets	1,025,836	855,737
Noncurrent assets		
Restricted assets		
Restricted cash and cash equivalents	36,754	35,558
Capital Assets		
Land and improvements	44,619	44,619
Structures and improvements	511,387	511,387
Pumping equipment	207,431	182,816
Meters and meter installation	794,186	771,312
Hydrants	53,816	53,816
Storage tanks	1,148,102	1,148,102
Transmission and distribution plant	10,416,631	10,416,631
Vehicles and other equipment	464,215	426,792
Office equipment	60,315	59,650
Lift stations	344,195	344,195
	14,044,897	13,959,320
Accumulated depreciation	(6,464,763)	(6,233,437)
Net Capital Assets	7,580,134	7,725,883
Total Noncurrent Assets	7,616,888	7,761,441
Total Assets	8,642,724	8,617,178
Deferred Outflows of Resources		
Bond issue costs, net of amortization	67,911	70,974
Differences between expected and actual experience related to pensions	2,331	4,269
Net differences between projected and actual earnings on pension plan investments	50,192	4,605
Changes of assumptions related to pensions	28,283	51,805
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,316	10,498
Pension contributions subsequent to measurement date	18,656	30,807
Total Deferred Outflows of Resources	173,689	172,958

See accompanying notes to financial statements.

Knox County Utility Commission
Statements of Net Position (Continued)
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Liabilities		
Current Liabilities		
Current portion of long-term debt	95,000	100,000
Accounts payable	35,311	39,497
Accrued interest payable	47	47
Accrued salaries and taxes payable	56,687	18,078
Other current liabilities	732	-
Total Current Liabilities	187,777	157,622
Noncurrent Liabilities		
Customer deposits	30,652	29,463
Net pension liability	533,899	513,737
Long-term debt, less current portion	2,245,000	2,340,000
Total Noncurrent Liabilities	2,809,551	2,883,200
Total Liabilities	2,997,328	3,040,822
Deferred Inflows of Resources		
Changes in proportion and differences between employer contributions and proportionate share of contributions	29,613	-
Total Deferred Inflows of Resources	29,613	-
Net Position		
Net investment in capital assets	5,240,134	5,285,883
Restricted	36,754	35,558
Unrestricted (as restated)	512,584	427,873
Total Net Position	\$ 5,789,472	\$ 5,749,314

Knox County Utility Commission
 Statements of Revenues, Expenses and Changes in Net Position
 For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Water sales	\$ 1,325,537	\$ 1,220,337
Sewer sales	24,222	24,285
Service charges	14,535	13,335
Tap fees	16,400	18,840
Penalties	40,769	34,129
Other revenues	<u>6,252</u>	<u>5,559</u>
Total Operating Revenues	<u>1,427,715</u>	<u>1,316,485</u>
Operating Expenses		
Salaries and wages	315,620	310,928
Employee benefits	233,552	201,302
Purchased power	197,967	232,212
Utilities	62,281	60,016
Chemicals	60,167	51,959
Repairs and maintenance	27,125	34,058
Contracted services	21,794	21,042
Vehicle and equipment expenses	26,507	20,427
Insurance	33,404	33,596
Sewer treatment	24,985	25,100
Amortization	3,063	10,996
Depreciation	231,326	233,011
Bad debt expense, net of recoveries	24,199	17,607
Other operating expenses	<u>53,531</u>	<u>53,468</u>
Total Operating Expenses	<u>1,315,521</u>	<u>1,305,722</u>
Operating Income	<u>112,194</u>	<u>10,763</u>
Nonoperating Revenues (Expenses)		
Interest income	4,635	4,027
Federal and state grants	-	198,571
Interest expense	<u>(76,671)</u>	<u>(91,425)</u>
Total Nonoperating Revenues (Expenses)	<u>(72,036)</u>	<u>111,173</u>
Change in Net Position	40,158	121,936
Net Position, Beginning of Year (as previously reported)	5,749,314	5,644,218
Prior period adjustment	-	(16,840)
Net Position, Beginning of Year (as restated)	<u>5,749,314</u>	<u>5,627,378</u>
Net Position, End of Year	<u>\$ 5,789,472</u>	<u>\$ 5,749,314</u>

See accompanying notes to financial statements.

Knox County Utility Commission
Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities		
Receipts from customers	\$ 1,431,635	\$ 1,270,346
Receipts from other activities	6,252	5,559
Payments to employees	(231,030)	(291,121)
Payments to suppliers	(778,686)	(750,936)
Net Cash Provided by Operating Activities	<u>428,171</u>	<u>233,848</u>
Cash Flows From Capital and Related Financing Activities		
Purchases of property, plant and equipment	(85,577)	(247,724)
Proceeds on debt	-	2,550,000
Principal payments on debt	(100,000)	(2,587,000)
Interest payments on debt	(76,671)	(91,425)
Bond issuance costs	-	(73,527)
Federal, state and local grants	-	202,396
Net Cash Used by Capital and Related Financing Activities	<u>(262,248)</u>	<u>(247,280)</u>
Cash Flows From Investing Activities		
Interest on cash and investments	4,635	4,027
Net Cash Provided by Investing Activities	<u>4,635</u>	<u>4,027</u>
Net Increase (Decrease) in Cash and Cash Equivalents	170,558	(9,405)
Cash and Cash Equivalents at Beginning of Year	<u>690,010</u>	<u>699,415</u>
Cash and Cash Equivalents at End of Year	<u>\$ 860,568</u>	<u>\$ 690,010</u>
Reconciliation of Cash at End of Year		
Cash and Cash Equivalents	\$ 823,814	\$ 654,452
Restricted Cash and Cash Equivalents	36,754	35,558
Total Cash at End of Year	<u>\$ 860,568</u>	<u>\$ 690,010</u>

Knox County Utility Commission
 Statements of Cash Flows (Continued)
 For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities:		
Operating income	\$ 112,194	\$ 10,763
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	231,326	233,011
Amortization	3,063	10,996
(Increase) Decrease in:		
Accounts receivable	5,593	(20,239)
Unbilled accounts receivable	2,658	(21,791)
Inventory	(8,787)	3,519
Prepaid expenses and other assets	(201)	(200)
Deferred pension costs	25,819	(118,824)
Increase (Decrease) in:		
Accounts payable	(4,186)	(3,468)
Customer deposits	1,189	1,450
Accrued expenses	38,609	5,472
Other current liabilities	732	-
Net pension liability	20,162	133,159
	<u>\$ 428,171</u>	<u>\$ 233,848</u>
Net Cash Provided by Operating Activities	<u>\$ 428,171</u>	<u>\$ 233,848</u>

Knox County Utility Commission
Notes to Financial Statements
December 31, 2016 and 2015

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, 2016 and 2015

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, 2016 and 2015, the allowance for doubtful accounts totaled \$15,500 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, 2016 and 2015

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 0.37% 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. The plan's financial statements are prepared using the accrual basis of accounting and are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) that apply to governmental accounting for fiduciary funds. Investments are reported at fair value.

Knox County Utility Commission
Notes to Financial Statements (Continued)
December 31, 2016 and 2015

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, 2016 and 2015 was \$36,754 and \$35,558, respectively.

Note 3 – Kentucky Revised Statute

At December 31, 2016 and 2015, 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, 2016 and 2015, \$610,224 and \$440,747 of the Commission's total deposits at banks of \$860,224 and \$690,747, respectively, were exposed to custodial credit risk as follows:

	<u>2016</u>	<u>2015</u>
Uninsured and uncollateralized	\$ -	\$ -
Uninsured and collateral held by pledging bank	610,224	440,747
Uninsured and collateral held by pledging bank's trust department not in the Commission's name	-	-
Total	<u>\$ 610,224</u>	<u>\$ 440,747</u>

Knox County Utility Commission
Notes to Financial Statements (Continued)
December 31, 2016 and 2015

Note 5 – Capital Assets

The following is a summary of capital asset transactions for the year ended December 31, 2016:

	Balance Dec. 31, 2015	Additions	Dispositions	Balance Dec. 31, 2016
Land and land improvements	\$ 44,619	\$ -	\$ -	\$ 44,619
Structures and improvements	511,387	-	-	511,387
Pumping equipment	182,816	24,615	-	207,431
Meters and meter installation	771,312	22,874	-	794,186
Hydrants	53,816	-	-	53,816
Storage tanks	1,148,102	-	-	1,148,102
Transmission and distribution plant	10,416,631	-	-	10,416,631
Vehicles and other equipment	426,792	37,423	-	464,215
Office equipment	59,650	665	-	60,315
Lift stations	344,195	-	-	344,195
Totals at historical cost	<u>13,959,320</u>	<u>85,577</u>	<u>-</u>	<u>14,044,897</u>
Less accumulated depreciation for:				
Structures and improvements	425,690	5,549	-	431,239
Pumping equipment	100,453	7,185	-	107,638
Meters and meter installation	502,708	14,035	-	516,743
Hydrants	37,899	956	-	38,855
Storage tanks	522,976	21,852	-	544,828
Transmission and distribution plant	4,082,584	160,620	-	4,243,204
Vehicles and other equipment	385,184	10,084	-	395,268
Office equipment	48,999	3,397	-	52,396
Lift stations	126,944	7,648	-	134,592
Total accumulated depreciation	<u>6,233,437</u>	<u>231,326</u>	<u>-</u>	<u>6,464,763</u>
Capital assets - net	<u>\$ 7,725,883</u>	<u>\$ (145,749)</u>	<u>\$ -</u>	<u>\$ 7,580,134</u>

Knox County Utility Commission
Notes to Financial Statements (Continued)
December 31, 2016 and 2015

Note 5 – Capital Assets (Continued)

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, 2016 and 2015

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, 2016:

	<u>Balance</u> <u>Dec. 31, 2015</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2016</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%	\$ 2,440,000	\$ -	\$ 100,000	\$ 2,340,000	\$ 95,000
	<u>\$ 2,440,000</u>	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ 2,340,000</u>	<u>\$ 95,000</u>

Knox County Utility Commission
Notes to Financial Statements (Continued)
December 31, 2016 and 2015

Note 6 – Long-Term Debt (Continued)

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, 2016 and 2015

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>
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	90,000	66,263	156,263
2022-2026	500,000	285,163	785,163
2027-2031	580,000	199,038	779,038
2032-2036	570,000	101,956	671,956
2037-2041	245,000	12,950	257,950
	<u>\$ 2,340,000</u>	<u>\$ 950,221</u>	<u>\$ 3,290,221</u>

Note 7 – Retirement Plan

Knox County Utility Commission is a participating employer of the County Employee's Retirement System (CERS). Under the provisions of Kentucky Revised Statute Section 61.645, the Board of Trustees of the Kentucky Retirement Systems (KRS) administers CERS. The plan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be downloaded from the Kentucky Retirement Systems website or may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description

CERS is a cost sharing, multiple-employer, defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System.

Benefits Provided

The plan 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. Cost-of-living adjustments (COLA) are provided at the discretion of state legislature.

Knox County Utility Commission
Notes to Financial Statements (Continued)
December 31, 2016 and 2015

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. For the year ended December 31, 2016, plan members in non-hazardous positions were required to contribute 5% of the employee's total compensation subject to contribution. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565, normal contribution and past service contribution rates shall be determined by the Kentucky Retirement Systems Board of Trustees on the basis of the annual actuarial valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of July 1 of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements in accordance with the actuarial basis adopted by the Board. The Commission's required contribution rates for the year ended December 31, 2016 were 17.06% (January through June 2016) and 18.68% (July through December 2016). The Commission's required contribution rates for the year ended December 31, 2015 were 17.67% (January through June 2015) and 17.06% (July through December 2015). Required contribution rates were actuarially determined and adopted by the KRS Board of Trustees. Administrative costs of the Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on or after January 1, 2014 are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. A Cash Balance Plan resembles a defined contribution plan because it determines the value of benefits for each participant based on individual accounts. However, the assets of the plan remain in a single investment pool like a traditional defined benefit plan. A Cash Balance Plan resembles a defined benefit plan since it uses a specific formula to determine benefits. Members and employers contribute specified percentages of the member's wages each month to the member's account. Non-hazardous plan members are required to contribute 5% of wages to their individual account. All members are required to contribute 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. Each month, when employer contributions are received, an Employer Pay Credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% Employer Pay Credit. The employer pay credit represents a portion of the employer contribution. The account earns a guaranteed amount of interest, 4% on both the member contributions and the Employer Pay Credit Balance, at the end of each fiscal year. If the member contributed to the plan during the fiscal year, there may be additional interest credit added to the member's account depending on Kentucky Retirement Systems' investment returns. This "upside" interest sharing is based on the 5-year average geometric investment return. If it exceeds 4% the member's account will be credited with 75% of the amount of the returns over 4% on the account balance as of June 30 of the previous year. For the year ended June 30, 2016, the interest earned on CERS non-hazardous plans was 4.870%.

The Commission's payroll for the years ended December 31, 2016, 2015, and 2014 was \$254,414, \$280,292, and \$270,908, respectively, all of which was covered by CERS. The Commission's contribution requirements for CERS for the years ended December 31, 2016, 2015, and 2014 were \$45,570 (\$33,645 allocated to the CERS pension fund and \$11,925 allocated to the CERS insurance fund), \$48,686 (\$35,282 allocated to the CERS pension fund and \$13,404 allocated to the CERS insurance fund), and \$49,509 (\$35,871 allocated to the CERS pension fund and \$13,638 allocated to the CERS insurance fund), respectively. The Commission contributed 100% of their required contributions for the years ended December 31, 2016, 2015 and 2014.

Knox County Utility Commission
Notes to Financial Statements (Continued)
December 31, 2016 and 2015

Note 7 – Retirement Plan (Continued)

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

At December 31, 2016 and 2015, the Commission reported a liability of \$533,899 and \$513,737, respectively for their proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and 2015, respectively, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of those dates. 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 the June 30, 2016 and 2015 measurement dates, the Commission's proportion was 0.01084% and 0.01195%, respectively.

Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have not been updated.

The Commission recognized pension expense of \$86,410 and \$61,982 for the years ended December 31, 2016 and 2015, respectively. At December 31, 2016, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 2,331	\$ -
Net difference between projected and actual investment earnings on pension plan investments	50,192	-
Changes of assumptions	28,283	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,316	29,613
Employer contributions subsequent to the measurement date	18,656	-
Total	<u>\$ 105,778</u>	<u>\$ 29,613</u>

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. Deferred outflows and inflows related to experience gains/losses, the impact of changes in actuarial assumptions, changes in the employer's proportionate share of net pension liability, and differences between employer contributions and the proportionate share of contributions are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year.

Knox County Utility Commission
Notes to Financial Statements (Continued)
December 31, 2016 and 2015

Note 7 – Retirement Plan (Continued)

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

\$18,656 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, 2017. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:

	2017	\$	21,910
	2018		9,927
	2019		14,521
	2020		11,151
	2021		-
	Thereafter		-
Total		<u>\$</u>	<u>57,509</u>

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	-
Employer contributions subsequent to the measurement date	30,807	-
Total	<u>\$ 101,984</u>	<u>\$ -</u>

Knox County Utility Commission
Notes to Financial Statements (Continued)
December 31, 2016 and 2015

Note 7 – Retirement Plan (Continued)

Actuarial Assumptions

Total pension liability was determined by applying procedures to the actuarial valuation as of June 30, 2016. The financial reporting actuarial valuation as of June 30, 2016, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	27 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 System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated December 3, 2015. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The 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, 2016 and 2015

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 27 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 table 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 Commission'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	\$ 665,324	\$ 533,899	\$ 421,241

Payable to the Pension Plan

At December 31, 2016 and 2015, the Commission reported payables of \$6,682 and \$5,644 for the outstanding amounts of contributions to the pension plan required for the years ended December 31, 2016 and 2015, respectively.

Note 8 – Prior Period Adjustment

The 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, contributions made after the measurement date of the net pension liability must be deferred and shown in the Statement of Net Position. The contributions contain a pension component that should be deferred and an insurance component that should not be deferred. Due to information that existed at the time the financial statements for the year ended December 31, 2015 were prepared, the full amount of contributions made after the measurement date were deferred. A prior period adjustment of \$16,840 was made to reduce beginning net position to correct the deferral of prior year contributions for the Commission.

Knox County Utility Commission
Notes to Financial Statements (Continued)
December 31, 2016 and 2015

Note 9 – 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 10 - Subsequent Events

Management of the Commission has evaluated subsequent events through June 30, 2017, 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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 823,093	\$ 647,666
Receivables, less allowance	98,830	103,151
Unbilled accounts receivable	75,720	78,378
Inventories	26,601	17,814
Other current assets	614	413
Total Current Assets	<u>1,024,858</u>	<u>847,422</u>
Noncurrent assets		
Restricted assets		
Restricted cash and cash equivalents	<u>36,754</u>	<u>35,558</u>
Capital Assets		
Land and improvements	44,619	44,619
Structures and improvements	511,387	511,387
Pumping equipment	186,838	168,467
Meters and meter installation	794,091	771,217
Hydrants	53,816	53,816
Storage tanks	1,148,102	1,148,102
Transmission and distribution plant	9,886,781	9,886,781
Vehicles and other equipment	463,501	426,078
Office equipment	60,315	59,650
	<u>13,149,450</u>	<u>13,070,117</u>
Accumulated depreciation	<u>(6,212,951)</u>	<u>(5,998,798)</u>
Net Capital Assets	<u>6,936,499</u>	<u>7,071,319</u>
Total Noncurrent Assets	<u>6,973,253</u>	<u>7,106,877</u>
Total Assets	<u>7,998,111</u>	<u>7,954,299</u>
Deferred Outflows of Resources		
Bond issue costs, net of amortization	67,911	70,974
Differences between expected and actual experience related to pensions	2,331	4,269
Net differences between projected and actual earnings on pension plan investments	50,192	4,605
Changes of assumptions related to pensions	28,283	51,805
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,316	10,498
Pension contributions subsequent to measurement date	18,656	30,807
Total Deferred Outflows of Resources	<u>173,689</u>	<u>172,958</u>

Knox County Utility Commission
 Departmental Statements of Net Position - Water Department (Continued)
 December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Liabilities		
Current Liabilities		
Current portion of long-term debt	95,000	100,000
Accounts payable	32,983	39,469
Accrued interest payable	47	47
Accrued salaries and taxes payable	56,687	18,078
Other current liabilities	<u>732</u>	<u>-</u>
Total Current Liabilities	<u>185,449</u>	<u>157,594</u>
Noncurrent Liabilities		
Customer deposits	30,652	29,463
Net pension liability	533,899	513,737
Long-term debt	<u>2,245,000</u>	<u>2,340,000</u>
Total Noncurrent Liabilities	<u>2,809,551</u>	<u>2,883,200</u>
Total Liabilities	<u>2,995,000</u>	<u>3,040,794</u>
Deferred Inflows of Resources		
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>29,613</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>29,613</u>	<u>-</u>
Net Position		
Net investment in capital assets	4,596,499	4,631,319
Restricted	36,754	35,558
Unrestricted (as restated)	<u>513,934</u>	<u>419,586</u>
Total Net Position	<u>\$ 5,147,187</u>	<u>\$ 5,086,463</u>

Knox County Utility Commission
 Departmental Statements of Revenues, Expenses and Changes in Net Position - Water Department
 For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Water sales	\$ 1,325,537	\$ 1,220,337
Service charges	14,535	13,335
Tap fees	16,400	18,840
Penalties	40,769	34,129
Other revenues	6,252	5,559
Total Operating Revenues	<u>1,403,493</u>	<u>1,292,200</u>
Operating Expenses		
Salaries and wages	314,475	309,905
Employee benefits	233,469	201,227
Purchased power	197,967	232,212
Utilities	60,952	58,655
Chemicals	60,167	51,959
Repairs and maintenance	27,125	34,058
Contracted services	21,794	21,042
Vehicle and equipment expenses	26,507	20,427
Insurance	33,404	33,596
Amortization	3,063	10,996
Depreciation	214,153	216,153
Bad debt expense, net of recoveries	24,126	16,809
Other operating expenses	53,531	53,469
Total Operating Expenses	<u>1,270,733</u>	<u>1,260,508</u>
Operating Income	<u>132,760</u>	<u>31,692</u>
Nonoperating Revenues (Expenses)		
Interest income	4,635	4,027
Federal and state grants	-	198,571
Interest expense	<u>(76,671)</u>	<u>(91,425)</u>
Total Nonoperating Revenues (Expenses)	<u>(72,036)</u>	<u>111,173</u>
Change in Net Position	60,724	142,865
Net Position, Beginning of Year (as previously reported)	5,086,463	4,960,438
Prior period adjustment	-	(16,840)
Net Position, Beginning of Year (as restated)	<u>5,086,463</u>	<u>4,943,598</u>
Net Position, End of Year	<u>\$ 5,147,187</u>	<u>\$ 5,086,463</u>

Knox County Utility Commission
 Departmental Statements of Cash Flows - Water Department
 For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities		
Receipts from customers	\$ 1,406,141	\$ 1,245,173
Receipts from other activities	6,252	5,559
Payments to employees	(229,885)	(290,098)
Payments to suppliers	(754,516)	(722,091)
Net Cash Provided by Operating Activities	<u>427,992</u>	<u>238,543</u>
Cash Flows From Capital and Related Financing Activities		
Purchases of property, plant and equipment	(79,333)	(246,924)
Proceeds on debt	-	2,550,000
Principal payments on debt	(100,000)	(2,587,000)
Interest payments on debt	(76,671)	(91,425)
Bond issuance costs	-	(73,527)
Federal, state and local grants	-	202,396
Net Cash Used by Capital and Related Financing Activities	<u>(256,004)</u>	<u>(246,480)</u>
Cash Flows From Investing Activities		
Interest on cash and investments	4,635	4,027
Net Cash Provided by Investing Activities	<u>4,635</u>	<u>4,027</u>
Net Decrease in Cash and Cash Equivalents	176,623	(3,910)
Cash and Cash Equivalents at Beginning of Year	<u>683,224</u>	<u>687,134</u>
Cash and Cash Equivalents at End of Year	<u>\$ 859,847</u>	<u>\$ 683,224</u>
Reconciliation of Cash at End of Year		
Cash and Cash Equivalents	\$ 823,093	\$ 647,666
Restricted Cash and Cash Equivalents	36,754	35,558
Total Cash at End of Year	<u>\$ 859,847</u>	<u>\$ 683,224</u>

Knox County Utility Commission
 Departmental Statements of Cash Flows - Water Department (Continued)
 For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities:		
Operating income	\$ 132,760	\$ 31,692
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	214,153	216,153
Amortization	3,063	10,996
(Increase) Decrease in:		
Accounts receivable	4,321	(21,127)
Unbilled accounts receivable	2,658	(21,791)
Inventory	(8,787)	3,519
Other current assets	(201)	(200)
Deferred pension costs	25,819	(118,824)
Increase (Decrease) in:		
Accounts payable	(6,486)	(1,956)
Customer deposits	1,189	1,450
Accrued expenses	38,609	5,472
Other current liabilities	732	-
Net pension liability	20,162	133,159
	<u>\$ 427,992</u>	<u>\$ 238,543</u>
Net Cash Provided by Operating Activities	<u>\$ 427,992</u>	<u>\$ 238,543</u>

Knox County Utility Commission
 Departmental Statements of Net Position - Sewer Department
 December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 721	\$ 6,786
Receivables, less allowance	<u>257</u>	<u>1,529</u>
Total Current Assets	<u>978</u>	<u>8,315</u>
Noncurrent assets		
Capital Assets		
Pumping equipment	20,593	14,349
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>
	895,447	889,203
Accumulated depreciation	<u>(251,812)</u>	<u>(234,639)</u>
Net Capital Assets	<u>643,635</u>	<u>654,564</u>
Total Noncurrent Assets	<u>643,635</u>	<u>654,564</u>
Total Assets	<u>644,613</u>	<u>662,879</u>
Liabilities and Net Position		
Liabilities		
Current Liabilities		
Accounts payable	<u>2,328</u>	<u>28</u>
Total Liabilities	<u>2,328</u>	<u>28</u>
Net Position		
Net investment in capital assets	643,635	654,564
Unrestricted	<u>(1,350)</u>	<u>8,287</u>
Total Net Position	<u>\$ 642,285</u>	<u>\$ 662,851</u>

Knox County Utility Commission
 Departmental Statements of Revenues, Expenses and Changes in Net Position - Sewer Department
 For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Sewer sales	\$ 24,222	\$ 24,285
Total Operating Revenues	<u>24,222</u>	<u>24,285</u>
Operating Expenses		
Salaries and wages	1,145	1,023
Employee benefits	83	75
Utilities	1,329	1,361
Sewer treatment	24,985	25,100
Depreciation	17,173	16,858
Bad debt expense, net of recoveries	73	798
Other operating expenses	<u>-</u>	<u>(1)</u>
Total Operating Expenses	<u>44,788</u>	<u>45,214</u>
Operating Loss	<u>(20,566)</u>	<u>(20,929)</u>
Change in Net Position	(20,566)	(20,929)
Net Position, Beginning of Year	<u>662,851</u>	<u>683,780</u>
Net Position, End of Year	<u>\$ 642,285</u>	<u>\$ 662,851</u>

Knox County Utility Commission
 Departmental Statements of Cash Flows - Sewer Department
 For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities		
Receipts from customers	\$ 25,494	\$ 25,173
Payments to employees	(1,145)	(1,023)
Payments to suppliers	(24,170)	(28,845)
Net Cash Provided (Used) by Operating Activities	<u>179</u>	<u>(4,695)</u>
 Cash Flows From Capital and Related Financing Activities		
Purchases of property, plant and equipment	<u>(6,244)</u>	<u>(800)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(6,244)</u>	<u>(800)</u>
 Net Decrease in Cash and Cash Equivalents	(6,065)	(5,495)
 Cash and Cash Equivalents at Beginning of Year	<u>6,786</u>	<u>12,281</u>
 Cash and Cash Equivalents at End of Year	<u>\$ 721</u>	<u>\$ 6,786</u>
 Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Operating loss	\$ (20,566)	\$ (20,929)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities		
Depreciation	17,173	16,858
(Increase) Decrease in:		
Accounts receivable	1,272	888
Increase (Decrease) in:		
Accounts payable	<u>2,300</u>	<u>(1,512)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 179</u>	<u>\$ (4,695)</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*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Commission's proportion of the net pension liability (asset)	0.01084%	0.01195%	0.01154%
Commission's proportionate share of the net pension liability (asset)	\$ 533,899	\$ 513,737	\$ 374,454
Commission's covered-employee payroll	\$ 254,414	\$ 280,292	\$ 270,908
Commission's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	209.85%	183.29%	138.22%
Plan fiduciary net position as a percentage of the total pension liability	55.50%	59.97%	66.80%

Source: Kentucky Retirement Systems

Notes: There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the last two years.

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 year were determined (measured) as of the fiscal year-end that occurred within the previous calendar year.

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 33,645	\$ 35,282	\$ 35,871
Contributions in relation to the contractually required contribution	<u>(33,645)</u>	<u>(35,282)</u>	<u>(35,871)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 254,414	\$ 280,292	\$ 270,908
Contributions as a percentage of covered-employee payroll	13.22%	12.59%	13.24%

Source: Kentucky Retirement Systems

Notes: There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the last two years.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions include those contributions allocated directly to the CERS pension fund.

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 year were determined (measured) as of the fiscal year-end that occurred within the previous calendar year.



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, 2016, 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 June 30, 2017.

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.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 (See 2016-1 and 2016-2).

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

June 30, 2017

Knox County Utility Commission
Schedule of Findings and Responses
December 31, 2016

2016-1

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.

2016-2

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.