

Knox County Utility Commission
Artemus, Kentucky

Independent Auditors' Report
And Financial Statements
For the Years Ended
December 31, 2019 and 2018

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, 2019 and 2018, 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, 2019 and 2018, 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, the Schedule of the Commission's Proportionate Share of the Net OPEB Liability, the Schedule of the Commission's Pension Contributions, and the Schedule of the Commission's OPEB Contributions on pages 37-40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2020 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, PLLC

Christian Sturgeon, PLLC
London, Kentucky

May 20, 2020

Knox County Utility Commission
Statements of Net Position
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 757,668	\$ 940,440
Receivables, less allowance	89,324	100,623
Unbilled accounts receivable	107,495	83,149
Inventories	42,104	24,600
Other current assets	3,956	5,252
Total Current Assets	<u>1,000,547</u>	<u>1,154,064</u>
Noncurrent Assets		
Restricted Assets		
Restricted cash and cash equivalents	<u>54,218</u>	<u>50,843</u>
Total Restricted Assets	<u>54,218</u>	<u>50,843</u>
Capital Assets		
Land and improvements	44,619	44,619
Structures and improvements	523,079	520,949
Pumping equipment	232,112	226,606
Meters and meter installation	1,040,499	874,934
Hydrants	53,816	53,816
Storage tanks	1,148,102	1,148,102
Transmission and distribution plant	10,551,127	10,416,631
Vehicles and other equipment	489,164	472,952
Office equipment	79,831	74,359
Lift stations	344,195	344,195
Construction in progress	-	15,799
Less: accumulated depreciation	<u>(7,131,770)</u>	<u>(6,890,468)</u>
Net Capital Assets	<u>7,374,774</u>	<u>7,302,494</u>
Total Noncurrent Assets	<u>7,428,992</u>	<u>7,353,337</u>
Total Assets	<u>8,429,539</u>	<u>8,507,401</u>
Deferred Outflows of Resources		
Bond issue costs, net of amortization	58,720	61,783
Differences between expected and actual experience related to pensions	25,135	25,604
Net differences between projected and actual earnings on pension plan investments	-	-
Changes of assumptions related to pensions	99,634	76,715
Changes of assumptions related to OPEB	69,649	45,700
Changes in proportion and differences between employer pension contributions and proportionate share of contributions	73,640	56,472
Changes in proportion and differences between employer OPEB contributions and proportionate share of contributions	28,219	15,690
Pension contributions subsequent to measurement date	35,716	26,989
OPEB contributions subsequent to measurement date	8,809	8,752
Total Deferred Outflows of Resources	<u>399,522</u>	<u>317,705</u>

See accompanying notes to financial statements.

Knox County Utility Commission
Statements of Net Position (Continued)
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Liabilities		
Current Liabilities		
Current portion of long-term debt	90,000	85,000
Accounts payable	40,842	39,746
Accrued interest payable	47	47
Accrued salaries and taxes payable	88,880	71,391
Other current liabilities	12,211	1,588
Total Current Liabilities	231,980	197,772
Noncurrent Liabilities		
Customer deposits	47,981	44,554
Net pension liability	984,415	784,979
Net OPEB liability	235,373	228,824
Long-term debt, less current portion	1,985,000	2,075,000
Total Noncurrent Liabilities	3,252,769	3,133,357
Total Liabilities	3,484,749	3,331,129
Deferred Inflows of Resources		
Differences between expected and actual experience related to pensions	4,159	11,490
Differences between expected and actual experience related to OPEB	71,017	26,666
Net differences between projected and actual earnings on pension plan investments	15,869	9,412
Net differences between projected and actual earnings on OPEB plan investments	10,455	15,761
Changes of assumptions related to OPEB	466	529
Changes in proportion and differences between employer pension contributions and proportionate share of contributions	-	5,038
Changes in proportion and differences between employer OPEB contributions and proportionate share of contributions	339	443
Total Deferred Inflows of Resources	102,305	69,339
Net Position		
Net investment in capital assets	5,299,774	5,142,494
Restricted	54,218	50,843
Unrestricted	(111,985)	231,301
Total Net Position	\$ 5,242,007	\$ 5,424,638

See accompanying notes to financial statements.

Knox County Utility Commission
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Revenues		
Water sales	\$ 1,361,421	\$ 1,349,944
Sewer sales	26,899	26,622
Service charges	16,190	15,830
Tap fees	15,200	15,600
Penalties	39,119	39,311
Other revenues	7,806	7,310
Total Operating Revenues	<u>1,466,635</u>	<u>1,454,617</u>
Operating Expenses		
Salaries and wages	389,467	362,859
Employee benefits	420,945	349,023
Purchased power	224,973	224,486
Utilities	57,891	66,520
Chemicals	89,719	89,330
Repairs and maintenance	86,656	64,523
Contracted services	24,931	27,315
Vehicle and equipment expenses	28,862	31,918
Insurance	45,236	42,313
Sewer treatment	22,502	25,150
Amortization	3,063	3,064
Depreciation	241,302	233,959
Bad debt expense, net of recoveries	16,450	19,469
Other operating expenses	64,544	69,602
Total Operating Expenses	<u>1,716,541</u>	<u>1,609,531</u>
Operating Income (Loss)	<u>(249,906)</u>	<u>(154,914)</u>
Non-operating Revenues (Expenses)		
Interest income	5,411	6,251
Federal and state grants	131,228	8,553
Gain on disposal of assets	-	1,325
Insurance proceeds	1,038	-
Interest expense	(70,402)	(72,275)
Total Non-operating Revenues (Expenses)	<u>67,275</u>	<u>(56,146)</u>
Change in Net Position	(182,631)	(211,060)
Net Position, Beginning of Year	<u>5,424,638</u>	<u>5,635,698</u>
Net Position, End of Year	<u>\$ 5,242,007</u>	<u>\$ 5,424,638</u>

See accompanying notes to financial statements.

Knox County Utility Commission
Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities		
Receipts from customers	\$ 1,459,832	\$ 1,466,735
Receipts from other activities	7,806	7,310
Payments to employees	(217,907)	(248,554)
Payments to suppliers	(1,097,821)	(1,003,507)
Net Cash Provided by Operating Activities	<u>151,910</u>	<u>221,984</u>
Cash Flows From Capital and Related Financing Activities		
Purchases of property, plant and equipment	(313,582)	(118,545)
Proceeds on sale of equipment	-	1,325
Insurance proceeds	1,038	-
Principal payments on debt	(85,000)	(85,000)
Interest payments on debt	(70,402)	(72,275)
Federal, state and local grants	131,228	8,553
Net Cash Used by Capital and Related Financing Activities	<u>(336,718)</u>	<u>(265,942)</u>
Cash Flows From Investing Activities		
Interest on cash and investments	5,411	6,251
Net Cash Provided by Investing Activities	<u>5,411</u>	<u>6,251</u>
Net Decrease in Cash and Cash Equivalents	(179,397)	(37,707)
Cash and Cash Equivalents at Beginning of Year	<u>991,283</u>	<u>1,028,990</u>
Cash and Cash Equivalents at End of Year	<u>\$ 811,886</u>	<u>\$ 991,283</u>
Reconciliation of Cash and Cash Equivalents at End of Year		
Cash and Cash Equivalents	\$ 757,668	\$ 940,440
Restricted Cash and Cash Equivalents	54,218	50,843
Total Cash and Cash Equivalents at End of Year	<u>\$ 811,886</u>	<u>\$ 991,283</u>

Knox County Utility Commission
 Statements of Cash Flows (Continued)
 For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of Operating Income (Loss) to Net Cash		
Provided by Operating Activities:		
Operating loss	\$ (249,906)	\$ (154,914)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	241,302	233,959
Amortization	3,063	3,064
(Increase) Decrease in:		
Accounts receivable	11,299	(11,984)
Unbilled accounts receivable	(24,346)	19,490
Inventory	(17,504)	206
Prepaid expenses and other assets	1,296	(727)
Deferred pension & OPEB costs	(51,914)	10,762
Increase (Decrease) in:		
Accounts payable	1,096	6,665
Customer deposits	3,427	11,446
Accrued expenses	17,489	10,650
Other current liabilities	10,623	476
Net pension & OPEB liabilities	205,985	92,891
	<u>\$ 151,910</u>	<u>\$ 221,984</u>
Net Cash Provided by Operating Activities	<u>\$ 151,910</u>	<u>\$ 221,984</u>

Knox County Utility Commission
Notes to Financial Statements
December 31, 2019 and 2018

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, 2019 and 2018

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, 2019 and 2018, the allowance for doubtful accounts totaled \$15,500.

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, 2019 and 2018

Note 1 – Significant Accounting Policies (Continued)

Customer Deposits

The Commission collects and holds in escrow an \$80 deposit from customers to ensure collection of its water and sewer charges. Interest at an annual rate of 2.64% 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 & OPEB

For purposes of measuring net pension liability, net OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions & OPEB, and pension and OPEB 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, 2019 and 2018

Note 2 – Restricted Assets

Restricted assets consist of customer water and sewer deposits. The balance of customer deposits held at December 31, 2019 and 2018 was \$54,218 and \$50,843, respectively.

Note 3 – Kentucky Revised Statute

At December 31, 2019 and 2018, 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, 2019 and 2018, \$561,760 and \$744,067 of the Commission's total deposits at banks of \$811,760 and \$994,067, respectively, were exposed to custodial credit risk as follows:

	<u>2019</u>	<u>2018</u>
Uninsured and uncollateralized	\$ -	\$ -
Uninsured and collateral held by pledging bank	561,760	744,067
Uninsured and collateral held by pledging bank's trust department not in the Commission's name	-	-
Total	<u><u>\$ 561,760</u></u>	<u><u>\$ 744,067</u></u>

Knox County Utility Commission
Notes to Financial Statements (Continued)
December 31, 2019 and 2018

Note 5 – Capital Assets

The following is a summary of capital asset transactions for the year ended December 31, 2019:

	Balance Dec. 31, 2018	Additions	Dispositions	Balance Dec. 31, 2019
Land and land improvements	\$ 44,619	\$ -	\$ -	\$ 44,619
Structures and improvements	520,949	2,130	-	523,079
Pumping equipment	226,606	5,506	-	232,112
Meters and meter installation	874,934	165,565	-	1,040,499
Hydrants	53,816	-	-	53,816
Storage tanks	1,148,102	-	-	1,148,102
Transmission and distribution plant	10,416,631	134,496	-	10,551,127
Vehicles and other equipment	472,952	16,212	-	489,164
Office equipment	74,359	5,472	-	79,831
Lift stations	344,195	-	-	344,195
Construction in progress	15,799	118,697	134,496	-
Totals at historical cost	<u>14,192,962</u>	<u>448,078</u>	<u>134,496</u>	<u>14,506,544</u>
Less accumulated depreciation for:				
Structures and improvements	441,874	5,413	-	447,287
Pumping equipment	124,054	8,703	-	132,757
Meters and meter installation	545,102	17,197	-	562,299
Hydrants	40,714	871	-	41,585
Storage tanks	587,966	21,569	-	609,535
Transmission and distribution plant	4,563,471	162,103	-	4,725,574
Vehicles and other equipment	378,227	12,722	-	390,949
Office equipment	59,170	5,075	-	64,245
Lift stations	149,890	7,649	-	157,539
Total accumulated depreciation	<u>6,890,468</u>	<u>241,302</u>	<u>-</u>	<u>7,131,770</u>
Capital assets - net	<u>\$ 7,302,494</u>	<u>\$ 206,776</u>	<u>\$ 134,496</u>	<u>\$ 7,374,774</u>

Knox County Utility Commission
Notes to Financial Statements (Continued)
December 31, 2019 and 2018

Note 5 – Capital Assets (Continued)

The following is a summary of capital asset transactions for the year ended December 31, 2018:

	Balance Dec. 31, 2017	Additions	Dispositions	Balance Dec. 31, 2018
Land and land improvements	\$ 44,619	\$ -	\$ -	\$ 44,619
Structures and improvements	518,699	2,250	-	520,949
Pumping equipment	217,126	9,480	-	226,606
Meters and meter installation	816,036	58,898	-	874,934
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	473,342	25,665	26,055	472,952
Office equipment	60,364	13,995	-	74,359
Lift stations	344,195	-	-	344,195
Construction in progress	7,543	8,256	-	15,799
Totals at historical cost	<u>14,100,473</u>	<u>118,544</u>	<u>26,055</u>	<u>14,192,962</u>
Less accumulated depreciation for:				
Structures and improvements	436,500	5,374	-	441,874
Pumping equipment	115,682	8,372	-	124,054
Meters and meter installation	530,866	14,236	-	545,102
Hydrants	39,811	903	-	40,714
Storage tanks	566,397	21,569	-	587,966
Transmission and distribution plant	4,403,337	160,134	-	4,563,471
Vehicles and other equipment	392,074	12,208	26,055	378,227
Office equipment	55,657	3,513	-	59,170
Lift stations	142,241	7,649	-	149,890
Total accumulated depreciation	<u>6,682,565</u>	<u>233,958</u>	<u>26,055</u>	<u>6,890,468</u>
Capital assets - net	<u>\$ 7,417,908</u>	<u>\$ (115,414)</u>	<u>\$ -</u>	<u>\$ 7,302,494</u>

Knox County Utility Commission
Notes to Financial Statements (Continued)
December 31, 2019 and 2018

Note 6 – Long-Term Debt

The following is a summary of long-term debt transactions for the year ended December 31, 2019:

	<u>Balance</u> <u>Dec. 31, 2018</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2019</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%	\$ 2,160,000	\$ -	\$ 85,000	\$ 2,075,000	\$ 90,000
	<u>\$ 2,160,000</u>	<u>\$ -</u>	<u>\$ 85,000</u>	<u>\$ 2,075,000</u>	<u>\$ 90,000</u>

The following is a summary of long-term debt transactions for the year ended December 31, 2018:

	<u>Balance</u> <u>Dec. 31, 2017</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2018</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%	\$ 2,245,000	\$ -	\$ 85,000	\$ 2,160,000	\$ 85,000
	<u>\$ 2,245,000</u>	<u>\$ -</u>	<u>\$ 85,000</u>	<u>\$ 2,160,000</u>	<u>\$ 85,000</u>

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

<u>Year ending</u> <u>December 31:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 90,000	\$ 68,288	\$ 158,288
2021	90,000	66,263	156,263
2022	95,000	63,338	158,338
2023	95,000	60,250	155,250
2024	100,000	57,163	157,163
2025-2029	545,000	234,950	779,950
2030-2034	585,000	141,231	726,231
2035-2039	475,000	42,175	517,175
Total	<u>\$ 2,075,000</u>	<u>\$ 733,658</u>	<u>\$ 2,808,658</u>

Knox County Utility Commission
Notes to Financial Statements (Continued)
December 31, 2019 and 2018

Note 7 – Retirement Plan

Knox County Utility Commission is a participating employer of the County Employees Retirement System (CERS). Under the provisions of Kentucky Revised Statute Section 61.645, the Board of Trustees of the Kentucky Retirement Systems administers CERS, in accordance with the provisions of Kentucky Revised Statute Sections 16.555, 61.570, and 78.630. The assets of the system are segregated by plan (KERS, CERS, and SPRS), where each system's assets are used only for the payment of benefits to the members of that plan and a pro rata share of administrative costs. 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 non-hazardous and hazardous duty positions of each participating state department, board, agency, county, city, 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.

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 years ended December 31, 2019 and 2018, 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, 2019 were 21.48% (January through June 2019) and 24.06% (July through December 2019). The Commission's required contribution rates for the year ended December 31, 2018 were 19.18% (January through June 2018) and 21.48% (July through December 2018). Required contribution rates were actuarially determined and adopted by the Kentucky Retirement Systems Board of Trustees. Administrative costs of the Kentucky Retirement System are financed through employer contributions and investment earnings.

Knox County Utility Commission
Notes to Financial Statements (Continued)
December 31, 2019 and 2018

Note 7 – Retirement Plan (Continued)

Contributions (Continued)

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 fiscal years ended June 30, 2019 and 2018, the interest earned on CERS non-hazardous plans was 5.13% and 6.54%, respectively.

The Commission's payroll for the years ended December 31, 2019, 2018, and 2017 was \$371,743, \$335,581, and \$301,660, respectively, all of which was covered by CERS. The Commission's contribution requirements for CERS for the years ended December 31, 2019, 2018, and 2017 were \$84,625 (\$65,997 allocated to the CERS pension fund and \$18,628 allocated to the CERS insurance fund), \$68,192 (\$51,488 allocated to the CERS pension fund and \$16,704 allocated to the CERS insurance fund), and \$57,101 (\$42,878 allocated to the CERS pension fund and \$14,223 allocated to the CERS insurance fund), respectively. The Commission contributed 100% of their required contributions for the years ended December 31, 2019, 2018, and 2017.

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

At December 31, 2019 and 2018, the Commission reported a liability of \$984,415 and \$784,979, respectively for their proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and 2018, 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, 2019 and 2018 measurement dates, the Commission's proportion was 0.01400% and 0.01289%, respectively.

Knox County Utility Commission
Notes to Financial Statements (Continued)
December 31, 2019 and 2018

Note 7 – Retirement Plan (Continued)

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

For financial reporting, the actuarial valuation as of June 30, 2019, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2019 were based on an actuarial valuation date of June 30, 2018. The total pension liability was rolled forward from the valuation date (June 30, 2018) to the plan's fiscal year ending June 30, 2019, using generally accepted actuarial principles.

The Board of Trustees adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the report titled, "Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2018." The total pension liability as of June 30, 2019, was determined using these updated assumptions. The actuarial assumptions are:

Inflation	2.30%
Payroll Growth Rate	2.00% for CERS non-hazardous and hazardous
Salary Increases	3.30% to 10.30%, varies by service for CERS non-hazardous
Investment Rate of Return	6.25% for CERS non-hazardous and hazardous

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, and the Pub-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

House Bill 1 passed during the 2019 Special Legislative Session allows certain employers in the KERS Non-hazardous plan to elect to cease participating in the System as of June 30, 2020. Since each employer's election was unknown at the time of the valuation, and the legislation was enacted after the June 30, 2019 measurement date, no adjustments were made to the Total Pension Liability to reflect this legislation. There were no other plan provision changes.

Knox County Utility Commission
Notes to Financial Statements (Continued)
December 31, 2019 and 2018

Note 7 – Retirement Plan (Continued)

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

The Commission recognized pension expense of \$211,176 and \$142,528 for the years ended December 31, 2019 and 2018, respectively. At December 31, 2019, 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	\$ 25,135	\$ 4,159
Net difference between projected and actual investment earnings on pension plan investments	-	15,869
Changes of assumptions	99,634	-
Changes in proportion and differences between employer contributions and proportionate share of pension contributions	73,640	-
Employer pension contributions subsequent to the measurement date	35,716	-
Total	\$ 234,125	\$ 20,028

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.

The \$35,716 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, 2020. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:

	2020	\$	109,111
	2021		50,803
	2022		17,341
	2023		1,126
	2024		-
	Thereafter		-
Total		\$	178,381

Knox County Utility Commission
Notes to Financial Statements (Continued)
December 31, 2019 and 2018

Note 7 – Retirement Plan (Continued)

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

At December 31, 2018, 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	\$ 25,604	\$ 11,490
Net difference between projected and actual investment earnings on pension plan investments	-	9,412
Changes of assumptions	76,715	-
Changes in proportion and differences between employer contributions and proportionate share of pension contributions	56,472	5,038
Employer pension contributions subsequent to the measurement date	26,989	-
Total	\$ 185,780	\$ 25,940

Actuarial Assumptions

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for the fiscal year ending June 30, 2019:

Valuation Date	June 30, 2017
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	26 years, closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 11.55%, varies by service, for CERS non-hazardous
Investment Rate of Return	6.25%

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.

Knox County Utility Commission
Notes to Financial Statements (Continued)
December 31, 2019 and 2018

Note 7 – Retirement Plan (Continued)

Actuarial Assumptions (Continued)

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth	62.50%	
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Liquidity	14.50%	
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Diversifying Strategies	23.00%	
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
Total	100.00%	

Discount Rate

The discount rate used to measure the total pension liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statute as last amended by House Bill 362 (passed in 2018). The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the CAFR.

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 6.25 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 (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
Commission's net pension liability	\$ 1,231,224	\$ 984,415	\$ 778,702

Payable to the Pension Plan

At December 31, 2019 and 2018, the Commission reported payables of \$8,718 and \$6,930 for the outstanding amounts of contributions to the pension plan required for the years ended December 31, 2019 and 2018, respectively.

Knox County Utility Commission
Notes to Financial Statements (Continued)
December 31, 2019 and 2018

Note 8 –OPEB Plan

As a participating employer of the County Employees’ Retirement System (CERS), the Commission also participates in the County Employees Retirement System Insurance Fund (Insurance Fund). Under the provisions of Kentucky Revised Statute Sections 61.645 and 61.701, the Board of Trustees of Kentucky Retirement Systems administers the Kentucky Retirement Systems Insurance Fund (KERS), County Employees Retirement System (CERS) and State Police Retirement System (SPRS). The statutes provide for a single insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the three pension funds administered by Kentucky Retirement Systems (KERS, CERS, and SPRS). The assets of the Insurance Fund are also segregated by plan. 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 Insurance Fund is a cost sharing, multiple-employer, defined benefit Other Postemployment Benefits (OPEB) plan that covers substantially all regular full-time members employed in non-hazardous and hazardous duty positions of each participating state department, board, agency, county, city, school board, and any additional eligible local agencies electing to participate in the System.

Plan Membership

The net OPEB liability was calculated based on the Insurance plan membership as of June 30, 2018:

Membership Status	Non-Hazardous
Inactive plan members currently receiving benefits	35,157
Inactive plan members entitled to but not yet receiving benefits	8,214
Active plan members	81,470
Total Membership	124,841

Benefits Provided

The Insurance Fund was established to provide hospital and medical insurance for eligible members receiving benefits from KERS, CERS, and SPRS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. Kentucky Retirement Systems submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. The Insurance Fund pays a proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty. The amount of contribution paid by the Insurance Fund is based on years of service. Additional details can be found in the publicly available Kentucky Retirement Systems Comprehensive Annual Financial Report which may be downloaded from the Kentucky Retirement Systems website.

Contributions

Funding for the plan is provided through payroll withholdings and contributions by the Commission. See Note 7 for a description of the Commission’s covered payroll and contribution requirements as well as the breakdown of contributions between the pension and insurance funds.

Knox County Utility Commission
Notes to Financial Statements (Continued)
December 31, 2019 and 2018

Note 8 –OPEB Plan (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At December 31, 2019 and 2018 the Commission reported a liability of \$235,373 and \$228,824, respectively for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019 and 2018, respectively, and the total OPEB liability used to calculate net OPEB liability was determined by an actuarial valuation as of those dates. The Commission’s proportion of the net OPEB liability was based on a projection of the Commission’s long-term share of contributions to the OPEB plan relative to the projected contributions of all participating plan members, as actuarially determined. At the June 30, 2019 and 2018 measurement dates, the Commission’s proportion was 0.01400% and 0.01289%, respectively.

For financial reporting the actuarial valuation as of June 30, 2019 was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2019, were based on an actuarial valuation date of June 30, 2018. The total OPEB liability was rolled-forward from the valuation date (June 30, 2018) to the plan’s fiscal year ending June 30, 2019, using generally accepted actuarial principles. The Board of Trustees adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the report titled “Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2018.” The total OPEB liability as of June 30, 2019 is determined using these updated assumptions.

The following actuarial assumptions were used in performing the actuarial valuation as of June 30, 2019:

Inflation	2.30%
Payroll Growth Rate	2.00% for CERS non-hazardous and hazardous
Salary Increases	3.30% to 10.30%, varies by service for CERS non-hazardous
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre - 65	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post - 65	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.
Mortality	
Pre-retirement	PUB-2010 General Mortality table, for the Non-Hazardous Systems, and the PUB-2010 Public Safety Mortality table for the Hazardous Systems, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010
Post-retirement (non-disabled)	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019
Post-retirement (disabled)	PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010

Knox County Utility Commission
Notes to Financial Statements (Continued)
December 31, 2019 and 2018

Note 8 –OPEB Plan (Continued)

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

House Bill 1 passed during the 2019 Special Legislative Session allows certain employers in the KERS Non-hazardous plan to elect to cease participating in the System as of June 30, 2020. Since each employer's election was unknown at the time of the valuation, and the legislation was enacted after June 30, 2019 measurement date, no adjustments were made to the Total Pension Liability to reflect this legislation. There were no other plan provision changes.

The long-term expected return was determined by using the building-block method in which best-estimate ranges of expected future real rates of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target allocation percentage. The target allocation and best estimates of arithmetic real rates of return for each major asset class are the same as those adopted for the CERS Pension Plan and are summarized in the table in Note 7.

The Commission recognized OPEB expense of \$31,611 and \$32,050 for the years ended December 31, 2019 and 2018, respectively. At December 31, 2019, the Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 71,017
Net difference between projected and actual investment earnings on OPEB plan investments	-	10,455
Changes of assumptions	69,649	466
Changes in proportion and differences between employer contributions and proportionate share of OPEB contributions	28,219	339
Employer OPEB contributions subsequent to the measurement date	8,809	-
Total	\$ 106,677	\$ 82,277

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 OPEB 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, 2019 and 2018

Note 8 –OPEB Plan (Continued)

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

The \$8,809 reported as deferred outflows of resources related to OPEB resulting from the Commission's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2020. Other amounts reported as deferred outflows of resources related to pensions will be recognized in OPEB expense as follows:

Year ended December 31:

	2020	\$	4,044
	2021		4,044
	2022		7,368
	2023		988
	2024		(832)
	Thereafter		(21)
Total		<u>\$</u>	<u>15,591</u>

At December 31, 2018, the Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 26,666
Net difference between projected and actual investment earnings on OPEB plan investments	-	15,761
Changes of assumptions	45,700	529
Changes in proportion and differences between employer contributions and proportionate share of OPEB contributions	15,690	443
Employer OPEB contributions subsequent to the measurement date	8,752	-
Total	<u>\$ 70,142</u>	<u>\$ 43,399</u>

Investment Policy

Kentucky Revised Statute 61.650 grants the responsibility for the investment of plan assets to the Kentucky Retirement System Board. The Board has established an Investment Committee which is specifically charged with the oversight and investment of plan assets. The Investment Committee recognizes their duty to invest the funds in accordance with the "Prudent Person Rule" (set forth in Kentucky Revised Statute 61.650) and manage those funds consistent with the long-term nature of the systems. The Investment Committee has adopted an Investment Policy Statement (IPS) that contains guidelines and restrictions for deposits and investments. By statute, all investments are to be registered and held in the name of Kentucky Retirement Systems. The IPS contains the specific guidelines for the investment of Pension and Insurance assets. The target allocation and best estimates of arithmetic real rates of return for each major asset class adopted by the Kentucky Retirement System Board for the Insurance Plan are the same as those adopted for the CERS Pension Plan (See Note 7).

Knox County Utility Commission
Notes to Financial Statements (Continued)
December 31, 2019 and 2018

Note 8 –OPEB Plan (Continued)

Net OPEB Liability

The components of the net OPEB liability of the participating employers in the CERS Non-Hazardous System and the Commission’s proportionate share at June 30, 2019 were as follows:

	Total CERS Non-Hazardous System	Commission's Proportionate Share
Total OPEB liability	\$ 4,251,466,000	\$ 594,950
Plan fiduciary net position	(2,569,511,000)	(359,577)
Employers' Net OPEB Liability	\$ 1,681,955,000	\$ 235,373
 Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	60.44%	60.44%

Actuarial Methods and Assumptions

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for the fiscal year ending June 30, 2019:

Valuation Date	June 30, 2017
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	26 years, closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increases	3.30% to 11.55%, varies by service for CERS non-hazardous
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre - 65	Initial trend starting at 7.25% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post - 65	Initial trend starting at 5.10% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.
Phase-in Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018 for CERS non-hazardous and hazardous

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.

Knox County Utility Commission
Notes to Financial Statements (Continued)
December 31, 2019 and 2018

Note 8 – OPEB Plan (Continued)

Discount Rate

The discount rate used to measure the total OPEB liability was 5.68 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 24 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25% and a municipal bond rate of 3.13%, as reported in Fidelity Index's "20 – Year Municipal GO AA Index" as of June 28, 2019. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

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

The following presents the Commission's proportionate share of the net OPEB liability calculated using the discount rate of 5.68 percent, as well as what the Commission's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.68 percent) or 1-percentage-point higher (6.68 percent) than the current rate:

	1% Decrease (4.68%)	Current Discount Rate (5.68%)	1% Increase (6.68%)
Commission's net OPEB liability	\$ 315,303	\$ 235,373	\$ 169,516

Sensitivity of the Commission's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Commission's net OPEB liability	\$ 175,048	\$ 235,373	\$ 308,524

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.

Knox County Utility Commission
Notes to Financial Statements (Continued)
December 31, 2019 and 2018

Note 10 - Subsequent Events

The world-wide outbreak of COVID-19 is having a major impact on the normal business activities in the United States and the state of Kentucky. On March 16, 2020, the Public Service Commission (PSC) ordered all utility companies to suspend until further notice all disconnections for non-payment, as well as late payment fees, in order to provide relief for customers during the COVID-19 epidemic. Customers will not be relieved of their obligation to pay for services, but payment plans may need to be established. In response to the crisis, the U.S. Congress passed the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") that was signed into law on March 27, 2020. This wide-ranging legislation is an emergency economic stimulus package that includes spending and tax breaks aimed at strengthening the U.S. economy and funding a nationwide effort to curtail the effects of the outbreak of COVID-19. The Commission has not been meaningfully affected by the COVID-19 outbreak yet, but it could potentially affect customers' ability to meet their financial obligations. The Commission has not yet determined the impact, if any, that the COVID-19 outbreak and the CARES Act will have on its net position, results of operations and cash flows.

Management of the Commission has evaluated subsequent events through May 20, 2020, 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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 758,652	\$ 946,856
Receivables, less allowance	89,049	99,312
Unbilled accounts receivable	107,495	83,149
Inventories	42,104	24,600
Other current assets	3,956	5,252
Total Current Assets	<u>1,001,256</u>	<u>1,159,169</u>
Noncurrent Assets		
Restricted Assets		
Restricted cash and cash equivalents	<u>54,218</u>	<u>50,843</u>
Total Restricted Assets	<u>54,218</u>	<u>50,843</u>
Capital Assets		
Land and improvements	44,619	44,619
Structures and improvements	523,079	520,949
Pumping equipment	211,518	206,012
Meters and meter installation	1,040,404	874,839
Hydrants	53,816	53,816
Storage tanks	1,148,102	1,148,102
Transmission and distribution plant	10,021,277	9,886,781
Vehicles and other equipment	488,450	472,238
Office equipment	79,831	74,359
Construction in progress	-	15,799
Less: accumulated depreciation	<u>(6,828,361)</u>	<u>(6,604,258)</u>
Net Capital Assets	<u>6,782,735</u>	<u>6,693,256</u>
Total Noncurrent Assets	<u>6,836,953</u>	<u>6,744,099</u>
Total Assets	<u>7,838,209</u>	<u>7,903,268</u>
Deferred Outflows of Resources		
Bond issue costs, net of amortization	58,720	61,783
Differences between expected and actual experience related to pensions	25,135	25,604
Net differences between projected and actual earnings on pension plan investments	-	-
Changes of assumptions related to pensions	99,634	76,715
Changes of assumptions related to OPEB	69,649	45,700
Changes in proportion and differences between employer pension contributions and proportionate share of contributions	73,640	56,472
Changes in proportion and differences between employer OPEB contributions and proportionate share of contributions	28,219	15,690
Pension contributions subsequent to measurement date	35,716	26,989
OPEB contributions subsequent to measurement date	8,809	8,752
Total Deferred Outflows of Resources	<u>399,522</u>	<u>317,705</u>

See independent auditors' report.

Knox County Utility Commission
 Departmental Statements of Net Position - Water Department (Continued)
 December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Liabilities		
Current Liabilities		
Current portion of long-term debt	90,000	85,000
Accounts payable	36,337	38,073
Accrued interest payable	47	47
Accrued salaries and taxes payable	88,880	71,391
Other current liabilities	12,211	1,588
Total Current Liabilities	227,475	196,099
Noncurrent Liabilities		
Customer deposits	47,981	44,554
Net pension liability	984,415	784,979
Net OPEB liability	235,373	228,824
Long-term debt, less current portion	1,985,000	2,075,000
Total Noncurrent Liabilities	3,252,769	3,133,357
Total Liabilities	3,480,244	3,329,456
Deferred Inflows of Resources		
Differences between expected and actual experience related to pensions	4,159	11,490
Differences between expected and actual experience related to OPEB	71,017	26,666
Net differences between projected and actual earnings on pension plan investments	15,869	9,412
Net differences between projected and actual earnings on OPEB plan investments	10,455	15,761
Changes of assumptions related to OPEB	466	529
Changes in proportion and differences between employer pension contributions and proportionate share of contributions	-	5,038
Changes in proportion and differences between employer OPEB contributions and proportionate share of contributions	339	443
Total Deferred Inflows of Resources	102,305	69,339
Net Position		
Net investment in capital assets	4,707,735	4,533,256
Restricted	54,218	50,843
Unrestricted	(106,771)	238,079
Total Net Position	\$ 4,655,182	\$ 4,822,178

Knox County Utility Commission
 Departmental Statements of Revenues, Expenses and Changes in Net Position - Water Department
 For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Revenues		
Water sales	\$ 1,361,421	\$ 1,349,944
Service charges	16,190	15,830
Tap fees	15,200	15,600
Penalties	39,119	39,180
Other revenues	7,806	7,310
Total Operating Revenues	<u>1,439,736</u>	<u>1,427,864</u>
Operating Expenses		
Salaries and wages	388,192	361,681
Employee benefits	420,850	348,933
Purchased power	224,973	224,486
Utilities	56,490	65,110
Chemicals	89,719	89,330
Repairs and maintenance	86,656	64,523
Contracted services	24,931	27,315
Vehicle and equipment expenses	28,862	31,918
Insurance	45,236	42,313
Amortization	3,063	3,064
Depreciation	224,103	216,760
Bad debt expense, net of recoveries	16,388	19,381
Other operating expenses	64,544	69,602
Total Operating Expenses	<u>1,674,007</u>	<u>1,564,416</u>
Operating Income (Loss)	<u>(234,271)</u>	<u>(136,552)</u>
Non-operating Revenues (Expenses)		
Interest income	5,411	6,251
Federal and state grants	131,228	8,553
Gain on disposal of assets	-	1,325
Insurance proceeds	1,038	-
Interest expense	(70,402)	(72,275)
Total Non-operating Revenues (Expenses)	<u>67,275</u>	<u>(56,146)</u>
Change in Net Position	(166,996)	(192,698)
Net Position, Beginning of Year	<u>4,822,178</u>	<u>5,014,876</u>
Net Position, End of Year	<u>\$ 4,655,182</u>	<u>\$ 4,822,178</u>

Knox County Utility Commission
 Departmental Statements of Cash Flows - Water Department
 For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities		
Receipts from customers	\$ 1,431,897	\$ 1,440,736
Receipts from other activities	7,806	7,310
Payments to employees	(216,632)	(247,376)
Payments to suppliers	(1,076,593)	(975,512)
Net Cash Provided by Operating Activities	<u>146,478</u>	<u>225,158</u>
Cash Flows From Capital and Related Financing Activities		
Purchases of property, plant and equipment	(313,582)	(118,545)
Proceeds from sale of equipment	-	1,325
Insurance proceeds	1,038	-
Principal payments on debt	(85,000)	(85,000)
Interest payments on debt	(70,402)	(72,275)
Federal, state and local grants	131,228	8,553
Net Cash Used by Capital and Related Financing Activities	<u>(336,718)</u>	<u>(265,942)</u>
Cash Flows From Investing Activities		
Interest on cash and investments	5,411	6,251
Net Cash Provided by Investing Activities	<u>5,411</u>	<u>6,251</u>
Net Decrease in Cash and Cash Equivalents	(184,829)	(34,533)
Cash and Cash Equivalents at Beginning of Year	<u>997,699</u>	<u>1,032,232</u>
Cash and Cash Equivalents at End of Year	<u>\$ 812,870</u>	<u>\$ 997,699</u>
Reconciliation of Cash and Cash Equivalents at End of Year		
Cash and Cash Equivalents	\$ 758,652	\$ 946,856
Restricted Cash and Cash Equivalents	54,218	50,843
Total Cash and Cash Equivalents at End of Year	<u>\$ 812,870</u>	<u>\$ 997,699</u>

Knox County Utility Commission
 Departmental Statements of Cash Flows - Water Department (Continued)
 For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of Operating Loss to Net Cash		
Provided by Operating Activities:		
Operating loss	\$ (234,271)	\$ (136,552)
Adjustments to reconcile operating loss		
to net cash provided by operating activities		
Depreciation	224,103	216,760
Amortization	3,063	3,064
(Increase) Decrease in:		
Accounts receivable	10,263	(11,230)
Unbilled accounts receivable	(24,346)	19,490
Inventory	(17,504)	206
Other current assets	1,296	(727)
Deferred pension & OPEB costs	(51,914)	10,762
Increase (Decrease) in:		
Accounts payable	(1,736)	7,922
Customer deposits	3,427	11,446
Accrued expenses	17,489	10,650
Other current liabilities	10,623	476
Net Pension & OPEB liabilities	205,985	92,891
	<u>205,985</u>	<u>92,891</u>
Net Cash Provided by Operating Activities	<u>\$ 146,478</u>	<u>\$ 225,158</u>

Knox County Utility Commission
 Departmental Statements of Net Position - Sewer Department
 December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ (984)	\$ (6,416)
Receivables, less allowance	275	1,311
Total Current Assets	<u>(709)</u>	<u>(5,105)</u>
Noncurrent Assets		
Capital Assets		
Pumping equipment	20,594	20,594
Meters and meter installation	95	95
Transmission and distribution plant	529,850	529,850
Vehicles and other equipment	714	714
Lift stations	344,195	344,195
Less: accumulated depreciation	<u>(303,409)</u>	<u>(286,210)</u>
Net Capital Assets	<u>592,039</u>	<u>609,238</u>
Total Noncurrent Assets	<u>592,039</u>	<u>609,238</u>
Total Assets	<u>591,330</u>	<u>604,133</u>
Liabilities and Net Position		
Liabilities		
Accounts payable	<u>4,505</u>	<u>1,673</u>
Total Liabilities	<u>4,505</u>	<u>1,673</u>
Net Position		
Net investment in capital assets	592,039	609,238
Unrestricted	(5,214)	(6,778)
Total Net Position	<u>\$ 586,825</u>	<u>\$ 602,460</u>

Knox County Utility Commission
 Departmental Statements of Revenues, Expenses and Changes in Net Position - Sewer Department
 For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Revenues		
Sewer sales	\$ 26,899	\$ 26,622
Penalties	-	131
Total Operating Revenues	<u>26,899</u>	<u>26,753</u>
Operating Expenses		
Salaries and wages	1,275	1,178
Employee benefits	95	90
Utilities	1,401	1,410
Sewer treatment	22,502	25,150
Depreciation	17,199	17,199
Bad debt expense, net of recoveries	<u>62</u>	<u>88</u>
Total Operating Expenses	<u>42,534</u>	<u>45,115</u>
Operating Income (Loss)	<u>(15,635)</u>	<u>(18,362)</u>
Change in Net Position	(15,635)	(18,362)
Net Position, Beginning of Year	<u>602,460</u>	<u>620,822</u>
Net Position, End of Year	<u><u>\$ 586,825</u></u>	<u><u>\$ 602,460</u></u>

Knox County Utility Commission
 Departmental Statements of Cash Flows - Sewer Department
 For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities		
Receipts from customers	\$ 27,935	\$ 25,999
Payments to employees	(1,275)	(1,178)
Payments to suppliers	<u>(21,228)</u>	<u>(27,995)</u>
Net Cash Provided (Used) by Operating Activities	<u>5,432</u>	<u>(3,174)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	5,432	(3,174)
Cash and Cash Equivalents at Beginning of Year	<u>(6,416)</u>	<u>(3,242)</u>
Cash and Cash Equivalents at End of Year	<u>\$ (984)</u>	<u>\$ (6,416)</u>
Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Operating loss	\$ (15,635)	\$ (18,362)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities		
Depreciation	17,199	17,199
(Increase) Decrease in:		
Accounts receivable	1,036	(754)
Increase (Decrease) in:		
Accounts payable	<u>2,832</u>	<u>(1,257)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 5,432</u>	<u>\$ (3,174)</u>

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Commission's proportion of the net pension liability (asset)	0.01400%	0.01289%	0.01171%	0.01084%	0.01195%	0.01154%
Commission's proportionate share of the net pension liability (asset)	\$ 984,415	\$ 784,979	\$ 685,481	\$ 533,899	\$ 513,737	\$ 374,454
Commission's covered-employee payroll	\$ 371,743	\$ 335,581	\$ 301,660	\$ 254,414	\$ 280,292	\$ 270,908
Commission's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	264.81%	233.92%	227.24%	209.85%	183.29%	138.22%
Plan fiduciary net position as a percentage of the total pension liability	50.45%	53.54%	53.32%	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 since the prior year. See the notes to the financial statements for a description of changes in actuarial assumptions from the prior year.

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 calendar year.

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Commission's proportion of the net OPEB liability (asset)	0.01400%	0.01289%	0.01171%
Commission's proportionate share of the total OPEB liability (asset)	\$ 594,950	\$ 539,956	\$ 494,541
Commission's proportionate share of the plan fiduciary net position	<u>(359,577)</u>	<u>(311,132)</u>	<u>(259,110)</u>
Commission's proportionate share of the net OPEB liability (asset)	\$ 235,373	\$ 228,824	\$ 235,431
Commission's covered-employee payroll	\$ 371,743	\$ 335,581	\$ 301,660
Commission's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	63.32%	68.19%	78.05%
Plan fiduciary net position as a percentage of the total OPEB liability	60.44%	57.62%	52.39%

Source: Kentucky Retirement Systems

Notes: There were no changes in benefit terms, size or composition of the population covered by the benefit terms since the prior year. See the notes to the financial statements for a description of changes in actuarial assumptions from the prior year.

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 calendar year.

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 65,997	\$ 51,488	\$ 42,878	\$ 33,645	\$ 35,282	\$ 35,871
Contributions in relation to the contractually required contribution	<u>(65,997)</u>	<u>(51,488)</u>	<u>(42,878)</u>	<u>(33,645)</u>	<u>(35,282)</u>	<u>(35,871)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Commission's covered-employee payroll	\$ 371,743	\$ 335,581	\$ 301,660	\$ 254,414	\$ 280,292	\$ 270,908
Contributions as a percentage of covered-employee payroll	17.75%	15.34%	14.21%	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 since the prior year. See the notes to the financial statements for a description of changes in actuarial assumptions from the prior year.

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 calendar year.

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 18,628	\$ 16,704	\$ 14,223
Contributions in relation to the contractually required contribution	<u>(18,628)</u>	<u>(16,704)</u>	<u>(14,223)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Commission's covered-employee payroll	\$ 371,743	\$ 335,581	\$ 301,660
Contributions as a percentage of covered-employee payroll	5.01%	4.98%	4.71%

Source: Kentucky Retirement Systems

Notes: There were no changes in benefit terms, size or composition of the population covered by the benefit terms since the prior year. See the notes to the financial statements for a description of changes in actuarial assumptions from the prior year.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the pension fund of the CERS. The above contributions include those contributions allocated directly to the CERS insurance 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 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, 2019, and the related notes to the financial statements, which collectively comprise Knox County Utility Commission's basic financial statements, and have issued our report thereon dated May 20, 2020.

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 2019-1 and 2019-2).

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, PLLC

Christian Sturgeon, PLLC
London, Kentucky

May 20, 2020

Knox County Utility Commission
Schedule of Findings and Responses
December 31, 2019

2019-1

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.

2019-2

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.