

**Electric & Water Plant Board of the
City of Frankfort, Kentucky**

Financial Statements

Years Ended June 30, 2016 and 2015

**Electric & Water Plant Board
of the City of Frankfort, Kentucky**

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Independent Auditor's Report

Members of the Electric and Water Plant Board
Frankfort, Kentucky

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Electric and Water Plant Board (the "Board") of the City of Frankfort, Kentucky as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Electric and Water Plant Board of the City of Frankfort, Kentucky, as of June 30, 2016 and 2015, and the changes in its financial position and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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Independent Auditor's Report (Continued)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 and the pension schedules on pages 32 through 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Board's basic financial statements. The supplementary information including the combining schedules, comparative schedules of operating expenses and budgetary comparison schedules on pages 34 through 42 are for purposes of additional analysis and are not a required part of the basic financial statements.

The combining schedules, comparative schedules of operating expenses and budgetary comparison schedules 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 supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2016 on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.



October 20, 2016
Lexington, Kentucky

**Electric & Water Plant Board of the City of Frankfort, Kentucky
Management Discussion and Analysis
Years Ended June 30, 2016 and 2015**

The following discussion and analysis of the Electric & Water Plant Board (the "Board" or "FPB") of the City of Frankfort, Kentucky's financial performance provides an overview of the financial activities for the fiscal years ended June 30, 2016 and 2015. We encourage readers to consider the information presented here in conjunction with the Board's financial statements, which follow this section.

The Board was established under Kentucky Revised Statutes (KRS 96.176) as a combined Electric and Water System to operate, maintain, improve, and expand the respective facilities and began operations in 1943. In 1954, the Board created Community Television and appointed a separate Cable Board to provide Cable TV service to Frankfort and the surrounding area. In 1988, the Board took direct control of the Cable TV operation in order to provide additional services over a fiber optic network, as a public project (the Full Service Network). All three operations are combined together and presented on pages 11 through 13 of this audit report. Cable Telecommunications operations are separated from the Electric and Water operations on the audit report under "Supplementary Information" on pages 37 through 45. The Full Service Network includes Digital TV, HDTV, DVR, Broadband Service, Point to Point Fiber Service, Security Service, and Local and Long Distance Telephone Service.

Financial Highlights

The assets of the Board exceeded its liabilities at the close of the most recent fiscal year by \$72,975,220. Of this amount \$63,025,882 is invested in capital assets, \$3,544,066 is restricted for debt retirement, \$472,780 is restricted to retirement plans, \$90,000 is restricted for KIA reserves, and \$7,738,173 is restricted for capital projects.

The Board's net position increased \$11,069,214 during the current fiscal year.

Revenues

Gross income from user fees were \$94,093,341 for fiscal year 2016.

Expenses

Operating expenses were \$87,214,841 for fiscal year 2016.

Operating Expenses generally refer to the ordinary and necessary business expenses incurred in the day-to-day operations of the Board. They include such things as system maintenance, fleet maintenance, office supplies, customer service, fringe benefits, billing, and accounting. These are current period expenses which are not otherwise capitalized as part of construction projects having a service life greater than one year. The term Operating Expense does not include interest expense, which relates to financing activities.

Financial Overview

The Board's financial statements are comprised of two components:

- Financial Statements; and
- Notes to the Financial Statements

Included as part of the Financial Statements are three different types (and names) of statements and their respective notes.

**Electric & Water Plant Board of the City of Frankfort, Kentucky
Management Discussion and Analysis (Continued)
Years Ended June 30, 2016 and 2015**

Financial Overview (Continued)

The three financial statement types:

1. The Statement of Net Position presents information on the Board's assets and liabilities with the difference between the two reported as Net Position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial condition of the Board is improving or deteriorating.
2. The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Board's net position changed between FY15 and FY16. Results of the Board's operations are reported as the underlying events occur, regardless of the timing of cash flows. This means that the Board's revenues and expenses are reported in the financial statements for some items that will result in cash flows (positive or negative) in some future year. This is the "accrual" basis of accounting and is further explained in Note B.
3. The Statement of Cash Flows presents the cash flow changes occurring during FY16 and FY15 in highly liquid cash and investments, including certain restricted cash accounts or cash-like assets. "Highly liquid" means it is, or can quickly be, turned into usable cash.

The Notes to Financial Statements provide additional information that is essential for a full and complete understanding of the information provided in the financial statements. The Notes to Financial Statements can be found on pages 14 through 31 of this report.

Financial Analysis

Account	June 30, 2016	June 30, 2015	Change	% Change
Statement of Net Position				
Capital Assets	\$ 111,784,538	\$ 99,150,729	\$ 12,633,809	13%
Current and other assets	49,043,474	46,993,159	2,050,315	4%
Total Assets	160,828,012	146,143,888	14,684,124	10%
Deferred outflows from pension	4,517,148	1,521,452	2,995,696	197%
Total Assets and Deferred Outflows	165,345,160	147,665,340	17,679,820	12%
Long-term Liabilities	44,527,236	42,898,132	1,629,104	4%
Other Liabilities	47,842,704	41,070,202	6,772,502	16%
Total Liabilities	92,369,940	83,968,334	8,401,606	10%
Deferred inflows from pension	-	1,791,000	(1,791,000)	-100%
Total Liabilities and Deferred Inflows	92,369,940	85,759,334	6,610,606	8%
Net Position:				
Invested in capital assets	63,025,882	51,894,964	11,130,918	21%
Restricted	11,845,019	18,954,416	(7,109,397)	-38%
Unrestricted	(1,895,681)	(8,943,374)	7,047,693	-79%
Total Net Position	\$ 72,975,220	\$ 61,906,006	\$ 11,069,214	18%

**Electric & Water Plant Board of the City of Frankfort, Kentucky
Management Discussion and Analysis (Continued)
Years Ended June 30, 2016 and 2015**

Financial Analysis (Continued)

Statement of Revenues, Expenses and Change in Net Position	For years ended			
	June 30, 2016	June 30, 2015	Change	% Change
Operating Revenues	\$ 94,108,864	\$ 89,044,962	\$ 5,063,902	6%
Operating Expenses	87,214,841	87,077,536	137,305	0%
Operating Income	6,894,023	1,967,426	4,926,597	250%
Net Non-Operating Revenue (Expenses)	2,729,045	9,768	2,719,277	27839%
Capital Contributions	1,446,146	1,181,028	265,118	22%
Change in Net Position	<u>\$ 11,069,214</u>	<u>\$ 3,158,222</u>	<u>\$ 7,910,992</u>	<u>250%</u>

Assets and Deferred Outflows of Resources

The Board's total assets and deferred outflows of resources increased \$17,679,820 from fiscal year 2015. The statement of net position indicates the most significant changes were in unbilled user fees receivable, property, plant, and equipment, net of accumulated depreciation, and deferred amounts from pension. Unbilled user fees receivable increased due to a change in the estimate calculation used compared to prior year, which is more accurate and will be used going forward. Property, plant, and equipment increased due to capital investments outpacing depreciation expense. Deferred amounts from pensions, which are employer pension contributions subsequent to the measurement date of the net pension liability required to be booked in accordance with GASB 68, increased year over year.

Liabilities and Deferred Inflows of Resources

The Board's total liabilities and deferred inflows of resources increased \$6,610,606 from fiscal year 2015 primarily due to increases in long-term debt and net pension liability. The increase in long term debt is due to additional borrowing of \$5,738,598 for the construction of a new cable headend, which outpaced \$2,350,886 in debt retirement for other FSN debt. For a summary of the Board's revenue bonds, loans, and lease obligations see Note E beginning on page 22 in the notes to these financial statements.

Net pension liability increased by \$5,950,771 from fiscal year 2015. See Note H beginning on page 26 of this report for more information on the change in net pension liability.

Net Position

The Board's assets exceeded its liabilities by \$72,975,220 at the end of fiscal year 2016. This represents an increase of \$11,069,214 from fiscal year 2015.

The majority of the Board's net position, \$63,025,882 or 86% of total net position, is invested in capital assets, such as transmissions and distribution facilities, water treatment and distribution assets, and cable infrastructure, less any related debt used to acquire such assets that remained outstanding as of the end of fiscal year 2016.

An additional portion of the Board's net position, \$11,845,019 or 16% of total net position, represents resources that are subject to external restrictions on how they are used. Total restricted net position is composed of \$3,544,066 restricted for debt repayment, \$472,780 is restricted for retirement benefits for those few employees whom opted out of the CERS retirement plan, \$90,000 is to fulfill a loan covenant associated with lending from the KIA, and \$7,738,173 restricted for construction of a new administration building.

**Electric & Water Plant Board of the City of Frankfort, Kentucky
Management Discussion and Analysis (Continued)
Years Ended June 30, 2016 and 2015**

Capital Assets

The Board's investments in capital assets as of June 30, 2016 amounted to \$111,784,538 (net of accumulated depreciation). This includes investment in transmission and distribution related to infrastructure, as well as general items such as office equipment, vehicles, etc. Major capital assets events during the current fiscal year included:

Electric Division

- Distribution substation improvements
- Multiple overhead reconductor projects
- Finished relocation of utilities at KSU for pedestrian way
- Finished East Main Substation re-build and transformer installation
- Voltage conversion from 8.3kV to 13.2kV Collins Ln and Benson Valley
- Overall general distribution system improvements
- SPCC (spill prevention containment control)

Water Division

- Meter replacement
- Lily Street waterline replacement
- Slick-a Way waterline replacement
- Tanner Court waterline replacement
- Hydra Warehouse project
- Augusta Street waterline replacement
- Holmes Street waterline replacement
- Kings Way waterline replacement
- Queens Way waterline replacement
- Sycamore and Desha waterline replacement
- Overall distribution upgrades and improvements

Cable

- Construction of the Headend relocation project proceeded throughout FY16
- Continue rollout of cable modem leasing revenue stream - ending fiscal year with 4,900 units
- Ongoing purchase and installation of advanced set top boxes
- Approximately 25% of outside plant node infrastructure replacement purchased, installed, and completed
- Purchase and replacement of 2 of the 3 broadband distribution systems (CMTS)

General

- Fleet Replacements include 2-Vans (Cable), 1-Van (Water), 1-Truck w/ Vac-System (Water), 1-Truck w/ Utility Body (Water), 1-Truck w/ Utility Body (Support Services) in accordance with FPB's fleet replacement policy
- Roof Replacement of the Office attachment to the Service Center warehouse

**Electric & Water Plant Board of the City of Frankfort, Kentucky
Management Discussion and Analysis (Continued)
Years Ended June 30, 2016 and 2015**

Long-Term Debt

As of June 30, 2016, the Board had long-term bonds outstanding in the amount of \$22,555,000. This total is composed of Electric and Water Revenue Bonds, Series 2009, Series 2013 and Series 2015A with year-end balances of \$4,470,000, \$3,205,000 and \$14,880,000, respectively. These bonds are payable solely from the net revenues of the combined electric and water system.

As of June 30, 2016, the Board had two long-term lease financings outstanding with Farmers Bank & Capital Trust in Frankfort, Kentucky in the amount of \$17,303,034. The Full Service Network consolidated lease and Full Service Network third-lien lease financings had year-end balances of \$11,512,506 and \$5,790,528, respectively. The original proceeds were used for Full Service Network improvements and expansions of the system.

As of June 30, 2016, the Board had two outstanding loans totaling \$7,785,637 from the Kentucky Infrastructure Authority (KIA). The first KIA loan had a balance of \$5,341,147 at June 30, 2016 and was taken out in 2008 for the chemical feed process upgrade at the water treatment plant. The second KIA loan was taken out during fiscal year 2014 to fund the purchase, construction, and installation of a generator at the water treatment plant and had a year-end balance of \$2,444,490. Both loans are secured on a subordinate basis to the Board's outstanding electric and water revenue bonds.

There is a full summary of all the Board's revenue bonds, loans and lease obligations located in Note E of this report beginning on page 22.

Budget

Every year the Board approves a one-year budget and additional four-year financial plan for all operations of the Board. Budgeted revenues and expenses are calculated based on historical trends, most recent financial results, and knowledge of future circumstances that will impact the financial performance of the Board. The budget and financial plan includes a comprehensive capital plan and cash reserve estimates based on projected financial performance. Budget versus actual financial reports are reviewed regularly by the Board and are presented beginning on page 37 in the supplementary information section of this report for the year ended June 30, 2016.

The Future

Electric

The primary goals of the electric division are to continue strengthening the transmission/distribution system and improve power quality and reliability. During the next 10 years, the electric division will continue to perform upgrades of transmission/distribution lines and facilities, specifically breaker replacements and evaluations and implementations of Advanced Metering Infrastructure (AMI) and additional smart grid technologies. The division will also continue to improve and expand the existing distribution substations to include increased Supervisory Control and Data Acquisition (SCADA) functionality. This will give our system greater flexibility, redundancy, and improved efficiencies. In fiscal years 2017-2019, we will finalize the system voltage conversion (from 8.3kV to 13.2kV). Converting the entire distribution system to one voltage has been a 30-year project. The goal was to improve voltage quality, load capacity and switching flexibility. It will also reduce transformer and inventory costs by no longer having to maintain inventory levels for multiple voltage equipment. The just completed East main substation rebuild was a major component of this conversion.

**Electric & Water Plant Board of the City of Frankfort, Kentucky
Management Discussion and Analysis (Continued)
Years Ended June 30, 2016 and 2015**

The Future (Continued)

We will continue animal guard installation, tree trimming and spray programs to maintain low incidences of tree related outages. FPB maintains reliability indices about four times better than the national average and the aggressive line maintenance and adherence to a tree trimming program are a big part of that success.

Due to the annual formulated rate change from Kentucky Utilities (KU) for fiscal year 2016-2017 being a 10.82% increase and in keeping with good utility practice, the rate increase will need to be passed on to our retail customers. The pass-through of the rate increase and periodic cost-of-service studies ensures that the Board's retail rates will generate adequate revenue based on consideration of wholesale power cost (KU), operating expenses, as well as, adequate working capital and reserves. With the Federal Energy Regulatory Commission (FERC) approved formulated rate, KU will continue to implement annual rate changes that the Board must pass on to its customers. Due to rising operating and administrative costs the Board anticipates the need to implement additional rate adjustments. We will continue to conduct a cost of service study every few years in order to maintain rates necessary for the operations of the department while trying to minimize the need for large increases at any one time.

In fiscal year 2019-2020 we will change power suppliers from KU to the Kentucky Municipal Energy Agency (KyMEA). FPB will join with other municipal utilities to take control of their own power supply. This will be a major change and improvement in the Board's ability to set and adjust its energy course as the community sees fit in the years to come. With this change we expect to maintain rates at levels below the national and regional averages and reduce the recent trend of large annual electric rate increases.

Water

The primary goal of the water division is to meet existing and future demand for safe, high quality water that exceeds regulatory standards at a reasonable rate. This will be accomplished by monitoring and maintaining the aging infrastructure of our water system and implementing projects to strengthen and improve our infrastructure. The following initiatives will be implemented to achieve these goals:

- Enhance water quality and flow characteristics through the systematic elimination of dead ends, the replacement of deteriorating mains, and the addition of mixing systems in our storage tanks
- Complete Phase 1 of the Reservoir Replacement project in fiscal year 2018
- Continue to replace aging subsystems original to the water treatment plant

Replacing the reservoir is a major undertaking that will require additional financing in order to maintain acceptable cash flow and reserve levels. While we do not anticipate the need to add any personnel positions over the next five years, the water division does face rising operational costs, minimum reserve levels established by the Board, and higher debt service requirements through 2020 due to recent debt financed capital additions. The Electric & Water Revenue Bonds, Series 2009 that were issued to complete water infrastructure projects will be paid off in December 2019, which will help the water division's cash reserves going forward. In addition to rising operational costs, the water division has continued to see water consumption drop by approximately 1% per year due to customer conservation efforts, more efficient appliances, and sewer rates linked to water usage that are almost two times the water rate. This percentage drop in customer water usage equates to approximately \$100,000 in lost revenue annually. Based on these challenges, the need to implement regular rate adjustments annually is anticipated.

**Electric & Water Plant Board of the City of Frankfort, Kentucky
Management Discussion and Analysis (Continued)
Years Ended June 30, 2016 and 2015**

The Future (Continued)

Cable Telecommunications

The primary goal of the cable telecommunications division is to meet the existing and anticipated future demands for services while assuring quality, reliable, and economical services. The primary focus of the division through fiscal year 2017 will be a headend relocation project and associated infrastructure improvements. Cutover to the new headend, coupled with other upgrades will allow for immediate enhanced broadband reliability for customers. The move and other system improvements will consume the majority of capital funds during this period.

Cable TV providers around the country are experiencing cord-cutting and cord-shaving as more video products move to the Internet. FPB Cable is not immune to these decreases in subscriber counts with projections showing cable TV customer purchases (all cable tiers and VOD/PPV purchases) will continue to drop throughout the five-year plan. The decreases come with one positive; the customer becomes more reliant on their broadband connection and the ever increasing need for more bandwidth each month from FPB Cable/Telecom.

Modest growth is anticipated in broadband, high capacity Ethernet services, and security services. Rental of cable modems and routers continues to grow and add a new revenue stream through the five-year plan. Stable dark fiber revenue is projected over the five-year plan.

The Board expects to continue to purchase set top boxes, but at a slower rate of installation due to slowing customer demand. FPB will roll out a new TiVo-powered media player late in fiscal year 2017 that will allow for 6-tuner capability, whole-home DVR services, and access to Over-the-Top (OTT) services like Netflix, Amazon, and YouTube, in addition to an integrated search feature for linear, DVR, and cloud based VOD. Staff expects to make the service available to subscribers by late 2016.

Cable TV programming expenses will continue to be the largest expense budgeted within the division. FPB has little control over these expenditures with sports related programming being the largest culprit of increased cost. Staff expects programming costs to continue increasing around 7% to 10% per year.

Residential landline business continues to sag in the US as more customers utilize their mobile devices. FPB expects small and medium size businesses to keep their lines. We also look to gain customers as incumbent telephone providers exit the wireline market in the next three to five years. FPB transitioned to Big River Telephone in June 2016. This transition will provide better service reliability to our customers. With access to bundled pricing for dial tone and long distance, the new bundle will save customers money, bring more value, and, hopefully, stem line losses.

Administrative and General

The Board continues to streamline processes and increase efficiency in departments that provide services to all divisions within the company with the goal of decreasing the pace of rate increases driven by issues discussed in the electric, water, and cable sections above.

**Electric & Water Plant Board of the City of Frankfort, Kentucky
Management Discussion and Analysis (Continued)
Years Ended June 30, 2016 and 2015**

The Future (Continued)

Overall

Over the coming years, the Board has several significant capital projects planned that are needed to maintain the level of superior, reliable service that our customers have come to expect. We must also continue to move the company forward by implementing and utilizing cutting edge technologies to improve efficiency and performance. We will continue to monitor and manage costs in an ever changing regulatory environment in order to provide services at the most reasonable rates possible.

This financial report is designed to provide citizens, creditors and other users with an overview of Electric & Water Plant Board of the City of Frankfort, Kentucky's finances, fiscal practices and responsibility. If you have questions or need additional information, please contact the General Manager of Electric & Water Plant Board of the City of Frankfort, Kentucky at 317 W. 2nd Street, Frankfort, Kentucky.

Electric & Water Plant Board of the City of Frankfort, Kentucky
Statements of Net Position
June 30, 2016 and 2015

Assets	2016	2015
Cash and cash equivalents	\$ 21,875,577	\$ 22,913,923
Investments	6,561,839	6,549,025
Receivables:		
Billed user fees, net	9,480,634	9,267,032
Unbilled user fees	4,407,187	1,461,200
Advertising	149,687	163,350
Other	1,021,294	804,468
Interest	1,579	-
Inventory	4,455,033	4,759,473
Prepaid expenses	483,979	552,385
Property, plant, and equipment, net	111,784,538	99,150,729
Insurance escrow account	133,885	64,437
Retirement plan assets:		
Cash and cash equivalents	12,248	4,413
Investments	460,532	453,453
Total Assets	<u>\$ 160,828,012</u>	<u>\$ 146,143,888</u>
Deferred Outflows of Resources		
Deferred amounts from pension	\$ 4,517,148	\$ 1,521,452
Total Assets and Deferred Outflows of Resources	<u>\$ 165,345,160</u>	<u>\$ 147,665,340</u>
Liabilities and Net Position		
Liabilities		
Accounts and other payables	\$ 15,851,494	\$ 14,920,895
Accrued expenses	1,430,043	1,165,169
Customer deposits	2,289,754	2,578,304
Unearned revenues	2,048,222	2,007,201
KIA notes payable due in one year	426,420	368,715
Bonds and leases payable due in one year	3,805,000	3,988,918
Net pension liability	21,991,771	16,041,000
Long term debt		
Bonds and leases payable	37,168,019	35,291,628
KIA notes payable	7,359,217	7,606,504
Total Liabilities	<u>92,369,940</u>	<u>83,968,334</u>
Deferred Inflows of Resources		
Deferred amounts from pension	\$ -	\$ 1,791,000
Total Liabilities and Deferred Inflows of Resources	<u>\$ 92,369,940</u>	<u>\$ 85,759,334</u>
Net Position		
Net investment in capital assets	63,025,882	51,894,964
Restricted for debt retirement	3,544,066	3,431,693
Restricted for retirement plans	472,780	457,866
Restricted for KIA loan covenant	90,000	62,500
Restricted for construction	7,738,173	15,002,357
Unrestricted	(1,895,681)	(8,943,374)
Total Net Position	<u>72,975,220</u>	<u>61,906,006</u>
Total Liabilities and Deferred Inflows of Resources and Net Position	<u>\$ 165,345,160</u>	<u>\$ 147,665,340</u>

See accompanying notes.

Electric & Water Plant Board of the City of Frankfort, Kentucky
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues		
User fees		
Electric	\$ 55,995,276	\$ 52,593,396
Water	9,894,404	9,356,932
Cable	<u>28,219,184</u>	<u>27,094,634</u>
Total Operating Revenues	<u>94,108,864</u>	<u>89,044,962</u>
Operating Expenses		
Electric	52,576,662	54,192,557
Water	8,937,301	8,195,594
Cable	<u>25,700,878</u>	<u>24,689,385</u>
Total Operating Expenses	<u>87,214,841</u>	<u>87,077,536</u>
Net Income From Operations	<u>6,894,023</u>	<u>1,967,426</u>
Non-operating Revenues (Expenses)		
Rate case settlement	2,853,002	-
Net merchandise sale	9,606	35,892
Rental revenue	-	540
Interest revenue	52,914	41,051
Other revenue	562,750	897,786
Interest expense	(800,405)	(1,026,738)
Retirement plan net gain (loss)	11,497	(6,512)
Gain on sale of fixed assets	<u>39,681</u>	<u>67,749</u>
Total Non-operating Revenues	<u>2,729,045</u>	<u>9,768</u>
Income Before Contributions	9,623,068	1,977,194
Capital Contributions	<u>1,446,146</u>	<u>1,181,028</u>
Change in Net Position	11,069,214	3,158,222
Net Position - Beginning of Year	<u>61,906,006</u>	<u>58,747,784</u>
Net Position - End of Year	<u>\$ 72,975,220</u>	<u>\$ 61,906,006</u>

See accompanying notes.

Electric & Water Plant Board of the City of Frankfort, Kentucky
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Cash received from users and customers	\$ 90,498,583	\$ 89,251,186
Cash payments to employees for services and benefits	(18,440,810)	(16,170,754)
Cash payments to suppliers of goods and services	(59,254,836)	(64,255,869)
Net Cash Provided by Operating Activities	<u>12,802,937</u>	<u>8,824,563</u>
Cash Flows from Capital and Related Financing Activities		
Purchases of capital assets	(18,024,031)	(10,427,502)
Proceeds from sale of capital assets	40,507	66,305
Principal paid on debt obligations	(4,395,316)	(4,312,906)
Interest paid on debt obligations	(800,405)	(1,026,738)
Proceeds from debt obligations	5,938,459	18,551,988
Net Cash (Used by) Provided by Capital and Related Financing Activities	<u>(17,240,786)</u>	<u>2,851,147</u>
Cash Flows from Noncapital Financing Activities		
Cash received from other non-operating revenues	<u>3,445,344</u>	<u>708,138</u>
Cash Flows from Investing Activities		
Receipt of interest	51,335	44,007
Purchase/sales of investments	(19,893)	(1,336,905)
Net Cash Provided by (Used by) Investing Activities	<u>31,442</u>	<u>(1,292,898)</u>
Net Change in Cash and Cash Equivalents	(961,063)	11,090,950
Cash and Cash Equivalents, Beginning of Year	<u>22,982,773</u>	<u>11,891,823</u>
Cash and Cash Equivalents, End of Year	<u>\$ 22,021,710</u>	<u>\$ 22,982,773</u>
Reconciliation of Cash and Cash Equivalents, End of Year:		
Cash and cash equivalents	\$ 21,875,577	\$ 22,913,923
Insurance escrow account	133,885	64,437
Cash and cash equivalents - retirement plan	12,248	4,413
	<u>\$ 22,021,710</u>	<u>\$ 22,982,773</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 6,894,023	\$ 1,967,426
Adjustment to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	6,786,801	6,665,059
Bad debts	163,492	454,632
Change in assets and liabilities		
Accounts and interest receivable	(3,526,244)	(277,063)
Inventory	304,440	(364,985)
Prepaid expenses	68,406	(115,640)
Deferred outflows	(2,995,696)	81,548
Accounts and other payables	930,599	600,339
Accrued expenses	264,874	103,592
Unearned revenue	41,021	114,602
Customer deposits	(288,550)	(85,947)
Pension liability	5,950,771	(2,110,000)
Deferred inflows	(1,791,000)	1,791,000
Net Cash Provided by Operating Activities	<u>\$ 12,802,937</u>	<u>\$ 8,824,563</u>
Supplemental Disclosure of Noncash Capital and Related Financing Activities:		
Contributed capital assets	<u>\$ 1,446,146</u>	<u>\$ 1,181,028</u>
Forgiveness of debt	<u>\$ 19,986</u>	<u>\$ 226,080</u>

See accompanying notes.

Electric & Water Plant Board of the City of Frankfort, Kentucky
Notes to Financial Statements
Years Ended June 30, 2016 and 2015

Note A - Nature of Organization and Operations

The Electric and Water Plant Board of the City of Frankfort, Kentucky (the "Board") was formed in April 1943 through the acquisition by the City of Frankfort of the entire capital stock of the Tri-City Utilities Company. The company was dissolved immediately after the acquisition of the capital stock. The properties and the operation of the combined electric and water system purchased were placed under the control of the Electric and Water Plant Board, which consists of five members appointed by the Mayor and approved by the City Commissioners. Since 1946 the Board operates as an independent entity under the provisions of the Kentucky Revised Statutes 96.172 through 96.188. The Board produces its own water supply and purchases electricity from the Kentucky Utilities Company. On January 1, 1988, the Electric and Water Plant Board acquired the assets and interests of Community Cable Services, Inc. Previously, the cable system was operated as an independent subsidiary of the Board and controlled by a separate Board of Directors. On January 1, 1989, the Electric and Water Plant Board assumed the ownership of the North Woodford Water District facilities in consideration for the assumption of its obligations and liabilities. The Kentucky Public Service Commission approved the acquisition on October 6, 1988. The Board bills and collects sewer charges for the City of Frankfort and school tax for the local city and county school boards.

The financial statements of the Board have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Note B - Summary of Significant Accounting Policies

The significant accounting principles and policies utilized by the Board are described below:

Reporting Entity

The Board is not considered a component unit of the City of Frankfort. The Board operates under the provisions of the Kentucky Revised Statutes mentioned above. Additionally, the City of Frankfort does not exercise financial, budgetary, accounting or administrative controls over the Board. Therefore, the financial statements of the Board are not included in the financial statements of the City of Frankfort.

Basis of Accounting

The Board is accounted for as an enterprise fund which is a type of proprietary fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The focus of proprietary fund measurement is upon the determination of operating income, changes in net assets, financial position and cash flows. All proprietary funds are accounted for using the accrual basis of accounting.

Electric & Water Plant Board of the City of Frankfort, Kentucky
Notes to Financial Statements (Continued)
Years Ended June 30, 2016 and 2015

Note B - Summary of Significant Accounting Policies (Continued)

Purpose of Various Internal Funds

Operating Funds

1. Water and Electric Revenue Fund - Chapter 96 of the Kentucky Revised Statutes provides that all revenues of the system shall be placed in this fund as collected. Distributions to other funds are made upon approval of the Electric and Water Plant Board in accordance with the requirements of each fund.
2. Operations and Maintenance Fund - This fund was created for the purpose of paying expenses of operating and maintaining the combined water works, electric power, cable, and full service network systems. The amount necessary to meet these expenses is transferred to this fund as needed from the Revenue Fund accounts. Approval of expenditures from this fund is made by the Board upon presentation of request for reimbursement to this fund.

Restricted Funds

1. Electric and Water Revenue Bonds and Interest Sinking Fund - This fund was established in accordance with Kentucky Revised Statute 96.182. It provides that a reserve is to be accumulated over a ten year period to equal the average annual interest and principal requirements for such bonds then outstanding.

Budgets and Budgetary Accounting

The Board follows these procedures in establishing budgetary data reflected in the financial statements:

1. Formal budgetary integration is employed as a management control device during the year for all funds.
2. The Board of Directors of the Electric and Water Plant Board approves the budget of the Board.
3. Unused appropriations of the annual budget lapse at the end of the year.
4. The budgeted amounts shown in the financial statements are the final authorized amounts as revised during the year.

Revenue Requirements

The Board is regulated by Kentucky Revised Statute 96.182 concerning the application of revenues earned by the Board. The provisions of Kentucky Revised Statute 96.182 are as follows:

Subject to the provisions of outstanding bonds and contracts, the Board shall apply all funds derived from operations (1) to the payment of operating expenses, (2) to the payment of bond interest and retirement, (3) to sinking fund requirements, (4) to the maintenance of a fund to meet depreciation and the improvements and extension of the plant in an amount equal to six percent (6%) of the undepreciated book value of its property, (5) to the maintenance of a cash working fund equal to one (1) month's revenue, and (6) to the payment of other obligations incurred in the operations and maintenance of the plant and the furnishings of service.

Cash and Cash Equivalents

The Board considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Statutes require that financial institutions pledge approved securities to secure those funds on deposit in an amount equal to the amount of those funds.

Electric & Water Plant Board of the City of Frankfort, Kentucky
Notes to Financial Statements (Continued)
Years Ended June 30, 2016 and 2015

Note B - Summary of Significant Accounting Policies (Continued)

Investments

Investments of the Board consist of certificates of deposit which are stated at cost and approximate fair value.

Investments of the Board's retirement plan consist of marketable securities which are reported at fair market value. All investments of the retirement plan are held in trust by a bank. Under the terms of the retirement plan, the trustee has the power to hold, invest, reinvest, purchase insurance on the lives of members, control and disburse funds as set forth in the trust agreement.

Inventory

Materials and supplies inventory are stated at lower of cost or market using average cost to determine unit cost on all items with the exception of chemicals.

Accounts Receivable

Accounts receivable consist of user fees charged to customers for services. Electric and water fees are recorded as accounts receivable and revenue when customers are billed. Telecommunications fees are billed one month in advance and are recorded as unearned revenues when billed.

During fiscal year 2016, management developed improved capabilities in regards to estimating the unbilled accounts receivable balance causing a change in accounting estimates to occur. The impact of the change resulted in an increase in the unbilled accounts receivable and a one-time adjustment increasing user fees revenue by approximately \$3 million for the fiscal year end June 30, 2016.

Allowance for Uncollectible Amounts

The Board records an allowance for doubtful accounts through a charge to earnings and a credit to valuation allowance based on its assessment of the current status of individual accounts. The allowance for doubtful accounts at June 30, 2016 and 2015 was \$166,000 and \$205,000, respectively.

Capital Assets

Capital assets include property, plant and equipment. Expenditures for items having a useful life greater than one year and a cost greater than \$1,000 are capitalized. Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair value. Depreciation is provided in amounts sufficient to expense the related cost of the depreciable assets to operations over their estimated useful lives on the straight-line basis. The estimated useful lives by type of asset are as follows:

Structure and improvements	30 years
Electric Distribution Systems	30 years
Water Distribution Systems	50 years
Cable Distribution System	15 years
Furniture and Equipment	5 - 10 years

Electric & Water Plant Board of the City of Frankfort, Kentucky
Notes to Financial Statements (Continued)
Years Ended June 30, 2016 and 2015

Note B - Summary of Significant Accounting Policies (Continued)

Accumulated Compensated Absences

It is the Board's policy to permit employees to accumulate limited amounts of earned but unused vacation pay which will be paid to employees upon separation from the Board's service. Vacation pay is accrued in the period in which it is earned and is reflected in accrued expenses.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources, and pension expense, information about the Board's participation in the County Employees Retirement System of the Kentucky Retirement Systems (KRS) have been determined on the same basis (CERS) as they are reported by the KRS for the CERS plan. For this purpose, benefits including refunds of employee contributions are recognized when due and payable in accordance with the benefit terms of the CERS plan of KRS. The liability was measured at June 30, 2015.

The Board became a member of the County Employees' Retirement System (CERS) on July 1, 1988. Eligible employees were enrolled in CERS on that date. Both employer and the employees contribute to this plan. The total estimated cost of entering the system as of July 1, 1988 was \$2,989,322. The original plan for entering the system required annual payments for 24 years from funds available in the Electric and Water Plant Board Retirement Plan and the Board made the annual payments and paid off the balance owed in 2007. Certain employees remained covered by the Electric and Water Plant Board Retirement Plan which is frozen. The retirees currently being paid benefits continue to receive their monthly benefits from this retirement plan. The Board does not make any payments from the operating accounts related to the frozen pension plan and the Board may terminate the plan at any time with no obligation to fund any benefits. Upon termination, the trustee will compute the value of the trust and the beneficiaries will receive the remaining values as outlined in the plan. See the note below for discussion of assets and restrictions of net position related to the plan.

Restrictions of Net Position

Revenue bond sinking accounts are the resources accumulated for debt service payments. KIA loan covenant funds are resources accumulated for replacements and repairs. Retirement plan assets are accumulated in a trust fund to be used for the benefit of retirees of the pension plan noted above.

	2016	2015
Revenue Bond Sinking Reserve	\$ 3,544,066	\$ 3,431,693
Retirement Plan Assets (frozen retirement plan)	472,780	457,866
KIA loan covenant	90,000	62,500
Administration building construction account	7,738,173	15,002,357
	<u>\$ 11,845,019</u>	<u>\$ 18,954,416</u>
Total Restricted Assets		

Operating Revenues and Expenses

Operating revenues are those that are generated directly from the primary activity of the Board, such as charges for utility services. Operating expenses are necessary costs that have been incurred in order to provide the goods or services that are the primary activity.

Electric & Water Plant Board of the City of Frankfort, Kentucky
Notes to Financial Statements (Continued)
Years Ended June 30, 2016 and 2015

Note B - Summary of Significant Accounting Policies (Continued)

Rate Case Settlement

During the year ended June 30, 2016, the Board received \$2,853,002 from Kentucky Utilities related to settlement of a rate case. The settlement proceeds are included as non-operating revenues in the Statements of Revenues, Expenses, and Changes in Net Position.

Reclassifications

Certain amounts in the 2015 financial statements have been reclassified to conform with the 2016 presentation, with no effect on the change in unrestricted net assets or on net assets.

Note C - Investments

Investments of the Board are in certificates of deposit with maturity dates ranging from December 2016 to October 2018. Certificates of deposits are held at contract value which approximates fair value.

Interest Rate Risk – The Board has an investment policy, limiting investments to interest bearing accounts and certificates of deposit with a maturity of no greater than three years. The policy effectively manages the Boards exposure to fair value losses arising from increasing interest rates.

Credit Risk - State law limits the type of investment in which the Board may invest its funds. The Board’s policy is within State guidelines.

Concentration of Credit - The Board places no limit on the amount it may invest in any one investment.

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Board's deposits may not be returned to it. As of June 30, 2016 all deposits were fully issued and collateralized.

Investments of the retirement plan are as follows:

June 30, 2016 Investment Type	Fair Value	Maturities	
		Less than 1	1-5
Mutual Funds	\$ 460,532	n/a	n/a

June 30, 2015 Investment Type	Fair Value	Maturities	
		Less than 1	1-5
Mutual Funds	\$ 453,453	n/a	n/a

The Electric & Water Plant Board’s retirement plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Electric & Water Plant Board of the City of Frankfort, Kentucky
Notes to Financial Statements (Continued)
Years Ended June 30, 2016 and 2015

Note C - Investments (Continued)

The Electric & Water Plant Board has the following recurring fair value measurements:

- Mutual funds are valued using quoted market prices (Level 1 inputs)

Note D - Capital Assets

The following is a summary of capital assets as of June 30, 2016:

Capital Assets

Description	June 30, 2015	Additions	Retirements	June 30, 2016
Land	\$ 584,030	\$ -	\$ -	\$ 584,030
Structures & Improvements	14,578,981	2,599,924	-	17,178,905
Plant Infrastructure	140,780,091	1,485,953	-	142,266,044
Plant Equipment	33,585,783	628,292	-	34,214,075
Transport Equipment	5,810,174	240,108	-	6,050,282
Power Operated Equipment	3,105,846	26,598	253,609	2,878,835
Lab Equipment	55,637	-	-	55,637
Furniture & Fixtures	7,178,629	4,120	-	7,182,749
Garage Equipment	389,819	-	-	389,819
Computer Equipment	2,895,114	84,905	-	2,980,019
Communications Equipment	513,809	3,500	-	517,309
Miscellaneous Equipment	1,249,587	24,499	-	1,274,086
CIP	8,821,314	19,477,766	5,091,768	23,207,312
Total Fixed Assets	<u>\$ 219,548,814</u>	<u>\$ 24,575,665</u>	<u>\$ 5,345,377</u>	<u>\$ 238,779,102</u>

Accumulated Depreciation

Description	June 30, 2015	Additions	Retirements	June 30, 2016
Structures & Improvements	\$ 12,824,424	\$ 398,959	\$ -	\$ 13,223,383
Plant Infrastructure	79,587,293	4,683,481	-	84,270,774
Plant Equipment	18,195,229	868,943	-	19,064,172
Transport Equipment	3,224,780	407,304	250,562	3,381,522
Power Operated Equipment	2,373,370	233,268	-	2,606,638
Lab Equipment	53,656	344	-	54,000
Furniture & Fixtures	50,258	2,800	-	53,058
Garage Equipment	375,723	2,003	-	377,726
Computer Equipment	2,515,409	165,242	-	2,680,651
Communications Equipment	350,012	17,228	-	367,240
Miscellaneous Equipment	847,931	67,469	-	915,400
Total	<u>120,398,085</u>	<u>6,847,041</u>	<u>250,562</u>	<u>126,994,564</u>
Net Capital Assets	<u>\$ 99,150,729</u>	<u>\$ 17,728,624</u>	<u>\$ 5,094,815</u>	<u>\$ 111,784,538</u>

Electric & Water Plant Board of the City of Frankfort, Kentucky
Notes to Financial Statements (Continued)
Years Ended June 30, 2016 and 2015

Note D - Capital Assets (Continued)

The following is a summary of capital assets as of June 30, 2015:

Capital Assets

Description	June 30, 2014	Additions	Retirements	June 30, 2015
Land	\$ 584,030	\$ -	\$ -	\$ 584,030
Structures & Improvements	14,563,966	15,015	-	14,578,981
Plant Infrastructure	138,646,969	2,133,122	-	140,780,091
Plant Equipment	33,336,441	249,342	-	33,585,783
Transport Equipment	5,521,216	653,562	364,604	5,810,174
Power Operated Equipment	2,833,560	361,282	88,996	3,105,846
Lab Equipment	55,637	-	-	55,637
Furniture & Fixtures	7,160,197	18,432	-	7,178,629
Garage Equipment	388,120	1,699	-	389,819
Computer Equipment	2,787,372	107,742	-	2,895,114
Communications Equipment	348,748	165,061	-	513,809
Miscellaneous Equipment	1,168,431	81,156	-	1,249,587
CIP	1,013,952	7,807,362	-	8,821,314
Total Fixed Assets	<u>\$ 208,408,639</u>	<u>\$ 11,593,775</u>	<u>\$ 453,600</u>	<u>\$ 219,548,814</u>

Accumulated Depreciation

Description	June 30, 2014	Additions	Retirements	June 30, 2015
Structures & Improvements	\$ 12,431,307	\$ 393,117	\$ -	\$ 12,824,424
Plant Infrastructure	74,866,818	4,720,475	-	79,587,293
Plant Equipment	17,357,388	837,841	-	18,195,229
Transport Equipment	3,136,927	449,412	361,559	3,224,780
Power Operated Equipment	2,301,170	161,196	88,996	2,373,370
Lab Equipment	53,312	344	-	53,656
Furniture & Fixtures	48,797	1,461	-	50,258
Garage Equipment	373,615	2,108	-	375,723
Computer Equipment	2,426,511	88,898	-	2,515,409
Communications Equipment	346,059	3,953	-	350,012
Miscellaneous Equipment	825,852	22,079	-	847,931
Total	<u>114,167,756</u>	<u>6,680,884</u>	<u>450,555</u>	<u>120,398,085</u>
Net Capital Assets	<u>\$ 94,240,883</u>	<u>\$ 4,912,891</u>	<u>\$ 3,045</u>	<u>\$ 99,150,729</u>

Electric & Water Plant Board of the City of Frankfort, Kentucky
Notes to Financial Statements (Continued)
Years Ended June 30, 2016 and 2015

Note D - Capital Assets (Continued)

The Electric & Water Plant Board has several projects under construction at June 30, 2016. A summary of construction in progress is below:

<u>CIP Detail</u>	<u>June 30, 2016</u>
FPB Administration Bldg	\$ 10,287,213
Headend Study Project	6,732,578
East Main Transformer	1,400,664
Node Division	765,439
FSN-High Speed Data	487,139
KSU Sky Walk	458,994
New Services Cable	339,838
Governor's Place Phase 2	297,960
Meter Replacement	288,137
FSN-Premise Cable Equipment	259,112
FSN-Security	178,388
Backwash MCC & Air Breaker replacement	166,159
Head End Equipment	144,408
KSU Pedestrian Bridge	111,490
Water CIP projects under \$100,000	739,934
Electric CIP projects under \$100,000	367,754
Cable CIP projects under \$100,000	182,105
Total	<u>\$ 23,207,312</u>

Electric & Water Plant Board of the City of Frankfort, Kentucky
Notes to Financial Statements (Continued)
Years Ended June 30, 2016 and 2015

Note E - Bonds, Leases, Loans and KIA Payables

The following schedule summarizes the Board's revenue bonds, loans, and lease obligations:

<u>Issue</u>	<u>Purpose of Issue</u>	<u>Original Issue</u>	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Amount Outstanding</u>
2009 Electric & Water Revenue Bonds	Refund 1999 bonds and 2007 bond anticipation note	\$ 10,265,000	2.00% - 3.75%	12/1/2019	\$ 4,470,000
FSN Subordinate Lease Financing	Finance equipment and facilities to make the television segment of the system all digital	3,401,886	2.85%	9/30/2017	-
FSN Consolidated Lease Financing	Refinance FSN leases used for improvements and expansions of the system	22,937,506	2.85%	3/31/2022	11,512,506
2013 Electric & Water Bonds	Refinance note payable used for major improvements and additions to the electric and water systems.	3,920,000	2.00% - 3.50%	12/1/2023	3,205,000
2015A Electric & Water Bonds	Finance the construction of the new administrative building.	15,130,000	2% - 4.75%	12/1/2040	14,880,000
FSN Third-lien Lease	Finance the construction of a new headend facility and full service network improvements. Lease can be drawn up to \$9,000,000.	Up to \$9,000,000	3.00%	12/31/2029	<u>5,790,528</u>
Premiums					39,858,034
					<u>1,114,985</u>
					<u>\$ 40,973,019</u>

KIA Notes Payable: In February 2008 the Board entered into a revolving loan fund conditional commitment with KIA for \$6,841,000 for the purpose of the rehabilitation of chemical feed facilities. The loan bears a fixed interest rate of 1.00% for a period of 20 years. At June 30, 2016 and 2015, the outstanding balance was \$5,341,146 and \$5,658,200 respectively.

In March 2013, the Board entered into a federally assisted drinking water revolving loan fund conditional commitment for \$4,000,000 for the purpose of constructing a generator for the water processing facilities. The loan bears a fixed interest rate of 1.75% for a period of 20 years. Upon issuance of each draw KIA will forgive 10% of the draw up to a maximum of \$400,000. For the year ended June 30, 2016, the Board had draws of \$199,861 and KIA granted \$19,986 of debt forgiveness. For the year ended June 30, 2015, the Board had draws of \$2,260,805 and KIA granted \$226,080 of debt forgiveness.

Electric & Water Plant Board of the City of Frankfort, Kentucky
Notes to Financial Statements (Continued)
Years Ended June 30, 2016 and 2015

Note E - Bonds, Leases, Loans and KIA Payables (Continued)

Bonds, leases and KIA payable activity for the year ended June 30, 2016 and 2015 is as follows:

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016	Amounts Due in One Year
Bonds and Leases Payable					
2009 Electric & Water Bonds	\$ 5,495,000	\$ -	\$ (1,025,000)	\$ 4,470,000	\$ 1,060,000
FSN Subordinated Lease	350,886	-	(350,886)	-	-
FSN Consolidated Lease	13,512,506	-	(2,000,000)	11,512,506	2,000,000
2013 Electric & Water Bonds	3,565,000	-	(360,000)	3,205,000	370,000
2015A Electric & Water Bonds	15,130,000	-	(250,000)	14,880,000	375,000
FSN Third-Lien Lease	51,930	5,738,598	-	5,790,528	-
Bond Premium	1,175,224	-	(60,239)	1,114,985	-
	<u>\$ 39,280,546</u>	<u>\$ 5,738,598</u>	<u>\$ (4,046,125)</u>	<u>\$ 40,973,019</u>	<u>\$ 3,805,000</u>
KIA Loan - Chemical Feed	\$ 5,658,199	\$ -	\$ (317,053)	\$ 5,341,147	\$ 320,232
KIA Loan - Generator	2,317,020	199,861	(72,391)	2,444,490	106,188
	<u>\$ 7,975,219</u>	<u>\$ 199,861</u>	<u>\$ (389,444)</u>	<u>\$ 7,785,637</u>	<u>\$ 426,420</u>

	Balance June 30, 2014	Increases	Decreases	Balance June 30, 2015	Amounts Due in One Year
Bonds and Leases Payable					
2009 Electric & Water Bonds	\$ 6,495,000	\$ -	\$ (1,000,000)	\$ 5,495,000	\$ 1,025,000
FSN Subordinated Lease	994,886	-	(644,000)	350,886	350,886
FSN Consolidated Lease	15,512,506	-	(2,000,000)	13,512,506	2,000,000
2013 Electric & Water Bonds	3,920,000	-	(355,000)	3,565,000	360,000
2012 Water BAN	-	-	-	-	-
2015A Electric & Water Bonds	-	15,130,000	-	15,130,000	250,000
FSN Third-Lease	-	51,960	-	51,960	3,032
Bond Premium	102,937	1,109,253	(36,966)	1,175,224	-
	<u>\$ 27,025,329</u>	<u>\$ 16,291,213</u>	<u>\$ (4,035,966)</u>	<u>\$ 39,280,576</u>	<u>\$ 3,988,918</u>
KIA Loan - Chemical Feed	\$ 5,972,106	\$ -	\$ (313,906)	5,658,200	\$ 317,053
KIA Loan - Generator	282,294	2,260,805	(226,080)	2,317,019	51,662
	<u>\$ 6,254,400</u>	<u>\$ 2,260,805</u>	<u>\$ (539,986)</u>	<u>\$ 7,975,219</u>	<u>\$ 368,715</u>

Electric & Water Plant Board of the City of Frankfort, Kentucky
Notes to Financial Statements (Continued)
Years Ended June 30, 2016 and 2015

Note E - Bonds, Leases, Loans and KIA Payables (Continued)

The maturities of principal and interest on the bonds and leases payable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 3,805,000	\$ 1,247,626	\$ 5,052,626
2018	4,235,000	1,129,984	5,364,984
2019	4,680,000	991,197	5,671,197
2020	4,745,000	843,439	5,588,439
2021	3,590,000	713,504	4,303,504
2022-2026	8,413,034	2,444,271	10,857,305
2027-2031	2,870,000	1,715,078	4,585,078
2032-2036	3,355,000	1,226,288	4,581,288
2037-2041	4,165,000	413,663	4,578,663
Total	<u>\$ 39,858,034</u>	<u>\$ 10,725,050</u>	<u>\$ 50,583,084</u>

The maturities of principal and interest on the KIA loans are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 426,420	\$ 94,929	\$ 521,349
2018	431,497	89,853	521,350
2019	436,638	84,710	521,348
2020	441,846	79,503	521,349
2021	447,120	74,228	521,348
2022-2026	2,317,123	289,622	2,606,745
2027-2031	2,459,553	147,192	2,606,745
2032-2036	825,440	29,250	854,690
Total	<u>\$ 7,785,637</u>	<u>\$ 889,287</u>	<u>\$ 8,674,924</u>

Note F - Risk Management

The Board is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters for which the Board carries commercial insurance.

The Board has elected to retain risk related to employees' health insurance. The Board has stop loss coverage with HHC on the self-insurance plan. There is a specific deductible of \$75,000 per employee per year, plus an additional liability corridor of \$75,000. There is no lifetime maximum benefit for members due to the Affordable Care Act.

The Board pays Medben a fee to administer this plan. The Board has an insurance escrow account set up as a liability to cover possible future health insurance claims. All claims are paid out of the general funds of the Board through a separate self-insurance checking account.

Electric & Water Plant Board of the City of Frankfort, Kentucky
Notes to Financial Statements (Continued)
Years Ended June 30, 2016 and 2015

Note F - Risk Management (continued)

For the year ended June 30, 2016 and 2015, the Board had the following activity related to the future health insurance claims:

	<u>Future Health Insurance Claims</u>
Liability at June 30, 2014	\$ 256,064
Claims and changes in estimates in FY 2015	1,765,951
Claims paid in FY 2015	<u>(1,707,907)</u>
Liability at June 30, 2015	314,108
Claims and changes in estimates in FY 2016	2,399,812
Claims paid in FY 2016	<u>(2,379,575)</u>
Liability at June 30, 2016	<u>\$ 334,345</u>

Note G - Frankfort Plant Board Municipal Projects Corporation

In October of 1999, the Board of Directors of the Electric and Water Plant Board formed the Frankfort Plant Board Municipal Projects Corporation with the purpose of authorizing and approving the initial financing of the costs of the new improvements to and expansions of the Municipal Cable Television of the Plant Board. The Corporation will provide the lease for the cable system, as improved and expended, to the Plant Board and authorize the assignment of the Corporation's rights and interest under the lease to Farmers Bank & Capital Trust Company.

Note H - Retirement Plan

Plan description. Employees of the Electric & Water Plant Board are provided a defined benefit pension plan through the CERS, a cost-sharing multiple-employer defined pension plan administered by the KRS. The KRS was created by state statute under Kentucky Revised Statute Section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publically available financial report that can be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646.

Benefits provided. Kentucky Revised Statute Section 61.645 establishes the benefit terms and can be amended only by the Kentucky General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 65 with four years of service credit or after 27 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested or 25 years of service credit. Members vest with five years of service credit. Service related disability benefits are provided after five years of service.

Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands.

Electric & Water Plant Board of the City of Frankfort, Kentucky
Notes to Financial Statements (Continued)
Years Ended June 30, 2016 and 2015

Note H - Retirement Plan (continued)

Employees covered by benefit terms. At the measurement date of June 30, 2016 and 2015, the following employees were covered by the benefit terms:

	<u>2016</u>	<u>2015</u>
Inactive employees or beneficiaries currently receiving benefits	130	125
Inactive employees entitled to but not yet receiving benefits	77	77
Active employees	<u>207</u>	<u>209</u>
Total	<u><u>414</u></u>	<u><u>411</u></u>

Contributions. Contributions for employees are established in the statutes governing the KRS and may only be changed by the Kentucky General Assembly. Employees contribute 5% of salary if they were plan members prior to September 1, 2008. For employees that entered the plan after September 1, 2008, they are required to contribute 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). For the years ended June 30, 2016 and 2015, employer contributions for the Board were \$2,032,289 and \$2,108,554 based on a rate of 17.06% and 17.67% of covered payroll, respectively. By law, employer contributions are required to be paid. The KRS may intercept Board's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

The Electric & Water Plant Board also offers employees the option to participate in the Kentucky Public Employees 401(k) Deferred Compensation Plan. Participation in the plan is voluntary and the Electric & Water Plant Board makes no employer contributions to the plan.

Net Pension Liability

Electric & Water Plant Board's net pension liability (asset) was measured as of June 30, 2015, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

Actuarial assumptions. The total pension liability as of June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary increases	4.00 percent, average, including inflation
Investment rate of return	7.50% percent, net of pension plan investment expense, including inflation

The mortality table used for active and healthy retired members, and beneficiaries is RP-2000 Combined Mortality Table projected with Scale BB to 2013. For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 is used for the period after disability retirement.

Electric & Water Plant Board of the City of Frankfort, Kentucky
Notes to Financial Statements (Continued)
Years Ended June 30, 2016 and 2015

Note H - Retirement Plan (Continued)

Net Pension Liability (Continued)

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2013. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on plan assets is reviewed as part of the regular experience study prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term 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 (See chart below.). These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The long-term expected rate of return on pension plan investments was established by the KRS Board of Trustees as 7.50 percent as of June 30, 2015 based on a blending of the factors described below.

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
Domestic Equity	8.45%	30.00%
International Equity	8.85%	22.00%
Emerging Market Equity	10.50%	5.00%
Private Equity	11.25%	7.00%
Real Estate	7.00%	5.00%
Core US Fixed Income	5.25%	10.00%
High Yield US Fixed Income	7.25%	5.00%
Non US Fixed Income	5.50%	5.00%
Commodities	7.75%	5.00%
TIPS	5.00%	5.00%
Cash	3.25%	1.00%
		100.00%

Electric & Water Plant Board of the City of Frankfort, Kentucky
Notes to Financial Statements (Continued)
Years Ended June 30, 2016 and 2015

Note H - Retirement Plan (Continued)

Net Pension Liability (Continued)

Discount rate. The discount rate used to measure the total pension liability was 7.50 percent and 7.75 percent for the years end June 30, 2015 and 2014, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the Electric & Water Plant Board will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the KRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability (asset) to changes in the discount rate. The following presents the net pension liability (asset) of the Electric & Water Plant Board for the year end June 30, 2016 calculated using the discount rate of 7.50 percent, as well as what the net pension liability (asset) 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%)
Frankfort Plant Board's net pension liability	\$ 28,075,231	\$ 21,991,771	\$ 16,781,832

The following presents the net pension liability (asset) of the Electric & Water Plant Board for the year end June 30, 2014 calculated using the discount rate of 7.75 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Frankfort Plant Board's net pension liability	\$ 21,108,882	\$ 16,041,000	\$ 11,563,406

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension expense. For the year ended June 30, 2016 and 2015, the Electric & Water Plant Board recognized pension expense of \$2,643,620 and \$1,284,000, respectively.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2016, the Electric & Water Plant Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Electric & Water Plant Board of the City of Frankfort, Kentucky
Notes to Financial Statements (Continued)
Years Ended June 30, 2016 and 2015

Note H - Retirement Plan (Continued)

Net Pension Liability (Continued)

The amount shown below for "Contributions subsequent to the measurement date of June 30, 2015", will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

	<u>Deferred Outflows of Resources</u>
Differences between expected and actual experience	\$ 182,760
Net difference between projected and actual earnings on pension plan investments	197,138
Change of assumptions	2,217,629
Changes in proportion and differences between employer contributions and proportionate share of contributions	440,076
Contributions subsequent to the measurement date of June 30, 2015	<u>1,479,545</u>
Total	<u>\$ 4,517,148</u>

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

2017	\$ 759,401
2018	759,401
2019	759,401
2020	<u>759,400</u>
	<u>\$ 3,037,603</u>

In the table above, positive amounts will increase pension expense.

Electric & Water Plant Board of the City of Frankfort, Kentucky
Notes to Financial Statements (Continued)
Years Ended June 30, 2016 and 2015

Note H - Retirement Plan (Continued)

The amount shown below for "Contributions subsequent to the measurement date of June 30, 2014", were recognized as a reduction (increase) to net pension liability (asset) in the year ended June 30, 2015:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$(1,791,000)
Contributions subsequent to the measurement date of June 30, 2014	<u>1,521,452</u>	<u>-</u>
Total	<u>\$ 1,521,452</u>	<u>\$(1,791,000)</u>

Payable to the Pension Plan

At June 30, 2016, and 2015, the Electric & Water Plant Board reported a payable of \$206,759 and \$161,964 (included in the "Accrued expenses" amount on the Statement of Net Position) and for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2016, and 2015, respectively.

Note I - Deferred Compensation

Eligible employees can participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax-sheltered supplemental retirement plans for all state employees, public school and university employees, and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full-time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plan is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. A copy of this report may be requested by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 100, Frankfort, Kentucky 40601-8862 or by telephone at 502-573-7925.

Electric & Water Plant Board of the City of Frankfort, Kentucky
Notes to Financial Statements (Continued)
Years Ended June 30, 2016 and 2015

Note J - Recent Pronouncements

In June 2015, the GASB issued *Statement No. 75, Accounting and Reporting for Postemployment Other Than Pensions*. The provisions of this statement are effective for fiscal years beginning after June 15, 2017.

This statement establishes new accounting and financial reporting requirements for OPEB plans. The scope of this statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

The Electric & Water Plant Board is currently evaluating the impact that will result from adopting GASB No. 75. Therefore, they are currently unable to disclose the impact of the adoption of this standard upon their financial position and results of operations.

REQUIRED SUPPLEMENTARY INFORMATION

Electric & Water Plant Board of the City of Frankfort, Kentucky
Required Supplemental Information
Schedule of Electric & Water Plant Board's Net Pension Liability and Related
Ratios Based on Participation in County Employees Retirement System of KRS
Fiscal Year Ending June 30

	<u>2015</u>	<u>2016</u>
Total Net Pension Liability for County Employees Retirement Systems	\$ 3,244,377,000	\$ 4,299,525,000
Employer's Proportion (Percentage) of Net Pension Liability	0.49%	0.51%
Employer's Proportion (Amount) of Net Pension Liability	\$ 16,041,000	\$ 21,991,771
Employer's Covered-Employer payroll	\$ 11,431,022	\$ 11,914,702
Employer's Proportionate Share (Amount) of the Net Pension Liability As a Percentage of Employer's Covered-Employer Payroll	140.33%	184.58%
Total Pension Plan's Fiduciary Net Position	\$ 6,528,146,000	\$ 6,440,800,000
Total Pension's Plan Pension Liability	\$ 9,772,523,000	\$ 10,740,325,000
Total Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability	66.80%	59.97%

See accompanying independent auditor's report

Electric & Water Plant Board of the City of Frankfort, Kentucky
Required Supplemental Information
Schedule of Electric & Water Plant Board's Contributions Based on Participation
in the County Employees Retirement System of KRS
Fiscal Year Ending June 30

	<u>2014</u>	<u>2015</u>
Actuarially determined contribution	\$ 1,521,452	\$ 1,479,545
Contributions in relation to the actuarially determined contribution	<u>1,521,452</u>	<u>1,479,545</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 11,992,713	\$ 11,914,702
Contributions as a percentage covered- employee payroll	12.69%	12.42%

NOTES TO SCHEDULES RELATED TO THE COUNTY EMPLOYEES RETIREMENT SYSTEM OF KRS
INFORMATION

Valuation date: Actuarially determined contribution rates for 2016 were calculated based on the June 30, 2015 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	29 years
Asset valuation	5-year smoothed market
Inflation	3.25 percent
Salary increases	4.00%
Investment Rate of Return	7.50 percent, net of investment expense, including inflation
Retirement age	65 years or 27 years of service regardless of age.

See accompanying independent auditor's report

SUPPLEMENTARY INFORMATION

Electric & Water Plant Board of the City of Frankfort, Kentucky
Combining Statement of Net Position - Electric & Water, Cable
June 30, 2016

Assets	Electric & Water	Cable	Total
Cash and cash equivalents	\$ 17,612,740	\$ 4,262,837	\$ 21,875,577
Investments	5,283,150	1,278,689	6,561,839
Receivables			
Billed user fees	6,923,044	2,557,590	9,480,634
Unbilled user fees	4,407,187	-	4,407,187
Advertising	-	149,687	149,687
Other	806,316	214,978	1,021,294
Interest	1,579	-	1,579
Inventory	3,641,633	813,400	4,455,033
Prepaid expenses	324,352	159,627	483,979
Property, plant, and equipment, net	80,789,446	30,995,092	111,784,538
Insurance escrow account	84,007	49,878	133,885
Retirement plan assets:			
Cash and cash equivalents	12,248	-	12,248
Investments	460,532	-	460,532
Total Assets	<u>\$ 120,346,234</u>	<u>\$ 40,481,778</u>	<u>\$ 160,828,012</u>
Deferred Outflows of Resources			
Deferred amounts from pension	<u>\$ 2,578,895</u>	<u>\$ 1,938,253</u>	<u>\$ 4,517,148</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 122,925,129</u>	<u>\$ 42,420,031</u>	<u>\$ 165,345,160</u>
Liabilities and Net Position			
Liabilities			
Accounts and other payables	\$ 12,980,165	\$ 2,871,329	\$ 15,851,494
Accrued expenses	894,987	535,056	1,430,043
Customer deposits	2,244,933	44,821	2,289,754
Unearned revenues	-	2,048,222	2,048,222
KIA note payable due in one year	426,420	-	426,420
Bonds payable due in one year	1,685,098	2,119,902	3,805,000
Net pension liability	12,519,087	9,472,684	21,991,771
Long term debt			
Bonds payable	17,227,157	19,940,862	37,168,019
KIA note payable	7,359,217	-	7,359,217
Total Liabilities	<u>\$ 55,337,064</u>	<u>\$ 37,032,876</u>	<u>\$ 92,369,940</u>
Deferred Inflows of Resources			
Deferred amounts from pension	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Liabilities and Deferred Inflows of Resources	<u>\$ 55,337,064</u>	<u>\$ 37,032,876</u>	<u>\$ 92,369,940</u>
Net Position			
Invested in capital assets	54,091,554	8,934,328	63,025,882
Restricted for debt retirement	3,181,804	362,262	3,544,066
Restricted for retirement plans	472,780	-	472,780
Restricted assets - KIA loan restriction	90,000	-	90,000
Restricted for construction	5,263,970	2,474,203	7,738,173
Unrestricted	4,487,957	(6,383,638)	(1,895,681)
Total Net Assets	<u>67,588,065</u>	<u>5,387,155</u>	<u>72,975,220</u>
Total Liabilities and Deferred Inflows of Resources and Net Position	<u>\$ 122,925,129</u>	<u>\$ 42,420,031</u>	<u>\$ 165,345,160</u>

See accompanying independent auditor's report

Electric & Water Plant Board of the City of Frankfort, Kentucky
Statement of Revenues, Expenses and Changes in Net Position - Budget to Actual
Year Ended June 30, 2016

	<u>Budget</u>	<u>Actual</u>	Variable Favorable (Unfavorable)
Operating Revenues			
User fees			
Electric	\$ 57,420,216	\$ 55,995,276	\$ (1,424,940)
Water	9,660,295	9,894,404	234,109
Cable	28,122,142	28,219,184	97,042
	<u>95,202,653</u>	<u>94,108,864</u>	<u>(1,093,789)</u>
Total Operating Revenues			
Operating Expenses			
Electric	58,247,540	52,576,662	5,670,878
Water	8,945,236	8,937,301	7,935
Cable	25,482,006	25,700,878	(218,872)
	<u>92,674,782</u>	<u>87,214,841</u>	<u>5,459,941</u>
Total Operating Expenses			
Net Income From Operations	<u>2,527,871</u>	<u>6,894,023</u>	<u>4,366,152</u>
Non-Operating Revenues (Expenses)			
Rate case settlement	-	2,853,002	2,853,002
Net merchandise sale	14,500	9,606	(4,894)
Interest revenue	47,250	52,914	5,664
Other revenue	780,000	562,750	(217,250)
Interest expense	(1,522,419)	(800,405)	722,014
Retirement plan net gain	-	11,497	11,497
Gain on sale of fixed assets	-	39,681	39,681
	<u>(680,669)</u>	<u>2,729,045</u>	<u>3,409,714</u>
Total Non-Operating (Expense) Revenues			
Income Before Contributions	1,847,202	9,623,068	7,775,866
Capital Contributions	<u>628,300</u>	<u>1,446,146</u>	<u>817,846</u>
Change in Net Position	2,475,502	11,069,214	8,593,712
Net Position - Beginning of Year	<u>61,906,006</u>	<u>61,906,006</u>	<u>-</u>
Net Position - End of Year	<u>\$ 64,381,508</u>	<u>\$ 72,975,220</u>	<u>\$ 8,593,712</u>

See accompanying independent auditor's report

Electric & Water Plant Board of the City of Frankfort, Kentucky
Combining Statement of Revenues and Expenses - Electric, Water and
Telecommunications Divisions
Year Ended June 30, 2016

	<u>Electric</u>	<u>Water</u>	<u>Cable</u>	<u>Total</u>
Operating Revenues				
User fees	\$ 55,995,276	\$ 9,894,404	\$ 27,422,142	\$ 93,311,822
Advertising revenue	-	-	797,042	797,042
Total Operating Revenues	<u>55,995,276</u>	<u>9,894,404</u>	<u>28,219,184</u>	<u>94,108,864</u>
Operating Expenses	<u>52,576,662</u>	<u>8,937,301</u>	<u>25,700,878</u>	<u>87,214,841</u>
Net Income from Operations	<u>3,418,614</u>	<u>957,103</u>	<u>2,518,306</u>	<u>6,894,023</u>
Non-Operating Revenues (Expenses)				
Rate case settlement	2,853,002	-	-	2,853,002
Net merchandise sales	2,127	6,570	909	9,606
Interest revenues	15,213	26,365	11,336	52,914
Other revenue	154,079	189,432	219,239	562,750
Interest expense	(21,475)	(392,492)	(386,438)	(800,405)
Retirement plan net gain	3,832	3,832	3,833	11,497
Gain on sale of fixed assets	<u>2,326</u>	<u>20,314</u>	<u>17,041</u>	<u>39,681</u>
Total Non-Operating Revenues (Expenses)	<u>3,009,104</u>	<u>(145,979)</u>	<u>(134,080)</u>	<u>2,729,045</u>
Income Before Contributions	<u>\$ 6,427,718</u>	<u>\$ 811,124</u>	<u>\$ 2,384,226</u>	<u>\$ 9,623,068</u>

See accompanying independent auditor's report

Electric & Water Plant Board of the City of Frankfort, Kentucky
Detail Schedules of Budgeted and Actual Operating Expenses - Electric,
Water and Telecommunications Divisions
Year Ended June 30, 2016

Electric Division	Budgeted	Actual	Variable Favorable (Unfavorable)
Electricity purchased	\$ 48,790,124	\$ 42,703,456	\$ 6,086,668
Transmission	30,000	2,865	27,135
Distribution	2,018,422	2,535,942	(517,520)
Engineering	438,405	337,100	101,305
Total Electric Expense	<u>51,276,951</u>	<u>45,579,363</u>	<u>5,697,588</u>
Meter reading	249,105	239,842	9,263
Customer records and collection	346,553	324,726	21,827
Bad debts	152,950	100,024	52,926
Information technology	373,367	294,888	78,479
Total Office Expenses	<u>1,121,975</u>	<u>959,480</u>	<u>162,495</u>
Advertising	4,084	2,824	1,260
Administrative expenses	560,798	522,153	38,645
Board expenses	3,636	3,562	74
Social security expense	285,345	247,279	38,066
Legal and consulting fees	601,871	790,549	(188,678)
Insurance	234,534	280,831	(46,297)
Total Administrative Expenses	<u>1,690,268</u>	<u>1,847,198</u>	<u>(156,930)</u>
Benefits	795,299	665,920	129,379
Employees welfare	1,631	(9,632)	11,263
Pension expense	637,485	935,873	(298,388)
Total Employee Benefits Expenses	<u>1,434,415</u>	<u>1,592,161</u>	<u>(157,746)</u>
General expenses	40,584	52,448	(11,864)
Utilities	114,082	85,234	28,848
Depreciation and amortization	1,893,951	1,896,716	(2,765)
Cash contributions to city	130,925	131,336	(411)
Total General Expenses	<u>2,179,542</u>	<u>2,165,734</u>	<u>13,808</u>
Support services	211,310	183,950	27,360
Auto and truck repair	333,079	248,776	84,303
Total support services	<u>544,389</u>	<u>432,726</u>	<u>111,663</u>
Total Operating Expenses - Electric Division	<u>\$ 58,247,540</u>	<u>\$ 52,576,662</u>	<u>\$ 5,670,878</u>

See accompanying independent auditor's report

Electric & Water Plant Board of the City of Frankfort, Kentucky
Detail Schedules of Budgeted and Actual Operating Expenses - Electric,
Water and Telecommunications Divisions
Year Ended June 30, 2016

Water Division	Budgeted	Actual	Variable Favorable (Unfavorable)
Pump maintenance	\$ 66,000	\$ 28,255	\$ 37,745
Water treatment operations	901,769	965,387	(63,618)
Water treatment maintenance	287,907	220,578	67,329
Total Water Department Expense	<u>1,255,676</u>	<u>1,214,220</u>	<u>41,456</u>
Transmission and distribution expense	1,177,602	1,310,227	(132,625)
Engineering expense	325,999	308,453	17,546
Meter reading	190,544	183,458	7,086
Customer records and collection	259,915	244,225	15,690
Bad debts	25,975	16,987	8,988
Information technology	300,026	241,807	58,219
Total Office Expenses	<u>776,460</u>	<u>686,477</u>	<u>89,983</u>
Advertising	3,767	2,412	1,355
Administrative expenses	393,744	348,928	44,816
Board expenses	2,727	2,672	55
Social security expense	258,031	231,925	26,106
Legal and consulting fees	89,574	68,061	21,513
Insurance	336,263	402,643	(66,380)
Total Administrative Expenses	<u>1,084,106</u>	<u>1,056,641</u>	<u>27,465</u>
Benefits	751,772	690,836	60,936
Employees welfare	1,549	27,718	(26,169)
Pension expense	576,287	971,726	(395,439)
Total Employee Benefits Expenses	<u>1,329,608</u>	<u>1,690,280</u>	<u>(360,672)</u>
General expenses	30,438	41,480	(11,042)
Utilities expense	842,307	678,620	163,687
Depreciation and amortization	1,671,194	1,569,225	101,969
Cash contributions to city	22,235	22,304	(69)
Total General Expenses	<u>2,566,174</u>	<u>2,311,629</u>	<u>254,545</u>
Support services	142,216	135,157	7,059
Auto and truck repair	287,395	224,217	63,178
Total support services	<u>429,611</u>	<u>359,374</u>	<u>70,237</u>
Total Operating Expenses - Water Division	<u>\$ 8,945,236</u>	<u>\$ 8,937,301</u>	<u>\$ 7,935</u>

See accompanying independent auditor's report

Electric & Water Plant Board of the City of Frankfort, Kentucky
Detail Schedules of Budgeted and Actual Operating Expenses - Electric,
Water and Telecommunications Divisions
Year Ended June 30, 2016

	Budgeted	Actual	Variable Favorable (Unfavorable)
Telecommunication Division			
Cable television expense	\$ 11,403,162	\$ 11,783,418	\$ (380,256)
Cable C-10 expense	825,973	780,406	45,567
Cable FSN	3,251,960	3,184,772	67,188
Total Cable Expenses	<u>15,481,095</u>	<u>15,748,596</u>	<u>(267,501)</u>
Engineering expense	201,107	128,849	72,258
Customer records and collection	656,480	620,922	35,558
Bad debts	71,075	46,481	24,594
Information technology	663,265	582,225	81,040
Total Office Expenses	<u>1,390,820</u>	<u>1,249,628</u>	<u>141,192</u>
Advertising	7,150	4,745	2,405
Administrative expenses	881,705	790,307	91,398
Board expenses	6,887	6,749	138
Social security expense	408,094	365,011	43,083
Legal and consulting fees	89,355	68,008	21,347
Insurance	297,203	355,872	(58,669)
Total Administrative Expenses	<u>1,690,394</u>	<u>1,590,692</u>	<u>99,702</u>
Benefits	1,343,595	1,259,916	83,679
Employees welfare	2,820	33,449	(30,629)
Pension expense	904,856	1,380,553	(475,697)
Total Employee Benefits Expenses	<u>2,251,271</u>	<u>2,673,918</u>	<u>(422,647)</u>
General expenses	81,878	109,146	(27,268)
Utilities expense	364,232	360,963	3,269
Depreciation and amortization	3,446,064	3,320,860	125,204
Cash contributions to city	60,840	61,031	(191)
Total General Expenses	<u>3,953,014</u>	<u>3,852,000</u>	<u>101,014</u>
Support services expense	338,891	323,312	15,579
Auto and truck expense	175,414	133,883	41,531
Total support services	<u>514,305</u>	<u>457,195</u>	<u>57,110</u>
Total Operating Expenses - Telecommunication Division	<u>\$ 25,482,006</u>	<u>\$ 25,700,878</u>	<u>\$ (218,872)</u>

See accompanying independent auditor's report

Electric & Water Plant Board of the City of Frankfort, Kentucky
Comparative Schedules of Operating Expenses -
Electric, Water and Telecommunications Divisions
Years Ended June 30, 2016 and 2015

Electric Division	2016	2015
Power costs	\$ 42,703,456	\$ 44,535,869
Electric transmission	2,865	3,196
Electric distribution	2,535,942	2,493,367
Engineering expense	337,100	270,038
Total Electric Operating Expense	<u>45,579,363</u>	<u>47,302,470</u>
Meter reading	239,842	237,571
Customer records and collection	324,726	357,094
Bad debts	100,024	274,780
Information technology	294,888	324,390
Total Office Expenses	<u>959,480</u>	<u>1,193,835</u>
Advertising	2,824	5,208
Administrative expenses	522,153	584,451
Board expenses	3,562	3,433
Social security expense	247,279	249,627
Legal and consulting fees	790,549	640,722
Insurance	280,831	227,720
Total Administrative Expenses	<u>1,847,198</u>	<u>1,711,161</u>
Benefits	665,920	706,649
Employees welfare	(9,632)	38,643
Pension expense	935,873	538,229
Total Employee Benefits Expenses	<u>1,592,161</u>	<u>1,283,521</u>
General expenses	52,448	34,451
Utilities	85,234	95,831
Depreciation and amortization	1,896,716	1,969,030
Cash contributions to city	131,336	84,314
Total General Expenses	<u>2,165,734</u>	<u>2,183,626</u>
Support services	183,950	176,092
Auto and truck repair	248,776	320,564
Total support services	<u>432,726</u>	<u>496,656</u>
Total Operating Expenses - Electric Division	<u>\$ 52,576,662</u>	<u>\$ 54,171,269</u>

See accompanying independent auditor's report

Electric & Water Plant Board of the City of Frankfort, Kentucky
Comparative Schedules of Operating Expenses -
Electric, Water and Telecommunications Divisions
Years Ended June 30, 2016 and 2015

Water Division	2016	2015
Pump maintenance	\$ 28,255	\$ 74,049
Water treatment operations	965,387	779,533
Water treatment maintenance	220,578	219,260
Total Water Treatment Expense	<u>1,214,220</u>	<u>1,072,842</u>
Transmission and distribution expense	1,310,227	1,292,827
Engineering expense	308,453	285,745
Meter reading	183,458	181,646
Customer records and collection	244,225	265,442
Bad debts	16,987	54,010
Information technology	241,807	248,961
Total Office Expenses	<u>686,477</u>	<u>750,059</u>
Advertising	2,412	4,709
Administrative expenses	348,928	418,662
Board expenses	2,672	2,560
Social security expense	231,925	235,100
Legal and consulting fees	68,061	129,440
Insurance	402,643	310,404
Total Administrative Expenses	<u>1,056,641</u>	<u>1,100,875</u>
Benefits	690,836	735,013
Employees welfare	27,718	29,367
Pension expense	971,726	536,035
Total Employee Benefits Expenses	<u>1,690,280</u>	<u>1,300,415</u>
General expenses	41,480	26,553
Utilities	678,620	743,555
Depreciation and amortization	1,569,225	1,237,895
Cash contributions to city	22,304	16,573
Total General Expenses	<u>2,311,629</u>	<u>2,024,576</u>
Support services	135,157	126,594
Auto and truck repair	224,217	217,844
Total support services	<u>359,374</u>	<u>344,438</u>
Total Operating Expenses - Water Division	<u>\$ 8,937,301</u>	<u>\$ 8,171,777</u>

See accompanying independent auditor's report

Electric & Water Plant Board of the City of Frankfort, Kentucky
Comparative Schedules of Operating Expenses -
Electric, Water and Telecommunications Divisions
Years Ended June 30, 2016 and 2015

Telecommunications Division	2016	2015
Cable television expense	\$ 11,783,418	\$ 11,063,086
Cable C-10 Expense	780,406	790,731
Cable FSN	3,184,772	3,078,750
Total Operations and Maintenance	<u>15,748,596</u>	<u>14,932,567</u>
Cable engineering expense	<u>128,849</u>	<u>124,886</u>
Total Cable Expenses	<u>15,877,445</u>	<u>15,057,453</u>
Customer records and collection	620,922	697,135
Bad debts	46,481	125,842
Information technology	582,225	616,653
Total Office Expenses	<u>1,249,628</u>	<u>1,439,630</u>
Advertising	4,745	9,210
Administrative expenses	790,307	938,807
Board expenses	6,749	6,698
Social security expense	365,011	359,889
Legal and consulting fees	68,008	191,890
Insurance	355,872	309,049
Total Administrative Expenses	<u>1,590,692</u>	<u>1,815,543</u>
Benefits	1,259,916	1,153,258
Employees welfare	33,449	23,052
Pension expense	1,380,553	810,516
Total Employee Benefits Expenses	<u>2,673,918</u>	<u>1,986,826</u>
General expenses	109,146	79,057
Utilities	360,963	339,370
Depreciation and amortization	3,320,860	3,434,296
Cash contributions to city	61,031	38,614
Total General Expenses	<u>3,852,000</u>	<u>3,891,337</u>
Support services expense	323,312	318,739
Auto and truck expense	133,883	201,124
Total support services expense	<u>457,195</u>	<u>519,863</u>
Total Operating Expenses - Telecommunication Division	<u>\$ 25,700,878</u>	<u>\$ 24,710,652</u>

See accompanying independent auditor's report.

**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with Government Auditing Standards**

**Members of the Electric and Water Plant Board
Frankfort, 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 the Electric and Water Plant Board (the "Board") of the City of Frankfort, Kentucky as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements and have issued our report thereon dated October 20, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board'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 Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with Government Auditing Standards (Continued)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board'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 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.

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.

A handwritten signature in black ink that reads "Maunzy Chilton Madley LLP". The signature is written in a cursive, flowing style.

October 20, 2016
Lexington, Kentucky

Electric & Water Plant Board of the City of Frankfort, Kentucky
Schedule of Prior Year Findings
June 30, 2016

2015-1*

Capital assets and depreciation are tracked manually in excel. The Board should implement depreciation software for improved efficiency and accuracy.

This finding has been resolved.

*The Board is not subject to single audit requirements