

**ELECTRIC & WATER PLANT BOARD OF THE
CITY OF FRANKFORT, KENTUCKY**

FINANCIAL STATEMENTS

June 30, 2017

ELECTRIC & WATER PLANT BOARD OF THE
CITY OF FRANKFORT, KENTUCKY

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INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the Electric and Water Plant Board of the City of Frankfort, Kentucky (the "Board"), as of and for the year ended June 30, 2017, 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 audit. We conducted our audit 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 Electric and Water Plant Board of the City of Frankfort, Kentucky, as of June 30, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

(Continued)

Other Matters

Prior-Year Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Board's financial statements for the year ended June 30, 2016, from which the summarized information was derived. The financial statements of the Board as of June 30, 2016 were audited by other auditors whose report dated October 20, 2016, expressed an unmodified opinion on those statements.

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 9, the Schedule of the Board's Proportionate Share of the Net Pension Liability on page 33, and the Schedule of the Board's Contributions on page 34, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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.

Supplementary 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 combining schedules and budgetary comparison schedules on pages 35 through 38 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining schedules 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 Combining Statement of Net Position – Electric & Water, Telecommunications, Statement of Revenues, Expenses and Changes in Net Position – Budget to Actual, Combining Statement of Revenue and Expenses – Electric, Water and Telecommunications Divisions, and Statement of Operating Expenses – Budget to Actual are 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 17, 2017 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.


Crowe Horwath LLP

Louisville, Kentucky
October 17, 2017

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

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, 2017 and 2016. 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 in the financial statements of this report. Cable Telecommunications operations are separated from the Electric and Water operations on the audit report under "Supplementary Information". 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 Board's net position increased \$7,140,859 during fiscal year 2017 compared to an increase of \$11,069,214 during fiscal year 2016.

Revenues

- Total operating revenues were \$98,725,104 for fiscal year 2017 compared to \$94,108,864 for fiscal year 2016.

Expenses

- Operating expenses were \$93,278,152 for fiscal year 2017 compared to \$87,214,841 for fiscal year 2016.

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. 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 during FY17. 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 2.
3. The Statement of Cash Flows presents the cash flow changes occurring during FY17 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.

(Continued)

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

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.

FINANCIAL ANALYSIS

Statement of Net Position

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Change</u>	<u>% Change</u>
Current and other assets	\$ 44,788,854	\$ 49,043,474	\$ (4,254,620)	(8.68%)
Capital assets, net	<u>118,046,155</u>	<u>111,784,538</u>	<u>6,261,617</u>	<u>5.60</u>
Total assets	162,835,009	160,828,012	2,006,997	1.25
Deferred outflows of resources from pension	<u>5,601,944</u>	<u>4,517,148</u>	<u>1,084,796</u>	<u>24.02</u>
Total assets and deferred outflows	168,436,953	165,345,160	3,091,793	1.87
Current and other liabilities	23,666,625	25,850,933	(2,184,308)	(8.45)
Long-term liabilities	<u>64,331,829</u>	<u>66,519,007</u>	<u>(2,187,178)</u>	<u>(3.29)</u>
Total liabilities	87,998,454	92,369,940	(4,371,486)	(4.73)
Deferred inflows of resources from pension	<u>322,420</u>	<u>-</u>	<u>322,420</u>	<u>-</u>
Total liabilities and deferred inflows	88,320,874	92,369,940	(4,049,066)	(4.38)
Net position:				
Net investment in capital assets	73,579,159	63,025,882	10,553,277	16.74%
Restricted	4,289,677	11,845,019	(7,555,342)	(63.78)
Unrestricted	<u>2,247,243</u>	<u>(1,895,681)</u>	<u>4,142,924</u>	<u>(218.55)</u>
Total net position	<u>\$ 80,116,079</u>	<u>\$ 72,975,220</u>	<u>\$ 7,140,859</u>	<u>9.79%</u>

Assets and Deferred Outflows of Resources

The Board's total assets and deferred outflows of resources increased \$3,091,793 from fiscal year 2016. The statement of net position indicates the most significant changes were in capital assets, net of accumulated depreciation, and deferred amounts from pension. Net capital assets 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 decreased \$4,049,066 from fiscal year 2016 primarily due to decreases in accounts payable and accrued expenses and long-term debt. For a summary of the Board's revenue bonds, loans, and lease obligations see Note 5 in the notes to these financial statements.

Net pension liability increased by \$2,599,797 from fiscal year 2016. See Note 7 of this report for more information on the change in net pension liability.

(Continued)

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

Net Position

The Board's assets and deferred outflows exceeded its liabilities and deferred inflows by \$80,116,079 at the end of fiscal year 2017. This represents an increase of \$7,140,859 from fiscal year 2016.

The majority of the Board's net position, \$73,579,159 or 92% of total net position at June 30, 2017, and \$63,025,882 or 86% of total net position at June 30, 2016, is invested in capital assets, such as transmissions and distribution facilities, water treatment and distribution assets, and Telecommunication infrastructure, less any related debt used to acquire such assets that remained outstanding as of the end of the fiscal year.

Statement of Revenues, Expenses and Changes in Net Position

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Change</u>	<u>% Change</u>
Operating revenues	\$ 98,725,104	\$ 94,108,864	\$ 4,616,240	4.91%
Operating expenses	<u>93,278,152</u>	<u>87,214,841</u>	<u>6,063,311</u>	<u>6.95</u>
Net income from operations	5,446,952	6,894,023	(1,447,071)	(20.99)
Net non-operating revenue (expenses)	(6,864)	2,729,045	(2,735,909)	(100.25)
Capital contributions	<u>1,700,771</u>	<u>1,446,146</u>	<u>254,625</u>	<u>17.61</u>
Change in net position	<u>\$ 7,140,859</u>	<u>\$ 11,069,214</u>	<u>\$ (3,928,355)</u>	<u>(35.49%)</u>

Revenues

Operating revenues in 2017 increased by \$4,616,240 or 4.9% compared to 2016 to \$98,725,104. This change is due to increases in electric and water operating revenue. Electric operating revenue increased \$3,277,035 or 5.9% due to increased electric usage by customers and electric rate increases approved by the FPB's board effective July 1, 2017 to cover wholesale power supply rate increases from Kentucky Utilities also effective July 1, 2017. Water operating revenue increased \$1,490,388 or 15% due to increased water usage by customers and water rate increases approved by the FPB's board effective August 1, 2017.

Non-operating revenues declined by \$2,735,909 in 2017 compared to 2016 primarily due a wholesale power supply rate case ruling that resulted in a one-time refund to the FPB for \$2,853,002 received in 2016 that did not occur in 2017.

Expenses

Operating expenses increased in 2017 compared to 2016 by \$6,063,311 or 7% to \$93,278,152. This increase is mainly due to a \$4,762,041 increase in wholesale power supply cost, which equates to an 11% increase from prior year.

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

(Continued)

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

by the Board and are presented in the supplementary information section of this report for the year ended June 30, 2017.

CAPITAL ASSETS

The Board's investments in capital assets, net of accumulated depreciation, amounted to \$118,046,155 as of June 30, 2017 and \$111,784,538 as of June 30, 2016. This includes investment in transmission and distribution related to infrastructure, as well as general items such as office equipment, vehicles, etc. See Note 4 for additional information on capital assets. The following is a summary of capital assets activity during June 30, 2017:

	<u>June 30, 2016</u>	<u>Additions and Transfers</u>	<u>Transfers and Retirements</u>	<u>June 30, 2017</u>
Capital assets	\$ 214,987,760	\$ 33,832,698	\$ (217,377)	\$ 248,603,081
Accumulated depreciation	(126,994,564)	(6,993,398)	201,007	(133,786,955)
Non-depreciable capital assets	<u>23,791,342</u>	<u>13,291,959</u>	<u>(33,853,272)</u>	<u>3,230,029</u>
Capital assets, net	<u>\$ 111,784,538</u>	<u>\$ 40,131,259</u>	<u>\$ (33,869,642)</u>	<u>\$ 118,046,155</u>

Major capital assets events during the current fiscal year included:

Electric Division

- Distribution substation improvements – replacement of 15kV distribution breakers, 15kV series main breakers, 15kV distribution switches, 69kV transmission switches, and new battery charger
- Multiple overhead reconductor projects
- Second OVH feeder to South Frankfort
- Completed phase one of voltage conversion from 8.3kV to 13.2kV
- Overall general distribution system improvements
- Spill Prevention Containment Control (SPCC) improvements at Soldiers Lane substation and FPB water treatment plant.

Water Division

- Meter replacement
- Henry Street waterline replacement
- First-Swigert-Noel-Grand Avenue waterline replacement
- Winding Way waterline replacement
- Birchwood Avenue waterline replacement
- Fields-Leslie-Alexander Street waterline replacement
- Overall distribution upgrades and improvements
- WTP Drain Valve Replacement
- Total organic carbon analyzer
- Flocculation/sedimentation basin drain valves

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ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Telecommunications Division

- Completion of the Headend relocation project in September 2016. Demolition of the old headend facility was completed in December 2016.
- Continue rollout of telecommunication modem leasing revenue stream - ending fiscal year with 5,930 units.
- Ongoing purchase and installation of advanced set top boxes, including TiVo that rolled out in May 2017.
- Purchase and replacement of the third and final Cable Modem Termination System (CMTS). This replacement significantly improved broadband service reliability and consistency system wide.
- CMTS upgrade allowed for the increase in cable modem speeds for two service classes and the establishment of 100Mbps speed.

General

- Fleet Replacements include one zero turn mower for support services department, one crane truck for the water division, one SUV for administration, one small bucket truck and two pickup trucks for telecommunications division, one truck with utility body and one digger derrick for electric division in accordance with FPB's fleet replacement policy.

Long-Term Debt

As of June 30, 2017 and 2016, the Board had long-term bonds outstanding in the amount of \$20,750,000 and \$22,555,000, respectively. This total is composed of Electric and Water Revenue Bonds, Series 2009, Series 2013 and Series 2015A with year-end balances of \$3,410,000, \$2,835,000 and \$14,505,000, and \$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, 2017 and 2016, the Board had two long-term lease financings outstanding with United Bank in Frankfort, Kentucky in the amount of \$15,303,034 and \$17,303,034, respectively. The Full Service Network consolidated lease and Full Service Network third-lien lease financings had year-end balances of \$9,512,506 and \$5,790,528 and \$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, 2017 and 2016, the Board had two outstanding loans totaling \$7,359,216 and \$7,785,637, respectively, from the Kentucky Infrastructure Authority (KIA). The first KIA loan had a balance of \$5,020,914 at June 30, 2017 and \$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 balance of \$2,338,302 at June 30, 2017 and \$2,444,490 at June 30, 2016. Both loans are secured on a subordinate basis to the Board's outstanding electric and water revenue bonds.

The following is a summary of bonds, leases and KIA payable activity for the year ended June 30, 2017:

	<u>Balance</u> <u>June 30, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2017</u>	<u>Amounts Due</u> <u>in One Year</u>
Bonds and leases payable	\$ 39,858,034	\$ _____ -	\$ (3,805,000)	\$ 36,053,034	\$ 4,235,000
KIA loans	\$ 7,785,637	\$ _____ -	\$ (426,421)	\$ 7,359,216	\$ 431,496

There is a full summary of all the Board's revenue bonds, loans and lease obligations located in Note 5 of this report.

(Continued)

Currently Known Facts and Operating Activities

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 2018-2019, 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. Transformer inventory costs will be reduced by no longer maintaining inventory levels for multiple voltage equipment.

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 2017-2018 being a 7.03% 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. We will accomplish this 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
- Begin 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

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ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

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. Based on these challenges, the need to implement regular rate adjustments annually is anticipated.

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 2018 will be the outside plant infrastructure improvements. These improvements will replace end-of-life amplifiers and line extenders, which has an immediate impact on system reliability. These replacements will increase the system capability to provide forty more QAM channels that can be used to provide faster and more reliable broadband and to offer potentially required 4K broadcast TV channels to our customers.

In the first quarter of fiscal year 2018, FPB's infrastructure improvement consultants will present their recommendations to the Board for their consideration. Staff expects to spend a portion of the year engaging with community stakeholders to determine the best path forward to making improvements to the telecommunications infrastructure with a fiscally responsible, customer-oriented plan. Before the end of the fiscal year, staff expects to engage an engineering firm to design FPB's 21st Century network design.

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 above.

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 innovative 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.

Contact Information

This financial report is designed to provide customers, creditors and other users with an overview of Electric & Water Plant Board of the City of Frankfort, Kentucky's finances, fiscal practices and responsibilities. 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 151 Flynn Avenue, Frankfort, Kentucky.

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ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2017
(With Summarized Financial Information as of June 30, 2016)

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets		
Unrestricted cash and cash equivalents	\$ 15,798,736	\$ 12,998,462
Accounts receivable, net	12,661,549	15,060,381
Inventory	4,384,145	4,455,033
Prepaid expenses	<u>593,742</u>	<u>483,979</u>
Total current assets	33,438,172	32,997,855
Noncurrent assets		
Unrestricted investments	7,061,005	4,200,599
Restricted cash reserves	1,447,958	9,011,000
Restricted investments	2,841,719	2,834,020
Depreciable capital assets, net of accumulated depreciation	114,816,126	87,993,196
Capital assets not being depreciated	<u>3,230,029</u>	<u>23,791,342</u>
Total noncurrent assets	129,396,837	127,830,157
Total assets	162,835,009	160,828,012
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amounts from pension	<u>5,601,944</u>	<u>4,517,148</u>
Total assets and deferred outflows of resources	<u>\$ 168,436,953</u>	<u>\$ 165,345,160</u>
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable and accrued expenses	\$ 14,472,072	\$ 17,281,537
Customer deposits	2,450,620	2,289,754
Unearned revenues	2,017,198	2,048,222
Bonds and leases payable due in one year	4,295,239	3,805,000
KIA notes payable due in one year	<u>431,496</u>	<u>426,420</u>
Total current liabilities	23,666,625	25,850,933
Long-term liabilities		
Net pension liability	24,591,568	21,991,771
Long-term debt		
Bonds and leases payable	32,812,541	37,168,019
KIA notes payable	<u>6,927,720</u>	<u>7,359,217</u>
Total long-term liabilities	64,331,829	66,519,007
Total liabilities	87,998,454	92,369,940
DEFERRED INFLOWS OF RESOURCES		
Deferred amounts from pension	<u>322,420</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>\$ 88,320,874</u>	<u>\$ 92,369,940</u>
NET POSITION		
Net investment in capital assets	73,579,159	63,025,882
Restricted for debt retirement	3,699,724	3,544,066
Restricted for retirement plans	472,453	472,780
Restricted for KIA loan covenant	117,500	90,000
Restricted for construction	<u>-</u>	<u>7,738,173</u>
Total restricted net position	4,289,677	11,845,019
Unrestricted	<u>2,247,243</u>	<u>(1,895,681)</u>
Total net position	80,116,079	72,975,220
Total liabilities, deferred inflows of resources and net position	<u>\$ 168,436,953</u>	<u>\$ 165,345,160</u>

See accompanying notes to financial statements.

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year ended June 30, 2017
(With Summarized Financial Information for the Year Ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Electric	\$ 59,272,311	\$ 55,995,276
Water	11,384,792	9,894,404
Telecommunications	<u>28,068,001</u>	<u>28,219,184</u>
Total operating revenues	<u>98,725,104</u>	<u>94,108,864</u>
Operating Expenses		
Electric	58,583,659	52,576,662
Water	9,187,216	8,937,301
Telecommunications	<u>25,507,277</u>	<u>25,700,878</u>
Total operating expenses	<u>93,278,152</u>	<u>87,214,841</u>
Net income from operations	5,446,952	6,894,023
Non-operating Revenues (Expenses)		
Rate case settlement	-	2,853,002
Other revenue	894,793	625,270
Interest expense	(929,689)	(800,405)
Retirement plan net gain (loss)	(4,141)	11,497
Gain on sale of fixed assets	<u>32,173</u>	<u>39,681</u>
Total non-operating revenues (expenses)	<u>(6,864)</u>	<u>2,729,045</u>
Income before capital contributions	5,440,088	9,623,068
Capital contributions	<u>1,700,771</u>	<u>1,446,146</u>
Change in net position	7,140,859	11,069,214
Net position – beginning of year	<u>72,975,220</u>	<u>61,906,006</u>
Net position – end of year	<u>\$ 80,116,079</u>	<u>\$ 72,975,220</u>

See accompanying notes to financial statements.

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
STATEMENT OF CASH FLOWS
Year ended June 30, 2017
(With Summarized Financial Information for the Year Ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Cash received from users and customers	\$100,310,682	\$ 90,498,583
Cash payments to and on behalf of employees for services and benefits	(18,976,105)	(18,440,810)
Cash payments to suppliers of goods and services	<u>(67,122,233)</u>	<u>(59,254,836)</u>
Net cash provided by operating activities	14,212,344	12,802,937
Cash Flows from Capital and Related Financing Activities		
Purchases of capital assets	(12,590,610)	(18,024,031)
Proceeds from sale of capital assets	47,315	40,507
Principal paid on debt obligations	(4,291,659)	(4,395,316)
Interest paid on debt obligations	(934,937)	(800,405)
Proceeds from debt obligations	<u>-</u>	<u>5,938,459</u>
Net cash used by capital and related financing activities	(17,769,891)	(17,240,786)
Cash Flows from Noncapital Financing Activities		
Cash received from other non-operating revenues	<u>1,570,951</u>	<u>3,433,096</u>
Cash Flows from Investing Activities		
Receipt of interest	76,828	51,335
Purchase/sales of investments, net	<u>(2,853,000)</u>	<u>(19,893)</u>
Net cash provided by (used by) investment activities	<u>(2,776,172)</u>	<u>31,442</u>
Net change in cash and cash equivalents	(4,762,768)	(973,311)
Cash and cash equivalents, beginning of year	<u>22,009,462</u>	<u>22,982,773</u>
Cash and cash equivalents, end of year	<u>\$ 17,246,694</u>	<u>\$ 22,009,462</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 5,446,952	\$ 6,894,023
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,993,398	6,786,801
Bad debts	193,971	163,492
Change in assets and liabilities:		
Accounts receivable	2,398,832	(3,526,244)
Inventory	70,888	304,440
Prepaid expenses	(109,763)	68,406
Accounts payable and accrued expenses	(2,809,465)	1,195,473
Customer deposits	160,866	(288,550)
Unearned revenue	(31,024)	41,021
Net pension liability	2,599,797	5,950,771
Deferred outflows and deferred inflows of resources	(762,376)	(4,786,696)
Unamortized bond premium	<u>60,268</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 14,212,344</u>	<u>\$ 12,802,937</u>
Supplemental Disclosure of Noncash Capital and Related Financing Activities		
Contributed capital assets	<u>\$ 1,700,771</u>	<u>\$ 1,446,146</u>
Forgiveness of debt	<u>\$ -</u>	<u>\$ 19,986</u>
Capital asset acquisitions in accounts payable	<u>\$ 88,328</u>	<u>\$ 62,841</u>

See accompanying notes to financial statements.

NOTE 1 – 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.

The financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Board's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

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 United Bank.

NOTE 2 – 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.

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 position, financial position and cash flows. All proprietary funds are accounted for using the accrual basis of accounting. For internal management and statutory purposes, the Board maintains internal funds described below.

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.
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 formal authorized amounts as revised during the year.

(Continued)

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Restricted and Unrestricted Funds

Restricted funds are reserved for the purpose of bond debt service, funding of capital construction, cost of issuance, debt service reserves and the frozen retirement plan. Unrestricted funds, generated from service fees and other operating income, are used to pay for operating expenses, invest in capital assets and service debt. When an expense or outlay is incurred for which both restricted and unrestricted net position is available, it is the Board's practice to use revenue from operations to finance construction, then to reimburse from restricted net position for construction as it is needed.

Investments

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

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

The following is a summary of accounts receivable as of June 30, 2017:

Billed user fees, net	\$ 7,677,393
Unbilled user fees	4,624,850
Advertising	123,324
Other	228,303
Interest	<u>7,679</u>
Accounts receivable, net	<u>\$ 12,661,549</u>

(Continued)

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2017 was \$139,000.

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

Impairment of Capital Assets

In accordance with GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, management evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations, other changes in environmental factors, technology changes or evidence of obsolescence, changes in the manner of duration of use of a capital asset, and construction stoppage. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. No impairment losses were recognized in the years ended June 30, 2017.

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.

Bonds Payable

Bonds payable are recorded at the principal amount outstanding, net of any applicable premium or discount. Bond issue costs are expensed in the year incurred. Original issue discounts and premiums on bonds are amortized as a component of interest expense using the straight-line method, which approximates the effective interest method, over the lives of the bonds to which they relate.

(Continued)

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 (CERS) of the Kentucky Retirement Systems (KRS) have been determined on the same basis 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, 2016, based on a roll-forward technique from the actuarial valuation 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. 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.

	<u>2017</u>
Revenue Bond Sinking Reserve	\$ 3,699,724
Retirement Plan Assets (frozen retirement plan)	472,453
KIA loan covenant	<u>117,500</u>
Total restricted net position	<u>\$ 4,289,677</u>

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.

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.

Non-Operating Revenues and Expenses

Non-operating revenues and expenses are comprised of investment and financing earnings and costs as well as other gains and losses.

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Contributions

Construction and acquisition of facilities and plants are financed, in part, from governmental grants and contributions in aid of construction from property owners and developers. Governmental grants in aid of construction represent the portion of construction cost incurred where paperwork has been submitted to the grantor. These amounts are recorded as a receivable and revenues from contributions at the time the documentation is submitted. The revenues from capital contributions are part of the change in net position.

Estimates in the Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires, at times, management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 – INVESTMENTS

Investments of the Board are all invested non-negotiable certificates of deposit with maturity dates ranging from November 2017 to August 2020. 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 Board's 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, 2017, all deposits were fully insured and collateralized.

(Continued)

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 4 – CAPITAL ASSETS

The following is a summary of capital assets as of June 30, 2017:

	<u>June 30, 2016</u>	<u>Additions and Transfers</u>	<u>Transfers and Retirements</u>	<u>June 30, 2017</u>
Capital assets not being depreciated				
Land	\$ 584,030	\$ -	\$ -	584,030
CIP	<u>23,207,312</u>	<u>13,291,959</u>	<u>(33,853,272)</u>	<u>2,645,999</u>
Total capital assets not being depreciated	<u>23,791,342</u>	<u>13,291,959</u>	<u>(33,853,272)</u>	<u>3,230,029</u>
Capital assets				
Structures and improvements	17,178,905	23,918,944	-	41,097,849
Plant infrastructure	142,273,866	5,726,778	-	148,000,644
Plant equipment	34,214,076	2,371,168	-	36,585,244
Transport equipment	5,832,198	765,800	(212,190)	6,385,808
Power operated equipment	3,059,966	10,324	-	3,070,290
Lab equipment	55,637	-	-	55,637
Furniture and fixtures	7,188,203	509,280	-	7,697,483
Garage equipment	389,819	5,081	(5,187)	389,713
Computer equipment	3,003,695	147,339	-	3,151,034
Communications equipment	517,309	2,907	-	520,216
Miscellaneous equipment	<u>1,274,086</u>	<u>375,077</u>	<u>-</u>	<u>1,649,163</u>
Total fixed assets	<u>214,987,760</u>	<u>33,832,698</u>	<u>(217,377)</u>	<u>248,603,081</u>
Accumulated depreciation				
Structures and improvements	6,311,921	646,086	-	6,958,007
Plant infrastructure	84,270,771	4,515,513	-	88,786,284
Plant equipment	19,064,172	931,187	-	19,995,359
Transport equipment	3,381,521	439,917	(195,820)	3,625,618
Power operated equipment	2,606,638	175,243	-	2,781,881
Lab equipment	54,001	2,149	-	56,150
Furniture and fixtures	6,964,521	54,220	-	7,018,741
Garage equipment	377,727	1,978	(5,187)	374,518
Computer equipment	2,680,650	137,478	-	2,818,128
Communications equipment	367,240	16,420	-	383,660
Miscellaneous equipment	<u>915,402</u>	<u>73,207</u>	<u>-</u>	<u>988,609</u>
Total	<u>126,994,564</u>	<u>6,993,398</u>	<u>(201,007)</u>	<u>133,786,955</u>
Total depreciable capital assets, net of accumulated depreciation	<u>87,993,196</u>	<u>26,839,300</u>	<u>(16,370)</u>	<u>114,816,126</u>
Net capital assets	<u>\$ 111,784,538</u>	<u>\$ 40,131,259</u>	<u>\$ (33,869,642)</u>	<u>\$ 118,046,155</u>

(Continued)

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 4 – CAPITAL ASSETS (Continued)

The Electric & Water Plant Board has several projects under construction at June 30, 2017. A summary of construction in progress is below:

New telecommunications service	\$ 337,236
Water meter replacement	293,090
Telecommunications node division	245,943
Telecommunications high speed data	223,140
Telecommunications premise equipment	199,366
Telecommunications security	175,752
Water main replacement	112,581
Water projects under \$100,000	430,898
Electric projects under \$100,000	425,416
Telecommunications projects under \$100,000	165,558
Administrative projects under \$100,000	<u>37,019</u>
 Total	 <u>\$ 2,645,999</u>

The estimated cost to complete construction projects under contract was approximately \$210,000 at June 30, 2017.

(Continued)

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 5 – 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%	12/01/2019	\$ 3,410,000
FSN Consolidated Lease Financing	Refinance leases used for improvements and and expansions of the cable telecommunications system	22,937,506	2.85%	03/31/2022	9,512,506
2013 Electric & Water Bonds	Refinance note payable used for major improvement and additions to the electric and water systems	3,920,000	2.00% - 3.50%	12/01.2023	2,835,000
2015A Electric & Water Bonds	Finance the construction of a new administrative building	15,130,000	2.00% - 4.75%	12/01/2040	14,505,000
FSN Third-lien Lease	Finance the construction of a new headend facility and related cable telecommunications 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>
Total Bond Premiums					<u>36,053,034</u> <u>1,054,746</u>
					<u>\$ 37,107,780</u>

Pledged Revenues: Through the various bond financing agreements, the Board has generally pledged available System Revenues (not Full Service Network Revenues) to secure payment associated with the bond issues. Lease financing obligations are subject to rental payments derived from and are secured by a subordinated pledge of the net revenues (after providing for operation and maintenance expenses and a reasonable allowance for depreciation) of the Expanded Systems as defined in the lease agreements. It is reasonably expected that such revenues accumulated for operation and maintenance expenses and a reasonable allowance for depreciation will not have to be used to make rental payments under the Lease.

Financial Covenants: Electric and Water debt service must be at or above a 1.20. After KIA loans, it must be at or above 1.10. Telecommunications debt has a 1.20 debt service coverage per the debt agreements. Debt service coverage is defined as funds available for debt service divided by net revenue before capital contributions. As of June 30, 2017, the Board is in compliance with the debt covenants and reporting requirements.

KIA Notes Payable: In February 2008 the Board entered into a revolving loan fund conditional commitment with KIA for \$6,743,307 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, 2017, the outstanding balance was \$5,020,914. In March 2013, the Board entered into a federally assisted drinking water revolving loan fund conditional commitment for \$2,496,896 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.

(Continued)

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 5 – BONDS, LEASES, LOANS AND KIA PAYABLES (Continued)

For the year ended June 30, 2017, the Board had no draws and KIA granted no debt forgiveness. At June 30, 2017, the outstanding balance was \$2,338,302.

Bonds, leases and KIA payable activity for the year ended June 30, 2017 is as follows:

	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017	Amounts Due Within One Year
Bonds and leases payable					
2009 Electric & Water Bonds	\$ 4,470,000	\$ -	\$ 1,060,000	\$ 3,410,000	\$ 1,095,000
FSN Consolidated Lease	11,512,506	-	2,000,000	9,512,506	2,000,000
2013 Electric & Water Bonds	3,205,000	-	370,000	2,835,000	375,000
2015A Electric & Water bonds	14,880,000	-	375,000	14,505,000	390,000
FSN Third-Lien Lease	<u>5,790,528</u>	-	-	<u>5,790,528</u>	<u>375,000</u>
Total bonds and leases payable	39,858,034	-	3,805,000	36,053,034	4,235,000
Bond Premiums	<u>1,114,985</u>	-	<u>60,239</u>	<u>1,054,746</u>	-
	<u>\$ 40,973,019</u>	<u>\$ -</u>	<u>\$ 3,865,239</u>	<u>\$ 37,107,780</u>	<u>\$ 4,235,000</u>
KIA Loan – chemical feed	\$ 5,341,147	\$ -	\$ 320,233	\$ 5,020,914	\$ 323,441
KIA Loan – generator	<u>2,444,490</u>	-	<u>106,188</u>	<u>2,338,302</u>	<u>108,055</u>
	<u>\$ 7,785,637</u>	<u>\$ -</u>	<u>\$ 426,421</u>	<u>\$ 7,359,216</u>	<u>\$ 431,496</u>

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

	Principal	Interest	Total
2018	\$ 4,235,000	\$ 1,142,962	\$ 5,377,962
2019	4,680,000	1,008,668	5,688,668
2020	4,745,000	845,800	5,590,800
2021	3,590,000	716,294	4,306,294
2022	3,132,506	609,180	3,741,686
2023-2027	5,820,528	2,215,862	8,036,390
2028-2032	2,955,000	1,627,084	4,582,084
2033-2037	3,490,000	1,092,113	4,582,113
2038-2041	<u>3,405,000</u>	<u>258,213</u>	<u>3,663,213</u>
Total	<u>\$ 36,053,034</u>	<u>\$ 9,516,176</u>	<u>\$ 45,569,210</u>

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

	Principal	Interest	Total
2018	\$ 431,496	\$ 89,852	\$ 521,348
2019	436,638	84,710	521,348
2020	441,846	79,503	521,349
2021	447,120	74,228	521,348
2022	452,463	68,886	521,349
2023-2027	2,344,882	261,862	2,606,744
2028-2032	2,302,730	117,592	2,420,322
2033-2037	<u>502,041</u>	<u>17,724</u>	<u>519,765</u>
Total	<u>\$ 7,359,216</u>	<u>\$ 794,357</u>	<u>\$ 8,153,573</u>

(Continued)

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 6 – 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 Pan American 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.

For the year ended June 30, 2017 and 2016, the Board had the following activity related to the future health insurance claims:

	<u>Future Health Insurance Claims</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	334,345
Claims and changes in estimates in FY 2017	2,080,013
Claims paid in FY 2017	<u>(2,074,859)</u>
Liability at June 30, 2017	<u>\$ 339,499</u>

Claims have not exceeded coverage for the last three years.

NOTE 7 – RETIREMENT PLAN

General Information About the Pension Plan: All full-time and eligible part-time employees of the Board participate in the County Employees Retirement System (the CERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky Retirement System (KRS), an agency of the Commonwealth. Under the provisions of Kentucky Revised Statute Section 78.520. The Board of Trustees (the Board) of KRS administers the CERS, Kentucky Employee Retirement System, and State Police Retirement System. Although the assets of the systems are invested as a whole, each system's assets are used only for the payment of benefits to members of that plan, and a pro rata share of administrative costs. More specifically, within the CERS, the Board's employees participate in the Non-Hazardous portion of the Plan. The plan provides for retirement, disability and death benefits to plan members. Retirement benefits may also be extended to beneficiaries of plan members under certain circumstances.

Under the provisions of Kentucky Revised Statute Section 61.701, the Board of KRS also administers the Kentucky Retirement Systems Insurance Fund. The statutes provide for a single insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the three pension funds administered by KRS. The assets of the insurance fund are invested as a whole. The CERS issues a publicly available financial report that includes financial statements and required supplementary information for the CERS.

(Continued)

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 7 – RETIREMENT PLAN (Continued)

The report may be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or it may be found at the KRS website at www.kyret.ky.gov.

Benefits Provided: The information below summarizes the major retirement benefit provisions of CERS-Non-Hazardous. It is not intended to be, nor should it be interpreted as, a complete statement of all benefit provisions:

Members whose participation began before 8/1/2004:

Age and Service Requirement: Age 65 with at least one month of Nonhazardous duty service credit, or at any age with 27 or more years of service credit.

Benefit: If a member has at least 48 months of service, the monthly benefit is 2.20% times final average compensation times years of service depending on participation and retirement dates. Final compensation is calculated by taking the average of the highest five (5) fiscal years of salary. If the number of months of service credit during the five (5) year period is less than forty-eight (48), one (1) or more additional fiscal years shall be used. If a member has less than 48 months of service, the monthly benefit is the actuarial equivalent of two times the member's contributions with interest.

Members whose participation began on or after 8/1/2004, but before 9/1/2008:

Age and Service Requirement: Age 65 with at least one month of Nonhazardous duty service credit, or at any age with 27 or more years of service credit.

Benefit: If a member has at least 48 months of service, the monthly benefit is 2.00% multiplied by final average compensation, multiplied by years of service. Final compensation is calculated by taking the average of the highest five (5) fiscal years of salary. If the number of months of service credit during the five (5) year period is less than forty-eight (48), one (1) or more additional fiscal years shall be used. If a member has less than 48 months of service, the monthly benefit is the actuarial equivalent of two times the member's contributions with interest.

Members whose participation began on or after 9/1/2008 but before 1/1/2014:

Age and Service Requirement: Age 65 with 60 months of Nonhazardous duty service credit, or age 57 if age plus service equals at least 87.

Benefit: The monthly benefit is the following benefit factor based on service credit at retirement plus 2.00% for each year of service greater than 30 years, multiplied by final average compensation, multiplied by years of service.

<u>Service Credit</u>	<u>Benefit Factor</u>
10 years or less	1.10%
10+ - 20 years	1.30%
20+ - 26 years	1.50%
26+ - 30 years	1.75%

Final compensation is calculated by taking the average of the last (not highest) five (5) complete fiscal years of salary. Each fiscal year used to determine final compensation must contain twelve (12) months of service credit.

(Continued)

NOTE 7 – RETIREMENT PLAN (Continued)

Members whose participation began on or after 1/1/2014:

Age and Service Requirement: Age 65 with 60 months of Nonhazardous duty service credit, or age 57 if age plus service equals at least 87.

Benefit: Each year that a member is an active contributing member to the System, the member contributes 5% of creditable compensation, and the member's employer contributes 4.00% of creditable compensation, which is a portion of the total employer contribution, into a hypothetical account. The hypothetical account will earn interest annually on both the member's and employer's contribution at a minimum rate of 4%. If the System's geometric average net investment return for the previous five years exceeds 4%, then the hypothetical account will be credited with an additional amount of interest equal to 75% of the amount of the return, which exceeds 4%. All interest credits will be applied to the hypothetical account balance on June 30 based on the account balance as of June 30 of the previous year. Upon retirement the hypothetical account, which includes member contributions, employer contributions and interest credits, can be withdrawn from the System as a lump sum or annuitized into a single life annuity option.

Contributions: The Board was required to contribute at an actuarially determined rate determined by Statute. Per Kentucky Revised Statute Section 78.545(33) normal contribution and past service contribution rates shall be determined by the KRS Board on the basis of an annual valuation last preceding July 1 of a new biennium. The KRS Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the KRS Board.

For the fiscal years ended June 30, 2017 and 2016, participating employers contributed 18.68% and 17.06% as set by KRS, respectively, of each Nonhazardous employee's creditable compensation. For the fiscal year beginning July 1, 2017, participating employers will contribute 19.18%. These percentages are inclusive of both pension and insurance payments for employers. Administrative costs of KRS are financed through employer contributions and investments earnings.

The Board has met 100% of the contribution funding requirement for the year ended June 30, 2017. Total contributions recognized by the Plan were \$1,615,247 for the fiscal year ending June 30, 2017.

Members whose participation began before 9/1/2008:

Nonhazardous contributions equal 5% of all creditable compensation. Interest paid on the members' accounts is currently 2.5%; and per statute shall not be less than 2.0%. Members are entitled to a full refund of contributions with interest.

Members whose participation began on or after 9/1/2008:

Nonhazardous contributions equal to 6% of all creditable compensation, with 5% being credited to the member's account and 1% deposited to the KRS 401(h) Account. Interest paid on the members' accounts will be set at 2.5%. Member is entitled to a full refund of contributions and interest in their individual account, however, the 1% contributed to the insurance fund is non-refundable.

(Continued)

NOTE 7 – RETIREMENT PLAN (Continued)

Members whose participation on or after 1/1/2014:

Nonhazardous contribution equal to 6% of all creditable compensation, with 5% being credited to the member's account and 1% deposited to the KRS 401(h) Account. Members are entitled to a full refund of contributions and interest on the member's portion of the hypothetical account, however, the 1% contributed to the insurance fund is non-refundable.

2016 Plan Information

Total Pension Liability: The total pension liability ("TPL") was determined as of June 30, 2016 using a standard roll-forward technique based on the actuarial valuation as of June 30, 2015. 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 members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

Discount rate assumptions:

- (a) **Discount rate:** The discount rate used to measure the total pension liability was 7.50%.
- (b) **Projected cash flows:** The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

(Continued)

NOTE 7 – RETIREMENT PLAN (Continued)

- (c) **Long-term rate of return:** The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated 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. 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.
- (d) **Municipal bond rate:** The discount rate determination does not use a municipal bond rate.
- (e) **Periods of projected benefit payments:** Projected future benefit payments for all current plan members were projected through 2117. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.
- (f) **Assumed Asset Allocation:** The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Combined equity	44.00%	5.40%
Combined Fixed Income	19.00%	1.50%
Real Return (Diversified Inflation Strategies)	10.00%	3.50%
Private equity	10.00%	8.50%
Real estate	5.00%	4.50%
Absolute Return (Diversified Hedge Funds)	10.00%	4.25%
Cash Equivalent	2.00%	(0.25%)
Total	100.00%	

The long-term expected rate of return on pension plan assets was established by the KRS Board of Trustees at 7.50% based on a blending of the factors described above.

(Continued)

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 7 – RETIREMENT PLAN (Continued)

(g) **Sensitivity Analysis:** This paragraph requires disclosure of the sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the System, calculated using the discount rate of percent, as well as what the System’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate for non-hazardous:

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Net position liability - Nonhazardous	\$ 30,645,076	\$ 24,591,568	\$ 19,402,506

Employer’s Portion of the Collective Net Pension Liability: The Board’s proportionate share of the net pension liability, as indicated in the prior table, is \$24,591,568, or approximately 0.50%. The liability was distributed based on 2016 actual employer contributions to the plan.

Measurement Date: June 30, 2016 is the measurement date upon which the total pension liability is based, respectively. No update procedures were used to determine the total pension liability.

Changes in Assumptions and Benefit Terms: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have not been updated.

Changes Since Measurement Date: The following changes in the Plan’s assumptions and benefit terms will be comprehended at the next measurement date of June 30, 2017. The impact on the Board’s financial statements from these changes is not known.

- The assumed investment rate of return was decreased from 7.50% to 6.25%
- The salary increase assumption was decreased from 4.00% to 0.00%
- The inflation assumption was decreased from 3.25% to 2.3%

Pension Expense: The Board recognized pension expense of \$3,779,476 for year ending June 30, 2017.

Deferred Outflows and Deferred Inflows: Since certain expense items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense they are labeled as deferred inflows. If they will increase pension expense they are labeled deferred outflows. As noted in the previous section, the amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive System members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five-year period. The following table provides a summary of the deferred inflows and outflows as of the measurement date.

(Continued)

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 7 – RETIREMENT PLAN (Continued)

For year ending June 30, 2017:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 107,361	\$ -
Change of assumptions	1,302,730	-
Changes in proportion and differences between employer contributions and proportionate shares of contributions	264,747	322,420
Differences between expected and actual investment earnings on plan investments	<u>2,311,859</u>	<u>-</u>
	3,986,697	322,420
Contributions subsequent to the measurement date	<u>1,615,247</u>	<u>-</u>
Total	<u>\$ 5,601,944</u>	<u>\$ 322,420</u>

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in the year ending June 30, 2017. The remainder of the deferred outflows and inflows of resources are amortized over five years with remaining amortization as follows:

Deferred amounts to be recognized in fiscal years following the reporting date:

2018	\$ 1,361,096
2019	910,606
2020	886,925
2021	<u>505,650</u>
Total	<u>\$ 3,664,277</u>

Pension Plan Fiduciary Net Position: Detailed information about the pension plans' fiduciary net position is available in the separately issued pension plan financial reports.

Payable to the Pension Plan: At June 30, 2017 and 2016, the Electric & Water Plant Board reported a payable of \$213,368 and \$206,759 (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, 2017 and 2016, respectively.

NOTE 8 – 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.

(Continued)

NOTE 8 – DEFERRED COMPENSATION (Continued)

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.

NOTE 9 – RECENT PRONOUNCEMENTS

Adoption of New Accounting Pronouncements: During fiscal year 2017, the Board adopted GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, issued June 2015. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

GASB Statement No. 77, *Tax Abatement Disclosures*, issued August 2015. This Statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The disclosures required by this Statement encompass tax abatements resulting from both (a) agreements that are entered into by the reporting government and (b) agreements that are entered into by other governments and that reduce the reporting government's tax revenues. The provisions of this Statement should be applied to all state and local governments subject to such tax abatement agreements.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, issued December, 2015. This Statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan).

GASB Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*, issued January 2016. The provisions of this Statement are effective for periods beginning after June 15, 2016. This Statement clarifies that certain component units incorporated as not-for-profit corporations should be blended in the financial statements of the primary state or local government in a manner similar to a department or activity of the primary government. The Statement addresses diversity in practice regarding the presentation of not-for-profit corporations in which the primary government is the sole corporate member.

(Continued)

NOTE 9 – RECENT PRONOUNCEMENTS (Continued)

GASB Statement No. 82, *Pension Issues—An Amendment of GASB Statements No. 67, No. 68, and No. 73*, issued March 2016. This Statement addresses certain issues that have been raised with respect to Statement No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.

Adoption of these statements did not have a significant impact on the Board's financial position or results of operations.

Recent Accounting Pronouncements: The GASB has issued the following statements not yet required to be adopted by the Board that management believes may be relevant to their operations and note disclosures.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued on June 2015. The provisions of this Statement are effective for periods beginning after June 15, 2017. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, issued March 2016. The provisions of this Statement are effective for reporting periods beginning after December 15, 2016. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

GASB Statement No. 83, *Certain Asset Retirement Obligations*, issued November 2016. The provisions of this Statement are effective for reporting periods beginning after June 15, 2018. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

GASB Statement No. 84, *Fiduciary Activities*, issued January 2017. The provisions of this Statement are effective for reporting periods beginning after December 15, 2018. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

GASB Statement No. 85, *Omnibus 2017*, issued March 2017. The provisions of this Statement are effective for reporting periods beginning after June 15, 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits.

(Continued)

NOTE 9 – RECENT PRONOUNCEMENTS (Continued)

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, issued May 2017. The provisions of this Statement are effective for reporting periods beginning after June 15, 2017. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

GASB Statement No. 87, *Leases*, issued June 2017. The provisions of this Statement are effective for periods beginning after December 15, 2019. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The Board's management has not yet determined the effect, if any, these statements will have on the Board's financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
 REQUIRED SUPPLEMENTAL INFORMATION
 SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 June 30, 2017

	2017	2016	2015
Board's proportion of the net pension liability	0.50%	0.51%	0.49%
Board's proportionate share of the net pension liability	\$ 24,591,568	\$ 21,991,771	\$ 16,041,000
Board's covered payroll	\$ 11,914,702	\$ 11,431,022	\$ 11,992,713
Board's proportion of the net pension liability as a percentage of its covered payroll	206.40%	192.39%	133.76%
Plan fiduciary net position as a percentage of the total pension liability	55.50%	59.97%	66.80%

* The amounts presented for each fiscal year were determined as of the year end that occurred one year prior.

** This is a ten-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until ten years of information is available.

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
 REQUIRED SUPPLEMENTAL INFORMATION
 SCHEDULE OF THE BOARD'S PENSION CONTRIBUTIONS
 June 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 1,615,247	\$ 1,479,545	\$ 1,521,452
Contributions in relation to the statutorily required contribution	<u>(1,615,247)</u>	<u>(1,479,545)</u>	<u>(1,521,452)</u>
Annual contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Board's contributions as a percentage of statutorily required contribution for pension	100.00%	100.00%	100.00%
Board's covered payroll	\$ 11,484,973	\$ 11,914,702	\$ 11,431,022
Contributions as a percentage of its covered payroll	14.06%	12.42%	13.31%

* This is a ten-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until ten years of information is available.

Changes in Assumptions and Benefit Terms:

2016: There were no changes in assumptions and benefit terms since the prior measurement date.

2015: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as described in Schedule D of the CERS actuary report. The changes are noted below:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

SUPPLEMENTARY INFORMATION

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
 COMBINING STATEMENT OF NET POSITION – ELECTRIC & WATER, TELECOMMUNICATIONS
 June 30, 2017

	<u>Electric & Water</u>	<u>Telecommunications</u>	<u>Total</u>
ASSETS			
Current assets			
Unrestricted cash and cash equivalents	\$ 9,625,539	\$ 6,173,197	\$ 15,798,736
Accounts receivable, net	10,227,950	2,433,599	12,661,549
Inventory	3,510,078	874,067	4,384,145
Prepaid expenses	<u>407,633</u>	<u>186,109</u>	<u>593,742</u>
Total current assets	23,771,200	9,666,972	33,438,172
Noncurrent assets			
Unrestricted investments	5,416,769	1,644,236	7,061,005
Restricted cash reserves	1,447,958	-	1,447,958
Restricted investments	2,657,113	184,606	2,841,719
Property, plant and equipment, net	<u>91,262,366</u>	<u>26,783,789</u>	<u>118,046,155</u>
Total noncurrent assets	<u>100,784,206</u>	<u>28,612,631</u>	<u>129,396,837</u>
Total assets	<u>124,555,406</u>	<u>38,279,603</u>	<u>162,835,009</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amounts from pension	<u>3,154,313</u>	<u>2,447,631</u>	<u>5,601,944</u>
Total assets and deferred outflows of resources	<u>\$ 127,709,719</u>	<u>\$ 40,727,234</u>	<u>\$ 168,436,953</u>
LIABILITIES AND NET POSITION			
Current liabilities			
Accounts payables and accrued expenses	\$ 12,134,770	\$ 2,337,302	\$ 14,472,072
Customer deposits	2,405,940	44,680	2,450,620
Unearned revenues	-	2,017,198	2,017,198
Bonds and leases payable due in one year	1,920,239	2,375,000	4,295,239
KIA notes payable due in one year	<u>431,496</u>	<u>-</u>	<u>431,496</u>
Total current liabilities	16,892,445	6,774,180	23,666,625
Long-term liabilities			
Net pension liability	13,898,123	10,693,445	24,591,568
Long-term debt			
Bonds and leases payable	19,884,507	12,928,034	32,812,541
KIA notes payable	<u>6,927,720</u>	<u>-</u>	<u>6,927,720</u>
Total long-term liabilities	<u>40,710,350</u>	<u>23,621,479</u>	<u>64,331,829</u>
Total liabilities	57,602,795	30,395,659	87,998,454
DEFERRED INFLOWS OF RESOURCES			
Deferred amounts from pension	<u>171,024</u>	<u>151,396</u>	<u>322,420</u>
Total liabilities and deferred inflows of resources	<u>\$ 57,773,819</u>	<u>\$ 30,547,055</u>	<u>\$ 88,320,874</u>
NET POSITION			
Net investment in capital assets	\$ 62,098,404	\$ 11,480,755	\$ 73,579,159
Restricted for debt retirement	3,699,724	-	3,699,724
Restricted for retirement plans	287,847	184,606	472,453
Restricted for KIA loan covenant	117,500	-	117,500
Unrestricted	<u>3,732,425</u>	<u>(1,485,182)</u>	<u>2,247,243</u>
Total net position	<u>69,935,900</u>	<u>10,180,179</u>	<u>80,116,079</u>
Total liabilities and deferred inflows of resources and net position	<u>\$ 127,709,719</u>	<u>\$ 40,727,234</u>	<u>\$ 168,436,953</u>

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, 2017

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Operating Revenues			
Electric	\$ 61,132,824	\$ 59,272,311	\$ (1,860,513)
Water	10,541,540	11,384,792	843,252
Telecommunications	<u>28,928,831</u>	<u>28,068,001</u>	<u>(860,830)</u>
Total operating revenues	<u>100,603,195</u>	<u>98,725,104</u>	<u>(1,878,091)</u>
Operating Expenses			
Electric	60,577,454	58,583,659	1,993,795
Water	9,725,821	9,187,216	538,605
Telecommunications	<u>24,707,235</u>	<u>25,507,277</u>	<u>(800,042)</u>
Total operating expenses	<u>95,010,510</u>	<u>93,278,152</u>	<u>1,732,358</u>
Net income from operations	5,592,685	5,446,952	(145,733)
Non-operating Revenues (Expenses)			
Other revenue	821,219	894,793	73,574
Interest expense	(1,466,210)	(929,689)	536,521
Retirement plan net loss	-	(4,141)	(4,141)
Gain on sale of fixed assets	<u>-</u>	<u>32,173</u>	<u>32,173</u>
Total non-operating revenues	<u>(644,991)</u>	<u>(6,864)</u>	<u>638,127</u>
Income before capital contributions	4,947,694	5,440,088	492,394
Capital contributions	<u>213,700</u>	<u>1,700,771</u>	<u>1,487,071</u>
Change in net position	5,161,394	7,140,859	1,979,465
Net position – beginning of year	<u>72,975,220</u>	<u>72,975,220</u>	<u>-</u>
Net position – end of year	<u>\$ 78,136,614</u>	<u>\$ 80,116,079</u>	<u>\$ 1,979,465</u>

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, 2017

	<u>Electric</u>	<u>Water</u>	<u>Telecommunications</u>	<u>Total</u>
Operating Revenues				
Electric	\$ 59,272,311	\$ -	\$ -	\$ 59,272,311
Water	-	11,384,792	-	11,384,792
Telecommunications	-	-	28,068,001	28,068,001
Total operating revenues	<u>59,272,311</u>	<u>11,384,792</u>	<u>28,068,001</u>	<u>98,725,104</u>
Operating Expenses				
Electric	58,583,659	-	-	58,583,659
Water	-	9,187,216	-	9,187,216
Telecommunications	-	-	25,507,277	25,507,277
Total operating expenses	<u>58,583,659</u>	<u>9,187,216</u>	<u>25,507,277</u>	<u>93,278,152</u>
Net income from operations	688,652	2,197,576	2,560,724	5,446,952
Non-operating Revenues (Expenses)				
Other revenue	224,214	259,159	411,420	894,793
Interest expense	(32,843)	(366,178)	(530,668)	(929,689)
Retirement plan net loss	(1,225)	(1,223)	(1,693)	(4,141)
Gain on sale of fixed assets	<u>20,132</u>	<u>2,404</u>	<u>9,637</u>	<u>32,173</u>
Total non-operating revenues (expenses)	<u>210,278</u>	<u>(105,838)</u>	<u>(111,304)</u>	<u>(6,864)</u>
Income before capital contributions	<u>\$ 898,930</u>	<u>\$ 2,091,738</u>	<u>\$ 2,449,420</u>	<u>\$ 5,440,088</u>

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
STATEMENT OF OPERATING EXPENSES – BUDGET TO ACTUAL
Year ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Electric Division			
Electricity purchased	\$ 49,716,772	\$ 47,465,496	\$ 2,251,276
Operating	7,103,381	7,252,756	(149,375)
General and administrative	900,267	920,396	(20,129)
Board of directors	67,473	101,715	(34,242)
Customer service	749,505	746,066	3,439
Finance	236,886	258,548	(21,662)
Fleet services	337,282	300,813	36,469
Human services	116,387	122,136	(5,749)
Information technology	383,134	369,349	13,785
Meter reading	347,889	404,003	(56,114)
Safety	71,465	66,908	4,557
Support services	<u>547,013</u>	<u>575,473</u>	<u>(28,460)</u>
Total operating expenses – Electric Division	<u>\$ 60,577,454</u>	<u>\$ 58,583,659</u>	<u>\$ 1,993,795</u>
Water Division			
Water Treatment	\$ 1,806,011	\$ 1,719,334	\$ 86,677
Water distribution	2,102,227	1,803,972	298,255
Operating	3,059,259	2,857,335	201,924
General and administrative	803,637	812,895	(9,258)
Board of directors	12,007	18,101	(6,094)
Customer service	355,609	353,977	1,632
Finance	160,366	175,031	(14,665)
Fleet services	284,332	253,588	30,744
Human resources	114,339	119,986	(5,647)
Information technology	335,535	323,463	12,072
Meter reading	266,647	309,657	(43,010)
Safety	70,208	65,730	4,478
Support services	<u>355,644</u>	<u>374,147</u>	<u>(18,503)</u>
Total operating expenses – Water Division	<u>\$ 9,725,821</u>	<u>\$ 9,187,216</u>	<u>\$ 538,605</u>
Telecommunications Division			
Operating	\$ 20,806,663	\$ 21,594,994	\$ (788,331)
General and administrative	1,036,597	1,040,824	(4,227)
Board of directors	34,765	52,408	(17,643)
Customer service	899,447	895,319	4,128
Finance	203,371	221,969	(18,598)
Fleet services	161,670	144,189	17,481
Human resources	196,070	205,755	(9,685)
Information technology	841,958	811,665	30,293
Safety	120,393	112,715	7,678
Support services	<u>406,301</u>	<u>427,439</u>	<u>(21,138)</u>
Total operating expenses – Telecommunications Division	<u>\$ 24,707,235</u>	<u>\$ 25,507,277</u>	<u>\$ (800,042)</u>

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 the 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, 2017, 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 17, 2017.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings as item 2017-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Board's Response to Findings

The Board's response to the findings identified in our audit are described in the accompanying Schedule of Findings. The Board's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting 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.

Crowe Horwath LLP
Crowe Horwath LLP

Louisville, Kentucky
October 17, 2017

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
STATEMENT OF FINDINGS
Year ended June 30, 2017

Findings in internal control over financial reporting:

2017-001: Information Technology Environment

Criteria: In order to rely on the financially significant information technology systems, the Board should have an internal control structure that is operating effectively.

Condition: Based on our procedures performed over the information technology control environment, we noted several individual deficiencies in internal control, that, when viewed collectively, constitute a significant deficiency in internal control.

- Management has not established an IT Strategic Plan, Change Management Policy, Information Security Policy, and Incident Policy.
- We noted occasions for each of the CIBS and Solomon systems where changes were applied into production without formal documentation regarding management approvals.
- Application, operating system and database logs are not formally reviewed by management.
- Management has not established a formal process to review CIBS and Solomon users and their associated roles.
- We noted an instance where an account with financial reporting responsibilities that also had inappropriate admin permission and access.
- We noted instances where user accounts have inappropriate access to various databases, operating systems and folders, which may lead to unauthorized changes from being detected before being applied to production. Additionally, we noted that CIBS production directories are not monitored.
- The domain password settings are not aligned with the industry best practices which can increase the risk of unauthorized user access both internally and externally.

Cause: There are a lack of policies over the internal controls of information technology system

Effect: As a result of the conditions noted above, the information contained on the information technology systems, as well as the reports that they produce could be inaccurate or misstated.

Recommendation: We recommend that management institute new policies for appropriate review and approval of change management requests, ensure that access is timely and properly added or removed for new and terminated user accounts, respectively, so that accounts are given the appropriate level of access to various applications, operating systems and databases, and upgrade password parameters to be aligned with industry best practices. All user access request forms should be maintained and approved by the appropriate IT personnel. Management should regularly review user access rights to ensure user account permissions are appropriate based on the user's position and proper segregation of duties are maintained.

Management's Response:

- IT will continue to work on formalizing policies around these topics. Some of these policies exist today in "DRAFT" form and need to be revised and adopted. IT is currently developing a Cyber Incident Response Plan to complement these policies.
- IT has identified the noted occasions as a "hotfix" (unplanned release) of CIBS to resolve an issue that was missed during testing and the other was a Solomon update performed by our vendor. As part of the Change Management Policy, additional controls will be implemented to address this issue.

- IT often reviews these logs when troubleshooting and will work on formalizing an internal process to review them on a regular schedule.
- IT requires approval from management staff before granting or changing user access to these systems. IT will work on formalizing the process.
- IT will work on creating an internal process to review user access on a regular schedule.
- IT development staff has access to these areas in order to maintain these environments. The Change Management Policy will include additional controls to address this issue.
- IT will evaluate today's evolving password best practices and look for ways to improve our own domain password setting.

As anticipated, switching to a new auditing firm (Crowe Horwath LLP) to review our policies and processes has identified some areas that need improvement most of which involve strengthening some of today's processes or developing additional policies. IT recognizes the importance of these audits and welcomes them as an opportunity to improve our processes and policies. IT will work to implement the recommendations provided as we progress with this new partnership.