

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

FINANCIAL STATEMENTS

June 30, 2018

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

FINANCIAL STATEMENTS
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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 years ended June 30, 2018, 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, 2018, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended June 30, 2018, the Board adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, which resulted in a restatement of the Board's July 1, 2017 net position in the amount of (\$6,891,963). Our opinion is not modified with respect to this matter.

(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, 2017, from which the summarized information was derived.

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 35, and the Schedule of the Board's Contributions on page 36, the Schedule of the Board's Proportionate Share of the Net OPEB Liability on page 37, and the Schedule of the Board's OPEB Contributions on page 38 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 39 through 42 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 September 20, 2018 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 LLP

Louisville, Kentucky
September 20, 2018

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

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, 2018 and 2017. 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 \$3,841,594 during fiscal year 2018 compared to an increase of \$7,140,859 during fiscal year 2017. July 1, 2017 net position was restated for the implementation of GASB 75, resulting in a decrease \$6,891,963.

Revenues

- Total operating revenues were \$102,624,681 for fiscal year 2018 compared to \$98,725,104 for fiscal year 2017.

Expenses

- Operating expenses were \$99,685,140 for fiscal year 2018 compared to \$93,278,152 for fiscal year 2017.

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 FY18. 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 FY18 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, 2018

The Notes to the 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, 2018</u>	<u>June 30, 2017</u>	<u>Change</u>	<u>% Change</u>
Current and other assets	\$ 51,937,506	\$ 44,788,854	\$ 7,148,652	15.96%
Capital assets, net	<u>116,960,820</u>	<u>118,046,155</u>	<u>(1,085,335)</u>	<u>(0.92%)</u>
Total assets	168,898,326	162,835,009	6,063,317	3.72%
Deferred outflows of resources	<u>10,092,041</u>	<u>5,601,944</u>	<u>4,490,097</u>	<u>80.15%</u>
Total assets and deferred outflows	178,990,367	168,436,953	10,553,414	6.27%
Current and other liabilities	24,664,528	23,666,625	997,903	4.22%
Long-term liabilities	<u>75,173,002</u>	<u>64,331,829</u>	<u>10,841,173</u>	<u>16.85%</u>
Total liabilities	99,837,530	87,998,454	11,839,076	13.45%
Deferred inflows of resources	<u>2,087,127</u>	<u>322,420</u>	<u>1,764,707</u>	<u>547.33%</u>
Total liabilities and deferred inflows	101,924,657	88,320,874	13,603,783	15.40%
Net investment in capital assets	73,573,046	73,490,831	82,215	0.11%
Restricted	4,244,546	4,289,677	(45,131)	(1.05%)
Unrestricted	<u>(751,882)</u>	<u>2,335,571</u>	<u>(3,087,453)</u>	<u>(132.19%)</u>
Total net position	<u>\$ 77,065,710</u>	<u>\$ 80,116,079</u>	<u>\$ (3,050,369)</u>	<u>(3.81%)</u>

Assets and Deferred Outflows of Resources

The Board's total assets and deferred outflows of resources increased \$10,553,414 from fiscal year 2017. The statement of net position indicates the most significant changes were in cash and deferred amounts from pension. Cash increased due to the final draw on the FSN Third-Lien Lease funds for the telecommunications headend and infrastructure improvement project, as well as, the timing of reinvesting proceeds from a CD that matured. Deferred outflows of resources are comprised of deferred outflows for both pension and Other Post-Employment Benefits (OPEB). Deferred amounts, which are employer pension and OPEB contributions subsequent to the measurement date of the net pension and OPEB liability, increased year over year. This was the first year the Board implemented Government Accounting Standards Board (GASB) 75.

Liabilities and Deferred Inflows of Resources

The Board's total liabilities and deferred inflows of resources increased \$13,603,783 from fiscal year 2017 due primarily to changes related to our pension and OPEB liabilities that were booked in accordance with GASB 68 and GASB 75. The Board's net pension and OPEB liabilities increased \$12,808,578 from the prior year. See Note 7 of this report for more information on the change in net pension and OPEB liabilities.

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ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

Net Position

The Board's assets and deferred outflows exceeded its liabilities and deferred inflows by \$77,065,710 at the end of fiscal year 2018. This represents an increase of \$3,841,594 from fiscal year 2017.

The vast majority of the Board's net position is invested in capital assets, such as electric transmission and distribution facilities, water treatment and distribution assets, and telecommunication equipment and infrastructure, less any related debt used to acquire such assets that remain outstanding as of the end of the fiscal year.

Statement of Revenues, Expenses and Changes in Net Position

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Change</u>	<u>% Change</u>
Operating revenues	\$ 102,624,681	\$ 98,725,104	\$ 3,899,577	3.95%
Operating expenses	<u>99,685,140</u>	<u>93,278,152</u>	<u>6,406,988</u>	<u>6.87%</u>
Net income from operations	2,939,541	5,446,952	(2,507,411)	(46.03%)
Net non-operating revenue (expenses)	(875,276)	(6,864)	(868,412)	12651.69%
Capital contributions	1,777,329	1,700,771	76,558	4.50%
Restatement for GASB 75 implementation	<u>(6,891,963)</u>	<u>-</u>	<u>(6,891,963)</u>	<u>N/A</u>
Change in net position	<u>\$ (3,050,369)</u>	<u>\$ 7,140,859</u>	<u>\$ (10,191,228)</u>	<u>(142.72%)</u>

Revenues

Operating revenues in 2018 increased by \$3,899,577 or 3.95% compared to operating revenues in 2017 of \$98,725,104. This increase in revenue is primarily due to increases in electric revenue due to 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.

Expenses

Operating expenses increased in 2018 compared to 2017 by \$6,406,988 or 6.87% to \$99,685,140. This increase is mainly due to a \$4,082,243 increase in wholesale power supply cost, which equates to an 8.6% increase from the prior year.

Non-operating revenues (expenses) ended the year with a net expense of \$875,276, which was an increase over the prior year of \$868,412 due to increases in interest expense and loss on sale of fixed assets. In fiscal year 2017, interest expense on the FPB's administration building was capitalized as part of the construction cost, whereas all of the interest in fiscal year 2018 was recorded as expense due to project completion. In fiscal year 2018, we removed a newly erected parking lot structure that had a net book value of \$392,867 resulting in a loss being recorded on the books.

BUDGET

Every year, the Board approves a one-year budget and an 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 what will impact the financial performance of the Board. The budget and financial plan includes a comprehensive capital plan and cash reserve estimate based on projected financial performance. Budget verses actual financial reports are reviewed regularly by the Board and are presented in the supplementary information section of this report for the year ended June 30, 2018.

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ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

CAPITAL ASSETS

The Board's investments in capital assets, net of accumulated depreciation, amounted to \$116,960,820 as of June 30, 2018 and \$118,046,155 as of June 30, 2017. This includes investment in electric, water, and telecommunications plant 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 the fiscal year ending June 30, 2018:

	<u>June 30, 2017</u>	<u>Additions and and Transfers</u>	<u>Transfers and Retirements</u>	<u>June 30, 2018</u>
Capital assets	\$ 248,603,081	\$ 6,080,354	\$ (627,993)	\$ 254,055,442
Accumulated depreciation	(133,786,955)	(7,418,786)	235,125	(140,970,616)
Non-depreciable capital assets	<u>3,230,029</u>	<u>6,745,277</u>	<u>(6,099,312)</u>	<u>3,875,994</u>
Capital assets, net	<u>\$ 118,046,155</u>	<u>\$ 5,406,845</u>	<u>\$ (6,492,180)</u>	<u>\$ 116,960,820</u>

Major capital assets events during the current fiscal year included:

Electric Division

- Distribution substation improvements – replacements of 15kv distribution breakers, 15kv series main breakers, 15kv distribution switches, 69kv switches
- Installed security system at Capital Plaza and State Farm substations
- Multiple overhead re-conductor projects
- Converted Catfish Alley from overhead feeder lines to URD feeder lines
- Completed phase two of voltage conversion from 8.3kv to 13.2kv
- Overall general distribution system improvements
- Replaced one bucket truck
- Spill Prevention Containment Control (SPCC) improvements at service center transformer storage area

Water Division

- Meter replacement
- New services
- Valve replacement
- Leestown Lane water line replacement
- First-Swigert-Noel-Grand Avenue water line replacement
- Old Taylor Distillery waterline
- Overall distribution upgrades and improvements
- Water Treatment Plant (WTP) high service pump surge control valves
- WTP outside chlorine generation cells

Telecommunications Division

- Headend and plant upgrade
- Modem Change-out and whole home WIFI product offering
- On premise customer equipment
- Fiber to the Home Engineering
- Embedded Multimedia Terminal Adapter (EMTA) phone unit upgrades
- Headend Equipment upgrades
- Replaced one bucket truck, two pickup trucks, and one installation van

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ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2018

LONG-TERM DEBT

As of June 30, 2018 and 2017, the Board had long-term bonds outstanding in the amount of \$19,884,507 and \$21,804,746, respectively including the unamortized bond premiums associated with these bonds. This total is composed of Electric and Water Revenue Bonds Series 2009, Series 2013, and Series 2015A with year-end balances of \$2,333,584, \$2,478,269, and \$15,072,654, respectively, including the unamortized bond premium. These bonds are payable solely from the net revenues of the combined electric and water system.

The Board has two long-term lease financings outstanding with United Bank in Frankfort, Kentucky. The original proceeds were used for Full Service Network (FSN) improvements and expansions in the system. There was an additional \$3,209,472 drawn down on the FSN Third-Lien lease during the fiscal year ending June 30, 2018. As of June 30, 2018, the outstanding balances were \$7,512,506 for the FSN consolidated lease and \$8,625,000 for the FSN third-lien lease. For the prior year ending June 30, 2017, the balances were \$9,512,506 and \$5,790,528 respectively.

The Board also has two outstanding loans from the Kentucky Infrastructure Authority (KIA). As of June 30, 2018, the chemical feed process upgrade loan had a balance of \$4,697,471 and the generator loan had a balance of \$2,230,249. For the prior year ending June 30, 2017, the outstanding balances were \$5,020,914 and \$2,338,302 respectively. 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 (including unamortized bond premium), leases, and KIA loans payable activity for the year ended June 30, 2018:

<u>Debt Description</u>	<u>Balance June 30, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2018</u>	<u>Principal Due</u>
Bonds and leases payable	\$ 37,107,780	\$3,209,472	\$ (4,295,239)	\$ 36,022,013	\$ 4,680,000
KIA loans	<u>7,359,217</u>	<u>-</u>	<u>(431,497)</u>	<u>6,927,720</u>	<u>436,638</u>
Total	<u>\$ 44,466,997</u>	<u>\$3,209,472</u>	<u>\$ (4,726,736)</u>	<u>\$ 42,949,733</u>	<u>\$ 5,116,638</u>

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

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. The electric division will continue to perform upgrades of transmission/distribution lines and facilities, specifically breaker replacements 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, less redundancy and improved efficiencies.

In fiscal year 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 project that has spanned over 30 years. The goal was to improve voltage quality, load capacity and switching flexibility. It will also reduce transformer costs with dual wound transformers and inventory costs by no longer having to maintain inventory levels for multiple voltage equipment.

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ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

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

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

Water

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

- Enhance water quality and flow characteristics through the systematic elimination of dead ends, the replacement of deteriorating mains, and the addition of mixing systems in our storage tanks
- Begin the Reservoir Replacement project in fiscal year 2019
- Continue to replace aging subsystems at the water treatment plant
- Implement Advanced Metering Infrastructure (AMI) with initial field installation and acceptance testing scheduled to be complete by end of fiscal year 2019

Replacing the reservoir is a major water infrastructure project that will require additional financing to complete. There is no additional financing scheduled for the water division in this five year plan. The Electric & Water Revenue Bonds, Series 2009 that were issued to complete water infrastructure projects will be paid off in December 2019. 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 cash reserve level goals and higher debt service requirements through December 2019 due to debt financed capital additions. In addition to rising operational costs, the water division has continued to see water consumption drop year over year due to customer conservation efforts, more efficient appliances and sewer rates linked to water usage that are over 40% higher than the water rate for average residential monthly usage. Based on these challenges, the need to implement regular rate adjustments annually is anticipated.

Telecommunications

The primary goal of the Telecommunications division is to meet the existing and anticipated future demands for services while assuring quality, reliable, and economical services. In order to accomplish this goal the division will be completing outside plant infrastructure improvements to our existing Hybrid-Fiber-Coax (HFC), in addition to, engineering and designing FPB's next generation Fiber-to-the-Home network.

The HFC network improvements details and benefits include the following:

- Immediate improvements to the current HFC network include replacing approximately 2,700 end-of-life and obsolete amplifiers and line extenders that can no longer provide reliable service to FPB's 17,200 cable TV, broadband and telephone customers. Many of the existing components were placed in service between 1999 and 2003 with a design life expectancy of 10 years. The initial manufacturer of the equipment has gone out of business and spare parts are non-existent.
- The improvements will improve signal quality of the cable TV, broadband and telephone service to the household or business. The replacement amplifiers and line extenders have a higher signal capability making the quality better to the subscriber.

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ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

- The replacement amplifiers and line extenders operate at 1 Gigahertz whereas the existing equipment operates at 750 Megahertz (MHz). This additional 250 MHz of spectrum will allow FPB to provide more Internet capacity and faster Internet speeds to our customers. After the new equipment is installed and the new spectrum is activated, the network will have the capability of delivering more than 1,200 megabits per second per neighborhood without sacrificing video programming.
- The upgrades will allow FPB more time to develop plans for a Fiber-to-the-Home network and implement those plans in a fiscally responsible way.

The second major capital project for the 2018-2019 fiscal year will be the engineering and design of a Master Plan for a Fiber-to-the-Home (FTTH) network. This FTTH infrastructure will position FPB's telecommunications division for at least 30 years with a low-maintenance fiber optic network that will have the immediate bandwidth capacity to handle all modes of digital video, data and voice traffic. The FTTH network will have the flexibility to easily increase bandwidth capacities to satisfy future customer demand by replacing end-point electronic components at a reasonable cost, which can be done network-wide or for individual customers or classes of customers. This design phase is currently underway and is expected to be complete toward the end of calendar 2018.

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 The Electric and 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 at 151 Flynn Avenue, Frankfort, Kentucky.

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2018
(With Summarized Financial Information as of June 30, 2017)

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets		
Unrestricted cash and cash equivalents	\$ 25,411,383	\$ 15,798,736
Accounts receivable, net	12,652,472	12,661,549
Inventory	3,695,498	4,384,145
Prepaid expenses	<u>564,413</u>	<u>593,742</u>
Total current assets	42,323,766	33,438,172
Noncurrent assets		
Unrestricted investments	5,369,194	7,061,005
Restricted cash reserves	1,404,895	1,447,958
Restricted investments	2,839,651	2,841,719
Depreciable capital assets, net of accumulated depreciation	113,084,826	114,816,126
Capital assets not being depreciated	<u>3,875,994</u>	<u>3,230,029</u>
Total noncurrent assets	<u>126,574,560</u>	<u>129,396,837</u>
Total assets	168,898,326	162,835,009
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amounts from pension	7,333,684	5,601,944
Deferred amounts from other postemployment benefits	<u>2,758,357</u>	-
Total deferred outflows of resources	<u>10,092,041</u>	<u>5,601,944</u>
Total assets and deferred outflows of resources	<u>\$ 178,990,367</u>	<u>\$ 168,436,953</u>
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable and accrued expenses	\$ 14,831,956	\$ 14,472,072
Customer deposits	2,677,914	2,450,620
Unearned revenues	1,977,781	2,017,198
Bonds and leases payable due in one year	4,740,239	4,295,239
KIA notes payable due in one year	<u>436,638</u>	<u>431,496</u>
Total current liabilities	24,664,528	23,666,625
Long-term liabilities		
Net pension liability	27,838,798	24,591,568
Net OPEB liability	9,561,348	-
Long-term debt		
Bonds and leases payable	31,281,774	32,812,541
KIA notes payable	<u>6,491,082</u>	<u>6,927,720</u>
Total long-term liabilities	<u>75,173,002</u>	<u>64,331,829</u>
Total liabilities	99,837,530	87,998,454
DEFERRED INFLOWS OF RESOURCES		
Deferred amounts from pension	1,586,522	322,420
Deferred amounts from other postemployment benefits	<u>500,605</u>	-
Total deferred inflows of resources	<u>2,087,127</u>	<u>322,420</u>
Total liabilities and deferred inflows of resources	<u>\$ 101,924,657</u>	<u>\$ 88,320,874</u>
NET POSITION		
Net investment in capital assets	73,573,046	73,490,831
Restricted for debt retirement	3,637,235	3,699,724
Restricted for retirement plans	462,311	472,453
Restricted for KIA loan covenant	<u>145,000</u>	<u>117,500</u>
Total restricted net position	4,244,546	4,289,677
Unrestricted	<u>(751,882)</u>	<u>2,335,571</u>
Total net position	<u>77,065,710</u>	<u>80,116,079</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 178,990,367</u>	<u>\$ 168,436,953</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, 2018
(With Summarized Financial Information for the Year Ended June 30, 2017)

	<u>2018</u>	<u>2017</u>
Operating Revenues		
Electric	\$ 63,649,432	\$ 59,272,311
Water	11,563,794	11,384,792
Telecommunications	<u>27,411,455</u>	<u>28,068,001</u>
Total operating revenues	<u>102,624,681</u>	<u>98,725,104</u>
Operating Expenses		
Electric	63,160,451	58,583,659
Water	10,660,179	9,187,216
Telecommunications	<u>25,864,510</u>	<u>25,507,277</u>
Total operating expenses	<u>99,685,140</u>	<u>93,278,152</u>
Net income from operations	2,939,541	5,446,952
Non-operating Revenues (Expenses)		
Other revenue	797,960	894,793
Interest expense	(1,311,726)	(929,689)
Retirement plan net gain (loss)	(15,430)	(4,141)
Gain (loss) on sale of fixed assets	<u>(346,080)</u>	<u>32,173</u>
Total non-operating revenues (expenses)	<u>(875,276)</u>	<u>(6,864)</u>
Income before capital contributions	2,064,265	5,440,088
Capital contributions	<u>1,777,329</u>	<u>1,700,771</u>
Change in net position	3,841,594	7,140,859
Net position – beginning of year	80,116,079	72,975,220
Restatement for GASB 75 implementation	<u>(6,891,963)</u>	<u>-</u>
Net position – beginning of year, as restated	<u>73,224,116</u>	<u>72,975,220</u>
Net position – end of year	<u>\$ 77,065,710</u>	<u>\$ 80,116,079</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, 2018
(With Summarized Financial Information for the Year Ended June 30, 2017)

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Cash received from users and customers	\$ 102,650,959	\$ 100,310,682
Cash payments to and on behalf of employees for services and benefits	(20,628,374)	(18,976,105)
Cash payments to suppliers of goods and services	<u>(66,840,683)</u>	<u>(67,122,233)</u>
Net cash provided by operating activities	15,181,902	14,212,344
Cash Flows from Capital and Related Financing Activities		
Purchases of capital assets	(5,298,017)	(12,590,610)
Proceeds from sale of capital assets	46,787	47,315
Principal paid on debt obligations	(4,666,496)	(4,291,659)
Interest paid on debt obligations	(1,317,362)	(934,937)
Proceeds from debt obligations	<u>3,209,472</u>	<u>-</u>
Net cash used by capital and related financing activities	(8,025,616)	(17,769,891)
Cash Flows from Noncapital Financing Activities		
Cash received from other non-operating revenues	<u>619,946</u>	<u>1,570,951</u>
Cash Flows from Investing Activities		
Receipt of interest	100,574	76,828
Purchase/sales of investments, net	<u>1,692,778</u>	<u>(2,853,000)</u>
Net cash provided by (used by) investment activities	<u>1,793,352</u>	<u>(2,776,172)</u>
Net change in cash and cash equivalents	9,569,584	(4,762,768)
Cash and cash equivalents, beginning of year	<u>17,246,694</u>	<u>22,009,462</u>
Cash and cash equivalents, end of year	<u>\$ 26,816,278</u>	<u>\$ 17,246,694</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 2,939,541	\$ 5,446,952
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,418,787	6,993,398
Bad debts	297,296	193,971
Change in assets and liabilities:		
Accounts receivable	9,077	2,398,832
Inventory	688,647	70,888
Prepaid expenses	29,329	(109,763)
Accounts payable and accrued expenses	359,884	(2,809,465)
Customer deposits	227,294	160,866
Unearned revenue	(39,417)	(31,024)
Net pension liability	3,247,230	2,599,797
Net OPEB liability	2,061,712	-
Deferred outflows and deferred inflows of resources – Pension	(467,638)	(762,376)
Deferred outflows and deferred inflows of resources – OPEB	(1,650,079)	-
Unamortized bond premium	<u>60,239</u>	<u>60,268</u>
Net cash provided by operating activities	<u>\$ 15,181,902</u>	<u>\$ 14,212,344</u>
Supplemental Disclosure of Noncash Capital and Related Financing Activities		
Contributed capital assets	<u>\$ 1,777,329</u>	<u>\$ 1,700,771</u>
Capital asset acquisitions in accounts payable	<u>\$ 438,041</u>	<u>\$ 88,328</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, 2017, 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.

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.

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the 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.

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.

(Continued)

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2018:

Billed user fees, net	\$ 7,388,960
Unbilled user fees	4,887,005
Advertising	140,746
Other	228,529
Interest	<u>7,232</u>
Accounts receivable, net	<u>\$ 12,652,472</u>

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, 2018 was \$283,920.

(Continued)

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 manner or 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 during the year ended June 30, 2018.

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.

Pensions and Other Postemployment Benefits ("OPEB")

For purposes of measuring the net pension and OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to or deductions from the CERS fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

(Continued)

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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>2018</u>
Revenue Bond Sinking Reserve	\$ 3,637,235
Retirement Plan Assets (frozen retirement plan)	462,311
KIA loan covenant	<u>145,000</u>
Total restricted net position	<u>\$ 4,244,546</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.

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.

(Continued)

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Pronouncements: During fiscal year 2018, the Board adopted the following accounting pronouncements:

- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, issued March 2016.
- GASB Statement No. 85, *Omnibus 2017*, issued March 2017.
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, issued May 2017.

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

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued on June 2015 aims to improve 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 government employers regarding financial support for OPEB that is provided by other entities.

Adoption of this statement had a significant impact on the Board's financial position. As a result, the Board restated the July 1, 2017 net position in the amount of (\$6,891,963) as outlined below:

	<u>Beginning Balance</u>	<u>As Restated</u>	<u>GASB 75 Adjustment</u>
Statement of revenues, expenses and changes in net position			
Net position, July 1, 2017	\$ 80,116,079	\$ 73,224,116	\$ (6,891,963)

Reclassifications

Certain amounts in the summarized financial information for the prior year have been reclassified to conform to current year presentation with no effect on net position or change in net position.

NOTE 3 – INVESTMENTS

Investments of the Board are all invested non-negotiable certificates of deposit with maturity dates ranging from August 2018 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, 2018, all deposits were fully insured and collateralized.

(Continued)

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 4 – CAPITAL ASSETS

The following is a summary of capital assets as of June 30, 2018:

	<u>June 30, 2017</u>	<u>Additions and Transfers</u>	<u>Transfers and Retirements</u>	<u>June 30, 2018</u>
Capital assets not being depreciated				
Land	\$ 584,030	\$ -	\$ -	\$ 584,030
CIP	<u>2,645,999</u>	<u>6,745,277</u>	<u>(6,099,312)</u>	<u>3,291,964</u>
Total capital assets not being depreciated	<u>3,230,029</u>	<u>6,745,277</u>	<u>(6,099,312)</u>	<u>3,875,994</u>
Capital assets				
Structures and improvements	41,097,849	66,189	(419,681)	40,744,357
Plant infrastructure	148,000,644	4,464,472	-	152,465,116
Plant equipment	36,585,244	416,496	-	37,001,740
Transport equipment	6,385,808	523,670	(207,618)	6,701,860
Power operated equipment	3,070,290	83,907	-	3,154,197
Lab equipment	55,637	-	-	55,637
Furniture and fixtures	7,697,483	38,119	(694)	7,734,908
Garage equipment	389,713	-	-	389,713
Computer equipment	3,151,034	255,442	-	3,406,476
Communications equipment	520,216	26,089	-	546,305
Miscellaneous equipment	<u>1,649,163</u>	<u>205,970</u>	<u>-</u>	<u>1,855,133</u>
Total depreciable capital assets	<u>248,603,081</u>	<u>6,080,354</u>	<u>(627,993)</u>	<u>254,055,442</u>
Total capital assets	<u>251,833,110</u>	<u>12,825,631</u>	<u>(6,727,305)</u>	<u>257,931,436</u>
Accumulated depreciation				
Structures and improvements	\$ 6,958,007	\$ 1,142,622	\$ (26,813)	\$ 8,073,816
Plant infrastructure	88,786,284	4,347,980	-	93,134,264
Plant equipment	19,995,359	935,470	-	20,930,829
Transport equipment	3,625,618	480,347	(207,618)	3,898,347
Power operated equipment	2,781,881	153,885	-	2,935,766
Lab equipment	56,150	946	-	57,096
Furniture and fixtures	7,018,741	93,174	(694)	7,111,221
Garage equipment	374,518	2,437	-	376,955
Computer equipment	2,818,128	138,375	-	2,956,503
Communications equipment	383,660	18,382	-	402,042
Miscellaneous equipment	<u>988,609</u>	<u>105,168</u>	<u>-</u>	<u>1,093,777</u>
Total accumulated depreciation	<u>133,786,955</u>	<u>7,418,786</u>	<u>(235,125)</u>	<u>140,970,616</u>
Total depreciable capital assets, net of accumulated depreciation	<u>114,816,126</u>	<u>(1,338,432)</u>	<u>(392,868)</u>	<u>113,084,826</u>
Net capital assets	<u>\$ 118,046,155</u>	<u>\$ 5,406,845</u>	<u>\$ (6,492,180)</u>	<u>\$ 116,960,820</u>

(Continued)

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE 4 – CAPITAL ASSETS (Continued)

The Board has several projects under construction at June 30, 2018. A summary of construction in progress is below:

Outside plant upgrade	\$ 1,539,017
Downtown voltage conversion	137,932
Water main replacement	129,581
New reservoir design	125,334
Overhead to underground conversion	110,587
Water main replacement	106,740
Water projects under \$100,000	319,482
Electric projects under \$100,000	591,040
Telecommunications projects under \$100,000	217,347
Administrative projects under \$100,000	<u>14,904</u>
 Total	 <u>\$ 3,291,964</u>

The estimated cost to complete construction projects under contract was approximately \$600,000 at June 30, 2018.

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	\$ 2,315,000
FSN Consolidated Lease Financing	Refinance leases used for improvements and expansions of the cable telecommunications system	22,937,506	2.85%	03/31/2022	7,512,506
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	2,460,000
2015A Electric & Water Bonds	Finance the construction of a new administrative building	15,130,000	2.00% - 4.75%	12/01/2040	14,115,000
FSN Third-lien Lease	Finance the construction of a new headend facility and related cable telecommunications improvements	9,000,000	3.00%	12/31/2029	<u>8,625,000</u>
Total Bond Premiums					<u>994,507</u>
					<u>\$ 36,022,013</u>

(Continued)

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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

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, 2018, 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, 2018, the outstanding balance was \$4,697,471. 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.

For the year ended June 30, 2018, the Board had no draws and KIA granted no debt forgiveness. At June 30, 2018, the outstanding balance was \$2,230,249.

Bonds, leases and KIA payable activity for the year ended June 30, 2018 is as follows:

	Balance June 30, 2017	Increases	Decreases	Balance June 30, 2018	Amounts Due Within One Year
Bonds and leases payable					
2009 Electric & Water Bonds	\$ 3,410,000	\$ -	\$ (1,095,000)	\$ 2,315,000	\$ 1,135,000
FSN Consolidated Lease	9,512,506	-	(2,000,000)	7,512,506	2,000,000
2013 Electric & Water Bonds	2,835,000	-	(375,000)	2,460,000	385,000
2015A Electric & Water bonds	14,505,000	-	(390,000)	14,115,000	410,000
FSN Third-Lien Lease	5,790,528	3,209,472	(375,000)	8,625,000	750,000
Total bonds and leases payable	36,053,034	3,209,472	(4,235,000)	35,027,506	4,680,000
Bond Premiums	1,054,746	-	(60,239)	994,507	-
	<u>\$ 37,107,780</u>	<u>\$ 3,209,472</u>	<u>\$ (4,295,239)</u>	<u>\$ 36,022,013</u>	<u>\$ 4,680,000</u>
KIA Loan – chemical feed	\$ 5,020,914	\$ -	\$ (323,443)	\$ 4,697,471	\$ 326,684
KIA Loan – generator	2,338,302	-	(108,053)	2,230,249	109,954
	<u>\$ 7,359,216</u>	<u>\$ -</u>	<u>\$ (431,496)</u>	<u>\$ 6,927,720</u>	<u>\$ 436,638</u>

(Continued)

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

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

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 4,680,000	\$ 1,089,798	\$ 5,769,798
2020	4,745,000	941,384	5,686,384
2021	3,590,000	810,792	4,400,792
2022	3,132,506	704,318	3,836,824
2023	1,650,000	631,557	2,281,557
2024-2028	6,810,000	2,440,823	9,250,823
2029-2033	4,170,000	1,567,656	5,737,656
2034-2038	3,645,000	939,938	4,584,938
2039-2043	<u>2,605,000</u>	<u>139,813</u>	<u>2,744,813</u>
Total	<u>\$ 35,027,506</u>	<u>\$ 9,266,079</u>	<u>\$ 44,293,585</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 436,638	\$ 101,758	\$ 538,396
2020	441,846	95,455	537,301
2021	447,120	89,073	536,193
2022	452,463	82,610	535,073
2023	457,873	76,064	533,937
2024-2028	2,373,000	279,189	2,652,189
2029-2033	1,957,069	106,079	2,063,148
2034-2037	<u>361,711</u>	<u>10,914</u>	<u>372,625</u>
Total	<u>\$ 6,927,720</u>	<u>\$ 841,142</u>	<u>\$ 7,768,862</u>

(Continued)

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

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, 2018 and 2017, the Board had the following activity related to the future health insurance claims:

	<u>Future Health Insurance Claims</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	339,499
Claims and changes in estimates in FY 2018	2,285,594
Claims paid in FY 2018	<u>(2,381,122)</u>
Liability at June 30, 2018	<u>\$ 243,971</u>

Claims have not exceeded coverage for the last three years.

NOTE 7 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS

General Information About the Pension Plan: All full-time and eligible part-time employees of the Board participate in the County Employees Retirement System (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 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.

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. KRS and the Commonwealth have statutory authority to determine Plan benefits and employer contributions.

(Continued)

NOTE 7 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (Continued)

KRS issues a publicly available financial report that includes financial statements and required supplementary information for CERS. 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.

Basis of Accounting: For purposes of measuring the net pension and OPEB liabilities, deferred outflow of resources and deferred inflow of resources related to pensions and OPEB, pension and OPEB expense, information about the fiduciary net position of CERS and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Pension 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.

(Continued)

NOTE 7 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (Continued)

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.

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.

OPEB 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:

Insurance Tier 1: Participation began before 7/1/2003

Benefit Eligibility: Recipient of a retirement allowance

Benefit: The percentage of member premiums paid by the retirement system are dependent on the number of years of service. Benefits also include duty disability retirements, duty death in service, non-duty death in service and surviving spouse of a retiree.

(Continued)

NOTE 7 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (Continued)

Insurance Tier 2: Participation began on or after 7/1/2003, but before 9/1/2008

Benefit Eligibility: Recipient of a retirement allowance with at least 120 months of service at retirement

Benefit: The system provides a monthly contribution subsidy of \$10 for each year of earned service. The monthly contribution is increased by 1.5% each July 1. Benefits also include duty disability retirements, duty death in service and non-duty death in service.

Insurance Tier 3: Participation began on or after 9/1/2008

Benefit: Tier 3 insurance benefits are identical to Tier 2, except Tier 3 members are required to have at least 180 months of service in order to be eligible.

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, 2018 and 2017, participating employers contributed 19.18% (14.48% allocated to pension and 4.70% allocated to OPEB) and 18.68% (13.95% allocated to pension and 4.73% allocated to OPEB) as set by KRS, respectively, of each Nonhazardous employee's creditable compensation. These percentages are inclusive of both pension and insurance payments for employers. Administrative costs of KRS are financed through employer contributions and investment earnings.

The Board has met 100% of the contribution funding requirement for the year ended June 30, 2018. Total current year contributions recognized by the Plan were \$2,289,403 (\$1,728,392 related to pension and \$561,011 related to OPEB) for the year ended June 30, 2018. The OPEB contributions amount does not include the implicit subsidy reported in the amount of \$116,856.

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%. Member 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 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (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.

Pension Information

Total Pension Liability: The total pension liability ("TPL") was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Price Inflation	2.30 percent
Salary increases	3.05 percent, average, including inflation
Investment rate of return	6.25 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, 2017 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 6.25%, which was reduced from the 7.50% discount rate used in the prior year.
- (b) **Projected Cash Flows:** The projection of cash flows used to determine the discount rate assumed the local employers and plan members would contribute the statutorily determined contribution rate of projected compensation over the remaining 26-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.
- (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. However, the Board of KRS has the authority to review the assumptions on a more frequent basis and adopt new assumptions prior to the next scheduled experience study. The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

(Continued)

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE 7 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (Continued)

- (d) **Municipal Bond Rate:** The discount rate determination does not use a municipal bond rate.
- (e) **Periods of Projected Benefit Payments:** The long-term assumed 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	<u>2.00%</u>	<u>1.88%</u>
 Total	 <u>100.00%</u>	 <u>6.56%</u>

The long-term expected rate of return on pension plan assets was established by the KRS Board of Trustees at 6.25% based on a blending of the factors described above.

- (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 Board's allocated portion of the net pension liability ("NPL") of the System, calculated using the discount rate of 6.25 percent, as well as what the Board's allocated portion of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (5.25 percent) or 1 percentage-point higher (7.25 percent) than the current rate:

	<u>1% Decrease (5.25%)</u>	<u>Current Discount Rate (6.25%)</u>	<u>1% Increase (7.25%)</u>
Net position liability - Nonhazardous	\$ 35,110,742	\$ 27,838,798	\$ 21,755,872

(Continued)

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE 7 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (Continued)

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 \$27,838,798, or approximately 0.48%. The net pension liability was distributed based on 2017 actual employer contributions to the plan.

Measurement Date: June 30, 2017 is the actuarial valuation date and measurement date upon which the total pension liability is based.

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 been updated as follows:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- Payroll growth assumption was reduced from 4.00% to 3.05%.

Changes Since Measurement Date: There were no changes between the measurement date of the collective net pension liability and the employer's reporting date.

Pension Expense: The Board was allocated pension expense of \$4,508,130 related to the CERS for the year ending June 30, 2018.

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. 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. Deferred inflows and outflows as of the Measurement Date include:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 34,529	\$ 706,668
Change of assumptions	5,137,012	-
Changes in proportion and differences between employer contributions and proportionate shares of contributions	89,418	879,854
Differences between expected and actual investment earnings on plan investments	<u>344,333</u>	<u>-</u>
	5,605,292	1,586,522
Contributions subsequent to the measurement date	<u>1,728,392</u>	<u>-</u>
Total	<u>\$ 7,333,684</u>	<u>\$ 1,586,522</u>

(Continued)

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
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 June 30, 2018

NOTE 7 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (Continued)

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of \$1,728,392 will be recognized as a reduction of net pension liability in the year ending June 30, 2019. The remainder of the deferred outflows and deferred inflows of resources are amortized over the remaining service lives of participants with remaining amortization as follows:

Year ending June 30:

2019	\$ 1,806,993
2020	1,773,601
2021	795,643
2022	<u>(357,467)</u>
Total	<u>\$ 4,018,770</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, 2018, the Electric & Water Plant Board reported a payable of \$222,543 (included in Accrued expenses in the Statement of Net Position) for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2018.

OPEB Information

Total OPEB Liability: The total other postemployment benefits plan (“OPEB”) was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Price inflation	2.30%
Payroll growth rate	2.00%
Salary increases	3.05%, average
Investment rate of return	6.25%
Healthcare trend rates	
Pre-65	Initial trend starting at 7.25% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post-65	Initial trend starting at 5.10% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

(Continued)

NOTE 7 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (Continued)

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, 2017 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 OPEB liability was 5.84%, which was reduced from the 6.89% discount rate used in the prior year.
- (b) **Projected Cash Flows:** The projection of cash flows used to determine the discount rate assumed the local employers and plan members would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability.
- (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. However, the Board of KRS has the authority to review the assumptions on a more frequent basis and adopt new assumptions prior to the next scheduled experience study. The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.
- (d) **Municipal Bond Rate:** The discount rate determination used a municipal bond rate of 3.56% as reported in Fidelity Index's "20 – Year Municipal GO AA Index" as of June 30, 2017.
- (e) **Period of Projected Benefit Payments:** Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the system's actuarial determined contributions, and it is the actuary's understanding that any cost associated with the implicit subsidy will not be paid out of the system's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.
- (f) **Assumed Asset Allocations:** The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

(Continued)

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE 7 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (Continued)

<u>Asset Class</u>	<u>Long-Term Target Allocation</u>	<u>Expected Real Rate of Return</u>
US Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	<u>2.00%</u>	<u>1.88%</u>
 Total	 <u>100.00%</u>	 <u>6.56%</u>

The long-term expected rate of return on pension plan assets was established by the KRS Board of Trustees at 6.25% based on a blending of the factors described above.

- (g) **Sensitivity Analysis:** This paragraph requires disclosure of the sensitivity of the net OPEB liability to changes in the discount rate and changes in the healthcare cost trend rate.

The following presents the Board's allocated portion of the net OPEB liability of the System, calculated using the discount rate of 5.84%, as well as what the Board's allocated portion of the System's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.84 %) or 1-percentage-point higher (6.84 %) than the current rate for non-hazardous:

	1% Decrease <u>(4.84%)</u>	Current Discount Rate <u>(5.84%)</u>	1% Increase <u>(6.84%)</u>
Net OPEB liability	\$12,166,285	\$9,561,348	\$7,393,631

The following presents the Board's allocated portion of the net OPEB liability of the System, calculated using the healthcare cost trend rate, as well as what the Board's allocated portion of the System's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate for non-hazardous:

	Current Healthcare 1% Decrease <u></u>	Cost Trend Rate <u></u>	1% Increase <u></u>
Net OPEB liability	\$7,334,046	\$9,561,348	\$12,456,709

(Continued)

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE 7 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (Continued)

Employer's Portion of the Collective OPEB Liability: The Board's proportionate share of the net OPEB liability, as indicated in the prior table, is \$9,561,348, or approximately 0.48%. The net OPEB liability was distributed based on 2017 actual employer contributions to the plan.

Measurement Date: June 30, 2017 is the actuarial valuation date and measurement date upon which the total pension liability is based.

Changes in Assumptions and Benefit Terms: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total OPEB liability have been updated as follows:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- Payroll growth assumption was reduced from 4.00% to 3.05%.

Changes Since Measurement Date: There were no changes between the measurement date of the collective net OPEB liability and the employer's reporting date.

OPEB Expense: The Board was allocated OPEB expense of \$1,089,551 related to the CERS for the year ending June 30, 2018.

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 OPEB expense they are labeled as deferred inflows. If they will increase OPEB expense they are labeled as deferred outflows. 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. Deferred inflows and outflows as of the Measurement Date include:

	Deferred Outflows <u>of Resources</u>	Deferred Inflows <u>of Resources</u>
Difference between expected and actual experience	\$ -	\$ 26,556
Change of assumptions	2,080,489	-
Changes in proportion and differences between employer contributions and proportionate shares of contributions	-	22,185
Differences between expected and actual investment earnings on plan investments	-	451,864
	2,080,489	500,605
Contributions subsequent to the measurement date	677,867	-
Total	\$ 2,758,356	\$ 500,605

(Continued)

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 7 – DEFINED BENEFIT PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLAN – COST SHARING - CERS (Continued)

Deferred outflows of resources resulting from employer contributions subsequent to the measurement date of \$2,080,489 which include the implicit subsidy reported of \$116,856, will be recognized as a reduction of net OPEB liability in the year ending June 30, 2019. The remainder of the deferred outflows and deferred inflows of resources are amortized over the remaining service lives of participants with remaining amortization as follows:

Year ending June 30:	
2019	\$ 271,834
2020	271,834
2021	271,834
2022	271,834
2023	384,800
Thereafter	<u>107,748</u>
	<u>\$ 1,579,884</u>

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

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.

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.

REQUIRED SUPPLEMENTARY INFORMATION

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 June 30, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Board's proportion of the net pension liability	0.48%	0.50%	0.51%	0.49%
Board's proportionate share of the net pension liability	\$27,838,798	\$24,591,568	\$21,991,771	\$16,041,000
Board's covered payroll	\$11,484,973	\$11,914,702	\$11,431,022	\$11,992,713
Board's proportion of the net pension liability as a percentage of its covered payroll	242.39%	206.40%	192.39%	133.76%
Plan fiduciary net position as a percentage of the total pension liability	53.32%	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 SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE BOARD'S PENSION CONTRIBUTIONS
 June 30, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 1,728,392	\$ 1,615,247	\$ 1,479,545	\$ 1,521,452
Contributions in relation to the statutorily required contribution	<u>(1,728,392)</u>	<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>	<u>\$ -</u>
Board's contributions as a percentage of statutorily required contribution for pension	100.00%	100.00%	100.00%	100.00%
Board's covered payroll	\$ 11,879,220	\$ 11,484,973	\$ 11,914,702	\$ 11,431,022
Contributions as a percentage of its covered payroll	14.55%	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:

2017: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as follows:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- Payroll growth assumption was reduced from 4.00% to 3.05%.

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.

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
June 30, 2018

	<u>2018</u>
Board's proportion of the net OPEB liability	0.48%
Board's proportionate share of the net OPEB liability	\$ 9,561,348
Board's covered payroll	\$ 11,484,973
Board's proportion of the net OPEB liability as a percentage of its covered payroll	83.25%
Plan fiduciary net position as a percentage of the total OPEB liability	52.40%

* 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 SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE BOARD'S OPEB CONTRIBUTIONS
 June 30, 2018

	2018
Statutorily required contribution	\$ 561,011
Contributions in relation to the statutorily required contribution	(561,011)
Annual contribution deficiency (excess)	\$ -
Board's contributions as a percentage of statutorily required contribution for OPEB	100.00%
Board's covered payroll	\$ 11,879,220
Contributions as a percentage of its covered payroll	4.72%

* 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:

2017: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total OPEB liability have been updated as follows:

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- Payroll growth assumption was reduced from 4.00% to 3.05%.

SUPPLEMENTARY INFORMATION

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
 COMBINING STATEMENT OF NET POSITION – ELECTRIC, WATER, TELECOMMUNICATIONS
 June 30, 2018

	Electric & Water	Telecommunications	Total
ASSETS			
Current Assets			
Unrestricted cash and cash equivalents	\$ 17,802,291	\$ 7,609,092	\$ 25,411,383
Accounts receivable, net	10,497,166	2,155,306	12,652,472
Inventory, net	3,017,107	678,391	3,695,498
Prepaid expenses	375,977	188,436	564,413
Total current assets	<u>31,692,541</u>	<u>10,631,225</u>	<u>42,323,766</u>
Noncurrent assets			
Unrestricted investments	4,960,555	408,639	5,369,194
Restricted cash reserves	1,335,656	69,239	1,404,895
Restricted investments	2,349,600	490,051	2,839,651
Depreciable capital assets, net of acc depreciation	82,976,691	30,108,135	113,084,826
Capital assets not being depreciated	2,056,325	1,819,669	3,875,994
Total noncurrent assets	<u>93,678,827</u>	<u>32,895,733</u>	<u>126,574,560</u>
Total assets	<u>125,371,368</u>	<u>43,526,958</u>	<u>168,898,326</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflow - KRS Pension	4,670,848	2,662,836	7,333,684
Deferred Outflow - KRS OPEB	1,756,807	1,001,550	2,758,357
Total deferred outflows	<u>6,427,655</u>	<u>3,664,386</u>	<u>10,092,041</u>
Total assets and deferred outflows of resources	<u>\$ 131,799,023</u>	<u>\$ 47,191,344</u>	<u>\$ 178,990,367</u>
LIABILITIES AND NET POSITION			
Current liabilities			
Accounts payable and accrued expenses	\$ 13,425,333	\$ 1,406,623	\$ 14,831,956
Customer deposits	1,391,723	1,286,191	2,677,914
Unearned revenues	-	1,977,781	1,977,781
Bonds and leases payable due in one year	1,835,288	2,904,951	4,740,239
KIA notes payable due in one year	436,638	-	436,638
Total current liabilities	<u>17,088,982</u>	<u>7,575,546</u>	<u>24,664,528</u>
Long-term liabilities			
Net pension liability	17,730,623	10,108,175	27,838,798
Net OPEB liability	6,089,654	3,471,694	9,561,348
Long-term debt			
Bonds and leases payable	12,985,046	18,296,728	31,281,774
KIA notes payable	6,491,082	-	6,491,082
Total long-term liabilities	<u>43,296,405</u>	<u>31,876,597</u>	<u>75,173,002</u>
Total liabilities	<u>60,385,387</u>	<u>39,452,143</u>	<u>99,837,530</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred amounts from pension	1,010,461	576,061	1,586,522
Deferred amounts from OPEB	318,837	181,768	500,605
Total deferred inflows	<u>1,329,298</u>	<u>757,829</u>	<u>2,087,127</u>
Total liabilities and deferred inflows of resources	<u>\$ 61,714,685</u>	<u>\$ 40,209,972</u>	<u>\$ 101,924,657</u>
NET POSITION			
Net investment in capital assets	\$ 62,960,812	\$ 10,612,234	\$ 73,573,046
Restricted for debt retirement	3,256,903	380,332	3,637,235
Restricted for retirement plans	283,352	178,959	462,311
Restricted for KIA loan covenant	145,000	-	145,000
Total restricted net position	<u>3,685,255</u>	<u>559,291</u>	<u>4,244,546</u>
Unrestricted	<u>3,296,825</u>	<u>(4,048,707)</u>	<u>(751,882)</u>
Total net position	<u>69,942,892</u>	<u>7,122,818</u>	<u>77,065,710</u>
Total liabilities, deferred inflow of resources and net position	<u>\$ 131,657,577</u>	<u>\$ 47,332,790</u>	<u>\$ 178,990,367</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, 2018

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Operating Revenues			
User fees			
Electric	\$ 67,249,277	\$ 63,649,432	\$ (3,599,845)
Water	11,397,432	11,563,794	166,362
Cable	28,139,016	27,411,455	(727,561)
Total operating revenues	<u>106,785,725</u>	<u>102,624,681</u>	<u>(4,161,044)</u>
Operating Expenses			
Electric	65,073,607	63,160,451	(1,913,156)
Water	9,898,692	10,660,179	761,487
Cable	24,713,480	25,864,510	1,151,030
Total operating expenses	<u>99,685,779</u>	<u>99,685,140</u>	<u>(639)</u>
Net income from operations	7,099,946	2,939,541	(4,160,405)
Non-operating Revenues (Expenses)			
Other revenue	727,042	797,960	70,918
Interest expense	(1,304,728)	(1,311,726)	(6,998)
Retirement plan net gain (loss)	-	(15,430)	(15,430)
Net gain (loss) on sale of fixed assets	-	(346,080)	(346,080)
Total non-operating revenues	<u>(577,686)</u>	<u>(875,276)</u>	<u>(297,590)</u>
Income before contributions	6,522,260	2,064,265	(4,457,995)
Capital contributions	<u>340,000</u>	<u>1,777,329</u>	<u>1,437,329</u>
Change in net position	<u>\$ 6,862,260</u>	<u>\$ 3,841,594</u>	<u>\$ (3,020,666)</u>

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
 COMBINING STATEMENT OF REVENUES AND EXPENSES –
 ELECTRIC, WATER, TELECOMMUNICATIONS
 Year ended June 30, 2018

	Electric	Water	Telecommunications	Total
Operating Revenues				
User fees				
Electric	\$ 63,649,432	\$ -	\$ -	\$ 63,649,432
Water	-	11,563,794	-	11,563,794
Cable	-	-	27,411,455	27,411,455
Total operating revenues	<u>63,649,432</u>	<u>11,563,794</u>	<u>27,411,455</u>	<u>102,624,680</u>
Operating Expenses				
Electric	63,160,451	-	-	63,160,451
Water	-	10,660,179	-	10,660,179
Cable	-	-	25,864,510	25,864,510
Total operating expenses	<u>63,160,451</u>	<u>10,660,179</u>	<u>25,864,510</u>	<u>99,685,139</u>
Net income from operations	488,981	903,615	1,546,945	2,939,541
Non-operating Revenues (Expenses)				
Other revenue	233,921	215,777	348,262	797,960
Interest expense	(210,910)	(441,773)	(659,043)	(1,311,726)
Retirement plan net gain (loss)	(4,564)	(4,558)	(6,308)	(15,430)
Net gain (loss) on sale of fixed assets	10,020	23,131	(379,231)	(346,080)
Total non-operating revenues	<u>28,467</u>	<u>(207,423)</u>	<u>(696,321)</u>	<u>(875,276)</u>
Income before contributions	<u>\$ 517,448</u>	<u>\$ 696,193</u>	<u>\$ 850,624</u>	<u>\$ 2,064,265</u>

ELECTRIC & WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY
STATEMENT OF OPERATING EXPENSES – BUDGET TO ACTUAL
Year ended June 30, 2018

	Budgeted	Actual	Variable Favorable (Unfavorable)
Electric Division			
Electricity purchased	\$ 54,138,797	\$ 51,547,738	\$ 2,591,059
Operating	6,986,861	7,392,097	(405,236)
General and administrative	1,051,165	1,219,992	(168,827)
Board of directors	68,117	110,569	(42,452)
Customer service	741,398	738,844	2,554
Finance	241,645	248,264	(6,619)
Fleet services	298,866	246,537	52,329
Human resources	113,653	122,645	(8,992)
Information technology	386,706	374,634	12,072
Meter reading	383,425	434,847	(51,422)
Safety	73,102	68,357	4,745
Support services	589,872	655,927	(66,055)
	<u>\$ 65,073,607</u>	<u>\$ 63,160,451</u>	<u>\$ 1,913,156</u>
Water Division			
Water Treatment	\$ 1,947,498	\$ 1,960,876	\$ (13,378)
Water Distribution	1,958,467	2,066,973	(108,506)
Operating	3,070,346	3,514,474	(444,128)
General and administrative	943,437	1,096,244	(152,807)
Board of directors	12,122	19,676	(7,554)
Customer service	351,762	350,551	1,211
Finance	163,588	168,069	(4,481)
Fleet services	251,947	207,833	44,114
Human resources	111,653	120,486	(8,833)
Information technology	338,663	328,091	10,572
Meter reading	293,884	333,298	(39,414)
Safety	71,815	67,153	4,662
Support services	383,509	426,455	(42,946)
	<u>\$ 9,898,691</u>	<u>\$ 10,660,179</u>	<u>\$ (761,488)</u>
Telecommunications Division			
Operating	\$ 20,613,957	\$ 21,536,926	\$ (922,969)
General and administrative	1,221,439	1,420,404	(198,965)
Board of directors	35,097	56,970	(21,873)
Customer service	889,717	886,652	3,065
Finance	207,457	213,140	(5,683)
Fleet services	143,256	118,173	25,083
Human resources	191,465	206,612	(15,147)
Information technology	849,809	823,279	26,530
Safety	123,150	115,156	7,994
Support services	438,134	487,198	(49,064)
	<u>\$ 24,713,481</u>	<u>\$ 25,864,510</u>	<u>\$ (1,151,029)</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, 2018, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated September 20, 2018. Our opinion included an emphasis of matter related to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, which resulted in a restatement of the Board's July 1, 2017 net position in the amount of (\$6,891,963). Our opinion is not modified with respect to this matter.

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 or significant deficiencies.

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*.

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 LLP

Louisville, Kentucky
September 20, 2018