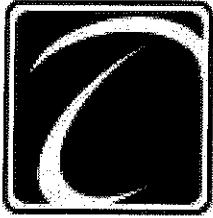


**PRINCETON WATER AND WASTEWATER COMMISSION  
FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2014  
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT**

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THURMAN CAMPBELL GROUP, PLC  
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Commission  
Princeton Water and Wastewater Commission

**Report on the Financial Statements**

We have audited the accompanying financial statements of Princeton Water and Wastewater Commission, as of and for the year ended June 30, 2014, and the related notes to the 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 opinions 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 Princeton Water and Wastewater Commission, as of June 30, 2014, and the respective changes in financial position, and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note I, the financial statements present only the Princeton Water and Wastewater Commission and do not purport to, and do not present fairly the financial position of the City of Princeton, as of June 30, 2014, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3–10 and 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2014, on our consideration of the Princeton Water and Wastewater Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Princeton Water and Wastewater Commission's internal control over financial reporting and compliance.

*Thurman Campbell Group, PLC*

Princeton, KY  
September 18, 2014

PRINCETON WATER AND WASTEWATER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014

Princeton Water and Wastewater Commission ("Commission") offers this Management's Discussion and Analysis to provide an overview and analysis of the Commission's financial activities for the year ended June 30, 2014. To fully understand the entire scope of the Commission's financial activities, this information should be read in conjunction with the financial statements provided in this document.

### FINANCIAL HIGHLIGHTS

The Princeton Water and Wastewater Commission is responsible for the safe treatment and timely distribution of drinking water to the citizens of the City of Princeton, in addition to residents located in Caldwell County and Lyon County by virtue of selling water to these water districts. Additionally, the Commission provides wastewater treatment services to customers mainly located within the city limits of Princeton. Little growth from the customer base has been recognized over the past several years and industrial usage has actually declined. Conservation measures, while good for the planet, impact water usage and treatment costs negatively. Plumbing fixtures have been improved to lessen the consumption of water as have many industrial machinery components and processes. Hence, the Commission now must balance lower consumptions while changes in regulations add additional expense to the water and wastewater treatment processes. This all comes at a time when low interest governmental funding and grants have all but dried up.

While external forces continue to challenge Commission management, weather abnormalities still impact the overall operations and bottom line of the Commission as much as any external force. Fiscal year 2014 started with cooler and wetter weather than normal which did not bode well for the overall budget considering the fact that the first quarter typically records > 28% of the total revenue for the year and subsequent budgets are based on these assumptions. According to data provided through UK Ag Weather website, <http://weather.uky.edu>, the months of July, August and September typically average 37 days of 90 degree or higher temperatures in Caldwell County. For this timeframe in 2013, there were only 9 days in Caldwell County where the temperature topped this level versus 41 days in 2012. In addition to cooler temperatures, rainfall totals for this time period in 2013 were 15.40 inches versus 10.80 the previous year. With cooler days and adequate rainfall, landscapes did not require extra moisture which pushed water revenues \$58,500 lower than the same timeframe in 2012, while sewer revenues, dependent on water usage, decreased by \$18,200. This shortfall was partially offset by a \$2 increase in the monthly customer service fee first enacted in September 2012. Total customer service fees collected for the first fiscal quarter were approximately \$47,900 and were \$38,000 higher than the previous timeframe.

The revenue shortfall of the first quarter was too deep to be overcome during the rest of the year with water revenues falling short of the budgeted \$1,445,000 by almost \$54,000 while wastewater services were \$19,000 below the budgeted amount of \$1,275,000. As compared to the previous year, earnings from these two main sources were \$22,000 lower. On a positive note, higher amounts of fee income generated from the aforementioned monthly customer service fee, penalty income, and connection fees were \$113,000 higher than the previous year and \$18,600 higher than budget. The additional fee income enabled total charges for services to outpace the previous year by more than \$81,000 although remaining > \$57,000 under the aggressive budget. Total operating revenues topped the \$3 million level for the first time and were slightly more than \$90,000 ahead of fiscal year 2013 but still short of budget. Revenues generated from the monthly customer service fee exceeded \$203,000 for the year (> 6.7% of total operating revenues). The goal of implementing a customer service fee was to recoup fixed expenses related to customer service but unrelated to levels of consumption. Since the monthly fee is based on the number of meters in service, the extreme swings caused by weather related events can be somewhat minimized by this consistent income stream. Considering this source was non-existent two years earlier, it indicates how important it is to have reliable sources of revenue not linked to consumption.

While cool, wet weather had a negative impact on revenues during the first quarter, cold and frigid weather made it hard to control expenses during the winter months. January and February 2014 temps were 8 degrees and 5 degrees below normal, respectively. January accounted for seven nights with single digit lows while February

PRINCETON WATER AND WASTEWATER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014

had nine consecutive days where the high temperature did not get above the freezing mark (source: <http://weather.uky.edu>). Significant line breaks occurred during these two months which contributed to overtime levels in all operational departments that had not been encountered since the ice storm of 2009. Overtime hours, outside of normal call time, totaled 521 hours and accounted for almost \$18,000 in unbudgeted employee related costs. The water treatment plant logged almost 23% more operating hours during these two months and treated > 17.8 million more gallons of water due to higher demand caused by leaks both on the city side and with both water districts being served. The additional pumping led to higher utility and chemical costs in addition to higher lab fees required to test the water each time there was a line break. Leaks had a further impact on the revenue side with customers requesting adjustments due to frozen pipes and burst lines. Water and sewer adjustments combined totaled > \$79,000 during the January – March timeframe.

At the wastewater treatment plant, equipment located outside the plant actually froze up and was damaged beyond repair as was a semi-trailer. Personnel had to work round the clock during one week in order to prevent the sewer plant from shutting down. Higher electric costs at the wastewater plant were magnified by the local provider's cost per kilowatt being significantly higher than the previous year. Sludge removal costs escalated due to the biological treatment methods employed at the wastewater plant not being as effective in extremely cold weather which led to an increase in the overall volume of sludge. More importantly, the waste disposal site in Hopkins County which had been used for years was closed and the new Marshall County disposal site's cost structure was double that of the old site.

For the year, total operating expenses were almost \$160,000 (5.5%) ahead of fiscal year 2013 and were > \$81,000 over budget leading to a net loss from operations. A gain on capital assets of \$41,176 was realized as insurance proceeds reimbursed the aforementioned damaged equipment. This gain helped to minimize the overall negative net change in assets for the year which totaled (\$103,953).

Fiscal year 2014 also witnessed the conversion of operation systems to a Windows and cloud based hosted network, QS1 Governmental Data Systems. The Commission began the conversion process in October with payroll. General ledger and accounts payable followed during December with live billing and accounts receivable, taking place in late January. While problems did arise during the first several billing cycles, these have been corrected and the benefits of the upgrade are becoming apparent. The software has features where special reports can be programmed internally to glean data from the system in ways never before available. Redundant practices and paperwork have been eliminated and the time savings enabled the replacement of one full-time office retiree with a part-time replacement (*August 2014*). Business practices and processes are being reviewed with all facets of operational optimization being explored. At the end of the fiscal year plans were underway to combine the existing five billing cycles and ten routes into one billing cycle and four routes. This will enable maintenance personnel to better schedule their projects while enabling office staff to do more cross training at times of the month where billing and payment posting won't be as time consuming.

Finally, the Commission received notice in late January 2014 of the conditional approval of the USDA Rural Development request for improvements to the water distribution system. The request of \$3,502,500 was submitted to the USDA in April 2013 and included funds for a new 16" distribution line to the Industrial Park water tank; the rehab of the Skyline water tank; improvements to the area surrounding the UK Experiment Farm; and funds to purchase equipment to aid in lowering the system's unaccounted for water loss. The package also includes a request to refinance an existing KIA loan currently at a much higher interest rate which should allow the additional improvements to be made without a significant increase in debt service for the Commission. It is anticipated that construction should begin on phases of the project during either late spring or summer of 2015.

PRINCETON WATER AND WASTEWATER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014

Other notable items include:

- The assets of the Commission exceeded its liabilities by \$13,181,577 at June 30, 2014. Of this amount \$398,380 is restricted by debt covenants.
- The amount of Net Position net investment in capital assets (\$11,571,155) decreased \$205,250 from the June 30, 2013 balance of \$11,776,405. This was mainly due to depreciation expense not being offset by an increase in gross fixed assets.
- The Commission's total Net Position decreased by \$103,953 as compared to a decrease of \$49,755 during the previous year.
- The operating income (loss) for the fiscal year ending June 30, 2014 was (\$44,940) as compared to \$24,664 in the prior year. Weather related costs impacting both revenues and expenses contributed greatly to the loss.

## OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Commission's financial statements. The Commission is authorized under Kentucky Revised Statutes and constitutes a governmental subdivision of the Commonwealth of Kentucky. The Commission's financial report includes only the activities of Princeton Water and Wastewater.

The financial statements of the Commission are prepared on the basis of accounting principles generally accepted in the United States of America. For additional information on the Commission's basis of accounting see Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

The Commission's basic financial statements are comprised of 1) Statement of Net Position (i.e. balance sheet); 2) Statement of Revenue, Expenses and Changes in Net Position (i.e. income statement); 3) Statement of Cash Flows, and 4) Notes to the Financial Statements. In addition, this report also contains other supplementary information to provide the reader additional information about the Commission.

**Statement of Net Position** – The Statement of Net Position presents information on all Commission assets and liabilities with the difference reported as net position. Monitoring increases and/or decreases in net position may serve as a useful indicator of whether the financial position of the Commission is improving, deteriorating or remaining constant. The Statement of Net Position can be found on page 11 of this report.

**Statement of Revenue, Expenses and Changes in Net Position** - The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the Commission's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Revenues and expenses are recognized when earned or incurred, not when they are received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The Statement of Revenue, Expenses and Changes in Net Position can be found on page 12 of this report.

**Statement of Cash Flows** – The Statement of Cash Flows presents information on how changes in assets and liabilities effect cash during the course of the fiscal year. In addition, the Statement of Cash Flows gives an indication of the type of activities, whether operating, non-capital financing, capital financing or investing, that either generated or used cash throughout the year. The Statement of Cash Flows can be found on page 13 of this report.

PRINCETON WATER AND WASTEWATER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014

*Notes to Financial Statements* - Notes to the Financial Statements provide additional information crucial to understanding data provided in the financial statements. The notes to the financial statements can be found on pages 14-21 of this report.

## FINANCIAL ANALYSIS

Utilities of all sizes are battling many of the same challenges: stringent governmental regulations; aging infrastructure; rising costs; population changes; lower levels of government aid and labor resources. All of these issues in one way or another have an effect on the finances of the Commission. Cities big and small across the United States are dealing with unprecedented deterioration in infrastructure and the prospects of replacement at a time when lower cost governmental funding has diminished. For utilities, this is even more critical since funding for expensive infrastructure projects like the aforementioned line upgrade must be done on terms that most commercial banks are unwilling to undertake. Therefore, in order to finance such projects as the upcoming water line extension, the Commission strives to maintain good balance sheet composition and adequate cash flows. This requires diligence by all employees to control expenses and foresight by management to know the appropriate times to review and revise rate structures. New rate structures have become more frequent due to a stagnant customer base, coupled with stricter governmental regulations and rising costs outside of management's control.

Maintaining appropriate balance sheet composition includes having a strong Net Position coupled with low leverage. While leverage ratios are calculated differently within various sectors of business, for utilities, leverage is typically calculated by dividing Total Liabilities by Total Net Position. A ratio  $< 1.0x$  indicates lower financial risk and the potential for additional debt capacity so long as profitability is maintained. The PWWC's leverage ratio improved slightly to  $0.31x$  from  $0.33x$ . Leverage ratios  $< 1.0x$  are an indicator of a good credit risk and shows the Commission has additional debt capacity as projects such as the line upgrade become warranted. In addition to low leverage, the Commission also continues to have a strong equity position with the Commission's Net Position (i.e. Equity position) exceeding Total Liabilities by  $3.28x$ . The Net Asset position can be viewed as a reserve of unused debt capacity or as a strong collateral position with which to secure additional funding.

In addition to strong equity and low leverage, businesses of all types need to have sufficient cash on hand (i.e. liquidity) to pay their ongoing obligations. Two ratios generally used to measure liquidity are the current ratio and working capital. The current ratio needs to be greater than  $1.0x$  since it measures how many times an entity's current assets (cash, accounts receivable, inventory, etc.) can cover its current obligations (vendor payables, accruals, payroll, taxes, debt service, etc.). During the past fiscal year, the Commission's current assets increased by \$82,860 while current liabilities decreased slightly. Contributing to the improvement in current assets was an increase of almost \$40,000 in cash and cash equivalents despite the net loss incurred from operations. At June 30, 2014, the Commission had cash and cash equivalents in an amount sufficient to cover  $> 85$  days of total operating expenses including the full amount of depreciation expense. With increases in cash, accounts receivable and inventories, the current ratio (Current Assets divided by Current Liabilities) improved to  $2.52x$  from the  $2.37x$  recorded a year earlier. More importantly, working capital (the dollar amount by which current assets exceed current liabilities) strengthened considerably to almost \$888,000 which represented an increase of 10%. One should note, however, that restricted funds of \$398,380 are not included in the current asset total even though these funds could be utilized for capital asset replacement if needed and upon approval of the funding agencies. If included, these ratios would be even higher.

As noted earlier, a utility's Net Position can serve over time as a useful indicator of a utility's financial position. The Commission's assets exceeded liabilities by \$13,181,577 at June 30, 2014. The Commission reported a negative change in Net Position for the year ending June 30, 2014 of \$103,953 as compared to the negative change of \$49,755 recorded for the previous year.

PRINCETON WATER AND WASTEWATER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014

The Commission's overall financial position and operations for the past year is summarized as follows, based on the information included in the financial statements.

Business-type Activities		
Assets:	<u>6/30/2014</u>	<u>6/30/2013</u>
Current and other assets	\$ 1,471,359	\$ 1,388,499
Capital assets	15,332,991	15,867,777
Noncurrent assets	<u>398,380</u>	<u>390,280</u>
Total assets	17,202,730	17,646,556
 Liabilities:		
Long-term liabilities	3,437,748	3,771,777
Other liabilities	<u>583,405</u>	<u>589,249</u>
Total liabilities	4,021,153	4,361,026
 Net position:		
Net investment in capital assets	11,571,155	12,132,141
Restricted position	398,380	382,180
Unrestricted position	<u>1,212,042</u>	<u>771,209</u>
Total net position	<u>\$ 13,181,577</u>	<u>\$ 13,285,530</u>

The bulk of the Commission's net position reflects its investment in net plant and equipment, such as water lines, sewer lines, the water treatment plant and the wastewater treatment plant, less any related outstanding debt used to acquire those assets. The Commission uses these assets to provide services to customers from which revenues are generated. Consequently, these assets are not available for future spending but may be pledged in order to secure additional indebtedness for future capital projects. Resources needed to repay the outstanding debt shown on the balance sheet must come from other sources such as operations, since the assets themselves cannot be used to liquidate these long-term liabilities. See Notes 3 and 5 in the Notes to Financial Statements.

The unrestricted portion of the Commission's net position (\$1,212,042) may be used to meet the Commission's ongoing obligations to creditors and customers.

Highlights regarding the Statement of Revenues, Expenses and Changes in Net Assets are:

Revenues:	<u>6/30/2014</u>	<u>6/30/2013</u>
Operating revenues	\$ 3,005,008	\$ 2,914,824
Expenses:		
Operating expenses	<u>3,049,948</u>	<u>2,890,161</u>
Operating income	(44,940)	24,663
Non-operating income	43,998	34,658
Non-operating expenses	<u>(103,011)</u>	<u>(109,076)</u>
Change in net position	<u>\$ (103,953)</u>	<u>\$ (49,755)</u>

PRINCETON WATER AND WASTEWATER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014

Charges for services during the year were approximately \$81,000 or 2.8% ahead of the previous year due to mainly to the increase in the monthly customer service fee enacted in September 2012. This fee enabled the Commission to offset the decline in water usage and has proven to be a dependable revenue source separate from consumption driven revenues. Before enacting the fee, management reviewed other local utility providers and found that all had such a fee based upon providing the service only and not on usage. While there was a decrease in water revenues, penalty income and connection fees along with the customer service fees enabled Total Operating Revenues to outpace the previous year's amount of \$2,914,824. Fiscal year 2014 was the first year in the past ten years where no grant revenues were received.

While charges for services continued to increase and were able to offset declines in other income producing areas, these increases were also needed in order to offset an increase in total operating expenditures. Total Operating Expenses increased by 5.5% or roughly \$160,000 due to labor related expenses, utilities, regulatory driven expenses, increases in depreciation and other miscellaneous expenditures. The largest difference in total expenditures between the two years was the absence of large capital projects where labor costs of maintenance personnel are allowed to be capitalized. In fiscal year 2013, the Commission incurred a reduction in total expenses of \$76,135 due to capitalized labor incurred on the Hill and Dale water line upgrade and the construction of the new maintenance office building. This amount dropped to a mere \$3,980 during the 2014 fiscal year. Significant items for the year were:

- Salaries and employee related benefits increased by ~ \$89,000 due to an additional employee hired as an operator trainee at the water treatment facility. Considering retirement, health insurance and matching payroll taxes, the extra employee cost was estimated at \$55,000. This, coupled with the additional \$18,000 in overtime costs required during the winter months, increases in health insurance premiums, and a 2.5% raise to all employees drove salary related costs more than \$20,000 higher than budget.
- Chemicals and supplies were \$5,800 higher than the previous year but almost \$16,000 over budget. Check stock and office supplies required due to the transition to the new data provider were a portion of the difference as were additional chemicals needed in order to treat the larger than normal volumes of water produced during the bitterly cold winter months where the leaks and line breaks were ongoing.
- Utilities were \$25,000 higher than the year before due to both increases in usage due to the winter weather but more importantly due to significant increases in the Princeton Electric Plant Board's rates which impacted the wastewater treatment plant. As compared to the TVA supplier at the water treatment plant which rose approximately 12%, the PEPB rates were up > 50% at the wastewater treatment plant from July 2013 to June 2014.
- Sludge expenses were \$28,500 lower than the previous year but over budget by almost 35%. The cleaning of the lagoons at the water treatment plant occurs every other year with 2014 being a skipped year. The reason for sludge expense exceeding budget was two-fold: (1) the colder than normal winter diminished the capabilities of the biological agents in the lagoons at the wastewater treatment facility thereby increasing the total amount of sludge and (2) the closure of the MickeyD waste landfill required a new landfill to be utilized and rates were more than double the cost of the old facility.
- Insurance premiums continued to rise on all policies and the Commission failed to adjust its accrual for the increase resulting in insurance premiums being \$14,000 over budget.
- Rental and lease expense was \$2,800 ahead of the previous year but \$7,400 over budget. Large repair projects at both treatment facilities required the rental of heavy equipment for installs.
- Professional Services & Lab Fees were slightly higher than the previous year even though a consulting relationship was ended in October 2013 resulting in a \$10,000 savings. The savings was offset by increases in lab fees caused by new regulations and by additional testing required during the winter cold spell due to line breaks.
- Materials expense was lower than the previous year but over budget due to the unanticipated request by the city for reimbursement of > \$10,000 in asphalt repairs due to excessive line cuts.

PRINCETON WATER AND WASTEWATER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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Even with the challenges presented by rising utility costs and other outside influences, the Commission continued to post strong debt service coverage ratios and excess cash flow amounts with which the Commission has been able to improve infrastructure and make necessary replacements of capital items. With the reduction in Net Position, the Commission's Debt Service Coverage ratio declined to 1.76x from the previous year's ratio of 1.86x. Debt Service Coverage is calculated according to the loan covenants and can be represented as follows:

Change in Net Position + Depreciation + Interest Expense  
Maximum Annual Debt Service

Per loan documentation, the Commission is to maintain a minimum 1.20x coverage on the maximum amount of principal and interest due in any one future fiscal year. Currently, the maximum amount due in any one fiscal year would be \$435,044 due in fiscal year ending June 30, 2015 and the current level of coverage exceeds the minimum by 46%.

**BUDGETARY HIGHLIGHTS**

The final budget passed by the Commission anticipated a decrease of \$16,400 in Net Position as compared to an actual decrease of \$103,953. Actual revenues were under budget by \$49,270 due to the aforementioned decreases in water consumption and the large adjustments which took place during the time of line breaks and leaks. Total expenditures exceeded budget by almost \$80,000 due in large part to the absence of capitalized labor costs and other previously mentioned external issues.

**CAPITAL ASSETS**

The Commission's investment in capital assets net of depreciation as of June 30, 2014 was \$15,314,991. The table below gives a brief description of capital assets for the Commission. Material activity included installation of new under drains and filter media at the water treatment facility (\$113,600); repairs/replacement of the roof and oxidation ditch/aeration paddles at the wastewater treatment facility (\$90,000); engineering costs on upcoming water line replacement (\$18,000) *to be reimbursed at time of USDA funding*; and office furniture and upgrades to computers and printers at various facilities required by switch to new data provider (\$11,000).

Business-type Activities		
	<u>6/30/2014</u>	<u>6/30/2013</u>
Land	\$ 16,500	\$ 16,500
Construction in process	-	-
Building, net of depreciation	131,427	136,181
Water plant, net of depreciation	4,841,537	596,663
Sewer plant, net of depreciation	8,457,996	13,157,857
Water tanks, net of depreciation	1,659,888	1,717,040
Vehicles, net of depreciation	55,986	74,288
Tools and equipment, net of depreciation	133,201	156,266
Office furniture and fixtures, net of depreciator	<u>18,457</u>	<u>12,983</u>
Total capital assets	<u>\$ 15,314,991</u>	<u>\$ 15,867,778</u>

Additional information on the Commission's capital assets can be found in Note 3.

PRINCETON WATER AND WASTEWATER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014

**DEBT**

The Commission's debt at June 30, 2014 was \$3,761,836 and represented a decrease of \$329,535 from the year before. The Commission's debt is detailed in the table below:

<u>Business-type Activities</u>		
	<u>6/30/2014</u>	<u>6/30/2013</u>
Revenue bonds - 2000 series	1,223,500	1,248,000
Kentucky Infrastructure Authority	389,061	543,086
Kentucky Infrastructure Authority	776,472	852,544
ARRA #209-11	443,617	468,228
ARRA #09-27	573,450	605,264
Fund B #10-06	355,736	374,249
	<u>\$ 3,761,836</u>	<u>\$ 4,091,371</u>

Additional information on the Commission's long-term debt can be found in Note 5.

**REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the Princeton Water and Wastewater's finances for all those with an interest in the entity's finances. Questions or requests for additional information may be addressed to either Joey Anderson, Superintendent, Princeton Water and Wastewater, 101 East Market, Princeton, Kentucky 42445 or Tracy Musgove, Director of Finance, at the same address.

PRINCETON WATER AND WASTEWATER COMMISSION  
STATEMENT OF NET POSITION  
JUNE 30, 2014

**ASSETS**

Current assets:	
Cash and cash equivalents	\$ 715,671
Special Funds - Board Designated	89,868
Special Funds - Restricted	92,720
Accounts receivable	342,278
Other receivables	570
Inventories	<u>230,252</u>
Total current assets	<u>1,471,359</u>
Noncurrent assets:	
Special funds - restricted	<u>398,380</u>
Total noncurrent assets	<u>398,380</u>
Capital assets:	
Utility plant (not being depreciated)	34,500
Utility plant	30,690,592
Less: Accumulated depreciation	<u>(15,410,101)</u>
Total capital assets	<u>15,332,991</u>
Total assets	<u>17,202,730</u>

**LIABILITIES**

Current liabilities:	
Current maturities of long-term debt	335,615
Accounts payable - trade	143,615
Customer deposits	82,154
Accrued liabilities:	
Payroll and other taxes	16,301
Interest	3,134
Other	<u>2,586</u>
Total current liabilities	<u>583,405</u>
Noncurrent liabilities:	
Long-term debt less current maturities	3,426,221
Accrued vacation	<u>11,527</u>
Total noncurrent liabilities	<u>3,437,748</u>
Total liabilities	<u>4,021,153</u>

**NET POSITION**

Net investment in capital assets	11,571,155
Restricted by debt covenant	398,380
Unrestricted	<u>1,212,042</u>
Total net position	<u>\$ 13,181,577</u>

PRINCETON WATER AND WASTEWATER COMMISSION  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2014

**OPERATING REVENUES**

Charges for services	\$ 2,951,510
Rent from utility property	38,625
Other income	14,873
Total operating revenues	3,005,008

**OPERATING EXPENSES**

Administrative expenses	458,376
Water treatment expenses	649,536
Wastewater expenses	616,384
Maintenance expenses	558,587
Depreciation	767,065
Total operating expenses	3,049,948

Operating income (loss)	(44,940)
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**NONOPERATING REVENUES (EXPENSES)**

Interest revenue	2,822
Interest expense	(103,011)
Gain (loss) on sale of capital assets	41,176
Total nonoperating revenue (expenses)	(59,013)

Change in net position	(103,953)
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Total net position - beginning of year	13,285,530
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Total net position - end of year	\$ 13,181,577
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PRINCETON WATER AND WASTEWATER COMMISSION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2014

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash received from customers	\$ 2,977,786
Cash payments to suppliers for goods and services	(961,622)
Cash payments to employees for services	(1,343,696)
	672,468
Net cash provided (used) by operating activities	672,468

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

Acquisition and construction of property, plant and equipment	(236,555)
Proceeds on disposal of capital assets	45,450
Principal payments on long-term debt	(329,536)
Interest paid on long-term debt	(103,011)
	(623,652)
Net cash provided (used) for capital and related financing activities	(623,652)

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Interest on investments	2,822
	2,822
Net cash provided (used) by investing activities	2,822
Net increase (decrease) in cash and cash equivalents	51,638
Cash and cash equivalents, beginning of year	1,245,001
Cash and cash equivalents, end of year	\$ 1,296,639

Reconciliation of cash and cash equivalents:

Current assets - cash, cash equivalents, and special funds	\$ 898,259
Noncurrent assets - special funds restricted	398,380
	398,380
Total cash and cash equivalents	\$ 1,296,639

Reconciliation of operating income (loss) to net cash provided (used) by operating activity:

Operating income (loss)	\$ (44,940)
Adjustments-operating activities	
Depreciation and amortization	767,065
(Increase) decrease in:	
Accounts receivable	(17,091)
Inventories	(22,230)
Increase (decrease) in:	
Accounts payable	70,261
Customer deposits	(10,131)
Accrued liabilities	(70,466)
	(70,466)
Net cash provided (used) by operating activities	\$ 672,468

PRINCETON WATER AND WASTEWATER COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization** - The City of Princeton authorized the Water and Wastewater Commission to serve the needs of its approximately 3,500 customers. The Commission pumps water from the Cumberland River into its water treatment plant located in Lyon County Kentucky. The purified water is pumped approximately fifteen miles to Princeton, Kentucky and stored for sale in water tanks located in the City. The Commission also maintains a wastewater treatment plant located approximately five miles outside the City in Caldwell County, Kentucky.

**Principles determining scope of reporting entity** - Princeton Water and Wastewater is considered a component unit of the City of Princeton. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities.

**Measurement focus, basis of accounting, and financial statement presentation** - Proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Proprietary funds distinguish operating revenues and expenses from non-operating items. The principal operating revenues of the Commission are charges to customers for water and wastewater services. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary fund include the cost of personnel and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When the Commission incurs an expense for which both restricted and unrestricted resources may be used, it is the Commission's policy to use restricted resources first, then unrestricted resources.

**Revenue Recognition** - Revenues are recognized when earned and expenses are recognized when incurred. Commission customers are billed monthly and unbilled service charges are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled \$273,112 at June 30, 2014.

**Fixed Assets** - Fixed assets are carried at cost. Depreciation is computed using the straight-line method. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized. Deduction is made for retirements resulting from renewals or betterments. The estimated useful life of the plant assets is as follows:

Buildings	30 - 40 years
Improvements other than Buildings	33 - 40 years
Machinery and equipment	5 - 10 years
Leasehold improvements	15 - 25 years

**Accounts receivable** - The Commission grants credit to its customers, all of whom are residents or businesses located in Princeton, Caldwell County, and Lyon County, Kentucky. The Commission's policy is to write off uncollectible accounts in the year they are deemed to be uncollectible. The Commission provided for an allowance for uncollectible accounts at June 30, 2014 of \$6,242.

PRINCETON WATER AND WASTEWATER COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Inventories** – Inventories are generally used for replacement of infrastructure and connection of new services and are stated at average cost.

**Net Position** – Equity is classified as net position and displayed in three components:

- Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net position – Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation.
- Unrestricted net position – All other net position that does not meet the definition of “restricted” or “net investment in capital assets”.

**Budget** – The annual budget is prepared, to the extent practical, on a basis consistent with generally accepted accounting principals and, with minor adjustments, is presented in comparison with actual figures.

**Cash and cash equivalents** - For purposes of the statement of cash flows, the Commission considers all highly liquid investments with original maturity of three months or less when purchased to be cash equivalents.

**Accounting estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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.

**2 CASH**

**Deposits** - As of June 30, 2014, the carrying amount of the Commission’s deposits was \$1,296,638 and the bank balance was \$1,302,422.

The Commission has no formal policies in regard to deposits. None of the financial instruments qualify as investments. The only risk that the Commission is exposed to is custodial credit risk from deposits not covered by depository insurance.

*Custodial Credit Risk - Deposits* - Custodial Credit Risk is the risk that in the event of a bank failure, the Commission’s deposits may not be returned to it. The Commission does not have a deposit policy for custodial credit risk.

FDIC insured	\$ 500,000
Uninsured and collateralized with securities Held by the pledging financial institution's agent but not in the Commission's name	<u>802,422</u>
Total Cash	<u><u>\$ 1,302,422</u></u>

PRINCETON WATER AND WASTEWATER COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS

**2 CASH (continued)**

Kentucky Revised Statutes (KRS 66.480) authorize Kentucky municipalities to invest in:

- (a) Obligations of the U. S. Treasury, agencies and instrumentalities. Such investments may be accomplished through repurchase agreements reached with national or state banks chartered in Kentucky;
- (b) Bonds or certificates of indebtedness of the state of Kentucky, agencies and instrumentalities;
- (c) Savings and loan associations insured by the U. S. government;
- (d) Interest-bearing deposits in national or state banks chartered in Kentucky and insured by an agency of the U. S. government;
- (e) Deposit accounts with banking institutions;
- (f) State treasurer investment pool.

**3 CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2014, was as follows:

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2014</u>
Capital assets not being depreciated:				
Land	\$ 16,500	\$ -	\$ -	\$ 16,500
Construction in progress	-	18,000	-	18,000
Capital assets being depreciated:	-		-	
Building & improvements	285,565	3,795	-	289,360
Water plant & distribution	8,843,852	113,591	-	8,957,443
Sewer plant & lines	17,962,506	90,043	14,981	18,037,568
Water tanks	2,470,169	-	-	2,470,169
Vehicles	285,574	-	15,500	270,074
Tools & equipment	531,709	-	-	531,709
Office furniture & fixtures	141,142	11,127	-	152,269
Total	<u>30,537,017</u>	<u>236,556</u>	<u>30,481</u>	<u>30,743,092</u>
Less accumulated depreciation:				
Building & improvements	149,383	8,550	-	157,933
Water plant & distribution	3,895,828	220,078	-	4,115,906
Sewer plant & lines	9,156,011	434,267	10,705	9,579,573
Water tanks	753,131	57,150	-	810,281
Vehicles	211,287	18,301	15,500	214,088
Tools & equipment	375,443	23,065	-	398,508
Office furniture & fixtures	128,158	5,654	-	133,812
Total accumulated depreciation	<u>14,669,241</u>	<u>767,065</u>	<u>26,205</u>	<u>15,410,101</u>
Business type capital assets, net	<u>\$ 15,867,776</u>	<u>\$ (530,509)</u>	<u>\$ 4,276</u>	<u>\$ 15,332,991</u>

Depreciation charged to income was \$767,065 for 2014.

**Impairment Loss-**

The Commission's insurance company has indicated that 100% of the loss resulting from the semi-truck accident and freezing of the oxidation ditch paddles is covered by insurance. As a result, the Commission has recognized \$16,000 and \$29,450 in insurance recoveries resulting from incidents respectively.

PRINCETON WATER AND WASTEWATER COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS

**4 SPECIAL FUNDS**

Special funds consist of the following:

KIA sinking fund	89,868
Bond sinking fund reserve - series 2000	105,311
Replacement account	659,738
Customer deposit funds:	
Customer deposit - cash	92,720
Total of special funds	<u>\$ 947,637</u>
Restricted portion	\$ 491,100
Unrestricted portion	\$ 456,537

The Commission established a KIA Sinking Fund account to escrow on a monthly basis the payments of principal and interest for the KIA funds. It is classified as a current asset because the debt payment funded in the KIA Sinking Fund will be due within one year. The KIA Sinking Fund is not required by the loan agreement and is considered "Board Designated". Therefore it is not shown as a restricted asset in the Net Position section of the Statement of Net Position.

The City of Princeton, Kentucky Water and Sewer Revenue Bonds – Series 2000 requires that the Commission establish a Sinking Fund Reserve in an amount not less than the maximum amount of principal and interest requirements falling due in any twelve-month period on all of the outstanding bonds. At June 30, 2014, the sinking fund balance is sufficient to satisfy such bond requirements.

The Replacement Account represents the amounts required by loan and bond covenants to be set aside for significant repairs or replacements to the existing system. The account is fully funded as of June 30, 2014. Specific requirements of the various loans are:

Issue	Annual Requirement	Maximum Requirement
1995 KIA #A95-15 (1) & (2) **	\$ 20,980	\$ 204,980
2000 KIA #F00-02	\$ 4,000	\$ 80,000
2009 KIA #A09-27 & ARRA #09-11	\$ 5,500	\$ 55,000
2011 KIA #B10-06	\$ 1,100	\$ 11,000
USDA Series 2000 Revenue Bonds	\$ 8,100	For life of loan

The Commission charges a deposit fee to customers when service is established. The customer deposit funds are held in a separate bank account. When service is discontinued, deposits are refunded net of any amounts due for service. See Note 8 for additional information.

PRINCETON WATER AND WASTEWATER COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS

**5 DEBT**

	June 30, 2013			June 30, 2014	
<u>Business-type activities:</u>	<u>Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u>	<u>Current</u>
Accrued vacation	\$ 9,940	\$ 1,587	\$ -	\$ 11,527	\$ -
1) Revenue bonds - 2000 series	1,248,000	-	24,500	1,223,500	26,000
2) Kentucky Infrastructure Authority	543,086	-	154,025	389,061	154,935
3) Kentucky Infrastructure Authority	852,544	-	76,072	776,472	78,990
4) ARRA #A209-11	468,228	-	24,611	443,617	24,860
5) ARRA #A09-27	605,264	-	31,814	573,450	32,130
6) Fund B #10-06	374,249	-	18,513	355,736	18,700
	<u>4,091,371</u>	<u>-</u>	<u>329,535</u>	<u>3,761,836</u>	<u>335,615</u>
	<u>\$ 4,101,311</u>	<u>\$ 1,587</u>	<u>\$ 329,535</u>	<u>\$ 3,773,363</u>	<u>\$ 335,615</u>

1) During 2000, the Commission adopted a resolution to issue \$1,458,000 principal "City of Princeton Water and Sewer Revenue Bonds, Series 2000" for the purpose of financing the cost (not otherwise provided) of the construction of extensions, additions and improvements to the existing combined and consolidated water and sewer system of the City.

The revenue bonds are payable solely from and secured by a first pledge of the Commission revenues. While any bonds are outstanding and unpaid, the Commission will ensure that the treatment plants be continuously operated and maintained in good condition, rates and charges for services rendered will be imposed and collected so that gross revenues will be sufficient at all times to provide for the payment of the operation and maintenance of the plant, to maintain the Depreciation Fund and the Sinking Fund described in Note 4.

In the event there would be a default in the payment of interest on or the principal of the bonds promptly when due, any court having jurisdiction of the action may appoint a receiver to administer said Commission on behalf of the City with power to charge and collect rates sufficient to provide for the payment of operating and maintenance expenses and for the payment of principal of and interest on the outstanding bonds and to provide and apply the income and revenues in conformity with this Ordinance and with the laws of the Commonwealth of Kentucky.

The bond covenants require that the rates for all services rendered by the Commission must be reasonable; the Commission must be audited annually and must maintain adequate employee bonding and property insurance. The bond covenants require that in order to decrease rates or charges, the net revenues must equal or exceed 120% of the average annual debt principal and interest.

Interest, at 4.50%, is paid each January 1 and July 1. The bonds are to mature in annual installments until 2040.

2) On August 1, 1995 the Commission signed an assistance agreement with the Kentucky Infrastructure Authority (KIA) for a loan in the amount of \$2,365,520 at .40% interest and \$597,712 at 1.30% interest to expand and upgrade the existing wastewater treatment plant. Principal and interest payments are due June 1 and December 1 of each year until 2017.

3) On November 1, 2000 the Commission signed an assistance agreement with the Kentucky Infrastructure Authority (KIA) for a loan in the amount of \$1,500,000 at 3.80% interest to expand and upgrade the existing water treatment plant. Principal and interest payments are due June 1 and December 1 of each year until 2023.

PRINCETON WATER AND WASTEWATER COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS

This loan has been conditionally approved by the USDA to refinance under the planned issue. The first draw of the new loan will be in an amount to retire this obligation.

**5 DEBT (continued)**

4) During 2010 the Commission signed an assistance agreement with the Kentucky Infrastructure Authority (KIA) for a federal loan from the American Recovery and Reinvestment Act of 2009 funds. The loan was in the amount of \$1,103,744 with a 52% principal forgiveness portion. The remaining portion of \$528,693 was at 1.00% interest with principal and interest payments due on June 1 and December 1 of each year until 2031.

5) During 2011 the Commission signed an assistance agreement with the Kentucky Infrastructure Authority (KIA) for a federal loan from the American Recovery and Reinvestment Act of 2009 funds. The loan was in the amount of \$1,149,256. The interest rate was 1.00% with principal and interest payments due on June 1 and December 1 of each year until 2031.

6) During 2012 the Commission signed an assistance agreement with the Kentucky Infrastructure Authority (KIA) for a loan in the amount of \$430,675 at 1.00% interest for Jeff Watson Road and Cardinal Lane lift stations. Principal and interest payments are due June 1 and December 1 of each year until 2032.

Maturity Date	Principal Amount	Interest	Total
2015	\$ 335,615	\$ 98,836	\$ 434,451
2016	340,529	92,949	433,478
2017	269,079	86,875	355,954
2018	195,347	81,308	276,655
2019	201,521	75,785	277,306
2020-2024	930,996	291,891	1,222,887
2025-2029	644,699	199,862	844,561
2030-2034	428,550	127,099	555,649
2034-2039	339,500	56,644	396,144
2040	76,000	1,710	77,710
	<u>\$ 3,761,836</u>	<u>\$ 1,112,959</u>	<u>\$ 4,874,795</u>

Total interest expense for the year ended June 30, 2014 was \$103,011.

PRINCETON WATER AND WASTEWATER COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS

**6 PENSION PLAN**

On May 18, 2001, the Commission approved a resolution to participate in the County Employees Retirement System effective June 1, 2001.

The County Employees Retirement System (CERS) is a multiple employer cost sharing defined benefit public employee retirement system which covers substantially all regular full-time employees of each county and local government agency. The plan provides for retirement, disability and death benefits to plan members. Copies of the CERS audit may be obtained from Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

CERS participants have a fully vested interest after completion of sixty (60) months of service, twelve (12) months of which are current service. At a minimum, terminated employees are refunded their contributions with credited interest at 3 percent thereafter. CERS determines and may amend contribution rates, per Kentucky Revised Statute, if it is determined on a basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the CERS.

CERS covered employees were required to contribute an amount equal to 5.00% of gross pay and all employees that began participating after September 1, 2008 are required to contribute an additional 1.00% for health coverage. The employer was required to contribute an amount equal to 18.89% of gross pay for the year ended June 30, 2014.

Trend information:

Schedule of Employer Contributions			
<u>Year Ended</u>	<u>Required</u> <u>Contribution</u>	<u>Annual</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
June 30, 2014	\$ 146,422	\$ 146,422	100%
June 30, 2013	\$ 146,082	\$ 146,082	100%
June 30, 2012	127,850	127,850	100%

**7 ACCRUED VACATION AND SICK PAY**

The Commission has adopted a vacation policy whereby employees can carry over no more than 40 unused and accrued vacation hours annually. In order to accommodate those employees having large amounts of annual vacation accrual, the Commission allows employees to request payment for a maximum of five days during any one calendar year. As of June 30, 2014, the amount of accrued vacation liability was \$11,527.

Employees accrue six days of sick pay per calendar year in addition to six days of medical leave pay. Medical leave is to be used when an employee or close family member has an illness that lasts for three or more days. At the end of the calendar year, all unused sick time will be transferred to the employee's medical leave account. Unused medical leave can be carried over and accumulate up to a maximum of 150 days or 1,200 hours. Upon termination, for any reason other than retirement, an employee's accumulated and unused sick and medical leave is forfeited. If, upon an employee's approved retirement, he or she has unused and accumulated sick and medical leave that is greater than or equal to 25% of the possible number of sick and medical leave hours to which they

PRINCETON WATER AND WASTEWATER COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS

have been entitled during their tenure, then, upon their retirement, they shall be paid a lump sum amount equal to 50% x their daily wage in effect at that time.

**7 ACCRUED VACATION AND SICK PAY (continued)**

It is impracticable to estimate the amounts of compensation for future medical leave, and, accordingly, no liability has been recorded in the accompanying financial statements. The Commission's policy is to recognize the cost of compensated medical leave when actually paid to an employee and to budget for anticipated lump sum payouts in the year applicable to the proposed retirement.

**8 CUSTOMERS' DEPOSIT FUND**

Effective May 1, 1979, the Princeton Water and Wastewater System began to pay interest on meter deposits at an interest rate of 6 percent. Accrued interest on these deposits was \$6,599 as of June 30, 2014. This practice was discontinued in August 2004; however, interest up to that point remains a liability.

The amount reported as a liability for customer deposits as of June 30, 2014 was \$82,154 including the above interest. Assets available for retirement of this liability and the accrued interest described above are \$92,720 at June 30, 2014.

**9 RISK MANAGEMENT**

The Princeton Water and Wastewater System 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. The Commission covers these risks with insurance.

**10 CONCENTRATION OF CREDIT RISK**

The Princeton Water and Wastewater System grants credit to its customers, all of whom are residents or businesses located in and around Princeton, Kentucky.

**11 EXCESS OF EXPENDITURES OVER BUDGET**

At June 30, 2014, the Princeton Water and Wastewater had expenditures in funds that exceeded the budget; however, this does not constitute a violation of any legal provision.

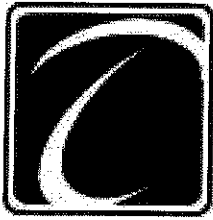
**12 SUBSEQUENT EVENT**

As of June 30, 2014 Princeton Water and Wastewater was approved for a loan from USDA. The conditional approval was issued for a total project of \$3,502,500. Plans are for the USDA to finance 70% of the project (\$2,739,000) at 2.625% over a 40 year term. A grant in the maximum amount of \$763,500 will fund the balance of the project. No funds of the Princeton Water and Wastewater Commission are required to be contributed. The proceeds of the loan will be used for water system improvements and to pay off an existing Kentucky Infrastructure Authority Loan.

PRINCETON WATER AND WASTEWATER COMMISSION  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
BUDGET AND ACTUAL  
FOR THE YEAR ENDEND JUNE 30, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Charges for services	\$ 3,008,800	\$ 3,008,800	\$ 2,951,510	\$ (57,290)
Other income	44,700	44,700	53,498	8,798
Interest income	3,600	3,600	2,822	(778)
<b>Total revenues</b>	<u>3,057,100</u>	<u>3,057,100</u>	<u>3,007,830</u>	<u>(49,270)</u>
<b>Expenditures:</b>				
Salary and related	1,253,000	1,253,000	1,273,230	(20,230)
Capital cost of labor	-	-	(3,980)	3,980
Supplies and chemicals	183,000	183,000	198,972	(15,972)
Utilities	366,100	366,100	367,170	(1,070)
Gasoline and oil	35,200	35,200	31,545	3,655
Repairs	75,000	75,000	64,744	10,256
Insurance	85,000	85,000	98,661	(13,661)
Professional services	95,500	95,500	102,425	(6,925)
Postage	14,000	14,000	13,446	554
Rental and lease	4,000	4,000	11,429	(7,429)
Sludge removal	25,000	25,000	33,721	(8,721)
Materials expense	50,000	50,000	56,488	(6,488)
Freight	4,000	4,000	3,013	987
Interest expense	105,200	105,200	103,011	2,189
Miscellaneous	28,500	28,500	32,019	(3,519)
Depreciation	750,000	750,000	767,065	(17,065)
<b>Total expenditures</b>	<u>3,073,500</u>	<u>3,073,500</u>	<u>3,152,959</u>	<u>(79,459)</u>
<b>Nonoperating revenues (expenditures):</b>				
Gain (loss) on sale of capital assets	-	-	41,176	41,176
<b>Excess of revenues over (under) expenditures</b>	<u>\$ (16,400)</u>	<u>\$ (16,400)</u>	(103,953)	<u>\$ (87,553)</u>
<b>Fund balances, beginning of year</b>			<u>13,285,530</u>	
<b>Fund balances, end of year</b>			<u>\$ 13,181,577</u>	

The accompanying notes are an integral part of these financial statements



THURMAN CAMPBELL GROUP, PLC  
CERTIFIED PUBLIC ACCOUNTANTS

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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*

To the Commission  
Princeton Water and Wastewater Commission

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 Princeton Water and Wastewater Commission, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Princeton Water and Wastewater's basic financial statements, and have issued our report thereon dated September 18, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Princeton Water and Wastewater Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Princeton Water and Wastewater Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of Princeton Water and Wastewater'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

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

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Thurman Campbell Group, PLC*

Princeton, KY  
September 18, 2014