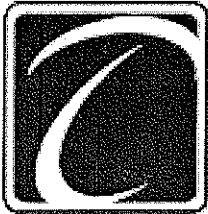


**PRINCETON WATER AND WASTEWATER COMMISSION
FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT**

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THURMAN CAMPBELL GROUP, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Princeton Water and Wastewater Commission

We have audited the accompanying financial statements of Princeton Water and Wastewater Commission as of and for the year ended June 30, 2015, 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 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 Princeton Water and Wastewater Commission, as of June 30, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, 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, KY, as of June 30, 2015, 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.

Change in Accounting Principle

As described in Note 14 to the financial statements, in 2015, the Commission adopted the following new accounting guidance:

- GASB Statement No. 68, Accounting and Financial Reporting for Pensions- An Amendment of GASB Statement No. 27
- GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date- An Amendment of GASB Statement No. 68

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of proportionate share of the net pension liability, schedule of contributions and budgetary comparison information on pages 3-11, 28, 29, and 31 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 December 18, 2015, 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 the Princeton Water and Wastewater Commission's internal control over financial reporting and compliance.

Thurman Campbell Group, PLC

Princeton, KY
August 11, 2016

PRINCETON WATER AND WASTEWATER COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015

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, 2015. 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. While increases to the sewer rates have typically been forthcoming more frequently, water rates had not increased since January 2011. Therefore, the Commission voted to increase water and sewer rates on average by 8% effective September 1, 2014. In addition, due to higher expenditures related to providing water to customers outside of the city limits, the Commission approved an increase in the surcharge from 40% to 75%. Thus, operating revenues grew by 5.5% on the strength of water sales which topped \$1.5 million for the first time. Total operating revenues were \$166,000 higher than fiscal year 2014 and totaled \$3,171,050. Operating expenses, on the other hand, continued to climb but at a much slower pace (1.8%) than the 5.5% increase experienced the previous fiscal year, and topped \$3.1 million leading to an overall operating income of \$66,878 as compared to an operating loss of \$44,940 experienced in fiscal year 2014.

In previous years, weather abnormalities have challenged the Commission; however, fiscal year 2015 was challenged less by the weather and more by issuance of new accounting standards, namely the Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. According to the Government Accounting Standards Board website www.gasb.org, this statement seeks to improve how governmental agencies "measure and report the long-term obligations and annual costs associated with the pension benefits they provide". Since the Commission provides employees with retirement benefits through the County Employees Retirement System (CERS), the state calculated its future amount of pension liabilities and allocated portions to the various agencies based on the percentage paid in during the measurement period (presumably fiscal year 2013). Thus, the Commission recognized > \$1.2 million in future pension liabilities.

While new statements by GASB affected the financial presentment of the Commission's statements, other changes related to billing and employee changes affected the bottom line. In July 2014, the new operator at the water treatment plant resigned and an administrative associate retired while the wastewater treatment plant lost an operator during August. The wastewater opening was filled in October with an operator trainee while a new water treatment operator was not hired until March 2015. Finally, the retired office worker was replaced by a part-time employee rather than hiring another full-time associate. Added familiarity with the new QS1 data system allowed office staff to consolidate billing from ten routes and five cycles into four routes and one cycle with one due date now being on the 5th of the month for all customers. Doing this allowed office personnel to redistribute work schedules around less busier times of the month (i.e. due dates and pull dates) and allowed maintenance to better plan their schedules due to less time being spent reading meters and now having only one pull date

PRINCETON WATER AND WASTEWATER COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015

versus the previous five. Additionally, whereas previous billings were approximately 45 days in arrears, the new cycle improved cash collection by eliminating approximately three weeks from the billing gap.

As previously mentioned, weather typically plays a role in the revenues and expenses of utilities and fiscal year 2015 did not escape Mother Nature's tricks. The first quarter started out like a roller coaster. July was dry with only 1.56 inches of rainfall recorded, August rebounded with > 9 inches of rain and September dried up again with < 1 inch of rain for the entire month but with cooler than normal temperatures. The second quarter was uneventful as was the first six weeks of the third quarter; however, February and March saw back to back significant snowfalls and frigid conditions that seriously affected the operations of the wastewater treatment plant where the aerators and clarifiers literally froze up. Wastewater operators worked around the clock one entire weekend busting ice jams and logged over 100 hours of overtime in an attempt to keep the equipment in working order. According to data provided through UK Ag Weather website, <http://weather.uky.edu/ky/data.php>, from February 12th through the 28th, the daily temperature average was below freezing with a low of negative 13 degrees registered on February 19th. Frigid temperatures were coupled with more than a foot of snow on President's Day followed by another 14+ inches during the first week of March when temperatures nosedived again to a minus 10 on March 6th. Within a week, temps were approaching the 70's and significant line breaks started to occur causing significant overtime among the maintenance staff. During the six weeks from President's Day through the end of March, maintenance staff worked 240 hours of overtime in addition to the 128 regular hours of call time. A disaster was later declared by FEMA and a claim of almost \$40,000 was submitted with approval pending at this writing. This seemed like a replay of the previous January and February when unbudgeted overtime totaled 521 hours and accounted for almost \$18,000 in employee related costs. Leaks had a further impact on the revenue side with customers requesting adjustments due to frozen pipes and burst lines. Water and sewer adjustments were more than \$26,000 during the January – April timeframe.

Finally, the Commission continues to work toward the start of the water line improvement project approved for conditional USDA funding in January 2014. While last year it was thought that construction would begin in late spring or summer of 2015, environmental factors, easements and engineering changes all worked to delay the project until fiscal year 2017 at the earliest.

Other notable items include:

- The assets and deferred outflows of the Commission exceeded its liabilities and deferred inflows by \$11,949,375 at June 30, 2015. Of this amount \$395,580 is restricted by debt covenants and customer deposits.
- The amount of Net Position Invested in Capital Assets, net of Related Debt (\$11,449,220) decreased \$121,935 from the June 30, 2014 balance of \$11,571,155.
- The Commission recognized operating income for the fiscal year ending June 30, 2015 in the amount of \$66,878 as compared to an operating loss of (\$44,940) at June 30, 2014. Rate increases from both sewer and water was the major contributing factor.
- The overall Change in Net Position for the year was (\$12,993) as compared to (\$103,953) as recognized at June 30, 2014. The decrease was lessened by the aforementioned rate increase and savings in salaries and benefits.

PRINCETON WATER AND WASTEWATER COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015

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 deferred outflows, liabilities, and deferred inflows 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 12-13 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 14 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 15 of this report.

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 16-27 of this report.

Supplementary Information- In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information as concerning budgetary comparison, and the Schedule of Proportionate Share of Net Pension Liability- County Employee Retirement System and

PRINCETON WATER AND WASTEWATER COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015

Schedule of Contributions- County Employee Retirement System. Required supplementary information can be found on page 28-31 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 amounts of government aid and dwindling skilled labor resources. All of these issues in one way or another have an effect on the finances of the Commission. Utilities big and small across the United States are dealing with unprecedented deterioration in infrastructure and the prospects of replacement at a time when low cost governmental funding has all but dried up. Government funds are critical for utilities since infrastructure projects must be amortized 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 a willingness to implement and embrace change when situations call for it. Management must stay abreast of changing regulations and fully understand the financial implications in order to pass along increases in costs with timely rate structure revisions. It is the position of the Commission to pass along rate increases more frequently rather than hold back and suffer large losses. When accumulated over time, lessen the ability to provide for quality services and necessary repairs and/or replacement of plant and equipment.

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. Due to the implementation of GASB Statement No. 68, the PWWC's leverage ratio increased to $0.41x$ from $0.31x$. Still, leverage ratios $< 1.0x$ are an indicator of a good credit risk and shows the Commission has additional debt capacity as projects become warranted. As was the case with leverage, the Net Position (i.e. equity) of the Commission was also affected by GASB 68. While the Commission's Net Position stands at $2.43x$ higher than its liabilities, the \$1.2+ million adjustment due to the pension liability recognition lowered the Net Position by almost 26% from the $3.28x$ recognized at the end of the previous fiscal year.

In addition to strong equity and low leverage, businesses of all types need to have sufficient cash on hand (i.e. liquidity) in order to meet 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 \$78,859 while current liabilities decreased by almost \$10,000. With increases in accounts receivable and inventories, the current ratio (Current Assets divided by Current Liabilities) improved to $2.61x$ from the $2.52x$ recorded a year earlier. More importantly, working capital (the dollar amount by which current assets exceed current liabilities) continued to strengthen to $> \$957,000$ from the previous year's \$888,000, representing a 7.8% increase. At June 30, 2015, the Commission had unrestricted cash and cash equivalents in an amount sufficient to cover > 82 days of total operating expenses including the full amount of depreciation expense. One

PRINCETON WATER AND WASTEWATER COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015

should note, however, that restricted funds of \$395,580 are not included as current assets nor days cash on hand even though these funds could be utilized upon approval of the funding agencies for capital asset replacement and other funding needs if necessary. If included, these ratios would be even higher.

An entity's Net Position can serve as a useful indicator of the strength or weakness of its financial position. The Commission's assets exceeded liabilities which included \$1,224,123 in net pension liabilities by \$11,908,035 at June 30, 2015. The Commission reported a negative change in Net Position for the year ending June 30, 2015 of \$12,993 as compared to the negative change of \$103,953 recorded for the previous year.

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		
	<u>6/30/2015</u>	<u>6/30/2014</u>
Assets:		
Current and other assets	\$ 1,550,218	\$ 1,471,359
Capital assets	14,875,441	15,332,991
Noncurrent assets	<u>395,580</u>	<u>398,380</u>
Total assets	16,821,239	17,202,730
Deferred outflows		
Deferred outflows related to pensions	<u>134,426</u>	-
Total deferred outflows	134,426	-
Liabilities:		
Long-term liabilities	4,320,008	3,437,748
Other liabilities	<u>593,196</u>	<u>583,405</u>
Total liabilities	4,913,204	4,021,153
Deferred outflows		
Deferred outflows related to pensions	<u>95,486</u>	-
Total deferred outflows	95,486	-
Net position:		
Net investment in capital assets	11,449,220	11,571,155
Restricted position	395,580	398,380
Unrestricted position	<u>102,175</u>	<u>1,212,042</u>
Total net position	<u>\$ 11,946,975</u>	<u>\$ 13,181,577</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.

PRINCETON WATER AND WASTEWATER COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015

The unrestricted portion of the Commission's net position totaled \$102,175 and declined substantially from the \$1,212,042 recorded at June 30, 2014. The decline was directly attributable to recognizing future pension liabilities as required by the adoption of GASB Statement No. 68. This amount, along with ongoing earnings from operations, 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>6/30/2015</u>	<u>6/30/2014</u>
Operating revenues	\$ 3,171,050	\$ 3,005,008
Expenses:		
Operating expenses	<u>3,104,172</u>	<u>3,049,948</u>
Operating income	66,878	(44,940)
Non-operating income	18,978	43,998
Non-operating expenses	<u>(98,849)</u>	<u>(103,011)</u>
Change in net position	<u>\$ (12,993)</u>	<u>\$ (103,953)</u>

Charges for services during the year were approximately \$168,000 or 5.7% ahead of the previous year due to the increase in rates as previously mentioned. While water revenues exceeded budget by ~ \$26,000, sewer revenues fell short of budget by almost \$40,000. Fee income from customer service charges, connections, visit fees and penalty income were \$12,000 ahead of budget and lessened the impact of lower sewer revenues. However, total revenues from all recurring sources still ended short of budget by almost \$8,000.

Total Operating Expenses increased by 1.8% or roughly \$54,000 due mainly to sludge removal and lagoon cleanout at the treatment facilities along with materials expense related to ongoing maintenance of lines. Savings in salaries and benefits of almost \$60,000 were not sufficient to fully offset these expenditures and total expenses for the year were almost \$16,000 higher than budget. Expenditure categories with variances (both positive and negative) of > \$5,000 from year to year were:

- Salaries and employee related benefits decreased by ~ \$59,300 due to the following: two administrative associates retired with one being replaced by a part-time employee; seven months passed before the vacancy at the water treatment plant was filled while two months passed before filling a vacancy at the wastewater plant. Differences in starting pay and replacing family insurance policies with single coverage made a positive impact on operating costs.
- Chemicals and supplies were \$7,100 higher than the previous year but at budget.
- Gas and oil expenses declined by almost \$6,400 or 20% from the previous year due to the continued drop in world petroleum prices.
- Insurance premiums for property, general liability and worker's compensation continued to rise and increased \$12,600 from fiscal year 2014, representing a 12.7% increase. In the past three fiscal years, this expense category has increased 30.9% and is expected to go even higher since new appraisals of property are to be completed in the upcoming fiscal year.

PRINCETON WATER AND WASTEWATER COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015

- Professional Services (i.e. engineers and attorneys) & Lab Fees were ~\$6,400 higher than the previous year due to continued increases in lab fees caused by new testing and lab requirements mandated at the state level which led to more outsourcing of lab work that once was done internally.
- Sludge removals costs were \$39,100 higher than the previous year but under budget by almost \$14,000. The cleaning of the lagoons at the water treatment plant occurs every other year with 2014 being a skipped year. Therefore, the lagoon cleaning costs were factored into the budget. The reason for sludge removal costs being under budget was due to the implementation of land farming at the wastewater treatment plant which resulted in significant savings.
- Materials expense was \$31,800 higher than the previous year due in large part to the implementation of the new inventory system and the ability to capture full materials costs by job. In addition, several of the line breaks and maintenance jobs involved rather expensive replacement parts which also contributed to the increase.
- Depreciation expense was \$12,500 higher due to additional equipment being placed in service.

Even with the challenges presented, 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 without borrowing funds. With the Net Position loss being almost \$91,000 less than the loss posting for fiscal year 2014, the Commission's Debt Service Coverage ratio improved to 1.99x from the previous year's ratio of 1.76x. Debt Service Coverage is calculated according to the loan covenants and can be represented as follows:

$$\frac{\text{Change in Net Position} + \text{Depreciation} + \text{Interest Expense}}{\text{Maximum Annual Debt Service}}$$

Or

$$\frac{(\$12,993) + \$779,576 + \$98,849}{\$435,044}$$

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 79 basis points or 66%.

BUDGETARY HIGHLIGHTS

The final budget passed by the Commission anticipated a decrease of \$6,700 in Net Position as compared to the actual decrease of almost \$13,000. Actual revenues were under budget by \$7,250 while expenses ended the year at \$19,472 over budget. A gain on sale of capital assets (i.e. insurance proceeds on fully depreciated assets) of \$17,557 helped to minimize what would have been a larger loss in Net Position.

PRINCETON WATER AND WASTEWATER COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015

CAPITAL ASSETS

The Commission's investment in capital assets net of depreciation as of June 30, 2015 was \$14,875,441. The table below gives a brief description of capital assets for the Commission.

	Business-type Activities	
	<u>6/30/2015</u>	<u>6/30/2014</u>
Land	\$ 16,500	\$ 16,500
Construction in process	109,464	18,000
Building, net of depreciation	139,870	136,181
Water plant, net of depreciation	4,669,711	596,663
Sewer plant, net of depreciation	8,085,132	13,157,857
Water tanks, net of depreciation	1,602,737	1,717,040
Vehicles, net of depreciation	82,515	74,288
Tools and equipment, net of depreciation	156,370	156,266
Office furniture and fixtures, net of depreciator	13,142	12,983
Total capital assets	<u>\$ 14,875,441</u>	<u>\$ 15,885,778</u>

Additional information on the Commission's capital assets can be found in Note 3 in the footnotes on page 19.

DEBT

The Commission's debt at June 30, 2015 was \$3,426,223 and represented a decrease of > \$335,000 from the year before. The Commission's debt is detailed in the table below:

	Business-type Activities	
	<u>6/30/2015</u>	<u>6/30/2014</u>
Revenue bonds - 2000 series	1,197,500	1,248,000
Kentucky Infrastructure Authority	234,126	543,086
Kentucky Infrastructure Authority	697,481	852,544
ARRA #209-11	418,758	468,228
ARRA #09-27	541,320	605,264
Fund B #10-06	337,038	374,249
	<u>\$ 3,426,223</u>	<u>\$ 4,091,371</u>

Additional information on the Commission's long-term debt can be found in Note 5 in the footnotes on page 21.

PRINCETON WATER AND WASTEWATER COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015

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, 2015

ASSETS

Current assets:	
Cash and cash equivalents	\$ 700,582
Special Funds - Board Designated	29,905
Special Funds - Restricted	103,570
Accounts receivable	411,245
Other receivables	99
Inventories	304,817
Total current assets	<u>1,550,218</u>
Noncurrent assets:	
Special funds - restricted	<u>395,580</u>
Total noncurrent assets	<u>395,580</u>
Capital assets:	
Construction in progress	109,464
Land	16,500
Utility plant	30,805,711
Less: Accumulated depreciation	<u>(16,056,234)</u>
Total capital assets	<u>14,875,441</u>
Total assets	<u>16,821,239</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to pensions	<u>134,426</u>
Total deferred outflows of resources	<u>134,426</u>

PRINCETON WATER AND WASTEWATER COMMISSION
STATEMENT OF NET POSITION
JUNE 30, 2015

LIABILITIES

Current liabilities:	
Current maturities of long-term debt	340,818
Accounts payable - trade	45,310
Customer deposits	91,643
Accrued liabilities:	
Payroll and other taxes	27,026
Interest	3,134
Other	85,265
Total current liabilities	<u>593,196</u>
Noncurrent liabilities:	
Net pension liability	1,224,123
Long-term debt less current maturities	3,085,405
Accrued vacation	10,480
Total noncurrent liabilities	<u>4,320,008</u>
Total liabilities	<u>4,913,204</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions	<u>95,486</u>
Total deferred inflows of resources	<u>95,486</u>

NET POSITION

Net investment in capital assets	11,449,220
Restricted by debt covenant	395,580
Unrestricted	102,175
Total net position	<u>\$ 11,946,975</u>

PRINCETON WATER AND WASTEWATER COMMISSION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015

OPERATING REVENUES

Charges for services	\$ 3,119,275
Rent from utility property	37,559
Other income	14,216
Total operating revenues	3,171,050

OPERATING EXPENSES

Administrative expenses	501,872
Water treatment expenses	652,616
Wastewater expenses	589,079
Maintenance expenses	581,029
Depreciation	779,576
Total operating expenses	3,104,172

Operating income (loss)	66,878
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NONOPERATING REVENUES (EXPENSES)

Interest revenue	1,421
Interest expense	(98,849)
Gain (loss) on sale of capital assets	17,557
Total nonoperating revenue (expenses)	(79,871)

Change in net position	(12,993)
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Total net position - beginning of year, restated	11,959,968
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Total net position - end of year	\$ 11,946,975
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PRINCETON WATER AND WASTEWATER COMMISSION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 3,112,043
Cash payments to suppliers for goods and services	(1,283,554)
Cash payments to employees for services	(1,157,981)
Net cash provided (used) by operating activities	670,508

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition and construction of property, plant and equipment	(334,821)
Proceeds on disposal of capital assets	3,000
Insurance proceeds	27,351
Principal payments on long-term debt	(335,613)
Interest paid on long-term debt	(98,849)
Net cash provided (used) for capital and related financing activities	(738,932)

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest on investments	1,421
Net cash provided (used) by investing activities	1,421
Net increase (decrease) in cash and cash equivalents	(67,003)
Cash and cash equivalents, beginning of year	1,296,640
Cash and cash equivalents, end of year	\$ 1,229,637

Reconciliation of cash and cash equivalents:

Current assets - cash, cash equivalents, and special funds	\$ 834,057
Noncurrent assets - special funds restricted	395,580
Total cash and cash equivalents	\$ 1,229,637

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

Operating income (loss)	\$ 66,878
Adjustments-operating activities	
Depreciation and amortization	779,576
(Increase) decrease in:	
Accounts receivable	(68,967)
Other receivables	471
Prepays	-
Inventories	(74,565)
Deferred outflows	(134,426)
Increase (decrease) in:	
Accounts payable	(98,305)
Customer deposits	9,489
Accrued liabilities	94,871
Deferred inflows	95,486
Net cash provided (used) by operating activities	\$ 670,508

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO 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 \$250,237 at June 30, 2015.

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, 2015 of \$16,478.

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO 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.

Pensions -For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the County Employees Retirement System in the Kentucky Retirement Systems (KRS) and additions to/deductions from the plan’s fiduciary net position have been determined on the same basis as they are reported by the KRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the County Employees Retirement System. Investments are reported as fair value.

Deferred Outflows and Inflows of Resources – Effective for the fiscal year ending June 30, 2014, the Commission adopted provisions of Governmental Accounting Standards Board (GASB), Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflow of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses or expenditures) or inflows of resources (revenues), certain items that were previously reported as assets and liabilities.

In addition to liabilities, assets and net position, the statement of net position/balance sheet will sometimes report a separate section for deferred outflows and inflows of resources. This separate financial statement element, deferred outflows and inflows of resources, represents an acquisition of net position or fund balance that applies to a future period and so will not be recognized as an expenditure or revenue, respectively until that time. The Statement of Net Position reports deferred outflows and inflows related to pension requirements.

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS

2 CASH

Deposits - As of June 30, 2015, the carrying amount of the Commission's deposits was \$1,229,637 and the bank balance was \$1,249,534.

FDIC insured	\$ 375,000
Uninsured and collateralized with securities Held by the pledging financials institution's agent but not in the Commission's name	<u>874,534</u>
Total Cash	<u>\$ 1,249,534</u>

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.

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.

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS

3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015, was as follows:

	<u>June 30, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2015</u>
Capital assets not being depreciated:				
Land	\$ 16,500	\$ -	\$ -	\$ 16,500
Construction in progress	18,000	91,464	-	109,464
Capital assets being depreciated:				
Building & improvements	289,360	16,465	-	305,825
Water plant & distribution	8,957,443	50,274	-	9,007,717
Sewer plant & lines	18,037,568	64,829	-	18,102,397
Water tanks	2,470,169	-	-	2,470,169
Vehicles	270,074	50,411	102,408	218,077
Tools & equipment	531,709	61,378	43,830	549,257
Office furniture & fixtures	152,269	-	-	152,269
Total	<u>30,743,092</u>	<u>334,821</u>	<u>146,238</u>	<u>30,931,675</u>
Less accumulated depreciation:				
Building & improvements	157,933	8,022	-	165,955
Water plant & distribution	4,115,906	222,100	-	4,338,006
Sewer plant & lines	9,579,573	437,692	-	10,017,265
Water tanks	810,281	57,151	-	867,432
Vehicles	214,088	23,882	102,408	135,562
Tools & equipment	398,508	25,414	31,035	392,887
Office furniture & fixtures	133,812	5,315	-	139,127
Total accumulated depreciation	<u>15,410,101</u>	<u>779,576</u>	<u>133,443</u>	<u>16,056,234</u>
Capital assets, net	<u>\$ 15,332,991</u>	<u>\$ (444,755)</u>	<u>\$ 12,795</u>	<u>\$ 14,875,441</u>

Depreciation charged to income was \$779,576 for 2015.

Impairment Loss-The Commission's insurance company has indicated that loss resulting from a truck accident and lighting damage is covered by insurance. As a result, the Commission has recognized \$7,371 and \$19,980 in insurance recoveries resulting from incidents respectively.

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS

4 SPECIAL FUNDS

Special funds consist of the following:

KIA sinking fund	\$	29,905
Bond sinking fund reserve - series 2000		113,422
Replacement account		564,506
Customer deposit funds:		
Customer deposit - cash		103,570
Total of special funds	\$	811,404
Restricted portion	\$	499,150
Unrestricted portion	\$	312,254

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, 2015, 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 FINANCIAL STATEMENTS

5 DEBT

	June 30, 2014			June 30, 2015	
	<u>Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u>	<u>Current</u>
Accrued vacation	\$ 11,527	\$ -	\$ 1,047	\$ 10,480	\$ -
1) Revenue bonds - 2000 series	1,223,500	-	26,000	1,197,500	26,500
2) Kentucky Infrastructure Authority	389,061	-	154,935	234,126	155,852
3) Kentucky Infrastructure Authority	776,472	-	78,991	697,481	82,021
4) ARRA #A209-11	443,617	-	24,859	418,758	25,107
5) ARRA #A09-27	573,450	-	32,130	541,320	32,452
6) Fund B #10-06	355,736	-	18,698	337,038	18,886
	<u>3,761,836</u>	<u>-</u>	<u>335,613</u>	<u>3,426,223</u>	<u>340,818</u>
	<u>\$ 3,772,316</u>	<u>\$ -</u>	<u>\$ 336,660</u>	<u>\$ 3,436,703</u>	<u>\$ 340,818</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.

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS

5 DEBT (continued)

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

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.

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 340,818	\$ 92,949	\$ 433,767
2017	269,079	86,875	355,954
2018	195,347	81,308	276,655
2019	201,521	75,785	277,306
2020	206,832	70,056	276,888
2021-2025	847,712	267,344	1,115,056
2026-2030	658,971	185,532	844,503
2031-2034	352,729	113,222	465,951
2035-2040	353,216	41,051	394,267
	<u>\$ 3,426,225</u>	<u>\$ 1,014,122</u>	<u>\$ 4,440,347</u>

Total interest expense for the year ended June 30, 2015 was \$98,849.

6 PENSION PLAN

Plan description- Employees with membership in the Kentucky Retirement Systems (KRS) are provided with pensions through the County Employee Retirement System (CERS), a cost sharing multiple-employer pension plan administered by the KRS. The KRS was created by state statute under Kentucky Revised Statute Chapter 61. The KRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the KRS. The Kentucky Department of Revenue, an agency in the legislative branch of state government, administers the plans of the KRS. The KRS issues a publically available financial report that can be obtained at www.kyret.ky.gov.

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS

6 PENSION PLAN (continued)

Benefits provided- Kentucky Revised Statute Chapter 61 established the benefit terms and can be amended only by the Kentucky General Assembly.

Members of the CERS (nonhazardous), participating prior to September 1, 2008 (Tier 1), are eligible to retire with an unreduced benefit at age 65 or any age with over 27 years of service credit. Benefits are determined by a formula using the member's five highest annual compensations and the member's years of service. A reduced early retirement benefit is available at age 65 with at least 25 years, but less than 27 years of service credit, or at age 55 with 5 years of service credit.

Members of the CERS (nonhazardous), participating after September 1, 2008 but before January 1, 2014 (Tier 2), are eligible to retire with an unreduced benefit at age 57 if age plus service credits equal 87 years at retirement or after age 65 with 5 years of service credit. Benefits are determined by a formula using the member's last five consecutive years compensation and the member's years of service credit. A reduced early retirement benefit is available at age 60 with at least 10 years of service credit.

Members of the CERS (nonhazardous), participating after January 1, 2014 (Tier 3), are eligible to retire with an unreduced benefit at age 57 if age plus service credits equals 87 years at retirement or after age 65 with 5 years of service credit.

Service related disability benefits are provided for all three tiers regardless of length of service. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustment (COLAs) after retirement. The COLA has increased annually by 1.5% since July 1, 2003. A member who leaves employment may withdraw their employee contribution, plus any accumulated interest.

Contributions-Contributions for members are established in the statutes governing the KRS and may only be changed by the Kentucky General Assembly. CERS covered employees are required to contribute 5% of gross pay and all employees that began participating after September 1, 2008 are required to contribute an additional 1% for health coverage. The agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the CERS are required to be paid. Employer contributions by the Commission for the year ended June 30, 2015 to the CERS were \$163,512 which is 21.09% of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

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

Pension liability- At June 30, 2014, the Commission reported a liability of \$1,224,123 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The Commission's proportion of the net pension liability was based on the Commission's contributions to the pension plan during the year ended June 30, 2014, relative to the contributions of all members for the year ended June 30, 2014. At the June 30, 2014 measurement date, Commission's proportion was 0.037731 percent. No update procedures were used to determine the total pension liability. An expected total pension liability is determined as of July 1, 2013, using standard roll back techniques. The roll back calculation subtracts the annual normal cost (also called the service cost), adds the actual benefit payments and refunds for the plan year and then applies the expected investment rate of return for the year. The procedure was used to determine the total pension liability as of July 1, 2013, are shown for CERS submitted on November 17, 2014.

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS

6 PENSION PLAN (continued)

Pension expense- For the year ended June 30, 2015, Princeton Water and Wastewater Commission recognized a pension expense of \$98,000.

Deferred outflows of resources and deferred inflows of resource- For the year ended June 30, 2015, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual earnings on pension plan investments	-	95,486
Contributions subsequent to the measurement date of June 30, 2014	134,426	-
	\$ 134,426	\$ 95,486

The amount shown above for "Employer contributions subsequent to the measurement date" will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

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

Year Ended	
June 30	
2016	\$ (23,872)
2017	(23,872)
2018	(23,871)
2019	(23,871)

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

Actuarial assumptions- The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumption, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	4.5%, average, including inflation
Investment rate of return	7.5%, net of pension plan investment expenses, including inflation

The rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward 5 years is used for the period after disability retirement.

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS

6 PENSION PLAN (continued)

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2008.

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 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	30%	8.45%
International Equity	22%	8.85%
Emerging Market Equity	5%	10.50%
Private Equity	7%	1.25%
Real Estate	5%	7.00%
Core U.S. Fixed Income	10%	5.25%
High Yield U.S. Fixed Income	5%	7.25%
Non-U.S. fixed income	5%	5.50%
Commodities	5%	7.75%
TIPS	5%	5.00%
Cash	1%	3.25%
Total	<u>100%</u>	

Discount rate- The discount rate used to measure the total pension liability was 7.75%. The discount rate does not use a municipal bond rate.

Projected cash flow- The projection of the cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 29 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. Projected future benefit payments for all current plan members were projected through 2116.

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS

6 PENSION PLAN (continued)

Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate- The following presents the net pension liability of the Commission, calculated using the discount rate of percent, as well as what the system's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate for non-hazardous:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net pension liability (asset) \$	1,610,881	\$ 1,224,123	\$ 882,438

Pension plan fiduciary net position- Detailed information about the pension plan's fiduciary net position is available in a separately issued CERS financial report.

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 \$10,480.

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 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.

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 \$0 as of June 30, 2015. 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, 2015 was \$91,643 including the above interest. Assets available for retirement of this liability and the accrued interest described above are \$103,570 at June 30, 2015.

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS

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, 2015, 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, 2015 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.

13 PRIOR PERIOD ADJUSTMENT

Pursuant to GASB 68, proportionate Net Pension Liability is required to be recorded in the financial statements of each contributing member of the Kentucky Retirement System pension plans. For the year ended June 30, 2014 the amount that was required to be recorded was \$1,221,610. This amount is a decrease in Beginning Fund Balance. Previously issued financial statements have not been restated, as this adjustment is not required to be made retrospectively.

14 NEW PRONOUNCEMENTS

Effective for the fiscal year ending June 30, 2015, the Commission adopted the provisions of Governmental Accounting Standards Board (GASB), Statement No. 68, Accounting and Financial Reporting for Pensions. The objective of this statement is to improve financial reporting by state and local governmental pension plans. In addition, it requires the liability of the employers and non-employer contributing entities to employees for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payment to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position. In addition, this statement requires additional changes to Required Supplementary Information, among other extensive changes.

Effective for the fiscal year ending June 30, 2015, the Commission adopted the provision of Governmental Accounting Standards Board (GASB), Statement No. 71, Pension Transition for Contributions made Subsequent to the Measurement Date. The objective of this statement is to address an issue regarding application of the transition provisions of GASB No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

PRINCETON WATER AND WASTEWATER COMMISSION
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 COUNTY EMPLOYEE RETIRMENT SYSTEM OF THE KRS

Last ten fiscal years

Total net pension liability (asset) for Employees Retirement System	\$4,446,202,000
Princeton Water and Wastewater Commission's proportion of the net pension liability	0.037731%
Princeton Water and Wastewater Commission's proportionate share of the net pension liability	\$ 1,224,123
Princeton Water and Wastewater Commission's covered-employee payroll	\$ 775,239
Princeton Water and Wastewater Commission's proportionate share of the net pension liability as a percentage of its covered-employee payroll	157.90%
Plan fiduciary net position as a percentage of the total pension liability	66.80%

*The amounts presented were determined as of June of the prior fiscal year

This is a 10-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 10 years of information is available.

Purpose is to provide information that serves as a surrogate for the funding progress of the plan.

PRINCETON WATER AND WASTEWATER COMMISSION
 SCHEDULE OF CONTRIBUTIONS
 COUNTY EMPLOYEE RETIRMENT SYSTEM OF THE KRS
 Last ten fiscal years

	2014	2015
Actuarially Determined Contribution (ADC)	\$ 163,512	\$ 134,426
Contribution in relation to the actuarially determined contribution	163,512	134,426
Contribution deficiency (excess)	\$ -	\$ -
Princeton Water and Wastewater Commission's covered-employee payroll	\$ 775,239	\$ 769,604
Contributions as a percentage of Princeton Water and Wastewater Commission's covered-employee payroll	21.09%	17.47%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retrospectively. Years will be added to this schedule in future fiscal years until 10

Notes Related to the Schedule of the Princeton Water and Wastewater Commission's Proportionate Share of the Net Pension Liability-County Employee Retirement System of the KRS

Changes of benefit terms: The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tiered Structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

2014: A cash balance plan was introduced for members whose participation date is on or after January 1, 2014.

Changes of assumption: The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2006: The assumptions were updated as the result of an experience study for the five year period ending June 30, 2005.

2007: Amortization bases have been combined and will be amortized over a single 30 year closed period beginning June 30, 2007.

2009: The assumptions were updated as the result of an experience study for the three year period ending June 30, 2008.

2013: The amortization period of the unfunded accrued liability was reset to a closed 30 year period.

Notes Related to the Schedule of the Princeton Water and Wastewater Commission's Contributions- County Employee Retirement System of the KRS

Method and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2014 and 2015, determined as of July 1, 2013. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation	5-year smoothed market
Inflation	3.50%
Salary increases	4.5%, average, including inflation
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation

PRINCETON WATER AND WASTEWATER
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BUDGET AND ACTUAL
Year ended June 30, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Charges for services	\$ 3,133,700	\$ 3,133,700	\$ 3,119,275	\$ (14,425)
Other income	44,600	44,600	51,775	7,175
Total revenues	<u>3,178,300</u>	<u>3,178,300</u>	<u>3,171,050</u>	<u>(7,250)</u>
Expenditures:				
Salary and related	1,241,100	1,241,100	1,213,912	27,188
Capital cost of labor	-	-	(533)	533
Supplies and chemicals	227,900	227,900	206,051	21,849
Utilities	400,000	400,000	370,044	29,956
Gasoline and oil	32,800	32,800	25,120	7,680
Repairs	66,500	66,500	68,672	(2,172)
Insurance	84,000	84,000	111,238	(27,238)
Professional services	117,600	117,600	108,842	8,758
Postage	15,000	15,000	13,302	1,698
Rental and lease	3,500	3,500	14,843	(11,343)
Sludge removal	87,000	87,000	72,843	14,157
Materials expense	5,000	5,000	88,236	(83,236)
Freight	3,200	3,200	3,722	(522)
Miscellaneous	26,100	26,100	28,304	(2,204)
Depreciation	775,000	775,000	779,576	(4,576)
Total expenditures	<u>3,084,700</u>	<u>3,084,700</u>	<u>3,104,172</u>	<u>(19,472)</u>
Nonoperating revenues (expenditures):				
Interest income	2,200	2,200	1,421	(779)
Interest expense	(102,500)	(102,500)	(98,849)	3,651
Gain (loss) on sale of capital assets	-	-	17,557	17,557
Total nonoperating revenue (expenses)	<u>(100,300)</u>	<u>(100,300)</u>	<u>(79,871)</u>	<u>20,429</u>
Excess of revenues over (under) expenditures	<u>\$ (6,700)</u>	<u>\$ (6,700)</u>	(12,993)	<u>\$ 32,651</u>
Fund balances, beginning of year, restated			<u>11,959,968</u>	
Fund balances, end of year			<u>\$ 11,946,975</u>	



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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 Commissioners
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 Princeton Water and Wastewater Commission, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Princeton Water and Wastewater Commission's basic financial statements and have issued our report thereon dated August 11, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the Princeton Water and Wastewater Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Princeton Water and Wastewater Commission's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

2015-01 Management oversight of financial reporting: We noted certain transactions that were not recorded in the general ledger. As a result several audit adjustments were necessary to present the financial statements in accordance with generally accepted accounting principles.

Criteria: Accounting department staff records all transactions required by general accepted accounting principles on a timely basis.

Effect: The lack of timely recording of all transactions results in several audit adjustments necessary to present the financial statements in accordance with generally accepted accounting principles.

Recommendation: We recommend that management implement internal controls necessary to insure financial statements are presented in accordance with generally accepted accounting principles.

Management response: The Board will review internal controls over financial reporting to determine if cost-effective procedures can be implemented to correct this deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Princeton Water and Wastewater Commission's Response to Findings

Princeton Water and Wastewater Commission's response to the findings identified in our audit is described above. Princeton Water and Wastewater Commission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Thurman Campbell Group, PLC

Princeton, KY
August 11, 2016