

**PRINCETON WATER AND WASTEWATER COMMISSION  
FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2016  
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT**

Princeton Water and Wastewater Commission  
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June 30, 2016

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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

***Report on the Financial Statements***

We have audited the accompanying financial statements of the Princeton Water and Wastewater Commission, a component unit of the City of Princeton, Kentucky, as of and for the year ended June 30, 2016, 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 opinions.

## ***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, 2016, 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.

## ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that the schedule of proportionate share of the net pension liability and schedule of contributions on pages 28 and 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Princeton Water and Wastewater Commission. The statement of revenues, expenses and changes in net position-budget and actual on page 32 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The statement of revenues, expenses and changes in net position-budget and actual is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the statement of revenues, expenses and changes in net position-budget and actual is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 10, 2017, 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  
July 10, 2017

PRINCETON WATER AND WASTEWATER COMMISSION  
A COMPONENT UNIT OF THE CITY OF PRINCETON  
STATEMENT OF NET POSITION  
June 30, 2016

**ASSETS**

Current assets:

Cash and cash equivalents	\$ 1,003,252
Special Funds - Restricted	98,794
Accounts receivable	462,404
Inventories	291,988
<b>Total current assets</b>	<b>1,856,438</b>

Noncurrent assets:

Special funds - restricted	209,300
<b>Total noncurrent assets</b>	<b>209,300</b>

Capital assets:

Utility plant	31,063,976
Less: Accumulated depreciation	(16,686,717)
Net depreciable assets	14,377,259
Non-depreciable assets	125,964
<b>Total capital assets</b>	<b>14,503,223</b>
<b>Total assets</b>	<b>16,568,961</b>

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred outflows related to pensions	254,804
<b>Total deferred outflows of resources</b>	<b>254,804</b>

**LIABILITIES**

Current liabilities:

Current maturities of long-term debt	190,878
Accounts payable - trade	13,757
Customer deposits	98,794
Accrued liabilities:	
Payroll and other taxes	30,635
Interest	3,476
Other	102,799
<b>Total current liabilities</b>	<b>440,339</b>

Noncurrent liabilities:

Net pension liability	1,395,192
Long-term debt less current maturities	2,816,250
Accrued vacation	11,435
<b>Total noncurrent liabilities</b>	<b>4,222,877</b>
<b>Total liabilities</b>	<b>4,663,216</b>

**DEFERRED INFLOWS OF RESOURCES**

Deferred inflows related to pensions	136,190
<b>Total deferred inflows of resources</b>	<b>136,190</b>

**NET POSITION**

Net investment in capital assets	11,496,095
Restricted - debt service	209,300
Unrestricted	318,964
<b>Total net position</b>	<b>\$ 12,024,359</b>

PRINCETON WATER AND WASTEWATER COMMISSION  
A COMPONENT UNIT OF THE CITY OF PRINCETON  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
Year Ended June 30, 2016

**OPERATING REVENUES**

Charges for services	\$ 3,280,439
Rent from utility property	34,500
Other income	15,054
Total operating revenues	<u>3,329,993</u>

**OPERATING EXPENSES**

Administrative expenses	392,156
Water treatment expenses	639,580
Wastewater expenses	640,470
Maintenance expenses	660,115
Depreciation	782,417
Total operating expenses	<u>3,114,738</u>

Operating income (loss)	<u>215,255</u>
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**NONOPERATING REVENUES (EXPENSES)**

Grant receipts	34,231
Interest revenue	446
Interest expense	(92,423)
Gain (loss) on sale of capital assets	(1,428)
Total nonoperating revenue (expenses)	<u>(59,174)</u>

Change in net position	<u>156,081</u>
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Total net position - beginning of year	11,946,975
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Prior period adjustment	<u>(78,697)</u>
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Total net position - beginning of year, restated	<u>11,868,278</u>
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Total net position - end of year	<u><u>\$ 12,024,359</u></u>
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PRINCETON WATER AND WASTEWATER COMMISSION  
A COMPONENT UNIT OF THE CITY OF PRINCETON  
STATEMENT OF CASH FLOWS  
Year ended June 30, 2016

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash received from customers	\$ 3,286,084
Cash payments to suppliers for goods and services	(1,552,519)
Cash payments to employees for services	(924,924)
Net cash provided (used) by operating activities	808,641

**CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:**

Grant receipts	34,231
Net cash provided (used) by non-capital financing activities	34,231

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

Acquisition and construction of property, plant and equipment	(250,433)
Principal payments on long-term debt	(419,095)
Interest paid on long-term debt	(92,081)
Net cash provided (used) for capital and related financing activities	(761,609)

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Interest on investments	446
Net cash provided (used) by investing activities	446

Net increase (decrease) in cash and cash equivalents	81,709
Cash and cash equivalents, beginning of year	1,229,637
Cash and cash equivalents, end of year	1,311,346

Reconciliation of cash and cash equivalents:

Current assets - cash, cash equivalents, and special funds	1,102,046
Noncurrent assets - special funds restricted	209,300
Total cash and cash equivalents	\$ 1,311,346

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

Operating income (loss)	\$ 215,255
Adjustments-operating activities	
Depreciation and amortization	782,417
(Increase) decrease in:	
Accounts receivable	(51,159)
Other receivables	99
Inventories	12,829
Deferred outflows	(120,378)
Increase (decrease) in:	
Accounts payable	(31,552)
Customer deposits	7,151
Accrued liabilities	24,612
Net pension liability	10,071
Deferred inflows	(40,704)
Net cash provided (used) by operating activities	\$ 808,641

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 Commission treatment plant located approximately five miles outside the City in Caldwell County, Kentucky.

**Principles determining scope of reporting entity** - Princeton Water and Wastewater Commission 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 Commission 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 \$220,105 at June 30, 2016.

**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, 2016 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”.

When an expenditure is incurred for purposes for which both restricted and unrestricted net position is available, the commission considers restricted funds to have been spent first.

**Budget** – The annual budget is prepared, to the extent practical, on a basis consistent with generally accepted accounting principles 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, 2016 the carrying amount of the Commission's deposits was \$1,311,346 and the bank balance was \$1,378,970.

FDIC insured	\$ 375,000
Uninsured and collateralized with securities Held by pledging financials institution's agent but not in the Commission's name	<u>1,003,970</u>
Total Cash	<u>\$ 1,378,970</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, 2016 was as follows:

	<u>June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2016</u>
Capital assets not being depreciated:				
Land	\$ 16,500			\$ 16,500
Construction in progress	109,464			109,464
Total capital assets not being depreciated	<u>125,964</u>	-	-	<u>125,964</u>
Capital assets being depreciated:				-
Building & improvements	305,825	33,664	-	339,489
Water plant & distribution	9,007,718	44,337	2,660	9,049,395
Sewer plant & lines	18,102,398	211,430	-	18,313,828
Water tanks	2,470,169	-	-	2,470,169
Vehicles	218,077	32,500	-	250,577
Tools & equipment	549,257	89,599	150,607	488,249
Office furniture & fixtures	152,269	-	-	152,269
Total capital assets being depreciated	<u>30,805,713</u>	<u>411,530</u>	<u>153,267</u>	<u>31,063,976</u>
Less accumulated depreciation:				
Building & improvements	165,955	9,313	-	175,268
Water plant & distribution	4,338,005	223,113	2,755	4,558,363
Sewer plant & lines	10,017,265	440,495	-	10,457,760
Water tanks	867,431	57,151	-	924,582
Vehicles	135,563	25,919	-	161,482
Tools & equipment	392,887	22,340	149,178	266,049
Office furniture & fixtures	139,127	4,086	-	143,213
Total accumulated depreciation	<u>16,056,233</u>	<u>782,417</u>	<u>151,933</u>	<u>16,686,717</u>
Capital assets, net	<u>\$ 14,875,444</u>	<u>\$ (370,887)</u>	<u>\$ 1,334</u>	<u>\$ 14,503,223</u>

Depreciation charged to income was \$782,417 for 2016.

**4 RESTRICTED FUNDS**

The Equipment Replacement Account represents the amounts required by all 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, 2016. Specific requirements of the various loans are:

<u>Loan</u>	<u>Required amount at June 30, 2016</u>
KIA Loan dated November 1, 2000	\$ 64,000
Rural Development Loan dated June 30, 2002	113,400
AARA Loan 09-11 dated December 1, 2010	27,500
Fund B #10-06	4,400
	<u>\$ 209,300</u>

PRINCETON WATER AND WASTEWATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS

**4 RESTRICTED FUNDS (continued)**

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. The amount of customer deposits at June 30, 2016 at \$98,794.

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.

**5 DEBT**

	June 30, 2015			June 30, 2016	
	<u>Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u>	<u>Current</u>
1) Revenue bonds - 2000 series	1,197,500		26,500	1,171,000	28,500
2) Kentucky Infrastructure Authority	234,126		234,126	-	-
3) Kentucky Infrastructure Authority	697,481		82,021	615,460	85,167
4) ARRA #A209-11	418,758		25,104	393,654	25,359
5) ARRA #A09-27	541,320		32,457	508,863	32,777
6) Fund B #10-06	337,038		18,887	318,151	19,075
Total debt	<u>\$ 3,426,223</u>	<u>\$ -</u>	<u>\$ 419,095</u>	<u>\$ 3,007,128</u>	<u>\$ 190,878</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.

PRINCETON WATER AND WASTEWATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS

**5 DEBT (continued)**

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 Commission 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. 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.

The maturity schedule for long-term financing follows:

	Principal	Interest	Total
2017	\$ 190,878	\$ 86,653	\$ 277,531
2018	195,419	81,318	276,737
2019	201,593	75,794	277,387
2020	206,905	70,065	276,970
2021	212,861	64,136	276,997
2022-2026	761,191	246,083	1,007,274
2027-2031	640,733	170,706	811,439
2032-2036	309,048	99,663	408,711
2037-2040	288,500	26,607	315,107
<b>Total</b>	<b>\$ 3,007,128</b>	<b>\$ 921,025</b>	<b>\$ 3,928,153</b>

Total interest expense for the year ended June 30, 2016 was \$92,423.

PRINCETON WATER AND WASTEWATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS

## 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](http://www.kyret.ky.gov).

**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, 2016 to the CERS were \$125,601 which is 17.06% 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, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

**Pension liability-** At June 30, 2016, the Commission reported a liability of \$1,395,192 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability 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, 2015, relative to the contributions of all members for the year ended June 30,

PRINCETON WATER AND WASTEWATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS

**6 PENSION PLAN (continued)**

2015. At the June 30, 2015 measurement date, Commission's proportion was 0.03245 percent as shown for CERS on the report submitted on November 18, 2015.

**Pension expense-** For the year ended June 30, 2016, Princeton Water and Wastewater Commission recognized a pension expense of \$136,340.

**Deferred outflows of resources and deferred inflows of resource-** For the year ended June 30, 2016, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 11,595	\$ -
Change of Assumptions	140,690	
Net difference between projected and actual earnings on pension plan investments	12,507	
Changes in proportion and differences between employer contributions and proportionate share of contributions		136,190
Employer contributions subsequent to the measurement date	90,013	
	<u>\$ 254,805</u>	<u>\$ 136,190</u>

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 or outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended			Amount Reported
June 30	Outflows (a)	Inflows (b)	(a) + (b)
2017	\$ 56,453	\$ (54,259)	\$ 2,194
2018	56,453	(54,259)	2,194
2019	26,724	(27,672)	(948)
2020	25,161		25,161
	<u>\$ 164,791</u>	<u>\$ (136,190)</u>	<u>\$ 28,601</u>

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

PRINCETON WATER AND WASTEWATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS

**6 PENSION PLAN (continued)**

**Payable to the pension plan-** At June 30, 2016, the Commission reported a payable of \$11,915 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2016.

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

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

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Combined Equity	44%	5.40%
Combined Fixed Income	19%	1.50%
Real Return (Diversified Inflation Strategies)	10%	3.50%
Real Estate	5%	4.50%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.50%
Cash Equivalent	2%	-0.25%
Total	<u>100%</u>	

PRINCETON WATER AND WASTEWATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS

**6 PENSION PLAN (continued)**

**Discount rate-** The discount rate used to measure the total pension liability was 7.50%. 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 28-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.

**Periods of projected benefit payments-** Projected future benefit payments for all current plan members were projected through 2117.

**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 Commission's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate for non-hazardous:

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Net pension liability (asset)	\$ 1,781,141	\$ 1,395,196	\$ 1,064,668

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

**Net Pension Liability (asset)-** June 30, 2016 is the actuarial valuation date upon which the total pension liability is based. No update procedures were used to determine the total pension liability.

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

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to .75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability Page 12 retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

There were no changes between the measurement date of the collective net pension liability and the employer's reporting date.

PRINCETON WATER AND WASTEWATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS

**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, 2016, the amount of accrued vacation liability was \$11,435.

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 Commission System began to pay interest on meter deposits at an interest rate of 6 percent. 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, 2016 was \$98,794 including the above interest. Assets available for retirement of this liability and the accrued interest described above are \$98,794 at June 30, 2016.

**9 RISK MANAGEMENT**

The Princeton Water and Wastewater Commission 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 Commission 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, 2016, the Princeton Water and Wastewater Commission had expenditures in funds that exceeded the budget; however, this does not constitute a violation of any legal provision.

PRINCETON WATER AND WASTEWATER COMMISSION  
NOTES TO FINANCIAL STATEMENTS

**12 RELATED PARTY TRANSACTIONS**

The following transactions have been identified as related party transactions for the fiscal year ending June 30, 2016:

- Princeton Water and Wastewater Commission is a component unit of the City of Princeton. A total of \$95,253 was recorded for liability insurance paid to the City of Princeton for inclusion in the city's insurance coverage. Princeton Water and Wastewater Commission paid the City of Princeton \$7,679 for city payroll withholding taxes withheld from employee payments.
- Princeton Water and Wastewater Commission paid \$26,000 (subject to bid requirements) to Trice Hughes Chevrolet for the purchase of a truck and \$2,043 for repair and maintenance expenses. Commissioner Brent Ladd is an employee of Trice Hughes Chevrolet.
- Princeton Water and Wastewater Commission paid \$1,400 to Musgove Overhead Doors for sales and service. Musgove Overhead Doors is co-owned by Director of Finance, Tracy Musgove.

**13 SUBSEQUENT EVENT**

As of June 30, 2015 Princeton Water and Wastewater Commission 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. 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.

**14 PRIOR PERIOD ADJUSTMENT**

The net position was restated to reflect the change in proportionate share of the net pension liability related to the County Employee Retirement System pension plan. The net position of the governmental activities was decreased by \$78,697.

PRINCETON WATER AND WASTEWATER COMMISSION  
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
 COUNTY EMPLOYEE RETIREMENT SYSTEM OF THE KRS (UNAUDITED)  
 Last ten fiscal years

	<u>2016</u>	<u>2015</u>
Total net pension liability (asset) for Employees Retirement System	\$ 4,299,525,565	\$ 4,446,202,000
Princeton Water and Wastewater Commission's proportion of the net pension liability	0.032450%	0.037731%
Princeton Water and Wastewater Commission's proportionate share of the net pension liability	\$ 1,395,193	\$ 1,224,123
Princeton Water and Wastewater Commission's covered-employee payroll	\$ 736,232	\$ 775,239
Princeton Water and Wastewater Commission's proportionate share of the net pension liability as a percentage of its covered-employee payroll	189.50%	157.90%
Plan fiduciary net position as a percentage of the total pension liability	59.97%	66.80%

\*The amounts presented were determined as of June of the prior 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 RETIREMENT SYSTEM OF THE KRS (UNAUDITED)  
Last ten fiscal years

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially Determined Contribution (ADC)	\$ 125,601	\$ 134,426	\$ 163,512
Contribution in relation to the actuarially determined contribution	<u>\$ 125,601</u>	<u>\$ 134,426</u>	<u>\$ 163,512</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Princeton Water and Wastewater Commission's covered-employee payroll	\$ 736,232	\$ 769,604	\$ 775,239
Contributions as a percentage of Princeton Water and Wastewater Commission's covered-employee payroll	17.06%	17.47%	21.09%

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 years until 10 years of information is available.

PRINCETON WATER AND WASTEWATER COMMISSION  
REQUIRED SUPPLEMENTARY INFORMATION (CONT'D)

Notes Related to 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:

2015:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to .75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability Page 12 retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

PRINCETON WATER AND WASTEWATER COMMISSION  
REQUIRED SUPPLEMENTARY INFORMATION (CONT'D)

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 2016 and 2017, determined as of July 1, 2015. 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	28 years
Asset valuation	5-year smoothed market
Inflation	3.25%
Salary increases	4.00%, average, including inflation
Investment Rate of Return	7.50%, net of pension plan investment expense including inflation

PRINCETON WATER AND WASTEWATER COMMISSION  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION- BUDGET AND ACTUAL  
YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Charges for services	\$ 3,101,000	\$ 3,101,000	\$ 3,280,439	\$ 179,439
Other income	46,800	46,800	49,554	2,754
<b>Total revenues</b>	<u>3,147,800</u>	<u>3,147,800</u>	<u>3,364,224</u>	<u>216,424</u>
<b>Expenditures:</b>				
Salary and related	1,268,500	1,268,500	1,216,466	52,034
Supplies and chemicals	213,500	213,500	211,925	1,575
Utilities	390,000	390,000	351,823	38,177
Gasoline and oil	25,000	25,000	21,944	3,056
Repairs	53,500	53,500	115,441	(61,941)
Insurance	108,000	108,000	131,428	(23,428)
Professional services	102,000	102,000	116,697	(14,697)
Postage	13,500	13,500	12,055	1,445
Rental and lease	7,000	7,000	2,403	4,597
Sludge removal	15,000	15,000	22,491	(7,491)
Materials expense	54,000	54,000	93,512	(39,512)
Freight	3,500	3,500	5,526	(2,026)
Miscellaneous	23,600	23,600	30,610	(7,010)
Depreciation	770,000	770,000	782,417	(12,417)
<b>Total expenditures</b>	<u>3,047,100</u>	<u>3,047,100</u>	<u>3,114,738</u>	<u>(67,638)</u>
<b>Nonoperating revenues (expenditures):</b>				
Interest income	2,000	2,000	446	(1,554)
Interest expense	(104,500)	(104,500)	(92,423)	12,077
Gain (loss) on sale of capital assets	-	-	(1,428)	(1,428)
<b>Total nonoperating revenue (expenses)</b>	<u>(102,500)</u>	<u>(102,500)</u>	<u>(93,405)</u>	<u>9,095</u>
<b>Excess of revenues over (under) expenditures</b>	<u>\$ (1,800)</u>	<u>\$ (1,800)</u>	156,081	<u>\$ 293,156</u>
<b>Fund balances, beginning of year, restated</b>			<u>11,868,278</u>	
<b>Fund balances, end of year</b>			<u>\$ 12,024,359</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 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 Princeton Water and Wastewater Commission, as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated July 10, 2017.

**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 opinion 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. 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 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*.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Government 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. Our opinion on the basic financial statements is not affected by the missing information.

### **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  
July 10, 2017