

PRINCETON WATER AND WASTEWATER COMMISSION

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

June 30, 2017

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INTRODUCTORY SECTION

**PRINCETON WATER AND WASTEWATER COMMISSION
DIRECTORY
June 30, 2017**

BOARD MEMBERS

Bob Hayes
Brent Ladd
Pat George
Jay Parrent
Irl Stevens
James Noel

MANAGEMENT TEAM

Tracy Musgove

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Alexander Thompson Arnold PLLC
Murray, Kentucky

FINANCIAL SECTION



Independent Auditor's Report

Board of Commissioners
Princeton Water and Wastewater Commission
Princeton, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Princeton Water and Wastewater Commission, a component unit of the City of Princeton, Kentucky, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Commission's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Princeton Water and Wastewater Commission, as of June 30, 2017, and the respective changes in financial position and, where applicable, 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 management's discussion and analysis, and the required schedules and notes for pensions as listed in the table of contents 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 response 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 that collectively comprise Princeton Water and Wastewater Commission's basic financial statements. The introductory section and supplementary information section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information section 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 supplementary information section is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2018 on our consideration of the 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control over financial reporting and compliance.

Alexander Thompson Arnold

Murray, Kentucky
September 13, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Princeton Water and Wastewater Commission we offer readers of the Commission's financial statements this narrative overview and analysis of the financial activities of the Commission for the fiscal years ended June 30, 2017. All amounts, unless otherwise indicated, are expressed in actual dollars.

FINANCIAL HIGHLIGHTS

Management believes the Commission's financial condition is strong. The Commission is well within its more stringent financial policies and guidelines set by the Board and management. The following are key financial highlights.

- Total assets and deferred outflows at year-end were \$16.70 million and exceeded liabilities and deferred inflows in the amount of \$11.95 million (i.e. net position).
- Total assets decreased by \$237 thousand, mainly due to an increase in accumulated depreciation.
- Operating revenues were \$3.34 million, an increase from year 2016 in the amount of \$10 thousand or .29%.
- Operating expenses were \$3.33 million, an increase from year 2016 in the amount of \$211 thousand or 6.78%.
- The operating income for the year was \$13.5 thousand as compared to \$215 thousand in 2016.
- Ratios of operating income (loss) to total operating revenue were .004 and .064 for 2017, and 2016, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the financial statements and supplementary information. The MD&A represents management's examination and analysis of the Commission's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Commission's strategic plan, budget, bond resolutions and other management tools were used for this analysis. The Financial Statements and Supplementary Information are made up of four sections: 1) the introductory section, 2) the financial section, 3) the supplementary information section, 4) and the internal control and compliance section. The introductory section includes the Commission's directory. The financial section includes the MD&A, the independent auditor's report, and the financial statements with accompanying notes. The supplementary and other information section includes selected financial and operational information. The internal control and compliance section includes the report on internal control and compliance. These sections make up the financial report presented here.

REQUIRED FINANCIAL STATEMENTS

A Proprietary Fund is used to account for the operations of the Commission, which is financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

The financial statements report information about the Commission, using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities.

The *Statement of Net Position* includes all of the Commission's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Commission's creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Commission, and assessing the liquidity and financial flexibility of the Commission.

The *Statement of Revenues, Expenses, and Changes in Net Position* presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the 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 related cash flows. This statement measures the success of the Commission's operations and can be used to determine whether the Commission has successfully recovered all of its costs. This statement also measures the Commission's profitability and credit worthiness.

The *Statement of Cash Flows* presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipt and cash disbursement information, without consideration of the earnings event, when an obligation arises.

The *Notes to the Financial Statements* provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Commission's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

FINANCIAL ANALYSIS

One of the most important questions asked about the Commission's finances is "Is the Commission, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Commission's activities in a way that will help answer this question. These two statements report the net position of the Commission, and the changes in the net position. Net position is one way to measure the financial health or financial position of the Commission. Over time, increases or decreases in the Commission's net position is an indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates. The Commission's total net position decreased by \$73k for the fiscal year ended June 30, 2017. The Commission's total net position increased by \$156k for the fiscal year ended June 30, 2016. The analysis below focuses on the Commission's net position (Table 1A) and changes in net position (Table 2A) during the year.

CONDENSED STATEMENT OF NET POSITION

	30-Jun-17		30-Jun-16		Increase (Decrease)	
	\$		\$		\$	%
Current and other assets	\$ 2,002,032	\$ 1,757,644	\$ 244,388	13.90%		
Restricted current assets	102,693	98,794	3,899	3.95%		
Restricted noncurrent assets	209,300	209,300	-	0.00%		
Capital assets	14,018,385	14,503,223	(484,838)	-3.34%		
Total assets	<u>16,332,410</u>	<u>16,568,961</u>	<u>(236,551)</u>	-1.43%		
Deferred outflows of resources	<u>366,990</u>	<u>254,804</u>	<u>112,186</u>	44.03%		
Long-term liabilities	4,153,252	4,222,877	(69,625)	-1.65%		
Other liabilities	471,341	440,339	31,002	7.04%		
Total liabilities	<u>4,624,593</u>	<u>4,663,216</u>	<u>(38,623)</u>	-0.83%		
Deferred inflows of resources	<u>123,372</u>	<u>136,190</u>	<u>(12,818)</u>	-9.41%		
Net investment in capital assets	11,202,137	11,496,095	(293,958)	-2.56%		
Restricted for debt covenants	209,300	209,300	-	0.00%		
Unrestricted	539,998	318,964	221,034	69.30%		
Total net position	<u>\$ 11,951,435</u>	<u>\$ 12,024,359</u>	<u>\$ (72,924)</u>	-0.61%		

Changes in the Commission's net position can be determined by reviewing the following condensed Statement of Revenues, Expense, and Changes in Net Position for the year.

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	30-Jun-17		30-Jun-16		Increase (Decrease)	
	\$		\$		\$	%
Operating revenues	\$ 3,339,553	\$ 3,329,993	\$ 9,560	0.29%		
Non-operating revenues	162	34,677	(34,515)	-99.53%		
Total revenues	<u>3,339,715</u>	<u>3,364,670</u>	<u>(24,955)</u>	-0.74%		
Administrative expenses	408,823	454,355	(45,532)	-10.02%		
Water treatment expenses	768,410	626,084	142,326	22.73%		
Wastewater expenses	673,967	622,466	51,501	8.27%		
Maintenance expenses	652,834	629,511	23,323	3.70%		
Depreciation	821,951	782,322	39,629	5.07%		
Non-operating expenses	86,654	93,851	(7,197)	-7.67%		
Total expenses	<u>3,412,639</u>	<u>3,208,589</u>	<u>204,050</u>	6.36%		
Change in net position	(72,924)	156,081	(229,005)	-146.72%		
Beginning net position	12,024,359	11,946,975	77,384	0.65%		
Prior Period Adjustment	-	(78,697)	78,697	-100.00%		
Ending net position	<u>\$ 11,951,435</u>	<u>\$ 12,024,359</u>	<u>\$ (72,924)</u>	-0.61%		

Operating revenues showed .74% decrease in 2017.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2017 the system had \$14.018 million (net of accumulated depreciation) invested in a broad range of utility capital assets. This investment includes land, distribution systems and their related equipment, and various types of equipment. Based on the uses of the aforementioned assets, they are classified for financial purposes as land, utility plant in service, and construction in progress.

The following tables summarizes the Commission's capital assets, net of accumulated depreciation, and changes therein, for the years ended June 30, 2017. These changes are presented in detail in Note 3E to the financial statements.

Table 3A
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	30-Jun-17	30-Jun-16	Increase (Decrease)	
			\$	%
Land	\$ 168,929	\$ 125,964	\$ 42,965	34.11%
Utility plant in service	31,358,124	31,063,976	294,148	0.95%
Accumulated depreciation	(17,508,668)	(16,686,717)	(821,951)	4.93%
Total capital assets	<u>\$ 14,018,385</u>	<u>\$ 14,503,223</u>	<u>\$ (484,838)</u>	-3.34%

Debt Administration

The Commission has outstanding bonds and notes payable of \$2.82 million as of June 30, 2017. Payments due in the upcoming fiscal year total \$195,419. Details relating to the outstanding debt can be found in Note 3F.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Commission will continue to function under the current operations. Management will do everything possible to keep the customer costs as low as possible and continue to maintain the Commission's financial position. The Commission has no current plans to expand or increase costs to its customers.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in the Commission's finances and to demonstrate the Commission's accountability for the money it receives. Questions concerning any information provided in this report or requests for any additional information should be directed to the commissioners at the office located at 101 E Market Street, Princeton, Kentucky 42445, or by telephone at (270) 365-9301.

PRINCETON WATER AND WASTEWATER COMMISSION
STATEMENT OF NET POSITION
June 30, 2017

ASSETS

Current assets:

Cash and cash equivalents	\$ 1,314,655
Special funds - restricted	102,693
Accounts receivable	395,767
Inventories	<u>291,610</u>
Total current assets	<u>2,104,725</u>

Noncurrent assets:

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

Capital assets:

Utility plant	31,358,124
Less: Accumulated depreciation	<u>(17,508,668)</u>
Net depreciable assets	13,849,456
Non-depreciable assets	<u>168,929</u>
Total capital assets	<u>14,018,385</u>

Total assets	<u>16,332,410</u>
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Deferred outflows of resources:

Deferred outflows related to pensions	<u>366,990</u>
Total deferred outflows of resources	<u>\$ 366,990</u>

The accompanying notes are an integral part of the financial statements.

PRINCETON WATER AND WASTEWATER COMMISSION
STATEMENT OF NET POSITION
June 30, 2017

LIABILITIES

Current liabilities (payable from current assets):

Current maturities of long-term debt	\$ 195,419
Accounts payable - trade	9,740
Interest Payable	25,706
Customer deposits	102,693
Accrued liabilities:	
Payroll and other taxes	20,702
Interest	3,476
Other	<u>113,605</u>
 Total current liabilities	 <u>471,341</u>

Noncurrent liabilities:

Net pension liability	1,521,570
Long-term debt less current maturities	2,620,829
Accrued vacation	<u>10,853</u>
Total noncurrent liabilities	<u>4,153,252</u>

Total liabilities 4,624,593

Deferred Inflows of Resources

Deferred inflows related to pensions	<u>123,372</u>
Total deferred inflows of resources	<u>123,372</u>

NET POSITION

Net investment in capital assets	11,202,137
Restricted - debt service	209,300
Unrestricted	<u>539,998</u>
Total net position	\$ <u>11,951,435</u>

The accompanying notes are an integral part of the financial statements.

PRINCETON WATER AND WASTEWATER COMMISSION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
June 30, 2017

Operating revenues:	
Charges for services	\$ 3,284,245
Rent from utility property	34,500
Other income	<u>20,808</u>
Total operating revenues	<u>3,339,553</u>
Operating expenses:	
Administrative expenses	408,823
Water treatment expenses	768,410
Wastewater expenses	673,967
Maintenance expenses	652,834
Depreciation	<u>821,951</u>
Total operating expenses	<u>3,325,985</u>
Operating income (loss)	<u>13,568</u>
Nonoperating revenues (expenses):	
Interest revenue	162
Interest expense	<u>(86,654)</u>
Total nonoperating revenues (expenses)	<u>(86,492)</u>
Change in net position	(72,924)
Net position - beginning	<u>12,024,359</u>
Net position - ending	<u>\$ 11,951,435</u>

The accompanying notes are an integral part of the financial statements.

PRINCETON WATER AND WASTEWATER COMMISSION
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2017

Cash flows from operating activities:	
Cash received from consumers	\$ 3,272,916
Cash paid to suppliers of goods and services	(1,552,450)
Cash paid to employees for services	(794,578)
Change in customer deposits	<u>3,899</u>
Net cash provided by (used in) operating activities	<u>929,787</u>
 Cash flows from investing activities:	
Interest on investments	162
Net cash provided by (used in) investing activities	<u>162</u>
 Cash flows from capital and related financing activities:	
Acquisition and construction of property, plant and equipment	(337,113)
Principal payments on long-term debt	(190,880)
Interest paid on long-term debt	<u>(86,654)</u>
Net cash provided by (used in) financing activities:	<u>(614,647)</u>
 Increase (decrease) in cash and cash equivalents	 315,302
Cash and cash equivalents - beginning	<u>1,311,346</u>
Cash and cash equivalents - ending	<u>\$ 1,626,648</u>
 Cash and cash equivalents:	
Current assets - cash, cash equivalents, and special funds	\$ 1,417,348
Noncurrent assets - special funds restricted	<u>209,300</u>
Net cash and cash equivalents	<u>\$ 1,626,648</u>

The accompanying notes are an integral part of the financial statements.

PRINCETON WATER AND WASTEWATER COMMISSION
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2017

Reconciliation of operating income (loss) to net cash provided (used)	
by operating activities:	
Net operating income (loss)	\$ 13,568
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for depreciation	821,951
Pension expense - actuarially determined	193,015
(Increase) decrease in current assets:	
Inventory	378
Deferred outflows	(112,186)
Increase (decrease) in current liabilities:	
Accounts payable	21,689
Accrued liabilities	291
Deferred inflows	(12,818)
Customer deposits	3,899
Net cash provided by (used in) operating activities	<u>\$ 929,787</u>

The accompanying notes are an integral part of the financial statements.

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

A. Reporting Entity

The financial statements of the Princeton Water and Wastewater have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to the governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the Commission are described below.

Princeton Water and Wastewater Commission is considered a component unit of the City of Princeton. The basic, but not 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 financial relationships, regardless of whether the City is able to exercise oversight responsibilities.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows.

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that generally result from providing services in connection with the Water Commission's principal ongoing operations.

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

C. Assets, Liabilities, and Net Position

Deposits and Investments

The Commission's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Commission to invest in certificates of deposit, obligations of the U.S. Treasury, agencies and instrumentalities, obligations guaranteed by the U.S. government or its agencies, repurchase agreements and the state's investment pool.

Accounts Receivable

Trade receivables result from unpaid billings for water service to customers and from unpaid billings related to work performed for or materials sold to certain entities. 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, 2017 of \$16,478.

Inventories and Prepaid

All inventories are valued at the lower of average cost or market, using the first-in/first-out (FIFO) method at year end. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements as of June 30, 2017 year end.

Restricted Assets

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, 2017.

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. The amount of customer deposits at June 30, 2017 at \$102,693.

Capital Assets

The property, plant, and equipment are stated at original cost including all direct cost of materials and labor during the construction period. All donated material is stated at the current fair market value.

The costs of replacements, normal maintenance, and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The Commission's thresholds for capitalization are any purchases of office equipment over \$2,500 and field equipment over \$5,000. Property, plant, and equipment of the Commission, with the exception of Land and Construction in Process, are depreciated, using the straight line method over the following useful lives:

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

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Accrued Vacation

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 of a maximum of five days during any one calendar year. As of June 30, 2017, the amount of accrued vacation liability was \$10,853.

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 accumulated 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 an 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 impractical to estimate the amounts of compensation for future medical leave, and, accordingly, no liability has been recorded. 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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The Statement of Net Position reported deferred outflows related to pension requirements as of June 30, 2017.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Statement of Net Position reported deferred inflows related to pension requirements as of June 30, 2017.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Commission's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Net Position

Equity is classified as net assets and displayed in the following two components:

- Net Investment in capital assets - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds that are attributable to the acquisition, construction, or improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination..
- Restricted – 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 - All other net positions that do not meet the description of the above categories.

Pensions

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

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

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. The Commission approves annual operating budgets for the managerial control of expenditures and for the monitoring of cash flows during the fiscal year.

NOTE 3 – DETAILED NOTES

A. Deposits and Investments

Custodial Credit Risk

In the case of deposits, this is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. For an investment, this is the risk that, in the event of a failure of the counterpart, the Commission will not be able to recover the value of its investments or the collateral securities that are in the possession of an outside party.

The Commission's policies limit deposits and investments to those instruments allowed by applicable state laws and described in Note 1. State statute authorize the Commission to invest in obligations of the United States and its agencies and instrumentalities; bond or certificates of indebtedness of the Commonwealth of Kentucky and its agencies and municipalities; interest bearing deposit accounts in financial institutions chartered in the Commonwealth of Kentucky insured by an agency of the United States up to the amount thus insured and in larger amounts, provided such financial institutions pledge as security obligations of the United States having such value as may be satisfactory to the Commission.

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

B. Receivables

Receivables as of the fiscal year ends were made up of the following:

Receivables		
	2017	2016
Billed service for utility customers	\$ 229,047	\$ 242,270
Other receivable	166,720	220,646
Less: allowance for doubtful	-	(16,478)
Total	\$ 395,767	\$ 446,438

C. Restricted Assets

Restricted assets as of the fiscal year ends were made up of the following:

Restricted Assets	
Loan	Required amount at June 30, 2017
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
	\$ 209,300

D. Net Position

Net Position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The restricted net position amounts were as follows:

Net Position		
	2017	2016
Net investment in capital assets		
Net property, plant and equipment	\$ 14,018,385	\$ 14,503,223
Less: Debt as disclosed in Note 3F	2,816,248	3,007,128
	11,202,137	11,496,095
Restricted - debt service	209,300	209,300
Unrestricted	539,998	318,964
Total net position	\$ 11,951,435	\$ 12,024,359

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

E. Capital Assets

Capital asset activity during the year was as follows:

	Balance at 30-Jun-16	Additions	Disposals	Balance at 30-Jun-17
Capital assets, not being depreciated				
Land	\$ 16,500	\$ -	\$ -	\$ 16,500
Construction in Progress	109,464	42,965	-	152,429
Total capital assets not being depreciated	<u>125,964</u>	<u>42,965</u>	<u>-</u>	<u>168,929</u>
Capital assets, being depreciated				
Buildings & improvements	339,489	97,764	-	437,253
Water plant & distribution	9,049,395	12,656	-	9,062,051
Sewer plant & lines	18,313,828	101,232	-	18,415,060
Water tanks	2,470,169	-	-	2,470,169
Vehicles	250,577	47,142	-	297,719
Tools & equipment	488,249	35,354	-	523,603
Office furniture & fixtures	152,269	-	-	152,269
Total capital assets being depreciated	<u>31,063,976</u>	<u>294,148</u>	<u>-</u>	<u>31,358,124</u>
Less accumulated depreciation for:				
Buildings & improvements	175,268	12,235	-	187,503
Water plant & distribution	4,558,363	225,193	-	4,783,556
Sewer plant & lines	10,457,760	459,010	-	10,916,770
Water tanks	924,582	56,558	-	981,140
Vehicles	161,482	33,349	-	194,831
Tools & equipment	266,049	32,204	-	298,253
Office furniture & fixtures	143,213	3,402	-	146,615
Total accumulated depreciation	<u>16,686,717</u>	<u>821,951</u>	<u>-</u>	<u>17,508,668</u>
Total capital assets, being depreciated, net	<u>14,377,259</u>	<u>(527,803)</u>	<u>-</u>	<u>13,849,456</u>
Total capital assets, net	<u>\$ 14,503,223</u>	<u>\$ (484,838)</u>	<u>\$ -</u>	<u>\$ 14,018,385</u>

Depreciation expense amounted to \$821,951 for the fiscal year ended June 30, 2017.

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

F. Long-term Debt

At year end, the Commission's long-term liabilities consisted of the following:

	Balance 06/30/16	Additions	Payments	Balance 06/3/17	Due Within One Year
Revenue bonds - 2000 series	\$ 1,171,000	\$ -	\$ 28,500	\$ 1,142,500	\$ 29,000
Kentucky Infrastructure Authority	615,460	-	85,168	530,292	88,434
ARRA #A209-11	393,654	-	25,360	368,294	25,613
ARRA #A09-27	508,863	-	32,777	476,086	33,106
Fund B #10-06	318,151	-	19,075	299,076	19,266
Total long-term liabilities	<u>\$ 3,007,128</u>	<u>\$ -</u>	<u>\$ 190,880</u>	<u>\$ 2,816,248</u>	<u>\$ 195,419</u>
Accrued vacation	\$ 11,435	\$ -	\$ 582	\$ 10,853	\$ -
Total accrued vacation	<u>\$ 11,435</u>	<u>\$ -</u>	<u>\$ 582</u>	<u>\$ 10,853</u>	<u>\$ -</u>

The scheduled annual requirements for long-term debt at June 30, 2017, including interest is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 195,419	\$ 81,971	\$ 277,390
2019	201,593	76,491	278,084
2020	206,905	70,118	277,023
2021	212,861	64,283	277,144
2022	218,964	58,433	277,397
2023-2027	671,537	232,676	904,213
2028-2032	576,919	157,454	734,373
2033-2037	311,000	92,902	403,902
2038-2040	<u>221,050</u>	<u>20,115</u>	<u>241,165</u>
Total	<u>\$ 2,816,248</u>	<u>\$ 854,443</u>	<u>\$ 3,670,691</u>

G. Short-term Debt

At year end, the Commission had no short-term debt.

NOTE 4 – OTHER INFORMATION

A. Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During the year ended June 30, 2017, the Commission purchased commercial insurance for all of the above risks. Settled claims have not exceeded this commercial coverage in any of the past three years and there has been no significant reduction in the amount of coverage provided.

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

B. Retirement Plan

County Employees Retirement System Non-Hazardous (CERS)

Plan description – Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit plan. CERS is administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (KRS) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Benefits provided – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years of service or 65 years old
	Reduced retirement	At least 5 years of service and 55 years old At least 25 years of service and any age
Tier 2	Participation date	Before September 1, 2008 – December 31, 2013
	Unreduced retirement	At least 5 years of service and 65 years old Or age 57+ and sum of service years plus age equals 87
	Reduced retirement	At least 10 years of service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years of service and 65 years old Or age 57+ and sum of service years plus age equals 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice related disability benefits.

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Contributions – Required contributions by the employee are based on the tier:

	<u>Required Contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

Employer contributions rates for the fiscal year were adopted by the Board of KRS based on actuarially recommended rates. The Commission's contributions to CERS for the year ended June 30, 2017 was \$136,699

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2017, the Commission reported a liability \$1,521,570 for its proportionate share of the net pension liability. The net pension liability for the plan was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The Commission's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2016, the Commission's proportion was 0.030900%.

For the years ended June 30, 2017, the Commission recognized pension expenses of \$138,071. At June 30, 2017, 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	\$ 6,643	\$ -
Change of assumptions	80,605	-
Net difference between projected and actual earnings on plan investments	143,043	-
Changes in proportion and differences between employer contributions and proportional share of contributions	-	123,372
Reversal of prior year contributions		-
Employer contributions subsequent to the measurement date	136,699	-
	<u>\$ 366,990</u>	<u>\$ 123,372</u>

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Deferred outflows of resources related to pensions resulting from Commission contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year 1	\$	54,603
Year 2		(293)
Year 3		20,808
Year 4		31,801
Year 5		-
Thereafter		-

Actuarial assumptions – The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Projected salary increases	4.00 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

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

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

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated December 3, 2015. 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.

**PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS**

June 30, 2017

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	100%	

Discount rate – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of CERS proportionate share of net pension liability to changes in the discount rate – The following table presents the net pension liability of the Commission, calculated using the discount rate selected, 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 or 1 percentage point higher than the current rates.

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Princeton Water & Wastewater's proportionate share of the net pension liability	\$ 1,895,908	\$ 1,521,570	\$ 1,200,368

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

C. Postemployment Healthcare Benefits

Plan description: In addition to the pension benefits described above, KRS provides postemployment healthcare benefits through the Kentucky Retirement Systems Insurance Fund (Insurance Fund). The Insurance Fund was established to provide hospital and medical insurance for those receiving benefits the Kentucky Employees Retirement System (KERS), the County Employees Retirement System (CERS), and the State Police Retirement System (SPRS). The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. For the fiscal year ended June 30, 2016 (the date of the latest available information), insurance premiums withheld from benefit payments for these benefits from CERS were \$22.6 million and \$2.2 million for non-hazardous and hazardous employees, respectively. For the fiscal year ended June 30, 2015, insurance premiums withheld from benefit payments for those receiving benefits from CERS were \$22.6 million and \$1.7 million for non-hazardous and hazardous employees, respectively. The Insurance Fund pays the same

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous employees killed in the line of duty. As of June 30, 2016, the Insurance Fund had 113,280 retirees and beneficiaries for whom benefits were available.

The amount of contributions paid by the Insurance Fund is based on years of service. For employees participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are shown below:

<u>Years of Service</u>	<u>% Paid by Insurance Fund</u>
20 or more	100%
15 - 19	75%
10 - 14	50%
4 - 9	25%
Less than 4	0%

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for those who began participating on or after July 1, 2003. Once employees reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003 earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on or after July 1, 2003 earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee's spouse receives \$10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually based on the retiree COLA, which is updated annually due to changes in the Consumer Price Index for all urban consumers. This benefit is not protected under the inviolable contract provisions of Kentucky Revised Statute 16.652, 61.692, and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

Funding policy: In prior years, the employer's required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal method within a 20 year period measured from 1987. In November 1992, the Board adopted a fixed percentage rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the Board adopted a policy to increase the insurance contribution rate by the amount needed to achieve the target rate for full entry age normal funding within 20 years.

The Commission is required to contribute at an actuarially determined rate. As of June 30, 2017, 2016, and 2015, the Commission's required contribution rate was 4.73%, 4.64%, and 4.92%, respectively, of annual covered payroll. The contribution requirements of plan members and the Commission are established and may be amended by the Kentucky Retirement Systems Board of Trustees.

On August 6, 2012, the Board voted to cease self-funding of healthcare benefits for most Medicare eligible retirees. The Board elected to contract with Humana Insurance Company to provide healthcare benefits to retirees through a fully insured Medicare Advantage Plan. The Humana Medicare Advantage Plan became effective January 1, 2013.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE PRINCETON WATER AND WASTEWATER'S
 PROPORTIONATE SHARE OF THE NET POSITION LIABILITY
 COUNTY EMPLOYEE RETIREMENT SYSTEM OF THE KRS
 AS OF MEASUREMENT DATE FOR THE LAST TWO YEARS

	<u>2016</u>	<u>2015</u>
Total net pension liability (asset) for CERS	\$4,923,618,237	\$ 4,299,525,565
Princeton Water and Wastewater's proportion of the net pension liability	0.030900%	0.032450%
Princeton Water and Wastewater's proportionate share of the net pension liability	\$ 1,521,570	\$ 1,395,193
Princeton Water and Wastewater's covered-employee payroll	\$ 736,232	\$ 775,239
Princeton Water and Wastewater's proportionate share of the net pension liability as a percentage of its covered-employee payroll	206.67%	179.97%
Plan fiduciary net position as a percentage of the total pension liability	55.50%	59.97%

*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.

See Independent Auditor's Report

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE PRINCETON WATER AND WASTEWATER'S CONTRIBUTIONS
 COUNTY EMPLOYEE RETIREMENT SYSTEM OF THE KRS
 FOR THE YEAR LAST THREE FISCAL YEARS

	2015	2016	2017
Actuarially Determined Contribution (ADC)	\$ 163,512	\$ 134,426	\$ 136,699
Contribution in relation to the actuarially determined contribution	<u>163,512</u>	<u>134,426</u>	<u>136,699</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Princeton Water and Wastewater's covered-employee payroll	\$ 775,239	\$ 736,232	\$ 764,508
Contributions as a percentage of Princeton Water and Wastewater's covered-employee payroll	21.09%	18.26%	16.43%

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.

See Independent Auditor's Report

REQUIRED SUPPLEMENTARY INFORMATION

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO PENSION PLAN INFORMATION
JUNE 30, 2017

Notes Related to Schedule of 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:

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

REQUIRED SUPPLEMENTARY INFORMATION

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO PENSION PLAN INFORMATION
JUNE 30, 2017

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 percent
Salary increases	4.00 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

See Independent Auditor's Report

PRINCETON WATER AND WASTEWATER COMMISSION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - BUDGET AND ACTUAL
For the Year Ended June 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:				
Charges for services	\$ 3,279,000	\$ 3,279,000	\$ 3,284,245	\$ 5,245
Other income	60,500	60,500	55,308	(5,192)
Total revenues	<u>3,339,500</u>	<u>3,339,500</u>	<u>3,339,553</u>	<u>53</u>
Expenditures:				
Salary and related	1,288,500	1,288,500	1,211,443	(77,057)
Supplies and chemicals	280,000	280,000	254,952	(25,048)
Utilities	370,000	370,000	362,825	(7,175)
Gasoline and oil	25,000	25,000	22,847	(2,153)
Repairs	90,000	90,000	138,073	48,073
Insurance	125,000	125,000	144,993	19,993
Professional services	96,000	96,000	149,204	53,204
Postage	12,000	12,000	12,417	417
Rental and lease	7,000	7,000	11,826	4,826
Sludge removal	85,000	85,000	68,193	(16,807)
Materials expense	90,000	90,000	103,267	13,267
Freight	5,500	5,500	3,329	(2,171)
Miscellaneous	32,800	32,800	20,665	(12,135)
Depreciation	770,000	770,000	821,951	51,951
Total expenditures	<u>3,276,800</u>	<u>3,276,800</u>	<u>3,325,985</u>	<u>49,185</u>
Nonoperating revenues (expenditures):				
Interest income	500	500	162	(338)
Interest expense	<u>(87,300)</u>	<u>(87,300)</u>	<u>(86,654)</u>	646
Total nonoperating revenues (expenses)	<u>(86,800)</u>	<u>(86,800)</u>	<u>(86,492)</u>	<u>\$ 308</u>
Excess of revenues over (under) expenditures	<u>\$ (24,100)</u>	<u>\$ (24,100)</u>	(72,924)	
Fund balances, beginning of year			<u>12,024,359</u>	
Fund balances, end of year			<u>\$ 11,951,435</u>	

See Independent Auditor's Report



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

Board of Commissioners
Princeton Water and Wastewater Commission
Princeton, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Princeton Water and Wastewater Water Commission as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated June 30, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Alexander Thompson Arnold

Murray, Kentucky
August 22, 2018