

**PRINCETON WATER
AND WASTEWATER COMMISSION**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

JUNE 30, 2018

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INTRODUCTORY SECTION

**PRINCETON WATER AND WASTEWATER COMMISSION
DIRECTORY**
June 30, 2018

BOARD MEMBERS

Bob Hayes
Brent Ladd
Pat George
Jay Parrent
Irl Stevens

MANAGEMENT TEAM

Tracy Musgove
James Noel

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, 2018, 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 Commission'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 respective financial position of the business-type activities of Princeton Water and Wastewater Commission, as of June 30, 2018, 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.

Your Long-Term Accounting Partner

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2018 the Commission adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Emphasis of Matter

We draw attention to Note 1C to the financial statements, which describes a restatement decreasing the beginning net position by \$436,712. This restatement was necessary because of the transitional requirements of GASB Statement NO. 74, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the required schedules and notes for pensions and OPEB 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 the Princeton Water and Wastewater Commission's basic financial statements. The introductory section and supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information section is the responsibility of management and was derived from and relates 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 supplemental 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 February 5, 2019 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 or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

Alexander Thompson Arnold, PLLC

Murray, Kentucky

February 5, 2019

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 year ended June 30, 2018. 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 in the amount of \$11.23 million (i.e. net position).
- Total assets decrease by \$371,241, mainly due to aging assets and an increase in accumulated depreciation.
- Operating revenues were \$3.24 million, a decrease from year 2017 in the amount of \$103,639 or 3.20%.
- Operating expenses were \$3.44 million, an increase from year 2017 in the amount of \$111,406 or 3.24%.
- The operating loss for the year was \$282 thousand as compared to operating income of \$14 thousand in 2017.

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 and other 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 \$718,474 for the fiscal year ended June 30, 2018. The analysis below focuses on the Commission's net position (Table 1A) and changes in net position (Table 2A) during the year.

Table 1A
CONDENSED STATEMENT OF NET POSITION

			Increase (Decrease)	
	30-Jun-18	30-Jun-17	\$	%
Current and other assets	\$ 2,490,118	\$ 2,104,725	\$ 385,393	18.31%
Restricted noncurrent assets	209,300	209,300	-	0.00%
Capital assets	13,261,751	14,018,385	(756,634)	-5.40%
Total assets	<u>15,961,169</u>	<u>16,332,410</u>	<u>(371,241)</u>	-2.27%
Deferred outflows of resources	<u>743,137</u>	<u>366,990</u>	<u>376,147</u>	102.50%
Long-term liabilities	4,792,036	4,153,252	638,784	15.38%
Other liabilities	409,238	471,341	(62,103)	-13.18%
Total liabilities	<u>5,201,274</u>	<u>4,624,593</u>	<u>576,681</u>	12.47%
Net investment in capital assets	10,640,926	11,202,137	(561,211)	-5.01%
Restricted for customer deposits	209,300	209,300	-	0.00%
Unrestricted	382,735	539,998	(157,263)	-29.12%
Total net position	<u>\$ 11,232,961</u>	<u>\$ 11,951,435</u>	<u>\$ (718,474)</u>	-6.01%

The decrease in capital assets is due to aging equipment and increase accumulated depreciation. Deferred outflows of resources also saw a big increase due to the implementation of GASB 75 in regards to reporting of OPEB plans.

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.

Table 2A
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	30-Jun-18	30-Jun-17	Increase (Decrease)	
			\$	%
Operating revenues	\$ 3,235,914	\$ 3,339,553	\$ (103,639)	-3.10%
Non-operating revenues	192	162	30	18.52%
Total revenues	<u>3,236,106</u>	<u>3,339,715</u>	<u>(103,609)</u>	-3.10%
Administrative expenses	578,690	408,823	169,867	41.55%
Water treatment expenses	730,800	768,410	(37,610)	-4.89%
Wastewater expenses	689,749	673,967	15,782	2.34%
Maintenance expenses	607,784	652,834	(45,050)	-6.90%
Depreciation	830,368	821,951	8,417	1.02%
Non-operating expenses	80,477	86,654	(6,177)	-7.13%
Total expenses	<u>3,517,868</u>	<u>3,412,639</u>	<u>105,229</u>	3.08%
Change in net position	<u>(281,762)</u>	<u>(72,924)</u>	<u>(208,838)</u>	286.38%
Beginning net position	11,951,435	12,024,359	(72,924)	-0.61%
Prior period adjustment	(436,712)	-	(436,712)	100.00%
Ending net position	<u>\$ 11,232,961</u>	<u>\$ 11,951,435</u>	<u>\$ (718,474)</u>	-6.01%

Operating revenues showed a 3.10% decrease in 2018 and operating expenses showed a 3.08% decrease.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2018 the system had \$13.26 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, 2018. These changes are presented in detail in Note 3E to the financial statements.

Table 3A
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

			Increase (Decrease)	
	30-Jun-18	30-Jun-17	\$	%
Land	\$ 170,153	\$ 168,929	\$ 1,224	0.72%
Utility plant in service	31,430,634	31,358,124	72,510	0.23%
Accumulated depreciation	(18,339,036)	(17,508,668)	(830,368)	4.74%
Total capital assets	<u>\$ 13,261,751</u>	<u>\$ 14,018,385</u>	<u>\$ (756,634)</u>	-5.40%

Debt Administration

The Commission has outstanding bonds and notes payable of \$2.62 million as of June 30, 2018. Principal payments are due in the upcoming fiscal year in the amount of \$201,593 with interest payments totaling \$76,492 also due. Details relating to the outstanding debt can be found in Note 3F. The Commission also has plans to issue new debt and refund the outstanding debt in the upcoming year, however no plans have been finalized.

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, 2018

ASSETS

Current assets:

Cash and cash equivalents	\$ 1,641,117
Special funds - restricted	106,344
Accounts receivable	459,489
Inventories	<u>283,168</u>
Total current assets	<u>2,490,118</u>

Noncurrent assets:

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

Capital assets:

Utility plant	31,430,634
Less: Accumulated depreciation	<u>(18,339,036)</u>
Net depreciable assets	13,091,598
Non-depreciable assets	<u>170,153</u>
Total capital assets	<u>13,261,751</u>

Total assets	<u>15,961,169</u>
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Deferred outflows of resources:

Deferred outflows related to OPEB	138,801
Deferred outflows related to pensions	<u>604,336</u>
Total deferred outflows of resources	<u>743,137</u>

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

PRINCETON WATER AND WASTEWATER COMMISSION
STATEMENT OF NET POSITION
June 30, 2018

LIABILITIES

Current liabilities (payable from current assets):

Current maturities of long-term debt	\$ 201,593
Accounts payable - trade	69,686
Customer deposits	106,344
Accrued liabilities:	
Payroll and other taxes	22,186
Interest	2,557
Other	<u>6,872</u>
 Total current liabilities	 <u>409,238</u>

Noncurrent liabilities:

Net pension liability	1,758,509
Net OPEB liability	603,967
Long-term debt less current maturities	2,419,232
Accrued vacation	<u>10,328</u>
Total noncurrent liabilities	<u>4,792,036</u>

Total liabilities 5,201,274

Deferred Inflows of Resources

Deferred inflows related to OPEB	31,621
Deferred inflows related to pensions	<u>238,450</u>
Total deferred inflows of resources	<u>270,071</u>

NET POSITION

Net investment in capital assets	10,640,926
Restricted - debt service	209,300
Unrestricted	<u>382,735</u>
Total net position	<u>\$ 11,232,961</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
For the Year Ended June 30, 2018

Operating revenues:	
Charges for services	\$ 3,201,414
Rent from utility property	34,500
Total operating revenues	<u>3,235,914</u>
Operating expenses:	
Administrative expenses	578,690
Water treatment expenses	730,800
Wastewater expenses	689,749
Maintenance expenses	607,784
Depreciation	830,368
Total operating expenses	<u>3,437,391</u>
Operating income (loss)	<u>(201,477)</u>
Nonoperating revenues (expenses):	
Interest revenue	192
Interest expense	<u>(80,477)</u>
Total nonoperating revenues (expenses)	<u>(80,285)</u>
Change in net position	(281,762)
Net position - beginning	11,951,435
Prior Period Adjustment - GASB 75	<u>(436,712)</u>
Net position - ending	<u>\$ 11,232,961</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, 2018

Cash flows from operating activities:	
Cash received from consumers	\$ 3,299,636
Cash paid to suppliers of goods and services	(1,877,511)
Cash paid to employees for services	(746,219)
Change in customer deposits	3,651
Net cash provided by operating activities	<u>679,557</u>
Cash flows from investing activities:	
Interest on investments	<u>192</u>
Net cash provided by investing activities	<u>192</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of property, plant and equipment	(73,734)
Principal payments on long-term debt	(195,425)
Interest paid on long-term debt	(80,477)
Net cash used in financing activities:	<u>(349,636)</u>
Increase (decrease) in cash and cash equivalents	330,113
Cash and cash equivalents - beginning	<u>1,626,648</u>
Cash and cash equivalents - ending	<u>\$ 1,956,761</u>
Cash and cash equivalents:	
Current assets - cash, cash equivalents, and special funds	\$ 1,747,461
Noncurrent assets - special funds restricted	<u>209,300</u>
Net cash and cash equivalents	<u>\$ 1,956,761</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, 2018

Reconciliation of operating income (loss) to net cash provided (used)	
by operating activities:	
Net operating income (loss)	\$ (201,477)
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for depreciation	830,368
Pension expense - actuarially determined	404,196
(Increase) decrease in current assets:	
Accounts receivable	(63,722)
Inventory	8,442
Deferred outflows	(376,147)
Increase (decrease) in current liabilities:	
Accounts payable	34,240
Accrued liabilities	(106,693)
Deferred inflows	146,699
Customer deposits	3,651
Net cash provided by (used in) operating activities	<u>\$ 679,557</u>

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

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The financial statements of the Princeton Water and Wastewater Commission 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 Commission's principal ongoing operations.

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

C. Assets, Liabilities, Deferred Outflows/Inflows of Resources 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. All trade receivables are shown net of an allowance for uncollectible accounts. The allowance for uncollectible customer accounts recorded by the Commission is based on past history of uncollectible accounts and management's analysis of current accounts.

Inventories and Prepaid Items

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, 2018 year end.

Restricted Assets

Certain cash accounts and investments are classified as restricted assets on the statement of net position because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The Commission elects to use restricted assets before unrestricted assets when the situation arises when either can be used.

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. Customer deposits as of June 30, 2018 totaled \$106,344.

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:

Utility Plant	20 - 50 years
Office and other equipment	5 - 20 years
Vehicles	5 years

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Accrued Vacation

It is the Commission's policy to permit employees to accumulate earned but unused vacation. All vacation pay has been accrued and the current year's is reflected as a current liability and the prior year's is reflected as a noncurrent liability on the financial statements.

Long-term Obligations

Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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 Commission has several items that qualify for this form of reporting - deferred outflows related to the pension plan and OPEB as of June 30, 2018. These items totaled to \$743,137.

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 Commission has several items that qualify for this form of reporting – deferred inflows related to the pension plan and OPEB as of June 30, 2018. These items totaled to \$270,071.

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.

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.

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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 Systems (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 purposes, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Other Post-Employment Benefits (OPEB)

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Change in Accounting Principles

The Commission implemented Governmental Accounting Standards Board ("GASB") Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, required for fiscal periods beginning after June 15, 2018, in fiscal year 2018. This Statement improves accounting and financial reporting for postemployment benefits other than pensions. The implementation has been accounted for as a change in accounting principle with a prior year adjustment as determined by an actuary. The effect of this adjustment decreases net position on the statement of activities by \$436,712.

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.

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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.

B. Receivables

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

Receivables		
	2018	2017
Billed service for utility customers	\$ 303,688	\$ 229,047
Other receivable	185,360	166,720
Less: allowance for doubtful	(29,559)	-
Total	\$ 459,489	\$ 395,767

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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, 2018
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		
	2018	2017
Net investment in capital assets		
Net property, plant and equipment	\$ 13,261,751	\$ 14,018,385
Less: Debt as disclosed in Note 3F	(2,620,825)	(2,816,248)
	10,640,926	11,202,137
Restricted - debt service	209,300	209,300
Unrestricted	(194,790)	539,998
Total net position	\$ 10,655,436	\$ 11,951,435

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

E. Capital Assets

Capital asset activity during the year was as follows:

	Balance at June 30, 2017	Additions	Disposals	Balance at June 30, 2018
Capital assets, not being depreciated				
Land	\$ 16,500	\$ -	\$ -	\$ 16,500
Construction in progress	152,429	1,224	-	153,653
Total capital assets not being depreciated	<u>168,929</u>	<u>1,224</u>	<u>-</u>	<u>170,153</u>
Capital assets, being depreciated				
Buildings & improvements	437,253	14,373	-	451,626
Water plant & distribution	9,062,051	-	-	9,062,051
Sewer plant & lines	18,415,060	20,156	-	18,435,216
Water tanks	2,470,169	-	-	2,470,169
Vehicles	297,719	-	-	297,719
Tools & equipment	523,603	37,981	-	561,584
Office furniture & fixtures	152,269	-	-	152,269
Total capital assets being depreciated	<u>31,358,124</u>	<u>72,510</u>	<u>-</u>	<u>31,430,634</u>
Less accumulated depreciation for:				
Buildings & improvements	187,503	16,625	-	204,128
Water plant & distribution	4,783,556	225,754	-	5,009,310
Sewer plant & lines	10,916,770	462,840	-	11,379,610
Water tanks	981,140	54,774	-	1,035,914
Vehicles	194,831	31,221	-	226,052
Tools & equipment	298,253	36,425	-	334,678
Office furniture & fixtures	146,615	2,729	-	149,344
Total accumulated depreciation	<u>17,508,668</u>	<u>830,368</u>	<u>-</u>	<u>18,339,036</u>
Total capital assets, being depreciated, net	<u>13,849,456</u>	<u>(757,858)</u>	<u>-</u>	<u>13,091,598</u>
Total capital assets, net	<u>\$ 14,018,385</u>	<u>\$ (756,634)</u>	<u>\$ -</u>	<u>\$ 13,261,751</u>

Depreciation expense amounted to \$830,368 for the fiscal year ended June 30, 2018.

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

F. Long-term Debt

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

	Balance 06/30/17	Additions	Payments	Balance 06/3/18	Due Within One Year
1) Revenue bonds - 2000 series	\$ 1,142,500	\$ -	\$ 29,000	\$ 1,113,500	\$ 31,000
2) Kentucky Infrastructure Authority	530,293	-	88,434	441,859	91,827
3) ARRA #A209-11	368,295	-	25,613	342,682	25,870
4) ARRA #A09-27	476,086	-	33,112	442,974	33,437
5) Fund B #10-06	299,076	-	19,266	279,810	19,459
Total debt	\$ 2,816,250	\$ -	\$ 195,425	\$ 2,620,825	\$ 201,593
Accrued vacation	\$ 10,853	\$ -	\$ 525	\$ 10,328	\$ -
Total accrued vacation	\$ 10,853	\$ -	\$ 525	\$ 10,328	\$ -

The scheduled annual requirements for long-term debt at June 30, 2018, including interest is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	201,593	76,492	278,085
2020	206,905	70,785	277,690
2021	212,861	64,889	277,750
2022	218,964	58,778	277,742
2023	171,345	52,446	223,791
2024-2028	631,857	218,457	850,314
2029-2033	502,300	147,183	649,483
2034-2038	325,000	78,908	403,908
2039-2040	150,000	10,170	160,170
Total	\$ 2,620,825	\$ 778,108	\$ 3,398,933

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, 2018, 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, 2018

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 Unreduced retirement Reduced retirement	Before September 1, 2008 27 years of service or 65 years old At least 5 years of service and 55 years old At least 25 years of service and any age
Tier 2	Participation date Unreduced retirement Reduced retirement	Before September 1, 2008 – December 31, 2013 At least 5 years of service and 65 years old Or age 57+ and sum of service years plus age equals 87 At least 10 years of service and 60 years old
Tier 3	Participation date Unreduced retirement Reduced retirement	After December 31, 2013 At least 5 years of service and 65 years old Or age 57+ and sum of service years plus age equals 87 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, 2018

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

	Required Contribution
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, 2018 was \$138,390.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2018, the Commission reported a liability \$1,758,509 for its proportionate share of the net pension liability. The net pension liability for the plan was measured as of June 30, 2017, 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 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, 2017, the Commission's proportion was 0.030043%.

For the year ended June 30, 2018, the Commission recognized pension expenses of \$290,079. At June 30, 2018, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,181	\$ 44,638
Change of assumptions	324,493	-
Net difference between projected and actual earnings on plan investments	139,272	117,521
Changes in proportion and differences between employer contributions and proportional share of contributions	-	76,291
Employer contributions subsequent to the measurement date	138,390	-
	\$ 604,336	\$ 238,450

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.

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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, 2018. 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 ended June 30	
Year 1	\$ 79,794
Year 2	116,164
Year 3	54,116
Year 4	(22,578)
Year 5	-
Thereafter	-
	\$ 227,496

Actuarial assumptions – The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30 percent
Salary Increases	2.00 percent, average, including inflation
Investment rate of return	6.25 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

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 April 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.

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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 6.25%. 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 6.25%. 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 5.25%	Current Discount Rate 6.25%	1% Increase 7.25%
Princeton Water & Wastewater's proportionate share of the net pension liability	\$ 2,217,860	\$ 1,758,509	\$ 1,374,266

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

C. Other Post Employment Benefit Plan

All full-time employees are eligible to participate in the County Employee's Retirement System ("System"). The System plan provides for retirement, disability, and death benefits, which benefits are established by State statute. Employer contribution rates are intended to fund the System's normal cost on a current basis plus an amount equal to the amortization of unfounded past service costs over thirty years using the level percentage. Such contribution rates are determined by the System's Board of Trustees each biennium. Vesting in a retirement benefit begins immediately upon entry into the System with participants establishing full vesting after the completion of sixty months of service, twelve of which are current service. At a minimum, terminated employees are refunded their contributions with credited interest compounded annually at a rate of 2.5%.

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Covered employees are required to contribute five percent (5%) of their salary to the plan. For those employees who began participating with the County Retirement System on or after September 1, 2008, 6% of their salary will be the required contribution, with 5% deposited into the individual's account and 1% deposited into the County Retirement System Insurance Fund. In addition, the System is required to contribute the remaining amounts necessary to pay benefits when due.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERS and employers. The System does not make separate measurements of assets and pension benefit obligation for individual employers. The most recent actuarial valuation and determination of pension benefit obligation were performed as of June 30, 2017. The actuarial accrued pension liability at June 30, 2017 for the CERS portion as a whole determined through an actuarial valuation performed as of that date was \$12,540,544,538. The CERS System's net assets available for benefits on that date were \$6,687,237,095, leaving \$5,853,307,443 of unfunded actuarial accrued liability.

The System's contribution represented less than 1% of the total contributions required of all participating entities. Ten-year historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's June 30, 2018 annual financial report.

County Employees Retirement System Non-Hazardous (CERS)

Plan description – Effective August 1, 1988, employees of the Princeton Water and Wastewater Commission of Princeton, Kentucky became a part of the County Employee Retirement Systems (CERS). This is 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 provision 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:

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Tier 1 participation began before July 1, 2003. Members are eligible for benefits if they are the recipient of a retirement allowance. The percentage of the member premium paid by the retirement system is based on the number of years of service as indication below:

Less than 4 years	0%
4-9 years	25%
10-14 years	50%
15-19 years	75%
20 or more years	100%

Tier 2 participation began on or after July 1, 2003, but before September 1, 2008. Members are eligible for benefits if they are the recipient of a retirement allowance with at least 120 months of service at retirement. The retirement system provides a monthly contribution of \$10 for each year of earned service. The monthly contribution is increased by 1.5% each July. As of July 1, 2016, the monthly contribution was \$12.99/year of service.

Tier 3 participation began on or after September 1, 2008. Benefits are identical to Tier 2, except Tier 3 members are required to have at least 1809 months of service in order to be eligible.

Contributions – Required contributions by the employee are based on the tier. Tier 1 members contribute 0% of gross salary. Tier 2 and 3 members both contribute 1% of gross salary.

Employer contributions rates for the fiscal year were adopted by the Board of KRS based on actuarially recommend rates. The Commission's contributions for the year ended June 30, 2018, were \$7,715.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs – At June 30, 2018, the Commission reported a liability of \$603,967 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB was determined by an actuarial valuation as of that date. The Commission's proportion of the net OPEB liability was based on a projection of the Commission's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2017, the Commission's proportion was 0.030043%.

For the year ended June 30, 2018, the Commission recognized OPEB expense of \$462,188. At June 30, 2018, the Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,677
Change of assumptions	131,419	-
Net difference between projected and actual earnings on plan investments	-	28,543
Changes in proportion and differences between employer contributions and proportional share of contributions	-	1,401
Employer contributions subsequent to the measurement date	-	-
Implicit subsidy	7,382	-
	\$ 138,801	\$ 31,621

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.

Deferred outflows of resources resulting from the Commission's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follow:

Year ended June 30	
Year 1	\$ 17,172
Year 2	17,172
Year 3	17,172
Year 4	17,172
Year 5	24,307
Thereafter	6,803
	\$ 99,798

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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

Inflation Rate	2.30%	
Payroll growth rate	2.00%	
Salary increases	3.05%	
Investment rate of return, net of investment expense and inflation	6.25%	
Long-term municipal bond rate	3.56%	
Healthcare trend rates		
Pre-65		Initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years
Post-65		Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years

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 RE-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RE-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized below.

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US equity	17.50%	5.97%
International equity	17.50%	7.85%
Global bonds	4.00%	2.63%
Global credit	2.00%	3.63%
High yield	7.00%	5.75%
Emerging market debt	5.00%	5.50%
Private credit	10.00%	8.75%
Real estate	5.00%	7.63%
Absolute return	10.00%	5.63%
Real return	10.00%	6.13%
Private equity	10.00%	8.25%
Cash	2.00%	1.88%
Total	100.00%	

Discount Rate – The projection of cash flows used to determine the discount rate of 5.84% assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 year (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index’s “20-Year Municipal GO AA Index” as of June 30, 2017.

The following table presents the Board’s proportionate share of the collective net OPEB liability, calculated using the discount rate of 5.84%, as well as what the Commission’s proportionate share of the collective net OPEB 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	Current Discount Rate	1% Increase
CERS	4.84%	5.84%	6.84%
Commission’s proportionate share of net OPEB liability	\$768,515	\$603,967	\$467,038

Sensitivity of the Board’s proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates – The following presents the Board’s proportionate share of the collective net OPEB liability, as well as what the District’s proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates.

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Commission's proportionate share of net OPEB liability	\$463,274	\$603,967	\$786,860

OPEB plan fiduciary net position – Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued financial statements.

D. Prior Period Adjustment

Due to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, an amendment of GASB No. 57, beginning net position was adjusted to reflect the retrospective application. The adjustment resulted in a \$436,712 reduction in beginning net position.

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE PRINCETON WATER AND WASTEWATER
COMMISSION'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
COUNTY EMPLOYEE RETIREMENT SYSTEM OF THE KRS
For the Year Ended June 30, 2018**

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Total net pension liability (asset) for CERS	\$4,299,525,565	\$ 4,923,318,237	\$ 5,853,308,000
Princeton Water and Wastewater's proportion of the net pension liability	0.032450%	0.030903%	0.030043%
Princeton Water and Wastewater's proportionate share of the net pension liability	\$ 1,395,193	\$ 1,521,570	\$ 1,758,509
Princeton Water and Wastewater's covered-employee payroll	\$ 775,239	\$ 736,232	\$ 764,508
Princeton Water and Wastewater's proportionate share of the net pension liability as a percentage of its covered-employee payroll	185.06%	206.67%	230.02%
Plan fiduciary net position as a percentage of the total pension liability	59.97%	55.50%	53.30%

*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.

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE PRINCETON WATER AND WASTEWATER
COMMISSION'S CONTRIBUTIONS
COUNTY EMPLOYEE RETIREMENT SYSTEM OF THE KRS
For the Year Ended June 30, 2018**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Actuarially Determined Contribution (ADC)	\$ 163,512	\$ 134,426	\$ 136,699	\$ 138,390
Contribution in relation to the actuarially determined contribution	<u>163,512</u>	<u>134,426</u>	<u>136,699</u>	<u>138,390</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Princeton Water and Wastewater's covered-employee payroll	\$ 775,239	\$ 736,232	\$ 764,508	\$ 771,489
Contributions as a percentage of Princeton Water and Wastewater's covered-employee payroll	21.09%	18.26%	17.88%	17.94%

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.

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE PRINCETON WATER AND WASTEWATER
COMMISSION'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY**
For the Year Ended June 30, 2018

	<u>2017</u>
Commission's proportionate of the net OPEB liability (asset)	0.03004%
Commission's proportionate share of the net OPEB liability (asset)	<u>\$ 473,734</u>
Commission's covered-employee payroll	<u>\$ 764,508</u>
Commission's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	61.97%
Plan fiduciary net position as a percentage of the total OPEB liability	52.40%

The amounts presented were determined as of June 30 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 the future until 10 years of information is available.

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE PRINCETON WATER AND WASTEWATER
COMMISSION'S OPEB CONTRIBUTIONS
COUNTY EMPLOYEE RETIREMENT SYSTEM OF THE KRS**

For the Year Ended June 30, 2018

	2018
Contractually required contribution	\$ 7,715
Contributions in related to the contractually required contribution	(7,715)
Contribution deficiency (excess)	\$ -
Commission's covered employee payroll	\$ 771,489
Contributions as a percentage of covered-employee payroll	1.00%

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 the future until 10 years of information is available.

REQUIRED SUPPLEMENTARY INFORMATION

PRINCETON WATER AND WASTEWATER COMMISSION NOTES TO PENSION PLAN INFORMATION

June 30, 2018

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:

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.

Other Post-Employment Benefits

Changes of benefit terms – None

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

2016

- The assumed investment rate of return was decreased from 7.50% to 6.25%
- The assumed rate of inflation was reduced from 3.25% to 2.30%
- Payroll growth assumption was reduced from 4.00% to 2.00%
- The single discount rate changed from 6.89% to 5.84%

REQUIRED SUPPLEMENTARY INFORMATION

**PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO PENSION PLAN INFORMATION**

June 30, 2018

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	2.30 percent
Salary increases	2.00 percent, average, including inflation
Investment rate of return	6.25 percent, 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
For the Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:				
Charges for services	\$ 3,274,000	\$ 3,274,000	\$ 3,201,414	\$ (72,586)
Other income	39,500	39,500	34,500	(5,000)
Total revenues	<u>3,313,500</u>	<u>3,313,500</u>	<u>3,235,914</u>	<u>(77,586)</u>
Expenditures:				
Salary and related	1,241,494	1,241,494	1,412,457	170,963
Supplies and chemicals	283,000	283,000	290,980	7,980
Utilities	381,500	381,500	370,955	(10,545)
Gasoline and oil	25,000	25,000	19,334	(5,666)
Repairs	165,000	165,000	141,568	(23,432)
Insurance	156,000	156,000	130,527	(25,473)
Professional services	91,000	91,000	102,483	11,483
Postage	13,000	13,000	13,925	925
Rental and lease	10,000	10,000	1,155	(8,845)
Sludge removal	65,000	25,000	10,593	(14,407)
Materials expense	96,000	96,000	52,638	(43,362)
Freight	4,000	4,000	2,014	(1,986)
Miscellaneous	56,600	56,600	58,394	1,794
Depreciation	770,000	770,000	830,368	60,368
Total expenditures	<u>3,357,594</u>	<u>3,317,594</u>	<u>3,437,391</u>	<u>119,797</u>
Nonoperating revenues (expenditures):				
Interest income	-	-	192	192
Interest expense	(109,450)	(109,450)	(80,477)	28,973
Total nonoperating revenues (expenses)	<u>(109,450)</u>	<u>(109,450)</u>	<u>(80,285)</u>	<u>\$ 29,165</u>
Excess of revenues over (under) expenditures	<u>\$ (153,544)</u>	<u>\$ (113,544)</u>	(281,762)	
Fund balances, beginning of year			11,951,435	
Prior Period Adjustment - GASB 75			<u>(436,712)</u>	
Fund balances, end of year			<u>\$ 11,232,961</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 Commission as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated February 5, 2019.

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, PLLC

Murray, Kentucky
February 5, 2019