

**PRINCETON WATER
AND WASTEWATER COMMISSION**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

JUNE 30, 2019

**PRINCETON WATER AND WASTEWATER COMMISSION
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INTRODUCTORY SECTION

**PRINCETON WATER AND WASTEWATER COMMISSION
DIRECTORY
June 30, 2019**

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, 2019, 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, 2019, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Your Long-Term Accounting Partner

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 November 22, 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

November 22, 2019



PRINCETON WATER AND WASTEWATER MANAGEMENT'S DISCUSSION AND ANALYSIS

Princeton Water and Wastewater Commission ("PWWC") offers this Management's Discussion and Analysis to provide an overview and analysis of the system's financial activities for the fiscal year ending June 30, 2019. To fully understand the entire scope of the PWWC's financial activities, this information should be read in conjunction with the financial statements provided in this document.

FINANCIAL AND OPERATING HIGHLIGHTS

The Princeton Water and Wastewater Commission (PWWC) is responsible for providing safe, quality drinking water to the citizens of the City of Princeton, in addition to residents located in Caldwell County and Lyon County by virtue of wholesale agreements with these water districts. Additionally, the PWWC provides wastewater treatment services to customers mainly located within the city limits of Princeton.

Utilities of all sizes across the country are faced with aging infrastructure, increased regulation, skyrocketing pension costs and tight labor forces. All of this comes at a time when grant funding and lower interest rate government backed loans are harder to obtain. Additionally, conservation and energy efficient appliances have continued to decrease the revenue base while the cost to produce water and treat wastewater continues to rise. Water rates have not been raised since 2014 with sewer rates remaining stagnant since 2016. Therefore, a study was undertaken with help from representatives from the University of North Carolina Environmental Finance Center to understand the vulnerability of the population served by PWWC and whether the rate system in place currently was still appropriate given the declines in population and lack of industrial growth. While rate increases are never popular, the PWWC management team felt compelled to thoroughly research other rate systems before passing another increase. This project was completed in June 2019 and the decision was made to eventually scrap the declining block rate system and replace it with a more fair and equitable flat cost system. While the results of this almost year-long study will not be felt until fiscal year 2020 and beyond, the decision was made to significantly increase the rates for the largest users and begin the process of installing flat rates for both water and sewer services.

While rate studies were being completed by the Director of Finance, the main focus of the Superintendent and the maintenance staff was the start of construction on the long awaited water line upgrade and Skyline tank improvements. Construction on the water line improvements began in late summer 2018 and wrapped up shortly after the completion of the 2019 audit in August. For the most part, plans went as anticipated with only one major "hitch" which ended up increasing the project by slightly more than \$172,000. However, contingency funds added into the project were available to offset this necessary change. In addition, the original loan approval included approximately \$800,000 to refinance a higher rate KIA obligation which had been paid down to almost \$450,000 by the time the project got underway. This \$350,000 was able to add to the contingency funding available in the project and should be enough to fund much needed repairs and improvements to the water treatment plant. At the end of June 2019, almost \$2,420,000 or 88% of the \$2,739,000 interim construction loan was utilized. None of the \$763,500 in grant funds had been used at this point in time.

Since the construction project was impacting such a large section of city streets on the west side of town, the decision was made to move forward with rehabbing some sewer lines in the same area. By utilizing our maintenance crew and equipment, residents in and around the Maple Avenue area were able to have sewer lines upgraded and PWWC saved thousands by utilizing in-house labor. This was also a plus for the City since the paving of the streets should last longer with both water and sewer lines now upgraded.

The project impacted the financial statements in various ways. From a balance sheet perspective both fixed assets and liabilities were increased as was the overall leverage. Previous cash outlays for engineering fees were reimbursed, ultimately improving liquidity and days cash on hand. On the statement of revenues and expenses, interest expense was lower than budgeted since the interest on the project was able to be capitalized. Other expense categories were also lowered due to the maintenance staff being utilized in line upgrades versus tackling repair projects. Repair expenditures were markedly lower than the previous year and capitalized labor and equipment deducted > \$65,000 from total expenses.

At the wastewater plant, an energy audit was completed by individuals associated with the University of Kentucky. In late spring of 2019, personnel began the implementation of various suggestions contained within the audit. Not only were wastewater personnel able to lower energy costs at the plant but significant savings in certain chemical usage was also noted. At the water treatment plant, chemical trials were completed to look at the corrosion of the lines and also to aid with maintaining acceptable DBP levels. The decision was made to begin using an additional corrosive inhibitor to prolong the life of the water lines along with algaecides and chlorine dioxide in an attempt to continue maintaining acceptable DBP levels. Hopefully the addition of chlorine dioxide will also enable the PWWC to reduce the amount of flushing done in the summer months, further reducing operational costs at the treatment plant.

Finally, one of the greatest challenges, from a financial perspective, continues to be the handling and recognition of pension and OPEB liabilities. Since 2015, the net liabilities related to future pension costs rose from slightly more than \$1.2 million to almost \$2.3 million. This is an entry totally out of the control of PWWC management and staff and has led to an increase in overall pension costs of > \$225,000 in the last two years, above that which is already mandated to be deposited on a monthly basis and makes budgeting almost impossible. Nevertheless, the PWWC was able to absorb this year's adjustments and end up with a positive change in net position. A more in-depth discussion of the financial position of the utility follows:

FINANCIAL ANALYSIS

For several years, the Commission members of PWWC have been supplied with monthly, quarterly and annual comparative financial data. This information is deemed critical for decision making purposes and being able to ascertain the strength and viability of the utility. Financial ratios help one evaluate the financial strength, stability, credit worthiness, and growth potential of the utility. Monitoring how key financial ratios track over time allows one to assess current financial performance and determine if a change in rates or policies may be needed. Examining financial performance also aids in planning for future growth and development.

Utilities must be self-sufficient and able to cover not only current operating expenses along with debt service but also have the ability to set aside funds for future capital needs. The operating ratio is a good indicator of an entity's overall self-sufficiency while the debt service coverage ratio measures a system's ability to cover its debt obligations. For fiscal year 2019, PWWC had an operating ratio of 1.33x excluding depreciation as an expense and a ratio of 1.00x including depreciation. This was an improvement over ratios of 1.20x and 0.92x, recorded in fiscal year 2018 and slightly higher than the five year average. Being able to fully cover depreciation expense allows PWWC to continue investing and/or replacing our aging infrastructure. The debt service coverage ratio is typically calculated as follows:

$$\frac{\text{Change in Net Position} + \text{Depreciation} + \text{Interest Expense}}{\text{Interest Expense} + \text{Prior Year Current Maturities of Long Term Debt}}$$

For fiscal year 2019, this ratio covered the debt obligations of PWWC by 3.28x and was a significant improvement over the 2.28x ratio recorded in the previous year. Currently, existing bond and loan covenants require PWWC to maintain at least a 1.20x coverage. Having a ratio 2.7 times higher than what is required is a good indicator of the financial strength of PWWC and bodes well for future borrowing should funds be needed to replace assets.

Alongside the Statement of Revenues, Expenses and Changes in Net Position (i.e. income statement), the Statement of Net Position (i.e. balance sheet) reveals facts about a company's financial strength and security at a certain point in time. Three important liquidity measurements are the current ratio, working capital, and days cash on hand. The current ratio needs to be greater than 1.0x since it measures the ability to pay current bills. For the past five years the PWWC has continued to add to its cash position, thereby strengthening both its current ratio and working capital. Since June 30, 2018, cash and cash equivalents grew by almost \$600,000 while current liabilities decreased resulting in a current ratio of 11.76 as of June 30, 2019, an improvement over an already strong 6.08 ratio recorded the year before. More importantly, this ratio has increased by 450% over the past five years. The second measurement of liquidity is the dollar amount by which current assets exceed current liabilities, commonly referred to as working capital. Like the current ratio, PWWC's working capital has been on an upward trajectory for several years and totaled almost \$2.8 million at June 30, 2019, an increase of more than \$700,000 from the previous year-end. Finally, days cash on hand is an indicator of how long the system could operate on its existing non-restricted cash without any future revenue being recognized. The non-restricted cash of PWWC as of June 30, 2019 was \$2,231,699 and the average daily cost of operations, excluding depreciation, was \$6,696. Therefore, the PWWC had eleven months or 333 days of operational cost coverage (i.e. days cash on hand) as compared to 222 at June 30, 2018.

Highlights regarding the statement of revenues, expenses and changes in net assets are:

Charges for services during the year were approximately \$15,000 lower than the previous year but only \$2,000 shy of budget. Water sales outpaced budget but continued declines in wastewater revenue, mainly in the industrial sector, offset the positive variance that water revenues produced.

While operating revenues declined somewhat, operating expenses ended the year being almost \$100,000 lower than budget and almost \$300,000 lower than expenses of the previous fiscal year. Significant items were:

- ✓ At the suggestion of our accountant's, the PWWC implemented an inventory accounting system for chemicals and fuel. Whereas, previously purchases of these items were expensed at the time of purchase, the new accounting treatment recognizes the unused portion as an asset. This initial set-up lowered chemical expense by almost \$43,000 and fuel costs by > \$6,000.
- ✓ Chemicals and Supplies were \$69,000 under budget with \$43,000 attributed to the aforementioned inventory adjustment and \$70,000 lower than the previous year excluding the adjustment. Improvements in processes and chemical trials at both plants had allowed both facilities to cut chemical costs and eliminate the need for some chemicals entirely.
- ✓ Building and Equipment Repair and Maintenance was almost \$40,000 under budget and almost half of what had been expensed the previous year. Maintenance staff was pre-occupied for most of the year with the water line improvement project and the Maple Avenue sewer upgrade. This left little time to do "extra" projects that would have normally been done.
- ✓ Professional Services & Lab Fees were at budget but were up by almost 32% over the previous year. This was attributed to the purchase of new software for the AMR meter billing system and an upgrade to administrative computers and printers.
- ✓ Tools, Inventory and Miscellaneous Materials came in slightly over budget but were 38% higher than the previous year due to the cost of inventory and miscellaneous materials utilized in the water and sewer upgrades which could not be capitalized.
- ✓ Capital Cost of Labor & Machinery was greater than \$65,000 and reflects the adjustments made to value the labor (i.e. manhours) and equipment time used in both upgrades. Rather than show these items as a "net" figure with salaries, the ability to break them out and show them as a deduction to normal expenses allows for a better audit trail in the future. Over \$41,000 in labor charges were capitalized in these two projects. None of the hours spent monitoring the construction were included in this total. Had those hours been included, another \$20,000+ would have been recognized. By using the talented staff of maintenance employees to do smaller line upgrades, the PWWC was able to cut the costs by almost half over what was estimated by the contractor.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Princeton Water and Wastewater's finances for all those with an interest in the government's finances. Questions or requests for additional information may be addressed to James Noel, Superintendent or Tracy Musgove, Director of Finance and Special Projects, Princeton Water and Wastewater, P.O. Box 231, Princeton, Kentucky 42445.

PRINCETON WATER AND WASTEWATER COMMISSION
STATEMENT OF NET POSITION
June 30, 2019

ASSETS

Current assets:

Cash and cash equivalents	\$ 2,231,699
Special funds - restricted	106,593
Accounts receivable	385,224
Inventories	<u>333,580</u>
Total current assets	<u>3,057,096</u>

Noncurrent assets:

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

Capital assets:

Utility plant	31,550,453
Less: Accumulated depreciation	<u>(19,142,068)</u>
Net depreciable assets	12,408,385
Non-depreciable assets	<u>2,043,648</u>
Total capital assets	<u>14,452,033</u>

Total assets	<u>17,718,429</u>
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Deferred outflows of resources:

Deferred outflows related to OPEB	151,679
Deferred outflows related to pensions	<u>354,724</u>
Total deferred outflows of resources	<u>\$ 506,403</u>

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

PRINCETON WATER AND WASTEWATER COMMISSION
STATEMENT OF NET POSITION
June 30, 2019

LIABILITIES

Current liabilities (payable from current assets):

Current maturities of long-term debt	\$ 114,556
Accounts payable - trade	5,134
Bond Premium	20,546
Customer deposits	106,593
Accrued liabilities:	
Payroll and other taxes	12,156
Interest	967
Total current liabilities	<u>259,952</u>

Noncurrent liabilities:

Net pension liability	1,774,167
Net OPEB liability	517,197
Long-term debt less current maturities	4,232,024
Accrued vacation	16,248
Total noncurrent liabilities	<u>6,539,636</u>

Total liabilities	<u>6,799,588</u>
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Deferred Inflows of Resources

Deferred inflows related to OPEB	113,072
Deferred inflows related to pensions	100,134
Total deferred inflows of resources	<u>213,206</u>

NET POSITION

Net investment in capital assets	10,105,453
Restricted - debt service	209,300
Unrestricted	897,285
Total net position	<u>\$ 11,212,038</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, 2019

Operating revenues:	
Charges for services	\$ 3,186,316
Rent from utility property	34,500
Total operating revenues	<u>3,220,816</u>
Operating expenses:	
Administrative expenses	460,115
Water treatment expenses	693,814
Wastewater expenses	632,729
Maintenance expenses	589,776
Depreciation	803,032
Total operating expenses	<u>3,179,466</u>
Operating income (loss)	<u>41,350</u>
Nonoperating revenues (expenses):	
Interest revenue	174
Interest expense	<u>(62,447)</u>
Total nonoperating revenues (expenses)	<u>(62,273)</u>
Change in net position	(20,923)
Net position - beginning	<u>11,232,961</u>
Net position - ending	<u>\$ 11,212,038</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, 2019

Cash flows from operating activities:	
Cash received from consumers	\$ 3,295,085
Cash paid to suppliers of goods and services	(1,121,861)
Cash paid to employees for services	(1,233,854)
Change in customer deposits	249
Net cash provided by operating activities	<u>939,619</u>
Cash flows from investing activities:	
Interest on investments	174
Net cash provided by investing activities	<u>174</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of property, plant and equipment	(1,993,314)
Principal payments on long-term debt	(1,664,129)
Debt proceeds	3,369,338
Interest paid on long-term debt	(60,857)
Net cash used in financing activities:	<u>(348,962)</u>
Increase (decrease) in cash and cash equivalents	590,831
Cash and cash equivalents - beginning	<u>1,956,761</u>
Cash and cash equivalents - ending	<u>2,547,592</u>
Cash and cash equivalents:	
Current assets - cash, cash equivalents, and special funds	2,338,292
Noncurrent assets - special funds restricted	209,300
Net cash and cash equivalents	<u>\$ 2,547,592</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, 2019

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Net operating income (loss)	\$ 41,350
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for depreciation	803,032
Pension and OPEB expense - actuarially determined	(27,280)
(Increase) decrease in current assets:	
Accounts receivable	74,265
Inventory	(50,412)
Deferred outflows	236,734
Increase (decrease) in current liabilities:	
Accounts payable	(64,552)
Accrued liabilities	(16,902)
Deferred inflows	(56,865)
Customer deposits	249
Net cash provided by (used in) operating activities	<u>\$ 939,619</u>

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

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS

June 30, 2019

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 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, 2019

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, 2019 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, 2019 totaled \$106,593.

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, 2019

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, 2019. These items totaled to \$501,225.

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, 2019. These items totaled to \$213,206.

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 three 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, 2019

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 Non-Hazardous (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.

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, 2019

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 was not satisfactory to the Commission. As of June 30, 2019 the Commission had \$6,614 of uncollateralized funds.

B. Receivables

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

Receivables		
	2019	2018
Billed service for utility customers	\$ 241,393	\$ 303,688
Other receivable	176,135	185,360
Less: allowance for doubtful	(32,304)	(29,559)
Total	\$ 385,224	\$ 459,489

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS

June 30, 2019

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, 2019
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		
	2019	2018
Net investment in capital assets		
Net property, plant and equipment	\$ 14,478,606	\$ 13,261,751
Less: Debt as disclosed in Note 3F	(4,346,580)	(2,620,825)
	10,132,026	10,640,926
Restricted - debt service	209,300	209,300
Unrestricted	892,107	(194,790)
Total net position	\$ 11,233,433	\$ 10,655,436

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

E. Capital Assets

Capital asset activity during the year was as follows:

	Balance at June 30, 2018	Additions	Disposals	Balance at June 30, 2019
Capital assets, not being depreciated				
Land	\$ 16,500	\$ -	\$ -	\$ 16,500
Construction in progress	153,653	1,873,495	-	2,027,148
Total capital assets not being depreciated	<u>170,153</u>	<u>1,873,495</u>	<u>-</u>	<u>2,043,648</u>
Capital assets, being depreciated				
Buildings & improvements	451,626	-	-	451,626
Water plant & distribution	9,062,051	27,411	-	9,089,462
Sewer plant & lines	18,435,216	92,408	-	18,527,624
Water tanks	2,470,169	-	-	2,470,169
Vehicles	297,719	-	-	297,719
Tools & equipment	561,584	-	-	561,584
Office furniture & fixtures	152,269	-	-	152,269
Total capital assets being depreciated	<u>31,430,634</u>	<u>119,819</u>	<u>-</u>	<u>31,550,453</u>
Less accumulated depreciation for:				
Buildings & improvements	204,128	14,685	-	218,813
Water plant & distribution	5,009,310	255,701	-	5,265,011
Sewer plant & lines	11,379,610	416,051	-	11,795,661
Water tanks	1,035,914	54,774	-	1,090,688
Vehicles	226,052	23,136	-	249,188
Tools & equipment	334,678	37,218	-	371,896
Office furniture & fixtures	149,344	1,467	-	150,811
Total accumulated depreciation	<u>18,339,036</u>	<u>803,032</u>	<u>-</u>	<u>19,142,068</u>
Total capital assets, being depreciated, net	<u>13,091,598</u>	<u>(683,213)</u>	<u>-</u>	<u>12,408,385</u>
Total capital assets, net	<u>\$ 13,261,751</u>	<u>\$ 1,190,282</u>	<u>\$ -</u>	<u>\$ 14,452,033</u>

Depreciation expense amounted to \$803,032 for the fiscal year ended June 30, 2019.

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

F. Long-term Debt

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

	Balance 06/30/18	Additions	Payments	Balance 06/30/19	Due Within One Year
1) Revenue bonds - 2000 series	\$ 1,113,500	\$ -	\$ 1,113,500	\$ -	\$ -
2) Kentucky Infrastructure Authority	441,859	-	441,859	-	-
3) Kentucky Infrastructure Authority - AARA	342,682	-	25,870	316,812	26,128
4) Kentucky Infrastructure Authority A09-2	442,974	-	33,442	409,532	33,772
5) Fund B #10-06	279,810	-	19,458	260,352	19,656
6) 2019 WTP Rd Project - Construction	-	2,419,884	-	2,419,884	-
7) KADD Lease	-	970,000	30,000	940,000	35,000
Total debt	\$ 2,620,825	\$ 3,389,884	\$ 1,664,129	\$ 4,346,580	\$ 114,556
Accrued vacation	\$ 10,328	\$ 5,920	\$ -	\$ 16,248	\$ -
Total accrued vacation	\$ 10,328	\$ 5,920	\$ -	\$ 16,248	\$ -

The scheduled annual requirements for long-term debt at June 30, 2019, including interest is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	114,556	49,701	164,257
2021	154,343	98,576	252,919
2022	160,977	95,192	256,169
2023	162,636	91,532	254,168
2024	169,322	87,846	257,168
2025-2029	897,847	379,344	1,277,191
2030-2034	705,010	281,186	986,196
2035-2039	463,033	193,621	656,654
2040-2044	303,302	148,755	452,057
2045-2049	336,927	115,130	452,057
2050-2054	374,280	77,777	452,057
2055-2060	504,347	38,165	542,512
Total	\$ 4,346,580	\$ 1,656,825	\$ 6,003,405

G. Short-term Debt

The 2019 WTP Rd Project – Construction loan was refinanced after the end of the fiscal year. The first payment is not due until after June 30, 2020.

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, 2019, 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, 2019

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, 2019

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, 2019 was \$123,468.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2019, the Commission reported a liability \$1,774,167 for its proportionate share of the net pension liability. The net pension liability for the plan was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 and rolled forward using generally accepted actuarial principles. 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, 2018, the Commission's proportion was 0.029131%, a decrease of 0.000912 from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Commission recognized pension expenses of \$216,578. At June 30, 2019, 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	\$ 57,868	\$ 25,970
Change of assumptions	173,388	-
Net difference between projected and actual earnings on plan investments		21,273
Changes in proportion and differences between employer contributions and proportional share of contributions	-	52,891
Employer contributions subsequent to the measurement date	123,468	-
	<u>\$ 354,724</u>	<u>\$ 100,134</u>

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

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
 June 30, 2019

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, 2019. 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	\$ 113,440
Year 2	53,638
Year 3	(26,433)
Year 4	(9,523)
Year 5	-
Thereafter	-
	\$ 131,122

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:

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Inflation	2.30%
Salary Increases	3.05%
Investment Rate of Return	6.25% for CERS Non-hazardous, and hazardous, and KERS Hazardous, 5.25% for KERS Non-hazardous

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, 2018 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, 2019

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	17.50 %	
US Large Cap	8.50 %	4.50 %
US Mid Cap	5.00 %	4.50 %
US Small Cap	4.00 %	5.50 %
Non US Equity	17.50 %	
International Developed	12.50 %	6.50 %
Emerging Markets	5.00 %	7.25 %
Global Bonds	10.00 %	3.00 %
Credit Fixed	17.00 %	
Global IG Credit	10.00 %	3.75 %
High Yield	3.00 %	5.50 %
EMD	4.00 %	6.00 %
Private Equity	10.00 %	6.50 %
Real Estate	5.00 %	7.00 %
Absolute Return	10.00 %	5.00 %
Real Return	10.00 %	5.00 %
Cash	3.00 %	1.50 %
Total	<u>100.00 %</u>	

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	Current Discount Rate	1% Increase
	<u>5.25%</u>	<u>6.25%</u>	<u>7.25%</u>
Princeton Water and Wastewater proportionate share of the net pension liability	\$ 2,233,492	\$ 1,774,617	\$ 1,389,332

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS

June 30, 2019

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%.

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, 2018. The actuarial accrued pension liability at June 30, 2018 for the CERS portion as a whole determined through an actuarial valuation performed as of that date was \$113,109,268. The CERS System's net assets available for benefits on that date were \$7,018,963, leaving \$6,090,305 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, 2019 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/>.

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

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 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, 2019, were \$40,044.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs – At June 30, 2019, the Commission reported a liability of \$517,197 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB was determined by an actuarial valuation as of June 30, 2017 and rolled forward using generally accepted actuarial principles. 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, 2018, the Commission's proportion was 0.029130%, a decrease of 0.000913 from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Commission recognized an increase in OPEB expenses of \$62,916. At June 30, 2019, 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, 2019

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 60,272
Change of assumptions	103,292	1,195
Net difference between projected and actual earnings on plan investments	-	35,625
Changes in proportion and differences between employer contributions and proportional share of contributions	-	15,980
Employer contributions subsequent to the measurement date	40,044	-
Implicit subsidy	8,343	-
	\$ 151,679	\$ 113,072

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	\$(1,225)
Year 2	(1,225)
Year 3	(1,225)
Year 4	5,694
Year 5	(7,553)
Thereafter	(4,246)
	\$(9,780)

PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

Actuarial methods and assumptions – The total OPEB liability in the June 30, 2018 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%, average
Investment rate of return	6.25%
Long-term municipal bond rate	3.62%
Healthcare trend rates	
Pre-65	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years
Post-65	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 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, 2019

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	17.50 %	
US Large Cap	8.50 %	4.50 %
US Mid Cap	5.00 %	4.50 %
US Small Cap	4.00 %	5.50 %
Non US Equity	17.50 %	
International Developed	12.50 %	6.50 %
Emerging Markets	5.00 %	7.25 %
Global Bonds	10.00 %	3.00 %
Credit Fixed	17.00 %	
Global IG Credit	10.00 %	3.75 %
High Yield	3.00 %	5.50 %
EMD	4.00 %	6.00 %
Private Equity	10.00 %	6.50 %
Real Estate	5.00 %	7.00 %
Absolute Return	10.00 %	5.00 %
Real Return	10.00 %	5.00 %
Cash	3.00 %	1.50 %
Total	<u>100.00 %</u>	

Discount Rate – The projection of cash flows used to determine the discount rate of 5.85% assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 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 3.62%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018.

The following table presents the Board's proportionate share of the collective net OPEB liability, calculated using the discount rate of 5.85%, 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.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	4.85%	5.85%	6.85%
Commission's proportionate share of net OPEB liability	\$671,756	\$517,197	\$385,059

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, 2019

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Commission's proportionate share of net OPEB liability	\$385,059	\$517,197	\$672,951

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

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,**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total net pension liability (asset) for CERS	\$4,299,525,565	\$ 4,923,318,237	\$ 5,853,308,000	\$ 6,090,304,793
Princeton Water and Wastewater's proportion of the net pension liability	0.032450%	0.030903%	0.030043%	0.029131%
Princeton Water and Wastewater's proportionate share of the net pension liability	\$ 1,395,193	\$ 1,521,570	\$ 1,758,509	\$ 1,774,167
Princeton Water and Wastewater's covered-employee payroll	\$ 775,239	\$ 736,232	\$ 764,508	\$ 771,489
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%	229.97%
Plan fiduciary net position as a percentage of the total pension liability	59.97%	55.50%	53.30%	53.54%

*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 PENSION CONTRIBUTIONS
COUNTY EMPLOYEE RETIREMENT SYSTEM OF THE KRS
For the Year Ended June 30,**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Actuarially Determined Contribution (ADC)	\$ 163,512	\$ 134,426	\$ 136,699	\$ 138,390	\$ 123,468
Contribution in relation to the actuarially determined contribution	<u>163,512</u>	<u>134,426</u>	<u>136,699</u>	<u>138,390</u>	<u>123,468</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Princeton Water and Wastewater's covered-employee payroll	\$ 775,239	\$ 736,232	\$ 764,508	\$ 771,489	\$ 767,408
Contributions as a percentage of Princeton Water and Wastewater's covered-employee payroll	21.09%	18.26%	17.88%	17.94%	16.09%

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
COUNTY EMPLOYEE RETIREMENT SYSTEM OF THE KRS
For the Year Ended June 30, 2019**

	<u>2017</u>	<u>2018</u>
Commission's proportionate of the net OPEB liability (asset)	0.030043%	0.029130%
Commission's proportionate share of the net OPEB liability (asset)	<u>\$ 473,734</u>	<u>\$ 517,197</u>
Commission's covered-employee payroll	<u>\$ 764,508</u>	<u>\$ 771,489</u>
Commission's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	61.97%	67.04%
Plan fiduciary net position as a percentage of the total OPEB liability	52.40%	57.62%

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,

	<u>2018</u>	<u>2019</u>
Contractually required contribution	\$ 38,389	\$ 40,044
Contributions in relation to the contractually required contribution	<u>(38,389)</u>	<u>(40,044)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Commission's covered employee payroll	<u>\$ 771,489</u>	<u>\$ 767,408</u>
Contributions as a percentage of covered-employee payroll	4.98%	5.22%

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.

See Independent Auditor's Report and Notes to Pension Plan Information

REQUIRED SUPPLEMENTARY INFORMATION

PRINCETON WATER AND WASTEWATER COMMISSION NOTES TO PENSION PLAN INFORMATION

June 30, 2019

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:

2016

- The assumed investment rate of return was decreased from 7.50% to 6.50%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- Payroll growth assumption was reduced from 4.00% to 2.00%.

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.

See Independent Auditor's Report

REQUIRED SUPPLEMENTARY INFORMATION
PRINCETON WATER AND WASTEWATER COMMISSION
NOTES TO PENSION PLAN INFORMATION
June 30, 2019

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%

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, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Charges for services	\$ 3,188,500	\$ 3,188,500	\$ 3,186,316	\$ (2,184)
Other income	34,500	34,500	34,500	-
Total revenues	<u>3,223,000</u>	<u>3,223,000</u>	<u>3,220,816</u>	<u>(2,184)</u>
Expenditures:				
Salary and related	1,284,100	1,284,100	1,373,889	89,789
Supplies and chemicals	247,000	247,000	194,217	(52,783)
Utilities	388,500	388,500	386,425	(2,075)
Gasoline and oil	23,000	23,000	18,351	(4,649)
Repairs	120,000	120,000	80,620	(39,380)
Insurance	120,000	120,000	121,958	1,958
Professional services	136,000	136,000	106,867	(29,133)
Postage	13,000	13,000	12,329	(671)
Rental and lease	3,000	3,000	667	(2,333)
Sludge removal	23,000	23,000	13,257	(9,743)
Materials expense	71,000	71,000	17,369	(53,631)
Freight	3,000	3,000	92	(2,908)
Miscellaneous	10,000	10,000	55,571	45,571
Capital cost labor & materials	(9,000)	(9,000)	-	9,000
Depreciation	770,000	770,000	803,032	33,032
Total expenditures	<u>3,202,600</u>	<u>3,202,600</u>	<u>3,184,644</u>	<u>(17,956)</u>
Nonoperating revenues (expenditures):				
Interest income	-	-	174	174
Interest expense	(113,700)	(113,700)	(62,447)	51,253
Total nonoperating revenues (expenses)	<u>(113,700)</u>	<u>(113,700)</u>	<u>(62,273)</u>	<u>\$ 51,427</u>
Excess of revenues over (under) expenditures	<u>\$ (93,300)</u>	<u>\$ (93,300)</u>	(26,101)	
Fund balances, beginning of year			<u>11,232,961</u>	
Fund balances, end of year			<u>\$ 11,206,860</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, 2019, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated November 22, 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
November 22, 2019