

CITY OF PRINCETON, KENTUCKY
FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
YEAR ENDED JUNE 30, 2013
AND
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

CITY OF PRINCETON, KENTUCKY
FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
Year Ended June 30, 2013

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THURMAN CAMPBELL GROUP, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Council
City of Princeton, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Princeton, Kentucky as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Princeton, Kentucky, as of June 30, 2013, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-7 and 37-38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2014, on our consideration of the City of Princeton, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City Princeton, Kentucky's internal control over financial reporting and compliance.

Thurman Campbell Group, PLC

Princeton, Kentucky
November 19, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Princeton, Kentucky ("City") offers Management's Discussion and Analysis to provide an overview and analysis of the City's primary governmental financial activities for the year ended June 30, 2013. To fully understand the entire scope of the City's financial activities, this information should be read in conjunction with the financial statements provided in this document.

The City reports its annual financial statements in a required model format issued by the Government Accounting Standards Board.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities by \$5,725,397 at June 30, 2013.
- The City's total net position decreased by \$15,868 during the year.
- The Fund Balance, a measure of current financial resources, increased in the governmental funds by \$116,067 to a June 30, 2013 Fund Balance of \$2,092,745. Of that balance, fifty five percent (55%) or \$1,149,094 is unassigned. This amount is available to continue City operations. The remaining forty five percent (45%) is reserved for specific purposes such as cemetery maintenance, budget deficits, and program receivables.
- The Statement of Revenues, Expenditures and Changes in Fund Balance shows that the General Fund revenues were exceeded by expenditures by \$48,803.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's financial statements. The City's financial report includes the activities of the City of Princeton, Kentucky. The City's basic financial statements comprise three components: 1) Government-wide statements; 2) fund financial statements and 3) notes to the financial statements.

Government-wide Statements

The government-wide statements are designed to provide readers with a broad overview of the City of Princeton's finances on a full accrual basis of accounting, which is similar to a private-sector business. The statement of net position presents information on all of the City's assets, liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues and government activities from other functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities of the City include general government, security of persons and property, community environment, leisure time activities, and public welfare. There are no material

business-type activities reported for the City, however, Princeton Water and Wastewater is shown as component unit using discrete presentation in the financial statements. Activity of the component unit is not discussed in this Management Discussion and Analysis. The government-wide financial statements can be found on pages 8-9 of this report.

Fund Financial Statements

The fund financial statements are used to report additional and detailed information about the City. These statements focus on major funds of the City. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be segregated into governmental funds. Governmental funds are those through which most governmental functions typically are financed. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The differences between governmental fund assets and liabilities are reported as fund balance. The basic governmental fund financial statements can be found on pages 10-13 of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. Notes to the financial statements can be found on pages 14-36 of this report.

Supplementary Information

In addition to basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budgetary comparison schedules as required. Required supplementary information can be found on pages 37-38 of this report.

OVERVIEW OF THE CITY'S FINANCIAL POSITION AND RESULTS OF OPERATIONS

The government-wide financial statements reports that during the year ending June 30, 2013, the City received \$324,077 in operating and capital grants. Revenue from taxes and license and permits increased from June 30, 2012 balances to \$2,298,020 and \$539,240 respectively. Expenses directly related to programs offered by the city increased \$54,843 or two percent (2%) to \$3,397,617. The Statement of Activities reflects a current year loss of \$15,868.

The fund financial statements report that General fund revenues increased \$187,400 to \$2,984,630 while expenditures decreased \$112,912 to \$2,940,713 from the year ending June 30, 2012, with the primary decrease being in capital outlays.

Municipal road aid revenue increased \$35,514 to \$185,276 from the previous year. Expenditures from the municipal road aid fund were \$161,382.

The permanent fund reports only the portion of cemetery lot sales and donations reserved for perpetual care. The increase in the permanent fund balance is the total of those items.

The other governmental funds revenues increased \$86,336 to \$206,519 and expenditures increased \$43,561 to \$161,548 from the year ending June 30, 2012. Significant revenues and expenditures are public safety salaries and the reimbursement of those salaries through the KLEFPF and PFFIP programs.

Overall, the City's financial position remained steady from the previous year, with the exception of the major purchases in capital assets.

The following is a recap of financial activity for the year:

City of Princeton, Kentucky
Condensed Statement of Net Position
As of June 30, 2013

| Assets: | <u>2013</u> | <u>2012</u> |
|----------------------------------|---------------------|---------------------|
| Current and other assets | \$ 2,466,950 | \$ 2,277,732 |
| Capital assets, net | <u>3,999,460</u> | <u>4,227,587</u> |
| Total assets | <u>6,466,410</u> | <u>6,505,319</u> |
| Liabilities: | | |
| Other liabilities | 380,020 | 390,303 |
| Long-term liabilities | <u>360,993</u> | <u>373,750</u> |
| Total liabilities | <u>741,013</u> | <u>764,053</u> |
| Net position: | | |
| Net investment in capital assets | 3,625,710 | 3,886,952 |
| Restricted net position | 913,393 | 863,659 |
| Unrestricted net position | <u>1,186,294</u> | <u>990,655</u> |
| Total net position | <u>\$ 5,725,397</u> | <u>\$ 5,741,266</u> |

City of Princeton, Kentucky
Condensed Statement of Activities
For the year ending June 30, 2013

| Revenues: | 2013 | 2012 |
|------------------------------------|--------------------|---------------------|
| Program revenues | | |
| Charges for services | \$ 203,969 | \$ 110,983 |
| Operating grants and contributions | 308,681 | 314,984 |
| Capital grants and contributions | 15,396 | 16,233 |
| General revenues | | |
| Taxes | 2,298,020 | 2,110,071 |
| Licenses and permits | 539,240 | 484,313 |
| Investment earnings | (11) | 14,800 |
| Other | 15,702 | 25,306 |
| Total revenues | <u>3,380,997</u> | <u>3,076,690</u> |
| Expenses: | | |
| General governments | 522,187 | 515,179 |
| Public works | 955,443 | 924,704 |
| Public safety | 1,746,144 | 1,758,613 |
| Health and welfare | 91,732 | 32,455 |
| Culture and recreation | 66,965 | 84,335 |
| Interest on long-term debt | 15,146 | 17,685 |
| Gain (Loss) on sale of asset | (752) | (17,537) |
| Total expenses | <u>3,396,865</u> | <u>3,315,434</u> |
| Change in net position | <u>\$ (15,868)</u> | <u>\$ (238,744)</u> |

GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget and the final budget passed by the city council anticipated no increase or decrease in the general fund balance. The actual excess of revenues over expenditures and other sources was \$48,803.

The budgetary figures and actual amounts are reported in the supplementary information on pages 37-38.

CAPITAL ASSETS

The City's investment in capital assets for its governmental activities as of June 30, 2013 amounted to \$3,999,460 (net of accumulated depreciation in the amount of \$3,048,047). This investment includes land, buildings, vehicles and equipment. Historical cost for the City's capital assets are as follows:

| | 2013 | 2012 |
|----------------------------|---------------------|---------------------|
| Land | \$ 269,491 | \$ 269,491 |
| Buildings and improvements | 2,528,005 | 2,521,020 |
| Equipment | 3,205,116 | 3,127,430 |
| Infrastructure | 1,044,895 | 1,019,782 |
| Total assets at cost | <u>\$ 7,047,507</u> | <u>\$ 6,937,723</u> |

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had a total outstanding debt of \$373,750. The entire outstanding debt is payable from the general fund. The debt consists of loans related to police cruisers and the new fire truck. The amount due during the next fiscal year is \$77,083 and the debt is scheduled to be paid in full in 2017. Interest expense for 2013 was \$15,146.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City of Princeton, Kentucky's finances for all those with an interest in the government's finances. Questions or requests for additional information may be addressed to City of Princeton, Kentucky, 206 E Market Street, Princeton, Kentucky 42445.

Copies of component unit financial statements may be obtained at City Hall, City of Princeton, Kentucky.

CITY OF PRINCETON, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2013

| | Primary Government Governmental Activities | Component Unit |
|--|---|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 1,438,549 | \$ 862,820 |
| Investments | 757,601 | - |
| Prepaid expense | 383 | - |
| Receivables, net | 270,417 | 325,187 |
| Other receivable | - | 570 |
| Inventory | - | 208,022 |
| Total current assets | <u>2,466,950</u> | <u>1,396,599</u> |
| Non-current assets: | | |
| Restricted cash | - | 382,180 |
| Capital assets: | | |
| Nondepreciable assets | 269,491 | 16,500 |
| Buildings and equipment, net of depreciation | <u>3,729,969</u> | <u>15,851,277</u> |
| Total non-current assets | <u>3,999,460</u> | <u>16,249,957</u> |
| Total assets | <u>6,466,410</u> | <u>17,646,556</u> |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable-trade | 243,644 | 73,354 |
| Pension benefits payable | 6,093 | - |
| Customer deposits | - | 92,285 |
| Accrued liabilities | 53,200 | 94,074 |
| Current maturities of long-term debt | <u>77,083</u> | <u>329,535</u> |
| Total current liabilities | <u>380,020</u> | <u>589,248</u> |
| Non-current liabilities: | | |
| Compensated absences | 64,326 | 9,940 |
| Long-term debt | <u>296,667</u> | <u>3,761,837</u> |
| Total non-current liabilities | <u>360,993</u> | <u>3,771,777</u> |
| Total liabilities | <u>741,013</u> | <u>4,361,025</u> |
| NET POSITION | | |
| Net investment in capital assets | 3,625,710 | 12,132,141 |
| Restricted for: | | |
| Debt service | - | 382,180 |
| Other purpose (expendable) | 564,028 | - |
| Other purpose (nonexpendable) | 349,365 | - |
| Unrestricted | <u>1,186,294</u> | <u>771,210</u> |
| Total net position | <u>\$ 5,725,397</u> | <u>\$ 13,285,531</u> |

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

CITY OF PRINCETON, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

| | | Program Revenues | | | | |
|------------------------------------|---------------------|---------------------|----------------|------------------|---------------------|----------------------|
| | | Charges | Operating | Capital | Net | Component |
| | Expenses | for | Grants | Grants | (Expense) | Units |
| | | Services | and | and | Revenue | |
| | | | Contributions | Contributions | | |
| Government activities: | | | | | | |
| General government | \$ 522,187 | \$ 41,631 | \$ - | \$ 9,676 | \$ (470,880) | \$ - |
| Public works | 955,443 | 126,338 | 225,055 | - | (604,050) | - |
| Public safety | 1,746,144 | 36,000 | 83,626 | 5,600 | (1,620,918) | - |
| Health and welfare | 91,732 | - | - | 120 | (91,612) | - |
| Culture and recreation | 66,965 | - | - | - | (66,965) | - |
| Interest on long-term debt | 15,146 | - | - | - | (15,146) | - |
| Total government activities | <u>3,397,617</u> | <u>203,969</u> | <u>308,681</u> | <u>15,396</u> | <u>(2,869,571)</u> | <u>-</u> |
| Total primary government | \$ 3,397,617 | \$ 203,969 | \$ 308,681 | \$ 15,396 | (2,869,571) | - |
| Component Unit: | | | | | | |
| Princeton Water and Wastewater | <u>\$ 2,999,237</u> | <u>\$ 2,914,824</u> | <u>\$ -</u> | <u>\$ 25,000</u> | | <u>(59,413)</u> |
| General revenues: | | | | | | |
| Taxes | | | | | 2,298,020 | - |
| Licenses and permits | | | | | 539,240 | - |
| Unrestricted investment earnings | | | | | 1,520 | 3,663 |
| Restricted investment earnings | | | | | (1,531) | |
| Gain/(Loss) on sale of asset | | | | | 752 | 5,995 |
| Miscellaneous | | | | | 15,702 | - |
| Total general revenues | | | | | <u>2,853,703</u> | <u>9,658</u> |
| Change in net assets | | | | | (15,868) | (49,755) |
| Net position, beginning (Restated) | | | | | <u>5,741,265</u> | <u>13,335,286</u> |
| Net position, ending | | | | | <u>\$ 5,725,397</u> | <u>\$ 13,285,531</u> |

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

CITY OF PRINCETON, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2013

| | Major Funds | | | | |
|--|---------------------|-------------------|-------------------|-------------------|---------------------|
| | | Special | Permanent | Other | Total |
| | | Revenue | | | |
| | | Municipal | Cemetery | Governmental | Governmental |
| | General | Road Aid | Maintenance | Funds | Funds |
| ASSETS | | | | | |
| Cash | \$ 632,978 | \$ 464,319 | \$ 28,585 | \$ 312,667 | \$ 1,438,549 |
| Investments | 500,000 | - | 257,601 | - | 757,601 |
| Receivables | | | | | |
| Taxes, net | 7,422 | - | - | - | 7,422 |
| Accounts | 176,116 | 14,361 | - | 31,068 | 221,545 |
| Prepaid expense | - | - | - | 383 | 383 |
| Note receivable | 41,450 | - | - | - | 41,450 |
| Due from other funds | 284,153 | - | 17,472 | 37,757 | 339,382 |
| Total Assets | <u>\$ 1,642,119</u> | <u>\$ 478,680</u> | <u>\$ 303,658</u> | <u>\$ 381,875</u> | <u>\$ 2,806,332</u> |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities | | | | | |
| Accounts payable-trade | \$ 243,644 | \$ - | \$ - | \$ - | \$ 243,644 |
| Pension benefits payable | 6,093 | - | - | - | 6,093 |
| Compensated absences | 64,326 | - | - | - | 64,326 |
| Accrued liabilities | 53,200 | - | - | - | 53,200 |
| Due to other funds | 55,229 | 145,000 | 5,358 | 133,795 | 339,382 |
| Total Liabilities | <u>422,492</u> | <u>145,000</u> | <u>5,358</u> | <u>133,795</u> | <u>706,645</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | | |
| Unavailable revenue - property tax | 6,942 | - | - | - | 6,942 |
| Total deferred inflows of resources | <u>6,942</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>6,942</u> |
| Fund Balances | | | | | |
| Nonspendable: | | | | | |
| Note Receivable | 41,450 | - | - | - | 41,450 |
| Prepaid Expenses | - | - | - | 383 | 383 |
| Permanent Fund Corpus | - | - | 298,300 | - | 298,300 |
| Restricted | - | 333,680 | - | 247,697 | 581,377 |
| Committed | 9,141 | - | - | - | 9,141 |
| Assigned | 13,000 | - | - | - | 13,000 |
| Unassigned | 1,149,094 | - | - | - | 1,149,094 |
| Total Fund Balances | <u>1,212,685</u> | <u>333,680</u> | <u>298,300</u> | <u>248,080</u> | <u>2,092,745</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 1,642,119</u> | <u>\$ 478,680</u> | <u>\$ 303,658</u> | <u>\$ 381,875</u> | <u>\$ 2,806,332</u> |

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

CITY OF PRINCETON, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2013

Total fund balances per fund financial statements \$ 2,092,745

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position. 3,999,460

Under the modified accrual basis of accounting property taxes receivable not collected 60 days after the close of the fiscal year are classified as deferred inflows of resources. On the Statement of Net Position the entire amount of property taxes receivable that is determined to be collectible is recognized as taxes receivable.

6,942

Certain liabilities (such as accrued interest and notes payable) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position.

(373,750)

Net position for governmental activities

\$ 5,725,397

CITY OF PRINCETON, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2013

| | Major Funds | | | | Total Governmental Funds |
|--|--------------|-----------------------|-------------------------|-----------------------|--------------------------------|
| | General | Special Revenue | Permanent | Other | |
| | | Municipal Road Aid | Cemetery Maintenance | Governmental Funds | |
| REVENUES | | | | | |
| Taxes | \$ 2,204,810 | \$ - | \$ - | \$ 91,768 | \$ 2,296,578 |
| Licenses and permits | 539,240 | - | - | 67 | 539,307 |
| Intergovernmental revenues | 109,260 | 185,004 | - | 103,783 | 398,047 |
| Charges for services | 97,648 | - | 4,661 | 3,496 | 105,805 |
| Rental income | 16,768 | - | - | 692 | 17,460 |
| Interest income | 1,162 | 272 | 3,950 | 107 | 5,491 |
| Increase (decrease) in fair market value of investments | | | (5,481) | | (5,481) |
| Miscellaneous income | 15,742 | - | - | 6,606 | 22,348 |
| Total revenues | 2,984,630 | 185,276 | 3,130 | 206,519 | 3,379,555 |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| General government | 427,704 | - | - | - | 427,704 |
| Public works | 721,064 | 161,382 | 597 | 8,839 | 891,882 |
| Public safety | 1,445,336 | - | - | 128,412 | 1,573,748 |
| Health and welfare | 95,032 | - | - | - | 95,032 |
| Culture and recreation | 42,668 | - | - | 24,297 | 66,965 |
| Capital outlay | 99,012 | - | - | - | 99,012 |
| Debt service: | | | | | |
| Principal | 94,751 | - | - | - | 94,751 |
| Interest and fees | 15,146 | - | - | - | 15,146 |
| Total expenditures | 2,940,713 | 161,382 | 597 | 161,548 | 3,264,240 |
| Excess of revenues over (under) expenditures | 43,917 | 23,894 | 2,533 | 44,971 | 115,315 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Gain (Loss) from the sale of assets | 752 | | | | 752 |
| Transfers from other funds | 4,134 | - | - | - | 4,134 |
| Transfers to other funds | - | - | (4,134) | - | (4,134) |
| Net other financing sources (uses) | 4,886 | - | (4,134) | - | 752 |
| Net change in fund balances | 48,803 | 23,894 | (1,601) | 44,971 | 116,067 |
| Fund balances, beginning | 1,163,882 | 309,786 | 299,901 | 203,109 | 1,976,678 |
| Fund balances, ending | \$ 1,212,685 | \$ 333,680 | \$ 298,300 | \$ 248,080 | \$ 2,092,745 |

CITY OF PRINCETON, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL ACTIVITIES
TO THE STATEMENT OF ACTIVITIES
For the year ended June 30, 2013

| | | |
|---|----|---------|
| Net change in total fund balances per fund financial statements | \$ | 116,067 |
|---|----|---------|

Amounts reported for governmental activities in the statement of activities are different because:

| | | |
|--|--|-----------|
| Capital outlays are reported as expenditures in the fund financial statements because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The net amount of depreciation (\$354,340) and capital expenditures \$126,212 is shown at right for the year. | | (228,128) |
|--|--|-----------|

| | | |
|--|--|--------|
| The repayment of principal on debt is an expenditure in the fund statement, however, it is reflected as a reduction in the liability in the Statement of Net Position and is not shown in the Statement of Activities. This is the amount of principal paid on debt during the year. | | 94,751 |
|--|--|--------|

| | | |
|--|--|--|
| Under the modified accrual basis of accounting the only receivables recognized are those expected to be collected within sixty days of the close of the fiscal year. The accrual basis of accounting recognizes all receivables at year end. This is the net additional revenue associated with receivables recognized this year \$6,942 less the additional revenue from receivables recognized last year (\$5,500) | | <div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; padding: 0 10px;">1,442</div> |
|--|--|--|

| | | |
|---|----|----------|
| Change in net position of governmental activities | \$ | (15,868) |
|---|----|----------|

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Form of Government - The City of Princeton, Kentucky is incorporated under provisions of the Commonwealth of Kentucky. The City operates under a council - mayor form of government and provides the following services as authorized by its charter: public safety (police and fire), public works (streets and highways and cemetery), health and welfare, culture and recreation, public improvements, water and sanitation, industrial development, planning and zoning and general administrative services. All services are responsible to the citizens of Princeton, Kentucky and are therefore included within the reporting entity.

The financial statements of the City of Princeton, and its discretely presented component unit, the Princeton Water and Wastewater System have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The government's accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended June 30, 2013.

Reporting Entity - Principles determining scope of reporting entity - The criteria used in determining what accounting entities, agencies, commissions, board and authorities are part of the City of Princeton's operations include how the budget is adopted, whether debt is secured by general obligation of the City's duty to cover any deficits that may occur, and supervision over the accounting functions. Based upon the application of these criteria, the following is a brief review of the component unit addressed in defining the government's reporting entity:

| <u>Discretely Presented Component Unit</u> | <u>Brief Description of Activities and Relationship to the City</u> |
|--|--|
| Princeton Water and Wastewater | Finance projects and development for the City's water and wastewater utility. The City has fiscal responsibility for deficits. |

Copies of component unit financial statements may be obtained at City Hall, City of Princeton, Kentucky.

The City has joined with Caldwell County Fiscal Court to form organizations for performance of certain activities. Due to dependence on continued funding from the City, these organizations have been classified as joint ventures for financial reporting. A list of these joint ventures with the amount of City funding as of June 30, 2013 follows:

| <u>Agency</u> | <u>Funding</u> |
|--------------------------|----------------|
| City - County Park Board | \$ 30,000 |

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The accounts of the Princeton Caldwell County Industrial Development Authority, the City - County Airport Board and the City - County Park Board are excluded from the accompanying financial statements because they are autonomous agencies, operated as joint ventures with the Caldwell County Fiscal Court. The City together with the County provides facilities for the Boards and contributes to their operations. However, the City is not financially accountable for these agencies and the Boards are fiscally independent of the City of Princeton.

Excluded from the reporting entity:

Princeton Board of Adjustment
Princeton Dotson Park Board
Princeton Planning Commission

These units have no assets, liabilities and fund equity at June 30, 2013, and had no material financial activities for the year then ended.

The accounts of the Pennyryle Emergency Operations Center are excluded from the accompanying financial statements because the Center is an autonomous agency, operated as a joint venture supported by various local governmental entities. The City presently contributes to the Center's operations; however, the City has no responsibility for financing deficits.

The accounts of the Princeton Electric Plant Board and the Housing Authority of Princeton have been excluded from the accompanying component unit financial statements because the City is not financially accountable over these agencies and the agencies are fiscally independent of the City of Princeton.

The City has a sanitation contract whereby the City collects charges, and remits 93% of those charges to a private firm providing the services. Due to the nature of this arrangement, the receipts and disbursements under this contract are omitted from revenues and expenditures and only the 7% retained by the City is recognized as a franchise fee.

Basic Financial Statements

Government-wide and Fund Financial Statements - The government-wide financial statements (i.e., the statement of net position and the statement of activities) report on all of the activities of the City as a whole. For the most part, the effect of interfund activity has been removed from these statements. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

In the government-wide Statement of Net Position, the governmental activities are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position are reported in three parts – invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as *general revenues*.

Fund financial statements are designed to present financial information at a more detailed level. The focus of fund financial statements is on major funds, which are established by minimum criteria set forth in GASB 34. All of the funds of the City are governmental fund types. The major funds reported by the City are the general fund, the municipal road aid fund and the permanent fund.

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into generic fund types and broad fund categories as governmental fund types.

As stated previously the modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

Those revenues susceptible to accrual are property taxes, franchise taxes, special assessments, licenses, interest revenue and charges for services. Fines, permits and other revenues are not susceptible to accrual because generally they are not measurable until received in cash.

The following funds are utilized by the City of Princeton:

General Fund - The General fund is the general operating fund of the City. It is used to account for all primary government financial resources except those required to be accounted for in another fund.

Special Revenue Funds

Municipal Road Aid, Local Government Economic Assistance, KLEFPF and PFFIPF - These funds are used to account for funds distributed to local governments by the Commonwealth of Kentucky.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Princeton-Caldwell County Housing and Economic Services Corporation - This fund is maintained for the operation of a public improvement construction project provided under the Kentucky Community Development Block Grant Program. The program provided minority residential housing within the City. The Princeton - Caldwell County Housing and Economic Services Corporation maintains the property under conventional rental agreements.

Economic Development Revolving Loan Fund - The Economic Development Revolving Loan Fund is a fund utilized to account for loans made to qualified businesses creating gainful employment for the residents of Caldwell County, Kentucky. Such funds have been provided out of (a) Community Development Block Grant monies and, therefore, any activity financed with these loans must meet at least one of the three national objectives identified in Title I of the Housing and Community Development Act of 1973, as amended in 1983; and (b) Kentucky Cabinet for Economic Development monies to encourage, promote and support economic development. Activities financed with this loan must meet the criteria of the Cabinet's "Grant Agreement" dated August 24, 1994.

Recreational, Tourist, Convention Commission Fund - On June 9, 1986, the City of Princeton imposed transient room tax to promote recreational, tourist and convention activities within the boundaries of the City. This fund is used for the operation of the Commission.

Asset Forfeiture Program Fund - This fund is maintained to account for assets acquired pursuant to the Controlled Substance Act. Assets acquired are either retained for official use or are sold. The assets retained and the proceeds from the sale of assets forfeited are to be used for direct law enforcement purposes.

Alcohol Beverage Control - On September 17, 2012, the City passed the Alcohol Beverage Control Ordinance which allowed for the sale of alcohol in City along with assessing tax on the sale. This fund was established to account for tax related revenue from the sale of alcohol as well as for the cost related to the enforcement of the enacted tax.

Capital Projects Funds

Senior Citizens Building Fund - This fund is utilized to account for grants to Caldwell County and the City of Princeton, Kentucky, respectively, for the construction of the Caldwell County Senior Citizens Center. The center was constructed with (a) a grant from the U.S. Department of Housing and Urban Development, Community Development Block Grant, and (b) the Commonwealth of Kentucky, Department of Local Government.

Cemetery Expansion Fund - This fund is used to account for funds received for the future expansion of the Cedar Hill Cemetery used by the citizens of the City.

Permanent Funds - A nonexpendable trust fund is used to account for assets held by the City in a trustee capacity. The nonexpendable trust fund is used to account for the perpetual care for Cedar Hill Cemetery, Bobbie Nichols Cemetery and the Princeton Memorial Garden Cemetery.

In addition to the governmental funds listed above, the City reports one component unit by discrete presentation. The component unit is the City of Princeton Water and Wastewater Fund.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Restricted resources are applied to expense first when restricted and unrestricted resources are available.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they become both measurable and available. As previously stated, revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Grants and contributions and interest associated with the current fiscal period are all considered being susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when the City receives cash.

The Princeton Water and Wastewater Fund is accounted for as a proprietary fund. It is used to account for operations (a) which are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total position) is segregated into invested in capital assets, restricted net position, and unrestricted net position components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total position. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary fund include the cost of personnel and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When the utility incurs an expense for which both restricted and unrestricted resources may be used, it is the utility's policy to use restricted resources first, then unrestricted resources. Revenues are recognized when earned and expenses are recognized when incurred. Unbilled utility service recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled \$262,675 at June 30, 2013.

Budget - As provided by Ordinance, the City submits an annual budget to govern City revenues and expenditures. KRS 91A.030 calls for submission of the annual budget 30 days prior to the beginning of the fiscal year. The budget is adopted by ordinance and may be amended by ordinance. The executive authority has the power to transfer surplus funds to supplement departments as needed. 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.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Princeton Water and Wastewater adopts an annual budget under a basis consistent with generally accepted accounting principles.

Accounts Receivable - The Princeton Water and Wastewater Fund grants credit to their customers, all of whom are residents or businesses located in the Caldwell County, Kentucky area. The component unit's policy is to write off uncollectible accounts in the year they are deemed to be uncollectible. Water and Wastewater Commission customers are billed monthly. Unbilled utility service charges are recorded at year-end and are included in accounts receivable.

Inventories – The Princeton Water and Wastewater fund values inventories at average cost, which is the averages of all purchases of items in inventory.

Cash and Cash Equivalents – For the purposes of the statement of cash flows, the Princeton Water and Wastewater Commission considers all highly liquid investments with original maturity of three months or less when purchased to be cash equivalents.

Capital Assets - Capital assets used in governmental fund operations which include buildings, equipment and infrastructure, are reported in the government-wide financial statements. The City, as a Phase 3 government has elected not to report infrastructure assets retroactively. Assets are recorded at historical costs if purchased or constructed and depreciated using a straight line basis over the life of the asset. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Estimated useful lives are as follows:

| | |
|----------------------------|-------------|
| Buildings and improvements | 20-39 years |
| Equipment | 3-10 years |
| Infrastructure | 25-50 years |

The utility plant of the Princeton Water and Wastewater System is stated at original cost as defined for regulatory purposes. The cost of additions to utility plant and replacement of retirement units is capitalized. Replacements of minor items of property are charged to expense as incurred. Depreciation is provided on a straight-line basis. The estimated useful life of the utility plant is as follows:

| | |
|--------------------------------------|---------------|
| Buildings | 30 - 40 years |
| Improvements other than buildings | 33 - 40 years |
| Machinery and equipment | 5 - 10 years |
| Leasehold improvements | 15 - 25 years |

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes - On January 1 of each year, the City levies a tax on the tangible property and bank shares owned by its residents. The taxes are due and payable on December 31, with a two percent discount available until November 30. If payment is not received prior to December 31, a ten percent penalty is imposed and liens are filed on the property on May 1 of the subsequent year. The City's tax rates for the year ended June 30, 2013 are as follows:

Real property - \$0.140 per \$100 value
Personal property - \$0.141 per \$100 value
Financial institutions - 0.02% on all deposits

Property tax receivables are shown net of the allowance of \$7,421 for uncollectible amounts. The City determines this allowance based on historical collection data and review of individual accounts at year end.

Net Position – Equity is classified as net position and displayed in three components:

- Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net position – Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation.
- Unrestricted net position – All other net position that do not meet the definition of “restricted” or “net investment in capital assets”.

Fund Balances –Fund balances of the governmental funds are classified as follows:

- *Nonspendable* — amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.
- *Restricted* — amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.
- *Committed* — amounts that can be used only for specific purposes determined by a formal action of City Council. City Council is the highest level of decision-making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by City Council.
- *Assigned* — amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the City's adopted policy, only City Council may assign amounts for specific purposes.
- *Unassigned* — all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless City Council has provided otherwise in its commitment or assignment actions.

**CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As of June 30, 2013, fund balance components other than unassigned fund balances consist of the following:

| | Nonspendable | Restricted | Committed | Assigned |
|----------------|-------------------|-------------------|-----------------|------------------|
| General fund | \$ 41,450 | \$ - | \$ 9,141 | \$ 13,000 |
| MRA fund | - | 333,680 | - | - |
| Permanent fund | 303,781 | - | - | - |
| Other funds | <u>383</u> | <u>247,697</u> | <u>-</u> | <u>-</u> |
| Totals | <u>\$ 345,614</u> | <u>\$ 581,377</u> | <u>\$ 9,141</u> | <u>\$ 13,000</u> |

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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.

2 DEPOSITS AND INVESTMENTS

The City adopted Governmental Accounting Standards Board (GASB) Statement No. 40 effective July 1, 2005. GASB 40 is designed to inform financial statement users about deposit and investment risks that could affect a government's ability to provide services and meet its obligations as they become due.

There are risks inherent in all deposits and investments, and GASB believes that the disclosures required by this Statement provide users of governmental financial statements with information to assess common risks inherent in deposit and investment transactions. Deposit and investment resources often represent significant assets of the governmental fund.

These resources are necessary for the delivery of governmental services and programs. GASB 40, as it applies to the city, includes disclosure of the following:

- Risks related to custodial credit risk of bank deposits;
- Risks related to custodial credit risk of investments;
- Interest rate risk; and
- Deposit and investment policies related to those risks.

Custodial credit risk is defined as the risk that a government will not be able to recover its deposits, investments, or collateral from the bank in the event of bank failure.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

2 DEPOSITS AND INVESTMENTS (continued)

As of June 30, 2013, the carrying amount of City's deposits was \$2,134,091 and the bank balance of \$2,206,353 was categorized as follows:

| | |
|--|---------------------|
| Insured by FDIC | \$ 658,173 |
| Insured by SIPC | 80,003 |
| Uninsured and collateralized with securities held by the pledging financial institution | 1,468,177 |
| Uninsured and uncollateralized | <u>-</u> |
| Total | <u>\$ 2,206,353</u> |

As of June 30, 2013, the carrying amount of the Princeton Water and Wastewater Commission's deposits was \$1,245,000 and the bank balance of \$1,331,468 was categorized as follows:

| | |
|--|---------------------|
| Insured by FDIC | \$ 589,457 |
| Uninsured and collateralized with securities held by the pledging financial institution | 692,181 |
| Uninsured and uncollateralized | <u>49,830</u> |
| Total | <u>\$ 1,331,468</u> |

Investments of the general fund are held in certificates of deposit with carrying and market value of \$500,000.

Investments of the permanent funds are stated at cost at June 30, 2013 and consist of the following:

| | Category | | | Carrying | Market |
|-------------------------|-------------------|-------------|-------------|-------------------|-------------------|
| | 1 | 2 | 3 | Amount | Value |
| Certificates of Deposit | \$ 183,079 | \$ - | \$ - | \$ 183,079 | \$ 183,079 |
| Corporate Stock | 3 | - | - | 3 | 3 |
| Corporate Bonds | 74,519 | - | - | 74,519 | 74,519 |
| Total | <u>\$ 257,601</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 257,601</u> | <u>\$ 257,601</u> |

The City's investments are categorized to give an indication of the level of risk assumed by the City at June 30, 2013. The categories are described as follows:

Category 1 - Insured or registered, with securities held by the entity or its agent in the entity's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, in its trust department or agent but not in the entity's name.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

2 DEPOSITS AND INVESTMENTS (continued)

Kentucky Revised Statutes (KRS 66.480) authorize Kentucky municipalities to invest in:

- (a) Obligations of the U. S. Treasury, agencies and instrumentalities. Such investments may be accomplished through repurchase agreements reached with national or state banks chartered in Kentucky;
- (b) Bonds or certificates of indebtedness of the state of Kentucky, agencies and instrumentalities;
- (c) Savings and loan associations insured by the U. S. government;
- (d) Interest-bearing deposits in national or state banks chartered in Kentucky and insured by an agency of the U. S. government;
- (e) Deposit accounts with banking institutions;
- (f) State treasurer investment pool.

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. As of June 30, 2013, the city had the following investments subject to interest rate risk:

| | |
|---|------------------|
| Corporate Stock | \$ 3 |
| JPMorgan Trust II Core Bond Fund | 28,055 |
| JPMorgan Trust II Government Fund Class A | 46,464 |
| Total Fair Value | <u>\$ 74,522</u> |

The city does not have a policy to manage interest rate risk. The common stock and corporate bonds reported above were received by the City through bequests from the estates of various individuals.

Credit risk is the risk that a borrower will default on any type of debt by failing to make the required payments. The city does not have a policy to manage credit risk. The city's investments were rated by Morningstar as follows:

| | |
|--|---------------|
| JPMorgan Trust II Core Bond Fund | 2 Star Silver |
| JPMorgan Trust II Government Bond Fund A | 3 Star Silver |

Concentration of Credit is the risk of loss resulting from lack of diversification in the investment portfolio. The city does not have a policy to manage concentration of credit risk.

The City of Princeton and Princeton Water and Wastewater do not have a deposit and investment policy.

3 RECEIVABLES

During the year ended June 30, 1994 the City participated in the Department of Housing and Urban Development community development block grant program. The objective of the program is the development of viable urban communities by providing decent housing and a suitable living environment and expanded economic opportunities, principally for persons of low and moderate income.

In order to meet the objectives of the grant, provisions are made for various types of financial assistance for housing rehabilitation programs. The City provided financial assistance to eligible applicants in the form of deferred payment loans. The City utilized two types of deferred payment loans, (a) low interest

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

3 RECEIVABLES (Continued)

mortgage loans and (b) equity secured mortgages. The City is a pass through entity for the equity secured mortgages. They are not liable for the loans should they default. For this reason the program has been disclosed and not recorded on the financial statements of the City.

(a) Low interest mortgage loans – Low interest mortgage loans totaling \$64,296 were granted during 1994. The loans are for ten years and carry an interest rate of four percent. The outstanding balance at June 30, 2013 was \$41,450.

(b) As part of the CDBG Scatter Site Program occurring during the fiscal year ending June 30, 2013, the City of Princeton is mortgagor on twelve forgivable mortgages totaling \$928,655. The mortgages are forgivable over five years. In the event of the death of the mortgagee another individual meeting the low to moderate income requirements established by the grant would be selected to assume the mortgage. If an alternative mortgagee could not be selected, the title of the property would revert to the city. The city would be responsible for disposition of the property and any funds generated by the disposition would be remitted to the Department of Local Government with no financial gain or loss to the city. For this reason the City does not record this program as a liability.

As of June 30, 2013 the balance of the forgivable mortgages was \$304,168.

A schedule of future years mortgage forgiveness is as follows:

| | <u>Balance</u> |
|-------|-------------------|
| 2014 | \$ 185,731 |
| 2015 | <u>118,437</u> |
| Total | <u>\$ 304,168</u> |

4 LEASES

During fiscal year ending June 30, 1991 the City entered into a long-term lease agreement with Special Metal Corporation. The lease of a commercial building calls for fixed rental payments for twenty-one years. The lease was renewed in 2011 for an addition 30 years, ending in 2040.

The following is a schedule of future minimum rentals under the lease agreement at June 30, 2013:

| | |
|-----------|-------------------|
| 2014 | 9,000 |
| 2015 | 9,000 |
| 2016 | 9,000 |
| 2017 | 9,000 |
| 2018-2022 | 45,000 |
| 2023-2027 | 45,000 |
| 2028-2032 | 45,000 |
| 2033-2037 | 45,000 |
| 3038-2040 | <u>27,000</u> |
| Total | <u>\$ 243,000</u> |

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

4 LEASES (Continued)

The City leases various parcels of real estate used as public parks under long-term lease arrangements. These operating leases carry nominal or no rentals. The City has the right to remove any and all recreational equipment in the event the leases should expire.

In October 1988, the Water Commission entered into a lease for its office space with the City of Princeton for \$1 per year.

5 CAPITAL ASSETS

Capital asset activity for the City of Princeton year ended June 30, 2013, was as follows:

| | Balance 6/30/2012 | Additions | Retirements | Balance 6/30/2013 |
|---------------------------------------|----------------------|---------------------|---------------|----------------------|
| Capital assets being depreciated: | | | | |
| Buildings & improvements | \$ 2,521,020 | \$ 6,985 | \$ - | \$ 2,528,005 |
| Equipment | 3,127,430 | 94,114 | 16,428 | 3,205,116 |
| Infrastructure | 1,019,782 | 25,113 | - | 1,044,895 |
| Subtotal | <u>6,668,232</u> | <u>126,212</u> | <u>16,428</u> | <u>6,778,016</u> |
| Less accumulated depreciation: | - | | | - |
| Buildings & improvements | 759,484 | 54,682 | - | 814,166 |
| Equipment | 1,806,036 | 258,128 | 16,428 | 2,047,736 |
| Infrastructure | 144,615 | 41,530 | - | 186,145 |
| Subtotal | <u>2,710,135</u> | <u>354,340</u> | <u>16,428</u> | <u>3,048,047</u> |
| Capital assets being depreciated, net | 3,958,097 | (228,128) | - | 3,729,969 |
| Capital assets not being depreciated: | | | | |
| Land | 269,491 | - | - | 269,491 |
| Capital assets, net | <u>\$ 4,227,588</u> | <u>\$ (228,128)</u> | <u>\$ -</u> | <u>\$ 3,999,460</u> |

Government activities- Depreciation

| | |
|--------------------------|-------------------|
| Depreciation Expense: | |
| General Govt | \$ 94,483 |
| Police | 73,085 |
| Fire | 118,224 |
| Street | 49,650 |
| Cemetery | 13,911 |
| Alcohol Beverage Control | 4,987 |
| Total | <u>\$ 354,340</u> |

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

5 CAPITAL ASSETS (Continued)

Capital asset activity for Princeton Water and Wastewater for the year ended June 30, 2013 was as follows:

| Business type activity: | June 30 | | | |
|---------------------------------------|---------------|-------------|------------|---------------|
| | 2012 | Additions | Deletions | 2013 |
| Capital assets not being depreciated: | | | | |
| Land | \$ 16,500 | \$ - | \$ - | \$ 16,500 |
| Construction in progress | 52,001 | 191,691 | 243,692 | - |
| Capital assets being depreciated: | | | | |
| Building and Improvements | 194,995 | 90,570 | - | 285,565 |
| Water plant and distribution | 8,573,380 | 186,522 | - | 8,759,902 |
| Sewer plant and lines | 17,877,772 | 168,685 | - | 18,046,457 |
| Water tanks | 2,470,169 | - | - | 2,470,169 |
| Vehicles | 250,730 | 54,844 | 19,999 | 285,575 |
| Tools and equipment | 529,595 | 2,114 | - | 531,709 |
| Office furniture and fixtures | 141,142 | - | - | 141,142 |
| Totals at historical cost | 30,106,284 | 694,426 | 263,691 | 30,537,019 |
| Less accumulated depreciation: | | | | |
| Building and improvements | 142,218 | 7,166 | - | 149,384 |
| Water plant and distribution | 7,951,702 | 211,538 | - | 8,163,240 |
| Sewer plant and lines | 4,458,831 | 429,768 | - | 4,888,599 |
| Water tanks | 695,979 | 57,150 | - | 753,129 |
| Vehicles | 219,210 | 12,077 | 19,999 | 211,288 |
| Tools and equipment | 351,565 | 23,878 | - | 375,443 |
| Office furniture and fixtures | 122,741 | 5,418 | - | 128,159 |
| Total accumulated depreciation | 13,942,246 | 746,995 | 19,999 | 14,669,242 |
| Business type capital assets, net | \$ 16,164,038 | \$ (52,569) | \$ 243,692 | \$ 15,867,777 |

Depreciation charged to income was \$746,995 for the year ending June 30, 2013.

6 RELATED PARTY TRANSACTIONS

The following organizations are considered related parties of the City of Princeton, Kentucky:

The Princeton Electric Plant Board (PEPB) provides electrical service for the City of Princeton, Kentucky. The Board is appointed by the City Council. \$138,940 was paid to PEPB for utility service during the fiscal year.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

6 RELATED PARTY TRANSACTIONS (Continued)

The Princeton Water and Wastewater Commission (PWW) provides water and sewer service for the City of Princeton, Kentucky. The Commission is appointed by the City Council. PWW is presented as a component unit in the city financial statements. \$4,681 was paid to PWW for utility service during the fiscal year.

The Princeton Housing Authority was established by the City. The Board is appointed by the City Council.

The Princeton-Caldwell County Industrial Development Authority was established jointly with the City Council and the Caldwell County Fiscal Court to attract industry to the Princeton-Caldwell County area. The city contributes annually to the activities of the Industrial Development Authority.

The City-County Park Board and the City-County Airport Board were established jointly by the City Council and Caldwell County Fiscal Court to provide services to the residents of Princeton and Caldwell County, Kentucky. The City provided \$30,000 in funding during the fiscal year.

There were no amounts due to or from related parties at June 30, 2013.

7 COMPONENT UNIT RESTRICTED CASH

Special funds consist of the following:

| | |
|---|-------------------|
| KIA Sinking Fund | 90,033 |
| Bond Sinking Fund Reserve - Series 2000 | 97,205 |
| Replacement Account | 577,294 |
| Customer Deposit Funds | |
| Customer Deposit - cash | 88,894 |
| | <u>\$ 853,426</u> |
| Restricted portion | \$ 479,174 |
| Unrestricted portion | \$ 374,252 |

The Utility established a KIA Sinking Fund account to escrow on a monthly basis the payments of principal and interest for the KIA funds. It is classified as a current asset because the debt payment funded in the KIA Sinking Fund will be due within one year. The KIA Sinking Fund is not required by the loan agreement and is considered "Board Designated". Therefore it is not shown as a restricted asset in the Net Position section of the Statement of Net Position.

The City of Princeton, Kentucky Water and Sewer Revenue Bonds – Series 2000 requires that the Utility establish a Sinking Fund Reserve in an amount not less than the maximum amount of principal and interest requirements falling due in any twelve-month period on all of the outstanding bonds. At June 30, 2013, the sinking fund balance is sufficient to satisfy such bond requirements.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

7 COMPONENT UNIT RESTRICTED CASH (Continued)

The Replacement Account represents the amount required by loan and bond covenants to be set aside for significant repairs to the existing system. The 1995 KIA loan requires monthly payments of \$4,000 be set aside until the maximum amount of \$80,000 is accumulated.

The 2000 KIA loan agreement requires monthly payments of \$20,980 be set aside until the maximum of \$204,980 is accumulated. The Replacement account is fully funded as of June 30, 2013.

The utility charges a deposit fee to customers when service is established. The customer deposit funds are held in a separate bank account. When service is discontinued, deposits are refunded net of any amounts due for service. See Note 8 for additional information.

8 CUSTOMERS' DEPOSIT FUND

Effective May 1, 1979, the Princeton Water and Wastewater System began to pay interest on meter deposits at an interest rate of 6 percent. Accrued interest on these deposits was \$ 7,023 as of June 30, 2013. This practice was discontinued in August 2004, however, interest up to that point remains a liability.

The amount reported as a liability for customer deposits as of June 30, 2013 was \$92,285. Assets available for retirement of this liability and the accrued interest described above are \$88,894 at June 30, 2013 and are reported as restricted in the Statement of Net Position.

9 LONG-TERM DEBT

City of Princeton, Kentucky-

The debt obligations of the City consist of the following:

- 1) KY League of Cities Funding Trust Lease Program Revenue bonds of \$110,000. Principal and interest payments are due monthly with an interest rate of 2.74%. The loan is collateralized by Rescue Apparatus, heavy rescue truck.
- 2) KY League of Cities Funding Trust Lease Program \$100,000 lease agreement. Principal and interest payments are due monthly with an interest rate of 2.87%. This loan is collateralized by five police cars.
- 3) KY Bond Corp Funding Trust Lease Program \$550,000 lease agreement. This is part of KBC Series C Bonds totaling \$13,500,000. Payments are made to a financial trust at Bank of New York Mellon for the City's \$550,000 obligation. Payments of principal and interest are paid monthly with a tiered interest rate of 2.00% from 2010-2014, 3.00% from 2015-2018.

The equipment purchased through the above lease arrangements are included in the City's schedule of capital assets and depreciated accordingly.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

9 LONG-TERM DEBT (Continued)

The changes in the City's long-term debt for the year ended June 30, 2013 are as follows:

| | 6/30/2012 | Additions | Repayments | 6/30/2013 | Current |
|----------------------|-------------------|-------------|------------------|-------------------|------------------|
| Compensated absences | \$ 66,164 | | \$ 1,838 | \$ 64,326 | \$ - |
| KLC \$100,000 lease | 19,750 | - | 19,750 | - | - |
| KBCF \$550,000 lease | 448,750 | - | 75,000 | 373,750 | 77,083 |
| Total | <u>\$ 534,664</u> | <u>\$ -</u> | <u>\$ 96,588</u> | <u>\$ 438,076</u> | <u>\$ 77,083</u> |

Interest expense for the year was \$15,146.

Assets acquired through capital leases are as follows:

| Asset | Public Safety |
|--------------------------------|-------------------|
| Machinery & Equipment | \$ 674,975 |
| Less: Accumulated Depreciation | (117,166) |
| Total | <u>\$ 557,809</u> |

Annual aggregate maturities of the City's debt for the years subsequent to June 30, 2013 are as follows:

| | Total | | |
|------|-------------------|------------------|-------------------|
| | Principal | Interest | Total |
| 2014 | \$ 77,083 | \$ 12,159 | \$ 89,242 |
| 2015 | 80,000 | 10,092 | 90,092 |
| 2016 | 82,083 | 7,492 | 89,575 |
| 2017 | 85,000 | 4,824 | 89,824 |
| 2018 | 49,584 | 1,874 | 51,458 |
| | <u>\$ 373,750</u> | <u>\$ 36,441</u> | <u>\$ 410,191</u> |

Repayment of the city's long-term debt is generally provided as follows:

| Type of Debt | Paid From | Resources Provided By |
|--------------------|-------------------|-----------------------|
| KY Bond Corp Lease | Debt Service Fund | General Fund |

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

9 LONG-TERM DEBT (Continued)

Princeton Water and Wastewater (Utility)–

1) During 2000, the Commission adopted a resolution to issue \$1,458,000 principal “City of Princeton Water and Sewer Revenue Bonds, Series 2000” for the purpose of financing the cost (not otherwise provided) of the construction of extensions, additions and improvements to the existing combined and consolidated water and sewer system of the City.

The revenue bonds are payable solely from and secured by a first pledge of the utility revenues. While any bonds are outstanding and unpaid, the Commission will ensure that the utility plant be continuously operated and maintained in good condition, rates and charges for services rendered will be imposed and collected so that gross revenues will be sufficient at all times to provide for the payment of the operation and maintenance of the utility plant, to maintain the Depreciation Fund and the Sinking Fund described in Note 7.

In the event there would be a default in the payment of interest on or the principal of the bonds promptly when due, any court having jurisdiction of the action may appoint a receiver to administer said Utility on behalf of the City with power to charge and collect rates sufficient to provide for the payment of operating and maintenance expenses and for the payment of principal of and interest on the outstanding bonds and to provide and apply the income and revenues in conformity with this Ordinance and with the laws of the Commonwealth of Kentucky.

The bond covenants require that the rates for all utility services rendered by the Commission must be reasonable; the Commission must be audited annually and must maintain adequate employee bonding and property insurance. The bond covenants require that in order to decrease rates or charges, the net revenues must equal or exceed 120% of the average annual debt principal and interest.

Series 2000 Bonds maturing before January 1, 2010 shall not be subject to redemption prior to maturity. The current bonds on or after January 1, 2010 are subject to redemption or prepayment by the Utility, at its option, in whole or in part at any time on or after January 1, 2010, subject to any interest payment falling on or after January 1, 2009, at par plus accrued interest, without any prepayment penalty.

Interest, at 4.50%, is paid each January 1 and July 1. The bonds are to mature in annual installments until 2040.

2) On August 1, 1995 the Utility signed an assistance agreement with the Kentucky Infrastructure Authority (KIA) for a loan in the amount of \$2,365,520 at .40% and \$597,712 at 1.30% to expand and upgrade the existing wastewater treatment plant. Principal and interest payments are due June 1 and December 1 of each year until 2017.

3) On November 1, 2000 the Utility signed an assistance agreement with the Kentucky Infrastructure Authority (KIA) for a loan in the amount of \$1,500,000 at 3.80% to expand and upgrade the existing water treatment plant. Principal and interest payments are due June 1 and December 1 of each year until 2023.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

9 LONG-TERM DEBT (Continued)

4) During 2010 the Utility signed an assistance agreement with the Kentucky Infrastructure Authority (KIA) for a federal loan from the American Recovery and Reinvestment Act of 2009 funds. The loan was in the amount of \$1,103,744 with a 52% principal forgiveness portion. The remaining portion of \$528,693 was at 1.00% with principal and interest payments due on June 1 and December 1 of each year until 2031.

5) During 2011 the Utility signed an assistance agreement with the Kentucky Infrastructure Authority (KIA) for a federal loan from the American Recovery and Reinvestment Act of 2009 funds. The loan was in the amount of \$1,149,256 with \$681,873 being drawn on the note at June 30, 2011. The interest rate was 1.00% with principal and interest payments due on June 1 and December 1 of each year until 2031.

6) During 2012 the Utility signed an assistance agreement with the Kentucky Infrastructure Authority (KIA) for a loan in the amount of \$430,675 at 1.00% for Jeff Watson Road and Cardinal Lane lift stations. Principal and interest payments are due June 1 and December 1 of each year until 2032.

| <u>Business Type Activities:</u> | <u>June 30, 2012</u> | <u>Additions</u> | <u>Reductions</u> | <u>June 30, 2013</u> | <u>Current</u> |
|----------------------------------|----------------------|------------------|-------------------|----------------------|-------------------|
| Compensated absences | \$ 11,912 | \$ - | \$ 1,972 | \$ 9,940 | \$ - |
| 1) Revenue Bonds - 2000 Series | 1,271,500 | - | 23,500 | 1,248,000 | 24,500 |
| 2) KIA | 696,209 | - | 153,123 | 543,086 | 154,025 |
| 3) KIA | 925,806 | - | 73,262 | 852,544 | 76,072 |
| 4) ARRA #A209-11 | 492,595 | - | 24,367 | 468,228 | 24,611 |
| 5) ARRA #A09-27 | 636,762 | - | 31,498 | 605,264 | 31,814 |
| 6) Fund B #10-06 | 392,578 | - | 18,329 | 374,249 | 18,513 |
| | <u>\$ 4,427,362</u> | <u>\$ -</u> | <u>\$ 326,051</u> | <u>\$ 4,101,311</u> | <u>\$ 329,535</u> |

Total interest expensed for the year ended June 30, 2013 was \$100,870.

Annual aggregate maturities of the Utility's debt for the years subsequent to June 30, 2013 are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------|---------------------|---------------------|---------------------|
| 2014 | \$ 329,535 | \$ 104,550 | \$ 434,085 |
| 2015 | 335,542 | 98,836 | 434,378 |
| 2016 | 340,747 | 92,949 | 433,696 |
| 2017 | 269,079 | 86,875 | 355,954 |
| 2018 | 195,203 | 81,308 | 276,511 |
| 2019-2023 | 1,011,298 | 319,570 | 1,330,868 |
| 2024-2028 | 631,469 | 213,722 | 845,191 |
| 2029-2033 | 503,498 | 141,308 | 644,806 |
| 2034-2038 | 325,000 | 71,595 | 396,595 |
| 2039-2040 | 150,000 | 6,795 | 156,795 |
| | <u>\$ 4,091,371</u> | <u>\$ 1,217,508</u> | <u>\$ 5,308,879</u> |

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

10 PENSION PLAN

County Employees' Retirement System Plan Description:

Plan Description:

The City is a participant in the County Employees' Retirement System (CERS), a cost sharing, multi-employer public employee retirement system. CERS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments are provided at the discretion of the State legislature. Under the provision of Kentucky Revised Statute 61.645, the Board of trustees of Kentucky Retirement Systems administers the CERS. Kentucky Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601-6124 or by calling (502) 564-4646.

Funding Policy:

Hazardous position employees are required to contribute 8% to the plan and nonhazardous position employees are required to contribute 5% of their creditable compensation by State statute. For employees hired on September 1, 2008, or thereafter, an additional 1% must be contributed to a health insurance account. The City is required by the same statute to contribute the remaining amounts necessary to pay benefits when due. For the years ended June 30, 2013, 2012 and 2011, the City contributed 37.60%, 35.76%, and 33.25% respectively, of each hazardous employee's creditable compensation and 19.55%, 18.96%, and 16.93%, respectively, of each nonhazardous employee's creditable compensation. These actuarially determined rates are set by the Board of Trustees of Kentucky Retirement Systems.

Schedule of Employer Contributions are as follows:

City of Princeton:

| | <u>Annual</u> | | |
|-------------------|---------------------|---------------------|---------------------|
| | <u>Required</u> | <u>Annual</u> | <u>Percentage</u> |
| <u>Year Ended</u> | <u>Contribution</u> | <u>Contribution</u> | <u>Contribution</u> |
| June 30, 2013 | \$ 407,519 | \$ 407,519 | 100% |
| June 30, 2012 | \$ 312,984 | \$ 312,984 | 100% |
| June 30, 2011 | \$ 266,685 | \$ 266,685 | 100% |

Princeton Water and Wastewater:

| | <u>Annual</u> | | |
|-------------------|---------------------|---------------------|---------------------|
| | <u>Required</u> | <u>Annual</u> | <u>Percentage</u> |
| <u>Year Ended</u> | <u>Contribution</u> | <u>Contribution</u> | <u>Contribution</u> |
| June 30, 2013 | \$ 146,082 | \$ 146,082 | 100% |
| June 30, 2012 | \$ 127,850 | \$ 127,850 | 100% |
| June 30, 2011 | \$ 107,568 | \$ 107,568 | 100% |

Postretirement Healthcare Benefits:

In addition to the pension benefits described above, the Kentucky Retirement System (KRS) provides postretirement healthcare benefits, in accordance with Kentucky Revised Statutes. The Kentucky Retirement Systems Insurance Fund (Fund) was established to provide hospital and medical insurance for

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

10 PENSION PLAN (continued)

members receiving benefits from the Kentucky Employees' Retirement System (KERS), the County Employees' Retirement System (CERS), and the State Police Retirement System (SPRS). The Fund and members receiving benefits pay prescribed portions of the aggregate premiums paid by the Fund.

For members participating prior to July 1, 2003, years of service and respective percentage of the maximum contribution are as follows:

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

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participant on, or after July 1, 2003. Once members reach a minimum vesting period of 10 years, nonhazardous employees whose participation began on, or after, July 1, 2003 earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees who participation began on, or after, July 1, 2003, earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a cost of living adjustment (COLA), which is updated annually due to changes in the Consumer Price Index (CPI) for all urban consumers. This benefit is not protected under the inviolable contract provision of Kentucky Revised Statutes 16.652, 61.692, and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

In prior years, the employer's required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal cost method within a 20 year period measured from 1987. In November 1992, the Board of Trustees adopted a fixed percentage contribution rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the Board of Trustees adopted a policy to increase the insurance contribution rate by the amount needed to achieve the target rate for full entry age normal funding within 20 years. The increases commenced with the 1997 valuation used by the Kentucky General Assembly to establish employer contribution rates for the biennium.

City of Princeton, Kentucky –

The City of Princeton allows employees to accumulate unused sick leave to a maximum of 120 days. Upon retirement at any age which qualifies an employee for Social Security retirement benefits, any employee who has accrued 50 or more days unused sick leave shall be paid a lump sum benefit equal to one day's pay for each two days of accumulated unused sick leave. Upon termination of employment prior to qualification for Social Security retirement benefits, but after completion of 15 years continuous employment, an employee who has accrued 50 or more days unused sick leave shall be paid a lump sum benefit equal to one days' pay for each three days of accumulated unpaid sick leave.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

11 COMPENSATED ABSENCES

In accordance with the City of Princeton's policy on vacation and sick pay, the City has accrued a liability, which has been earned but not taken by employees. The City is currently liable for compensated absences of the following:

| | <u>June 30, 2013</u> |
|--------------|----------------------|
| Vacation Pay | \$ 48,156 |
| Sick Pay | <u>16,170</u> |
| | <u>\$ 64,326</u> |

Princeton Water and Wastewater –

The Commission adopted a new policy whereby employees can carry over no more than 80 unused and accrued vacation hours as of 12/31/11 and further reducing to 40 hours by 12/31/12 versus the previous policy of 200 hours. In order to accommodate those employees having greater balances in accrued but unused vacation time, the Commission voted to allow an additional three weeks payment of accrued vacation per employee during the fiscal year. More than \$32,000 was incurred as a reduction in vacation accrual due to this policy change. As of June 30, 2013 the liability for accrued vacation was \$0.

Employees accrue 6 days of sick pay per calendar year. At the end of a calendar year, all unused sick time, up to 6 days, will be transferred to an employee medical leave account. Upon termination, the Commission will not compensate an employee for unused sick days. Effective January 1, 2005 an employee can accrue up to 6 medical leave days per calendar year. Unused medical leave can be carried over to the next calendar year. Employees can accumulate up to 150 days of medical leave.

Upon retirement at any age which qualifies an employee for Social Security retirement benefits, an employee who has accrued 50 or more days unused medical leave shall be paid a lump sum benefit equal to one day's pay for each two days of accumulated unused medical leave. Upon reaching full retirement status with the Commission at an age that does not qualify the employee for Social Security retirement benefits (i.e. 27 years of active employment with the Commission but less than 62 years old), any employee who has accrued 50 or more days unused medical leave shall be paid a lump sum benefit equal to one day's pay for each 2 ½ days of accumulated unused medical leave.

Upon voluntary termination of employment prior to qualification for Social Security retirement benefits, but after completion of 15 years continuous employment, an employee who has accrued 50 or more days of unused medical leave shall be paid a lump sum benefit equal to one day's pay for each three days of accumulated unpaid medical leave. Any employee entitled to the aforementioned lump sum benefit payment may request that payment be received weekly versus a lump sum. Unused medical leave hours will not be paid out upon an employee's separation from employment (voluntary or involuntary) if the employee has less than 15 years of continuous service or if the employee has less than 50 days of accrued and unused medical leave. It is impracticable to estimate the amounts of compensation for future medical leave, and, accordingly, no liability has been recorded in the accompanying financial statements. The Utility's policy is to recognize the cost of compensated medical leave when actually paid to employees.

The commission is currently liable for compensated absence of \$9,940.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

12 OTHER MATTERS

The City has, over several years, appropriated funds to civic and charitable organizations, which, while being made for civic purposes and public welfare, may not be in accordance with Section 179 of the Kentucky Constitution.

13 COMMITMENTS AND CONTINGENCIES

Grant audits - The City receives Federal and State Grants for specific purposes that are subject to review and audit by Federal and State agencies. Such audits could result in a request for reimbursement for expenditures disallowed under the terms and conditions of the appropriate agency. It is the opinion of City management that such disallowances, if any, will not be material.

The city is named in lawsuits that are being defended by the City Attorney. The final outcome of each suit has not been determined.

14 COMMERCIAL INSURANCE

It is the policy of the City to purchase commercial insurance for the risks of losses to which it is exposed. Those risks include general liability, property and casualty, worker's compensation and employee health and accident. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

It is the policy of the Princeton Water and Wastewater to purchase commercial insurance for the risks of losses to which it is exposed. Those risks include general liability, property and casualty, worker's compensation and employee health and accident. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

16 INTERFUND RECEIVABLES AND PAYABLES

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to move unrestricted revenue collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Individual fund receivable and payable balances resulting from normal business practice at June 30, 2013 were as follows:

| | <u>Interfund Payables</u> | <u>Interfund Receivables</u> |
|----------------------|---------------------------|------------------------------|
| General | \$ 55,229 | \$ 284,153 |
| Municipal Road Aid | 145,000 | - |
| Cemetery Maintenance | 5,358 | 17,472 |
| Other Funds | 133,795 | 37,757 |
| Total | <u>\$ 339,382</u> | <u>\$ 339,382</u> |

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

17 CONCENTRATION OF CREDIT RISK

Princeton Water and Wastewater System grants credit to its customers, all of whom are residents or businesses located in and around Princeton, Kentucky.

18 PRIOR PERIOD ADJUSTMENT

Princeton Water and Wastewater had one prior period adjustment for the year ended June 30, 2013.

Accrued interest receivable was incorrectly reported in prior year ending June 30, 2012. A correction to Net Position was made in the current year, restated Net Position follows:

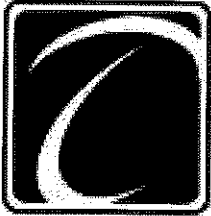
| | |
|--|---------------------|
| Fund balance, beginning of year as previously stated | \$13,339,790 |
| Decrease due to error in previous year | <u>4,504</u> |
| Fund balance, beginning year, restated | <u>\$13,335,286</u> |

CITY OF PRINCETON, KENTUCKY
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget (GAAP Basis) and Actual
For the year ended June 30, 2013

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|--------------------|------------------|---------------------|--|
| Revenues: | | | | |
| Taxes | \$ 2,298,400 | \$ 2,273,750 | \$ 2,204,810 | \$ (68,940) |
| Licenses and permits | 493,650 | 539,300 | 539,240 | (60) |
| Intergovernmental revenues | 1,046,950 | 140,550 | 109,260 | (31,290) |
| Charges for services | 111,500 | 113,200 | 97,648 | (15,552) |
| Rental income | - | - | 16,768 | 16,768 |
| Interest income | - | - | 1,162 | 1,162 |
| Miscellaneous income | 20,500 | 29,100 | 15,742 | (13,358) |
| | <u>3,971,000</u> | <u>3,095,900</u> | <u>2,984,630</u> | <u>(111,270)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 1,443,800 | 541,500 | 427,704 | 113,796 |
| Public works | 808,100 | 744,500 | 721,064 | 23,436 |
| Public safety | 1,521,900 | 1,421,000 | 1,445,336 | (24,336) |
| Health and welfare | 16,900 | 20,900 | 95,032 | (74,132) |
| Culture and recreation | 35,000 | 56,000 | 42,668 | 13,332 |
| Capital Outlay | 142,900 | 103,500 | 99,012 | 4,488 |
| Debt service: | | | | |
| Principal | 109,900 | 109,900 | 94,751 | 15,149 |
| Interest and fees | - | - | 15,146 | (15,146) |
| | <u>4,078,500</u> | <u>2,997,300</u> | <u>2,940,713</u> | <u>56,587</u> |
| Excess of revenues over (under) expenditures | <u>(107,500)</u> | <u>98,600</u> | <u>43,917</u> | <u>(54,683)</u> |
| Other financing sources (uses): | | | | |
| Gain (Loss) from the sales of assets | - | - | 752 | (752) |
| Operating transfers | 107,500 | - | - | - |
| Reserves for contingencies | - | (98,600) | 4,134 | 102,734 |
| | <u>107,500</u> | <u>(98,600)</u> | <u>4,886</u> | <u>102,734</u> |
| Excess of revenues and other sources Over (under) expenditures and other uses | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 48,803</u> | <u>\$ 48,051</u> |
| Fund balances, beginning of year | | | <u>1,163,882</u> | |
| Fund balances, end of year | | | <u>\$ 1,212,685</u> | |

CITY OF PRINCETON, KENTUCKY
Municipal Road Aid
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget (GAAP Basis) and Actual
For the year ended June 30, 2013

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|--------------------|-----------------|-------------------|--|
| Revenues: | | | | |
| Intergovernmental revenues | \$ 156,200 | \$ 150,000 | \$ 185,004 | \$ 35,004 |
| Interest income | 500 | 300 | 272 | (28) |
| Total revenues | <u>156,700</u> | <u>150,300</u> | <u>185,276</u> | <u>34,976</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Public works | 150,000 | 150,000 | 161,382 | (11,382) |
| Reserves for contingencies | 6,700 | 300 | - | 300 |
| Total expenditures | <u>156,700</u> | <u>150,300</u> | <u>161,382</u> | <u>(11,082)</u> |
| Excess of revenues over (under) expenditures | <u>-</u> | <u>-</u> | <u>23,894</u> | <u>23,894</u> |
| Excess of revenues and other sources Over (under) expenditures and other uses | <u>\$ -</u> | <u>\$ -</u> | <u>23,894</u> | <u>\$ 23,894</u> |
| Fund balances, beginning of year | | | <u>309,786</u> | |
| Fund balances, end of year | | | <u>\$ 333,680</u> | |



THURMAN CAMPBELL GROUP, PLC
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Mayor and City Council
City of 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 governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Princeton, Kentucky, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City of Princeton, Kentucky's basic financial statements and have issued our report thereon dated November 19, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Princeton, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Princeton, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Princeton, Kentucky's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described below to be material weaknesses.

2013-1 Management oversight of financial reporting: We noted certain transactions that were not recorded in the general ledger. As a result, audit adjustments were necessary to present the financial statements in accordance with General Accepted Accounting Principles and statements of the Governmental Auditing Standards Accounting Board.

Recommendation: We recommend that management implement the necessary procedures to insure all transactions are correctly and timely recorded in the general ledger in accordance with all accounting standards.

Management response: Management continually monitors internal controls to insure that the City of Princeton, Kentucky is fully compliant with relevant accounting standards. Management will review the cost benefit relationship of procedures that can be implemented to correct this deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Princeton, Kentucky'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*.

City of Princeton, Kentucky's Response to Findings

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

Purpose of this Report

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

Thurman Campbell Group, PLC

Princeton, Kentucky
November 19, 2014