

CITY OF PRINCETON, KENTUCKY
FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
YEAR ENDED JUNE 30, 2015
AND
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

CITY OF PRINCETON, KENTUCKY
FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
Year Ended June 30, 2015

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INDEPENDENT AUDITOR'S REPORT

To the 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 the City of Princeton, Kentucky, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Princeton, Kentucky'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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the 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, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2015, the City adopted the following new accounting guidance:

GASB Statement No. 68, Accounting and Financial Reporting for Pensions – An amendment of GASB Statements No. 27.

GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – An amendment of GASB Statement No. 68

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of proportionate share of the net pension liability and schedule of contributions on pages 3-6, 40-41 and 42-44 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 January 31, 2017, 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 the City of Princeton, Kentucky's internal control over financial reporting and compliance.

Thurman Campbell Group, PLLC

Princeton, Kentucky

January 31, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

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, 2015. 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 and deferred outflows of the City exceeded its liabilities and deferred inflows by \$4,002,617 at June 30, 2015.
- The City's total net position decreased by \$246,383 during the year.
- The fund balance, a measure of current financial resources, decreased in the governmental funds by \$278,266 to a June 30, 2015 fund balance of \$2,504,103. Of that balance, forty-four percent (44%) or \$1,104,998 is unassigned. This amount is available to continue City operations. The remaining fifty-six percent (56%) 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 \$173,656.

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, deferred outflows, liabilities and deferred inflows 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 a 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 7-8 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 9-12 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 13-39 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 and County Employee Retirement Systems reporting. Required supplementary information can be found on pages 40-44 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, 2015, the City received \$358,344 in operating and capital grants. Revenue from taxes and license and permits were \$2,406,734 and \$524,637 respectively. Expenses directly related to programs offered by the city was \$3,669,752. The Statement of Activities reflects a current year loss of \$246,383. Overall, the City's financial position deteriorated from the previous year.

The fund financial statements report that General fund revenues of \$2,968,819 while expenditures total \$3,139,475.

Municipal road aid revenue totaled \$145,854. Expenditures from the municipal road aid fund were \$191,120.

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 generated revenues of \$286,839 and incurred expenditures of \$354,067. Significant revenues and expenditures are public safety salaries and the reimbursement of those salaries through the KLEFPF and PFFIP programs.

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

City of Princeton, Kentucky Condensed Statement of Net Position As of June 30		
Assets:	2015	2014
Current and other assets	\$ 2,298,989	\$ 2,416,669
Capital assets, net	3,651,586	3,807,085
Total assets	5,950,575	6,223,754
Deferred outflow of resources	875,932	771,420
Liabilities:		
Other liabilities	320,500	315,799
Long-term liabilities	2,330,264	300,374
Total liabilities	2,650,764	616,173
Deferred inflows of resources	173,126	-
Net position:		
Net investment in capital assets	3,434,920	3,510,418
Restricted net position	1,399,104	1,729,265
Unrestricted net position	(831,407)	1,139,318
Total net position	\$ 4,002,617	\$ 6,379,001

City of Princeton
Condensed Statement of Activities
For the Year Ending June 30,

Revenues:	2015	2014
Program revenues		
Charges for services	\$ 102,344	\$ 86,383
Operating grants and contributions	351,229	904,498
Capital grants and contributions	7,115	7,666
General revenues		
Taxes	2,406,734	2,258,226
License and permits	524,637	545,300
Investment earnings	7,827	5,385
Gain (loss) on sale of asset	14,943	(6,948)
Other	8,540	16,845
Total revenue	<u>3,423,369</u>	<u>3,817,355</u>
Expenses:		
General government	534,117	539,812
Public works	1,052,059	976,315
Public safety	1,735,720	1,732,204
Health and welfare	239,870	209,868
Culture and recreation	97,894	58,583
Interest on long-term debt	10,092	12,159
Total expenses	<u>3,669,752</u>	<u>3,528,941</u>
Change in net position	<u>(246,383)</u>	<u>288,414</u>
Net position, beginning, restated	<u>6,379,001</u>	<u>6,090,587</u>
Prior year restatement	<u>(2,130,001)</u>	<u>-</u>
Net position, ending	<u>\$ 4,002,617</u>	<u>\$ 6,379,001</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 deficit of revenues and expenditures and other sources was \$168,800.

The budgetary figures and actual amounts are reported in the supplementary information on pages 40-41.

CAPITAL ASSETS

The City's investment in capital assets for its governmental activities as of June 30, 2015 amounted to \$3,651,586 (net of accumulated depreciation in the amount of \$3,335,414). This investment includes land, buildings, vehicles and equipment. Historical cost for the City's capital assets are as follows:

	2015	2014
Land	\$ 269,491	\$ 269,491
Construction in progress	19,870	-
Buildings and improvements	2,528,005	2,528,005
Equipment	3,112,975	3,140,285
Infrastructure	1,056,659	1,050,884
Total assets at cost	<u>\$ 6,987,000</u>	<u>\$ 6,988,665</u>

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had a total outstanding debt of \$216,667. 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 \$82,083 and the debt is scheduled to be paid in full in 2018. Interest expense for 2015 was \$10,092.

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, 2015

	Primary Governmental Activities	Component Unit
ASSETS		
Current assets:		
Cash	\$ 1,955,793	\$ 700,582
Investments	122,505	-
Prepaid expense	425	-
Receivables, net	220,266	411,245
Other receivable	-	99
Inventory	-	304,817
Total current assets	<u>2,298,989</u>	<u>1,416,743</u>
Non-current assets:		
Restricted cash	-	529,055
Capital assets:		
Nondepreciable assets	289,361	125,964
Buildings and equipment, net of depreciation	3,362,225	14,749,477
Total non-current assets	<u>3,651,586</u>	<u>15,404,496</u>
Total assets	<u>5,950,575</u>	<u>16,821,239</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred expenses of Community Development Block Grant	550,726	-
Deferred outflows related to pensions	325,206	134,426
Total deferred outflows of resources	<u>875,932</u>	<u>134,426</u>
LIABILITIES		
Current liabilities:		
Accounts payable-trade	163,389	45,310
Pension benefits payable	6,641	-
Customer deposits	-	91,643
Accrued liabilities	68,387	115,425
Current maturities of long-term debt	82,083	340,818
Total current liabilities	<u>320,500</u>	<u>593,196</u>
Non-current liabilities:		
Compensated absences	98,043	10,480
Long-term debt	134,584	3,085,405
Net pension liability	2,097,637	1,224,123
Total non-current liabilities	<u>2,330,264</u>	<u>4,320,008</u>
Total liabilities	<u>2,650,764</u>	<u>4,913,204</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions	173,126	95,486
Total deferred inflows of resources	<u>173,126</u>	<u>95,486</u>
NET POSITION		
Net investment in capital assets	3,434,920	11,449,220
Restricted for:		
Debt service	-	395,580
Other purpose (expendable)	503,203	-
Other purpose (nonexpendable)	895,901	-
Unrestricted	(831,407)	102,175
Total net position	<u>\$ 4,002,617</u>	<u>\$ 11,946,975</u>

CITY OF PRINCETON, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

		Program Revenues				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue	Component Units
Government activities:						
General government	\$ 540,633	\$ 31,676	\$ 91,915	\$ 5,196	\$ (411,846)	\$ -
Public works	1,052,059	29,962	178,280	-	(843,817)	-
Public safety	1,735,720	40,706	81,034	-	(1,613,980)	-
Health and welfare	239,870	-	-	1,919	(237,951)	-
Culture and recreation	97,894	-	-	-	(97,894)	-
Interest on long-term debt	10,092	-	-	-	(10,092)	-
Total government activities	<u>3,676,268</u>	<u>102,344</u>	<u>351,229</u>	<u>7,115</u>	<u>(3,215,580)</u>	<u>-</u>
Total primary government	<u>\$ 3,676,268</u>	<u>\$ 102,344</u>	<u>\$ 351,229</u>	<u>\$ 7,115</u>	<u>(3,215,580)</u>	<u>-</u>
Component unit:						
Princeton Water and Wastewater	<u>\$ 3,203,021</u>	<u>\$ 3,171,050</u>	<u>\$ -</u>	<u>\$ -</u>		<u>(31,971)</u>
General revenues:						
Taxes					2,406,734	-
Licenses and permits					524,637	-
Unrestricted investment earnings					5,226	1,421
Restricted investment earnings					2,601	
Gain/(Loss) on sale of asset					14,943	17,557
Miscellaneous					8,540	-
Total general revenues					<u>2,962,681</u>	<u>18,978</u>
Change in net position					<u>(252,899)</u>	<u>(12,993)</u>
Net position, beginning, previously reported					6,379,001	13,181,578
Prior period adjustment (Note 20)					<u>(2,130,001)</u>	<u>(1,221,610)</u>
Net position, beginning restated					<u>4,249,000</u>	<u>11,959,968</u>
Net position, ending					<u>\$ 3,996,101</u>	<u>\$ 11,946,975</u>

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

CITY OF PRINCETON, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2015

	Major Funds				
		Special Revenue	Permanent	Other	Total
	General	Municipal Road Aid	Cemetery Maintenance	Governmental Funds	Governmental Funds
ASSETS					
Cash	\$ 1,003,111	\$ 416,263	\$ 119,278	\$ 417,141	\$ 1,955,793
Investments	-	-	122,505	-	122,505
Receivables					
Taxes, net	10,340	-	-	-	10,340
Accounts	125,849	16,875	-	25,752	168,476
Prepaid expense	-	-	-	425	425
Note receivable	41,450	-	-	-	41,450
Due from other funds	430,163	-	66,875	52,339	549,377
Total Assets	<u>1,610,913</u>	<u>433,138</u>	<u>308,658</u>	<u>495,657</u>	<u>2,848,366</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred expenses of Community Development Block Grant	550,726	-	-	-	550,726
Total assets and deferred outflows of resources	<u>\$ 2,161,639</u>	<u>\$ 433,138</u>	<u>\$ 308,658</u>	<u>\$ 495,657</u>	<u>\$ 3,399,092</u>
LIABILITIES					
Liabilities					
Accounts payable-trade	\$ 163,028	\$ -	\$ -	\$ 361	\$ 163,389
Pension benefits payable	6,641	-	-	-	6,641
Compensated absences	98,043	-	-	-	98,043
Accrued liabilities	59,011	-	-	-	59,011
Due to other funds	119,214	150,000	5,358	274,805	549,377
Total Liabilities	<u>445,937</u>	<u>150,000</u>	<u>5,358</u>	<u>275,166</u>	<u>876,461</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	18,528	-	-	-	18,528
FUND BALANCES					
Nonspendable:					
Note Receivable	41,450	-	-	-	41,450
Forgivable Mortgage	550,726	-	-	-	550,726
Permanent Fund Corpus	-	-	303,300	-	303,300
Prepaid Expenses	-	-	-	425	425
Restricted	-	283,138	-	220,066	503,204
Unassigned	1,104,998	-	-	-	1,104,998
Total Fund Balances	<u>1,697,174</u>	<u>283,138</u>	<u>303,300</u>	<u>220,491</u>	<u>2,504,103</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,161,639</u>	<u>\$ 433,138</u>	<u>\$ 308,658</u>	<u>\$ 495,657</u>	<u>\$ 3,399,092</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, 2015

Total fund balances per fund financial statements	\$ 2,504,103
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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.	3,651,586
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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.	9,152
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Certain long-term obligations are not due and payable in the current period and therefore are not reported in the funds.

Debt obligations	(216,667)
Net pension liability	(2,097,637)
Deferred outflows related to pensions	325,206
Deferred inflows related to pensions	<u>(173,126)</u>

Net position for governmental activities	<u>\$ 4,002,617</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF PRINCETON, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2015

	Major Funds				Total Governmental Funds
	General	Special Revenue Municipal Road Aid	Permanent Cemetery Maintenance	Other Governmental Funds	
REVENUES					
Taxes	\$ 2,218,064	\$ -	\$ -	\$ 186,011	\$ 2,404,075
Licenses and permits	524,637	-	-	2,103	526,740
Intergovernmental revenues	111,606	145,488	-	96,822	353,916
Charges for services	81,519	-	2,153	1,613	85,285
Rental income	14,845	-	-	112	14,957
Interest income	1,110	366	5,153	128	6,758
Increase (Decrease) in fair market value of investments	-	-	(2,552)	-	(2,552)
Miscellaneous income	14,038	-	2,500	50	16,588
Total revenues	2,965,819	145,854	7,254	286,839	3,405,766
EXPENDITURES					
Current:					
General government	454,789	-	-	-	454,789
Public works	733,260	191,120	2,774	513	927,667
Public safety	1,458,864	-	-	181,682	1,640,546
Health and welfare	246,070	-	-	-	246,070
Culture and recreation	80,322	-	-	114,872	195,194
Capital outlay	76,078	-	-	57,000	133,078
Debt service:					
Principal	80,000	-	-	-	80,000
Interest and fees	10,092	-	-	-	10,092
Total expenditures	3,139,475	191,120	2,774	354,067	3,687,436
Excess of revenues over (under) expenditures	(173,656)	(45,266)	4,480	(67,228)	(281,670)
OTHER FINANCING SOURCES (USES)					
Gain (Loss) from the sale of assets	3,404	-	-	-	3,404
Transfers from other funds	1,452	-	-	-	1,452
Transfers to other funds	-	-	(1,452)	-	(1,452)
Net other financing sources (uses)	4,856	-	(1,452)	-	3,404
Net change in fund balances	(168,800)	(45,266)	3,028	(67,228)	(278,266)
Fund balances, beginning as previously reported	1,945,849	328,404	300,272	287,719	2,862,244
Prior period adjustment (Note 20)	(79,875)	-	-	-	(79,875)
Fund balances, beginning, restated	1,865,974	328,404	300,272	287,719	2,782,369
Fund balances, ending	\$ 1,697,174	\$ 283,138	\$ 303,300	\$ 220,491	\$ 2,504,103

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, 2015

Net change in total fund balances per fund financial statements	\$	(278,266)
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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 Net Position and depreciated over their estimated economic lives. The net amount of depreciation (\$306,632), gain on disposals (\$1,815) and capital expenditures \$133,077 and construction in progress \$19,870 is shown at right for the year.		(155,500)
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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.		80,000
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Net pension expense is an actuarial calculation and does not require the use of current financial resources and is excluded as an expenditure in the governmental funds.		105,469
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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 \$9,152 less the additional revenue from receivables recognized last year (\$7,238).		1,914
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Change in net position of governmental activities	\$	<u>(246,383)</u>
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CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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 is organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended June 30, 2015.

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 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. A list of these joint ventures with the amount of City funding as of June 30, 2015 can be found in Note 6.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2015, and had no material financial activities for the year then ended.

The accounts of the Pennyrile 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. During the year ending June 30, 2015, the city provided funding in the amount of \$38,750.

The accounts of the Princeton Electric Plant Board and the Housing Authority of Princeton have been excluded from the accompanying financial statements with component units, 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 is reported in three parts - investment in capital assets; restricted net position; and unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

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

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, deferred inflows, liabilities, deferred outflows, 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.

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.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Expenditures of the ABC fund are restricted to public safety.

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.

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

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 deferred outflows and liabilities and deferred inflows associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total position) is segregated into net investment 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 is included in accounts receivable. Unbilled accounts receivable totaled \$262,675 at June 30, 2015.

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.

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 provide an allowance for doubtful accounts. At June 30, 2015 that balance was \$16,478.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 average 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

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, 2015 are as follows:

Real property - \$0.148 per \$100 value
Personal property - \$0.145 per \$100 value
Financial institutions - 0.02% on all deposits

Property tax receivables are shown net of the allowance of \$10,340 for uncollectible amounts. The City determines this allowance based on historical collection data and review of individual accounts at year end.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

As of June 30, 2015, fund balance components consist of the following:

	Nonspendable	Restricted	Unassigned
General fund	\$ 592,176	\$ -	\$ 1,104,998
MRA fund	-	283,138	-
Permanent fund	303,300	-	-
Other funds	425	220,066	-
Totals	<u>\$ 895,901</u>	<u>\$ 503,204</u>	<u>\$ 1,104,998</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

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Interfund Balances - On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Due to/Due from other funds". These amounts are eliminated in the governmental activities column of the statement of net position.

New Pronouncements - Effective for the fiscal year ending June 30, 2015, the Commission adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No.68, Accounting and Financial Reporting for Pensions. The objective of this statement is to improve financial reporting by state and local governmental pension plans. In addition, it required the liability of the employers and non-employer contributing entities to employees for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payment to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position. In addition, this statement requires additional changes to Required Supplementary Information, among other extensive changes. GASB 68 requires and adjustment to beginning fund balance

Effective for the fiscal year ending June 30, 2015, the Commission adopted the provision of Governmental Accounting Standards Board (GASB) Statement No. 71, Pension Transition for Contributions made Subsequent to the Measurement Date. The objective of this statement is to address an issue regarding application of the transition provisions of GASB No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

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.

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.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

2 DEPOSITS AND INVESTMENTS (continued)

GASB 40, as it applies to the city, includes disclosure of the following:

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

Custodial Credit Risk of Bank Deposits

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

As of June 30, 2015, the carrying amount of City's deposits was \$2,078,298 and the bank balance of \$2,088,354 was categorized as follows:

Insured by FDIC	\$ 992,843
Insured by SIPC	122,505
Uninsured and collateralized with securities held by the pledging financial institution	973,006
Uninsured and uncollateralized	-
Total	<u>\$ 2,088,354</u>

As of June 30, 2015, the carrying amount of the Princeton Water and Wastewater Commission's deposits was \$1,229,637 and the bank balance of \$1,249,534 was categorized as follows:

Insured by FDIC	\$ 375,000
Uninsured and collateralized with securities held by the pledging financial institution	874,534
Total	<u>\$ 1,249,534</u>

Credit Risk

Credit risk is the risk that a borrower will default on any type of debt by failing to make the required payments. Investments in U.S. government securities are not subject to credit risk. The city's investments subject to credit risk are rated as follows:

JPMorgan Trust II Core Bond Fund	AAA (70%)
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Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. Investments of the permanent funds are stated at fair market value at June 30, 2015 and consist of the following:

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

2 DEPOSITS AND INVESTMENTS (continued)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Loomis Sayles LTD Term Govt & Agency	\$ 49,324	6.49 years
JPMorgan Trust II Core Bond Fund	28,006	3.34 years
JPMorgan Trust II Government Fund Class A	45,175	6.73 years
Total Fair Value	<u>\$ 122,505</u>	

The common stock and corporate bonds reported above were received by the City through bequests from the estates of various individuals.

Deposit and Investment Policies

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

3 FORGIVABLE MORTGAGES RECEIVABLE

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 mortgage loans and (b) equity secured mortgages. The City is a pass through entity for the equity secured mortgages.

(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, 2015 was \$41,450.

(b) As part of the CDBG Scatter Site Program occurring during the fiscal year ending June 30, 2015, the City of Princeton is mortgagor on sixteen forgivable mortgages totaling \$1,183,346. 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. However, due to the timing requirement the city has recorded the unexpired mortgage amount as a deferred outflow.

As of June 30, 2015 the balance of the forgivable mortgages was \$550,726. The changes in the City's CDBG receivables for the year ended June 30, 2015 are as follows:

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

3 FORGIVABLE MORTGAGES RECEIVABLES (Continued)

	6/30/2014	Additions	Forgiven	6/30/2015
Total	\$ 771,420	\$ -	\$ (220,694)	\$ 550,726

A schedule of future years' mortgage forgiveness is as follows:

	Balance
2016	133,688
2017	133,688
2018	133,688
2019	133,688
2020	15,974
Total	<u>\$ 550,726</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, 2015:

2016	\$ 9,000
2017	9,000
2018	9,000
2019	9,000
2020	9,000
2021-2025	45,000
2026-2030	45,000
2031-2035	45,000
2036-2040	45,000
Total	<u>\$ 225,000</u>

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.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

5 CAPITAL ASSETS

Capital asset activity for the City of Princeton year ended June 30, 2015, was as follows:

	Balance 6/30/2014	Additions	Retirements	Balance 6/30/2015
Capital assets being depreciated:				
Buildings & improvements	\$ 2,528,005	\$ -	\$ -	\$ 2,528,005
Equipment	3,140,284	127,303	154,612	3,112,975
Infrastructure	1,050,884	5,775	-	1,056,659
Subtotal	<u>6,719,173</u>	<u>133,078</u>	<u>154,612</u>	<u>6,697,639</u>
Less accumulated depreciation:				-
Buildings & improvements	869,250	54,988	-	924,238
Equipment	2,083,190	208,407	152,798	2,138,799
Infrastructure	229,140	43,237	-	272,377
Subtotal	<u>3,181,580</u>	<u>306,632</u>	<u>152,798</u>	<u>3,335,414</u>
Capital assets being depreciated, net	3,537,593	(173,554)	1,814	3,362,225
Capital assets not being depreciated:				
Construction in progress	-	19,870	-	19,870
Land	269,491	-	-	269,491
Subtotal	<u>269,491</u>	<u>19,870</u>	<u>-</u>	<u>289,361</u>
Capital assets, net	<u>\$ 3,807,084</u>	<u>\$ (153,684)</u>	<u>\$ 1,814</u>	<u>\$ 3,651,586</u>

Government activities- Depreciation

Depreciation Expense:

General Govt	\$ 95,270
Police	51,186
Fire	92,579
Street	34,706
Cemetery	7,804
Alcohol Beverage Control	25,087
Total	<u>\$ 306,632</u>

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

5 CAPITAL ASSETS (Continued)

Capital asset activity for Princeton Water and Wastewater for the year ended June 30, 2015 was as follows:

Business type activity:	Balance 6/30/2014	Additions	Deletions	Balance 6/30/2015
Capital assets not being depreciated:				
Land	\$ 16,500	\$ -	\$ -	\$ 16,500
Construction in progress	18,000	91,464	-	109,464
Capital assets being depreciated:				
Building and Improvements	289,360	16,465	-	305,825
Water plant and distribution	8,957,443	50,274	-	9,007,717
Sewer plant and lines	18,037,568	64,829	-	18,102,397
Water tanks	2,470,169	-	102,408	2,367,761
Vehicles	270,074	50,411	43,830	276,655
Tools and equipment	531,709	61,378	-	593,087
Office furniture and fixtures	152,269	-	-	152,269
Totals at historical cost	30,743,092	334,821	146,238	30,931,675
Less accumulated depreciation:				
Building and improvements	157,933	8,022	-	165,955
Water plant and distribution	4,115,906	222,100	-	4,338,006
Sewer plant and lines	9,579,573	437,692	-	10,017,265
Water tanks	810,281	57,151	-	867,432
Vehicles	214,088	23,882	102,408	135,562
Tools and equipment	398,508	25,414	31,035	392,887
Office furniture and fixtures	133,812	5,315	-	139,127
Total accumulated depreciation	15,410,101	779,576	133,443	16,056,234
Business type capital assets, net	\$ 15,332,991	\$ (444,755)	\$ 12,795	\$ 14,875,441

Impairment Loss – The Commission's insurance company has indicated that loss resulting from a truck accident and lightning is covered by insurance. As a result, the Commission has recognized \$7,371 and \$19,980 in insurance recoveries resulting from incidents respectively.

Depreciation charged to income was \$779,576 for the year ending June 30, 2015.

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. \$167,463 was paid to PEPB for utility service during the fiscal year.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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. \$5,911 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 did not make a contribution to the activities of the Industrial Development Authority during the fiscal year ending June 30, 2015 .

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 \$11,176 in funding during the fiscal year.

The Pennyryle Emergency Area Center was established jointly by the City and County to provide a central location of all emergency calls. The city provided \$78,s750 in funding during the fiscal year.

There were no amounts due to or from related parties at June 30, 2015.

7 COMPONENT UNIT SPECIAL FUNDS

Special funds consist of the following:

KIA Sinking Fund	29,905
Bond Sinking Fund Reserve - Series 2000	113,422
Replacement Account	564,506
Customer Deposit Funds	
Customer Deposit - cash	103,570
	<u>\$ 811,403</u>
Restricted portion	\$ 499,150
Unrestricted portion	\$ 312,253

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

**CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

7 COMPONENT UNIT RESTRICTED CASH (Continued)

interest requirements falling due in any twelve-month period on all of the outstanding bonds. At June 30, 2015, the sinking fund balance is sufficient to satisfy such bond requirements.

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, 2015.

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 \$ 0 as of June 30, 2015. 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, 2015 was \$91,643. Assets available for retirement of this liability and the accrued interest described above are \$103,570 at June 30, 2015 and are reported as restricted in the Statement of Net Position.

9 LONG-TERM DEBT

City of Princeton, Kentucky-

The debt obligation of the City consists of 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.

The changes in the City's long-term debt for the year ended June 30, 2015 are as follows:

	<u>6/30/2014</u>	<u>Additions</u>	<u>Repayments</u>	<u>6/30/2015</u>	<u>Current</u>
Compensated absences	\$ 83,707	\$ 14,336	\$ -	\$ 98,043	\$ -
KBCF \$550,000 lease	<u>296,667</u>	<u>-</u>	<u>80,000</u>	<u>216,667</u>	<u>82,083</u>
Total	<u>\$ 380,374</u>	<u>\$ 14,336</u>	<u>\$ 80,000</u>	<u>\$ 314,710</u>	<u>\$ 82,083</u>

Interest expense for the year was \$10,092.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

9 LONG-TERM DEBT (continued)

Assets acquired through capital leases are as follows:

<u>Asset</u>	<u>Public Safety</u>
Machinery & Equipment	\$ 652,692
Less: Accumulated Depreciation	<u>(199,967)</u>
Total	<u>\$ 452,725</u>

Annual aggregate maturities of the City's debt for the years subsequent to June 30, 2015 are as follows:

	<u>Total</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 82,083	\$ 7,492	\$ 89,575
2017	85,000	4,824	89,824
2018	<u>49,584</u>	<u>1,874</u>	<u>51,458</u>
	<u>\$ 216,667</u>	<u>\$ 14,190</u>	<u>\$ 230,857</u>

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

<u>Type of Debt</u>	<u>Paid From</u>	<u>Resources Provided By</u>
KY Bond Corp Lease	Debt Service Fund	General Fund

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.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

9 LONG-TERM DEBT (Continued)

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.

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.

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.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

9 LONG-TERM DEBT (Continued)

<u>Business Type Activities:</u>	<u>June 30, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2015</u>	<u>Current</u>
Compensated absences	\$ 11,527	\$ -	\$ 1,047	\$ 10,480	\$ -
Debt:					
1) Revenue Bonds - 2000 Serie	\$ 1,223,500	\$ -	\$ 26,000	\$ 1,197,500	\$ 26,500
2) KIA	389,061	-	154,935	234,126	155,852
3) KIA	776,472	-	78,991	697,481	82,021
4) ARRA #A209-11	443,617	-	24,859	418,758	25,107
5) ARRA #A09-27	573,450	-	32,130	541,320	32,452
6) Fund B #10-06	355,736	-	18,698	337,038	18,886
Subtotal	3,761,836	-	335,613	3,426,223	340,818
Total long-term debt	<u>\$ 3,773,363</u>	<u>\$ -</u>	<u>\$ 336,660</u>	<u>\$ 3,436,703</u>	<u>\$ 340,818</u>

Total interest expense for the year ended June 30, 2015 was \$98,849.

Annual aggregate maturities of the Utility's debt for the years subsequent to June 30, 2015 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 340,818	\$ 92,949	\$ 433,767
2017	269,079	86,875	355,954
2018	195,347	81,308	276,655
2019	201,521	75,785	277,306
2020	206,832	70,056	276,888
2021-2025	847,710	267,344	1,115,054
2026-2030	658,971	185,532	844,503
2031-2034	352,729	113,222	465,951
2035-2040	353,216	41,051	394,267
	<u>\$ 3,426,223</u>	<u>\$ 1,014,122</u>	<u>\$ 4,440,345</u>

10 PENSION PLAN

General Information about the Pension Plan

Plan description- Employees with membership in the Kentucky Retirement Systems (KRS) of the County Employee Retirement System are provided with pensions through the County Employee Retirement System (CERS), a cost sharing multiple-employer pension plan administered by the KRS. The KRS was created by state statute under Kentucky Revised Statute Chapter 61. The KRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the KRS. The Kentucky Department of Revenue, an agency in the legislative branch of state government, administers the plans of the KRS. The KRS issues a publically available financial report that can be obtained at www.kyret.ky.gov.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

10 PENSION PLAN (continued)

Benefits provided- Kentucky Revised Statute Section 61.645 establishes the benefit terms and can be amended only by the Kentucky General Assembly. There are currently three benefit Tiers. Tier 1 members are those participating in the plan before 9/1/2008, Tier 2 are those that began participation 9/1/2008 through 12/31/2013 and Tier 3 are those members that began participation on or after 1/1/14.

Non-Hazardous- Tier 1 members are eligible to retire with an unreduced benefit at age 65 with four years of service credit or after 27 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation, which must contain at least 48 months. Reduced benefits for early retirement are available at age 55 and vested or 25 years of service credit. Members vest with five years of service credit. Service related disability benefits are provided after five years of service. Tier 2 members are eligible to retire based on the rule of 87: the member must be at least age 57 and age + earned service must equal 87 years at retirement or at age 65 with five years of service credit. Benefits are determined by a formula using the member's highest five consecutive year average compensation, which must be 60 months. Reduced benefits for early retirement are available at age 60 with 10 years of service. Tier 3 members are also eligible to retire based on the rule of 87. Benefits are determined by a life annuity calculated in accordance with actuarial assumptions and methods adopted by the board based on a members accumulated account balance. Tier 3 members are not eligible for reduced retirement benefits.

Hazardous- Tier 1 members are eligible to retire with an unreduced benefit at age 55 with five years of service credit or after 20 years of service credit regardless of age. Benefits are determined by a formula using the member's highest three consecutive year average compensation, which must have at least 24 months. Reduced benefits for early retirement are available at age 50 with 15 years of service credit. Tier 2 members are eligible to retire at any age with 25 years of service or at age 60 with 5 years of service credit. Benefits are determined by a formula using the member's highest three consecutive year average compensation, which must be 36 months. Reduced benefits for early retirement are available at age 50 with 15 years of service. Tier 3 members are also eligible to retire at any age with 25 year of service or at age 60 with 5 years of service. Tier 3 members are not eligible for reduced retirement benefits.

Contributions- Contributions for employees are established in the statutes governing the KRS and may only be changed by the Kentucky General Assembly. Non-Hazardous employees contribute 5% and Hazardous employees contribute 8% of salary if they were plan members prior to September 1, 2008. Non-Hazardous and Hazardous employees that entered the plan after September 1, 2008, are required to contribute 6% and 9%, respectively, of their annual creditable compensation. The additional 1% is deposited to an account created for the payment of health

insurance benefits under 26 USC Section 401(h) in the Pension Fund. The City makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2015, total employer contributions for the City were \$325,206 based on a rate of 17.67% for Non-Hazardous and 34.33% for Hazardous members through covered payroll. The contribution rate of 17.67% for Non-Hazardous comprised of contributions of \$91,440. The contribution rate of 34.33% for Hazardous comprised contributions of \$233,766. Princeton Water and Wastewater contributions were \$163,512 based on the non-hazardous rate of 17.67%.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

10 PENSION PLAN (continued)

Pension liability. At June 30, 2015, the City of Princeton reported a liability of \$2,097,637 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions to the pension plan during the year ended June 30, 2014, relative to the contributions of all members for the year ended June 30, 2014. At the June 30, 2014 measurement date, City's non-hazardous and hazardous proportion was 0.023468% and .111185% respectively. No update procedures were used to determine the total pension liability. An expected total pension liability is determined as of July 1, 2013, using standard roll back techniques. The roll back calculation subtracts the annual normal cost (also called the service cost), adds the actual benefit payments and refunds for the plan year and then applies the expected investment rate of return for the year. The procedure was used to determine the total pension liability as of July 1, 2013, are shown for CERS submitted on November 17, 2014. Princeton Water and Wastewater reported a net pension liability of \$1,224,123.

Pension expense. For the year ended June 30, 2015, the City recognized a pension expense of \$219,737. Princeton Water and Wastewater recognized pension expense of \$98,000.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2015, The City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

10 PENSION PLAN (continued)

City of Princeton, Kentucky:	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Change of assumptions	-	-
Net difference between projected and actual earnings on plan investments	-	173,126
Employer contributions subsequent to the Measurement Date	<u>325,206</u>	<u>-</u>
	<u>\$ 325,206</u>	<u>\$ 173,126</u>
Princeton Water and Wastewater:		
Differences between expected and actual experience	\$ -	\$ -
Change of assumptions	-	-
Net difference between projected and actual earnings on plan investments	-	95,486
Employer contributions subsequent to the Measurement Date	<u>134,426</u>	<u>-</u>
	<u>\$ 134,426</u>	<u>\$ 95,486</u>

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

Amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	City of Princeton, Kentucky	Princeton Water & Wastewater
2016	\$ (43,281)	\$ (23,872)
2017	(43,281)	\$ (23,872)
2018	(43,281)	\$ (23,871)
2019	(43,283)	\$ (23,871)

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

10 PENSION PLAN (continued)

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

Actuarial assumptions- The total pension liability as of June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5%
Salary increases	4.5 %, average, including inflation
Investment rate of return	7.75 %, net of pension plan investment expense, including inflation

The rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Table for other members. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2014 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2005 through June 30, 2008. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on plan assets is reviewed as part of the regular experience study prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class (See chart below). These were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumptions are intended to be a long term assumptions and are not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

10 PENSION PLAN (continued)

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	30%	8.45%
International Equity	22%	8.85%
Emerging Market Equity	5%	10.50%
Private Equity	7%	1.25%
Real Estate	5%	7.00%
Core U.S. Fixed Income	10%	5.25%
High Yield U.S. Fixed Income	5%	7.25%
Non-U.S. fixed income	5%	5.50%
Commodities	5%	7.75%
TIPS	5%	5.00%
Cash	1%	3.25%
Total	100%	

Discount rate- The discount rate used to measure the total pension liability was 7.75%. The discount rate does not use a municipal bond rate.

Projected cash flows- The projection of the cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 29-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. Projected future benefit payments for all current plan members were projected through 2116.

Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate- The following presents the net pension liability of the City, calculated using the discount rate of percent, as well as what the system's net pension liability would be if it were calculated using a discount rate that is 1- percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate for non-hazardous:

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

10 PENSION PLAN (continued)

	1% Decrease	Discount Rate	1% Increase
City of Princeton's net pension liability:	(6.75%)	(7.75%)	(8.75%)
Hazardous	\$ 1,748,026	\$ 1,336,247	\$ 992,517
Non-Hazardous	1,001,938	761,390	548,860
Total	<u>\$ 2,749,964</u>	<u>\$ 2,097,637</u>	<u>\$ 1,541,377</u>
Princeton Water and Wasterwater's net pension liability	<u>\$ 1,610,881</u>	<u>\$ 1,224,123</u>	<u>\$ 882,438</u>

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

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:

	June 30, 2015
Vacation Pay	\$ 65,175
Sick Pay	32,868
	<u>\$ 98,043</u>

Princeton Water and Wastewater –

The Commission has adopted a vacation policy whereby employees can carry over no more than 40 unused and accrued vacation hours annually. In order to accommodate those employees having greater balances in accrued but unused vacation time, the Commission allows employees to request payment for a maximum of 5 days during any one calendar year. As of June 30, 2015 the liability for accrued vacation was \$10,480.

Employees accrue 6 days of sick pay per calendar year in addition to 6 days of medical leave. Medical leave is to be used when an employee or close family member has an illness that lasts for 3 or more days. At the end of the calendar year, all unused sick time will be transferred to the employee's medical leave account. Upon termination, for any reason other than retirement, an employee's accumulated and unused sick and medical leave is forfeited. If, upon an employee's approved retirement, he or she has unused and accumulated sick and medical leave that is greater than or equal to 25% of the possible number of sick and medical leave hours to which they have been entitled during their tenure, then, upon retirement, they shall be paid a lump sum amount equal to 50% x their daily wage rate in effect at that time.

It is impracticable to estimate the amounts of compensation for future medical leave, and accordingly, no liability has been recorded in the accompanying financials statements. The Commission's policy is to

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

11 COMPENSATED ABSENCES (continued)

recognize the cost of compensated medical leave when actually paid to an employee and to budget for anticipated lump sum payouts in the applicable to the proposed retirement.

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, 2015 were as follows:

	<u>Interfund Payables</u>	<u>Interfund Receivables</u>
General	\$ 119,214	\$ 430,163
Municipal Road Aid	150,000	-
Cemetery Maintenance	5,358	66,875
Other Funds	274,805	52,339
Total	<u>\$ 549,377</u>	<u>\$ 549,377</u>

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

17 INTERFUND TRANSFERS

Interest earned in the cemetery permanent fund is recognized as general fund interest because it is not restricted. The amount is treated as an interfund transfer is from cemetery permanent fund to general fund in the amount of \$1,452.

18 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.

19 EXCESS OF EXPENDITURES OVER BUDGET

At June 30, 2015, Princeton Water and Wastewater had expenditures in funds that exceeded the budget; however, this does not constitute a violation of any legal provision.

20 PRIOR PERIOD ADJUSTMENT

Fund Financial Statements-

City of Princeton, Kentucky – Forgivable mortgages receivable was overstated in the prior year by the inclusion of one mortgage receivable that was dated in fiscal year ended June 30, 2015. The amount of the overstatement was \$78,975.

Government-wide Financial Statements –

City of Princeton, Kentucky - Pursuant to GASB 68, proportionate Net Pension Liability is required to be recorded in the financial statements of each contributing member of the Kentucky Retirement System pension plans. For the year ended June 30, 2014 the amount that was required to be recorded was \$2,130,001. This amount is a decrease in Beginning Fund Balance. Previously issued financial statements have not been restated, as this adjustment is not required to be made retrospectively.

20 PRIOR PERIOD ADJUSTMENT (continued)

Princeton Water and Wastewater - Pursuant to GASB 68, proportionate Net Pension Liability is required to be recorded in the financial statements of each contributing member of the Kentucky Retirement

System pension plans. For the year ended June 30, 2014 the amount that was required to be recorded was \$1,221,610. This amount is a decrease in Beginning Fund Balance. Previously issued financial statements have not been restated, as this adjustment is not required to be made retrospectively.

21 SUBSEQUENT EVENT

As of June 30, 2015 Princeton Water and Wastewater was approved for a loan from USDA. The conditional approval was issued for a total project of \$3,502,500. Plans are for the USDA to finance 70% of the project (\$2,739,000) at 2.625% over a 40-year term. A grant in the maximum amount of \$763,500 will fund the balance of the project. No funds of the Princeton Water and Wastewater Commission are 21

**CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

21 SUBSEQUENT EVENT (continued)

required to be contributed. The proceeds of the loan will be used for water system improvements and to pay off an existing Kentucky Infrastructure Authority Loan.

CITY OF PRINCETON, KENTUCKY
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget (GAAP Basis) and Actual (Unaudited)
For the year ended June 30, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 2,208,600	\$ 2,195,900	\$ 2,218,064	\$ 22,164
Licenses and permits	524,300	524,500	524,637	137
Intergovernmental revenues	127,750	118,450	111,606	(6,844)
Charges for services	95,800	75,000	81,519	6,519
Rental income	18,000	15,500	14,845	(655)
Interest income	4,000	4,000	1,110	(2,890)
Miscellaneous income	15,750	10,750	14,038	3,288
	<u>2,994,200</u>	<u>2,944,100</u>	<u>2,965,819</u>	<u>21,719</u>
Expenditures:				
Current:				
General government	580,100	548,300	454,789	93,511
Public works	820,700	750,200	733,260	16,940
Public safety	1,463,800	1,432,000	1,458,864	(26,864)
Health and welfare	11,500	11,500	246,070	(234,570)
Culture and recreation	26,000	77,200	80,322	(3,122)
Capital Outlay	102,000	138,300	76,078	62,222
Debt service:				
Principal	90,100	90,100	80,000	10,100
Interest and fees	-	-	10,092	(10,092)
Total expenditures	<u>3,094,200</u>	<u>3,047,600</u>	<u>3,139,475</u>	<u>(91,875)</u>
Excess of revenues over (under) expenditures	<u>(100,000)</u>	<u>(103,500)</u>	<u>(173,656)</u>	<u>(70,156)</u>
Other financing sources (uses):				
Gain (Loss) from the sales of assets	-	-	3,404	3,404
Transfers from other funds	100,000	103,500	1,452	(102,048)
Total other financing sources (uses)	<u>100,000</u>	<u>103,500</u>	<u>4,856</u>	<u>(98,644)</u>
Excess of revenues and other sources Over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (168,800)</u>	<u>\$ (168,800)</u>
Fund balances, beginning of year, restated			<u>1,865,974</u>	
Fund balances, end of year			<u>\$ 1,697,174</u>	

CITY OF PRINCETON, KENTUCKY
Municipal Road Aid
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget (GAAP Basis) and Actual (Unaudited)
For the year ended June 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Intergovernmental revenues	\$ 150,200	\$ 150,000	\$ 145,488	\$ (4,512)
Interest income	<u>-</u>	<u>300</u>	<u>366</u>	<u>66</u>
Total revenues	<u>150,200</u>	<u>150,300</u>	<u>145,854</u>	<u>(4,446)</u>
Expenditures:				
Current:				
Public works	150,000	150,000	191,120	(41,120)
Reserves for contingencies	<u>200</u>	<u>300</u>	<u>-</u>	<u>300</u>
Total expenditures	<u>150,200</u>	<u>150,300</u>	<u>191,120</u>	<u>(40,820)</u>
Excess of revenues and other sources				
Over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	(45,266)	<u>\$ (45,266)</u>
Fund balances, beginning of year			<u>328,404</u>	
Fund balances, end of year			<u>\$ 283,138</u>	

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
COUNTY EMPLOYEE RETIRMENT SYSTEM OF THE KRS (Unaudited)
LAST TEN FISCAL YEARS

	City of Princeton	Princeton Water and Wastewater
Total net pension liability(asset) for Employees Retirement System	\$ 4,446,202,000	\$ 4,446,202,000
City of Princeton, Kentucky's proportion of the net pension liability	0.023468%	0.037731%
City of Princeton, Kentucky's proportionate share of the net pension liability	\$ 2,097,637	\$ 1,224,123
City of Princeton, Kentucky's covered-employee payroll	\$ 1,102,773	\$ 775,239
City of Princeton, Kentucky's proportionate share of the net pension liability as a percentage of	190.21%	157.90%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	66.80%

*The amounts presented were determined as of June of the prior fiscal year

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

Purpose is to provide information that serves as a surrogate for the funding progress of the plan.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
COUNTY EMPLOYEE RETIREMENT SYSTEM OF THE KRS (Unaudited)
LAST TEN FISCAL YEARS

City of Princeton:	2014	2015
Actuarially Determined Contribution (ADC)	\$ 302,745	\$ 325,206
Contribution in relation to the actuarially determined contribution	<u>302,745</u>	<u>325,206</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 1,102,773	\$ 1,198,823
Contributions as a percentage of covered-employee payroll	27.45%	27.13%
 Princeton Water and Wastewater:		
Actuarially Determined Contribution (ADC)	\$ 163,512	\$ 134,426
Contribution in relation to the actuarially determined contribution	<u>163,512</u>	<u>134,426</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 775,239	\$ 769,604
Contributions as a percentage of covered-employee payroll	21.09%	17.47%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retrospectively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

CITY OF PRINCETON, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION (Unaudited)

Notes Related to Schedule of Proportionate Share of the Net Pension Liability – County Employee Retirement System

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

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tiered Structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

2014: A cash balance plan was introduced for members whose participation date is on or after January 1, 2014.

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

2006: The assumptions were updated as the result of an experience study for the five year period ending June 30, 2005.

2007: Amortization bases have been combined and will be amortized over a single 30 year closed period beginning June 30, 2007.

2009: The assumptions were updated as the result of an experience study for the three year period ending June 30, 2008.

2013: The amortization period of the unfunded accrued liability was reset to a closed 30 year period.

Notes Related to the Schedule of Contributions – County Employee Retirement System

Method and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2014 and 2015, determined as of July 1, 2013. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation	5-year smoothed market
Inflation	3.5 percent
Salary increases	4.5 percent, average, including inflation
Investment Rate of Return	7.75 percent, net of pension plan investment expense, including inflation



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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 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 units, each major fund, and the aggregate remaining fund information of the City of Princeton, Kentucky, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Princeton, Kentucky's basic financial statements, and have issued our report thereon dated January 31, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the City of Princeton, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Princeton, Kentucky's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

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, PLLC

Princeton, Kentucky

January 31, 2017