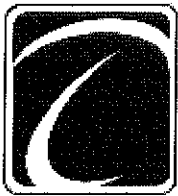


CITY OF PRINCETON, KENTUCKY
FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
YEAR ENDED JUNE 30, 2016
AND
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

CITY OF PRINCETON, KENTUCKY
FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
Year Ended June 30, 2016

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THURMAN CAMPBELL GROUP, PLC
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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, 2016, 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 units, each major fund, and the aggregate remaining fund information of the City of Princeton, Kentucky, as of June 30, 2016, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Government 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. Our opinion on the basic financial statements is not affected by the missing information.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, the schedule of proportionate share of the net pension liability and the schedule of contributions on pages 37-42 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 September 5, 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

Princeton, Kentucky

September 5, 2017

CITY OF PRINCETON, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2016

	Primary Government Governmental Activities	Component Unit
ASSETS		
Current assets:		
Cash	\$ 2,121,778	\$ 1,003,252
Investments	123,777	-
Prepaid expense	125	-
Receivables, net	241,596	462,404
Inventory	-	291,988
Total current assets	<u>2,487,276</u>	<u>1,757,644</u>
Non-current assets:		
Restricted cash	45,102	308,094
Capital assets:		
Nondepreciable assets	289,361	125,964
Buildings and equipment, net of depreciation	<u>3,237,130</u>	<u>14,377,259</u>
Total non-current assets	<u>3,571,593</u>	<u>14,811,317</u>
Total assets	<u>6,058,869</u>	<u>16,568,961</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred expenses of Community Development		
Block Grant	417,038	-
Deferred outflows related to pensions	<u>768,674</u>	<u>254,804</u>
Total deferred outflows of resources	<u>1,185,712</u>	<u>254,804</u>
LIABILITIES		
Current liabilities:		
Accounts payable-trade	177,188	13,757
Pension benefits payable	6,518	-
Customer deposits	-	98,794
Accrued liabilities	67,197	136,910
Current maturities of long-term debt	<u>85,000</u>	<u>190,878</u>
Total current liabilities	<u>335,903</u>	<u>440,339</u>
Non-current liabilities:		
Compensated absences	91,179	11,435
Long-term debt	49,584	2,816,250
Net pension liability	<u>2,988,580</u>	<u>1,395,192</u>
Total non-current liabilities	<u>3,129,343</u>	<u>4,222,877</u>
Total liabilities	<u>3,465,246</u>	<u>4,663,216</u>
DEFERRED INFLOWS OF RESOURCES:		
Deferred ABC revenue	8,462	-
Related to pensions	<u>33,218</u>	<u>136,190</u>
Total deferred inflows of resources	<u>41,680</u>	<u>136,190</u>
NET POSITION		
Net investment in capital assets	3,391,907	11,496,095
Restricted for:		
Debt service		209,300
Other purpose (expendable)	531,514	-
Other purpose (nonexpendable)	831,229	-
Unrestricted	<u>(1,016,995)</u>	<u>318,964</u>
Total net position	<u>\$ 3,737,655</u>	<u>\$ 12,024,359</u>

CITY OF PRINCETON, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

		Program Revenues				
		Charges	Operating	Capital	Net	Component
	Expenses	for	Grants	Grants	(Expense)	Units
		Services	and	and	Revenue	
			Contributions	Contributions		
Government activities:						
General government	\$ 567,838	\$ 34,977	\$ -	\$ 2,674	\$ (530,187)	\$ -
Public works	1,000,664	35,099	173,816	-	(791,749)	-
Public safety	1,910,370	61,913	69,530	-	(1,778,927)	-
Health and welfare	140,688	-	2,000	-	(138,688)	-
Culture and recreation	73,759	-	-	15,765	(57,994)	-
Interest on long-term debt	7,492	-	-	-	(7,492)	-
Total government activities	3,700,811	131,989	245,346	18,439	(3,305,037)	-
Total primary government	<u>\$ 3,700,811</u>	<u>\$ 131,989</u>	<u>\$ 245,346</u>	<u>\$ 18,439</u>	<u>(3,305,037)</u>	<u>-</u>
Component unit:						
Princeton Water and Wastewater	<u>\$ 3,207,161</u>	<u>\$ 3,329,993</u>	<u>\$ -</u>	<u>\$ 34,231</u>		157,063
General revenues:						
Taxes					2,437,921	-
Licenses and permits					712,029	-
Unrestricted investment earnings					2,445	446
Restricted investment earnings					5,869	-
Gain/(Loss) on sale of asset					2,935	(1,428)
Donation to permanent fund					20,000	
Miscellaneous					9,290	-
Total general revenues					<u>3,190,489</u>	<u>(982)</u>
Change in net position					<u>(114,548)</u>	<u>156,081</u>
Net position, beginning, previously reported					3,996,101	11,946,975
Prior period adjustment (Note 20)					<u>(143,898)</u>	<u>(78,697)</u>
Net position, beginning restated					3,852,203	11,868,278
Net position, ending					<u>\$ 3,737,655</u>	<u>\$ 12,024,359</u>

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

CITY OF PRINCETON, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2016

	Major Funds				
		Special Revenue	Permanent	Other	Total
	General	Municipal Road Aid	Cemetery Maintenance	Governmental Funds	Governmental Funds
<u>ASSETS</u>					
Cash	\$ 1,032,653	\$ 475,443	\$ 140,079	\$ 473,603	\$ 2,121,778
Investments	-	-	123,777	-	123,777
Receivables					
Taxes, net	10,612	-	-	-	10,612
Accounts	148,872	14,424	-	26,238	189,534
Prepaid expense	-	-	-	125	125
Note receivable	41,450	-	-	-	41,450
Due from other funds	528,846	11,888	69,016	65,639	675,389
Restricted cash	45,102	-	-	-	45,102
Total Assets	<u>1,807,535</u>	<u>501,755</u>	<u>332,872</u>	<u>565,605</u>	<u>3,207,767</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>					
Deferred expenses of Community Development Block Grant	417,038	-	-	-	417,038
Total assets and deferred outflows of resources	<u>\$ 2,224,573</u>	<u>\$ 501,755</u>	<u>\$ 332,872</u>	<u>\$ 565,605</u>	<u>\$ 3,624,805</u>
<u>LIABILITIES</u>					
Liabilities					
Accounts payable-trade	\$ 176,843	\$ -	\$ -	\$ 345	\$ 177,188
Pension benefits payable	6,518	-	-	-	6,518
Compensated absences	91,179	-	-	-	91,179
Accrued liabilities	62,415	-	-	-	62,415
Due to other funds	134,655	225,000	5,358	310,376	675,389
Total Liabilities	<u>471,610</u>	<u>225,000</u>	<u>5,358</u>	<u>310,721</u>	<u>1,012,689</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>					
Unavailable revenue	22,817	-	-	-	22,817
<u>FUND BALANCES</u>					
Nonspendable:					
Note Receivable	41,450	-	-	-	41,450
Forgivable Mortgage	417,038	-	-	-	417,038
Permanent Fund Corpus	45,102	-	327,514	-	372,616
Prepaid Expenses	-	-	-	125	125
Restricted	-	276,755	-	254,759	531,514
Committed	38,861	-	-	-	38,861
Unassigned	1,187,695	-	-	-	1,187,695
Total Fund Balances	<u>1,730,146</u>	<u>276,755</u>	<u>327,514</u>	<u>254,884</u>	<u>2,589,299</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,224,573</u>	<u>\$ 501,755</u>	<u>\$ 332,872</u>	<u>\$ 565,605</u>	<u>\$ 3,624,805</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, 2016

Total fund balances per fund financial statements \$ 2,589,299

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. 3,526,491

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. 9,573

Certain long-term obligations are not due and payable in the current period and therefore are not reported in the funds.

Debt obligations	(134,584)
Net pension liability	(2,988,580)
Deferred outflows related to pensions	768,674
Deferred inflows related to pensions	<u>(33,218)</u>
Subtotal	<u>(2,387,708)</u>

Net position for governmental activities \$ 3,737,655

CITY OF PRINCETON, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2016

	Major Funds				
		Special Revenue	Permanent	Other	Total
	General	Municipal Road Aid	Cemetery Maintenance	Governmental Funds	Governmental Funds
REVENUES					
Taxes	\$ 2,241,840	\$ -	\$ -	\$ 189,140	\$ 2,430,980
Licenses and permits	712,029	-	-	6,332	718,361
Intergovernmental revenues	38,685	121,928	-	87,450	248,063
Charges for services	106,179	-	2,141	1,606	109,926
Rental income	15,270	-	-	-	15,270
Interest income	1,929	426	4,597	97	7,049
Increase (Decrease) in fair market value of investments	-	-	1,272	-	1,272
Miscellaneous income	9,453	-	20,000	16,015	45,468
Total revenues	3,125,385	122,354	28,010	300,640	3,576,389
EXPENDITURES					
Current:					
General government	455,698	-	-	2,542	458,240
Public works	791,015	128,737	235	16,458	897,662
Public safety	1,477,257	-	-	178,137	1,655,394
Health and welfare	155,688	-	-	-	155,688
Culture and recreation	50,209	-	-	16,550	66,759
Capital outlay	77,467	-	-	69,666	185,916
Debt service:					
Principal	82,083	-	-	-	82,083
Interest and fees	7,492	-	-	-	7,492
Total expenditures	3,096,909	128,737	235	283,353	3,509,234
Excess of revenues over (under) expenditures	28,476	(6,383)	27,775	17,287	67,155
OTHER FINANCING SOURCES (USES)					
Gain (Loss) from the sale of assets	2,935	-	-	-	2,935
Transfers from other funds	3,561	-	-	2,000	5,561
Transfers to other funds	(2,000)	-	(3,561)	-	(5,561)
Net other financing sources (uses)	4,496	-	(3,561)	2,000	2,935
Net changes in fund balances	32,972	(6,383)	24,214	19,287	70,090
Fund balances, beginning as previously reported	1,697,174	283,138	303,300	220,491	2,504,103
Prior period adjustment (Note 20)	-	-	-	15,106	15,106
Fund balances, beginning, restated	1,697,174	283,138	303,300	235,597	2,519,209
Fund balances, ending	\$ 1,730,146	\$ 276,755	\$ 327,514	\$ 254,884	\$ 2,589,299

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, 2016

Net change in total fund balances per fund financial statements	\$	70,090
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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 (\$311,011), gain on disposals (\$2,935) and capital expenditures \$185,916 is shown at right.		(128,030)
--	--	-----------

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.		82,083
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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.		(148,264)
--	--	-----------

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 \$421.		<div style="border-top: 1px solid black; text-align: right;">9,573</div>
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Change in net position of governmental activities	\$	<div style="border-top: 1px solid black; border-bottom: 3px double black; text-align: right;">(114,548)</div>
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CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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, 2016.

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, 2016 can be found in Note 6.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Excluded from the reporting entity:

Princeton Board of Adjustment

Princeton Planning Commission

These units have no assets, liabilities and fund equity at June 30, 2016, and had no material financial activities for the year then ended.

The accounts of the Pennyryle Emergency Operations Center are excluded from the accompanying financial statements because the Center is an autonomous agency, operated as a joint venture supported by various local governmental entities. The City presently contributes to the Center's operations; however, the City has no responsibility for financing deficits. During the year ending June 30, 2016, the city provided funding in the amount of \$130,000.

The accounts of the Princeton Electric Plant Board and the Housing Authority of Princeton have been excluded from the city's financial statements as a 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, receivables and deferred outflows, as well as long-term debt obligations and deferred inflows. 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 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.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Dotson Park Fund - This fund is established to improve and maintain Dotson Park. A board appointed by the mayor oversees expenditures of the fund.

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 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.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$220,105 at June 30, 2016.

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, 2016 that balance was \$16,478.

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.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2016 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.

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”.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2016, fund balance components consist of the following:

	<u>Nonspendable</u>	<u>Restricted</u>	<u>Committed</u>	<u>Unassigned</u>
General fund	\$ 503,590	\$ -	\$ 38,861	\$ 1,187,695
MRA fund	-	276,755	-	-
Permanent fund	327,514	-	-	-
Other funds	125	254,759	-	-
Totals	<u>\$ 831,229</u>	<u>\$ 531,514</u>	<u>\$ 38,861</u>	<u>\$ 1,187,695</u>

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

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.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Pronouncements –

Effective for the fiscal year ending June 30, 2016, the City adopted the GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.

The objective of GASB Statement No. 76 is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes GASB Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.

Effective for the fiscal year ending June 30, 2016, the City adopted the GASB Statement No. 72, Fair Value Measurement and Application.

The GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for applying fair value to certain investments and disclosures related to all fair value measurement. There is no effect of the Statement on the City’s beginning net position/fund balance.

The GASB Statement No. 72 requires measurement at acquisition value (an entry price) for donated capital assets, donated works of art, historical treasures, and similar assets and capital assets received in a service concession arrangement. These assets were previously required to be measured at fair value.

2 DEPOSITS AND INVESTMENTS

Deposits –

The City maintains cash balances at various financial institutions. The Federal Depositary Insurance Corporation (FDIC) currently insures the first \$250,000 of the City’s deposits at each financial institution. State statutes require that all deposits with financial institutions must be secured by FDIC, or by collateral held by the financial institution in the City’s name.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City’s deposit policy does not address custodial credit risk.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

2 DEPOSITS AND INVESTMENTS (continued)

As of June 30, 2016, the carrying amount of City's deposits was \$2,290,657 and the bank balance of \$2,291,601 was categorized as follows:

Insured by FDIC	\$ 961,953
Insured by SIPC	123,777
Uninsured and collateralized with securities held by the pledging financial institution	1,205,871
Uninsured and uncollateralized	<u>-</u>
Total	<u>\$ 2,291,601</u>

As of June 30, 2016, the carrying amount of the Princeton Water and Wastewater Commission's deposits was \$1,311,346 and the bank balance of \$1,003,970 was categorized as follows:

Insured by FDIC	\$ 375,000
Uninsured and collateralized with securities held by the pledging financial institution	1,003,970
Total	<u>\$ 1,378,970</u>

Investments-

The City's investment policy authorizes the City to make deposits/invest in all investments allowed by Kentucky Revised Statutes (KRS) 66.480. These include deposits/investments in:

- (a) Obligations of the U.S. Treasury, agencies, and instrumentalities.
- (b) Bond or certificates of indebtedness of the State of Kentucky.
- (c) Savings and loan associations insured by the U.S. Government.
- (d) Interest bearing deposit 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.

The City, through an individual's estate bequest, received mutual funds. While not in compliance with KRS 66.480, the City's investment policy allows investments to be held in non-compliant accounts (like mutual funds) when the funds are received through a bequest until it is fiscally prudent to be converted to compliant accounts. The City categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Market risk could occur and is dependent on the future changes in market prices of the various investments held.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

2 DEPOSITS AND INVESTMENTS (continued)

There were no changes in valuation techniques in the year ended June 30, 2016. Fair value measurements for investments reported at fair value on a recurring basis at June 30, 2016 were:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mutual Funds:				
Loomis Sayles Term Govt & Agency	\$ 49,239	\$ 49,239		
JPMorgan Trust II Core Bond Fund	28,823	28,823		
JPMorgan Trust II Govt Fund Class A	45,715	45,715		
Total mutual funds	123,777	123,777	-	-
Certificates of Deposits	500,000	-	500,000	-
Total Investments	<u>\$ 747,554</u>	<u>\$ 247,554</u>	<u>\$ 500,000</u>	<u>\$ -</u>

*Subject to coverage by FDIC

Level 1:

Mutual funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for these securities.

Level 2 or 3:

Certificates of Deposit classified in Level 2/3 of the fair value hierarchy, are valued using matrix pricing techniques maintained by various pricing vendors. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

GASB 40 is designed to inform financial statement users about the deposit and investment risks that could affect a government's ability to provide services and meet its obligations as they become due. The City recognizes its investments may have one or more of the following risks:

1. Custodial credit risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value if its investment or collateral securities that are in the possession of an outside party. The City does not have an investment policy for custodial credit risk. The City does not hold any uninsured or unregistered securities at June 30, 2016.
2. Credit risk: Credit risk is the risk that an issuer of debt securities will not fulfill its obligations. The City has no investment policy that would limit its investment choices due to credit risk. Certificates of deposits are unrated. The City's investments subject to credit risk are rated as follows:

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

2 DEPOSITS AND INVESTMENTS (continued)

	Loomis Sayles LTD Term Govt & Agency	JPMorgan Trust II Core Bond Fund	JPMorgan Trust II Govt Fund Class A
AAA	\$ 46,383	\$ 17,297	\$ 37,013
AA		1,302	1,938
A		3,268	
BBB		4,541	
BB		183	
B		46	
Below B		86	
Unrated		1,947	3,263

3. Concentration of credit risk: Concentration of credit risk is the risk of a loss attributed to the magnitude of an entity's investment in a single issuer. The City places no limit on the amount the City may invest in any one issuer. Approximately 67% of the City's investments were in certificates of deposits and the rest were in mutual funds.

4. Interest rate risk: Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Interest rate risk is evaluated by the maturity of investments held in the portfolio. Interest rate risk is evaluated as follows:

Bond Maturities	Loomis Sayles LTD Term Govt &	JPMorgan Trust II Core Bond Fund	JPMorgan Trust II Govt Fund Class A	Certificates of Deposits
1-3 years	\$ 5,436	\$ 2,446	\$ 3,331	\$ 500,000
3-5 years	\$ 8,808	\$ 5,490	\$ 6,623	\$ -
5-7 years	\$ 4,801	\$ 4,163	\$ 1,174	\$ -
7-10 years	\$ 1,786	\$ 3,764	\$ 7,012	\$ -
10-15 years	\$ 1,276	\$ 2,566	\$ 5,910	\$ -
15-20 years	\$ 5,482	\$ 3,065	\$ 4,981	\$ -
20-30 years	\$ 3,813	\$ 4,559	\$ 10,460	\$ -
Over 30 years	\$ 14,982	\$ 2,618	\$ 2,723	\$ -

The investment income includes net increase or decrease in the fair value of investments.

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.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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, 2016 was \$53,338.

(b) As part of the CDBG Scatter Site Program occurring during the fiscal year ending June 30, 2016, 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, 2016 the balance of the forgivable mortgages was \$417,038. The changes in the City's CDBG receivables for the year ended June 30, 2016 are as follows:

	6/30/2015	Additions	Forgiven	6/30/2016
Total	\$ 550,726	\$ -	\$ (133,688)	\$ 417,038

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

	Balance
2017	133,688
2018	133,688
2019	133,688
2020	15,974
Total	\$ 417,038

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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, 2016:

2017	9,000
2018	9,000
2019	9,000
2020	9,000
2021	9,000
2022-2026	45,000
2027-2031	45,000
2032-2036	45,000
2037-2040	36,000
Total	<u>\$ 216,000</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, 2016

5 CAPITAL ASSETS

Capital asset activity for the City of Princeton year ended June 30, 2016, was as follows:

	Balance 6/30/2015	Additions	Retirements	Balance 6/30/2016
Capital assets being depreciated:				
Buildings & improvements	\$ 2,528,004	\$ 21,274	\$ -	\$ 2,549,278
Equipment	3,112,975	164,642	61,237	3,216,380
Infrastructure	1,056,660	-	-	1,056,660
Subtotal	<u>6,697,639</u>	<u>185,916</u>	<u>61,237</u>	<u>6,822,318</u>
Less accumulated depreciation:				-
Buildings & improvements	924,237	55,261	-	979,498
Equipment	2,138,800	173,392	22,453	2,289,739
Infrastructure	272,376	43,575	-	315,951
Subtotal	<u>3,335,413</u>	<u>272,228</u>	<u>22,453</u>	<u>3,585,188</u>
Capital assets being depreciated, net	3,362,226	(86,312)	38,784	3,237,130
Capital assets not being depreciated:				
Construction in progress	19,870	-	-	19,870
Land	269,491	-	-	269,491
Subtotal	<u>289,361</u>	<u>-</u>	<u>-</u>	<u>289,361</u>
Capital assets, net	<u>\$ 3,651,587</u>	<u>\$ (86,312)</u>	<u>\$ 38,784</u>	<u>\$ 3,526,491</u>

Government activities- Depreciation

Depreciation Expense:

General Govt	\$ 95,578
Police	44,144
Fire	64,818
Street	27,701
Cemetery	5,268
Alcohol Beverage Control	34,719
Total	<u>\$ 272,228</u>

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

5 CAPITAL ASSETS (Continued)

Capital asset activity for Princeton Water and Wastewater for the year ended June 30, 2016 was as follows:

	6/30/2015	Additions	Deletions	6/30/2016
Capital assets not being depreciated:				
Land	\$ 16,500	\$ -	\$ -	\$ 16,500
Construction in progress	109,464	-	-	109,464
Total capital assets not being depreciated	125,964	-	-	125,964
Capital assets being depreciated:				
Building and Improvements	305,825	33,664	-	339,489
Water plant and distribution	9,007,718	44,337	2,660	9,049,395
Sewer plant and lines	18,102,398	211,430	-	18,313,828
Water tanks	2,470,169	-	-	2,470,169
Vehicles	218,077	32,500	-	250,577
Tools and equipment	549,257	89,599	150,607	488,249
Office furniture and fixtures	152,269	-	-	152,269
Total capital assets being depreciated	30,805,713	411,530	153,267	31,063,976
Less accumulated depreciation:				
Building and improvements	165,955	9,313	-	175,268
Water plant and distribution	4,338,005	223,113	2,755	4,558,363
Sewer plant and lines	10,017,265	440,495	-	10,457,760
Water tanks	867,431	57,151	-	924,582
Vehicles	135,563	25,919	-	161,482
Tools and equipment	392,887	22,340	149,178	266,049
Office furniture and fixtures	139,127	4,086	-	143,213
Total accumulated depreciation	16,056,233	782,417	151,933	16,686,717
Business type capital assets, net	<u>\$ 14,875,444</u>	<u>\$ (370,887)</u>	<u>\$ 1,334</u>	<u>\$ 14,503,223</u>

Depreciation charged to income was \$782,417 for the year ending June 30, 2016.

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. \$159,241 was paid to PEPB for utility service during the fiscal year.

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. \$6,642 was paid to PWW for utility service during the fiscal year.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

6 RELATED PARTY TRANSACTIONS (Continued)

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, 2016.

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 \$25,000 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 \$130,000 in funding during the fiscal year.

There were no amounts due to or from related parties at June 30, 2016.

7 COMPONENT UNIT SPECIAL FUNDS

Special funds consist of the following:

KIA Loan dated November 1, 2000	64,000
Rural Development Loan dated June 30, 2002	113,400
AARA Loan 09-11 dated December 1, 2010	27,500
Fund B #10-06	4,400
	<u>\$ 209,300</u>

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

The City of Princeton, Kentucky Water and Sewer Revenue Bonds – Series 2000 requires that the Utility establish a Sinking Fund Reserve in an amount not less than the maximum amount of principal and interest requirements falling due in any twelve-month period on all of the outstanding bonds. At June 30, 2016, 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, 2016.

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.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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, 2016. 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, 2016 was \$91,643. Assets available for retirement of this liability and the accrued interest described above are \$103,570 at June 30, 2016 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 \$555,000 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 \$555,000 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, 2016 are as follows:

	<u>6/30/2015</u>	<u>Additions</u>	<u>Repayments</u>	<u>6/30/2016</u>	<u>Current</u>
Compensated absences	\$ 98,043	\$ -	\$ 6,864	\$ 91,179	\$ -
KBCF \$550,000 lease	<u>216,667</u>	<u>-</u>	<u>82,083</u>	<u>134,584</u>	<u>85,000</u>
Total	<u>\$ 314,710</u>	<u>\$ -</u>	<u>\$ 88,947</u>	<u>\$ 225,763</u>	<u>\$ 85,000</u>

Interest expense for the year was \$7,492.

Assets acquired through capital leases are as follows:

<u>Asset</u>	<u>Public Safety</u>
Machinery & Equipment	\$ 652,692
Less: Accumulated Depreciation	<u>(222,510)</u>
Total	<u>\$ 430,182</u>

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

9 LONG-TERM DEBT (continued)

Annual aggregate maturities of the City's debt for the years subsequent to June 30, 2016 are as follows:

	Total		
	Principal	Interest	Total
2017	85,000	4,824	89,824
2018	49,584	1,874	51,458
	<u>\$ 134,584</u>	<u>\$ 6,698</u>	<u>\$ 141,282</u>

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

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

Princeton Water and Wastewater (Utility)–

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

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

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

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

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.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

9 LONG-TERM DEBT (Continued)

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. This loan has been conditionally approved by the USDA to be refinanced under the planned issue. The first draw of the new loan will be in an amount to retire this obligation.

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

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

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

<u>Business Type Activities:</u>	<u>June 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2016</u>	<u>Current</u>
Compensated absences	\$ 10,480	\$ 955	\$ -	\$ 11,435	\$ -
Debt:					
1) Revenue Bonds - 2000 Series	\$ 1,197,500	\$ -	\$ 26,500	\$ 1,171,000	\$ 28,500
2) KIA	234,126	-	234,126	-	-
3) KIA	697,481	-	82,021	615,460	85,167
4) ARRA #A209-11	418,758	-	25,104	393,654	25,359
5) ARRA #A09-27	541,320	-	32,457	508,863	32,777
6) Fund B #10-06	337,038	-	18,887	318,151	19,075
Subtotal	3,426,223	-	419,095	3,007,128	190,878
Total long-term debt	<u>\$ 3,436,703</u>	<u>\$ 955</u>	<u>\$ 419,095</u>	<u>\$ 3,018,563</u>	<u>\$ 190,878</u>

Total interest expense for the year ended June 30, 2016 was \$92,423.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

9 LONG-TERM DEBT (Continued)

Annual aggregate maturities of the Utility's debt for the years subsequent to June 30, 2016 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	190,878	86,653	277,531
2018	195,419	81,318	276,737
2019	201,593	75,794	277,387
2020	206,905	70,065	276,970
2021	212,861	64,136	276,997
2022-2026	761,191	246,083	1,007,274
2027-2031	640,733	170,706	811,439
2032-2036	309,048	99,663	408,711
2037-2040	288,500	26,607	315,107
	<u>\$ 3,007,128</u>	<u>\$ 921,025</u>	<u>\$ 3,928,153</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.

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.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

10 PENSION PLAN (continued)

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, 2016, total employer contributions for the City were \$305,056 based on a rate of 17.06% for Non-Hazardous and 32.95% for Hazardous members through covered payroll. The contribution rate of 17.06% for Non-Hazardous comprised of contributions of \$99,797 of which 12.42% or \$72,652 was allocated for pension and 4.64% or \$27,145 was allocated for insurance. The contribution rate of 32.95% for Hazardous comprised contributions of \$205,259 of which 20.26% or \$126,214 was allocated for pension and 12.69% or \$79,045 was allocated for insurance. Princeton Water and Wastewater contributions were \$125,601 based on the non-hazardous rate of 17.06%.

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

Pension liability- At June 30, 2016, the City of Princeton reported a liability of \$2,988,580 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2015, relative to the contributions of all members for the year ended June 30, 2015. At the June 30, 2015 measurement date, City's non-hazardous and hazardous proportion was 0.02218% and 0.132561% 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, 2015. Princeton Water and Wastewater reported a net pension liability of \$1,395,192.

Pension expense- For the year ended June 30, 2016, the City recognized a pension expense of \$453,420. Princeton Water and Wastewater recognized pension expense of \$136,340.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

10 PENSION PLAN (continued)

Deferred outflows of resources and deferred inflows of resources- For the year ended June 30, 2016, The City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
City of Princeton, Kentucky:		
Differences between expected and actual experience	\$ 52,123	\$ -
Change of assumptions	272,017	-
Net difference between projected and actual earnings on plan investments	21,328	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	224,344	33,218
Employer contributions subsequent to the Measurement Date	198,862	-
	<u>\$ 768,674</u>	<u>\$ 33,218</u>
Princeton Water and Wastewater:		
Differences between expected and actual experience	\$ 11,595	\$ -
Change of assumptions	140,690	-
Net difference between projected and actual earnings on plan investments	12,506	-
Changes in proportion and differences between employer contributions and proportionate share of contributions		136,190
Employer contributions subsequent to the Measurement Date	90,013	-
	<u>\$ 254,804</u>	<u>\$ 136,190</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 and deferred outflows of resources related to pensions will be recognized in pension expense as follows:

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

10 PENSION PLAN (continued)

City of Princeton, Kentucky			
Year Ended June 30	Outflows (a)	Inflows (b)	Amount Reported (a) + (b)
2017	\$ 134,675	\$ (13,234)	\$ 121,441
2018	134,675	(13,234)	121,441
2019	114,355	(6,750)	107,605
2020	186,107	-	186,107
	<u>\$ 569,812</u>	<u>(33,218)</u>	<u>\$ 536,594</u>

Princeton Water and Wastewater			
Year Ended June 30	Outflows (a)	Inflows (b)	Amount Reported (a) + (b)
2017	\$ 56,453	\$ (54,259)	\$ 2,194
2018	56,453	(54,259)	2,194
2019	26,724	(27,672)	(948)
2020	25,161	-	25,161
	<u>\$ 164,791</u>	<u>\$ (136,190)</u>	<u>\$ 28,601</u>

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

Payable to the pension plan- At June 30, 2016, the City reported a payable of \$6,518 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2016.

Actuarial assumptions- The total pension liability as of June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	4.00%, average, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

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

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

10 PENSION PLAN (continued)

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

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the system. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated August 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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
Combined Equity	44%	5.40%
Combined Fixed Income	19%	1.50%
Real Return (Diversified Inflation Strategies)	10%	3.50%
Real Estate	5%	4.50%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.50%
Cash Equivalent	2%	-0.25%
Total	100%	

Discount rate- The discount rate used to measure the total pension liability was 7.50%. The 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.

Periods of projected benefit payments- Projected future benefit payments for all current plan members were projected through 2117.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

10 PENSION PLAN (continued)

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 (6.50%) or 1-percentage-point higher (8.50%) than the current rate for non-hazardous:

	1% Decrease <u>-6.50%</u>	Discount Rate <u>-7.50%</u>	1% Increase <u>-8.50%</u>
Net pension liability (asset)	\$ 9,880,920	\$ 7,734,446	\$ 5,912,076

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

Net Pension Liability (asset)- June 30, 2016 is the actuarial valuation date upon which the total pension liability is based. No update procedures were used to determine the total pension liability.

11 COMPENSATED ABSENCES

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

	<u>June 30, 2016</u>
Vacation Pay	\$ 59,864
Sick Pay	31,315
	<u>\$ 91,179</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, 2016 the liability for accrued vacation was \$11,435.

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 financial statements. The Commission's policy is to recognize the cost of compensated medical leave when actually paid to an employee and to budget for anticipated lump sum payouts in the applicable to the proposed retirement.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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, 2016 were as follows:

	<u>Interfund Payables</u>	<u>Interfund Receivables</u>
General	\$ 134,655	\$ 528,846
Municipal Road Aid	225,000	-
Cemetery Maintenance	5,358	69,016
Other Funds	310,376	77,527
Total	<u>\$ 675,389</u>	<u>\$ 675,389</u>

17 INTERFUND TRANSFERS

Interest earned in the cemetery permanent fund is recognized as general fund interest because it is not restricted. The amount treated as an interfund transfer is from cemetery permanent fund to general fund in the amount of \$3,561.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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, 2016, 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 – The Dotson Park Board, which was previously omitted, is now included in the audit. The increase in net position is \$15,106.

Government-wide Financial Statements –

Net position was restated at June 30, 2016 as follows:

Inclusion of Dotson Park Board previously omitted from the audit	\$ 15,106
To reflect the change in proportionate share of the net position liability related to the County Employee Retirement System pension plan	<u>(159,004)</u>
Total adjustment to beginning net position	<u>\$ (143,898)</u>

Princeton Water and Wastewater - Pursuant to GASB 68, the net position was restated to reflect the change in proportionate share of the net pension liability related to the County Employee Retirement System pension plan. The net position of the governmental activities was decreased by \$78,697.

21 SUBSEQUENT EVENT

As of June 30, 2016 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 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
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

22 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Excess of expenditures over appropriations- The general fund incurred expenditures in excess of appropriations in the following amounts for the year ended June 30, 2016:

General Fund:

Public safety	18,757
Health and welfare	139,688
Interest expense	<u>7,492</u>
	<u>165,937</u>

The excess expenditures were covered by available fund balance in the funds

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, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 2,202,200	\$ 2,248,100	\$ 2,241,840	\$ (6,260)
Licenses and permits	750,500	712,700	712,029	(671)
Intergovernmental revenues	45,750	36,850	38,685	1,835
Charges for services	83,500	100,900	106,179	5,279
Rental income	16,000	15,750	15,270	(480)
Interest income	4,000	-	1,929	1,929
Miscellaneous income	12,750	20,400	9,453	(10,947)
	<u>3,114,700</u>	<u>3,134,700</u>	<u>3,125,385</u>	<u>(9,315)</u>
Expenditures:				
Current:				
General government	486,300	461,800	455,698	6,102
Public works	813,900	805,500	791,015	14,485
Public safety	1,521,000	1,458,500	1,477,257	(18,757)
Health and welfare	16,000	16,000	155,688	(139,688)
Culture and recreation	38,000	57,700	50,209	7,491
Capital Outlay	146,900	132,300	77,467	54,833
Debt service:				
Principal	89,600	89,600	82,083	7,517
Interest and fees	-	-	7,492	(7,492)
	<u>3,111,700</u>	<u>3,021,400</u>	<u>3,096,909</u>	<u>(75,509)</u>
Excess of revenues over (under) expenditures	<u>3,000</u>	<u>113,300</u>	<u>28,476</u>	<u>(84,824)</u>
Other financing sources (uses):				
Gain (Loss) from the sales of assets	-	-	2,935	2,935
Operating transfers	-	-	-	-
Reserve for contingencies	(3,000)	(113,300)	-	-
Transfers to other funds	-	-	(2,000)	-
Transfers from other funds	-	-	3,561	3,561
	<u>(3,000)</u>	<u>(113,300)</u>	<u>4,496</u>	<u>6,496</u>
Excess of revenues and other sources Over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,972</u>	<u>\$ (78,328)</u>
Fund balances, beginning of year			<u>1,697,174</u>	
Fund balances, end of year			<u>\$ 1,730,146</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, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Intergovernmental revenues	\$ 150,000	\$ 132,600	\$ 121,928	\$ (10,672)
Interest income	200	0	426	426
Total revenues	150,200	132,600	122,354	(10,246)
Expenditures:				
Current:				
Public works	150,000	132,600	128,737	3,863
Reserves for contingencies	200	0	-	-
Total expenditures	150,200	132,600	128,737	3,863
Excess of revenues and other sources				
Over (under) expenditures and other uses	\$ -	\$ -	(6,383)	\$ (6,383)
Fund balances, beginning of year			283,138	
Fund balances, end of year			\$ 276,755	

CITY OF PRINCETON
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
COUNTY EMPLOYEE RETIREMENT SYSTEM OF THE KRS (UNAUDITED)
LAST TEN FISCAL YEARS

City of Princeton:	2016	2015
Total net pension liability (asset) for Employees Retirement Systems	\$ 5,834,631,445	\$ 4,446,202,000
City's proportion of the net pension liability	0.022180%	0.023468%
City's proportionate share of the net pension liability	\$ 2,988,580	\$ 2,097,637
City's covered-employee payroll	\$ 1,207,868	\$ 1,102,773
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	247.43%	190.21%
Plan fiduciary net position as a percentage of the total pension liability	59.35%	66.80%
 Princeton Water and Wastewater:		
Total net pension liability (asset) for Employees Retirement Systems	\$ 4,299,525,565	\$ 4,446,202,000
Commission's proportion of the net pension liability	0.032450%	0.037731%
City's proportionate share of the net pension liability	\$ 1,395,193	\$ 1,224,123
City's covered-employee payroll	\$ 736,232	\$ 775,239
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	189.50%	157.90%
Plan fiduciary net position as a percentage of the total pension liability	59.97%	66.80%

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

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

CITY OF PRINCETON
SCHEDULE OF CONTRIBUTIONS
COUNTY EMPLOYEE RETIREMENT SYSTEM OF THE KRS (UNAUDITED)
LAST TEN FISCAL YEARS

City of Princeton:	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially Determined Contribution (ADC)	\$ 198,862	\$ 207,220	\$ 302,745
Contribution in relation to the actuarially determined contribution	<u>\$ 198,862</u>	<u>\$ 207,220</u>	<u>\$ 302,745</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 1,207,868	\$ 1,198,823	\$ 1,102,773
Contributions as a percentage of covered-employee payroll	16.46%	17.29%	27.45%
 Princeton Water and Wastewater:			
Actuarially Determined Contribution (ADC)	\$ 125,601	\$ 134,426	\$ 163,512
Contribution in relation to the actuarially determined contribution	<u>\$ 125,601</u>	<u>\$ 134,426</u>	<u>\$ 163,512</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 736,232	\$ 769,604	\$ 775,239
Contributions as a percentage of covered-employee payroll	17.06%	17.47%	21.09%

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 THE FINANCIAL STATEMENTS (UNAUDITED)

Notes Related to the Schedule of the City of Princeton's Proportionate Share of the Net Pension Liability
— County Employee Retirement System of the KRS

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

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:

2015:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to .75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table was used for active members is RP-2000 Combined Mortality Table projected with scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) (CONT'D)

Notes Related to the Schedule of the Princeton Water and Wastewater Commission's Contributions – County Employee Retirement System of the KRS

Method and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of July 1, 2015. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	28 years
Asset valuation	5-year smoothed market
Inflation	3.25%
Salary increases	4.00%, average, including inflation
Investment Rate of Return	7.50%, 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 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, 2016, 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 September 5, 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, PLC

Princeton, Kentucky

September 5, 2017