



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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NEWS RELEASE

FOR RELEASE

April 29, 2009

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Princeton, Iowa.

The City's receipts totaled \$1,965,037 for the year ended June 30, 2008. The receipts included \$203,426 in property tax, \$226,709 from charges for service, \$128,085 from operating grants, contributions and restricted interest, \$135,850 from local option sales tax, \$24,688 from unrestricted interest on investments, \$1,227,147 from bond and loan proceeds and \$19,132 from other general receipts.

Disbursements for the year totaled \$1,121,547, and included \$424,456 for capital projects, \$187,680 for public safety and \$117,017 for public works. Also, disbursements for business type activities totaled \$140,472.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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CITY OF PRINCETON

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2008

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City of Princeton

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|------------------------------|-----------------|---------------------|
| (Before January 2008) | | |
| Keith Youngers | Mayor | Jan 2010 |
| Kevin Kernan | Mayor Pro tem | Jan 2008 |
| Cilla Meachem | Council Member | Jan 2008 |
| Dave Stearman | Council Member | Jan 2008 |
| Mark Lee | Council Member | Jan 2010 |
| Penelope Miller | Council Member | Jan 2010 |
| Karen Thomson | Clerk/Treasurer | Indefinite |
| Jeff Paul | Attorney | Indefinite |
| (After January 2008) | | |
| Keith Youngers | Mayor | Jan 2010 |
| Kevin Kernan | Mayor Pro tem | Jan 2012 |
| Mark Lee | Council Member | Jan 2010 |
| Penelope Miller | Council Member | Jan 2010 |
| Janice Suiter | Council Member | Jan 2012 |
| Roger Woomert | Council Member | Jan 2012 |
| Karen Thomson | Clerk/Treasurer | Indefinite |
| Jeff Paul | Attorney | Indefinite |

City of Princeton



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To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Princeton, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Princeton's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

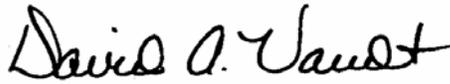
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2007.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2007, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Princeton as of June 30, 2008, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated April 8, 2009 on our consideration of the City of Princeton's internal control over financial reporting and 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 compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Princeton's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2007, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 8, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Princeton provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available

2008 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's government activities increased approximately \$801,000, due primarily to the receipt of \$1,227,147 of general obligation and revenue bond proceeds in the Capital Projects Fund.
- The cash basis net assets of the City's business type activities increased approximately \$42,700, due primarily to receipts exceeding disbursements in the Water and Sewer Funds.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer system and garbage operations. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax, 3) the Capital Projects Fund and 4) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City, and the sanitation fund.

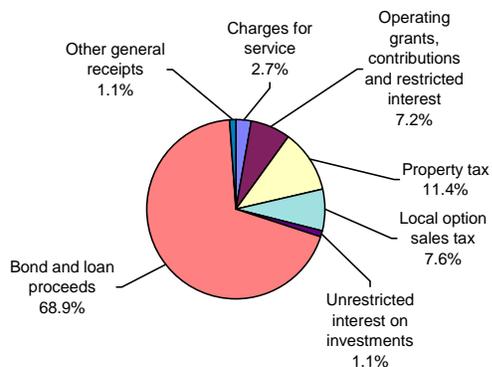
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

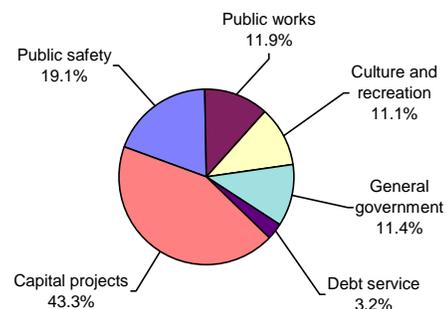
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, increasing from \$383,889 to \$1,184,673. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

| Changes in Cash Basis Net Assets of Governmental Activities | |
|---|--------------------------------|
| | Year ended June 30, 2008 |
| Receipts: | |
| Program receipts: | |
| Charges for service | \$ 48,800 |
| Operating grants, contributions and restricted interest | 128,085 |
| General receipts: | |
| Property tax | 203,426 |
| Local option sales tax | 135,850 |
| Unrestricted interest on investments | 19,719 |
| Bond and loan proceeds | 1,227,147 |
| Other general receipts | 18,832 |
| Total receipts | <u>1,781,859</u> |
| Disbursements: | |
| Public safety | 187,680 |
| Public works | 117,017 |
| Culture and recreation | 108,731 |
| General government | 111,441 |
| Debt service | 31,750 |
| Capital projects | 424,456 |
| Total disbursements | <u>981,075</u> |
| Change in cash basis net assets | 800,784 |
| Cash basis net assets beginning of year | <u>383,889</u> |
| Cash basis net assets end of year | <u>\$ 1,184,673</u> |

Receipts by Source



Disbursements by Function



| Changes in Cash Basis Net Assets of Business Type Activities | |
|--|--------------------------------|
| | Year ended June 20, 2008 |
| Receipts: | |
| Program receipts: | |
| Water | \$ 90,417 |
| Sewer | 53,462 |
| Sanitation | 34,030 |
| General receipts: | |
| Unrestricted interest on investments | 4,969 |
| Other general receipts | 300 |
| Total receipts | <u>183,178</u> |
| Disbursements: | |
| Water | 60,216 |
| Sewer | 46,051 |
| Sanitation | 34,205 |
| Total disbursements | <u>140,472</u> |
| Change in cash basis net assets | 42,706 |
| Cash basis net assets beginning of year | <u>139,829</u> |
| Cash basis net assets end of year | <u>\$ 182,535</u> |

Total business type activities cash basis net assets increased from a year ago, increasing from \$139,829 to \$182,535. The increase is due to primarily to receipts exceeding disbursements in the Water and Sewer Funds.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Princeton completed the year, its governmental funds reported a combined fund balance of \$1,184,673, an increase of \$800,784 above last year's total of \$383,889. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$35,086 from the prior year to a year-end balance of \$49,641
- The Special Revenue, Road Use Tax Fund cash balance decreased \$33,273 from the prior year to \$131,336. This change was attributable to disbursements exceeding road use tax allocations received.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$60,850 over the prior year to \$241,400, primarily due to one transfer taking place during the year to the General Fund and no disbursements incurred.
- The Capital Projects Fund cash balance increased \$803,808 over the prior year to \$757,052, primarily due to proceeds from debt issuances exceeding disbursements for street improvements, water and sewer projects during the year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$32,818 over the prior year to a year-end balance of \$82,282, due primarily to receipts exceeding disbursements.
- The Sewer Fund cash balance increased \$9,641 to \$87,744, due primarily to receipts exceeding disbursements.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 22, 2008 and resulted in an increase in receipts and disbursements related to debt issuance proceeds and disbursements increased relating to increased costs associated with water improvement projects, design costs for the sewer lagoon and the Chestnut street project. Additional adjustments were needed to permit additional equipment purchases.

The City's receipts were \$4,434 less than budgeted. This was primarily due to the City receiving less sewer, sanitation and water charges for service than anticipated, even after the amendment.

Total disbursements were \$207,088 less than the amended budget. However, actual disbursements for the culture and recreation and general governmental functions were \$23,365 and \$7,355, respectively, more than the amended budget. This was primarily due to the City amending the budget for less than actual expenditures.

DEBT ADMINISTRATION

At June 30, 2008, the City had \$1,323,113 in bonds, notes and other long-term debt outstanding, compared to \$118,342 last year, as shown below.

| | Outstanding Debt at Year-End | |
|------------------------------------|------------------------------|----------------|
| | June 30, | |
| | 2008 | 2007 |
| General obligation bonds and notes | \$ 980,000 | 60,000 |
| Revenue bonds | 209,522 | - |
| Fire truck loan | 50,291 | 58,282 |
| Interim sewer loan | 83,300 | - |
| Total | <u>\$1,323,113</u> | <u>118,342</u> |

Debt increased as a result of issuing general obligation bonds for a street project and revenue bonds for a water project.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,030,291 is significantly below its constitutional debt limit of \$2,121,456.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Princeton's elected and appointed officials and citizens considered many factors when setting the fiscal year 2009 budget, tax rates and fees charged for various City activities. The City's fiscal year 2009 assessed taxable valuation increased approximately 16%, or \$3,379,394, over the fiscal year 2008 level.

The fiscal year 2009 budget includes total receipts of \$1,809,308 and disbursements of \$1,735,070.

The FY2009 levy is \$8.94763 per \$1,000 of taxable valuation, which is a slight increase over FY2008.

These parameters were taken into account when adopting the budget for FY2009.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Karen Thomson, City Clerk, PO Box 307, Princeton, IA 52768.

Basic Financial Statements

City of Princeton

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2008

| | Disbursements | Program Receipts | | |
|---|---------------|---------------------------|--|--|
| | | Charges for Service | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest |
| Functions/Programs: | | | | |
| Governmental activities: | | | | |
| Public safety | \$ 187,680 | 21,159 | 42,829 | - |
| Public works | 117,017 | - | 81,046 | - |
| Culture and recreation | 108,731 | 26,536 | 4,210 | - |
| General government | 111,441 | 1,105 | - | - |
| Debt service | 31,750 | - | - | - |
| Capital projects | 424,456 | - | - | - |
| Total governmental activities | 981,075 | 48,800 | 128,085 | - |
| Business type activities: | | | | |
| Water | 60,216 | 90,417 | - | - |
| Sewer | 46,051 | 53,462 | - | - |
| Sanitation | 34,205 | 34,030 | - | - |
| Total business type activities | 140,472 | 177,909 | - | - |
| Total | \$ 1,121,547 | 226,709 | 128,085 | - |
| General Receipts: | | | | |
| Property tax levied for | | | | |
| General purpose | | | | |
| Debt service | | | | |
| Local option sales tax | | | | |
| Unrestricted interest on investments | | | | |
| General obligation bond proceeds | | | | |
| Revenue bond proceeds | | | | |
| Loan proceeds | | | | |
| Miscellaneous | | | | |
| Total general receipts | | | | |
| Change in cash basis net assets | | | | |
| Cash basis net assets beginning of year | | | | |
| Cash basis net assets end of year | | | | |
| Cash Basis Net Assets | | | | |
| Restricted: | | | | |
| Streets | | | | |
| Capital projects | | | | |
| Other purposes | | | | |
| Unrestricted | | | | |
| Total cash basis net assets | | | | |

See notes to financial statements.

| Net (Disbursements) Receipts and Changes in Cash Basis Net Assets | | |
|--|-----------------------------|-----------|
| Governmental Activities | Business Type Activities | Total |
| (123,692) | - | (123,692) |
| (35,971) | - | (35,971) |
| (77,985) | - | (77,985) |
| (110,336) | - | (110,336) |
| (31,750) | - | (31,750) |
| (424,456) | - | (424,456) |
| (804,190) | - | (804,190) |
| - | 30,201 | 30,201 |
| - | 7,411 | 7,411 |
| - | (175) | (175) |
| - | 37,437 | 37,437 |
| (804,190) | 37,437 | (766,753) |
| 171,792 | - | 171,792 |
| 31,634 | - | 31,634 |
| 135,850 | - | 135,850 |
| 19,719 | 4,969 | 24,688 |
| 934,325 | - | 934,325 |
| 209,522 | - | 209,522 |
| 83,300 | - | 83,300 |
| 18,832 | 300 | 19,132 |
| 1,604,974 | 5,269 | 1,610,243 |
| 800,784 | 42,706 | 843,490 |
| 383,889 | 139,829 | 523,718 |
| \$ 1,184,673 | 182,535 | 1,367,208 |
| \$ 131,336 | - | 131,336 |
| 757,052 | - | 757,052 |
| 250,860 | - | 250,860 |
| 45,425 | 182,535 | 227,960 |
| \$ 1,184,673 | 182,535 | 1,367,208 |

City of Princeton

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2008

| | Special Revenue | | |
|--|-----------------|-----------------|---------------------------|
| | General | Road Use Tax | Local Option Sales Tax |
| Receipts: | | | |
| Property tax | \$ 161,970 | - | - |
| Other city tax | 9,822 | - | 135,850 |
| Licenses and permits | 1,810 | - | - |
| Use of money and property | 23,977 | - | - |
| Intergovernmental | 36,080 | 81,046 | - |
| Charges for service | 20,454 | - | - |
| Miscellaneous | 30,203 | - | - |
| Total receipts | 284,316 | 81,046 | 135,850 |
| Disbursements: | | | |
| Operating: | | | |
| Public safety | 117,532 | - | - |
| Public works | 2,698 | 114,319 | - |
| Culture and recreation | 108,731 | - | - |
| General government | 111,441 | - | - |
| Debt service | - | - | - |
| Capital projects | - | - | - |
| Total disbursements | 340,402 | 114,319 | - |
| Excess (deficiency) of receipts over (under) disbursements | (56,086) | (33,273) | 135,850 |
| Other financing sources (uses): | | | |
| Bond proceeds, net of \$15,675 discount | - | - | - |
| Sale of capital assets | 14,000 | - | - |
| Loan proceeds | - | - | - |
| Operating transfers in | 75,000 | - | - |
| Operating transfers out | (68,000) | - | (75,000) |
| Total other financing sources (uses) | 21,000 | - | (75,000) |
| Net change in cash balances | (35,086) | (33,273) | 60,850 |
| Cash balances beginning of year | 84,727 | 164,609 | 180,550 |
| Cash balances end of year | \$ 49,641 | 131,336 | 241,400 |
| Cash Basis Fund Balances | | | |
| Reserved for debt service | \$ - | - | - |
| Unreserved: | | | |
| General fund | 49,641 | - | - |
| Special revenue funds | - | 131,336 | 241,400 |
| Capital projects fund | - | - | - |
| Total cash basis fund balances | \$ 49,641 | 131,336 | 241,400 |

See notes to financial statements.

| Capital Projects | Nonmajor | Total |
|---------------------|----------|-----------|
| - | 31,634 | 193,604 |
| - | - | 145,672 |
| - | - | 1,810 |
| 1,117 | - | 25,094 |
| - | - | 117,126 |
| - | - | 20,454 |
| - | 6,749 | 36,952 |
| 1,117 | 38,383 | 540,712 |
| - | 70,148 | 187,680 |
| - | - | 117,017 |
| - | - | 108,731 |
| - | - | 111,441 |
| - | 31,750 | 31,750 |
| 424,456 | - | 424,456 |
| 424,456 | 101,898 | 981,075 |
| (423,339) | (63,515) | (440,363) |
| 1,143,847 | - | 1,143,847 |
| - | - | 14,000 |
| 83,300 | - | 83,300 |
| - | 68,000 | 143,000 |
| - | - | (143,000) |
| 1,227,147 | 68,000 | 1,241,147 |
| 803,808 | 4,485 | 800,784 |
| (46,756) | 759 | 383,889 |
| 757,052 | 5,244 | 1,184,673 |
| - | (4,216) | (4,216) |
| - | - | 49,641 |
| - | 9,460 | 382,196 |
| 757,052 | - | 757,052 |
| 757,052 | 5,244 | 1,184,673 |

City of Princeton

City of Princeton

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2008

| | Enterprise | | | Total |
|---|------------|--------|------------------------|---------|
| | Water | Sewer | Nonmajor Sanitation | |
| Operating receipts: | | | | |
| Charges for service | \$ 85,394 | 53,462 | 34,030 | 172,886 |
| Miscellaneous | 5,023 | - | - | 5,023 |
| Total operating receipts | 90,417 | 53,462 | 34,030 | 177,909 |
| Operating disbursements: | | | | |
| Business type activities | 59,252 | 46,051 | 34,205 | 139,508 |
| Excess (deficiency) of operating receipts over (under) operating disbursements | 31,165 | 7,411 | (175) | 38,401 |
| Non-operating receipts (disbursements): | | | | |
| Interest on investments | 2,317 | 2,230 | 422 | 4,969 |
| Debt service | (964) | - | - | (964) |
| Miscellaneous | 300 | - | - | 300 |
| Net non-operating receipts (disbursements) | 1,653 | 2,230 | 422 | 4,305 |
| Excess of receipts over disbursements | 32,818 | 9,641 | 247 | 42,706 |
| Cash balances beginning of year | 49,464 | 78,103 | 12,262 | 139,829 |
| Cash balances end of year | \$ 82,282 | 87,744 | 12,509 | 182,535 |
| Cash Basis Fund Balances | | | | |
| Unreserved | \$ 82,282 | 87,744 | 12,509 | 182,535 |

See notes to financial statements.

City of Princeton

Notes to Financial Statements

June 30, 2008

(1) Summary of Significant Accounting Policies

The City of Princeton is a political subdivision of the State of Iowa located in Scott County. It was first incorporated in 1857 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities and sanitation services for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Princeton has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Scott County Assessor's Conference Board, City Assessor's Conference Board, Scott County Emergency Management Commission, Scott County Landfill Commission and Scott County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for local option sales tax collections received from the State of Iowa.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Princeton maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the general government and culture and recreation functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Long-Term Debt

Annual debt service requirements to maturity for general obligation notes and bonds are as follows:

| Year Ending June 30, | General Obligation Bonds | | General Obligation Notes | | Total | |
|----------------------------|-----------------------------|-----------|-----------------------------|----------|-----------|----------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| | 2009 | \$ 40,000 | 45,694 | 30,000 | 453 | 70,000 |
| 2010 | 50,000 | 35,455 | - | - | 50,000 | 35,455 |
| 2011 | 55,000 | 34,030 | - | - | 55,000 | 34,030 |
| 2012 | 55,000 | 32,380 | - | - | 55,000 | 32,380 |
| 2013 | 55,000 | 30,620 | - | - | 55,000 | 30,620 |
| 2014 - 2018 | 310,000 | 121,790 | - | - | 310,000 | 121,790 |
| 2019 - 2023 | 385,000 | 53,240 | - | - | 385,000 | 53,240 |
| Total | \$ 950,000 | 353,209 | 30,000 | 453 | 980,000 | 353,662 |

Water Revenue Bonds

On March 12, 2008, the City entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A., Trustee for the issuance of \$1,245,000 of water revenue bonds with interest at 3.0% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa to pay the cost of constructing a new City water tower. The funds were drawn down by the City from the Trustee upon request to reimburse the City for costs as they were incurred. At June 30, 2008, the City had drawn down \$209,522 of the \$1,245,000 amount authorized. An initiation fee of 1% of the authorized borrowing for the water revenue bonds was charged by Wells Fargo Bank Iowa, N.A. The total initiation fee of \$12,450 was withheld by the bank from the first proceeds of the water revenue bonds drawn by the City during the year ended June 30, 2008. Since the City has not fully drawn funds on the water revenue bonds, a final repayment schedule has not yet been adopted. However, during fiscal year 2008, the City began making interest payments under a preliminary repayment schedule. As of June 30, 2008, the City had paid interest of \$964.

The resolution providing for the issuance of the revenue bonds includes the following provisions:

- (a) To comply with all applicable State of Iowa and Federal laws, rules and regulations.
- (b) To maintain its water system in good repair, working order and operating condition.
- (c) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.
- (d) To maintain adequate insurance coverage.
- (e) To maintain and not sell, lease or dispose of the water system or any capital part of the system until the revenue bonds are paid in full or discharged.

Fire Truck Loan

On April 13, 2003, the City entered into a loan agreement for \$160,000 with the local bank to purchase a fire truck. Principal is to be paid in ten equal annual installments, including interest at 2.81% per annum, beginning July 7, 2003. The outstanding principal balance of the loan at June 30, 2008 was \$50,291.

Interim Sewer Loan

On July 27, 2007, the City entered into an interest-free loan agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A., Trustee for the issuance of a \$168,800 interim sewer loan to be used for planning and design. The loan was issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa to pay the costs of planning, designing and constructing improvements and extensions to the sanitary sewer system. The funds were drawn down by the City from the Trustee upon request to reimburse the City for costs as they were incurred. At June 30, 2008, the City had drawn down \$83,300 of the \$168,800 amount authorized. Since the City has not fully drawn funds on the sewer loan, a final repayment schedule has not yet been adopted. The City made no principal or interest payments during the year.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2008 was \$10,146, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2008, primarily relating to the General Fund, is as follows:

| Type of Benefit | Amount |
|-----------------|-----------------|
| Vacation | \$ 3,700 |
| Compensatory | <u>1,100</u> |
| Total | <u>\$ 4,800</u> |

This liability has been computed based on rates of pay in effect at June 30, 2008.

(6) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 563 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its member. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2008 were \$18,233.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhaust total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2008, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within

the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year the member is refunded 100 percent of its casualty capital contributions. However the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

| Transfer to | Transfer from | Amount |
|---|--|--------------------------|
| Special Revenue: Princeton Volunteer Fire Department | General | \$ 68,000 |
| General | Special Revenue: Local Option Sales Tax | <u>75,000</u> |
| Total | | <u><u>\$ 143,000</u></u> |

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(8) Deficit Balance

The Debt Service Fund had a deficit balance of \$4,216 at June 30, 2008. The deficit balance was a result of debt costs incurred in excess of property tax levied. The deficit will be eliminated upon receipt of future property tax collections.

Required Supplementary Information

City of Princeton
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances –
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2008

| | Governmental Funds Actual | Proprietary Funds Actual | Total |
|---|---------------------------------|--------------------------------|------------------|
| Receipts: | | | |
| Property tax | \$ 193,604 | - | 193,604 |
| Other city tax | 145,672 | - | 145,672 |
| Licenses and permits | 1,810 | - | 1,810 |
| Use of money and property | 25,094 | 4,969 | 30,063 |
| Intergovernmental | 117,126 | - | 117,126 |
| Charges for service | 20,454 | 172,886 | 193,340 |
| Miscellaneous | 36,952 | 5,323 | 42,275 |
| Total receipts | <u>540,712</u> | <u>183,178</u> | <u>723,890</u> |
| Disbursements: | | | |
| Public safety | 187,680 | - | 187,680 |
| Public works | 117,017 | - | 117,017 |
| Culture and recreation | 108,731 | - | 108,731 |
| Community and economic development | - | - | - |
| General government | 111,441 | - | 111,441 |
| Debt service | 31,750 | - | 31,750 |
| Capital projects | 424,456 | - | 424,456 |
| Business type activities | - | 140,472 | 140,472 |
| Total disbursements | <u>981,075</u> | <u>140,472</u> | <u>1,121,547</u> |
| Excess (deficiency) of receipts over (under) disbursements | (440,363) | 42,706 | (397,657) |
| Other financing sources, net | <u>1,241,147</u> | - | <u>1,241,147</u> |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | 800,784 | 42,706 | 843,490 |
| Balances beginning of year | <u>383,889</u> | <u>139,829</u> | <u>523,718</u> |
| Balances end of year | <u>\$ 1,184,673</u> | <u>182,535</u> | <u>1,367,208</u> |

See accompanying independent auditor's report.

| Budgeted Amounts | | Final to |
|------------------|-----------|-------------|
| Original | Final | Total |
| | | Variance |
| 190,734 | 190,734 | 2,870 |
| 135,157 | 130,157 | 15,515 |
| 1,880 | 1,936 | (126) |
| 21,894 | 22,960 | 7,103 |
| 116,384 | 117,463 | (337) |
| 233,943 | 241,543 | (48,203) |
| 4,700 | 23,531 | 18,744 |
| 704,692 | 728,324 | (4,434) |
| 179,905 | 198,241 | 10,561 |
| 111,431 | 124,550 | 7,533 |
| 71,559 | 85,366 | (23,365) |
| 8,000 | 6,825 | 6,825 |
| 70,361 | 104,086 | (7,355) |
| 31,750 | 31,750 | - |
| 45,318 | 464,204 | 39,748 |
| 327,933 | 313,613 | 173,141 |
| 846,257 | 1,328,635 | 207,088 |
| (141,565) | (600,311) | 202,654 |
| 129,500 | 2,364,917 | (1,123,770) |
| (12,065) | 1,764,606 | (921,116) |
| 465,320 | 465,320 | 58,398 |
| 453,255 | 2,229,926 | (862,718) |

City of Princeton

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2008

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$482,378. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the cultural and recreation and general government functions at year end.

Other Supplementary Information

City of Princeton

City of Princeton

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2008

| | <u>Special Revenue</u> | | |
|--|--|-----------------|----------------|
| | Princeton Volunteer Fire Department | Debt Service | Total |
| Receipts: | | | |
| Property tax | \$ - | 31,634 | 31,634 |
| Miscellaneous | 6,749 | - | 6,749 |
| Total receipts | <u>6,749</u> | <u>31,634</u> | <u>38,383</u> |
| Disbursements: | | | |
| Operating: | | | |
| Public safety | 70,148 | - | 70,148 |
| Debt service | - | 31,750 | 31,750 |
| Total disbursements | <u>70,148</u> | <u>31,750</u> | <u>101,898</u> |
| Deficiency of receipts under disbursements | (63,399) | (116) | (63,515) |
| Other financing sources: | | | |
| Operating transfers in | 68,000 | - | 68,000 |
| Net change in cash balances | 4,601 | (116) | 4,485 |
| Cash balances beginning of year | 4,859 | (4,100) | 759 |
| Cash balances end of year | <u>\$ 9,460</u> | <u>(4,216)</u> | <u>5,244</u> |
| Cash Basis Fund Balances | | | |
| Reserved for debt service | \$ - | (4,216) | (4,216) |
| Unreserved: | | | |
| Special revenue funds | 9,460 | - | 9,460 |
| Total cash basis fund balances | <u>\$ 9,460</u> | <u>(4,216)</u> | <u>5,244</u> |

See accompanying independent auditor's report.

City of Princeton
Schedule of Indebtedness
Year ended June 30, 2008

| Obligation | Date of Issue | Interest Rates | Amount Originally Issued |
|-------------------------------------|------------------|-------------------|--------------------------------|
| General obligation bonds and notes: | | | |
| Refunding notes | Dec 1, 2003 | 1.50-3.00 | 170,000 |
| Street improvement bonds | Mar 1, 2008 | 2.75-4.60% | \$ 950,000 |
| Total | | | |
| Revenue bonds: | | | |
| Water | Mar 12, 2008* | 3.00% | \$ 1,245,000 |
| Fire truck loan | Apr 14, 2003 | 2.81% | \$ 160,000 |
| Interim sewer loan | Jul 27, 2007 | 0% | \$ 168,800 |

* The agreement also requires the City to annually pay a .25% servicing fee on outstanding principal balance

See accompanying independent auditor's report.

| Balance Beginning of Year | Issued During Year | Redeemed During Year | Balance End of Year | Interest Paid |
|---------------------------------|--------------------------|----------------------------|---------------------------|------------------|
| 60,000 | - | 30,000 | 30,000 | 1,750 |
| - | 950,000 | - | 950,000 | - |
| \$ 60,000 | 950,000 | 30,000 | 980,000 | 1,750 |
| - | 209,522 | - | 209,522 | 964 |
| 58,282 | - | 7,991 | 50,291 | 1,198 |
| - | 83,300 | - | 83,300 | - |

Schedule 3

City of Princeton
 Bond and Note Maturities
 June 30, 2008

| Year Ending June 30, | General Obligation Notes and Bonds | | | | | Total |
|----------------------------|------------------------------------|------------------|--------------------------|-------------------|----------------|-------|
| | Refunding Notes | | Street Improvement Bonds | | | |
| | Issued Dec 1, 2003 | | Issued Mar 1, 2008 | | | |
| | Interest Rates | Amount | Interest Rates | Amount | | |
| 2009 | 3.00% | \$ 30,000 | 2.75% | \$ 40,000 | 70,000 | |
| 2010 | | - | 2.85 | 50,000 | 50,000 | |
| 2011 | | - | 3.00 | 55,000 | 55,000 | |
| 2012 | | - | 3.20 | 55,000 | 55,000 | |
| 2013 | | - | 3.35 | 55,000 | 55,000 | |
| 2014 | | - | 3.50 | 60,000 | 60,000 | |
| 2015 | | - | 3.65 | 60,000 | 60,000 | |
| 2016 | | - | 3.80 | 60,000 | 60,000 | |
| 2017 | | - | 3.95 | 65,000 | 65,000 | |
| 2018 | | - | 4.10 | 65,000 | 65,000 | |
| 2019 | | - | 4.20 | 70,000 | 70,000 | |
| 2020 | | - | 4.30 | 75,000 | 75,000 | |
| 2021 | | - | 4.40 | 75,000 | 75,000 | |
| 2022 | | - | 4.50 | 80,000 | 80,000 | |
| 2023 | | - | 4.60 | 85,000 | 85,000 | |
| Total | | <u>\$ 30,000</u> | | <u>\$ 950,000</u> | <u>980,000</u> | |

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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 Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Princeton, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated April 8, 2009. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2007. Except as noted in the Independent Auditor's report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Princeton's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Princeton's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Princeton's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Princeton's ability to initiate, authorize, record, process or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Princeton's financial statements that is more than inconsequential will not be prevented or detected by the City of Princeton's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Princeton's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items (A) and (D) are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Princeton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Princeton's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Princeton's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Princeton and other parties to whom the City of Princeton may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Princeton during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 8, 2009

City of Princeton
Schedule of Findings
Year ended June 30, 2008

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

- A) Segregation of Duties – One important element in designing internal control to safeguard assets and reasonably ensure the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated, the activities of one employee act as a check of those of another. One person has control over each of the following areas:

City

- (1) Investments – detailed record keeping, custody of investments and reconciling earnings.
- (2) Cash – Initiating cash receipt and disbursement functions, handling and recording cash, bank reconciliations and control of change fund.
- (3) Receipts – opening mail, collecting, depositing, journalizing and posting.
- (4) Disbursements – check preparation, purchasing, reconciling, access to credit cards, controlling blank purchase orders and recording.
- (5) Long term debt – recording and reconciling.
- (6) Payroll – preparing, recording, custody of warrants and distributing.
- (7) Information system (computer usage) – performing all general accounting functions and controlling all data and output.

Princeton Fire Department

- (1) Cash – Initiating cash receipt and disbursement functions, handling and recording cash and bank reconciliations.
- (2) Disbursements – check preparation, reconciling, check signing and recording.

Princeton Baseball Association

- (1) Cash – Initiating cash receipt and disbursement functions, handling and recording cash and bank reconciliations.
- (2) Disbursements – check preparation, reconciling, check signing, and recording.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City and the Associations should review their control procedures to obtain the maximum internal control possible under the circumstances.

Responses –

City – We will establish policy to review control procedures. It is difficult when we have limited personnel in the office.

City of Princeton
Schedule of Findings
Year ended June 30, 2008

Princeton Fire Department – We will establish policy to review control procedures. We have limited personnel.

Princeton Baseball Association – The Princeton Baseball Association (PBA) will continue to attempt to involve others in board functions. We are aware of the importance of segregation of duties and will seek additional control procedures whenever possible.

A receipt book will be purchased and collections will be logged. PBA will look to change monthly statements to include copy of both sides of checks. Also, the majority of purchases for teams and concessions will be handled by other parties. The search will continue to fill the position of Treasurer.

Conclusions –

City – Response accepted.

Princeton Fire Department – Response accepted.

Princeton Baseball Association – Response accepted.

- B) Credit Cards – The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response – The City will establish a credit card policy.

Conclusion – Response accepted.

- C) Information Systems – The following weaknesses in the City's information system were noted:

The City does not have written policies for:

- (1) Requiring the use of a user id or password.
- (2) Requiring the maintenance of password privacy and confidentiality.
- (3) Requiring passwords to be changed at least every 60 to 90 days.
- (4) Requiring password history to be maintained to prevent employees from using the same password.
- (5) Requiring software not licensed to the City not be installed on City equipment.
- (6) Personnel usage of City equipment and software.
- (7) Usage of the internet.

Also, the City does not have a written disaster recovery plan.

City of Princeton
Schedule of Findings
Year ended June 30, 2008

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over computer based financial systems. Also, a written disaster recovery plan should be developed and should be tested periodically.

Response –

- (1) The City adopted a policy in fiscal year 2009.
- (2) The City adopted a policy in fiscal year 2009.
- (3) The City adopted a policy in fiscal year 2009.
- (4) The City will adopt a policy for history of passwords.
- (5) The City will adopt a policy for licensed software only to be used on City equipment.
- (6) The City adopted a policy in fiscal year 2009.
- (7) The City adopted a policy in fiscal year 2009.

The City is developing a disaster plan.

Conclusion – Response accepted.

D) Financial Reporting – The following items related to the City’s financial reporting were noted:

- Although the City reports on the cash basis of accounting, the City posted certain disbursements using the accrual basis of accounting. Adjustments were necessary to convert the City’s disbursements to a cash basis.
- The amounts reported as receipts and disbursements in the City’s annual financial report did not always agree with the City’s accounting records.
- Although the City does monthly bank reconciliations, the reconciliations did not always agree with the City’s accounting records.

Adjustments were subsequently made by the City to properly report the amounts in the City’s financial statements.

Recommendation – The City should implement procedures to ensure financial transactions are properly recorded in the City’s financial records using the cash basis of accounting and the amounts reported in the annual financial report agree with the City’s accounting records.

Response – The City Clerk will obtain more training and work with CMS to correct posting errors and will ensure accounting records will match.

Conclusion – Response accepted.

City of Princeton
Schedule of Findings
Year ended June 30, 2008

- E) Receipts – Prenumbered receipts were not issued for all collections for the Princeton Fire Department and Princeton Baseball Association.

Recommendation – Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all money. The receipts should be recorded and reconciled with timely deposits and the reconciliation should be reviewed periodically by an independent person.

Responses –

Princeton Fire Department – The Fire Department will issue receipts.

Princeton Baseball Association – A receipt book will be purchased and receipts written for all collections. The receipt book will also be used to prepare the monthly bank reconciliation.

Conclusions –

Princeton Fire Department – Response accepted.

Princeton Baseball Association – Response accepted.

- F) Bank Reconciliations – Monthly reconciliations of the City’s, Princeton Baseball Association’s and Princeton Fire Department’s balances to the bank accounts and investments were prepared. However, the bank reconciliations were not reviewed by an independent person.

Recommendation – To improve financial accountability and control, the bank reconciliations should be reviewed periodically for propriety by an independent person. This review should be evidenced by the reviewer’s initials and date of review.

Responses –

City – We will have someone independent review the reconciliations.

Princeton Fire Department – We will have someone independent review the reconciliations.

Princeton Baseball Association – Will push strongly to dedicate person to review bank reconciliation regularly. Upon review, party will be asked to date and initial findings.

Conclusions –

City – Response accepted.

Princeton Fire Department – Response accepted.

Princeton Baseball Association – Response accepted.

City of Princeton

Schedule of Findings

Year ended June 30, 2008

- G) Imprest Cash – The cash fund on hand at the City Hall was not maintained on an imprest basis. The City also has not established a set petty cash amount and independent cash counts are currently not performed.

Recommendation – The cash fund at City Hall should be maintained on an imprest basis and replenished periodically by check after filing a claim with the petty cash vouchers or receipts attached. The City should establish a set amount of petty cash and counts should be done periodically to ensure accuracy of the fund.

Response – The City clerk will request a \$100 petty cash limit.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Princeton
Schedule of Findings
Year ended June 30, 2008

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2008 exceeded the amounts budgeted in the public safety, culture and recreation and general government functions prior to the May 22, 2008 budget amendment. Disbursements at June 30, 2008 exceeded budgeted amounts for the culture and recreation and general government functions at year end. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in sufficient amounts as required by Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – City clerk will ensure compliance and control disbursements. Amendments will be completed prior to expenditures.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – No business transactions between the City and City officials were noted.
- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

Certain minutes of the Council meetings were not signed by the Mayor.

Recommendation – The minutes should be signed to authenticate the record.

Response – The Mayor will sign all minutes upon production of said minutes.

Conclusion – Response accepted.

City of Princeton

Schedule of Findings

Year ended June 30, 2008

- (7) Deposits and Investments – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were exceeded during the year ended June 30, 2008 for the Great River Bank and Trust.

Recommendation – A new resolution in amounts sufficient to cover anticipated balances should have been approved by the City before balances were allowed to exceed the maximum.

Response – The City will adopt resolution naming official depositories on a yearly basis.

Conclusion – Response accepted.

- (8) Revenue Bonds – No instances of non-compliance with the revenue bond resolution were noted.

- (9) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The Princeton Fire Department and Princeton Baseball Association retain electronic images of the front of cancelled checks, but not the back of cancelled checks. The City properly retains electronic images of both the front and back of cancelled checks.

Recommendation – The Princeton Fire Department and Princeton Baseball Association should retain an image of both the front and back of each cancelled check as required.

Responses –

Princeton Fire Department – The Princeton Fire Department will request copies of the back of all checks.

Princeton Baseball Association – The City has requested copies of the checks (front and back) from the bank.

Conclusions –

Princeton Fire Department – Response accepted.

Princeton Baseball Association – Response accepted.

- (10) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires the City to report and remit outstanding obligations, including checks, trusts and bonds held for more than one year, to the State Treasurer's Office annually. During the year, the City did not review outstanding obligations and remit the applicable obligations as required.

Recommendation – The outstanding checks list should be reviewed annually and amounts over one year old should be remitted to the State Treasurer's Office as required.

Response – The City will send all uncashed checks to the State Treasurer's Office as required.

Conclusion – Response accepted.

City of Princeton

Schedule of Findings

Year ended June 30, 2008

- (11) Minimum Statutory Interest Rate – The interest rates on two time certificates of deposit did not meet the minimum rate of interest set by the State Rate Setting Committee.

Recommendation – Public funds time certificates of deposit shall be invested at a rate of interest which conforms with current rates for public funds on the date of investment. The City should seek reimbursement of the additional interest due on the certificates of deposit. In addition, the City should be aware of the current allowable rates to ensure the minimum allowable rate is received for all investments.

Response – The City will contact the bank and request funds for interest not received.

Conclusion – Response accepted.

- (12) Financial Condition – The Debt Service Fund had a deficit balance of \$4,216 at June 30, 2008.

Recommendation – The City should continue to investigate alternatives to eliminate this deficit in order to return the fund to a sound financial condition.

Response – The City will eliminate this deficit in the current fiscal year with the receipt of future property tax collections.

Conclusion – Response accepted.

- (13) Local Option Sales Tax – The ballot for the local option sales tax authorizes the City to collect the tax and to allocate 60 % of the collections to property tax relief and 40 % to be determined by the City Council. The City does not maintain adequate records to document the proper disbursement of local option sales tax for the authorized uses.

Recommendation – The City should establish procedures to accumulate and document local option sales tax disbursements to demonstrate compliance with ballot requirements.

Response – The City will setup additional accounts to show allocations and disbursements clearer.

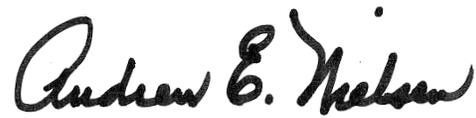
Conclusion – Response accepted.

City of Princeton

Staff

This audit was performed by:

Deborah J. Moser, CPA, Manager
Brett M. Zeller, Staff Auditor
Michael T. Stevens, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a prominent initial "A".

Andrew E. Nielsen, CPA
Deputy Auditor of State