



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE April 29, 2005

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 has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$915,550 for the year ended June 30, 2004. The receipts included \$190,990 in property tax, \$170,000 from general obligation note proceeds, \$80,000 from loan proceeds, \$232,078 from charges for service, \$85,512 from operating grants, contributions and restricted interest, \$27,038 from capital grants, contributions and restricted interest, \$108,926 from local option sales tax, \$2,959 from unrestricted interest on investments and \$18,047 from other general receipts.

Disbursements for the year totaled \$815,603, and included \$334,510 for public safety, \$201,756 for debt service and \$56,382 for general government. Also, disbursements for business type activities totaled \$118,189.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

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CITY OF PRINCETON

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

JUNE 30, 2004

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		5-6
Management's Discussion and Analysis		7-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets–Cash Basis	A	14-15
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	16-17
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	19
Notes to Financial Statements		20-24
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances–Budget and Actual (Cash Basis)– All Governmental Funds and Proprietary Funds		26-27
Notes to Required Supplementary Information–Budgetary Reporting		28
Other Supplementary Information:	<u>Schedule</u>	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Special Revenue Funds	1	30-31
Schedule of Indebtedness	2	32-33
Note Maturities	3	34
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		35-36
Schedule of Findings		37-41
Staff		42

City of Princeton

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2004)		
Dan Dawson	Mayor	Jan 2004
Doug Steen	Mayor Pro tem	Jan 2004
Patty Morgan	Council Member	Jan 2006
Steve Huettman	Council Member	Jan 2004
Dave Stearman (appointed)	Council Member	Nov 2003
Mike Talbot	Council Member	Jan 2004
(After January 2004)		
Keith Youngers	Mayor	Jan 2006
Dave Stearman	Mayor Pro tem	Jan 2008
Patty Morgan	Council Member	Jan 2006
Deb Schuh	Council Member	Jan 2006
Kevin Kernan	Council Member	Jan 2008
Cilla Meachem	Council Member	Jan 2008
Suzanne C. Sper	Clerk/Treasurer	Indefinite
Jeffrey W. Paul	Attorney	Indefinite

City of Princeton



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Independent Auditor's Report

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, 2004, 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, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions 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, 2003.

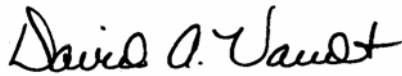
In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2003, as discussed in the preceding paragraph, the financial statements referred to above present 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, 2004, 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.

As described in Note 8, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements— and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule—Perspective Differences.

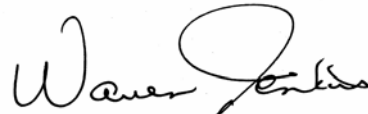
In accordance with Government Auditing Standards, we have also issued our report dated February 11, 2005 on our consideration of the City of Princeton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion 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, 2003, 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

February 11, 2005

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, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years.

2004 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities totaled \$799,791. Receipts included property tax of \$155,480, an increase of \$25,000 from fiscal year 2003. Other receipts included note proceeds of \$170,000, loan proceeds of \$80,000 and local option sales tax of \$108,926.
- Disbursements for governmental activities totaled \$697,414, and included \$334,510 for public safety, \$201,756 for debt service and \$56,382 for general government. Debt service disbursements include the payment of \$170,000 of general obligation bonds which were refunded by the issuance of general obligation notes.
- The City's total cash basis net assets increased 27%, or approximately \$100,000, from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities increased approximately \$102,000 and the assets of the business type activities decreased by approximately \$2,000.

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.

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, the reader 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 and debt service. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer system and sanitation services. 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, and 3) the Debt Service Fund. The governmental fund financial statement provides 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 three Enterprise Funds to provide separate information for the water, sewer and sanitation funds. The water and sewer funds are considered to be major funds of the City.

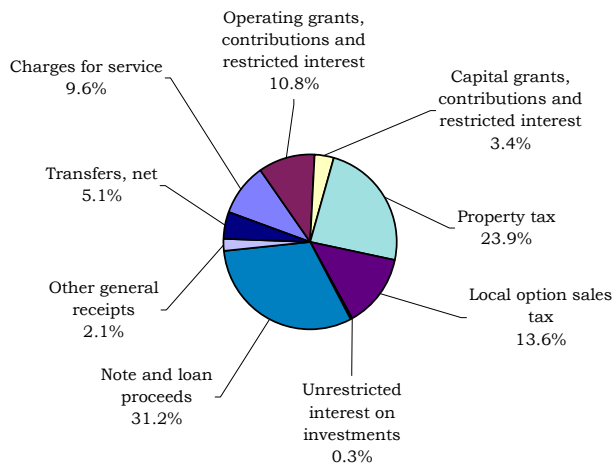
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

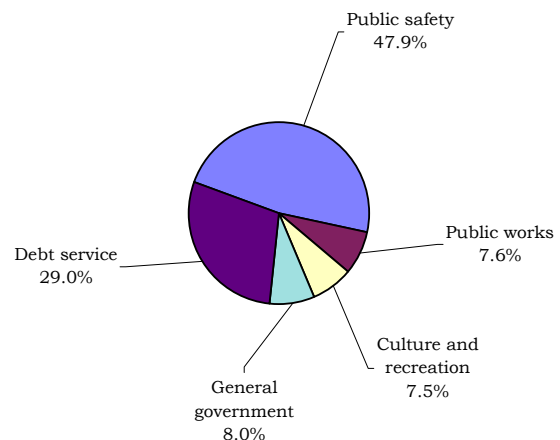
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing by \$103,000 to \$290,500. The analysis that follows focuses on the changes in cash balances for governmental activities.

Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		Year ended June 30, 2004
Receipts and transfers:		
Program receipts:		
Charges for service	\$	77
Operating grants, contributions and restricted interest		86
Capital grants, contributions and restricted interest		27
General receipts:		
Property tax		191
Local option sales tax		109
Unrestricted interest on investments		2
Note and loan proceeds		250
Other general receipts		17
Transfers, net		41
Total receipts and transfers		800
Disbursements:		
Public safety		334
Public works		53
Culture and recreation		52
General government		56
Debt service		202
Total disbursements		697
Increase in cash basis net assets		103
Cash basis net assets beginning of year		188
Cash basis net assets end of year	\$	291

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities totaled \$799,791. Receipts included note and loan proceeds of \$250,000.

The City property tax rates for 2004 did not change from the prior year. The significant increase in property tax revenue was primarily the result of the County no longer collecting and remitting the tax receipts for the Scott County Library System on behalf of the City. The receipt and disbursement of tax receipts for the Scott County Library System are now reflected in the City's financial statements.

The cost of all governmental activities this year was \$697,414. However, as shown in the Statement of Activities and Net Assets on pages 14-15, the amount taxpayers ultimately financed for these activities was only \$507,000 because some of the cost was paid by those directly benefited from the programs (\$77,500) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$112,500). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$300,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)	
	Year ended June 30, 2004
Receipts:	
Program receipts:	
Water	\$ 72
Sewer	48
Sanitation	35
General receipts:	
Unrestricted interest on investments	1
Other general receipts	1
Total receipts	<u>157</u>
Disbursements and transfers:	
Water	53
Sewer	31
Sanitation	34
Transfers	41
Total disbursements and transfers	<u>159</u>
Decrease in cash balance	(2)
Cash basis net assets beginning of year	<u>182</u>
Cash basis net assets end of year	<u>\$ 180</u>

Total business type activities receipts for the fiscal year were \$157,000. The cash balance decreased by approximately \$2,000 from the prior year because of a transfer of funds from business type activities to general government which was offset by an increase in charges for services. Total disbursements and transfers for the fiscal year totaled \$159,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Princeton completed the year, its governmental funds reported a combined fund balance of \$290,516, an increase of approximately \$102,000 over last year's total of \$188,139. 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 \$47,091 from the prior year to \$70,029. The decrease was due to the purchase of Fire Department equipment.
- The Road Use Tax Fund cash balance increased \$27,897 to \$83,744.
- The Local Option Sales Tax Fund cash balance increased to \$108,926 during the fiscal year. This increase was attributable to local option sales tax received this fiscal year, but not transferred prior to the end of the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$20,022 to \$115,661, due primarily to the transfer of \$40,762 to the General Fund and an increase in water rates.
- The Sewer Fund cash balance increased by \$17,363 to \$53,642, due primarily to an increase in sewer rates.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 12, 2004 and resulted in an increase in operating disbursements related to the purchase of Fire Department equipment.

DEBT ADMINISTRATION

At June 30, 2004, the City had \$232,332 in bonds and other long-term liabilities, compared to \$187,893 last year, as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30,	
	2004	2003
General obligation notes	\$ 145	170
Loan agreements	87	18
Total	\$ 232	188

Debt increased as a result of obtaining a loan for the purchase of Fire Department equipment.

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 \$232,332 is significantly below its constitutional debt limit of \$1,685,189.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Princeton's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates and fees charged for various City activities.

Amounts available for appropriation in the fiscal year 2005 operating budget are \$738,489. Budgeted disbursements are expected decrease to \$677,144. The City has added no major new programs or initiatives to the 2005 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately \$61,000 by the close of 2005.

Debt is not anticipated to increase. The City is in solid financial condition as evidenced by the low debt percentage.

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 Suzanne Sper, City Clerk, P.O. Box 307, Princeton, Iowa 52768-0307.

Basic Financial Statements

City of Princeton

Statement of Activities and Net Assets—Cash Basis

As of and for the year ended June 30, 2004

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 334,510	67,897	20	27,038
Public works	53,024	-	78,790	-
Culture and recreation	51,742	8,852	3,625	-
General government	56,382	740	3,077	-
Debt service	201,756	-	-	-
Total governmental activities	697,414	77,489	85,512	27,038
Business type activities:				
Water	53,006	72,234	-	-
Sewer	30,780	47,801	-	-
Sanitation	34,403	34,554	-	-
Total business type activities	118,189	154,589	-	-
Total	\$ 815,603	232,078	85,512	27,038
General Receipts:				
Property tax levied for:				
General purposes				
Debt service				
Local option sales tax				
Unrestricted interest on investments				
Loan proceeds				
General obligation note proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
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				
Debt service				
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
(239,555)	-	(239,555)
25,766	-	25,766
(39,265)	-	(39,265)
(52,565)	-	(52,565)
(201,756)	-	(201,756)
(507,375)	-	(507,375)
-	19,228	19,228
-	17,021	17,021
-	151	151
-	36,400	36,400
(507,375)	36,400	(470,975)
155,480	-	155,480
35,510	-	35,510
108,926	-	108,926
1,707	1,252	2,959
80,000	-	80,000
170,000	-	170,000
17,367	680	18,047
40,762	(40,762)	-
609,752	(38,830)	570,922
102,377	(2,430)	99,947
188,139	182,615	370,754
\$ 290,516	180,185	470,701
\$ 83,744	-	83,744
5,961	-	5,961
200,811	180,185	380,996
\$ 290,516	180,185	470,701

City of Princeton

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

As of and for the year ended June 30, 2004

	Special Revenue		
	General	Road Use Tax	Local Option Sales Tax
Receipts:			
Property tax	\$ 149,839	-	-
Other city tax	5,641	-	108,926
Licenses and permits	1,974	-	-
Use of money and property	4,308	-	-
Intergovernmental	32,490	78,790	-
Charges for service	29,405	-	-
Miscellaneous	14,129	-	-
Total receipts	<u>237,786</u>	<u>78,790</u>	<u>108,926</u>
Disbursements:			
Operating:			
Public safety	262,469	-	-
Public works	2,131	50,893	-
Culture and recreation	46,787	-	-
General government	56,007	-	-
Debt service	-	-	-
Total disbursements	<u>367,394</u>	<u>50,893</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(129,608)</u>	<u>27,897</u>	<u>108,926</u>
Other financing sources (uses):			
General obligation note proceeds	-	-	-
Sale of capital assets	13,590	-	-
Loan proceeds	80,000	-	-
Operating transfers in	40,762	-	-
Operating transfers out	(51,835)	-	-
Total other financing sources (uses)	<u>82,517</u>	<u>-</u>	<u>-</u>
Net change in cash balances	(47,091)	27,897	108,926
Cash balances beginning of year	117,120	55,847	-
Cash balances end of year	<u>\$ 70,029</u>	<u>83,744</u>	<u>108,926</u>
Cash Basis Fund Balances			
Reserved:			
Debt service	\$ -	-	-
Special revenue funds	-	-	-
Unreserved:			
General fund	70,029	-	-
Special revenue funds	-	83,744	108,926
Total cash basis fund balances	<u>\$ 70,029</u>	<u>83,744</u>	<u>108,926</u>

See notes to financial statements.

Debt Service	Nonmajor Special Revenue	Total
35,510	-	185,349
-	-	114,567
-	-	1,974
-	-	4,308
-	27,038	138,318
-	-	29,405
-	7,389	21,518
<u>35,510</u>	<u>34,427</u>	<u>495,439</u>
-	72,041	334,510
-	-	53,024
-	4,955	51,742
-	375	56,382
<u>201,756</u>	-	<u>201,756</u>
<u>201,756</u>	<u>77,371</u>	<u>697,414</u>
<u>(166,246)</u>	<u>(42,944)</u>	<u>(201,975)</u>
170,000	-	170,000
-	-	13,590
-	-	80,000
-	51,835	92,597
-	-	(51,835)
<u>170,000</u>	<u>51,835</u>	<u>304,352</u>
3,754	8,891	102,377
<u>2,207</u>	<u>12,965</u>	<u>188,139</u>
<u>5,961</u>	<u>21,856</u>	<u>290,516</u>
5,961	-	5,961
-	21,856	21,856
-	-	70,029
-	-	192,670
<u>5,961</u>	<u>21,856</u>	<u>290,516</u>

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, 2004

	Enterprise Funds			
	Water	Sewer	Nonmajor Sanitation	Total
Operating receipts:				
Charges for service	\$ 68,000	47,801	34,547	150,348
Miscellaneous	4,234	-	7	4,241
Total operating receipts	72,234	47,801	34,554	154,589
Operating disbursements:				
Business type activities	53,006	30,780	34,403	118,189
Excess of operating receipts over operating disbursements	19,228	17,021	151	36,400
Non-operating receipts:				
Interest on investments	832	342	78	1,252
Miscellaneous	680	-	-	680
Total non-operating receipts	1,512	342	78	1,932
Excess of receipts over disbursements	20,740	17,363	229	38,332
Operating transfers out	(40,762)	-	-	(40,762)
Net change in cash balances	(20,022)	17,363	229	(2,430)
Cash balances beginning of year	135,683	36,279	10,653	182,615
Cash balances end of year	\$ 115,661	53,642	10,882	180,185
Cash Basis Fund Balances				
Unreserved	\$ 115,661	53,642	10,882	180,185

See notes to financial statements.

City of Princeton

Notes to Financial Statements

June 30, 2004

(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 Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

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.

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, 2004, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, general government and debt service functions.

(2) Cash

The City's deposits in banks at June 30, 2004 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; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

(3) Long-Term Debt

Notes Payable

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

Year Ending June 30,	Principal	Interest	Total
2005	\$ 25,000	3,497	28,497
2006	30,000	3,060	33,060
2007	30,000	2,460	32,460
2008	30,000	1,740	31,740
2009	30,000	900	30,900
Total	\$ 145,000	11,657	156,657

Refunding of General Obligation Bonds

On December 1, 2003, the City issued \$170,000 of general obligation refunding notes. The proceeds were used to refund the City's outstanding general obligation municipal building bonds dated April 15, 1996, which had a remaining principal balance of \$170,000.

The City, in effect, reduced its total general obligation debt service payments by approximately \$16,600.

Loan Agreements

On September 16, 1996, the City entered into a loan agreement for \$49,037 with a local bank to purchase fire equipment. Principal is to be paid in eight equal annual installments, including interest at 5.50% per annum, beginning October 28, 1997. The outstanding balance of the loan at June 30, 2004 was \$7,332.

On November 14, 2003, the City entered into a loan agreement for \$80,000 with a local bank to purchase a fire truck. Principal is to be paid in four equal annual installments of \$9,189 beginning July 1, 2004 and one final installment of \$49,636 on July 1, 2008, including interest at 2.80% per annum. The outstanding balance of the loan at June 30, 2004 was \$80,000.

(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.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2004 were \$8,755, equal to the required contributions 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 termination payments payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 3,400
Compensatory	<u>1,500</u>
Total	<u>\$ 4,900</u>

This liability has been computed based on rates of pay in effect at June 30, 2004.

(6) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
Special Revenue: Volunteer Fire Department	General	\$ 51,835
General	Enterprise: Water	<u>40,762</u>
Total		<u><u>\$ 92,597</u></u>

(8) Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

Implementation of these standards had no effect on the beginning balances of the City.

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, 2004

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 178,243	-
Other city tax	121,674	-
Licenses and permits	1,974	-
Use of money and property	4,308	1,252
Intergovernmental	138,318	-
Charges for service	29,405	150,348
Miscellaneous	21,517	4,921
Total receipts	<u>495,439</u>	<u>156,521</u>
Disbursements:		
Public safety	334,510	-
Public works	53,024	-
Culture and recreation	51,742	-
General government	56,382	-
Debt service	201,756	-
Capital projects	-	-
Business type activities	-	118,189
Total disbursements	<u>697,414</u>	<u>118,189</u>
Excess (deficiency) of receipts over (under) disbursements	(201,975)	38,332
Other financing sources, net	<u>304,352</u>	<u>(40,762)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	102,377	(2,430)
Balances beginning of year	<u>188,139</u>	<u>182,615</u>
Balances end of year	<u>\$ 290,516</u>	<u>180,185</u>

See notes to financial statements.

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to
	Original	Final	Total Variance
178,243	175,602	172,044	6,199
121,674	106,954	106,814	14,860
1,974	4,375	4,375	(2,401)
5,560	9,470	3,900	1,660
138,318	117,794	107,213	31,105
179,753	192,700	185,347	(5,594)
26,438	16,000	10,507	15,931
651,960	622,895	590,200	61,760
334,510	155,222	322,964	(11,546)
53,024	118,490	118,490	65,466
51,742	25,060	25,660	(26,082)
56,382	92,796	54,880	(1,502)
201,756	34,620	34,620	(167,136)
-	7,742	-	-
118,189	113,481	128,355	10,166
815,603	547,411	684,969	(130,634)
(163,643)	75,484	(94,769)	(68,874)
263,590	-	93,090	170,500
99,947	75,484	(1,679)	101,626
370,754	349,947	363,878	6,876
470,701	425,431	362,199	108,502

City of Princeton

Notes to Required Supplementary Information–Budgetary Reporting

June 30, 2004

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 ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund and the Proprietary 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 \$137,558. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, general government and debt service functions.

Other Supplementary Information

City of Princeton

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Special Revenue Funds

As of and for the year ended June 30, 2004

	Princeton Volunteer Fire Department	Princeton Days Committee
Receipts:		
Intergovernmental	\$ 27,038	-
Miscellaneous	20	3,077
Total receipts	<u>27,058</u>	<u>3,077</u>
Disbursements:		
Operating:		
Public safety	72,041	-
Culture and recreation	-	-
General government	-	375
Total disbursements	<u>72,041</u>	<u>375</u>
Excess (deficiency) of receipts over (under) disbursements	(44,983)	2,702
Other financing sources:		
Operating transfers in	<u>51,835</u>	-
Net change in cash balances	6,852	2,702
Cash balances beginning of year	<u>8,488</u>	-
Cash balances end of year	<u>\$ 15,340</u>	<u>2,702</u>
Cash Basis Fund Balances		
Reserved:		
Volunteer Fire Department	\$ 15,340	-
Princeton Days Committee	-	2,702
Princeton Baseball Development	-	-
Total cash basis fund balances	<u>\$ 15,340</u>	<u>2,702</u>

See accompanying independent auditor's report.

Princeton Baseball Development	Total
-	27,038
4,292	7,389
4,292	34,427
-	72,041
4,955	4,955
-	375
4,955	77,371
(663)	(42,944)
-	51,835
(663)	8,891
4,477	12,965
3,814	21,856
-	15,340
-	2,702
3,814	3,814
3,814	21,856

City of Princeton
Schedule of Indebtedness
Year ended June 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Municipal building	Apr 15, 1996	4.75-5.80%	\$ 300,000
General obligation notes:			
Refunding	Dec 1, 2003	1.50-3.00	\$ 170,000
Loan agreements:			
Police radios	Oct 4, 1999	0.00	\$ 10,815
Fire truck	Sep 16, 1996	5.50	49,037
Fire truck	Nov 14, 2003	2.80	80,000
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
170,000	-	170,000	-	4,810
-	170,000	25,000	145,000	1,946
3,605	-	3,605	-	-
14,288	-	6,956	7,332	786
-	80,000	-	80,000	-
\$ 17,893	80,000	10,561	87,332	786

City of Princeton

Note Maturities

June 30, 2004

Year Ending June 30,	General Obligation Notes	
	Refunding	
	Issued Dec. 1, 2003	
	Interest Rates	Amount
2005	1.75%	\$ 25,000
2006	2.00	30,000
2007	2.40	30,000
2008	2.80	30,000
2009	3.00	30,000
Total		<u>\$ 145,000</u>

See accompanying independent auditor's report.



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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Auditor of State

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Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Princeton, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated February 11, 2005. 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, 2003.

Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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 grants, 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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance 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, 2004 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. Prior audit statutory comments have been resolved except for item (2).

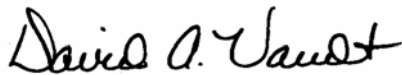
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Princeton's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Princeton's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

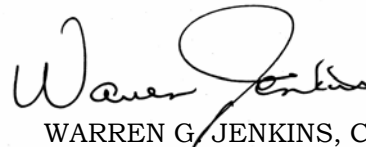
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items (A) and (B) are material weaknesses. Prior audit reportable conditions have not been resolved.

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

February 11, 2005

City of Princeton
Schedule of Findings
Year ended June 30, 2004

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

(A) Segregation of Duties—One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. One person had control over each of the following areas for the City:

- (1) Cash – preparing bank reconciliations, initiating cash receipts and disbursement transactions and handling and recording cash.
- (2) Investments – detailed record keeping, custody of investments and reconciliation of earnings.
- (3) Receipts—collecting, depositing, journalizing and posting.
- (4) Utility receipts—billing, collecting, depositing, posting and reconciling.
- (5) Long term debt—recording and reconciling.
- (6) Disbursements—purchasing, check signing, recording and reconciling.
- (7) Payroll—preparing and distributing.
- (8) Transfers—recording and reconciling.
- (9) Financial reporting—preparing, posting and reconciling.
- (10) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.

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

Response—We will review our procedures and divide duties to the extent possible utilizing City officials.

Conclusion—Response accepted.

City of Princeton

Schedule of Findings

Year ended June 30, 2004

- (B) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year. Additionally, utility customers read their own meters and remit the readings to the City. The City does not periodically read the meters to ensure the readings are correct/accurate.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

To ensure customer meter readings are accurate, the City should read customers meters at least annually.

Response–We will implement the recommended procedures.

Conclusion–Response accepted.

- (C) Separately Maintained Records–The Princeton Volunteer Fire Department, Princeton Days Committee and Princeton Baseball Development groups maintain separate accounting records pertaining to their operations. The individual transaction activity is not included in the City’s accounting records. Also, prenumbered receipts were not issued and no disbursement approval(s) were noted.

Recommendation – Chapter 384.20 of the Code of Iowa states in part that a City shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any purpose. For better accountability, financial and budgetary control, the financial activity and balances of the Princeton Volunteer Fire Department, Princeton Days Committee and Princeton Baseball Development should be included in the City’s accounting records and reported to the City Council monthly.

Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all collections.

Additionally all fire department invoices and disbursements should be approved by the fire department board/officials and approval(s) documented in the minute record.

Response–The monthly financial detail will be included on the Treasurer’s Report.

Conclusion – Response acknowledged. In addition, the City should ensure prenumbered receipts are issued at the time of collection and disbursements are properly approved to help safeguard assets.

- (D) Disbursements–Although City checks, including payroll, require two signatures, the Mayor’s signature is applied by a rubber stamp which is controlled by the City Clerk at City Hall.

Recommendation – The Mayor’s signature stamp should be controlled by the Mayor and the signature affixed on all checks independently. If this is not possible, another individual should be authorized to sign checks in the Mayor’s absence.

City of Princeton
Schedule of Findings
Year ended June 30, 2004

Response–We will implement the recommended procedure immediately.

Conclusion–Response accepted.

- (E) Payroll–Time cards are not reviewed or approved by an independent individual prior to the City Clerk’s payroll preparation and distribution.

Recommendation – Time cards should be reviewed and approval initialed on each time card before providing to the City Clerk for preparation and distribution.

Response–We will implement the recommended procedure.

Conclusion–Response accepted.

- (F) Electronic Data Processing Systems – The following weaknesses in the City’s computer-based systems were noted:

- (1) The City does not have a written policy requiring password changes or to maintain password privacy.
- (2) The City does not have a written disaster recovery plan.
- (3) The City does not have a written policy on storage of backup tapes/disks off site.
- (4) There is no written policy on employee usage of the internet.
- (5) There is no written policy on the storage of unused documents, forms, financial information and other financial documents.

Recommendation – The City should develop written policies addressing the above noted items in order to improve the City’s control over computer-based systems.

Response–Written policies will be developed.

Conclusion–Response accepted.

City of Princeton
Schedule of Findings
Year ended June 30, 2004

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories–A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- (2) Certified Budget–Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the public safety, culture and recreation, general government and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response–We will comply with the above recommendation.

Conclusion–Response accepted.

- (3) Questionable Disbursements–No disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (4) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (5) Business Transactions–No business transactions between the City and City officials or employees were noted.
- (6) 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 insure the coverage is adequate for current operations.
- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

Although minutes of Council proceedings were published, they did not include total disbursements by fund and did not include the purpose of each disbursement approved.

Recommendation–The City should publish total disbursements by fund and include the purpose of each disbursement approved by the City Council.

Response–We will comply with the above recommendation.

Conclusion–Response accepted.

City of Princeton

Schedule of Findings

Year ended June 30, 2004

- (8) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa 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 City retains cancelled checks through electronic image, but did not obtain an image of the back of each cancelled check as required.

Recommendation–The City should obtain and retain an image of both the front and back of each cancelled check, as required.

Response–We will comply with the recommendation.

Conclusion–Response accepted.

- (10) Fund/Account Reconciliations – The City Clerk’s June 30, 2004 month end fund balance financial report reconciles in total to the computer generated general ledger YTD balance sheet printouts at June 30, 2004. However, the individual fund/account balances do not agree to one another.

Recommendation – The City should investigate why the individual fund/account balances do not agree and take steps to correct the balances and ensure the City Clerk’s fund balances at month end tie to those reflected on the computer generated general ledger YTD balance sheet printouts. Any differences should be investigated and corrected. To strengthen internal controls and increase operating efficiency, both of these financial reports should be provided to the City Council each month for their review and approval.

Response–We will comply with the recommendation.

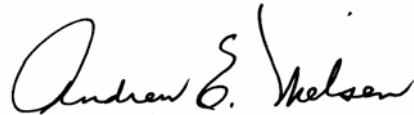
Conclusion–Response accepted.

City of Princeton

Staff

This audit was performed by:

Michelle B. Meyer, CPA, Manager
John G. Vanis, CGFM, Senior Auditor
Kip M. Druecker, Staff Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State