

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

EXAMINATION REPORT
OF
CITY OF PRINCETON
GIBSON COUNTY, INDIANA
January 1, 2006 to December 31, 2006



FILED
05/04/2007

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials	2
Independent Accountant's Report	3
Financial Information: Schedule of Receipts, Disbursements, and Cash and Investment Balances	4
Notes to Financial Information.....	5-8
Required Supplementary Information: Schedules of Funding Progress.....	9
Supplementary Information: Schedule of Capital Assets.....	10
Schedule of Long-Term Debt.....	11
Examination Results and Comments: Penalties and Interest	12
Collection of Amounts Due	12
Police Department Receipts and Fees	12-13
Guarantee Deposit Register	13
Exit Conference	14
Summary	15
Affidavit	17

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Jayne Deckard	01-01-04 to 12-31-07
Mayor	Robert J. Hurst	02-12-05 to 12-31-07
President of the Common Council	Katherine Cowling	01-01-06 to 12-31-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CITY OF PRINCETON, GIBSON COUNTY, INDIANA

We have examined the financial information presented herein of the City of Princeton (City), for the period of January 1, 2006 to December 31, 2006. The City's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the financial information referred to above presents fairly, in all material respects, the financial information of the City for the year ended December 31, 2006, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedules of Funding Progress, Schedule of Capital Assets, and Schedule of Long-Term Debt, as listed in the Table of Contents, are presented for additional analysis and are not a required part of the basic financial information. They have not been subjected to the examination procedures applied to the basic financial information, and accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

March 5, 2007

CITY OF PRINCETON
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL, PROPRIETARY, AND FIDUCIARY FUND TYPES
As Of And For The Year Ended December 31, 2006

	Cash and Investments 01-01-06	Receipts	Disbursements	Cash and Investments 12-31-06
Governmental Funds:				
General	\$ 1,194,401	\$ 3,393,400	\$ 3,185,807	\$ 1,401,994
Motor Vehicle Highway	533,247	486,479	339,156	680,570
Economic Development Income Tax	2,218,641	733,520	792,851	2,159,310
Local Road and Street	69,399	34,778	51,503	52,674
Park and Recreation	284,717	336,340	319,211	301,846
Law Enforcement Continuing Education	10,067	818	336	10,549
Building Demolition	66,263	70,064	15,568	120,759
Plan Commission	25,056	23,501	32,921	15,636
Police Narcotic	622	1,925	351	2,196
Federal Seizure	2,888	2,600	-	5,488
Police K-9	1,388	-	-	1,388
Rainy Day	178,205	-	8,561	169,644
USDA Redevelopment Grant	-	10,917	10,000	917
Donation	1,995	125,720	127,059	656
Fire Truck Fund	56,264	67,588	72,450	51,402
Fire Truck Grant Fund	-	112,500	112,500	-
Fire Station Lease Rental	88,706	185,866	180,000	94,572
Library Grant	-	22,379	22,379	-
Cumulative Capital Improvement	26,406	30,593	18,434	38,565
Cumulative Capital Development	128,068	64,867	159,410	33,525
Proprietary Funds:				
Water Utility - Operating	265,263	1,620,973	1,612,050	274,186
Water Utility - Bond and Interest	18,584	463,844	374,239	108,189
Water Utility - Debt Service Reserve	498,517	-	166,232	332,285
Water Utility - Customer Deposit	202,875	33,171	30,521	205,525
Water Utility - Improvement	7,180	155,332	4,535	157,977
Wastewater Utility - Operating	1,212,986	2,118,830	3,164,984	166,832
Wastewater Utility - Bond and Interest	99,456	239,976	218,788	120,644
Wastewater Utility - Debt Service Reserve	-	199,500	-	199,500
Wastewater Utility - Improvement	-	1,000,000	-	1,000,000
Fiduciary Funds:				
Police Officers' Pension	556,724	307,398	321,744	542,378
Firefighters' Pension	469,571	184,592	191,026	463,137
Insurance Trust	118,499	655,559	769,920	4,138
Payroll	34,855	3,474,997	3,470,104	39,748
Totals	<u>\$ 8,370,843</u>	<u>\$ 16,158,027</u>	<u>\$ 15,772,640</u>	<u>\$ 8,756,230</u>

The accompanying notes are an integral part of the schedule.

CITY OF PRINCETON
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The City was established under the laws of the State of Indiana. The City provides the following services: public safety, highways and streets, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater, and urban redevelopment and housing.

Note 2. Fund Accounting

The City uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied or highway use taxes are received are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the City in June and December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the City on or prior to December 31 of the year collected.

Note 5. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statute (IC 5-13-9) authorizes the City to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

CITY OF PRINCETON
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 6. Pension Plans

1. Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plans

a. Public Employees' Retirement Fund

Plan Description

The City contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system, and give the City authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of PERF.

b. 1925 Police Officers' Pension Plan

Plan Description

The City contributes to the 1925 Police Officers' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute.

CITY OF PRINCETON
NOTES TO FINANCIAL INFORMATION
(Continued)

The use of the pay-as-you-go actuarial cost method by the City results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

c. 1937 Firefighters' Pension Plan

Plan Description

The City contributes to the 1937 Firefighters' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-7). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1937 Firefighters' Pension Plan are established by state statute.

The use of the pay-as-you-go actuarial cost method by the City results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The City contributes to the 1977 Police Officers' and Firefighters' Pension and Disability Fund, a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Employees' Retirement Plan (PERF) for all police officers and firefighters hired after April 30, 1977.

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting and requirements for contributions by employers and by employees. Covered employees may retire at age 55 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 55. The plan also provides for death and disability benefits.

PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

CITY OF PRINCETON
NOTES TO FINANCIAL INFORMATION
(Continued)

Funding Policy and Annual Pension Costs

Plan members are required to contribute 6% of the first-class police officers' and firefighters' salary and the City is to contribute at an actuarially determined rate. The current rate, which has not changed since the inception of the plan, is 21% of the first-class police officers' and firefighters' salary. The contribution requirements of plan members and the City are established by the Board of Trustees of PERF. The City's contributions to the plan for the years ending December 31, 2006, 2005, and 2004, were \$198,890, \$170,947, and \$160,053, respectively, equal to the required contributions for each year.

Note 7. Subsequent Event

The City's Fire Department ceased operation on December 31, 2006, and began full operations as part of the newly-formed Princeton-Patoka Township Fire Protection Territory established under Indiana Code 36-8-19.

CITY OF PRINCETON
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 1,140,353	\$ 1,248,515	\$ (108,162)	91%	\$ 1,309,121	(8%)
07-01-04	1,175,099	1,447,290	(272,191)	81%	1,357,946	(20%)
07-01-05	1,239,733	1,746,602	(506,869)	71%	1,383,472	(37%)

1925 Police Officers' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-99	\$ 353,384	\$ 3,107,500	\$ (2,754,116)	11%	\$ 147,800	(1,863%)
01-01-00	425,508	3,280,800	(2,855,292)	13%	158,500	(1,801%)
01-01-01	448,853	3,328,300	(2,879,447)	13%	163,500	(1,761%)
01-01-02	571,355	3,315,200	(2,743,845)	17%	168,500	(1,628%)
01-01-03	612,413	3,401,100	(2,788,687)	18%	173,500	(1,607%)
01-01-04	585,526	2,642,100	(2,056,574)	22%	105,100	(1,957%)

1937 Firefighters' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-99	\$ 283,785	\$ 2,728,900	\$ (2,445,115)	10%	\$ 88,700	(2,757%)
01-01-00	314,833	3,028,800	(2,713,967)	10%	63,400	(4,281%)
01-01-01	289,800	3,068,100	(2,778,300)	9%	65,400	(4,248%)
01-01-02	371,000	3,114,500	(2,743,500)	12%	67,400	(4,070%)
01-01-03	428,732	2,274,100	(1,845,368)	19%	69,400	(2,659%)
01-01-04	473,454	2,769,100	(2,295,646)	17%	70,000	(3,279%)
01-01-05	469,571	2,744,800	(2,275,229)	17%	72,400	(3,143%)

CITY OF PRINCETON
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
For The Year Ended December 31, 2006

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

General infrastructure assets completed in the current and prior years to 2001 have been reported.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 169,697
Buildings	2,625,579
Improvements other than buildings	419,041
Machinery and equipment	<u>2,581,936</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 5,796,253</u>

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 147,450
Buildings	2,531,149
Improvements other than buildings	6,459,917
Machinery and equipment	<u>1,042,461</u>
 Total Water Utility capital assets	 <u>10,180,977</u>
 Wastewater Utility:	
Capital assets, not being depreciated:	
Land	74,376
Buildings	4,696,650
Improvements other than buildings	17,357,115
Machinery and equipment	<u>3,408,054</u>
 Total Wastewater Utility capital assets	 <u>25,536,195</u>
 Total business-type activities capital assets	 <u>\$ 35,717,172</u>

CITY OF PRINCETON
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT
For The Year Ended December 31, 2006

Description of Asset	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
Fire Station	\$ 645,000	\$ 150,000
Sewer Project (paid from EDIT funds)	1,875,000	130,000
John Deere Mower	725	725
Sanitation Truck	25,166	25,166
Isuzu Street Sweeper	108,006	25,103
2005 Exmark Mower	1,233	1,233
2006 Exmark Mower	6,228	4,478
2006 Ford Explorer and 2 - 2006 Police Cars	23,185	23,185
2006 Ford Explorer	17,593	8,513
2 - 2007 Trailblazers	29,296	14,170
Bonds payable:		
General obligation bonds:		
Fire Truck	<u>215,000</u>	<u>60,000</u>
Total governmental activities long-term debt	<u>\$ 2,946,432</u>	<u>\$ 442,573</u>
Business-type Activities:		
Water Utility		
Revenue bonds:		
2002 Waterworks Refunding Bonds	\$ 895,000	\$ 135,000
2005 Waterworks Refunding Bonds	<u>3,145,000</u>	<u>85,000</u>
Total Water Utility	<u>4,040,000</u>	<u>220,000</u>
Wastewater Utility		
Revenue bonds:		
2003 Wastewater Refunding Bonds	<u>1,540,000</u>	<u>160,000</u>
Total business-type activities long-term debt:	<u>\$ 5,580,000</u>	<u>\$ 380,000</u>

CITY OF PRINCETON
EXAMINATION RESULTS AND COMMENTS

PENALTIES AND INTEREST (Applies to City)

Penalties and interest totaling \$650.87 were paid to the Internal Revenue Service on June 23, 2006, for the year 2002.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

COLLECTION OF AMOUNTS DUE (Applies to City, Water and Wastewater Utilities)

As stated in several prior reports, we noted a loss in excess of 40% again in the amount of water treated by the Utility as compared to water consumption billed for the year 2006. Officials and employees began monitoring the loss in late 2003. The loss has increased in each of the past 2 years. Water employees have found and repaired several leaks; water line leaks have been discovered during the South Main Project currently under construction. No further explanation is available. Wastewater charges are computed on water consumption, so that the Utility is also losing revenue.

In addition, private fire protection fees in the amount of \$4,187 are delinquent at the close of the examination period. Some customers have not paid for some time and follow-up has been insufficient.

No payments were received during 2006 for the salary payback agreement with Tom Perry from 2005. No evidence of follow-up in this matter was available.

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

POLICE DEPARTMENT RECEIPTS AND FEES (Applies to City)

Police Data Clerk, Peggy Whetstone, remitted the receipts and fees from the Police Department to the Clerk-Treasurer five times during 2006. She resigned on January 31, 2007, following the discovery that cash gun permit and accident report receipts in the amount of \$1,403.00 had not been remitted to the Clerk-Treasurer during the last half of the year. She signed an agreement to repay \$1,403.00 by using the cash value of her accrued sick and vacation leave. She received a check of \$603.04 on February 8, 2007, which was the result of the cash value of her accrued sick and vacation leave of \$2,911.68, less the \$1,403.00 repayment, and less \$905.64 in total payroll taxes.

CITY OF PRINCETON
EXAMINATION RESULTS AND COMMENTS
(Continued)

According to the Collective Bargaining Agreement by and between the City of Princeton, Indiana and the Chauffeurs, Teamsters and Helpers Local Union 215, Peggy Whetstone was not entitled to payment for 112 hours of accrued sick leave and 104 hours of vacation leave. The total of the overpayment was \$2,947.67, which includes \$35.99 for vacation leave used, but not earned. We requested that she reimburse the City a total of \$2,947.67. (See Summary, page 15)

Receipts and fees collected by a police department should be remitted to the clerk-treasurer or city controller at least once each week. (Cities and Towns Bulletin and Uniform Compliance Guidelines, September 2003)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

GUARANTEE DEPOSIT REGISTER (Applies to Water Utility)

As stated in several prior reports, the detailed guarantee deposit register does not reconcile with the meter deposit fund's cash balance.

At all times, the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF PRINCETON
EXIT CONFERENCE

The contents of this report were discussed on March 5, 2007, with Robert J. Hurst, Mayor; and Jayne Deckard, Clerk-Treasurer.

CITY OF PRINCETON
SUMMARY

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Peggy Whetstone, former Police Data Clerk: Police Department Receipts and Fees, pages 12 and 13:			
Gun permits and accident reports not deposited	\$ 1,403.00	\$	\$
Amount of shortage withheld from leave payment		1,403.00	-
Leave overpayment	<u>2,947.67</u>	<u>-</u>	<u>2,947.67</u>
Totals	<u>\$ 4,350.67</u>	<u>\$ 1,403.00</u>	<u>\$ 2,947.67</u>

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AFFIDAVIT

STATE OF INDIANA)
GIBSON COUNTY)

We, Barbara J. Matthews and Charles W. Pride, Jr., Field Examiners, being duly sworn on our oaths, state that the foregoing report based on the official records of the City of Princeton, Gibson County, Indiana, for the period from January 1, 2006 to December 31, 2006, is true and correct to the best of our knowledge and belief.

Barbara J. Matthews
Charles W. Pride, Jr.
Field Examiners

Subscribed and sworn to before me this 23 day of April, 2007.

Bruce J. Magraw
Notary Public

My Commission Expires: 10-08-08

County of Residence: GIBSON