

City of Princeton, Kentucky
Financial Statements With Accompanying Information
Year Ended June 30, 2009
and
Reports of Certified Public Accountants

CITY OF PRINCETON, KENTUCKY
 FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
 Year Ended June 30, 2009

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INDEPENDENT AUDITORS REPORT

To the Mayor and City Council
City of Princeton, Kentucky

We have audited the accompanying financial statements of the City of Princeton, Kentucky, as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of City of Princeton, Kentucky's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of City of Princeton, Kentucky, as of June 30, 2009, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2010, on our consideration of City of Princeton's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 2 through 6 and 37 through 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Princeton, Kentucky's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Thurman Campbell Group, PLLC

April 26, 2010

117 West Ninth Street - Hopkinsville, KY 42240 (270) 885-8481
500 West Main Street - Princeton, KY 42445 (270) 365-9733
324 Franklin Street - Clarksville, TN 37040 (931)552-7474
www.tccpas.com

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2009

The City of Princeton, Kentucky ("City") offers Management's Discussion and Analysis to provide an overview and analysis of the City's financial activities for the year ended June 30, 2009. To fully understand the entire scope of the City's financial activities, this information should be read in conjunction with the financial statements provided in this document.

The City reports its annual financial statements in a required model format issued by the Government Accounting Standards Board.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities by \$5,901,395 at June 30, 2009.
- The City's total net assets increased by \$490,091 during the year.
- The Fund Balance, a measure of current financial resources, increased in the governmental funds by \$426,416 to a June 30, 2009 Fund Balance of \$1,734,634. Of that balance, eighty percent (80%) or \$1,395,868 is unreserved and undesignated. This amount is available to continue City operations. The remaining twenty percent (20%) is reserved for specific purposes such as cemetery maintenance, and program receivables.
- The Statement of Revenues, Expenditures and Changes in Fund Balance shows that the General Fund revenues exceeded expenditures by \$426,416.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's financial statements. The City's financial report includes the activities of the City of Princeton, Kentucky. The City's basic financial statements comprise three components: 1) Government-wide statements; 2) fund financial statements and 3) notes to the financial statements.

Government-wide Statements

The government-wide statements are designed to provide readers with a broad overview of the City of Princeton's finances on a full accrual basis of accounting, which is similar to a private-sector business. The statement of net assets presents information on all of the City's assets, liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues and government activities from other functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities of the City include general government, security of persons and property, community environment, leisure time activities, and public welfare. There are no material business-type activities reported for the City, however, Princeton Water and Wastewater is shown as component unit using discrete presentation in the financial statements. Activity of the component unit is not discussed in this Management Discussion and Analysis. The government-wide financial statements can be found on pages 7-8 of this report.

Fund Financial Statements

The fund financial statements are used to report additional and detailed information about the City. These statements focus on major funds of the City. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be segregated into governmental funds. Governmental funds are those through which most governmental functions typically are financed. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The differences between governmental fund assets and liabilities are reported as fund balance. The basic governmental fund financial statements can be found on pages 9-12 of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. Notes to the financial statements can be found on pages 13-34 of this report.

Supplementary Information

In addition to basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budgetary comparison schedules as required. Required supplementary information can be found on pages 35-36 of this report.

OVERVIEW OF THE CITY'S FINANCIAL POSITION AND RESULTS OF OPERATIONS

The government-wide financial statements report that during the year ending June 30, 2009, the City received \$561,834 in operating and capital grants. Revenue from taxes and license and permits increased from June 30, 2008 balances to \$2,009,530 and \$474,997 respectively. Expenses directly related to programs offered by the city increased \$613,632 or twenty-one percent (21%) to \$3,417,663. The increase in expenses is partially related to the ice storm in January 2009 which resulted in additional labor expense in public works and public safety. Also, in the current year, the city received funding through the Community Development Block Grant (CDBG) for low to moderate income housing renovation. These expenses are reported in the Health and Welfare line item on the Statement of Activities on page 8. The Statement of Activities reflects a current year gain of \$490,091.

The fund financial statements report that General fund revenues increased \$434,900 to \$3,499,516 while expenditures increased \$29,933 to \$3,059,347 from the year ending June 30, 2008, with the primary increase being in health and welfare related to the CDBG project referred to in the preceding paragraph. Miscellaneous income included \$233,936 from the sale of rail lines.

Municipal road aid revenue decreased from the previous year. However, the City recorded a receivable of \$437,433 from the state of Kentucky for road improvement which will be available when the required reports are filed with the state of Kentucky. Expenditures from the municipal road aid fund were \$87,949.

The permanent fund reports only the portion of cemetery lot sales and donations reserved for perpetual care. The increase in the permanent fund balance is the total of those items.

The other governmental funds revenues increased \$29,708 to \$134,959 and expenditures increased \$9,010 to \$136,494 from the year ending June 30, 2008. Significant revenues and expenditures are public safety salaries and the reimbursement of those salaries through the KLEFPF and PFFIP programs.

Overall, the City's financial position improved from the previous year.

The City reported inventory as part of the current and other assets shown below. This amount is a result of equipment that was purchased through a Department of Homeland Security grant. The equipment inventory is maintained by the city and is for use during hazardous material emergencies. The inventory is maintained by the City's fire department staff and was reviewed by a representative of the Division of State Fire Marshall.

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

	<u>2009</u>	<u>2008</u>
Current and other assets	\$ 2,310,193	\$ 1,683,404
Capital assets, net	<u>4,056,562</u>	<u>4,230,213</u>
Total assets	<u>6,366,755</u>	<u>5,913,617</u>
Long-term liabilities	74,268	116,373
Other liabilities	<u>391,092</u>	<u>385,941</u>
Total liabilities	465,360	502,314
Net assets:		
Invested in capital assets, net	3,940,190	4,073,272
Restricted net assets	297,316	294,576
Unrestricted net assets	<u>1,663,889</u>	<u>1,043,455</u>
Total net assets	<u>\$ 5,901,395</u>	<u>\$ 5,411,303</u>

	<u>2009</u>	<u>2008</u>
Revenues:		
Program revenues		
Charges for services	\$ 549,926	\$ 127,016
Operating grants and contributions	555,056	405,101
Capital grants and contributions	6,778	259,966
General revenues		
Taxes	2,009,530	1,999,409
Licenses and permits	474,997	473,256
Investment earnings	21,221	17,759
Other	56,308	7,005
Total revenues	<u>3,673,816</u>	<u>3,289,512</u>
Expenses:		
General government	469,939	433,162
Public works	920,256	903,839
Public safety	1,476,586	1,389,267
Health and welfare	490,837	32,000
Culture and recreation	54,443	42,669
Interest on long-term debt	5,602	3,094
Total expenses	<u>3,417,663</u>	<u>2,804,031</u>
Excess before special items	256,153	485,481
Contribution to Permanent Fund	-	2,205
Special items	233,938	10,416
Increase in net assets before transfer	<u>490,091</u>	<u>498,102</u>
Change in net assets	<u>\$ 490,091</u>	<u>\$ 498,102</u>

GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget and the final budget passed by the city council anticipated an increase of \$45,500 and \$434,180, respectively in the general fund balance. The actual excess of revenues and other sources exceeding expenditures and other uses was \$394,000.

The budgetary figures and actual amounts are reported in the supplementary information on pages 35-36.

CAPITAL ASSETS

The City's investment in capital assets for its governmental activities as of June 30, 2009 amounted to \$4,056,562 (net of accumulated depreciation). This investment includes land, buildings, vehicles and equipment. During the year the City expended \$114,390 for the purchase of assets, including the purchase of two police cruisers, equipment for the Street and Cemetery Departments and an outdoor warning siren.

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Land	\$ 245,491	\$ 245,491
Buildings and improvements	1,886,638	1,939,603
Equipment	1,093,139	1,184,633
Infrastructure	831,294	860,486
Total	<u>\$ 4,056,562</u>	<u>\$ 4,230,213</u>

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had a total outstanding debt of \$116,373. The entire outstanding debt is payable from the City's General Fund. The debt consists of loans related to a heavy rescue truck and five police cruisers. The amount due during the next fiscal year is \$42,105 and the debt is scheduled to be paid in full in 2013. Interest expense for 2009 was \$5,601.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City of Princeton, Kentucky's finances for all those with an interest in the government's finances. Questions or requests for additional information may be addressed to City of Princeton, Kentucky, 206 E Market Street, Princeton, Kentucky 42445.

Copies of component unit financial statements may be obtained at City Hall, City of Princeton, Kentucky.

CITY OF PRINCETON, KENTUCKY
STATEMENT OF NET ASSETS
June 30, 2009

	Primary Government Governmental Activities	Component Unit
ASSETS		
Cash	\$ 1,050,229	\$ 206,871
Investments	256,744	-
Prepaid expense	-	59,648
Receivables, net	932,106	285,086
Other receivable	41,451	92,131
Inventory	29,663	111,039
Capital assets:		
Land	245,491	-
Buildings and equipment, net of depreciation	3,811,071	14,190,898
Restricted cash	-	1,102,402
Deferred charges	-	2,821
	<u>6,366,755</u>	<u>16,050,896</u>
LIABILITIES		
Accounts payable-trade	240,023	137,606
Pension benefits payable	8,451	-
Compensated absences	56,820	-
Customer deposits	-	84,956
Accrued liabilities	43,693	77,454
Current maturities of long-term debt	42,105	523,788
Long-term debt	74,268	3,389,423
	<u>465,360</u>	<u>4,213,227</u>
NET ASSETS		
Net assets-invested in capital		
Assets, net of related debt	3,940,190	10,209,459
Restricted for:		
Debt service	-	1,102,402
Other purpose (nonexpendable)	297,316	-
Unrestricted	<u>1,663,889</u>	<u>525,808</u>
	<u>\$ 5,901,395</u>	<u>\$ 11,837,669</u>

CITY OF PRINCETON, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2009

	Program Revenues				Net (Expense) Revenue	Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Government activities:						
General government	\$ 469,939	\$ 50,780	\$ 14,384	\$ 6,778	\$ (397,997)	\$ -
Public works	920,256	472,416	454,838	-	6,998	-
Public safety	1,476,586	26,730	85,834	-	(1,364,022)	-
Health and welfare	490,837	-	-	-	(490,837)	-
Culture and recreation	54,443	-	-	-	(54,443)	-
Interest on long-term debt	5,602	-	-	-	(5,602)	-
Total government activities	3,417,663	549,926	555,056	6,778	(2,305,903)	-
Total primary government						
Component Unit:						
Princeton Water and Wastewater	2,761,959	2,579,680	-	137,347	-	(44,932)
General revenues:						
Taxes					2,009,530	-
Licenses and permits					474,997	-
Unrestricted investment earnings					21,221	36,963
Miscellaneous					56,308	-
Total general revenues					2,562,056	36,963
Special items:						
Gain on sale of asset					233,938	-
Total special items					233,938	-
Total general revenues and special items					2,795,994	36,963
Change in net assets					490,091	(7,969)
Net assets, beginning					5,411,304	11,845,638
Net assets, ending					\$ 5,901,395	\$ 11,837,669

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

CITY OF PRINCETON, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2009

	Major Funds				Total Governmental Funds
	General	Special Revenue Municipal Road Aid	Permanent Cemetery Maintenance	Other Governmental Funds	
ASSETS					
Cash	\$ 811,611	\$ 11,528	\$ 41,710	\$ 185,380	\$ 1,050,229
Investments	-	-	256,744	-	256,744
Receivables (net allowance for uncollectibles at \$1,417)					
Taxes	1,416	-	-	-	1,416
Accounts	281,118	437,432	-	15,232	733,782
Note receivable	41,450	-	-	-	41,450
Due from other funds	405,413	-	4,220	25,629	435,262
	<u>1,541,008</u>	<u>448,960</u>	<u>302,674</u>	<u>226,241</u>	<u>2,518,883</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable-trade	237,024	-	-	3,000	240,024
Accounts payable-related party	-	-	-	-	-
Pension benefits payable	9,809	-	-	-	9,809
Compensated absences	56,820	-	-	-	56,820
Accrued liabilities	42,335	-	-	-	42,335
Due to other funds	29,848	363,872	5,358	36,183	435,261
Total Liabilities	<u>375,836</u>	<u>363,872</u>	<u>5,358</u>	<u>39,183</u>	<u>784,249</u>
Fund Balances					
Reserved	-	-	297,316	-	297,316
Reserved for noncurrent receivables	41,450	-	-	-	41,450
Unreserved:					
Undesignated	1,123,722	85,088	-	187,058	1,395,868
Total Fund Balances	<u>1,165,172</u>	<u>85,088</u>	<u>297,316</u>	<u>187,058</u>	<u>1,734,634</u>
	<u>\$ 1,541,008</u>	<u>\$ 448,960</u>	<u>\$ 302,674</u>	<u>\$ 226,241</u>	<u>\$ 2,518,883</u>

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

CITY OF PRINCETON, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2009

Total fund balances per fund financial statements \$ 1,734,634

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets. 4,056,562

Inventory is not reported in this fund financial statement because it is not a current financial resource, but it is reported in the statement of net assets 29,663

Under the modified accrual basis of accounting the only receivables recognized are those expected to be collected within sixty days of the close of the fiscal year. The accrual basis of accounting recognizes all receivables at year end. This is the additional receivable recognized under the accrual basis. 196,909

Certain liabilities (such as accrued interest and notes payable) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets' (116,373)

Net assets for governmental activities \$ 5,901,395

CITY OF PRINCETON, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2009

	Major Funds				Total Governmental Funds
	General	Special Revenue Municipal Road Aid	Permanent Cemetary Maintenance	Other Governmental Funds	
REVENUES					
Taxes	\$ 1,984,979	\$ -	\$ -	\$ 19,133	\$ 2,004,112
Licenses and permits	474,990	-	-	-	474,990
Intergovernmental revenues	603,245	72,942	-	105,015	781,202
Charges for services	85,944	-	746	2,536	89,226
Rental income	25,915	-	-	672	26,587
Interest income	16,497	49	1,994	913	19,453
Miscellaneous income	307,946	-	-	6,690	314,636
Total revenues	3,499,516	72,991	2,740	134,959	3,710,206
EXPENDITURES					
Current:					
General government	393,297	-	-	-	393,297
Public works	791,368	62,915	-	5,866	860,149
Public safety	1,266,389	-	-	65,118	1,331,507
Health and welfare	482,837	-	-	8,000	490,837
Culture and recreation	43,101	-	-	11,341	54,442
Capital outlay	82,355	25,034	-	-	107,389
Debt service:					
Principal	-	-	-	40,568	40,568
Interest and fees	-	-	-	5,601	5,601
Total expenditures	3,059,347	87,949	-	136,494	3,283,790
Excess of revenues over (under) expenditures	440,169	(14,958)	2,740	(1,535)	426,416
OTHER FINANCING SOURCES (USES)					
Transfers from other funds	-	-	-	46,169	46,169
Transfers to other funds	(46,169)	-	-	-	(46,169)
Net other financing sources (uses)	(46,169)	-	-	46,169	-
Net change in fund balances	394,000	(14,958)	2,740	44,634	426,416
Fund balances, beginning	771,172	100,046	294,576	142,424	1,308,218
Fund balances, ending	\$ 1,165,172	\$ 85,088	\$ 297,316	\$ 187,058	\$ 1,734,634

CITY OF PRINCETON, KENTUCKY
 NOTES TO THE FINANCIAL STATEMENTS
 (Continued)

6 RELATED PARTY TRANSACTIONS (continued)

The City-County Park Board and the City-County Airport Board were established jointly by the City Council and Caldwell County Fiscal Court to provide services to the residents of Princeton and Caldwell County, Kentucky.

7 COMPONENT UNIT SPECIAL FUNDS

Special funds consist of the following:

Equipment Replacement	\$	268,584
Depreciation Fund		319,270
Project Fund		500
KIA Sinking Fund		67,476
Bond Sinking Fund Reserve - Series 1997		353,322
Bond Sinking Fund Reserve - Series 2000		8,520
Customer Deposit Funds:		
Customer Deposit - Cash		24,730
Customer Deposit - Certificate of Deposit		60,000
		\$ 1,102,402

The City of Princeton, Kentucky Water and Sewer Refunding Revenue Bonds – Series 1997 requires that the Utility establish a Sinking Fund Reserve in an amount not less than the maximum amount of principal and interest requirements falling due in any twelve month period on all of the outstanding bonds. The bonds also require the establishment of a Debt Service Reserve Fund in the amount of \$269,000. At June 30, 2009, the sinking fund balance is sufficient to satisfy such bond requirements.

The Bond also requires that a Depreciation Fund be maintained at an amount no less than \$300,000. Amounts in the Depreciation Fund may be withdrawn and used for the purpose of paying the cost of making unusual or extraordinary maintenance, repairs or replacements to the System, or for the construction of extensions, additions, or improvements.

The City of Princeton, Kentucky Water and Sewer Revenue Bonds – Series 2000 requires that the Utility establish a sinking fund reserve in an amount not less than the maximum amount of principal and interest requirements falling due in any twelve-month period on all of the outstanding bonds. At June 30, 2009, the sinking fund balance is sufficient to satisfy such bond requirements.

The Bond also requires that a Depreciation Fund be established and funded at \$675 each month until the current bonds are paid in full. Amounts in the Depreciation Fund may be withdrawn and used for the purpose of paying the cost making unusual or extraordinary maintenance, repairs or replacements to the System. The amounts in the fund may also be used for the construction of extensions, additions, or improvements to the System which will either enhance its revenue-producing capacity or will provide a higher degree of service, and when necessary, for the purpose of making payments of principal and interest on the Bonds if the amount on deposit in the Sinking Fund is not sufficient to make such payments.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

7 COMPONENT UNIT SPECIAL FUNDS (continued)

On August 1, 1995 and November 1, 2000 the Utility signed assistance agreements with the Kentucky Infrastructure Authority (KIA) for a loan of \$2,963,232 and \$1,500,000, respectively. The 1995 loan was to be used to expand and upgrade the existing wastewater treatment plant. The 2000 loan was to be used to expand and upgrade the existing water treatment plant. These agreements require the Utility to establish an account titled "Maintenance and Replacement Reserve". Amounts in the Maintenance and Replacement Reserve may be used for extraordinary maintenance expenses related to the Projects or for the unbudgeted cost of replacing worn or obsolete portions of the projects. The required balance of the Series 1995 reserve account was \$204,980 and the Series 2000 reserve fund was \$32,000 at June 30, 2009.

The Utility established a KIA Sinking Fund account to escrow on a monthly basis the payments of principal and interest for the KIA funds.

8 CUSTOMERS' DEPOSIT FUND

Effective May 1, 1979, the Princeton Water and Wastewater System began to pay interest on meter deposits at an interest rate of 6 percent. Accrued interest on these deposits was \$ 8,749 as of June 30, 2009. This practice was discontinued in August 2004, however, interest up to that point remains a liability.

The amount reported as a liability for customer deposits as of June 30, 2009 was \$84,956. Assets available for retirement of this liability and the accrued interest described above are \$84,730 at June 30, 2009 and are reported as restricted in the Statement of Net Assets.

CITY OF PRINCETON, KENTUCKY
 NOTES TO THE FINANCIAL STATEMENTS
 (Continued)

9 LONG-TERM DEBT
City of Princeton, Kentucky –

The changes in the City's long-term debt for the year ended June 30, 2009 are as follows:

	<u>Balance</u> <u>July 1, 2008</u>	<u>Debt</u> <u>Proceeds</u>	<u>Debt</u> <u>Payments</u>	<u>Balance</u> <u>June 30, 2009</u>
KY League of Cities Funding Trust Lease Program \$100,000 Lease Agreement. Principal payments due monthly with a variable rate and fees currently 4.6%. Collateralized by five police cars.	98,426	-	18,583	79,843
KY League of Cities Funding Trust Lease Program Revenue Bonds, Series 2004. Principal payments due monthly with a variable rate and fees currently 3.443%, collateralized by a Rescue Apparatus-SVI #528 Heavy Rescue	58,515		21,985	36,530
Total	<u>\$ 156,941</u>	<u>\$ -</u>	<u>\$ 40,568</u>	<u>\$ 116,373</u>

Annual aggregate maturities of the City's debt for the years subsequent to June 30, 2009 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	42,105	4,627	46,732
2011	33,732	3,089	36,821
2012	20,785	2,152	22,937
2013	19,751	1,299	21,050
Total	<u>\$ 116,373</u>	<u>\$ 11,167</u>	<u>\$ 127,540</u>

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

<u>Type of Debt</u>	<u>Paid From</u>	<u>Resources Provided By</u>
Kentucky League of Cities: Revenue Bonds	Debt Service Fund	General Fund

CITY OF PRINCETON, KENTUCKY
 NOTES TO THE FINANCIAL STATEMENTS
 (Continued)

9 LONG-TERM DEBT (continued)
Princeton Water and Wastewater -

Business Type Activities:	July 1, 2008	Additions	Reductions	June 30, 2009
Note payable-Maintenance truck	\$ 44,685	\$ -	\$ 16,031	\$ 28,654
Revenue Bonds - 1997 Series	525,000	-	255,000	270,000
Less amortized discount	(4,266)	-	(2,340)	(1,926)
Revenue Bonds - 2000 Series	1,356,000	-	19,500	1,336,500
Kentucky Infrastructure Authority	1,299,821	-	149,586	1,150,235
Kentucky Infrastructure Authority	1,192,769	-	63,021	1,129,748
	<u>\$ 4,414,009</u>	<u>\$ -</u>	<u>\$ 500,798</u>	<u>\$ 3,913,211</u>

Princeton Water and Wastewater borrowed \$50,000 from Fifth Third Bank to purchase a maintenance truck February 26, 2008. The interest rate on the note is 5.7% payable in 36 monthly payments. The note is secured by certificates of deposit held at Fifth Third Bank. Principal and interest payments remaining are reflected below:

	Principal	Interest	Total
2010	16,891	1,233	18,124
2011	11,763	258	12,021
	<u>\$ 28,654</u>	<u>\$ 1,491</u>	<u>\$ 30,145</u>

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

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

During 1997, the Commission adopted a resolution to issue \$2,150,000 principal "City of Princeton Water and Sewer Refunding Revenue Bonds, Series 1997" for the purpose of advance refunding the outstanding \$1,905,000 "City of Princeton Water and Wastewater Revenue Bonds Series 1990".

Series 1997 Bonds maturing before January 1, 2008 shall not be subject to redemption prior to maturity. The current bonds on or after January 1, 2009 are subject to redemption or prepayment by the Utility, at its option, in whole or in part at any time on or after January 1, 2008, in reverse order of maturities (less than all bonds of a single maturity to be selected in such manner as the Registrar may determine) at the principal amount to be redeemed plus accrued interest to the date of redemption or prepayment, on the dates, such to redemption premium stated as a percentage of the principal amount to be redeemed, as follows:

CITY OF PRINCETON, KENTUCKY
 NOTES TO THE FINANCIAL STATEMENTS
 (Continued)

9 LONG-TERM DEBT (continued)
Princeton Water and Wastewater -

Redemption Dates (Inclusive)	Redemption Price Percentage of Principal Amount
January 1, 2008 – December 31, 2008	102%
January 1, 2009 – December 31, 2009	101%
January 1, 2010 and thereafter	100%

Interest is paid each January 1 and July 1. The bonds are to mature in annual installments in accordance with the schedule presented below:

Maturity Date	Interest	Principal Amount	Interest	Total
January 1	Rate			
2010	4.75%	270,000	12,825	282,825
		\$ 270,000	\$ 12,825	\$ 282,825

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

The bond covenants require that the rates for all utility services rendered by the Commission must be reasonable; the Commission must be audited annually and must maintain adequate employee bonding and property insurance. The net revenues of the Commission must be equal to 120% of the maximum annual debt service that will be due in each calendar year for both principal and interest on the bonds.

Series 2000 Bonds maturing before January 1, 2010 shall not be subject to redemption prior to maturity. The current bonds on or after January 1, 2010 are subject to redemption or prepayment by the Utility, at its option, in whole or in part at any time on or after January 1, 2010, subject to any interest payment falling on or after January 1, 2009, at par plus accrued interest, without any prepayment penalty.

Interest, at 4.50%, is paid each January 1 and July 1. The bonds are to mature in annual installments in accordance with the schedule presented below:

Maturity Date	Principal	Interest	Total
January 1	Amount		
2010	\$ 21,000	\$ 59,670	\$ 80,670
2011	21,500	58,714	80,214
2012	22,500	57,724	80,224
2013	23,500	56,689	80,189
2014-2018	134,500	266,187	400,687
2019-2023	168,000	232,269	400,269
2024-2028	209,500	189,976	399,476
2029-2033	261,000	137,294	398,294
2034-2038	325,000	71,596	396,596
2039-2040	150,000	6,795	156,795
	\$ 1,336,500	\$ 1,136,914	\$ 2,473,414

CITY OF PRINCETON, KENTUCKY
 NOTES TO THE FINANCIAL STATEMENTS
 (Continued)

9 LONG-TERM DEBT (continued)
Princeton Water and Wastewater -

On August 1, 1995 the Utility signed an assistance agreement with the Kentucky Infrastructure Authority (KIA) for loans in the amount of \$2,365,520 at .40% and \$597,712 at 1.30% to expand and upgrade the existing wastewater treatment plant. Principal and interest payments are due June 1 and December 1 of each year until the loans are repaid.

The loans are to mature in annual installments in accordance with the schedule presented below:

Maturity Date June 1 and December 1	Principal Amount	Interest	Principal Amount	Interest	Total
2010	\$ 119,671	\$ 3,518	\$ 30,789	\$ 3,032	\$ 157,010
2011	120,150	3,038	31,190	2,631	157,009
2012	120,631	2,557	31,597	2,224	157,009
2013	121,114	2,074	32,009	1,812	157,009
2014-2017	427,731	3,429	115,356	3,019	549,535
	<u>\$ 909,297</u>	<u>\$ 14,616</u>	<u>\$ 240,941</u>	<u>\$ 12,718</u>	<u>\$ 1,177,572</u>

On November 1, 2000 1995 the Utility signed an assistance agreement with the Kentucky Infrastructure Authority (KIA) for a loan in the amount of \$1,500,000 at 3.80% to expand and upgrade the existing water treatment plant. Principal and interest payments are due June 1 and December 1 of each year until the loans are repaid.

The loans are to mature in annual installments in accordance with the schedule presented below:

Maturity Date June 1 and December 1	Principal Amount	Interest	Total
2010	\$ 65,438	\$ 42,615	\$ 108,053
2011	67,949	39,804	107,753
2012	70,555	37,198	107,753
2013	73,262	34,491	107,753
2014-2018	410,684	128,081	538,765
2019-2023	441,860	43,030	484,890
	<u>\$ 1,129,748</u>	<u>\$ 325,219</u>	<u>\$ 1,454,967</u>

CITY OF PRINCETON, KENTUCKY
 NOTES TO THE FINANCIAL STATEMENTS
 (Continued)

10 DEFERRED CHARGES

Deferred Charges of Princeton Water and Wastewater as of June 30, 2009 consist of the following:

Unamortized Bond Cost \$ 2,821

11 PENSION PLAN

City of Princeton, Kentucky -

County Employees Retirement System – On June 1, 2001 the City of Princeton entered the County Employees Retirement System. The County Employees Retirement System (CERS) is a multiple employer cost sharing defined benefit public employee retirement system. The CERS covers substantially all regular full-time employees of each county and local government agencies. The plan provides for retirement, disability, and death benefits to plan members. Copies of this report may be obtained from Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601.

CERS participants have a fully vested interest after completion of sixty (60) months of service, twelve (12) months of which are current service. At a minimum, terminated employees are refunded their contributions with credited interest at 3.00% compounded annually through June 30, 1980, 6.00% through June 30, 1986, and 4.00% thereafter. The Board determines and may amend contribution rates, per Kentucky Revised Statute, if it is determined on a basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board.

CERS covered employees in the non-hazardous duty retirement plan are required to contribute an amount equal to 5.00% of gross pay and the employer was required to contribute an amount equal to 13.50% of gross pay for the year ended June 30, 2009. Employees in the hazardous duty retirement plan are required to contribute an amount equal to 8.00% of gross pay and the employer was required to contribute an amount equal to 29.50% of gross pay for the year ended June 30, 2009.

Trend information:

Schedule of Employer Contributions –

Year Ended	Annual Required Contribution	Annual Contribution	Percentage Contribution
June 30, 2009	\$ 221,610	\$ 221,610	100%
June 30, 2008	\$ 235,123	\$ 235,123	100%
June 30, 2007	\$ 198,296	\$ 198,296	100%

Princeton Water and Wastewater -

On May 18, 2001, the Commission approved a resolution to participate in the County Employees Retirement System effective June 1, 2001.

The County Employees Retirement System (CERS) is a multiple employer cost sharing defined benefit public employee retirement system which covers substantially all regular full-time employees of each county and local government agencies. The plan provides for retirement,

CITY OF PRINCETON, KENTUCKY
 NOTES TO THE FINANCIAL STATEMENTS
 (Continued)

11 PENSION PLAN (continued)
Princeton Water and Wastewater -

disability and death benefits to plan members. Copies of this report may be obtained from Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

CERS participants have a fully vested interest after completion of sixty (60) months of service, twelve (12) months of which are current service. At a minimum, terminated employees are refunded their contributions with credited interest at 3 percent thereafter. The Commission determines and may amend contribution rates, per Kentucky Revised Statute, if it is determined on a basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Commission.

CERS covered employees are required to contribute an amount equal to 5.00% of gross pay and the employer was required to contribute an amount equal to 13.50% gross pay for the year ended June 30, 2009.

Trend information:

Schedule of Employer Contributions:

Year Ended	Annual Required Contribution	Annual Contribution	Percentage Contribution
June 30, 2009	\$ 87,778	\$ 87,778	100%
June 30, 2008	\$ 97,111	\$ 97,111	100%
June 30, 2007	\$ 85,371	\$ 85,371	100%

12 COMPENSATED ABSENCES

City of Princeton, Kentucky -

The City of Princeton allows employees to accumulate unused sick leave to a maximum of 120 days. General Fund employees with 15 years continuous employment, who have accumulated 50 days of unused sick leave are entitled to be paid a lump sum benefit upon termination. Qualifying employees will receive one day (8 hours) for each three days of accumulated sick leave.

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

	<u>June 30, 2009</u>
Vacation Pay	\$ 45,537
Sick Pay	11,283
	<u>\$ 56,820</u>

CITY OF PRINCETON, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

12 COMPENSATED ABSENCES (continued)

Princeton Water and Wastewater -

Princeton Water and Wastewater allows employees to accumulate unused vacation to a maximum of 200 hours. As of June 30, 2009, the liability for accrued vacation was \$46,927.

Employees may accumulate 6 days of sick pay. At the end of a calendar year, all unused sick time, up to 6 days, will be transferred to an employee medical leave account. Upon termination, the Utility will not compensate an employee for unused sick days. Effective January 1, 2005 an employee can earn up to 6 medical leave days per calendar year. Unused medical leave can be carried over to the next calendar year. Employees can accumulate up to 150 days of medical leave.

Upon retirement at any age, which qualifies an employee for Social Security retirement benefits, any employee who has accrued 50 or more days unused medical leave shall be paid a lump sum benefit equal to one day's pay for each two days of accumulated unused medical leave. Upon reaching full retirement status with the Commission at an age that does not qualify the employee for Social Security retirement benefits (i.e. 27 years of active employment with the Utility but less than 62 years old), any employee who has accrued 50 or more days unused medical leave shall be paid a lump sum benefit equal to one day's pay for each 2 ½ days of accumulated unused medical leave. Upon voluntary termination of employment prior to qualification for Social Security retirement benefits, but after completion of 15 years continuous employment, an employee who has accrued 50 or more days of unused medical leave shall be paid a lump sum benefit equal to one day's pay for each three days of accumulated unpaid medical leave. Any employee entitled to the aforementioned lump sum benefit payment may request that payment be received weekly versus a lump sum. Unused medical leave hours will not be paid out upon an employee's separation from employment (voluntary or involuntary) if the employee has less than 15 years of continuous service or if the employee has less than 50 days of accrued and unused medical leave. It is impracticable to estimate the amounts of compensation for future medical leave, and, accordingly, no liability has been recorded in the accompanying financial statements. The Utility's policy is to recognize the cost of compensated medical leave when actually paid to employees.

13 OTHER MATTERS

The City has, over several years, appropriated funds to civic and charitable organizations, which, while being made for civic purposes and public welfare, may not be in accordance with Section 179 of the Kentucky Constitution.

14 COMMITMENTS AND CONTINGENCIES

Litigation - Various claims and lawsuits are pending against the City. It is the opinion of City management that potential losses on any claims and lawsuits will not be material.

Grant audits - The City receives Federal and State Grants for specific purposes that are subject to review and audit by Federal and State agencies. Such audits could result in a request for reimbursement for expenditures disallowed under the terms and conditions of the appropriate agency. It is the opinion of City management that such disallowances, if any, will not be material.

CITY OF PRINCETON, KENTUCKY
 NOTES TO THE FINANCIAL STATEMENTS
 (Continued)

15 COMMERCIAL INSURANCE

It is the policy of the City to purchase commercial insurance for the risks of losses to which it is exposed. Those risks include general liability, property and casualty, worker's compensation and employee health and accident. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

It is the policy of the Princeton Water and Wastewater to purchase commercial insurance for the risks of losses to which it is exposed. Those risks include general liability, property and casualty, worker's compensation and employee health and accident. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

16 INTERFUND RECEIVABLES AND PAYABLES

Individual fund receivable and payable balances resulting from normal business practice at June 30, 2009 were as follows:

	<u>Interfund Payables</u>	<u>Interfund Receivables</u>
General	\$ 41,541	\$ 405,413
Municipal Road Aid	363,872	-
Capital Projects	25,629	25,629
Perpetual Care	4,219	4,219
Total	<u>\$ 435,261</u>	<u>\$ 435,261</u>

17 CONCENTRATION OF CREDIT RISK

Princeton Water and Wastewater System grants credit to its customers, all of whom are residents or businesses located in and around Princeton, Kentucky.

18 PENDING LEGAL ACTION

The city is party to two lawsuits pending in United States District Court. The first case alleges discrimination and a hostile work environment. A motion has been filed for summary judgment. In the event the motion is denied, the case is scheduled to go to trial August 9, 2010. The defendant is seeking punitive damages in addition to compensatory damages and, as such, it is impossible to estimate a range of potential loss at this time. The second case alleges improper dismissal. The city intends to file a motion summary judgment. In the event the motion is denied the defendant is seeking punitive damages in addition to compensatory damages and, as such, it is impossible to estimate a range of potential loss at this time.

CITY OF PRINCETON, KENTUCKY
 Schedule of Expenditures of Federal Awards
 For the year ended June 30, 2009

	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Department of Housing and Urban Development: Scattered Site Housing Rehabilitation Project	14.228	NA	\$ 434,113
Department of Homeland Security: Public Assistance Grants Kentucky Emergency Management Public Assistance Grant	97.036	DR1802/1818	113,033
United States Department of Transportation: State and Community Highway Safety Highway Safety	20.600	NA	1,802
United States Department of Agriculture: Emergency Watershet Protection Program Emergency Watershed Protection Program	10.923	NA	4,969
Total Expenditures of Federal Awards			<u>\$ 553,917</u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF PRINCETON, KENTUCKY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2009

1 Basis of Accounting

The Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting, which is consistent with the city's governmental fund financial statements. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

2 Expenditures

The expenditures shown in the schedule represent federal amounts only. Actual costs include state and local funding.

ACCOMPANYING INFORMATION

CITY OF PRINCETON, KENTUCKY
 General Fund
 Schedule of Revenues, Expenditures, and Changes in Fund Balance
 Budget (GAAP Basis) and Actual
 For the year ended June 30, 2009

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 1,992,100	\$ 1,991,445	\$ 1,984,979	\$ (6,466)
Licenses and permits	484,400	475,100	474,990	(110)
Intergovernmental revenues	12,850	667,096	603,245	(63,851)
Charges for services	113,550	84,630	85,944	1,314
Rental income	27,900	25,840	25,915	75
Interest income	13,000	13,900	16,497	2,597
Miscellaneous income	10,000	305,689	307,946	2,257
	<u>2,653,800</u>	<u>3,563,700</u>	<u>3,499,516</u>	<u>(64,184)</u>
Expenditures:				
Current:				
General government	380,312	366,009	393,297	(27,288)
Public works	773,607	1,300,167	791,368	508,799
Public safety	1,286,081	1,275,375	1,266,389	8,986
Health and welfare	27,000	27,000	482,837	(455,837)
Culture and recreation	40,400	40,000	43,100	(3,100)
Capital outlay	54,100	74,800	82,356	(7,556)
	<u>2,561,500</u>	<u>3,083,351</u>	<u>3,059,347</u>	<u>24,004</u>
Total expenditures				
Excess of revenues over (under) expenditures	<u>92,300</u>	<u>480,349</u>	<u>440,169</u>	<u>(40,180)</u>
Other financing sources (uses)				
Loan payments	(46,800)	(46,169)	(46,169)	-
Other financing sources	-	-	-	0
Operating transfers in	-	-	-	-
	<u>(46,800)</u>	<u>(46,169)</u>	<u>(46,169)</u>	<u>-</u>
Total other financing sources (uses)				
Excess of revenues and other sources Over (under) expenditures and other uses	<u>\$ 45,500</u>	<u>\$ 434,180</u>	394,000	<u>\$ (40,180)</u>
Fund balances, beginning of year			<u>771,172</u>	
Fund balances, end of year			<u>\$ 1,165,172</u>	

CITY OF PRINCETON, KENTUCKY
Municipal Road Aid
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget (GAAP Basis) and Actual
For the year ended June 30, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Intergovernmental revenues	\$ 121,500	\$ 103,000	\$ 72,942	\$ (30,058)
Interest income	500	60	49	(11)
	<u>122,000</u>	<u>103,060</u>	<u>72,991</u>	<u>(30,069)</u>
Total revenues				
Expenditures:				
Current:				
Public works	80,000	62,914	87,949	(25,035)
Capital Outlay	26,000.00	25,034.00	-	25,034
	<u>106,000</u>	<u>87,948</u>	<u>87,949</u>	<u>(1)</u>
Total expenditures				
Excess of revenues over (under) expenditures	<u>16,000</u>	<u>15,112</u>	<u>(14,958)</u>	<u>(30,070)</u>
Excess of revenues and other sources Over (under) expenditures and other uses	<u>\$ 16,000</u>	<u>\$ 15,112</u>	<u>(14,958)</u>	<u>\$ (30,070)</u>
Fund balances, beginning of year			<u>100,046</u>	
Fund balances, end of year			<u>\$ 85,088</u>	

**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***



THURMAN CAMPBELL GROUP, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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Practice Section

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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

We have audited the financial statements of City of Princeton, Kentucky, as of and for the year ended June 30, 2009, and have issued our report thereon dated April 26, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Princeton, Kentucky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as item B 09-01.

We noted certain matters that we reported to management of City of Princeton, Kentucky in a separate letter dated April 26, 2010.

City of Princeton's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit City of Princeton's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than these specified parties.

Thurman Campbell Group, PLLC

April 26, 2010

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the City Council
City of Princeton, Kentucky

Compliance

We have audited the compliance of City of Princeton, Kentucky, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. City of Princeton, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Princeton, Kentucky's management. Our responsibility is to express an opinion on City of Princeton, Kentucky's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Princeton, Kentucky's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Princeton, Kentucky's compliance with those requirements.

In our opinion, City of Princeton, Kentucky, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

Management of City of Princeton, Kentucky, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Princeton, Kentucky's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Princeton, Kentucky's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

City of Princeton, Kentucky's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit City of Princeton, Kentucky's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Thurman Campbell Group, PLLC

Princeton, Kentucky
April 26, 2010

CITY OF PRINCETON, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2008

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of City of Princeton, Kentucky.
2. The 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* did not report any significant deficiencies.
3. The 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* disclosed one instance of noncompliance related to the audit.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

SIGNIFICANT DEFICIENCY

08-01 Compliance:

Condition: Certain financial reports are not being submitted timely to state oversight agencies.

Criteria: Management is responsible for ensuring that all financial reports required by oversight agencies be prepared and submitted on a timely basis.

Effect: Certain intergovernmental revenue funds are not being remitted to the City. As a result, general tax revenue is used to fund projects normally funded with state monies.

Recommendation: The city should fill all financial reports on a timely basis.

Response: We concur with the recommendation and will submit financial reports timely. The Director of Finance has plans to submit all required reports by June 30, 2009.

CITY OF PRINCETON, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2009

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of City of Princeton, Kentucky.
2. The 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* did not report any significant deficiencies.
3. The 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* disclosed one instance of noncompliance related to the audit.
4. No significant deficiencies relating to the audit of the major federal award programs were reported in the Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for City of Princeton, Kentucky expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for City of Princeton, Kentucky.
7. The program tested as a major was the Community Development Block Grant through the U.S Department of Housing and Urban Development.
8. The threshold for distinguishing Types A and B programs was \$300,000.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

SIGNIFICANT DEFICIENCY

09-01 Compliance:

Condition: Certain financial reports are not being submitted timely to state oversight agencies.

Criteria: Management is responsible for ensuring that all financial reports required by oversight agencies be prepared and submitted on a timely basis.

Effect: Certain intergovernmental revenue funds are not being remitted to the City. As a result, general tax revenue is used to fund projects normally funded with state monies.

Recommendation: The city should fill all financial reports on a timely basis.

Response: We concur with the recommendation and will submit financial reports timely.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None