

**CITY OF PRINCETON  
Mille Lacs County and  
Sherburne County, Minnesota**

*Audited Financial Statements  
For the Fiscal Year Ended December 31, 2008*

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

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**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**ELECTED OFFICIALS AND ADMINISTRATION**  
**December 31, 2008**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Jeremy Riddle	Mayor	December 31, 2008
Dick Dobson	Council Member	December 31, 2008
Victoria Hallin	Council Member	December 31, 2008
Paul Whitcomb	Council Member	December 31, 2010
Lee Steinbrecher	Council Member	December 31, 2010
<u>Administration</u>		
Mark Karnowski	City Administrator	
Steven L. Jackson	Finance Director	
Ann Bien	Deputy City Clerk	
Bonnie Nelson	Finance Clerk	



*Expert advice. When you need it.<sup>SM</sup>*

## **INDEPENDENT AUDITOR'S REPORT**

June 16, 2009

Honorable Mayor and Members  
of the City Council  
City of Princeton  
Princeton, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Princeton, Minnesota, as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Princeton Public Utilities Commission which represent 100% of the assets and revenues of the discretely presented component unit column. These statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Princeton Public Utilities Commission, is based solely upon the report of the other auditors.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our report and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Princeton, Minnesota, as of December 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with U.S. generally accepted accounting principles.



In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2009, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 important for assessing the results of our audit.

The Management's Discussion and Analysis, which follows this report letter, is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information identified in the Table of Contents 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 the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Kern, DeWenter, Viere, Ltd.*

KERN, DEWENTER, VIERE, LTD.  
St. Cloud, Minnesota

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**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2008**

As management of the City of Princeton (the "City"), we offer readers of the City's financial statement this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2008.

**FINANCIAL HIGHLIGHTS**

- The assets of the City exceeded its liabilities at the close of the recent fiscal year by \$ 25,000,501 (net assets) which is an increase of \$ 1,016,651 (4.1%) over the December 31, 2007 amount. Of this amount, \$ 4,902,572 for 2008 and \$ 6,185,267 for 2007 were unrestricted net assets available to be used to meet the City's ongoing obligations to citizens and creditors.
- Of the City's total net assets increase of \$ 1,016,651 during the most recent fiscal year, about 46% came from net income from the City's proprietary funds, primarily the Municipal Liquor and Sanitary Sewer Funds. The remainder of the net asset increase came from the governmental funds.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$ 6,383,210, an increase of \$ 622,815 from the prior year.
- At the end of the current fiscal year, all but \$ 62,625 of the General Fund's balance of \$ 1,702,841 was unreserved.
- Since no new debt was issued in 2008, the City's total debt decreased by \$ 909,432 (10.2%) during the current fiscal year. This was entirely due to payments of current maturities during the year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements.** The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and 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 related cash flows. Thus, revenues and expenses are reported in this Statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2008**

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, economic development, park and recreation and cemetery. The business-type activities of the City include a liquor store, sanitary sewer system and municipal airport.

The government-wide financial statements include not only the City itself (known as the primary government), but also the Public Utilities Commission, which is a legally separate entity that operates a water system and an electric generation and distribution system. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 16-17 of this report.

**Fund Financial Statements.** 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 divided into three categories: governmental funds, proprietary funds and fiduciary funds.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a city's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 57 individual governmental funds. Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund, Debt Service Funds (Downtown Redevelopment Tax Increment, Western Area Improvement and 2005 21<sup>st</sup> Avenue Improvements) and Capital Improvement Capital Project Fund all of which are presented as major funds. Data from the other 52 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2008**

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 18-25 of this report.

**Proprietary Funds.** There are two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to accounts for its liquor store, sanitary sewer and airport operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the various functions. The City does not use internal service funds to allocate internal costs.

The proprietary fund financial statements provide separate information for the liquor store, sanitary sewer and airport all of which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 26-28 of this report.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the City. The City does not maintain funds of this type.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The Notes to the Financial Statements can be found on pages 29-56 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 58 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and Internal Service Funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 59-78 of this report.

### **Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a City's financial position. In the case of the City, assets exceeded liabilities by \$ 25,000,501 at the close of the most recent fiscal year.

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2008**

**City of Princeton's Net Assets**

	Governmental Activities	Business-Type Activities	Total 12/31/08	Total 12/31/07
Current and Other Assets	\$ 8,881,528	\$ 2,807,884	\$ 11,689,412	\$ 11,615,285
Capital Assets	10,433,947	11,689,881	22,123,828	22,139,050
Total Assets	<u>\$ 19,315,475</u>	<u>\$ 14,497,765</u>	<u>\$ 33,813,240</u>	<u>\$ 33,754,335</u>
Long-Term Liabilities				
Outstanding	\$ 3,627,425	\$ 3,643,219	\$ 7,270,644	\$ 8,078,916
Other Liabilities	1,097,053	445,042	1,542,095	1,691,569
Total Liabilities	<u>4,724,478</u>	<u>4,088,261</u>	<u>8,812,739</u>	<u>9,770,485</u>
Net Assets:				
Invested in Capital Assets,				
Net of Related Debt	7,891,856	7,840,513	15,732,369	13,236,250
Restricted	4,365,560	-	4,365,560	4,562,333
Unrestricted	2,333,581	2,568,991	4,902,572	6,185,267
Total Net Assets	<u>\$ 14,590,997</u>	<u>\$ 10,409,504</u>	<u>\$ 25,000,501</u>	<u>\$ 23,983,850</u>

By far, the largest portion (62.9%) of the City's net assets reflects its investment in capital assets (e.g., land, buildings, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted the resources needed to repay this debt must be provided from other sources. Since the capital assets themselves are needed to provide services, they cannot be used to liquidate these liabilities.

An additional 17.5% of the City's net assets represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$ 4,902,572) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities.

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2008**

**City of Princeton's Change in Net Assets**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total 12/31/2008</u>	<u>Total 12/31/2007</u>
<b>Revenue:</b>				
<b>Program Revenues:</b>				
Charges for Services	\$ 461,645	\$ 3,041,175	\$ 3,502,820	\$ 3,872,724
Operating Grants and Contributions	136,776	21,617	158,393	201,489
Capital Grants and Contributions	336,923	587,605	924,528	1,557,520
<b>General Revenues:</b>				
Property Taxes	1,978,574	-	1,978,574	1,852,883
Franchise Fees	-	-	-	-
Tax Increments	369,334	-	369,334	380,851
Intergovernmental	776,199	-	776,199	913,425
PUC Payment in Lieu of Taxes	52,500	-	52,500	52,500
Other Revenue	18,146	9,742	27,888	125,622
Investment Income	223,448	62,823	286,271	354,527
Total revenues	<u>4,353,545</u>	<u>3,722,962</u>	<u>8,076,507</u>	<u>9,311,541</u>
<b>Expenses:</b>				
General Government	633,855	-	633,855	609,231
Public Safety	1,344,407	-	1,344,407	1,309,850
Cemetery	41,488	-	41,488	37,391
Public Works	998,071	-	998,071	1,161,345
Culture and Recreation	306,734	-	306,734	248,033
Economic Development	292,033	-	292,033	720,696
Interest on Long-Term Debt	178,160	-	178,160	211,132
Water	-	13,325	13,325	88,325
Sewer	-	655,081	655,081	549,840
Municipal Liquor	-	2,394,096	2,394,096	2,319,775
Airport	-	202,606	202,606	187,947
Total Expenses	<u>3,794,748</u>	<u>3,265,108</u>	<u>7,059,856</u>	<u>7,443,565</u>
<b>Change in Net Assets before</b>				
Transfers	558,797	457,854	1,016,651	1,867,976
Transfers	<u>(14,800)</u>	<u>14,800</u>	<u>-</u>	<u>-</u>
Change in Net Assets	543,997	472,654	1,016,651	1,867,976
Net Assets January 1	<u>14,047,000</u>	<u>9,936,850</u>	<u>23,983,850</u>	<u>22,115,874</u>
Net Assets December 31	<u>\$ 14,590,997</u>	<u>\$ 10,409,504</u>	<u>\$ 25,000,501</u>	<u>\$ 23,983,850</u>

The City's net assets increased by \$ 1,016,651 during the current fiscal year. Over 46% of this increase results from the net income of the business-type (enterprise) funds. Another 9.6% results from the one-time infusion of State Department of Natural Resources aid for improvements to the park system. There was also an infusion of grant money for emergency relocation preparedness due to a radiological event that accounts for 5.1% of the increase. Interest revenue on investments and special assessment receivables accounted for over 22.0% of the increase in 2008. The remainder of this growth largely reflects increases in fees and tax levy revenues.

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2008**

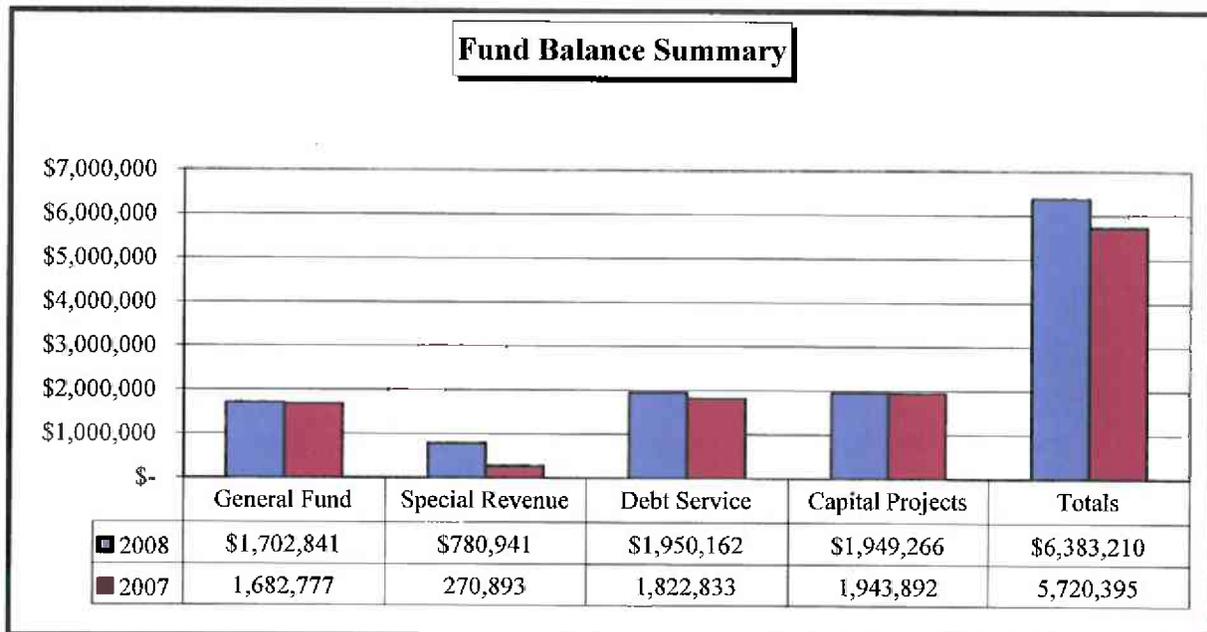
**Governmental Activities.** Governmental activities increased the City's net assets by \$ 543,997, thereby accounting for 53.5% of the total growth in the net assets of the City. This increase resulted from a combination of increased tax revenue, interest revenue, special assessment receipts, recording of land held for resale and a park system grant for park expansion from the State's Department of Natural Resources.

**Business-Type Activities.** Business-type activities resulted in a net asset increase of \$ 472,654, which accounts for 46.5% of the City's total net asset increase, due primarily to the income from operations.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year.



As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$ 6,383,210, an increase of \$ 662,815 over the prior year. Approximately 30% of this total amount (\$ 1,908,757), constitutes fund balance that is available for spending at the City's discretion. The remainder of the total fund balance has been used to pay for prepaid items or is committed to capital projects or debt service.

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2008**

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the fund balance of the General Fund was \$ 1,702,841, which was 96.3% unreserved; however, 89.1% of the unreserved balance is designated for working capital (cash flow) purposes.

The General Fund balance increased by \$ 20,064 during the current fiscal year. This minimal increase was \$ 139,195 less than the prior year's increase of \$ 159,259. Key factors in this growth and the difference between the two years' fund balance increases are as follows:

- Property tax revenues of the General Fund increased by \$ 204,713.
- General Fund charges for services increased by \$ 8,835; however, there were decreases of \$ 138,976 in intergovernmental revenue due almost entirely to the unallotment of Local Government Aid, \$ 9,351 in fines and forfeitures, \$ 5,079 of interest income due to interest rate declines and \$ 86,979 in licenses and permits (primarily from a decrease in building permits).
- Decreases in revenue were compounded by a \$ 268,852 increase in expenditures. This increase was due to increases of \$ 35,183 for public safety activities for a personnel addition, \$ 36,122 for public works activities from an increase in sealcoat program expense, \$ 45,972 in general government due to election costs, and increases in personnel costs and utility cost, \$ 33,332 for parks and recreation from utility and repairs and maintenance costs, \$ 5,767 in economic development and \$ 112,514 in capital outlay expenditures due to the purchase of a new dump/plow truck.

Debt Service Funds had a total fund balance of \$ 1,950,162, all of which is committed for the payment of debt service. The net increase in fund balance during the current year in the Debt Service Funds was \$ 127,329. This increase is due to the collection of tax and assessment revenue in excess of the debt service for the year.

**Proprietary Funds.** The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Total net assets of the Liquor Fund at the end of the year amounted to \$ 3,088,278, the Sanitary Sewer Fund was \$ 5,658,409 and the Airport Fund was \$ 1,662,817. Unrestricted net assets, which are amounts available for operating expenditures and spending at the discretion of the City, at year-end for the Liquor Fund amounted to \$ 1,518,531, the Sanitary Sewer Fund was \$ 1,070,599 and the Airport unrestricted net assets was a negative \$ 20,139. The increase (decrease) in unrestricted net assets for each of these Funds was \$ 353,542, \$ (591,396) and \$ 77,496, respectively. The increases (decreases) in these Funds result predominantly from the revenue generating nature of these Funds. The use of funds for the sewer phosphorus reduction project caused a large shift in the Sanitary Sewer Fund from "unrestricted net assets" to "invested in capital assets". Other factors concerning the finances of these three Funds have already been addressed in the discussion of the City's business-type activities.

#### **GENERAL FUND BUDGETARY HIGHLIGHTS**

The change from the original budget and the final amended budget was a significant \$ 318,010 decrease in appropriations (9.4%) included cuts of \$ 144,565 in general government activities, \$ 38,045 in public safety, \$ 20,225 in public work, \$ 126,270 in capital outlay and \$ 11,095 in increases allocated for parks and recreation.

**CITY OF PRINCETON**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
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**GENERAL FUND BUDGETARY HIGHLIGHTS**

This decrease in expenditure budget allowed the budgeted transfers in to be decreased by \$ 146,270. The remainder of the expenditure decrease went to offset the large decrease of \$ 135,055 decrease in revenues. The revenue decrease was primarily the result of the Governor's \$ 114,052 unallotment of Local Government Aid (LGA) in December of 2008.

The eventual difference between the final amended budget and the actual amount of the change in fund balance also was a very respectable \$ 27,651.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets.** The City's investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities amounts to \$ 22,123,828 as of December 31, 2008 and \$ 22,139,050 as of December 31, 2007. This investment in capital assets includes land, buildings and improvements, machinery and equipment, park facilities, roads, sidewalks and infrastructure.

Major capital asset events during the current fiscal year included the following:

- Planning and design continued on the expansion of the wastewater treatment facilities for the Sanitary Sewer Fund. Construction in progress for the expansion at the end of the fiscal year was \$ 643,132. Construction was nearly completed on the phosphorus reduction improvement for the wastewater treatment plant with construction in progress for this project at \$ 1,916,461 at the end of the current year.
- Development of a new revised Airport Layout Plan began in 2007 and continued through 2008 with an end of year construction in progress of \$ 42,744.
- A new truck with dump box and snow plowing attachments was purchased in 2008 for a total cost of \$ 149,930.

**City of Princeton's Capital Assets  
(Net of Depreciation)**

	Governmental Activities	Business-type Activities	Total 12/31/08	Total 12/31/07
Land	\$ 1,241,851	\$ 1,023,850	\$ 2,265,701	\$ 2,638,424
Buildings	1,347,975	1,053,047	2,401,022	2,548,496
Improvements other than Buildings	530,045	6,640,608	7,170,653	8,697,635
Machinery and Equipment	1,560,278	369,290	1,929,568	513,379
Infrastructure	5,753,798	-	5,753,798	6,002,320
Construction in Progress	-	2,603,086	2,603,086	1,738,796
Total	<u>\$ 10,433,947</u>	<u>\$ 11,689,881</u>	<u>\$ 22,123,828</u>	<u>\$ 22,139,050</u>

Additional information on the City's capital assets can be found in Note 4 on pages 42-44 of this report.

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2008**

**Long-Term Debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$ 7,993,368. Of this amount, \$ 160,000 comprises debt backed by the full faith and credit of the City and \$ 3,984,000 is special assessment debt for which the City is liable in the event of default by the property owners subject to the assessment. The remainder of the City's debt, \$ 3,849,368, represents bonds secured by specified revenue sources (i.e. revenue bonds) for which the City is liable in the event the revenue sources are insufficient to pay the debt service.

**City of Princeton's Outstanding Debt**  
**General Obligation and Revenue Bonds**

	Governmental Activities	Business-type Activities	Total 12/31/08	Total 12/31/2007
General Obligation Bonds	\$ 160,000	\$ -	\$ 160,000	\$ 315,000
Special Assessment Debt with Governmental Commitment	3,984,000	-	3,984,000	4,519,000
Revenue Bonds with Governmental Commitment	-	3,849,368	3,849,368	4,068,800
Total	<u>\$ 4,144,000</u>	<u>\$ 3,849,368</u>	<u>\$ 7,993,368</u>	<u>\$ 8,902,800</u>

The City's total debt decreased by \$ 909,432 (10.2%) during the year. This reduction was entirely due to the payment of the scheduled principal maturity amounts of \$ 909,432.

The City and its Public Utilities Commission both maintain an "A3" rating from Moody's for general obligation (G.O.) debt.

State statutes limit the amount of G.O. debt a governmental entity may issued to 2% of its total assessed valuation. The current debt limitation for the City is \$ 8,749,347, which exceeds the City's outstanding G.O. debt of \$ 160,000 by nearly 55%.

Additional information on the City's long-term debt can be found in Note 8 on pages 47-52 of this report.

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2008**

**ECONOMIC FACTORS AND NEW YEAR'S BUDGETS AND RATES**

- The City is situated in two counties, Mille Lacs and Sherburne. The 2008 unemployment rate for Mille Lacs was at 12.5% and the Sherburne rate was 8.1% at the end of the year. This was up from the 2007 rate of 7.7% for Mille Lacs County and 5.0% for Sherburne County. Compare this to the state's December 2008 unemployment rate of 6.8% and the national rate of 7.1%. The City has economic similarities to both Counties and the City utilizes this knowledge when setting its budget and tax levy.
- Inflationary trends in the region that includes the Minneapolis-St. Paul area were at 3.8% which was identical to the national indices for the 2008 annual rate.

These are some of the factors considered in preparing the City's budget for the 2009 fiscal year.

An additional factor involved in the budget process was the fact the State of Minnesota is facing a deficit of \$ 6.4 billion for the upcoming biennium. This has been reduced by \$ 1.3 billion by the federal government's assistance with Medicaid money. Since the severity of the state's situation was not known until months after the City was required to set its budget, it was impossible to anticipate and accurately estimate the state's probable reduction of aid to the City and include this into the City's budget. However, the City has made adjustments to the 2009 budget already in anticipation of LGA reductions.

The sanitary sewer rates had been maintained at a constant level since 2001. This rate was changed in early 2008 to cover increasing costs and in anticipation of higher operating costs once the phosphorus project and the expansion project are completed. The sewer access charge was increased in the 2005 and again in 2007 to assist in the payment of system repairs and enhancements. Also in 2005, a sewer trunk fee was initiated to help assure that new development pays for the cost of extensions and new facilities. The sewer trunk fee is scheduled for annual increases to keep in line with construction cost increases.

During 2006 and 2007, the City acquired 2½ acres of land on the west side of U.S. Highway 169 just south of Minnesota Highway 95 and constructed a new liquor store. The new facility opened for business on May 7, 2007 and the previous store was closed and prepared for sale. Land and construction costs were funded from the Liquor Fund's unrestricted net assets. The store at the previous location remains on the real estate market.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to City of Princeton, 705 Second Street North, Princeton, Minnesota 55371. Questions concerning any of the information provided in this report or request for additional financial information regarding the component unit, the Princeton Public Utilities Commission, should be addressed to Princeton Public Utilities, 907 1<sup>st</sup> Street, Princeton, Minnesota 55371.

## **BASIC FINANCIAL STATEMENTS**

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**STATEMENT OF NET ASSETS**  
**December 31, 2008**

	Governmental Activities	Business-Type Activities	Total	Component Units
<b>ASSETS:</b>				
Cash and Investments	\$ 6,143,654	\$ 1,785,606	\$ 7,929,260	\$ 1,852,989
Cash with Fiscal Agent	-	-	-	239,854
Property Tax Receivable	124,775	-	124,775	-
Accounts Receivable	12,256	17,720	29,976	770,496
Interest Receivable	44,440	3,875	48,315	-
Due from Other Governments	135,646	133,986	269,632	26,576
Internal Balances	(153,899)	153,899	-	-
Notes Receivable:				
Due Within One Year	4,406	-	4,406	-
Due After One Year	50,325	-	50,325	-
Special Assessments Receivable:				
Due Within One Year	247,737	-	247,737	-
Due After One Year	1,697,163	-	1,697,163	-
Inventories	-	448,376	448,376	553,262
Land Held for Resale	512,400	194,412	706,812	-
Prepaid Expenses	62,625	15,710	78,335	-
Unamortized Discount	-	54,300	54,300	-
Capital Assets not being Depreciated:				
Land	1,241,851	1,023,850	2,265,701	33,162
Construction in Progress	-	2,603,086	2,603,086	-
Capital Assets being Depreciated (Net of Accumulated Depreciation):				
Infrastructure	5,753,798	-	5,753,798	935,814
Buildings and Systems	1,347,975	1,053,047	2,401,022	17,300,293
Other Improvements	530,045	-	530,045	-
Machinery and Equipment	1,560,278	369,290	1,929,568	454,321
Sewer and Water Improvements	-	6,640,608	6,640,608	-
Less Accumulated Depreciation	-	-	-	-
Restricted Assets:				
Reserve Fund	-	-	-	697,181
Debt Retirement	-	-	-	391,708
Improvements and Replacements	-	-	-	666,572
<b>Total Assets</b>	<b>\$ 19,315,475</b>	<b>\$ 14,497,765</b>	<b>\$ 33,813,240</b>	<b>\$ 23,922,228</b>
<b>LIABILITIES AND NET ASSETS:</b>				
<b>Liabilities:</b>				
Accounts Payable	\$ 161,154	\$ 124,053	\$ 285,207	504,080
Due to Other Governments	38,059	28,223	66,282	38,994
Unearned Revenue	37,319	1,512	38,831	12,160
Salaries and Benefits Payable	33,380	2,455	35,835	7,113
Interest Payable	70,141	59,615	129,756	85,791
Customer Meter Deposits	-	-	-	166,732
Severance Payable	-	-	-	88,368
Deferred Rate Stabilization	-	-	-	880,271
Bond Principal Payable:				
Payable Within One Year	567,000	228,029	795,029	779,000
Payable After One Year	3,577,000	3,621,339	7,198,339	14,374,221
Compensated Absences Payable:				
Payable Within One Year	190,000	1,155	191,155	-
Payable After One Year	50,425	21,880	72,305	-
<b>Total Liabilities</b>	<b>4,724,478</b>	<b>4,088,261</b>	<b>8,812,739</b>	<b>16,936,730</b>
<b>Net Assets:</b>				
Investment in Capital Assets, Net of Related Debt	7,891,856	7,840,513	15,732,369	3,570,369
Restricted for:				
Debt Service	3,997,007	-	3,997,007	1,328,743
Tax Increment	368,553	-	368,553	-
Capital Asset Acquisition	-	-	-	666,572
Unrestricted	2,333,581	2,568,991	4,902,572	1,419,814
<b>Total Net Assets</b>	<b>14,590,997</b>	<b>10,409,504</b>	<b>25,000,501</b>	<b>6,985,498</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 19,315,475</b>	<b>\$ 14,497,765</b>	<b>\$ 33,813,240</b>	<b>\$ 23,922,228</b>

The Notes to the Financial Statements are an integral part of this statement.

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2008**

Functions/Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Assets			Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
<b>Governmental Activities:</b>							
General Government	\$ 633,855	\$ 109,015	\$ -	\$ -	\$ (524,840)	\$ -	\$ (524,840)
Public Safety	1,344,407	273,131	111,752	81,270	(878,254)	-	(878,254)
Cemetery	41,488	26,660	-	-	(14,828)	-	(14,828)
Public Works	998,071	17,545	17,474	158,038	(805,014)	-	(805,014)
Economic Development	292,033	6,302	1,500	501	(283,730)	-	(283,730)
Culture and Recreation	306,734	28,992	6,050	97,114	(174,578)	-	(174,578)
Interest on Long-Term Debt	178,160	-	-	-	(178,160)	-	(178,160)
Total Governmental Activities	3,794,748	461,645	136,776	336,923	(2,859,404)	-	(2,859,404)
<b>Business-Type Activities:</b>							
Water	13,325	13,325	-	-	-	-	(134,396)
Sewer	655,081	479,790	-	500,000	-	324,709	324,709
Municipal Liquor	2,394,096	2,478,261	-	-	-	84,165	84,165
Airport	202,606	69,799	21,617	87,605	-	(23,585)	-
Electric	-	-	-	-	-	-	502,345
Sanitation	-	-	-	-	-	-	(25,889)
Total Business-Type Activities	3,265,108	3,041,175	21,617	587,605	-	385,289	342,060
Total Governmental and Business-Type Activities	\$ 7,059,856	\$ 3,502,820	\$ 158,393	\$ 924,528	(2,859,404)	385,289	(2,474,115)
<b>General Revenues:</b>							
Property Taxes					1,978,574	-	1,978,574
Tax Increments					369,334	-	369,334
State Aids					776,199	-	776,199
PUC Payment in Lieu of Taxes					52,500	-	52,500
Investment Income					223,448	62,823	286,271
Miscellaneous					18,146	9,742	27,888
Loss on Sale of Asset					-	-	-
Transfers					(14,800)	14,800	-
Total General Revenues and Transfers					3,403,401	87,365	3,490,766
Change in Net Assets					543,997	472,654	1,016,651
Net Assets - Beginning					14,047,000	9,936,850	23,983,850
Net Assets - Ending					\$ 14,590,997	\$ 10,409,504	\$ 25,000,501

The Notes to the Financial Statements are an integral part of this statement.

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**December 31, 2008**

	General Fund (101)	Debt Service		
		Downtown Redevelopment Tax Increment (490)	Western Area Improvements (503)	2005 21st Avenue Improvements (506)
<b>ASSETS:</b>				
Cash and Investments (Including Cash Equivalents)	\$ 1,727,160	\$ 245,484	\$ 219,721	\$ 137,996
Taxes Receivable - Delinquent	80,245	13,675	5,206	4,184
Special Assessments Receivable:				
Delinquent	-	-	2,031	6,094
Deferred	-	-	602,061	591,999
Accounts Receivable	5,411	-	-	-
Interest Receivable	41,235	-	-	-
Due from Other Funds	79,014	-	-	-
Due from Other Governments	123,396	-	-	-
Notes Receivable	-	-	-	-
Land Held for Resale	-	-	-	-
Prepaid Expenses	62,625	-	-	-
<b>Total Assets</b>	<b>\$ 2,119,086</b>	<b>\$ 259,159</b>	<b>\$ 829,019</b>	<b>\$ 740,273</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts and Contracts Payable	\$ 143,655	\$ 431	\$ -	\$ -
Due to Other Funds	-	207,250	-	-
Due to Other Governments	18,304	-	19,651	-
Salaries Payable	32,722	-	-	-
Deferred Revenue	221,564	13,675	609,298	602,277
<b>Total Liabilities</b>	<b>416,245</b>	<b>221,356</b>	<b>628,949</b>	<b>602,277</b>
<b>Fund Balances:</b>				
<b>Reserved for:</b>				
Prepaid Expense	62,625	-	-	-
Land Held for Resale	-	-	-	-
<b>Unreserved, Reported in:</b>				
General Fund - Designated for Working Capital	1,462,925	-	-	-
General Fund - Undesignated	177,291	-	-	-
Special Revenue - Undesignated	-	-	-	-
Debt Service - Undesignated	-	37,803	200,070	137,996
Capital Projects - Undesignated	-	-	-	-
<b>Total Fund Balances</b>	<b>1,702,841</b>	<b>37,803</b>	<b>200,070</b>	<b>137,996</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,119,086</b>	<b>\$ 259,159</b>	<b>\$ 829,019</b>	<b>\$ 740,273</b>

Capital Projects

<u>Capital Improvements (351)</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 498,041	\$ 3,322,177	\$ 6,150,579
9,602	11,863	124,775
-	7,513	15,638
-	735,202	1,929,262
-	6,845	12,256
-	3,205	44,440
1,496,021	70,150	1,645,185
-	12,250	135,646
-	54,731	54,731
-	512,400	512,400
-	-	62,625
<u>\$ 2,003,664</u>	<u>\$ 4,736,336</u>	<u>\$ 10,687,537</u>
\$ -	\$ 17,068	\$ 161,154
-	1,591,834	1,799,084
48	6,981	44,984
-	658	33,380
9,602	809,309	2,265,725
<u>9,650</u>	<u>2,425,850</u>	<u>4,304,327</u>
-	-	62,625
-	512,400	512,400
-	-	1,462,925
-	-	177,291
-	268,541	268,541
-	1,574,293	1,950,162
1,994,014	(44,748)	1,949,266
<u>1,994,014</u>	<u>2,310,486</u>	<u>6,383,210</u>
<u>\$ 2,003,664</u>	<u>\$ 4,736,336</u>	<u>\$ 10,687,537</u>

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**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**RECONCILIATION OF THE BALANCE SHEET TO  
THE STATEMENT OF NET ASSETS- GOVERNMENTAL FUNDS**  
**December 31, 2008**

Total Fund Balances - Governmental Funds \$ 6,383,210

Amounts reported for governmental activities in the Statement of Net Assets  
are different because:

Capital assets used in governmental activities are not current financial resources  
and, therefore, are not reported as assets in governmental funds.

Cost of Capital Assets	17,147,273
Less Accumulated Depreciation	(6,713,326)

Long-term liabilities, including bonds payable, are not due and payable in  
the current period and, therefore, are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Bond Principal Payable	(4,144,000)
Compensated Absences Payable	(240,425)

Delinquent and deferred receivables will be collected in subsequent  
years but are not available soon enough to pay for the current period's  
expenditures and, therefore, are deferred in the funds.

Property Taxes	124,775
Special Assessments	15,638
Deferred Special Assessments	1,929,262

Other long-term assets are not available to pay for current period  
expenditures and, therefore, are deferred in the funds.

Notes Receivable	54,731
Development Revenue Reserve	104,000

Governmental funds do not report a liability for accrued interest  
due and payable.

(70,141)

Total Net Assets - Governmental Activities \$ 14,590,997

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**For the Year Ended December 31, 2008**

	General Fund (101)	Debt Service		
		Downtown Redevelopment Tax Increment (490)	Western Area Improvements (503)	2005 21st Avenue Improvements (506)
<b>REVENUES:</b>				
Property Taxes	\$ 1,546,144	\$ -	\$ 87,444	\$ 88,609
Tax Increments	-	189,692	-	-
Special Assessments	-	-	90,328	101,750
Licenses and Permits	93,728	-	-	-
Intergovernmental	828,536	-	7,101	3,178
Charges for Services	227,918	-	-	-
Fine and Forfeitures	45,029	-	-	-
Miscellaneous:				
Investment Income	45,814	6,802	4,087	296
Change in Fair Market Value of Land Held for Resale	-	-	-	-
Other	62,943	-	-	-
Total Revenues	<u>2,850,112</u>	<u>196,494</u>	<u>188,960</u>	<u>193,833</u>
<b>EXPENDITURES:</b>				
Current:				
General Government	575,231	-	-	-
Public Safety	1,188,504	-	-	-
Cemetery	2,052	-	-	-
Public Works	600,980	-	-	-
Parks and Recreation	215,982	-	-	-
Economic Development	20,832	-	34,226	-
Debt Service:				
Principal	-	135,000	80,000	60,000
Interest and Other Charges	-	12,213	67,540	39,481
Capital Outlay:				
General Government	84,425	-	-	-
Public Safety	39,089	-	-	-
Public Works	168,911	-	-	-
Parks and Recreation	31,821	-	-	-
Economic Development	-	-	-	-
Total Expenditures	<u>2,927,827</u>	<u>147,213</u>	<u>181,766</u>	<u>99,481</u>
Excess of Revenues Over (Under) Expenditures	(77,715)	49,281	7,194	94,352
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from Sale of Capital Asset	-	-	-	-
Payment in Lieu of Taxes - Component Unit	52,500	-	-	-
Transfers In	120,000	-	-	-
Transfers Out	(74,721)	-	-	-
Total Other Financing Sources (Uses)	<u>97,779</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	20,064	49,281	7,194	94,352
<b>FUND BALANCES:</b>				
Beginning of Year	<u>1,682,777</u>	<u>(11,478)</u>	<u>192,876</u>	<u>43,644</u>
End of Year	<u>\$ 1,702,841</u>	<u>\$ 37,803</u>	<u>\$ 200,070</u>	<u>\$ 137,996</u>

The Notes to the Financial Statements are an integral part of this statement.

Capital Projects

Capital Improvements (351)	Other Governmental Funds	Total Governmental Funds
\$ 168,985	\$ 77,868	\$ 1,969,050
-	179,642	369,334
-	335,712	527,790
-	-	93,728
11,336	182,005	1,032,156
-	47,605	275,523
-	-	45,029
72,022	94,427	223,448
-	413,658	413,658
-	62,092	125,035
<u>252,343</u>	<u>1,393,009</u>	<u>5,074,751</u>
-	-	575,231
-	46,602	1,235,106
-	37,983	40,035
48	24,553	625,581
-	12,473	228,455
-	61,253	116,311
-	415,000	690,000
-	70,773	190,007
-	-	84,425
-	38,966	78,055
-	83,083	251,994
-	11,611	43,432
-	291,740	291,740
<u>48</u>	<u>1,094,037</u>	<u>4,450,372</u>
252,295	298,972	624,379
736	-	736
-	-	52,500
-	108,302	228,302
<u>(120,000)</u>	<u>(48,381)</u>	<u>(243,102)</u>
<u>(119,264)</u>	<u>59,921</u>	<u>38,436</u>
133,031	358,893	662,815
<u>1,860,983</u>	<u>1,951,593</u>	<u>5,720,395</u>
<u>\$ 1,994,014</u>	<u>\$ 2,310,486</u>	<u>\$ 6,383,210</u>

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES TO  
THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS**  
**For the Year Ended December 31, 2008**

Net Change in Fund Balances - Total Governmental Funds \$ 662,815

Amounts reported for Governmental Activities in the Statement of Activities  
are different because:

Capital outlays are reported in governmental funds as expenditures. However,  
in the Statement of Activities, the cost of those assets is allocated over the  
estimated useful lives as depreciation expense.

Capital Outlays	498,333
Depreciation Expense	(526,911)
Reclassification to Land Held for Resale	(397,813)
Loss on Disposal	(2,411)

Compensated absences are recognized as paid in the governmental funds but  
recognized as the expense is incurred in the Statement of Activities. (29,295)

Principal payments on long-term debt are recognized as expenditures in the  
governmental funds but as an increase in the net assets in the Statement of Activities. 690,000

Interest on long-term debt in the Statement of Activities differs from the amount  
reported in the governmental funds because interest is recognized as an expenditure  
in the funds when it is due and thus requires use of current financial resources. In the  
Statement of Activities, however, interest expense is recognized as the interest  
accrues, regardless of when it is due. 11,847

Principal payments on notes receivable will be collected, but are not available soon  
enough to pay for the current period's expenditures and, therefore, are deferred  
in the funds. (2,340)

Property taxes and special assessments receivable will be collected in subsequent years,  
but are not available soon enough to pay for the current period's expenditures and,  
therefore, are deferred in the funds.

Delinquent Property Taxes	9,524
Delinquent Special Assessments	(7,170)
Deferred Special Assessments	(362,582)

Change in Net Assets - Governmental Activities \$ 543,997

The Notes to the Financial Statements are an integral part of this statement.

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL FUND  
For the Year Ended December 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Property Taxes	\$ 1,539,900	\$ 1,473,075	\$ 1,546,144	\$ 73,069
Licenses and Permits	157,285	84,975	93,728	8,753
Intergovernmental	855,445	828,200	828,536	336
Charges for Services	209,585	221,900	227,918	6,018
Fines and Forfeitures	49,250	44,700	45,029	329
Miscellaneous Revenues:				
Investment Income	27,000	27,000	45,814	18,814
Other	45,700	69,260	62,943	(6,317)
Total Revenues	<u>2,884,165</u>	<u>2,749,110</u>	<u>2,850,112</u>	<u>101,002</u>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
General Government	924,250	779,685	575,231	(204,454)
Public Safety	1,201,115	1,163,070	1,188,504	25,434
Cemetery	-	-	2,052	2,052
Public Works	592,575	572,350	600,980	28,630
Parks and Recreation	178,075	189,170	215,982	26,812
Economic Development	-	-	20,832	20,832
<b>Capital Outlay:</b>				
General Government	145,000	95,450	84,425	(11,025)
Public Safety	66,700	66,700	39,089	(27,611)
Public Works	191,000	187,735	168,911	(18,824)
Parks and Recreation	96,000	22,545	31,821	9,276
Total Expenditures	<u>3,394,715</u>	<u>3,076,705</u>	<u>2,927,827</u>	<u>(148,878)</u>
Excess of Revenues Over (Under) Expenditures	(510,550)	(327,595)	(77,715)	249,880
<b>OTHER FINANCING SOURCES (USES):</b>				
Payment in Lieu of Taxes - Component Unit	52,500	52,500	52,500	-
Transfers In	518,700	372,430	120,000	(252,430)
Transfers Out	(60,390)	(49,620)	(74,721)	(25,101)
Total Other Financing Sources (Uses)	<u>510,810</u>	<u>375,310</u>	<u>97,779</u>	<u>(277,531)</u>
Net Change in Fund Balances	<u>\$ 260</u>	<u>\$ 47,715</u>	20,064	<u>\$ (27,651)</u>
<b>FUND BALANCES:</b>				
Beginning of Year			<u>1,682,777</u>	
End of Year			<u>\$ 1,702,841</u>	

The Notes to the Financial Statements are an integral part of this statement.

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**  
**December 31, 2008**

	Airport (208)	Sanitary Sewer (702/704)	Municipal Liquor (703)	Total
<b>ASSETS:</b>				
<b>Current Assets:</b>				
Cash and Investments	\$ -	\$ 1,071,221	\$ 707,460	\$ 1,778,681
Accounts Receivable	-	16,820	900	17,720
Interest Receivable	-	-	3,875	3,875
Due from Other Funds	-	-	238,237	238,237
Due from Other Governments	57,150	76,836	-	133,986
Inventories	8,500	-	439,876	448,376
Land Held for Resale	-	-	194,412	194,412
Prepaid Expenses	1,280	5,170	9,260	15,710
Unamortized Discount	-	54,300	-	54,300
<b>Total Current Assets</b>	<b>66,930</b>	<b>1,224,347</b>	<b>1,594,020</b>	<b>2,885,297</b>
<b>Noncurrent Assets:</b>				
<b>Capital Assets:</b>				
Land	488,323	129,120	406,407	1,023,850
Buildings and System	76,766	70,974	999,651	1,147,391
Other Improvements	2,221,443	7,880,164	43,608	10,145,215
Machinery and Equipment	260,078	284,024	185,970	730,072
Construction in Progress	43,493	2,559,593	-	2,603,086
<b>Total Capital Assets</b>	<b>3,090,103</b>	<b>10,923,875</b>	<b>1,635,636</b>	<b>15,649,614</b>
Less Accumulated Depreciation	(1,407,147)	(2,486,697)	(65,889)	(3,959,733)
<b>Net Capital Assets</b>	<b>1,682,956</b>	<b>8,437,178</b>	<b>1,569,747</b>	<b>11,689,881</b>
<b>Total Assets</b>	<b>\$ 1,749,886</b>	<b>\$ 9,661,525</b>	<b>\$ 3,163,767</b>	<b>\$ 14,575,178</b>
<b>LIABILITIES AND NET ASSETS:</b>				
<b>Current Liabilities:</b>				
Accounts Payable	\$ 1,135	\$ 93,631	\$ 29,287	\$ 124,053
Salaries Payable	84	461	1,910	2,455
Unearned Revenue	1,512	-	-	1,512
Interest Payable	-	59,615	-	59,615
Due to Other Funds	84,338	-	-	84,338
Due to Other Governmental Units	-	41	21,257	21,298
Compensated Absences Payable	-	-	1,155	1,155
Current Portion of Revenue Bonds	-	228,029	-	228,029
<b>Total Current Liabilities</b>	<b>87,069</b>	<b>381,777</b>	<b>53,609</b>	<b>522,455</b>
<b>Noncurrent Liabilities:</b>				
Compensated Absences Payable	-	-	21,880	21,880
Loan Payable	-	1,866,339	-	1,866,339
Bonds Payable	-	1,755,000	-	1,755,000
<b>Total Noncurrent Liabilities</b>	<b>-</b>	<b>3,621,339</b>	<b>21,880</b>	<b>3,643,219</b>
<b>Total Liabilities</b>	<b>87,069</b>	<b>4,003,116</b>	<b>75,489</b>	<b>4,165,674</b>
<b>Net Assets:</b>				
Invested in Capital Assets, Net of Related Debt	1,682,956	4,587,810	1,569,747	7,840,513
Unrestricted	(20,139)	1,070,599	1,518,531	2,568,991
<b>Total Net Assets</b>	<b>1,662,817</b>	<b>5,658,409</b>	<b>3,088,278</b>	<b>10,409,504</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 1,749,886</b>	<b>\$ 9,661,525</b>	<b>\$ 3,163,767</b>	<b>\$ 14,575,178</b>

The Notes to the Financial Statements are an integral part of this statement.

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES**  
**IN NET ASSETS - PROPRIETARY FUNDS**  
**For the Year Ended December 31, 2008**

	Airport (208)	Sanitary Sewer (702/704)	Municipal Liquor (703)	Total
<b>SALES AND COST OF SALES:</b>				
Sales	\$ 60,492	\$ -	\$ 2,477,708	\$ 2,538,200
Cost of Sales	60,283	-	1,968,950	2,029,233
Gross Profit	<u>209</u>	<u>-</u>	<u>508,758</u>	<u>508,967</u>
<b>OPERATING REVENUES:</b>				
Charges for Services	<u>9,307</u>	<u>479,790</u>	<u>553</u>	<u>489,650</u>
Total Gross Profit and Operating Revenues	<u>9,516</u>	<u>479,790</u>	<u>509,311</u>	<u>998,617</u>
<b>OPERATING EXPENSES:</b>				
Wages and Salaries	19,124	93,855	238,633	351,612
Materials and Supplies	29,367	204,182	110,506	344,055
Professional Services	-	-	19,623	19,623
Depreciation	93,832	196,056	50,444	340,332
Total Operating Expenses	<u>142,323</u>	<u>494,093</u>	<u>419,206</u>	<u>1,055,622</u>
Operating Income (Loss)	(132,807)	(14,303)	90,105	(57,005)
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Interest Income	-	36,213	26,610	62,823
Intergovernmental Revenues	109,222	500,000	-	609,222
Loss on Sale of Asset	-	-	(5,940)	(5,940)
Interest Expense and Charges	-	(160,988)	-	(160,988)
Other Income	100	9,642	-	9,742
Total Nonoperating Revenue (Expenses)	<u>109,322</u>	<u>384,867</u>	<u>20,670</u>	<u>514,859</u>
Income (Loss) before Capital Contributions and Transfers	(23,485)	370,564	110,775	457,854
Transfers In	17,835	-	-	17,835
Transfers Out	<u>-</u>	<u>-</u>	<u>(3,035)</u>	<u>(3,035)</u>
Change in Net Assets	(5,650)	370,564	107,740	472,654
<b>NET ASSETS:</b>				
Beginning of Year	<u>1,668,467</u>	<u>5,287,845</u>	<u>2,980,538</u>	<u>9,936,850</u>
End of Year	<u>\$ 1,662,817</u>	<u>\$ 5,658,409</u>	<u>\$ 3,088,278</u>	<u>\$ 10,409,504</u>

The Notes to the Financial Statements are an integral part of this statement.

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**For the Year Ended December 31, 2008**

	Airport (208)	Sanitary Sewer (702/704)	Municipal Liquor (703)	Total
<b>CASH FLOWS - OPERATING ACTIVITIES:</b>				
Receipts from Customers and Users	\$ 53,122	\$ 490,190	\$ 2,478,261	\$ 3,021,573
Payments to Suppliers	(104,352)	(189,081)	(2,211,101)	(2,504,534)
Payments to Employees	(19,241)	(95,630)	(242,569)	(357,440)
Net Cash Flows - Operating Activities	<u>(70,471)</u>	<u>205,479</u>	<u>24,591</u>	<u>159,599</u>
<b>CASH FLOWS - NONCAPITAL FINANCING ACTIVITIES:</b>				
Transfer from Other Funds	17,835	-	-	17,835
Transfer to Other Funds	-	-	(3,035)	(3,035)
Reduction of Due to Other Funds	(46,001)	-	-	(46,001)
Reduction of Due from Other Funds	-	-	26,757	26,757
Other Income	100	9,642	-	9,742
Intergovernmental Revenues	<u>109,222</u>	<u>500,000</u>	<u>-</u>	<u>609,222</u>
Net Cash Flows - Noncapital Financing Activities	<u>81,156</u>	<u>509,642</u>	<u>23,722</u>	<u>614,520</u>
<b>CASH FLOWS - CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Principal Paid on Debt	-	(219,432)	-	(219,432)
Interest Paid on Debt	-	(154,309)	-	(154,309)
Proceeds from Disposal of Capital Assets	-	-	6,500	6,500
Acquisition of Capital Assets	<u>(10,685)</u>	<u>(938,584)</u>	<u>(11,494)</u>	<u>(960,763)</u>
Net Cash Flows - Capital and Related Financing Activities	<u>(10,685)</u>	<u>(1,312,325)</u>	<u>(4,994)</u>	<u>(1,328,004)</u>
<b>CASH FLOWS - INVESTING ACTIVITIES:</b>				
Interest and Dividends Received	<u>-</u>	<u>36,213</u>	<u>26,520</u>	<u>62,733</u>
Net Change in Cash and Cash Equivalents	-	(560,991)	69,839	(491,152)
<b>CASH AND CASH EQUIVALENTS:</b>				
January 1	<u>-</u>	<u>1,632,212</u>	<u>637,621</u>	<u>2,269,833</u>
December 31	<u>\$ -</u>	<u>\$ 1,071,221</u>	<u>\$ 707,460</u>	<u>\$ 1,778,681</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS - OPERATING ACTIVITIES:</b>				
Operating Income (Loss)	\$ (132,807)	\$ (14,303)	\$ 90,105	\$ (57,005)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows - Operating Activities:				
Depreciation Expense	93,832	196,056	50,444	340,332
Accounts Receivable	1,000	9,575	-	10,575
Due from Other Governments	(19,189)	825	-	(18,364)
Prepaid Items	(80)	360	(2,405)	(2,125)
Inventory	-	-	(59,255)	(59,255)
Accounts Payable	(14,622)	14,705	(48,896)	(48,813)
Due to Other Governmental Units	-	36	(1,466)	(1,430)
Salaries Payable	(117)	(1,775)	(5,232)	(7,124)
Unearned Income	1,512	-	-	1,512
Compensated Absences Payable	-	-	1,296	1,296
Total Adjustments	<u>62,336</u>	<u>219,782</u>	<u>(65,514)</u>	<u>216,604</u>
Net Cash Flows - Operating Activities	<u>\$ (70,471)</u>	<u>\$ 205,479</u>	<u>\$ 24,591</u>	<u>\$ 159,599</u>

The Notes to the Financial Statements are an integral part of this statement.

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The City of Princeton is a statutory city governed by an elected mayor and four council members. The accompanying financial statements present the government entities for which the government is considered to be financially accountable.

The financial statements present the City and its component units. The City includes all funds, account groups, organizations, institutions, agencies, departments and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the City are financially accountable and are included within the basic financial statements of the City because of the significance of their operational or financial relationships with the City.

The City is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities or level of services performed or provided by the organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the City.

As a result of applying the component unit definition criteria above, certain organizations have been defined and are presented in this report as follows:

Blended Component Units – Reported as if they were part of the City.

Discretely Presented Component Unit – Entails reporting the component unit financial data in a column separate from the financial data of the City.

Related Organization – The relationship of the City with the entity is disclosed.

Joint Ventures and Jointly Governed Organizations – The relationship of the City with the entity is disclosed.

For each of the categories listed, the specific entities are identified as follows:

**1. Blended Component Unit**

The Princeton Economic Development Authority (EDA) is a legal entity separate from the City. Although legally separate, the Princeton EDA is reported as if it were part of the primary government because it provides services exclusively for the City. Separate financial statements are not prepared for the Princeton EDA.

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity (Continued)**

**2. Discretely Presented Component Unit**

The Princeton Public Utilities meets the criteria to be included as a discretely presented component unit in the basic financial statements. Copies of audited financial reports are available at the Princeton Public Utilities Office.

**3. Related Organization**

**Princeton Firefighters' Relief Association**

The Princeton Firefighters' Relief Association (the "Association") is organized as a nonprofit organization, legally separate from the City, by its members to provide pension and other benefits to such members in accordance with *Minnesota Statutes*. The Board of Trustees is appointed by the membership of the Association and not by the City Council. All funding is conducted in accordance with *Minnesota Statutes*, whereby state aid flows to the Association, tax levies are determined by the Association and are only reviewed by the City, and the Association pays benefits directly to its members. Because the Association is fiscally independent of the City, the financial statements of the Association have not been included within the City's reporting entity.

**4. Joint Ventures and Jointly Governed Organizations**

**Dalbo-Princeton-Wyanett Fire Districts**

The City of Princeton, Town of Wyanett and Dalbo Fire and Rescue Department is organized to establish an agreement to provide fire protection and medical response services to the Town of Wyanett.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the City. The fiduciary funds are only reported in the Statement of Fiduciary Net Assets at the fund financial statement level. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**B. Government-Wide and Fund Financial Statements (Continued)**

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Internally dedicated revenues are reported as general revenues rather than program revenues.

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.

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation  
(Continued)**

**Description of Funds:**

**Major Governmental Funds:**

General Fund – This Fund is the City’s primary operating fund. It accounts for all financial resources of the general City, except those required to be accounted for in another fund.

Downtown Redevelopment Tax Increment Debt Service Fund -- This Fund accounts for the activities associated with the debt service.

Western Area Improvements Debt Service Fund – This Fund accounts for the activities associated with the related debt service.

2005 21<sup>st</sup> Avenue Improvements Debt Service Fund – This Fund accounts for the activities associated with the related debt service.

Capital Improvements Capital Projects Fund – This Fund accounts for the activities associated with capital improvements in the City.

**Proprietary Funds:**

Airport Fund – This Fund accounts for the activities of the City’s airport operations.

Sanitary Sewer Fund – This Fund accounts for the operations of the City’s sanitary sewer utility.

Liquor Fund – This Fund accounts for the activities of the City’s liquor store operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City’s utility functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**  
**(Continued)**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Sanitary Sewer, Liquor and Airport Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

**D. Assets, Liabilities and Net Assets or Equity**

**1. Deposits and Investments**

The City's cash and cash equivalents are considered to be cash on hand, deposits and highly liquid debt instruments purchased with original maturities of three months or less from the date of acquisition. Investments are stated at fair value.

*Minnesota Statutes* require all deposits be protected by federal deposit insurance, corporate surety bonds or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds.

*Minnesota Statutes* authorizes the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities, share of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase and reverse repurchase agreements and commercial paper of the highest quality with a maturity of no longer than 270 days and in the Minnesota Municipal Investment Pool.

The Minnesota Municipal investment Pool is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under Rule 2.a.7. The fair value of the position in the pool is the same as the value of the pool shares.

The City has an investment policy in place that addresses interest rate risk, credit risk, concentration of credit risk and custodial credit risk as follows. The component unit does not have an investment policy to address the following risks.

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**D. Assets, Liabilities and Net Assets or Equity (Continued)**

**1. Deposits and Investments (Continued)**

**Custodial Credit Risk – Deposits:** For deposits, this is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City's investment policy states the collateralization level will be 110% of the market value of principal and accrued interest. When the pledged collateral consists of notes secured by first mortgages, the collateral level will be 140% of the market value of principal and accrual interest.

**Interest Rate Risk:** This is the risk that market values of securities in a portfolio would decrease due to changes in market interest rates. The City's investment policy states the City should remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated and be designed to attain a market average rate of return.

**Credit Risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. The City's investment policy states it will invest in instruments which are direct obligations of the federal government, with the principal fully guaranteed by the U.S. Treasury.

**Concentration of Credit Risk:** This is the risk of loss attributed to the magnitude of an investment in a single issuer. Investments should be diversified to avoid incurring unreasonable risk inherent in over investing in specific instruments, individual financial institutions or maturities. The City's investment policy states the City will attempt to diversify their investments according to type and maturity and the portfolio should contain both short-term and long-term investments to meet anticipated cash flow requirements. Extended maturities may be utilized to take advantage of higher yields; however, no more than 50% of the total investments should extend beyond five years and in no circumstances should any extend beyond fifteen years.

**Custodial Credit Risk – Investments:** For an investment, this is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy states when investments purchased by the City are held in safekeeping by a broker/dealer, they must provide asset protection of \$ 500,000 through the Securities Investor Protector Corporation (SIPC) and at least another \$ 2 million supplemental insurance protection.

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**D. Assets, Liabilities and Net Assets or Equity (Continued)**

**2. Receivables and Payables**

All trade and property tax receivables are shown at a gross amount since both are assessable to the property taxes and are collectible upon the sale of the property.

The City levies its property tax for the subsequent year during the month of December. December 28 is the last day the City can certify a tax levy to the County Auditors for collection the following year. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. The property tax is recorded as revenue when it becomes measurable and available. Mille Lacs County and Sherburne County are the collecting agencies for the levy and remit the collections to the City three times a year. The tax levy notice is mailed in March with the first half of the payment due on May 15 and the second half due on October 15. Taxes not collected as of December 31 each year are shown as delinquent taxes receivable.

The County Auditors prepare the tax list for all taxable property in the City, applying the applicable tax rate to the tax capacity of individual properties, to arrive at the actual tax for each property. The County Auditors also collect all special assessments, except for certain prepayments paid directly to the City.

The County Auditors submit the list of taxes and special assessments to be collected on each parcel of property to the County Treasurers in January of each year.

**3. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**4. Capital Assets**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$ 1,000 to \$ 10,000, depending on the type of asset and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**D. Assets, Liabilities and Net Assets or Equity (Continued)**

**4. Capital Assets (Continued)**

Property, plant and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Equipment	5-20
Infrastructure	30-40
Vehicles	3-20
Buildings	30-50

**5. Compensated Absences**

Full-time City employees accumulate sick leave at the rate of one day for each month of employment. Upon termination or retirement, an employee with a minimum of 10 years of service can collect half of all unused sick leave. The policy for the police department is the same except only 5 years of service is necessary and there is a maximum payment for 480 hours of unused sick leave.

City employees in a supervisory position accumulate 40 hours of severance pay for each year of service. The accumulated time vests after three years of service.

The Public Utility Commission is obligated to pay certain employees with 10 years of service, severance pay upon termination of employment based on unused accumulated sick leave days up to a maximum of 60 days.

Employees are granted vacation based on years of service. The City compensates employees who resign, retire or are terminated for all their unused vacation days. The liability for accumulated vacation and sick pay at December 31, 2008 is recorded in the financial statements.

**6. Long-Term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**D. Assets, Liabilities and Net Assets or Equity (Continued)**

**6. Long-Term Obligations (Continued)**

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**7. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**8. Net Assets**

Net assets represent the difference between assets and liabilities in the government-wide financial statements. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. A reclassification of \$ 1,601,909 was made between this net asset class and unrestricted net assets in the total column in the Statement of Net Assets to recognize the portion of debt attributable to capital assets donated from governmental activities to business-type activities. Net assets are reported as restricted in the government-wide financial statement when there are limitations on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

The Water Availability Fund is reported as a governmental fund in the fund statements, but is reclassified as a business-type activity for the government-wide presentation. There was no impact on net assets.

**9. Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenditures/expense during the reporting period. Actual results could differ from those estimates.

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2008**

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

1. Budget requests are submitted by all department heads to the City Administrator. The City Administrator compiles the budget requests into an overall preliminary City budget. The City Administrator presents the proposed budget to the City Council.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution after obtaining taxpayer comments. The budget resolution adopted by the City Council sets forth the budgets at the function level for the governmental funds.
4. Budgets for the governmental funds are adopted on a basis consistent with U.S. generally accepted accounting principles.
5. Expenditures may not legally exceed budgeted appropriations at the department level. No fund's budget can be increased without City Council approval. The City Council may authorize transfer of budgeted amounts between departments within any fund. Management may amend budgets within a department level, so long as the total department budget is not changed.
6. Annual appropriated budgets are adopted during the year for the governmental funds.
7. Budgeted amounts are as originally adopted or as amended by the City Council. Individual amendments were not material in relation to the original amounts budgeted. Budgeted expenditure appropriations lapse at year-end.

Encumbrances outstanding at year-end expire and outstanding purchase orders are canceled and not reported in the financial statements.

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2008**

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**B. Deficit Fund Balance**

The following Funds had deficit balances at December 31, 2008:

Nonmajor Funds:

Special Revenue:

Investigation Information Buy Fund	\$ 1,107
Development Grants	70,535
Development Expenses	78,719
Stormwater Management Plan	91,681

Debt Service:

1990 Assessment Refunding	61,118
1999 Street and Utilities Improvements	82,414

Capital Projects:

2002/2003 First Street Improvements	135,816
2003 Utility Improvements	80,293
Heritage Village	208,355
21st Avenue Improvements - North Portion	87,890
2nd Street and 10th Avenue Street and Utility Improvements	146,062
Arcadian Homes Utility Project	21,055
2000 Street and Utility Improvements	70,145
1st Street Apartment Tax Increment District	108,945

**C. Excess of Expenditures over Appropriations**

The following funds expenditures exceeded appropriations during the year:

Fund	Disbursements	Appropriations	Excess
Property Confiscation	\$ 417	\$ 275	\$ 142
Solheim Field Improvements	2,704	1,600	1,104
Economic Development Authority	148,429	143,830	4,599

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2008**

**NOTE 3 – DEPOSITS AND INVESTMENTS**

**A. Deposits**

In accordance with applicable *Minnesota Statutes*, the City maintains deposits at depository banks authorized by the City Council.

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of bank failure, the City’s deposits may not be returned to it. As of December 31, 2008, the City’s bank balance was not exposed to custodial credit risk because it was fully insured through the FDIC as well as collateral pledged. The City’s deposits had a book balance as follows:

Checking	\$ 218,771
Savings	2,812,982
Petty Cash	2,298
Nonnegotiable Certificates of Deposit	<u>1,205,483</u>
Total Deposits and Petty Cash	<u><u>\$ 4,239,534</u></u>

**B. Investments**

As of December 31, 2008, the City had the following investments:

Type	Investment	Fair Value	Investment Maturities				Percentage of Total	Credit Rating
			Less Than One Year	1 - 5 Years	6 - 10 Years	Greater Than 10 Years		
MM	Money Market Mutual Funds	\$ 44,682	\$ 44,682	\$ -	\$ -	\$ -	1.2%	NR
GB	FNMA	588,393	-	-	455,099	133,294	15.9%	AAA
GB	FHLB	117,211	-	41,625	75,586	-	3.2%	AAA
GB	FHLMC	657,656	-	100,024	418,827	138,805	17.8%	AAA
GB	FFCB	70,022	-	-	70,022	-	1.9%	AAA
SEC	Mortgage Securities	38,993	-	-	-	38,993	1.1%	AAA
CD	Brokered Certificates of Deposit	<u>2,172,769</u>	<u>445,338</u>	<u>1,531,576</u>	<u>195,855</u>	-	<u>58.9%</u>	NR
Total		<u>\$ 3,689,726</u>	<u>\$ 490,020</u>	<u>\$ 1,673,225</u>	<u>\$ 1,215,389</u>	<u>\$ 311,092</u>	<u>100.0%</u>	

Credit Risk: As of December 31, 2008, the City’s investments were rated in the table above.

Concentration of Credit Risk: The City was exposed to concentration of credit risk at December 31, 2008 as investments in FNMA (16.0%) and FHLMC (17.8%) exceeded 5% of the City’s total investment portfolio.

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2008**

**NOTE 3 – DEPOSITS AND INVESTMENTS**

**B. Investments (Continued)**

The following is a summary of total deposits and investments:

Deposits (Note 3.A.)	\$ 4,239,534
Investments	<u>3,689,726</u>
Total Deposits and Investments - City	<u>7,929,260</u>
Deposits - Component Unit	1,852,989
Cash Held in Escrow - Component Unit	239,854
Restricted Assets - Component Unit	<u>1,755,461</u>
Total Component Unit	<u>3,848,304</u>
Total Deposits and Investments	<u><u>\$ 11,777,564</u></u>

Deposits and investments are presented in the basic financial statements as follows:

Statement of Net Assets:	
Cash and Investments, Including Component Units	\$ 9,782,249
Cash Held in Escrow	239,854
Restricted Assets	<u>1,755,461</u>
Total	<u><u>\$ 11,777,564</u></u>

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2008**

**NOTE 4 – CAPITAL ASSETS**

**A. Primary Government**

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ 1,526,736	\$ 112,928	\$ 397,813	\$ 1,241,851
Capital Assets being Depreciated:				
Buildings and Systems	2,151,306	42,901	-	2,194,207
Other Improvements	1,456,151	-	-	1,456,151
Machinery and Equipment	2,840,302	342,504	3,100	3,179,706
Infrastructure	9,075,358	-	-	9,075,358
Total Capital Assets being Depreciated	15,523,117	385,405	3,100	15,905,422
Less Accumulated Depreciation for:				
Buildings and Systems	800,543	45,689	-	846,232
Other Improvements	876,583	49,523	-	926,106
Machinery and Equipment	1,436,940	183,177	689	1,619,428
Infrastructure	3,073,038	248,522	-	3,321,560
Total Accumulated Depreciation	6,187,104	526,911	689	6,713,326
Total Capital Assets being Depreciated, Net	9,336,013	(141,506)	2,411	9,192,096
Governmental Activities Capital Assets, Net	\$ 10,862,749	\$ (28,578)	\$ 400,224	\$ 10,433,947

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2008**

**NOTE 4 – CAPITAL ASSETS**

**A. Primary Government (Continued)**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-Type Activities:</b>				
<b>Capital Assets not being Depreciated:</b>				
Land	\$ 1,111,688	\$ 2,637	\$ 90,475	\$ 1,023,850
Construction in Progress	<u>1,738,796</u>	<u>864,290</u>	<u>-</u>	<u>2,603,086</u>
Total Capital Assets not being Depreciated	<u>2,850,484</u>	<u>866,927</u>	<u>90,475</u>	<u>3,626,936</u>
<b>Capital Assets being Depreciated:</b>				
Buildings and Systems	1,359,892	-	212,501	1,147,391
Other Improvements	10,126,074	19,141	-	10,145,215
Machinery and Equipment	<u>777,391</u>	<u>74,696</u>	<u>122,015</u>	<u>730,072</u>
Total Capital Assets being Depreciated	<u>12,263,357</u>	<u>93,837</u>	<u>334,516</u>	<u>12,022,678</u>
<b>Less Accumulated Depreciation for:</b>				
Buildings and Systems	162,159	40,749	108,564	94,344
Other Improvements	3,254,542	250,065	-	3,504,607
Machinery and Equipment	<u>420,839</u>	<u>49,518</u>	<u>109,575</u>	<u>360,782</u>
Total Accumulated Depreciation	<u>3,837,540</u>	<u>340,332</u>	<u>218,139</u>	<u>3,959,733</u>
<b>Total Capital Assets being Depreciated, Net</b>	<u>8,425,817</u>	<u>(246,495)</u>	<u>116,377</u>	<u>8,062,945</u>
<b>Business-Type Activities Capital Assets, Net</b>	<u>\$11,276,301</u>	<u>\$ 620,432</u>	<u>\$ 206,852</u>	<u>\$11,689,881</u>

Depreciation expense was charged to functions/programs of the City as follows:

<b>Governmental Activities:</b>	
General Government	\$ 45,595
Public Safety	101,034
Public Works	317,907
Parks and Recreation	60,922
Cemetery	<u>1,453</u>
<b>Total Depreciation Expense - Governmental Activities</b>	<u>\$ 526,911</u>

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2008**

**NOTE 4 – CAPITAL ASSETS**

**A. Primary Government (Continued)**

Business-Type Activities:

Airport	\$ 93,832
Sanitary Sewer	196,056
Municipal Liquor	<u>50,444</u>

Total Depreciation Expense - Business-Type Activities	<u><u>\$ 340,332</u></u>
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**NOTE 5 – NOTES/LOANS RECEIVABLE**

Notes receivable issued in connection with Urban Development Action Grants (UDAG) at December 31, 2008 consisted of the following:

Bellamy:

Annual payments of \$ 589, including interest at 3%, through September 2024	\$ 10,457
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Cartwright:

Annual payments of \$ 303, including interest at 3%, through September 2024	4,960
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Annual payments of \$ 583, including interest at 3%, through September 2024	9,525
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Annual payments of \$ 361, including interest at 3%, through September 2024	5,895
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Vurchota:

Annual payments of \$ 275, including interest at 3%, through September 2024	3,293
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Beattie:

Annual payments of \$ 310, including interest at 3%, through September 2024	3,713
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Annual payments of \$ 886, including interest at 3%, through September 2024	10,597
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**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2008**

**NOTE 5 – NOTES/LOANS RECEIVABLE**

Anderson:

Annual payments of \$ 262, including interest at 3%, through September 2024	3,138
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Annual payments of \$ 264, including interest at 3%, through September 2024	<u>3,153</u>
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Total Urban Development Action Grants	<u><u>\$ 54,731</u></u>
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The principal balance for the above notes was financed by UDAG issued to the City.

**NOTE 6 – RESTRICTED ASSETS – COMPONENT UNIT**

**A. Improvements and Replacements**

In 1986, the Public Utilities Commission resolved that any surplus monies in the Electric, Water and Sanitation Funds be transferred to a reserve account to be used for emergencies, improvements and equipment replacements. Activity in the account was as follows:

BALANCE - December 31, 2007	\$ 511,902
Transfers	154,670
Uses	<u>-</u>
BALANCE - December 31, 2008	<u><u>\$ 666,572</u></u>

**B. Reserve Fund**

The 2006 and 2005 Revenue Bonds required a reserve account in the amount of \$ 937,035. The amount of \$ 151,474 is required to be reserved in the Water Fund and \$ 785,561 in the Electric Fund, of which \$ 239,854 is being held in escrow.

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2008**

**NOTE 6 – RESTRICTED ASSETS – COMPONENT UNIT**

**C. Debt Retirement**

The 2008, 2004, 2003, 2002 and 1999 Water Revenue Bond indentures require the Water Fund to set aside bimonthly, at least one-sixth of the total principal and interest payable during the ensuing 12 months. The amounts set aside as of December 31, 2008 were \$ 121,928.

The 2006, 2004, 2003 and 2002 Electric Revenue Bond indentures require the Electric Fund to set aside an amount equal to not less than one-sixth of the interest due within the next 6 months and monthly, to set aside an amount equal to not less than one-twelfth of the principal due within the next 12 months. The total set aside at December 31, 2008 was \$ 269,780.

**D. Restricted Cash Held in Escrow**

Restricted cash held in escrow as of December 31, 2008 consisted of \$ 239,854 of cash proceeds from the Electric Revenue Note, Series 2006A.

**NOTE 7 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

**A. Interfund Receivables and Payables**

The composition of interfund balances as of December 31, 2008 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Other Governmental Funds	\$ 79,014
Capital Improvements	Other Governmental Funds	1,414,508
Capital Improvements	Airport	81,513
Other Governmental Funds	Other Governmental Funds	70,150
Municipal Liquor	Other Governmental Funds	28,162
Municipal Liquor	Airport	2,825
Municipal Liquor	Downtown Redevelopment Tax Increment	<u>207,250</u>
Total		<u><u>\$ 1,883,422</u></u>

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2008**

**NOTE 7 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

**B. Interfund Transfers**

The composition of interfund transfers as of December 31, 2008 was as follows:

	Transfer In			Total
	General	Other Governmental Funds	Airport Fund	
Transfer Out:				
General	\$ -	\$ 57,421	\$ 17,300	\$ 74,721
Capital Improvements	120,000	-	-	120,000
Other Governmental Funds	-	48,381	-	48,381
Municipal Liquor	-	2,500	535	3,035
Total	\$ 120,000	\$ 108,302	\$ 17,835	\$ 246,137

The purpose of the above transfers is to provide funding for capital improvement projects, capital outlay, provide funding for operating purposes and to close funds.

**NOTE 8 – LONG-TERM DEBT**

**A. General Obligation Bonds**

The City issues General Obligation (G.O.) Bonds to provide financing for street improvements, facility construction and tax increment projects. Debt service is covered respectively by special assessments, property taxes and tax increments against benefited properties with any shortfalls being paid from general taxes.

G.O. Bonds are direct obligations and pledge the full faith and credit of the City. These Bonds generally are issued as 15 year serial bonds with equal debt service payments each year.

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2008**

**NOTE 8 – LONG-TERM DEBT**

**B. Components of Long-Term Liabilities**

**Primary Government**

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>	<u>Due Within One Year</u>
<b>Long-Term Liabilities:</b>						
<b>Governmental Activities:</b>						
<b>G.O. Bonds, Including</b>						
<b>Special Assessment Bonds:</b>						
G.O. Improvement 1993A	10/01/93	3.10%-5.25%	\$ 395,000	02/01/09	\$ 20,000	\$ 20,000
G.O. Improvement 1999	09/01/99	4.50%-5.20%	820,000	02/01/10	195,000	95,000
G.O. Improvement Refunding 2000B	11/01/00	4.80%-5.25%	535,000	02/01/13	265,000	50,000
G.O. Improvement 2002	11/01/02	2.10%-4.45%	510,000	02/01/13	280,000	50,000
G.O. Improvement 2004	01/01/04	2.75%-4.25%	1,875,000	02/01/20	1,695,000	80,000
G.O. Improvement 2004A	09/01/04	2.25%-3.80%	400,000	02/01/15	295,000	40,000
G.O. Improvement 2005A	09/20/05	3.00%-4.20%	1,100,000	02/01/21	1,000,000	60,000
G.O. Improvement 2007A	08/23/07	4.00%-4.25%	234,000	02/01/23	234,000	12,000
<b>G.O. Bonds:</b>						
G.O. Library 1993B	10/01/93	2.95%-5.25%	215,000	02/01/09	20,000	20,000
G.O. TIF Refunding 2003	12/01/03	2.00%-4.25%	735,000	08/01/09	140,000	140,000
<b>Compensated Absences</b>						
<b>Total Governmental Activities</b>					<u>4,384,425</u>	<u>757,000</u>
<b>Business-Type Activities:</b>						
<b>G.O. Revenue Bonds:</b>						
PFA Sewer Revenue	03/13/95	3.880%	4,254,663	08/20/16	2,094,368	228,029
G.O. Sewer Revenue	09/01/07	3.75%-4.35%	1,755,000	02/21/28	1,755,000	-
<b>Compensated Absences</b>						
<b>Total Business-Type Activities</b>					<u>23,035</u>	<u>1,155</u>
<b>Total all Long-Term Liabilities</b>					<u>\$ 8,256,828</u>	<u>\$ 986,184</u>

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2008**

**NOTE 8 – LONG-TERM DEBT**

**B. Components of Long-Term Liabilities (Continued)**

**Component Unit**

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>	<u>Due Within One Year</u>
Long-Term Liabilities:						
Business-Type Activities:						
G.O. Revenue Bonds:						
MNPFA G.O. Revenue Note	06/10/04	2.53%	847,422	08/20/23	\$ 718,000	\$ 40,000
Public Utility System Revenue Bonds, Series 2004	02/01/04	3.00%-4.55%	670,000	04/01/24	640,000	30,000
Public Utility System Refunding Revenue	09/01/03	1.25%-4.70%	710,000	07/01/18	355,000	30,000
MNPFA G.O. Revenue Bond	09/08/99	3.29%	670,000	08/20/19	436,000	34,000
Public Utility System Revenue Bonds, Series 2002	04/01/02	2.40%-5.40%	280,000	04/01/22	220,000	10,000
Electric Revenue Note, Series 2006A	04/02/06	4.05%	3,065,000	12/01/25	2,780,000	105,000
Public Utility System Revenue Bonds, Series 2004	02/01/04	1.25%-4.70%	2,795,000	04/01/24	2,435,000	115,000
Public Utility System Refunding Revenue	09/01/03	1.25%-4.70%	1,560,000	07/01/18	1,085,000	105,000
Public Utility System Revenue Bonds, Series 2002	04/01/02	2.40%-5.40%	2,365,000	04/01/22	1,855,000	95,000
G.O. Water Revenue Bond Series 2008A	03/04/08	2.20%-4.05%	4,880,000	12/01/27	4,780,000	215,000
Bond Discount and Issuance Costs					<u>(150,780)</u>	<u>(23,008)</u>
Total all Long-Term Liabilities					<u>\$ 15,153,220</u>	<u>\$ 755,992</u>

Long-term bonded indebtedness listed above and on the previous page were issued to finance acquisition and construction of capital facilities or to refinance (refund) previous bond issues.

Annual debt service requirements to maturity for all bonded debt outstanding as of December 31, 2008 are listed on the following page.

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2008**

**NOTE 8 – LONG-TERM DEBT**

**B. Components of Long-Term Liabilities (Continued)**

**Primary Government**

Year Ending December 31,	Governmental Activities				Total
	G.O. Special Assessment Bonds		G.O. Improvement Bonds		
	Principal	Interest	Principal	Interest	
2009	\$ 407,000	\$ 153,020	\$ 160,000	\$ 6,475	
2010	437,000	135,706	-	-	
2011	342,000	120,108	-	-	
2012	368,000	106,259	-	-	
2013	383,000	91,030	-	-	
2014-2018	1,322,000	283,471	-	-	
2019-2023	725,000	43,092	-	-	
Total	<u>\$ 3,984,000</u>	<u>\$ 932,686</u>	<u>\$ 160,000</u>	<u>\$ 6,475</u>	

Year Ending December 31,	Governmental Activities Total		Business-Type Activities G.O. Revenue Bonds		Total
	Principal	Interest	Principal	Interest	
	2009	\$ 567,000	\$ 159,495	\$ 228,029	
2010	437,000	135,706	296,962	141,712	1,011,380
2011	342,000	120,108	311,246	130,085	903,439
2012	368,000	106,259	320,893	117,985	913,137
2013	383,000	91,030	335,918	105,395	915,343
2014-2018	1,322,000	283,471	1,261,320	335,562	3,202,353
2019-2023	725,000	43,092	490,000	184,744	1,442,836
2024-2028	-	-	605,000	68,290	673,290
Total	<u>\$ 4,144,000</u>	<u>\$ 939,161</u>	<u>\$ 3,849,368</u>	<u>\$ 1,235,544</u>	<u>\$10,168,073</u>

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2008**

**NOTE 8 – LONG-TERM DEBT**

**B. Components of Long-Term Liabilities (Continued)**

**Component Unit**

<u>Year Ending December 31,</u>	<u>Business-Type Activities</u>	
	<u>G.O. Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 779,000	\$ 604,002
2010	801,000	578,170
2011	833,000	549,473
2012	845,000	518,444
2013	912,000	485,588
2014-2018	4,823,000	1,879,400
2019-2023	4,761,000	869,072
2024-2028	1,550,000	99,127
Total	<u>\$ 15,304,000</u>	<u>\$ 5,583,276</u>

**C. Changes in Long-Term Liabilities**

Long-term liability activity for the year ended December 31, 2008 was as follows:

**Primary Government**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
<b>Bonds Payable:</b>					
G.O. Special Assessment Bonds	\$ 4,519,000	\$ -	\$ 535,000	\$ 3,984,000	\$ 407,000
G.O. Improvement Bonds	315,000	-	155,000	160,000	160,000
Total Bonds Payable	<u>4,834,000</u>	<u>-</u>	<u>690,000</u>	<u>4,144,000</u>	<u>567,000</u>
Compensated Absences	211,130	169,618	140,323	240,425	190,000
Total Governmental Activities	<u>5,045,130</u>	<u>169,618</u>	<u>830,323</u>	<u>4,384,425</u>	<u>757,000</u>
<b>Business-Type Activities:</b>					
<b>Bonds Payable:</b>					
G.O. PFA Sewer Revenue Bonds	2,313,800	-	219,432	2,094,368	228,029
G.O. Sewer Revenue Bonds	1,755,000	-	-	1,755,000	-
Total Bonds Payable	<u>4,068,800</u>	<u>-</u>	<u>219,432</u>	<u>3,849,368</u>	<u>228,029</u>
Compensated Absences	21,739	14,478	13,182	23,035	1,155
Total Business-Type Activities	<u>4,090,539</u>	<u>14,478</u>	<u>232,614</u>	<u>3,872,403</u>	<u>229,184</u>
Total Long-Term Liabilities	<u>\$ 9,135,669</u>	<u>\$ 184,096</u>	<u>\$1,062,937</u>	<u>\$ 8,256,828</u>	<u>\$ 986,184</u>

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2008**

**NOTE 8 – LONG-TERM DEBT**

**C. Changes in Long-Term Liabilities (Continued)**

The General Fund typically liquidates the liability related to compensated absences.

**Component Unit**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-Type Activities:					
Bonds Payable:					
Water Fund:					
Revenue Bonds	\$ 5,140,000	\$4,880,000	\$2,871,000	\$ 7,149,000	\$ 359,000
Electric Fund:					
Revenue Bonds	8,565,000	-	410,000	8,155,000	420,000
Bond Discount and Issuance Costs	<u>(188,110)</u>	<u>(37,473)</u>	<u>74,803</u>	<u>(150,780)</u>	<u>(23,008)</u>
Total Business-Type Activities	<u>13,516,890</u>	<u>4,842,527</u>	<u>3,355,803</u>	<u>15,153,220</u>	<u>755,992</u>
Total Long-Term Liabilities	<u>\$13,516,890</u>	<u>\$4,842,527</u>	<u>\$3,355,803</u>	<u>\$15,153,220</u>	<u>\$ 755,992</u>

**D. Conduit Debt Obligations**

Conduit debt obligations are certain limited obligation revenue bonds or similar debt instruments issued for the express purpose of providing capital financing for a specific third party. The City has issued industrial revenue bonds to provide funding to private-sector entities for projects deemed to be in the public interest. Although these bonds bear the name of the City, the City has no obligation for such debt. Accordingly, the bonds are not reported as liabilities in the financial statements of the City.

As of December 31, 2008, there were several issues outstanding that were refunded during the year. The bonds are not reported as liabilities in the accompanying financial statements. The outstanding balance at December 31, 2008 was not determinable.

**NOTE 9 – RESERVED FUND BALANCES/NET ASSETS**

**Reserved/Designated Fund Equity**

Fund equity balances are classified on the following page to reflect the limitations and restrictions of the respective funds.

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2008**

**NOTE 9 – RESERVED FUND BALANCES/NET ASSETS**

**Reserved/Designated Fund Equity (Continued)**

	General	Other Governmental Funds	Total
Reserved for:			
Prepays	\$ 62,625	\$ -	\$ 62,625
Land Held for Resale	-	512,400	512,400
Designated for:			
Working Capital	1,462,925	-	1,462,925
Total	\$ 1,525,550	\$ 512,400	\$ 2,037,950

**NOTE 10 – RISK MANAGEMENT**

The City purchases commercial insurance coverage through the League of Minnesota Cities Insurance Trust (LMCIT) with other cities in the state which is a public entity risk pool currently operating as a common risk management and insurance program. The City pays an annual premium to the LMCIT for its insurance coverage. The LMCIT is self-sustaining through commercial companies for excess claims. The City is covered through the pool for any claims incurred but unreported, but retains risk for the deductible portion of its insurance policies. The amount of these deductibles is considered immaterial to the financial statements.

There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

The City's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment for 2008 is estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2008, there were no other claims liabilities reported in the Fund based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2008**

**NOTE 11 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE**

**Public Employees' Retirement Association**

**A. Plan Description**

All full-time and certain part-time employees of the City are covered by defined benefit plans administered by the Public Employees' Retirement Association of Minnesota (PERA). PERA administers the Public Employees' Retirement Fund (PERF) and the Public Employees' Police and Fire Fund (PEPFF), which are cost-sharing, multiple-employer retirement plans. These Plans are established and administered in accordance with *Minnesota Statutes* Chapters 353 and 356.

PERF members belong to either the Coordinated or Basic Plan. Coordinated Plan members are covered by social security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters and peace officers who qualify for membership by statute are covered by the PEPFF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0% for each year of service. For all PERF and PEPFF members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF and 65 for Basic and Coordinated Plan members hired prior to July 1, 1989. Normal retirement age for unreduced social security benefits is capped at 66 for Coordinated Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2008**

**NOTE 11 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE**

**Public Employees' Retirement Association (Continued)**

**A. Plan Description (Continued)**

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree – no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the Fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active Plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them, are bound by the provisions in effect at the time they last terminated their public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF and PEPFF. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org), by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or (800) 652-9026.

**B. Funding Policy**

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. These Statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.0%, respectively, of their annual covered salary in 2008. PEPFF members were required to contribute 8.6% of their annual covered salary in 2008. That rate will increase to 9.4% in 2009. The City is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 6.5% for Coordinated Plan PERF members and 12.9% for PEPFF members. Employer contribution rates for the Coordinated Plan and PEPFF will increase to 6.75% and 14.1%, respectively, effective January 1, 2009. The City's contributions to PERF for the years ending December 31, 2008, 2007 and 2006 were \$ 57,363, \$ 51,397 and \$ 46,835, respectively. The City's contributions to PEPFF for the years ending December 31, 2008, 2007 and 2006 were \$ 66,310, \$ 53,623 and \$ 46,033, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2008**

**NOTE 12 – COMMITMENTS**

The City has entered into the following construction contract.

Project	Contractor	Original Contract	Change Orders	Revised Contract	Expended Through 12/31/08	Commitment
WWTP Phosphorus Removal	Municipal Builders, Inc.	<u>\$ 1,644,200</u>	<u>\$ 19,486</u>	<u>\$ 1,663,686</u>	<u>\$ 1,654,352</u>	<u>\$ 9,334</u>

**NOTE 13 – SUBSEQUENT EVENTS**

**A. Public Facility Authority Bond Refunding**

On April 16, 2009, the City issued \$ 2,040,000 G.O. Sanitary Sewer Revenue Refunding Bonds, Series 2009A. The proceeds will be used to refund the City's 1995 Public Facility Authority (PFA) Loan.

**B. United States Department of Agriculture Grant**

On January 13, 2009, the City accepted a United States Department of Agriculture (USDA) Rural Development loan and grant in the amounts of \$ 15,118,000 and \$ 857,000, respectively, for the construction of the wastewater treatment plant.

**SUPPLEMENTARY INFORMATION**

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**COMBINING BALANCE SHEET -**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**December 31, 2008**

	Special Revenue				
	Insurance Deductible Reserve (202)	Cemetery Operation and Maintenance (205)	Property Confiscation (210)	Public Safety and Awareness (211)	Investigation Information Buy Fund (212)
<b>ASSETS:</b>					
Cash and Investments (Including Cash Equivalents)	\$ 49,051	\$ 6,740	\$ 121,282	\$ 1,217	\$ -
Taxes Receivable - Delinquent	-	-	-	-	-
Special Assessment Receivable:					
Delinquent	-	-	-	-	-
Deferred	-	-	-	-	-
Accounts Receivable	-	150	-	-	-
Interest Receivable	-	-	-	-	-
Due from Other Funds	-	-	-	-	-
Due from Other Governments	-	-	-	-	-
Notes Receivable	-	-	-	-	-
Land Held for Resale	-	-	-	-	-
<b>Total Assets</b>	<b>\$ 49,051</b>	<b>\$ 6,890</b>	<b>\$ 121,282</b>	<b>\$ 1,217</b>	<b>\$ -</b>
<b>LIABILITIES AND FUND BALANCES:</b>					
<b>Liabilities:</b>					
Accounts and Contracts Payable	\$ 2,794	\$ 78	\$ 11	\$ -	\$ -
Due to Other Funds	-	-	-	-	1,107
Due to Other Governments	-	-	-	-	-
Salaries Payable	-	43	-	-	-
Deferred Revenue	-	-	-	-	-
<b>Total Liabilities</b>	<b>2,794</b>	<b>121</b>	<b>11</b>	<b>-</b>	<b>1,107</b>
<b>Fund Balances:</b>					
<b>Reserved for:</b>					
Land Held for Resale	-	-	-	-	-
<b>Unreserved, Reported in:</b>					
Special Revenue - Undesignated	46,257	6,769	121,271	1,217	(1,107)
Debt Service - Undesignated	-	-	-	-	-
Capital Projects - Undesignated	-	-	-	-	-
<b>Total Fund Balances</b>	<b>46,257</b>	<b>6,769</b>	<b>121,271</b>	<b>1,217</b>	<b>(1,107)</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 49,051</b>	<b>\$ 6,890</b>	<b>\$ 121,282</b>	<b>\$ 1,217</b>	<b>\$ -</b>

Special Revenue

Felony Investigation (214)	Solheim Field Improvements (216)	Civic Center (240)	Community Beautification (242)	Community Projects (250)	Development Grants (252)	Development Expenses (253)
\$ 14,047	\$ 4,904	\$ 572	\$ 7,478	\$ 1,159	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	1,000
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 14,047</u>	<u>\$ 4,904</u>	<u>\$ 572</u>	<u>\$ 7,478</u>	<u>\$ 1,159</u>	<u>\$ -</u>	<u>\$ 1,000</u>
\$ -	\$ -	\$ 511	\$ -	\$ -	\$ -	\$ 3,760
-	-	-	-	-	70,535	75,959
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	511	-	-	70,535	79,719
-	-	-	-	-	-	-
14,047	4,904	61	7,478	1,159	(70,535)	(78,719)
-	-	-	-	-	-	-
<u>14,047</u>	<u>4,904</u>	<u>61</u>	<u>7,478</u>	<u>1,159</u>	<u>(70,535)</u>	<u>(78,719)</u>
<u>\$ 14,047</u>	<u>\$ 4,904</u>	<u>\$ 572</u>	<u>\$ 7,478</u>	<u>\$ 1,159</u>	<u>\$ -</u>	<u>\$ 1,000</u>

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**COMBINING BALANCE SHEET -**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**December 31, 2008**

	Special Revenue			
	Fire Equipment Reserve (260)	Disaster Relocation (262)	Economic Development Authority (600)	Stormwater Management (601)
<b>ASSETS:</b>				
Cash and Investments (Including Cash Equivalents)	\$ 200,413	\$ 51,285	\$ -	\$ -
Taxes Receivable - Delinquent	-	-	985	-
Special Assessment Receivable:				
Delinquent	-	-	-	-
Deferred	-	-	-	-
Accounts Receivable	3,600	-	1,500	-
Interest Receivable	25	-	-	-
Due from Other Funds	-	-	-	-
Due from Other Governments	-	12,250	-	-
Notes Receivable	-	-	-	-
Land Held for Resale	-	-	512,400	-
	<u>\$ 204,038</u>	<u>\$ 63,535</u>	<u>\$ 514,885</u>	<u>\$ -</u>
<b>LIABILITIES AND FUND BALANCES:</b>				
<b>Liabilities:</b>				
Accounts and Contracts Payable	\$ -	\$ 361	\$ 4,116	\$ -
Due to Other Funds	28,162	-	247,708	91,681
Due to Other Governments	-	56	-	-
Salaries Payable	-	260	355	-
Deferred Revenue	-	-	985	-
Total Liabilities	<u>28,162</u>	<u>677</u>	<u>253,164</u>	<u>91,681</u>
<b>Fund Balances:</b>				
Reserved for:				
Land Held for Resale	-	-	512,400	-
Unreserved, Reported in:				
Special Revenue - Undesignated	175,876	62,858	(250,679)	(91,681)
Debt Service - Undesignated	-	-	-	-
Capital Projects - Undesignated	-	-	-	-
Total Fund Balances	<u>175,876</u>	<u>62,858</u>	<u>261,721</u>	<u>(91,681)</u>
	<u>\$ 204,038</u>	<u>\$ 63,535</u>	<u>\$ 514,885</u>	<u>\$ -</u>
Total Liabilities and Fund Balances	<u>\$ 204,038</u>	<u>\$ 63,535</u>	<u>\$ 514,885</u>	<u>\$ -</u>

Special Revenue						Debt Service
Water Availability (701)	Park Improvements (802)	Cemetery Perpetual Care (803)	UDAG No. 2 Downtown Project (814)	UDAG No. 5 Crystal Cabinets (820)	Total	1994 Library Project (494)
\$ 6,925	\$ 64,643	\$ 138,808	\$ 21,832	\$ 90,867	\$ 781,223	\$ 22,636
-	-	-	-	-	985	740
-	-	-	-	-	-	-
-	-	35	-	-	6,285	-
-	-	2,165	1,015	-	3,205	-
-	-	-	-	-	-	-
-	-	-	-	-	12,250	-
-	-	-	54,731	-	54,731	-
-	-	-	-	-	512,400	-
<u>\$ 6,925</u>	<u>\$ 64,643</u>	<u>\$ 141,008</u>	<u>\$ 77,578</u>	<u>\$ 90,867</u>	<u>\$ 1,371,079</u>	<u>\$ 23,376</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,631	\$ -
-	-	-	-	-	515,152	-
6,925	-	-	-	-	6,981	-
-	-	-	-	-	658	-
-	-	-	54,731	-	55,716	740
<u>6,925</u>	<u>-</u>	<u>-</u>	<u>54,731</u>	<u>-</u>	<u>590,138</u>	<u>740</u>
-	-	-	-	-	512,400	-
-	64,643	141,008	22,847	90,867	268,541	-
-	-	-	-	-	-	22,636
-	-	-	-	-	-	-
-	<u>64,643</u>	<u>141,008</u>	<u>22,847</u>	<u>90,867</u>	<u>780,941</u>	<u>22,636</u>
<u>\$ 6,925</u>	<u>\$ 64,643</u>	<u>\$ 141,008</u>	<u>\$ 77,578</u>	<u>\$ 90,867</u>	<u>\$ 1,371,079</u>	<u>\$ 23,376</u>

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**COMBINING BALANCE SHEET -**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**December 31, 2008**

	Debt Service				
	1999 Industrial Park Improvements (500)	2002/2003 1st Street Improvements (502)	2nd and 7th Improvements (504)	2007 PUC Area Improvements (507)	2000 Street and Utilities Improvements (530)
<b>ASSETS:</b>					
Cash and Investments (Including Cash Equivalents)	\$ 339,436	\$ 268,551	\$ 155,816	\$ 144,221	\$ 39,812
Taxes Receivable - Delinquent	743	794	834	-	-
Special Assessment Receivable:					
Delinquent	-	5,066	1,785	-	-
Deferred	44,650	120,363	191,025	141,264	18,047
Accounts Receivable	-	-	-	-	-
Interest Receivable	-	-	-	-	-
Due from Other Funds	-	-	-	-	-
Due from Other Governments	-	-	-	-	-
Notes Receivable	-	-	-	-	-
Land Held for Resale	-	-	-	-	-
<b>Total Assets</b>	<b>\$ 384,829</b>	<b>\$ 394,774</b>	<b>\$ 349,460</b>	<b>\$ 285,485</b>	<b>\$ 57,859</b>
<b>LIABILITIES AND FUND BALANCES:</b>					
<b>Liabilities:</b>					
Accounts and Contracts Payable	\$ -	\$ -	\$ -	\$ -	\$ -
Due to Other Funds	-	-	-	-	-
Due to Other Governments	-	-	-	-	-
Salaries Payable	-	-	-	-	-
Deferred Revenue	45,393	126,223	193,644	141,264	18,047
<b>Total Liabilities</b>	<b>45,393</b>	<b>126,223</b>	<b>193,644</b>	<b>141,264</b>	<b>18,047</b>
<b>Fund Balances:</b>					
Reserved for:					
Land Held for Resale	-	-	-	-	-
Unreserved, Reported in:					
Special Revenue - Undesignated	-	-	-	-	-
Debt Service - Undesignated	339,436	268,551	155,816	144,221	39,812
Capital Projects - Undesignated	-	-	-	-	-
<b>Total Fund Balances</b>	<b>339,436</b>	<b>268,551</b>	<b>155,816</b>	<b>144,221</b>	<b>39,812</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 384,829</b>	<b>\$ 394,774</b>	<b>\$ 349,460</b>	<b>\$ 285,485</b>	<b>\$ 57,859</b>

Debt Service

Revolving Account Fund (552)	1990 Assessment Refunding (590)	1992 Street and Utilities (592)	1993 Street and Utilities (593)	1997 LaGrande Improvements (597)	1999 Street and Utilities Improvements (599)	Total
\$ 201,429	\$ -	\$ 304,368	\$ 54,250	\$ 117,603	\$ -	\$ 1,648,122
-	-	685	-	1,323	371	5,490
-	-	-	444	-	218	7,513
875	-	199,730	17,611	-	1,637	735,202
-	-	-	-	-	-	-
-	-	-	-	-	-	-
70,150	-	-	-	-	-	70,150
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 272,454</u>	<u>\$ -</u>	<u>\$ 504,783</u>	<u>\$ 72,305</u>	<u>\$ 118,926</u>	<u>\$ 2,226</u>	<u>\$ 2,466,477</u>
\$ -	\$ -	\$ -	\$ 447	\$ -	\$ -	\$ 447
-	61,118	-	-	-	82,414	143,532
-	-	-	-	-	-	-
-	-	-	-	-	-	-
875	-	200,415	18,055	1,323	2,226	748,205
<u>875</u>	<u>61,118</u>	<u>200,415</u>	<u>18,502</u>	<u>1,323</u>	<u>84,640</u>	<u>892,184</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
271,579	(61,118)	304,368	53,803	117,603	(82,414)	1,574,293
-	-	-	-	-	-	-
<u>271,579</u>	<u>(61,118)</u>	<u>304,368</u>	<u>53,803</u>	<u>117,603</u>	<u>(82,414)</u>	<u>1,574,293</u>
<u>\$ 272,454</u>	<u>\$ -</u>	<u>\$ 504,783</u>	<u>\$ 72,305</u>	<u>\$ 118,926</u>	<u>\$ 2,226</u>	<u>\$ 2,466,477</u>

**CITY OF PRINCETON**  
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**COMBINING BALANCE SHEET -**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**December 31, 2008**

Capital Projects

	2002/2003 First Street Improvements (301)	2003 Utility Improvement (303)	2nd Street Street and Utilities Improvements (304)	Heritage Village (305)	21st Avenue Improvements South Portion (306)
<b>ASSETS:</b>					
Cash and Investments (Including Cash Equivalents)	\$ -	\$ -	\$ 23,495	\$ -	\$ 260,689
Taxes Receivable - Delinquent	-	-	-	-	-
Special Assessment Receivable:					
Delinquent	-	-	-	-	-
Deferred	-	-	-	-	-
Accounts Receivable	-	-	-	-	-
Interest Receivable	-	-	-	-	-
Due from Other Funds	-	-	-	-	-
Due from Other Governments	-	-	-	-	-
Notes Receivable	-	-	-	-	-
Land Held for Resale	-	-	-	-	-
<b>Total Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 23,495</b>	<b>\$ -</b>	<b>\$ 260,689</b>
<b>LIABILITIES AND FUND BALANCES:</b>					
<b>Liabilities:</b>					
Accounts and Contracts Payable	\$ -	\$ -	\$ -	\$ 506	\$ -
Due to Other Funds	135,816	80,293	-	207,849	-
Due to Other Governments	-	-	-	-	-
Salaries Payable	-	-	-	-	-
Deferred Revenue	-	-	-	-	-
<b>Total Liabilities</b>	<b>135,816</b>	<b>80,293</b>	<b>-</b>	<b>208,355</b>	<b>-</b>
<b>Fund Balances:</b>					
Reserved for:					
Land Held for Resale	-	-	-	-	-
Unreserved, Reported in:					
Special Revenue - Undesignated	-	-	-	-	-
Debt Service - Undesignated	-	-	-	-	-
Capital Projects - Undesignated	(135,816)	(80,293)	23,495	(208,355)	260,689
<b>Total Fund Balances</b>	<b>(135,816)</b>	<b>(80,293)</b>	<b>23,495</b>	<b>(208,355)</b>	<b>260,689</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 23,495</b>	<b>\$ -</b>	<b>\$ 260,689</b>

**Capital Projects**

21st Avenue Improvements North Portion (307)	2nd Street and 10th Avenue Street and Utility Improvements (308)	Arcadian Homes Utility Project (328)	2000 Street and Utility Improvements (330)	1st Street Apartment Tax Increment District (338)	Rum River Redevelopment District (389)	Railroad Property Redevelopment (390)
\$ -	\$ -	\$ -	\$ 5	\$ -	\$ 20,385	\$ 384,864
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	560	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 560</u>	<u>\$ 5</u>	<u>\$ -</u>	<u>\$ 20,385</u>	<u>\$ 384,864</u>
\$ -	\$ -	\$ 1,984	\$ -	\$ 2,500	\$ -	\$ -
87,890	146,062	19,631	70,150	106,445	-	79,014
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>87,890</u>	<u>146,062</u>	<u>21,615</u>	<u>70,150</u>	<u>108,945</u>	<u>-</u>	<u>79,014</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
(87,890)	(146,062)	(21,055)	(70,145)	(108,945)	20,385	305,850
<u>(87,890)</u>	<u>(146,062)</u>	<u>(21,055)</u>	<u>(70,145)</u>	<u>(108,945)</u>	<u>20,385</u>	<u>305,850</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 560</u>	<u>\$ 5</u>	<u>\$ -</u>	<u>\$ 20,385</u>	<u>\$ 384,864</u>

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**COMBINING BALANCE SHEET -**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**December 31, 2008**

	Capital Projects			
	District No. 3-5 Redevelopment District (391)	District No. 3-6 Redevelopment District (392)	1997 Housing District (397)	Armory Redevelopment District (398)
<b>ASSETS:</b>				
Cash and Investments (Including Cash Equivalents)	\$ 9,141	\$ 27,536	\$ 3,161	\$ 2,480
Taxes Receivable - Delinquent	5,388	-	-	-
Special Assessment Receivable:				
Delinquent	-	-	-	-
Deferred	-	-	-	-
Accounts Receivable	-	-	-	-
Interest Receivable	-	-	-	-
Due from Other Funds	-	-	-	-
Due from Other Governments	-	-	-	-
Notes Receivable	-	-	-	-
Land Held for Resale	-	-	-	-
	<b>\$ 14,529</b>	<b>\$ 27,536</b>	<b>\$ 3,161</b>	<b>\$ 2,480</b>
<b>LIABILITIES AND FUND BALANCES:</b>				
<b>Liabilities:</b>				
Accounts and Contracts Payable	\$ -	\$ -	\$ -	\$ -
Due to Other Funds	-	-	-	-
Due to Other Governments	-	-	-	-
Salaries Payable	-	-	-	-
Deferred Revenue	5,388	-	-	-
<b>Total Liabilities</b>	<b>5,388</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balances:</b>				
Reserved for:				
Land Held for Resale	-	-	-	-
Unreserved, Reported in:				
Special Revenue - Undesignated	-	-	-	-
Debt Service - Undesignated	-	-	-	-
Capital Projects - Undesignated	9,141	27,536	3,161	2,480
<b>Total Fund Balances</b>	<b>9,141</b>	<b>27,536</b>	<b>3,161</b>	<b>2,480</b>
	<b>\$ 14,529</b>	<b>\$ 27,536</b>	<b>\$ 3,161</b>	<b>\$ 2,480</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 14,529</b>	<b>\$ 27,536</b>	<b>\$ 3,161</b>	<b>\$ 2,480</b>

Capital Projects

<u>Industrial Park Development (821)</u>	<u>Total</u>	<u>Total Governmental Funds</u>
\$ 161,076	\$ 892,832	\$ 3,322,177
-	5,388	11,863
-	-	7,513
-	-	735,202
-	560	6,845
-	-	3,205
-	-	70,150
-	-	12,250
-	-	54,731
-	-	512,400
<u>\$ 161,076</u>	<u>\$ 898,780</u>	<u>\$ 4,736,336</u>
\$ -	\$ 4,990	\$ 17,068
-	933,150	1,591,834
-	-	6,981
-	-	658
-	5,388	809,309
<u>-</u>	<u>943,528</u>	<u>2,425,850</u>
-	-	512,400
-	-	268,541
-	-	1,574,293
161,076	(44,748)	(44,748)
<u>161,076</u>	<u>(44,748)</u>	<u>2,310,486</u>
<u>\$ 161,076</u>	<u>\$ 898,780</u>	<u>\$ 4,736,336</u>

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
NONMAJOR GOVERNMENTAL FUNDS**  
**For the Year Ended December 31, 2008**

	Special Revenue				
	Insurance Deductible Reserve (202)	Cemetery Operation and Maintenance (205)	Property Confiscation (210)	Public Safety and Awareness (211)	Investigation Information Buy Fund (212)
<b>REVENUES:</b>					
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Tax Increments	-	-	-	-	-
Special Assessments	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for Services	-	23,430	120	-	-
Miscellaneous:					
Investment Income	1,774	-	4,409	54	-
Change in Fair Market Value of Land Held for Resale	-	-	-	-	-
Other	-	-	-	-	-
<b>Total Revenues</b>	<u>1,774</u>	<u>23,430</u>	<u>4,529</u>	<u>54</u>	<u>-</u>
<b>EXPENDITURES:</b>					
Current:					
Public Safety	-	-	417	-	-
Cemetery	-	37,983	-	-	-
Public Works	2,794	-	-	-	-
Parks and Recreation	-	-	-	-	-
Economic Development	-	-	-	-	-
Debt Service:					
Principal	-	-	-	-	-
Interest and Other Charges	-	-	-	-	-
Capital Outlay:					
Public Safety	-	-	-	-	-
Public Works	-	-	-	-	-
Parks and Recreation	-	-	-	-	-
Economic Development	-	-	-	-	-
<b>Total Expenditures</b>	<u>2,794</u>	<u>37,983</u>	<u>417</u>	<u>-</u>	<u>-</u>
Excess of Revenues Over (Under) Expenditures	(1,020)	(14,553)	4,112	54	-
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers In	-	15,012	-	-	-
Transfers Out	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<u>-</u>	<u>15,012</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	<u>(1,020)</u>	<u>459</u>	<u>4,112</u>	<u>54</u>	<u>-</u>
<b>FUND BALANCES:</b>					
Beginning of Year	47,277	6,310	117,159	1,163	(1,107)
End of Year	<u>\$ 46,257</u>	<u>\$ 6,769</u>	<u>\$ 121,271</u>	<u>\$ 1,217</u>	<u>\$ (1,107)</u>

Special Revenue

Felony Investigation (214)	Solheim Field Improvements (216)	Civic Center (240)	Community Beautification (242)	Community Projects (250)	Development Grants (252)	Development Expenses (253)	Fire Equipment Reserve (260)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	1,250	-	-	-	-	6,250
430	161	-	188	-	-	-	5,874
-	-	-	-	-	-	-	-
3,000	1,000	-	600	4,498	-	-	35,020
<u>3,430</u>	<u>1,161</u>	<u>1,250</u>	<u>788</u>	<u>4,498</u>	<u>-</u>	<u>-</u>	<u>47,144</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	2,704	4,281	1,891	3,597	-	5,428	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	2,513
-	-	-	-	-	-	-	38,966
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>-</u>	<u>2,704</u>	<u>4,281</u>	<u>1,891</u>	<u>3,597</u>	<u>-</u>	<u>5,428</u>	<u>41,479</u>
3,430	(1,543)	(3,031)	(1,103)	901	-	(5,428)	5,665
-	1,600	2,500	2,500	-	-	-	71,413
-	-	-	-	-	-	-	(9,886)
<u>-</u>	<u>1,600</u>	<u>2,500</u>	<u>2,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>61,527</u>
3,430	57	(531)	1,397	901	-	(5,428)	67,192
<u>10,617</u>	<u>4,847</u>	<u>592</u>	<u>6,081</u>	<u>258</u>	<u>(70,535)</u>	<u>(73,291)</u>	<u>108,684</u>
<u>\$ 14,047</u>	<u>\$ 4,904</u>	<u>\$ 61</u>	<u>\$ 7,478</u>	<u>\$ 1,159</u>	<u>\$ (70,535)</u>	<u>\$ (78,719)</u>	<u>\$ 175,876</u>

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
NONMAJOR GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2008**

	Special Revenue				
	Fire Department Grants (261)	Disaster Relocation (262)	Economic Development Authority (600)	Stormwater Management (601)	Water Availability (701)
<b>REVENUES:</b>					
Property Taxes	\$ -	\$ -	\$ 17,221	\$ -	\$ -
Tax Increments	-	-	-	-	-
Special Assessments	-	-	-	-	-
Intergovernmental	-	52,000	2,655	-	-
Charges for Services	-	-	-	-	13,325
Miscellaneous:					
Investment Income	-	-	-	-	-
Change in Fair Market Value of Land Held for Resale	-	-	413,658	-	-
Other	-	-	500	-	-
<b>Total Revenues</b>	<u>-</u>	<u>52,000</u>	<u>434,034</u>	<u>-</u>	<u>13,325</u>
<b>EXPENDITURES:</b>					
Current:					
Public Safety	-	46,185	-	-	-
Cemetery	-	-	-	-	-
Public Works	-	-	-	8,434	13,325
Parks and Recreation	-	-	-	-	-
Economic Development	-	-	49,687	-	-
Debt Service:					
Principal	-	-	-	-	-
Interest and Other Charges	-	-	-	-	-
Capital Outlay:					
Public Safety	-	-	-	-	-
Public Works	-	-	-	22,200	-
Parks and Recreation	-	-	-	-	-
Economic Development	-	-	-	-	-
<b>Total Expenditures</b>	<u>-</u>	<u>46,185</u>	<u>49,687</u>	<u>30,634</u>	<u>13,325</u>
Excess of Revenues Over (Under) Expenditures	-	5,815	384,347	(30,634)	-
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers In	10,277	-	5,000	-	-
Transfers Out	-	(32,183)	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<u>10,277</u>	<u>(32,183)</u>	<u>5,000</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	10,277	(26,368)	389,347	(30,634)	-
<b>FUND BALANCES:</b>					
Beginning of Year	(10,277)	89,226	(127,626)	(61,047)	-
End of Year	<u>\$ -</u>	<u>\$ 62,858</u>	<u>\$ 261,721</u>	<u>\$ (91,681)</u>	<u>\$ -</u>

Special Revenue					Debt Service		
Park Improvements (802)	Cemetery Perpetual Care (803)	UDAG No. 2 Downtown Project (814)	UDAG No. 5 Crystal Cabinets (820)	Total	1994 Library Project (494)	1999 Industrial Park Improvements (500)	
\$ -	\$ -	\$ -	\$ -	\$ 17,221	\$ 6,412	\$ 9,970	
-	-	-	-	-	-	-	
-	-	-	-	-	-	47,510	
97,114	-	2,341	-	154,110	1,532	1,076	
-	3,230	-	-	47,605	-	-	
807	5,513	2,441	3,280	24,931	646	10,834	
-	-	-	-	413,658	-	-	
-	-	-	-	44,618	-	-	
<u>97,921</u>	<u>8,743</u>	<u>4,782</u>	<u>3,280</u>	<u>702,143</u>	<u>8,590</u>	<u>69,390</u>	
-	-	-	-	46,602	-	-	
-	-	-	-	37,983	-	-	
-	-	-	-	24,553	-	-	
-	-	-	-	12,473	-	-	
-	-	-	-	55,115	-	-	
-	-	-	-	-	20,000	60,000	
-	-	-	-	2,513	1,570	8,275	
-	-	-	-	38,966	-	-	
-	-	-	-	22,200	-	-	
11,611	-	-	-	11,611	-	-	
-	-	-	-	-	-	-	
<u>11,611</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>252,016</u>	<u>21,570</u>	<u>68,275</u>	
86,310	8,743	4,782	3,280	450,127	(12,980)	1,115	
-	-	-	-	108,302	-	-	
(800)	(5,512)	-	-	(48,381)	-	-	
<u>(800)</u>	<u>(5,512)</u>	<u>-</u>	<u>-</u>	<u>59,921</u>	<u>-</u>	<u>-</u>	
85,510	3,231	4,782	3,280	510,048	(12,980)	1,115	
(20,867)	137,777	18,065	87,587	270,893	35,616	338,321	
<u>\$ 64,643</u>	<u>\$ 141,008</u>	<u>\$ 22,847</u>	<u>\$ 90,867</u>	<u>\$ 780,941</u>	<u>\$ 22,636</u>	<u>\$ 339,436</u>	

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
NONMAJOR GOVERNMENTAL FUNDS**  
**For the Year Ended December 31, 2008**

	Debt Service				
	2002/2003 1st Street Improvements (502)	2nd and 7th Improvements (504)	2007 PUC Area Improvements (507)	2000 Street and Utilities Improvements (530)	Revolving Account Fund (552)
<b>REVENUES:</b>					
Property Taxes	\$ 10,227	\$ 14,905	\$ -	\$ -	\$ -
Tax Increments	-	-	-	-	-
Special Assessments	29,560	44,656	150,182	3,232	-
Intergovernmental	4,581	968	-	-	-
Charges for Services	-	-	-	-	-
Miscellaneous:					
Investment Income	8,656	4,355	3,226	1,372	7,286
Change in Fair Market Value of Land Held for Resale	-	-	-	-	-
Other	-	-	-	-	-
<b>Total Revenues</b>	<u>53,024</u>	<u>64,884</u>	<u>153,408</u>	<u>4,604</u>	<u>7,286</u>
<b>EXPENDITURES:</b>					
Current:					
Public Safety	-	-	-	-	-
Cemetery	-	-	-	-	-
Public Works	-	-	-	-	-
Parks and Recreation	-	-	-	-	-
Economic Development	-	-	-	-	-
Debt Service:					
Principal	50,000	35,000	-	-	-
Interest and Other Charges	12,640	11,244	9,785	-	-
Capital Outlay:					
Public Safety	-	-	-	-	-
Public Works	-	-	-	-	-
Parks and Recreation	-	-	-	-	-
Economic Development	-	-	-	-	-
<b>Total Expenditures</b>	<u>62,640</u>	<u>46,244</u>	<u>9,785</u>	<u>-</u>	<u>-</u>
<b>Excess of Revenues Over     (Under) Expenditures</b>	<b>(9,616)</b>	<b>18,640</b>	<b>143,623</b>	<b>4,604</b>	<b>7,286</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers In	-	-	-	-	-
Transfers Out	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	<b>(9,616)</b>	<b>18,640</b>	<b>143,623</b>	<b>4,604</b>	<b>7,286</b>
<b>FUND BALANCES:</b>					
Beginning of Year	<u>278,167</u>	<u>137,176</u>	<u>598</u>	<u>35,208</u>	<u>264,293</u>
End of Year	<u>\$ 268,551</u>	<u>\$ 155,816</u>	<u>\$ 144,221</u>	<u>\$ 39,812</u>	<u>\$ 271,579</u>

Debt Service						Capital Projects	
1990 Assessment Refunding (590)	1992 Street and Utilities (592)	1993 Street and Utilities (593)	1997 LaGrande Improvements (597)	1999 Street and Utilities Improvements (599)	Total	2002/2003 First Street Improvements (301)	2003 Utility Improvement (303)
\$ -	\$ 11,983	\$ -	\$ 2,175	\$ 4,975	\$ 60,647	\$ -	\$ -
-	-	-	-	-	-	-	-
-	51,535	3,110	3,890	2,037	335,712	-	-
-	803	-	1,937	538	11,435	-	-
-	-	-	-	-	-	-	-
-	9,571	1,908	4,114	-	51,968	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	73,892	5,018	12,116	7,550	459,762	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	45,000	20,000	155,000	30,000	415,000	-	-
-	14,910	2,017	3,681	4,138	68,260	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	59,910	22,017	158,681	34,138	483,260	-	-
-	-	-	-	-	-	-	-
-	13,982	(16,999)	(146,565)	(26,588)	(23,498)	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	13,982	(16,999)	(146,565)	(26,588)	(23,498)	-	-
(61,118)	290,386	70,802	264,168	(55,826)	1,597,791	(135,816)	(80,293)
\$ (61,118)	\$ 304,368	\$ 53,803	\$ 117,603	\$ (82,414)	\$ 1,574,293	\$ (135,816)	\$ (80,293)

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
NONMAJOR GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2008**

	Capital Projects				
	2nd Street and Utilities Improvements (304)	Heritage Village (305)	21st Avenue Improvements South Portion (306)	21st Avenue Improvements North Portion (307)	2nd Street and 10th Avenue Street and Utility Improvements (308)
<b>REVENUES:</b>					
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Tax Increments	-	-	-	-	-
Special Assessments	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for Services	-	-	-	-	-
Miscellaneous:					
Investment Income	860	-	10,512	-	-
Change in Fair Market Value of Land Held for Resale	-	-	-	-	-
Other	-	-	-	-	17,474
<b>Total Revenues</b>	<u>860</u>	<u>-</u>	<u>10,512</u>	<u>-</u>	<u>17,474</u>
<b>EXPENDITURES:</b>					
Current:					
Public Safety	-	-	-	-	-
Cemetery	-	-	-	-	-
Public Works	-	-	-	-	-
Parks and Recreation	-	-	-	-	-
Economic Development	-	-	-	-	-
Debt Service:					
Principal	-	-	-	-	-
Interest and Other Charges	-	-	-	-	-
Capital Outlay:					
Public Safety	-	-	-	-	-
Public Works	-	26,306	-	767	14,220
Parks and Recreation	-	-	-	-	-
Economic Development	-	-	-	-	-
<b>Total Expenditures</b>	<u>-</u>	<u>26,306</u>	<u>-</u>	<u>767</u>	<u>14,220</u>
Excess of Revenues Over (Under) Expenditures	860	(26,306)	10,512	(767)	3,254
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers In	-	-	-	-	-
Transfers Out	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	860	(26,306)	10,512	(767)	3,254
<b>FUND BALANCES:</b>					
Beginning of Year	<u>22,635</u>	<u>(182,049)</u>	<u>250,177</u>	<u>(87,123)</u>	<u>(149,316)</u>
End of Year	<u>\$ 23,495</u>	<u>\$ (208,355)</u>	<u>\$ 260,689</u>	<u>\$ (87,890)</u>	<u>\$ (146,062)</u>

Capital Projects

Arcadian Homes Utility Project (328)	2000 Street and Utility Improvements (330)	1st Street Apartment Tax Increment District (338)	Rum River Redevelopment District (389)	Railroad Property Redevelopment (390)	District No. 3-5 Redevelopment District (391)	District No. 3-6 Redevelopment District (392)
\$ -	\$ -	\$ -	\$ 39,827	\$ 36,730	\$ 20,607	\$ 66,654
-	-	-	4,137	4,543	2,082	5,698
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	43,964	41,273	22,689	72,352
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	6,138	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
19,590	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	101,317	42,647	-	22,477	68,208
19,590	-	107,455	42,647	-	22,477	68,208
(19,590)	-	(107,455)	1,317	41,273	212	4,144
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
(19,590)	-	(107,455)	1,317	41,273	212	4,144
(1,465)	(70,145)	(1,490)	19,068	264,577	8,929	23,392
\$ (21,055)	\$ (70,145)	\$ (108,945)	\$ 20,385	\$ 305,850	\$ 9,141	\$ 27,536

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
NONMAJOR GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2008**

	Capital Projects			
	Development District No. 4 (395)	1997 Housing District (397)	Armory Redevelopment District (398)	Industrial Park Development (821)
<b>REVENUES:</b>				
Property Taxes	\$ -	\$ -	\$ -	\$ -
Tax Increments	-	8,497	7,327	-
Special Assessments	-	-	-	-
Intergovernmental	-	-	-	-
Charges for Services	-	-	-	-
Miscellaneous:				
Investment Income	-	-	-	6,156
Change in Fair Market Value of Land Held for Resale	-	-	-	-
Other	-	-	-	-
<b>Total Revenues</b>	<u>-</u>	<u>8,497</u>	<u>7,327</u>	<u>6,156</u>
<b>EXPENDITURES:</b>				
Current:				
Public Safety	-	-	-	-
Cemetery	-	-	-	-
Public Works	-	-	-	-
Parks and Recreation	-	-	-	-
Economic Development	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest and Other Charges	-	-	-	-
Capital Outlay:				
Public Safety	-	-	-	-
Public Works	-	-	-	-
Parks and Recreation	-	-	-	-
Economic Development	29,549	8,495	7,326	11,721
<b>Total Expenditures</b>	<u>29,549</u>	<u>8,495</u>	<u>7,326</u>	<u>11,721</u>
Excess of Revenues Over (Under) Expenditures	(29,549)	2	1	(5,565)
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	<u>(29,549)</u>	<u>2</u>	<u>1</u>	<u>(5,565)</u>
<b>FUND BALANCES:</b>				
Beginning of Year	<u>29,549</u>	<u>3,159</u>	<u>2,479</u>	<u>166,641</u>
End of Year	<u>\$ -</u>	<u>\$ 3,161</u>	<u>\$ 2,480</u>	<u>\$ 161,076</u>

Capital Projects

<u>Total</u>	<u>Total Other Governmental Funds</u>
\$ -	\$ 77,868
179,642	179,642
-	335,712
16,460	182,005
-	47,605
17,528	94,427
-	413,658
17,474	62,092
<u>231,104</u>	<u>1,393,009</u>
-	46,602
-	37,983
-	24,553
-	12,473
6,138	61,253
-	415,000
-	70,773
-	38,966
60,883	83,083
-	11,611
291,740	291,740
<u>358,761</u>	<u>1,094,037</u>
(127,657)	298,972
-	108,302
-	(48,381)
-	<u>59,921</u>
(127,657)	358,893
82,909	1,951,593
<u>\$ (44,748)</u>	<u>\$ 2,310,486</u>

**CITY OF PRINCETON**  
**Millie Lacs County and Sherburne County, Minnesota**

**SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL FUND  
For the Year Ended December 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Property Taxes	\$ 1,539,900	\$ 1,473,075	\$ 1,546,144	\$ 73,069
Licenses and Permits	157,285	84,975	93,728	8,753
<b>Intergovernmental Revenue:</b>				
Local Government Aid	741,675	627,625	627,624	(1)
Market Value Credit	-	96,185	89,741	(6,444)
Fire Aid	58,245	42,890	41,891	(999)
Police Aid	49,650	53,625	57,628	4,003
Other Grants and Aids	5,875	7,875	11,652	3,777
Total Intergovernmental Revenue	<u>855,445</u>	<u>828,200</u>	<u>828,536</u>	<u>336</u>
<b>Charges for Services:</b>				
General Government	76,725	74,195	78,742	4,547
Public Safety	102,610	114,820	115,083	263
Public Works	5,750	6,950	8,159	1,209
Park and Recreation	24,500	25,935	25,934	(1)
Total Charges for Services	<u>209,585</u>	<u>221,900</u>	<u>227,918</u>	<u>6,018</u>
Fines or Forfeitures	49,250	44,700	45,029	329
<b>Miscellaneous Revenues:</b>				
Investment Income	27,000	27,000	45,814	18,814
Other	45,700	69,260	62,943	(6,317)
Total Miscellaneous	<u>72,700</u>	<u>96,260</u>	<u>108,757</u>	<u>12,497</u>
Total Revenues	<u>2,884,165</u>	<u>2,749,110</u>	<u>2,850,112</u>	<u>101,002</u>
<b>EXPENDITURES:</b>				
<b>General Government:</b>				
Mayor and Council	30,855	31,155	28,587	(2,568)
Administrative and Finance	319,830	322,635	318,832	(3,803)
Other General Government	573,565	425,895	227,812	(198,083)
Capital Outlay	145,000	95,450	84,425	(11,025)
Total General Government	<u>1,069,250</u>	<u>875,135</u>	<u>659,656</u>	<u>(215,479)</u>

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL FUND  
For the Year Ended December 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>EXPENDITURES:</b>				
<b>Public Safety:</b>				
Police:				
Current	\$ 893,185	\$ 899,345	\$ 903,471	\$ 4,126
Capital Outlay	66,700	66,700	39,089	(27,611)
Fire:				
Current	174,935	182,350	160,049	(22,301)
Other:				
Current	132,995	81,375	124,984	43,609
Total Public Safety	<u>1,267,815</u>	<u>1,229,770</u>	<u>1,227,593</u>	<u>(2,177)</u>
<b>Cemetery:</b>				
Current	-	-	2,052	2,052
<b>Public Works:</b>				
Streets and Highways:				
Street Maintenance and Storm Sewers	592,575	572,350	600,980	28,630
Street Construction Capital Outlay	191,000	177,785	158,960	(18,825)
Street - Other Capital Outlay	-	9,950	9,951	1
Total Public Works	<u>783,575</u>	<u>760,085</u>	<u>769,891</u>	<u>9,806</u>
<b>Parks and Recreation:</b>				
Libraries:				
Current Expenditures	33,745	35,540	37,916	2,376
Capital Outlay Expenditures	31,000	-	-	-
Other Parks and Recreation:				
Current Expenditures	144,330	153,630	178,066	24,436
Capital Outlay	65,000	22,545	31,821	9,276
Total Parks and Recreation	<u>274,075</u>	<u>211,715</u>	<u>247,803</u>	<u>36,088</u>
<b>Economic Development:</b>				
Economic Development:				
Current Expenditures	-	-	20,832	20,832
Total Expenditures	<u>3,394,715</u>	<u>3,076,705</u>	<u>2,927,827</u>	<u>(148,878)</u>
<b>Excess of Revenues Over (Under) Expenditures</b>				
	(510,550)	(327,595)	(77,715)	249,880

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES -  
 BUDGET AND ACTUAL - GENERAL FUND  
 For the Year Ended December 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>OTHER FINANCING SOURCES (USES):</b>				
Payment in Lieu of Taxes - Component Unit	\$ 52,500	\$ 52,500	\$ 52,500	\$ -
Transfers In	518,700	372,430	120,000	(252,430)
Transfers Out	(60,390)	(49,620)	(74,721)	(25,101)
Total Other Financing Sources (Uses)	<u>510,810</u>	<u>375,310</u>	<u>97,779</u>	<u>(277,531)</u>
Net Change in Fund Balances	<u>\$ 260</u>	<u>\$ 47,715</u>	20,064	<u>\$ (27,651)</u>
<b>FUND BALANCES:</b>				
Beginning of Year			<u>1,682,777</u>	
End of Year			<u>\$ 1,702,841</u>	



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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***

June 16, 2009

Honorable Mayor and Members  
of the City Council  
City of Princeton  
Princeton, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Princeton, Minnesota, as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 16, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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



A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course or performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be detected by the City's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Responses on Legal Compliance and Internal Control as Audit Finding 06-01 to be a significant deficiency in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We do not consider the significant deficiency noted above to be a material weakness in internal control over financial reporting.

## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated June 16, 2009.

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses on Legal Compliance and Internal Control. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the City Council, City administration, state 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.

*Kern, DeWenter, Viere, Ltd.*

KERN, DEWENTER, VIERE, LTD.  
St. Cloud, Minnesota



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## REPORT ON LEGAL COMPLIANCE

June 16, 2009

Honorable Mayor and Members  
of the City Council  
City of Princeton  
Princeton, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Princeton, Minnesota, as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 16, 2009.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to *Minnesota Statutes* Sec. 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions and tax increment financing. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, the City complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Responses on Legal Compliance and Internal Control.

This report is intended solely for the information and use of the City Council, City administration and the Office of the State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.

*Kern, DeWenter, Viere, Ltd.*

KERN, DEWENTER, VIERE, LTD.  
St. Cloud, Minnesota

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**SCHEDULE OF FINDINGS AND RESPONSES ON LEGAL  
COMPLIANCE AND INTERNAL CONTROL**

**December 31, 2008**

**CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDING:**

**Significant Deficiency**

**Audit Finding 06-01 – Lack of Segregation of Accounting Duties**

During our audit, we noted a condition which is considered to be a “significant deficiency” as defined by standards established by the American Institute of Certified Public Accountants.

During the year ended December 31, 2008, the City had a lack of segregation of accounting duties due to a limited number of office employees.

Management and the City Council are aware of this condition and have taken certain steps to compensate for the lack of segregation, but due to the small staff needed to handle all of the accounting duties, the costs of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. However, management and the City Council must remain aware of this situation and should continually monitor the accounting system, including changes that occur.

- The Finance Director receives the investment statements, records maturities and issuances of new investments and posts entries into the accounting system for interest receivable, revenue and market value changes in investments.
- The Finance Director records and maintains capital asset records.
- The Finance Clerk inputs payroll information such as employee hours worked, creates checks and has custody of checks until distribution to head of departments.
- Bank reconciliations are completed by the Finance Director and not reviewed.

Although we consider this to be a significant deficiency, we do not feel it is a material weakness.

**City’s Response:**

The City agrees with the auditor’s analysis of the situation. It seems impossible to correct the current situation without additional personnel. Even having cursory review by someone outside of the Finance Department would not seem beneficial without significant training and exposure to the financial transactions. The City has taken measures to help reduce the exposure by requiring three different people at all times to sign or stamp every check. Also, review of this point on what will be an annual basis during the audit presentation, should remind both management and the City Council of the weakness and possible problems that could result.

**CITY OF PRINCETON**  
**Mille Lacs County and Sherburne County, Minnesota**

**SCHEDULE OF FINDINGS AND RESPONSES ON LEGAL  
COMPLIANCE AND INTERNAL CONTROL**  
**December 31, 2008**

**CURRENT AND PRIOR YEAR LEGAL COMPLIANCE FINDINGS:**

**Issuance of Administrative Tickets**

*Minnesota Statutes 169.022* provides that cities are to refrain from establishing administrative penalties for traffic regulation, including speeding, missing plates or tabs, not wearing seatbelts and other similar state traffic offenses.

During our audit, we noted the City issues administrative penalties for traffic regulations listed above.

We recommend the City refrain from further issuing administrative tickets.

**City's Response:**

The City has been issuing administrative fines, including fines for minor traffic offenses, since 2003. The City is aware the State Auditor's Office has issued an opinion that cities are not authorized to issue administrative fines for traffic offenses. That opinion uses an earlier opinion from the State Attorney General's Office to support their opinion. Nevertheless, attorneys at the League of Minnesota Cities advise these are just "opinions" and until the State Legislature clarifies the issue or the state takes a city to task on the practice, there is no need to discontinue the practice. In recent years, the State Legislature has failed to clarify the measure and bills that would clearly make the practice unlawful fail, while bills allowing the practice continue forward. Sadly, neither legislative approach has been approved. The City will continue to wait for the State Legislature or courts to decide the matter.

**Park Dedication Fees Based on Fair Market Value**

*Minnesota Statutes 462.358 Subd. 2b* states cash fees may be accepted in lieu of land for park dedication. However, the fee charged must be based on the fair market value of the land. The City currently does not charge the fee based on the fair market value of land.

We recommend the City update their policy on park dedication fees to be in compliance with *Minnesota Statutes*.

**City's Response:**

The City is in process of amending its fee structure to conform to the current state statute requirements. The amendment should be completed in 2009.