

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

*Audited Financial Statements
For the Fiscal Year Ended December 31, 2005*

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, 2005

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Brian Humphrey	Mayor	December 31, 2006
Paul Whitcomb	Council Member	December 31, 2006
Lee Steinbrecher	Council Member	December 31, 2006
Dick Dobson	Council Member	December 31, 2008
Victoria Hallin	Council Member	December 31, 2008
<u>Administration</u>		
Steven L. Jackson	Finance Officer	
Ann Bien	Deputy City Clerk	
Bonnie Nelson	Finance Clerk	
Mark Karnowski	City Administrator	



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INDEPENDENT AUDITORS' REPORT

May 18, 2006

Honorable Mayor and 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, 2005, 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 an opinion 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 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, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with U.S. generally accepted accounting principles.



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In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2006, 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 integral control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 primarily of management inquiries 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.

A handwritten signature in cursive script that reads "Kern, DeWenter, Viere, Ltd.".

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

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005

As management of the City of Princeton, we offer readers of the City of Princeton's financial statement this narrative overview and analysis of the financial activities of the City of Princeton for the fiscal year ended December 31, 2005.

Financial Highlights

- The assets of the City of Princeton exceeded its liabilities at the close of the most recent fiscal year by \$20,484,221 (*net assets*) which is an increase of \$2,574,905 (14.38%) over the December 31, 2004 amount. Of this amount, \$4,212,837 for 2005 and \$5,420,757 for 2004 were *unrestricted net assets* available to be used to meet the government's ongoing obligations to citizens and creditors.
- Of the government's total net assets increase of \$2,574,905 during the most recent fiscal year, over 55% came from infrastructure improvements paid with special assessments.
- As of the close of the current fiscal year, the City of Princeton's governmental funds reported combined ending fund balances of \$5,414,598, an increase of \$397,779 in comparison with the prior year. Approximately 27% of this total amount (\$1,468,099) constitutes *unreserved fund balance*, which is available for spending at the government's discretion.
- At the end of the current fiscal year, unreserved fund balance for the general fund was the fund balance of the general fund was \$1,296,114 or about 58% of total general fund expenditures.
- The City of Princeton's total debt increased by \$99,461 (1.18%) during the current fiscal year. The key factors in this increase were a \$1,100,000 special assessment improvement bond.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Princeton's basic financial statements. The City of Princeton's basic financial statements comprise 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 of Princeton's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Princeton'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 of Princeton is improving or deteriorating.

The *statement of activities* presents information showing how the government'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
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Both of the government-wide financial statements distinguish functions of the City of Princeton 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 of Princeton include general government, public safety, public works, economic development, park and recreation and cemetery. The business-type activities of the City of Princeton include a liquor store, sanitary sewer system and a municipal airport.

The government-wide financial statements include not only the City of Princeton itself (known as the *primary government*), but also the Public Utilities Commission, which is a legally separate entity that operates a water system, an electric generation and distribution system and a sanitation operation for which the City of Princeton is accountable. 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 14-15** 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 of Princeton, 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 of Princeton 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 government'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 government'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*.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota
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The City of Princeton maintains fifty 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, the Downtown Redevelopment Tax Increment and the 2003 Western Area Improvement debt service funds, and the Capital Improvement and the 2005 21st Avenue capital project funds all five of which are considered to be major funds. Data from the other forty-five governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Princeton 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 16-22** 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 of Princeton 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 of Princeton does not use internal service funds to allocate internal costs.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. 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 of Princeton.

The basic proprietary fund financial statements can be found on **pages 23-25** of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The City of Princeton 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 26-52** of this report.

Other information. The combining statements referred to earlier in connection with non-major 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 54-70** of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Princeton, assets exceeded liabilities by \$20,484,221 at the close of the most recent fiscal year.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

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By far the largest portion of the City of Princeton's net assets (50.2%) 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 of Princeton uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Princeton's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Princeton's Net Assets

	Governmental Activities	Business-type Activities	Total 12/31/2005	Total 12/31/2004
Current and other assets	\$8,135,361	\$2,985,466	\$11,120,827	\$10,815,963
Capital assets	9,998,491	8,799,863	18,798,354	16,964,706
Total assets	18,133,852	11,785,329	29,919,181	27,780,669
Long-term liabilities outstanding	5,313,276	2,542,936	7,856,212	7,536,199
Other liabilities	1,145,650	433,098	1,578,748	2,335,154
Total liabilities	6,458,926	2,976,034	9,434,960	9,871,353
Net assets:				
Invested in capital assets, net of related debt	4,574,007	6,071,704	10,645,711	8,551,008
Restricted	5,625,673	-	5,625,673	3,937,551
Unrestricted	1,475,246	2,737,591	4,212,837	5,420,757
Total net assets	\$11,674,925	\$8,809,295	\$20,484,221	\$17,909,316

An additional portion of the City of Princeton's net assets (27.5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$4,212,837) may be used to meet the government's ongoing obligations to citizens and creditors.

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

The government's net assets increased by \$2,574,905 during the current fiscal year. About 56 % of this increase is attributable to a one-time infusion of resources from special assessments. Approximately another 18% of this increase results from the net income of the business-type (enterprise) funds. Another 6% of the increase results from the one-time infusion of federal aid for improvements to the airport. The remainder of this growth largely reflects fee increases, increases in tax levy revenues, and investment earnings.

CITY OF PRINCETON
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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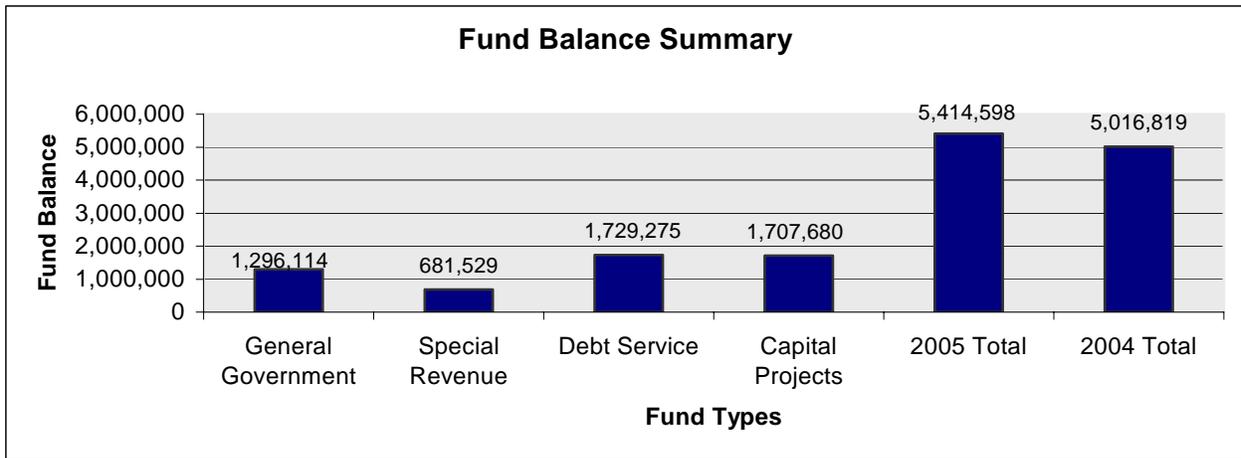
Governmental activities. Governmental activities increased the City of Princeton's net assets by \$604,749 thereby accounting for 23.5% of the total growth in the net assets of the City of Princeton.

Business-type activities. Business-type activities increased the City of Princeton's net assets by \$1,970,156, accounting for 76.5% of the total growth in the government's net assets.

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the City of Princeton'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 of Princeton's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.



As of the end of the current fiscal year, the City of Princeton's governmental funds reported combined ending fund balances of \$5,414,598, an increase of \$397,779 in comparison with the prior year. Approximately 27% this total amount (\$1,468,069) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been to pay debt.

The general fund is the chief operating fund of the City of Princeton. At the end of the current fiscal year, the fund balance of the general fund was \$1,296,114 which was 100% unreserved, but 98% of this balance is designated for working capital (cash-flow) purposes.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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The City of Princeton's general fund balance increased by \$17,806 during the current fiscal year. Key factors in this growth are as follows:

- Property Tax revenues of the general fund increased by \$65,887.
- There was a \$144,621 increase in intergovernmental revenue. However, this increase was offset \$48,469 by a reduction in licenses and permits, \$26,770 by a reduction in net transfers in/out and \$11,417 by a decrease in miscellaneous income.
- Charges for services in the general fund increased by \$6,172.
- Increases in revenue were partially offset by a \$123,823 increase in expenditures. This increase was primarily due to increases of \$103,945 for public works activities and \$78,725 for general government activities which were offset by decreases of \$32,565 for economic development activities and \$38,666 in capital outlay expenditures.

Debt service funds had a total fund balance of \$1,729,275, all of which is reserved for the payment of debt service. The net decrease in fund balance during the current year in the debt service funds was \$150,393. This decrease is due to the use of refunding bonds issued in a prior year for debt service payments in the downtown redevelopment tax increment debt service fund.

Proprietary funds. The City of Princeton'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 \$2,434,188, the sanitary sewer fund was \$4,607,708 and the airport was \$1,767,399. Unrestricted net assets, which are amounts available for operating expenditures and spending at the discretion of the government, at the end of the year for the liquor fund amounted to \$2,182,388, the sanitary sewer fund was \$554,428 and the airport unrestricted net assets was \$775. The increase (decrease) in unrestricted net assets for these funds was \$251,934, \$124,108 and (\$10,341), respectively. These increases (decreases) result predominantly from the revenue generating nature of these funds. Other factors concerning the finances of these three funds have already been addressed in the discussion of the City of Princeton's business-type activities.

General Fund Budgetary Highlights

The change from the original budget and the final amended budget was a relatively minor \$21,710 increase in appropriation (0.9% increase from the original budget) and can be briefly summarized as follows:

- \$7,350 in increases in general government activities.
- \$7,030 in decreases allocated to public safety.
- \$20,720 in increases allocated to public works.
- \$2,930 in decreases allocated to cemetery operations.
- \$11,965 in decreases allocated for parks and recreation.
- \$2,570 in decreases allocated to economic development.
- \$18,135 in increases allocated to capital outlay.

This increase was to be funded out of miscellaneous increase in transfers in from other funds.

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Capital Asset and Debt Administration

Capital assets. The City of Princeton's investment in capital assets (net of accumulated depreciation) for its governmental and business type activities amounts to \$18,798,354 and \$16,964,706 as of December 31, 2005 and 2004, respectively. 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 as of the close of the fiscal year had reached \$555,747.
- Construction was completed for utility improvements and extension in a predominantly commercial development area involving a new sanitary lift station and extension of sanitary sewer mains. The total construction cost for the sanitary sewer work was \$1,370,950.

City of Princeton's Capital Assets
(net of depreciation)

	Governmental Activities	Business-type Activities	Total 12/31/2005	Total 12/31/2004
Land	\$1,344,458	\$650,688	\$1,995,146	\$1,995,146
Buildings	1,434,133	235,364	1,669,496	1,724,463
Improvements other than buildings	601,182	6,931,161	7,533,228	6,296,679
Machinery and equipment	1,227,391	274,142	1,500,649	1,501,037
Infrastructure	8,003,018	-	5,391,327	4,814,969
Construction in progress	-	708,508	708,508	632,412
Total	<u>\$9,998,491</u>	<u>\$8,799,863</u>	<u>\$18,798,354</u>	<u>\$16,964,706</u>

Additional information on the City of Princeton's capital assets can be found in note 4 on **pages 38-40** of this report.

Long-term debt. At the end of the current fiscal year, the City of Princeton had total bonded debt outstanding of \$8,513,159. Of this amount, \$605,000 comprises debt backed by the full faith and credit of the government and \$5,180,000 is special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment. The remainder of the City of Princeton's debt, \$2,728,159, represents bonds secured by specified revenue sources (i.e. revenue bonds) for which the government is liable in the event the revenue sources are insufficient to pay the debt service.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota
MANAGEMENT'S DISCUSSION AND ANALYSIS
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City of Princeton's Outstanding Debt
General Obligation and Revenue Bonds

	Governmental Activities	Business-type Activities	Total 12/31/2005	Total 12/31/2004
General obligation bonds	\$605,000		\$-	\$605,000
Special assessment debt with governmental commitment	5,180,000		-	5,180,000
Revenue bonds with governmental commitment	-	2,728,159	2,728,159	2,923,698
Total	<u>\$5,785,000</u>	<u>\$2,728,159</u>	<u>\$8,513,159</u>	<u>\$8,413,698</u>

The City of Princeton's total debt increased by \$99,461 (1.18%) during the current fiscal year. The key factors in involved in causing this change were a \$1,100,000 special assessment improvement bond and the final payment on a refunded bond issue from escrow of \$360,000 that was in addition to the normal principal payments.

The City of Princeton and its Public Utilities Commission both maintain an "A3" rating from Moody's for general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issued to 2% of its total assessed valuation. The current debt limitation for the City of Princeton is \$4,549,000, which exceeds the City of Princeton's outstanding general obligation debt of \$605,000 by more than seven hundred and fifty percent (750%).

Additional information on the City of Princeton's long-term debt can be found in **note 8 on pages 44-48** of this report.

Economic Factors and New Year's Budgets and Rates

- The City of Princeton is situated in two counties, Mille Lacs and Sherburne. The 2005 average annual unemployment rate for Mille Lacs was currently 6.3% and the Sherburne rate is 4.1% which is an approximate decrease of 0.5% from a year ago for both counties. This compares to the state's average unemployment rate of 4.0% and the national average rate of 5.1%. 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 about 0.6% lower than national indices for the 2005 annual rate.

These are some of the factors considered in preparing the City of Princeton's budget for the 2006 fiscal year.

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The sanitary sewer rates have been maintained at their current level since 2001. However, the sewer access charges have been increased over that period and again in 2005 to assist in the payment of system repairs and enhancements. Also in 2004, a sewer trunk fee was initiated to help assure that new development pays for the cost of extensions and new facilities.

The City has been in the planning stage for construction of a new liquor store for several years. In May of 2006, the City acquired approximately two and one-half acres of land on the west side of U.S. Highway 169 just south of Minnesota Highway 95 for this new facility. Total cost of the land (including assessments) will be \$421,000. Construction of the store is anticipated to be completed in time for a spring 2007 opening. Land and construction costs are expected to be funded primarily from the liquor fund's unrestricted net assets.

Requests for Information

This financial report is designed to provide a general overview of the City of Princeton's finances for all those with an interest in the government'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 MN 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 1st Street, Princeton, MN 55371.

BASIC FINANCIAL STATEMENTS

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

STATEMENT OF NET ASSETS
December 31, 2005

	Governmental Activities	Business-Type Activities	Total	Component Unit
ASSETS:				
Cash and Investments (Including Cash Equivalents)	\$ 5,708,678	\$ 2,264,214	\$ 7,972,892	\$ 379,231
Cash Held in Escrow	-	-	-	2,698,341
Receivables:				
Accounts Receivable	75,678	3,439	79,117	660,818
Interest Receivable	54,695	1,065	55,760	-
Taxes Receivable	76,034	-	76,034	-
Special Assessments:				
Due Within One Year	228,747	-	228,747	-
Due in More than One Year	1,896,391	-	1,896,391	-
Due from Other Governments	145,567	179,495	325,062	75,412
Due from Other Funds	(311,733)	311,733	-	-
Inventory	-	213,980	213,980	380,087
Prepaid Items	61,465	11,540	73,005	7,485
Notes Receivable:				
Due Within One Year	19,901	-	19,901	-
Due in More than One Year	179,938	-	179,938	-
Capital Assets:				
Land	1,344,458	650,688	1,995,146	101,069
Buildings and Systems	2,144,656	360,241	2,504,897	1,515,941
Other Improvements	1,382,154	9,702,545	11,084,699	16,994,038
Machinery and Equipment	2,419,133	597,261	3,016,394	1,117,563
Infrastructure	8,003,018	-	8,003,018	-
Construction in Progress	-	708,508	708,508	45,286
Total Capital Assets	15,293,419	12,019,243	27,312,662	19,773,897
Less Accumulated Depreciation	(5,294,928)	(3,219,380)	(8,514,308)	(6,831,547)
Net Capital Assets	9,998,491	8,799,863	18,798,354	12,942,350
Restricted Assets:				
Reserve Fund	-	-	-	742,878
Debt Retirement	-	-	-	332,134
Improvements and Replacements	-	-	-	403,910
Total Restricted Assets	-	-	-	-
 Total Assets	 <u>\$ 18,133,852</u>	 <u>\$ 11,785,329</u>	 <u>\$ 29,919,181</u>	 <u>\$ 18,622,646</u>
LIABILITIES AND NET ASSETS:				
Liabilities:				
Salaries Payable	\$ 56,415	\$ 8,816	65,231	\$ 24,394
Accounts and Contracts Payable	223,921	87,121	311,042	758,986
Interest Payable	99,395	38,385	137,780	79,800
Customer Meter Deposits	-	-	-	81,718
Deferred Revenue	46,213	-	46,213	8,459
Due to Other Governmental Units	18,656	94,973	113,629	78,729
Severance Payable	-	-	-	68,122
Deferred Rate Stabilization	-	-	-	915,581
Bond Principal Payable:				
Due Within One Year	560,000	203,199	763,199	512,000
Due in More than One Year	5,225,000	2,524,960	7,749,960	11,161,192
Compensated Absences Payable:				
Due Within One Year	141,050	8,609	149,659	-
Due in More than One Year	88,276	9,971	98,247	-
Total Liabilities	<u>6,458,926</u>	<u>2,976,034</u>	<u>9,434,960</u>	<u>13,688,981</u>
Net Assets:				
Invested in Capital Assets, Net of Related Debt	4,574,007	6,071,704	10,645,711	3,680,136
Restricted for:				
Debt Service	3,946,611	-	3,946,611	1,317,089
Capital Outlay	1,679,062	-	1,679,062	2,905,460
Unrestricted	1,475,246	2,737,591	4,212,837	(2,969,020)
Total Net Assets	<u>11,674,926</u>	<u>8,809,295</u>	<u>20,484,221</u>	<u>4,933,665</u>
 Total Liabilities and Net Assets	 <u>\$ 18,133,852</u>	 <u>\$ 11,785,329</u>	 <u>\$ 29,919,181</u>	 <u>\$ 18,622,646</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 ACTIVITIES
For the Year Ended December 31, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total	
Governmental Activities:								
General Government	\$ 596,001	\$ 57,156	\$ -	\$ -	\$ (538,845)	\$ -	\$ (538,845)	\$ -
Public Safety	1,153,014	340,408	106,155	85,953	(620,498)	-	(620,498)	-
Cemetery	41,787	37,705	-	-	(4,082)	-	(4,082)	-
Public Works	762,483	11,161	-	301,308	(450,014)	-	(450,014)	-
Economic Development	422,987	17,414	-	47,294	(358,279)	-	(358,279)	-
Park and Recreation	213,756	149,361	3,500	3,365	(57,530)	-	(57,530)	-
Interest and Fiscal Charges	230,755	-	-	-	(230,755)	-	(230,755)	-
Total Governmental Activities	3,420,783	613,205	109,655	437,920	(2,260,003)	-	(2,260,003)	-
Business-Type Activities:								
Airport	196,298	84,037	21,207	161,809	-	70,755	70,755	-
Municipal Liquor	1,913,391	2,120,902	-	-	-	207,511	207,511	-
Electric	-	-	-	-	-	-	-	55,117
Water	205,177	205,177	-	-	-	-	-	113,044
Sanitation	-	-	-	-	-	-	-	(8,653)
Sewer	507,891	701,349	-	1,432,998	-	1,626,456	1,626,456	-
Total Business-Type Activities	2,822,757	3,111,465	21,207	1,594,807	-	1,904,722	1,904,722	159,508
Total Governmental and Business-Type Activities	\$ 6,243,540	\$ 3,724,670	\$ 130,862	\$ 2,032,727	(2,260,003)	1,904,722	(355,281)	159,508
General Revenues:								
Property Taxes					1,437,075	-	1,437,075	-
Tax Increments					347,822	-	347,822	-
Investment Income					264,310	53,472	317,782	118,304
State Aid					725,560	-	725,560	-
PUC Payment in Lieu of Taxes					52,500	-	52,500	-
Miscellaneous					44,485	4,962	49,447	33,400
Transfers					(7,000)	7,000	-	-
Total General Revenues and Transfers					2,864,752	65,434	2,930,186	151,704
Change in Net Assets					604,749	1,970,156	2,574,905	311,212
Net Assets - Beginning					11,070,177	6,839,139	17,909,316	4,622,453
Net Assets - Ending					\$ 11,674,926	\$ 8,809,295	\$ 20,484,221	\$ 4,933,665

5 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
For the Year Ended December 31, 2005

	Debt Service		
	101	490	503
	General	Downtown Redevelopment Tax Increment	Western Area Improvements
ASSETS:			
Cash and Investments (Including Cash Equivalents)	\$ 1,243,873	\$ 100,874	\$ 155,206
Taxes Receivable - Delinquent	48,609	1,416	3,601
Special Assessments:			
Delinquent	-	-	3,046
Deferred	-	-	710,956
Accounts Receivable	18,907	-	-
Interest Receivable	53,300	-	-
Due from Other Governments	145,567	-	-
Notes Receivable	-	-	-
Due from Other Funds	79,014	-	-
Prepaid Expense	61,465	-	-
	<u>\$ 1,650,735</u>	<u>\$ 102,290</u>	<u>\$ 872,809</u>
LIABILITIES AND FUND BALANCES:			
Liabilities:			
Cash Overdraft	\$ -	\$ -	\$ -
Salaries Payable	54,382	-	-
Accounts and Contracts Payable	110,905	-	-
Due to Other Governments	17,456	-	-
Due to Other Funds	-	207,250	-
Deferred Revenue	171,878	1,416	717,603
Total Liabilities	<u>354,621</u>	<u>208,666</u>	<u>717,603</u>
Fund Balances:			
Reserved for:			
Debt Service	-	-	155,206
Capital Projects	-	-	-
Unreserved, Reported in:			
General Fund - Designated for Working Capital	1,270,535	-	-
General Fund - Undesignated	25,579	-	-
Special Revenue Funds - Undesignated	-	-	-
Debt Service Funds - Undesignated	-	(106,376)	-
Capital Projects Funds - Undesignated	-	-	-
Total Fund Balances	<u>1,296,114</u>	<u>(106,376)</u>	<u>155,206</u>
	<u>\$ 1,650,735</u>	<u>\$ 102,290</u>	<u>\$ 872,809</u>
Total Liabilities and Fund Balances	<u>\$ 1,650,735</u>	<u>\$ 102,290</u>	<u>\$ 872,809</u>

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

Capital Projects

<u>306</u>	<u>351</u>	Other Governmental Funds	Total Governmental Funds
2005 21st Avenue Improvement	Capital Improvements		
\$ 441,761	\$ 1,386,928	\$ 2,929,927	\$ 6,258,569
-	7,874	14,534	76,034
-	-	10,853	13,899
-	-	1,400,283	2,111,239
-	-	56,771	75,678
-	-	1,395	54,695
-	-	-	145,567
-	-	199,839	199,839
-	-	70,150	149,164
-	-	-	61,465
<u>\$ 441,761</u>	<u>\$ 1,394,802</u>	<u>\$ 4,683,752</u>	<u>\$ 9,146,149</u>
\$ -	\$ -	\$ 474,479	\$ 474,479
-	-	2,033	56,415
81,245	-	31,771	223,921
-	-	76,612	94,068
-	-	253,647	460,897
-	7,874	1,523,000	2,421,771
<u>81,245</u>	<u>7,874</u>	<u>2,361,542</u>	<u>3,731,551</u>
-	-	1,751,715	1,906,921
360,516	1,386,928	292,134	2,039,578
-	-	-	1,270,535
-	-	-	25,579
-	-	681,529	681,529
-	-	(71,270)	(177,646)
-	-	(331,898)	(331,898)
<u>360,516</u>	<u>1,386,928</u>	<u>2,322,210</u>	<u>5,414,598</u>
<u>\$ 441,761</u>	<u>\$ 1,394,802</u>	<u>\$ 4,683,752</u>	<u>\$ 9,146,149</u>

CITY OF PRINCETON
Millie Lacs County and Sherburne County, Minnesota

**RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS
December 31, 2005**

Total Fund Balances - Governmental Funds \$ 5,414,598

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	15,293,419
Less Accumulated Depreciation	(5,294,928)

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

Bond Principal Payable	(5,785,000)
Compensated Absences Payable	(229,326)

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.

Delinquent Property Taxes	76,034
Delinquent Special Assessments Receivable	13,899
Deferred Special Assessments Receivable	2,111,239

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

Notes Receivable	70,386
Development Revenue Reserve	104,000

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

(99,395)

Total Net Assets - Governmental Activities \$ 11,674,926

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, 2005

	Debt Service			Capital Projects	
	101	490	503	306	351
	General	Downtown Redevelopment Tax Increment	Western Area Improvements	2005 21st Avenue Improvement	Capital Improvements
REVENUES:					
Property Taxes	\$ 975,713	\$ -	\$ 83,553	\$ -	\$ 161,128
Tax Increments	-	167,421	-	-	-
Special Assessments	-	-	28,235	-	-
Licenses and Permits	185,272	-	-	-	-
Intergovernmental	780,064	151	7,150	-	13,358
Charges for Services	135,890	-	-	-	-
Fines and Forfeitures	52,063	-	-	-	-
Miscellaneous:					
Investment Income	19,750	6,724	55,832	6,108	28,964
Other	56,225	1,350	-	-	-
Total Revenues	<u>2,204,977</u>	<u>175,646</u>	<u>174,770</u>	<u>6,108</u>	<u>203,450</u>
EXPENDITURES:					
Current:					
General Government	544,521	-	-	-	-
Public Safety	983,599	-	-	-	-
Cemetery	4,185	-	-	-	-
Public Works	458,427	-	-	-	-
Park and Recreation	118,869	-	-	-	-
Economic Development	3,667	-	-	-	-
Debt Service:					
Principal	-	470,000	-	-	-
Interest and Fiscal Charges	-	32,338	71,892	-	-
Capital Outlay:					
General Government	3,109	-	-	-	-
Public Safety	101,772	-	-	-	-
Public Works	5,387	-	-	731,292	-
Park and Recreation	28,385	-	-	-	-
Economic Development	-	-	-	-	-
Total Expenditures	<u>2,251,921</u>	<u>502,338</u>	<u>71,892</u>	<u>731,292</u>	<u>-</u>
Excess of Revenues Over (Under) Expenditures	(46,944)	(326,692)	102,878	(725,184)	203,450
OTHER FINANCING SOURCES (USES):					
Transfers In	60,000	7,500	-	-	-
Transfers Out	(47,750)	-	-	-	(60,000)
Bond Issuance	-	-	-	1,085,700	-
Payment in Lieu of Taxes - Component Unit	52,500	-	-	-	-
Proceeds from Sale of Fixed Assets	-	-	-	-	6,690
Total Other Financing Sources (Uses)	<u>64,750</u>	<u>7,500</u>	<u>-</u>	<u>1,085,700</u>	<u>(53,310)</u>
Net Change in Fund Balances	17,806	(319,192)	102,878	360,516	150,140
FUND BALANCES:					
Beginning of Year	1,278,308	212,816	52,328	-	1,236,788
End of Year	<u>\$ 1,296,114</u>	<u>\$ (106,376)</u>	<u>\$ 155,206</u>	<u>\$ 360,516</u>	<u>\$ 1,386,928</u>

Other Governmental Funds	Total Governmental Funds
\$ 185,376	\$ 1,405,770
180,401	347,822
195,177	223,412
-	185,272
118,816	919,539
406,112	542,002
-	52,063
146,932	264,310
81,138	138,713
<u>1,313,952</u>	<u>4,078,903</u>
-	544,521
45,550	1,029,149
37,602	41,787
205,177	663,604
19,572	138,441
95,984	99,651
335,000	805,000
121,816	226,046
-	3,109
8,811	110,583
83,023	819,702
-	28,385
323,336	323,336
<u>1,275,871</u>	<u>4,833,314</u>
38,081	(754,411)
179,385	246,885
(146,135)	(253,885)
14,300	1,100,000
-	52,500
-	6,690
<u>47,550</u>	<u>1,152,190</u>
85,631	397,779
<u>2,236,579</u>	<u>5,016,819</u>
<u>\$ 2,322,210</u>	<u>\$ 5,414,598</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, 2005

Total Net Change in Fund Balances - Governmental Funds	\$ 397,779
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	882,599
Depreciation Expense	(430,073)
The net effect of the disposal of fixed assets:	
Disposals	(132,792)
Depreciation on Disposals	104,998
Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	
	(24,359)
Principal payments of long-term debt consumes the current financial resources of governmental funds; however, they have no effect on net assets.	
	805,000
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 the use of current resources. In the Statement of Activities; however, interest expense is recognized as the interest accrues, regardless of when it is due.	
	(4,709)
The issuance of long-term debt provides current financial resources to governmental funds and has no effect on net assets. These amounts are reported in the governmental funds as a source of financing. These amounts are not shown as revenues in the Statement of Activities, but rather constitute long-term liabilities in the Statement of Net Assets.	
	(1,100,000)
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.	
	(2,895)
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	31,305
Delinquent Special Assessments	8,725
Deferred Special Assessments	69,171
	604,749
Change in Net Assets - Governmental Activities	\$ 604,749

CITY OF PRINCETON
Millie 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, 2005**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES:				
General Property Taxes	\$ 1,023,825	\$ 949,995	\$ 975,713	\$ 25,718
Licenses and Permits	215,290	162,370	185,272	22,902
Intergovernmental	678,245	763,905	780,064	16,159
Charges for Services	119,735	132,915	135,890	2,975
Fines and Forfeitures	62,200	52,400	52,063	(337)
Miscellaneous:				
Investment Income	15,000	21,500	19,750	(1,750)
Other	62,100	58,950	56,225	(2,725)
Total Revenues	2,176,395	2,142,035	2,204,977	62,942
EXPENDITURES:				
Current:				
General Government	511,730	519,080	544,521	(25,441)
Public Safety	1,064,905	1,057,875	983,599	74,276
Cemetery	11,185	8,255	4,185	4,070
Public Works	473,730	494,450	458,427	36,023
Park and Recreation	171,485	159,520	118,869	40,651
Economic Development	9,800	7,230	3,667	3,563
Capital Outlay:				
General Government	41,000	15,750	3,109	12,641
Public Safety	80,800	112,715	101,772	10,943
Public Works	4,000	5,500	5,387	113
Park and Recreation	16,000	25,970	28,385	(2,415)
Total Expenditures	2,384,635	2,406,345	2,251,921	154,424
Revenues Over (Under) Expenditures	(208,240)	(264,310)	(46,944)	217,366
OTHER FINANCING SOURCES (USES):				
Transfers In	187,800	246,435	60,000	(186,435)
Transfers Out	(31,795)	(34,195)	(47,750)	(13,555)
Payment in Lieu of Taxes - Component Unit	52,500	52,500	52,500	-
Total Other Financing Sources (Uses)	208,505	264,740	64,750	(199,990)
Net Change in Fund Balances	\$ 265	\$ 430	17,806	\$ 17,376
FUND BALANCES:				
Beginning of Year			1,278,308	
End of Year			\$ 1,296,114	

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
December 31, 2005

	208	702/704	703	
	Airport	Sanitary Sewer	Municipal Liquor	Totals
ASSETS:				
Current Assets:				
Cash and Investments (Including Cash Equivalents)	\$ -	\$ 525,357	\$ 1,758,544	\$ 2,283,901
Accounts Receivable	-	2,539	900	3,439
Interest Receivable	-	-	1,065	1,065
Due from Other Governments	105,141	74,354	-	179,495
Due from Other Funds	-	-	314,558	314,558
Inventory	8,500	-	205,480	213,980
Prepaid Expense	1,180	5,625	4,735	11,540
Total Current Assets	114,821	607,875	2,285,282	3,007,978
Noncurrent Assets:				
Capital Assets:				
Land	431,093	129,120	90,475	650,688
Buildings and System	76,766	70,974	212,501	360,241
Machinery and Equipment	260,078	209,665	127,518	597,261
Other Improvements	1,980,609	7,721,936	-	9,702,545
Construction in Progress	152,761	555,747	-	708,508
Total Capital Assets	2,901,307	8,687,442	430,494	12,019,243
Less Accumulated Depreciation	(1,134,683)	(1,906,003)	(178,694)	(3,219,380)
Net Capital Assets	1,766,624	6,781,439	251,800	8,799,863
Total Assets	\$ 1,881,445	\$ 7,389,314	\$ 2,537,082	\$ 11,807,841
LIABILITIES AND NET ASSETS:				
Current Liabilities:				
Cash Overdraft	\$ 95,099	\$ -	\$ -	\$ 95,099
Salaries Payable	601	1,996	6,219	8,816
Accounts Payable	15,516	12,708	58,897	87,121
Interest Payable	-	38,385	-	38,385
Due to Other Governmental Units	5	-	19,556	19,561
Due to Other Funds	2,825	-	-	2,825
Current Portion of Revenue Bonds	-	203,199	-	203,199
Compensated Absences Payable	-	358	246	604
Total Current Liabilities	114,046	256,646	84,918	455,610
Noncurrent Liabilities:				
Compensated Absences Payable	-	-	17,976	17,976
Loan Payable	-	2,524,960	-	2,524,960
Total Noncurrent Liabilities	-	2,524,960	17,976	2,542,936
Total Liabilities	114,046	2,781,606	102,894	2,998,546
Net Assets:				
Invested in Capital Assets, Net of Related Debt	1,766,624	4,053,280	251,800	6,071,704
Unrestricted	775	554,428	2,182,388	2,737,591
Total Net Assets	1,767,399	4,607,708	2,434,188	8,809,295
Total Liabilities and Net Assets	\$ 1,881,445	\$ 7,389,314	\$ 2,537,082	\$ 11,807,841

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 FUND NET ASSETS - PROPRIETARY FUNDS
For the Year Ended December 31, 2005

	208	702/704	703	
	Airport	Sanitary Sewer	Municipal Liquor	Totals
SALES AND COST OF SALES:				
Sales	\$ 76,976	\$ -	\$ 2,119,817	\$ 2,196,793
Cost of Sales	79,227	-	1,640,971	1,720,198
Gross Profit (Loss)	<u>(2,251)</u>	<u>-</u>	<u>478,846</u>	<u>476,595</u>
OPERATING REVENUES:				
Charges for Services	7,061	701,349	1,085	709,495
Total Gross Profit and Operating Revenues	<u>4,810</u>	<u>701,349</u>	<u>479,931</u>	<u>1,186,090</u>
OPERATING EXPENSES:				
Personnel	10,832	82,756	189,210	282,798
Other Services and Supplies	25,879	147,162	42,755	215,796
Depreciation	80,360	175,294	17,827	273,481
Total Operating Expenses	<u>117,071</u>	<u>405,212</u>	<u>249,792</u>	<u>772,075</u>
Operating Income (Loss)	(112,261)	296,137	230,139	414,015
NONOPERATING REVENUES (EXPENSES):				
Interest Income	-	8,946	44,526	53,472
Intergovernmental Revenues	183,016	-	-	183,016
Other Income	100	4,862	-	4,962
Contributed Revenue	-	1,432,998	-	1,432,998
Interest Expense and Charges	-	(102,679)	(22,628)	(125,307)
Total Nonoperating Revenues (Expenses)	<u>183,116</u>	<u>1,344,127</u>	<u>21,898</u>	<u>1,549,141</u>
Income (Loss) before Transfers	70,855	1,640,264	252,037	1,963,156
Transfers In	14,640	-	-	14,640
Transfers Out	-	-	(7,640)	(7,640)
Change in Net Assets	85,495	1,640,264	244,397	1,970,156
NET ASSETS:				
Beginning of Year	<u>1,681,904</u>	<u>2,967,444</u>	<u>2,189,791</u>	<u>6,839,139</u>
End of Year	<u>\$ 1,767,399</u>	<u>\$ 4,607,708</u>	<u>\$ 2,434,188</u>	<u>\$ 8,809,295</u>

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended December 31, 2005

	208	702/704	703	
	Airport	Sanitary Sewer	Municipal Liquor	Totals
CASH FLOWS - OPERATING ACTIVITIES:				
Receipts from Customers and Users	\$ 65,412	\$ 702,901	\$ 2,120,902	\$ 2,889,215
Payments to Suppliers	(169,368)	(146,756)	(1,705,216)	(2,021,340)
Payments to Employees	(10,293)	(82,732)	(187,906)	(280,931)
Net Cash Flows - Operating Activities	<u>(114,249)</u>	<u>473,413</u>	<u>227,780</u>	<u>586,944</u>
CASH FLOWS - NONCAPITAL FINANCING ACTIVITIES:				
Transfer from Other Funds	14,640	-	-	14,640
Transfer to Other Funds	-	-	(7,640)	(7,640)
Reduction of Due From Other Funds	-	2,764	35,517	38,281
Other Income	100	4,862	-	4,962
Credit Card Processing Fees	-	-	(22,628)	(22,628)
Intergovernmental Revenues	183,016	-	-	183,016
Net Cash Flows - Noncapital Financing Activities	<u>197,756</u>	<u>7,626</u>	<u>5,249</u>	<u>210,631</u>
CASH FLOWS - CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of Capital Assets	(176,196)	(62,913)	(10,290)	(249,399)
Principal Payments on Long-Term Debt	-	(195,539)	-	(195,539)
Interest Payments on Long-Term Debt	-	(111,561)	-	(111,561)
Net Cash Flows - Capital and Related Financing Activities	<u>(176,196)</u>	<u>(370,013)</u>	<u>(10,290)</u>	<u>(556,499)</u>
CASH FLOWS - INVESTING ACTIVITIES:				
Interest and Dividends Received	-	8,946	47,786	56,732
Net Change in Cash and Cash Equivalents	(92,689)	119,972	270,525	297,808
Cash and Cash Equivalents, January 1	(2,410)	405,385	1,488,019	1,890,994
Cash and Cash Equivalents, December 31	<u>\$ (95,099)</u>	<u>\$ 525,357</u>	<u>\$ 1,758,544</u>	<u>\$ 2,188,802</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS - OPERATING ACTIVITIES:				
Operating Income (Loss)	\$ (112,261)	\$ 296,137	\$ 230,139	\$ 414,015
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows - Operating Activities:				
Depreciation Expense	80,360	175,294	17,827	273,481
Accounts Receivable	-	1,552	-	1,552
Due from Other Governmental Units	(18,625)	-	-	(18,625)
Inventory	(1,000)	-	(30,756)	(31,756)
Prepaid Items	(55)	(290)	(620)	(965)
Salaries Payable	539	15	1,548	2,102
Accounts Payable	(63,209)	705	7,317	(55,187)
Compensated Absences Payable	-	9	(244)	(235)
Due to Other Governmental Units	2	(9)	2,569	2,562
Total Adjustments	<u>(1,988)</u>	<u>177,276</u>	<u>(2,359)</u>	<u>172,929</u>
Net Cash Flows - Operating Activities	<u>\$ (114,249)</u>	<u>\$ 473,413</u>	<u>\$ 227,780</u>	<u>\$ 586,944</u>
NONCASH CAPITAL ACTIVITIES:				
Capital Contributions	-	\$ 1,432,998	-	\$ 1,432,998

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, 2005

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 in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14 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

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity (Continued)

For each of the categories listed on the previous page, 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 of Princeton. Separate financial statements are not prepared for the Princeton EDA.

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 entity's office.

3. Related Organization

Princeton Volunteer Fire Relief Association

The Princeton Volunteer Fire 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

None

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. For the most part, the effect of interfund activity has been removed from these Statements. 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.

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.

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 government 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.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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 government.

Description of Funds:

Major Governmental Funds:

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

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

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

2005 21st Avenue Improvement Capital Projects Fund – This Fund accounts for costs associated with the improvements to the 21st Avenue.

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

Major 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.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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 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 government 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 government's utility functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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 government's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 made by cities with financial institutions are collateralized in an amount equal to 110% of deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance.

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 City has no formal policies in place to address credit risk, custodial credit risk, concentration of credit risk or interest rate risk.

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 Auditor 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 payment due on May 15 and the second half payment is 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.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2. Receivables and Payables (Continued)

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 government as assets with an initial, individual cost of more than \$ 1,000 and an estimated useful life in excess of five 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.

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

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 that 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.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

5. Compensated Absences (Continued)

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, 2005 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.

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.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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. 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.

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 General and Special Revenue Funds.
4. Budgets for the General and Special Revenue 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 General and Special Revenue Funds. Annual appropriated budgets are not adopted for Debt Service Funds because effective budgetary control is alternatively achieved through bond indenture provisions. Budgetary control for Capital Projects Funds is accomplished through the use of project controls and formal appropriated budgets are not adopted.
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.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information (Continued)

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

B. Deficit Fund Balance

The following funds had deficit balances at December 31, 2005:

Major Fund:

Downtown Redevelopment Tax Increment - Debt Service Fund	\$ 106,376
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Nonmajor Funds:

Special Revenue:

Public Safety and Awareness	1,078
Investigation Information Buy Fund	1,107
Development Grants	70,535
Development Expenses	13,598

Debt Service:

1990 Assessment Refunding Fund	61,118
1999 Street and Utilities Improvements	10,152

Capital Projects:

2002/2003 First Street Improvements Fund	130,767
2003 Utility Improvements	76,249
Heritage Village Fund	54,737
2000 Street and Utility Improvements	70,145

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits

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, 2005, 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	\$ 349,864
Savings	2,779,257
Petty Cash	1,859
Nonnegotiable Certificates of Deposit	1,715,253
Total Deposits	\$ 4,846,233

B. Investments

As of December 31, 2005, the City had the following investments:

Investment	Maturities	Fair Value	Percent of Total	Credit Rating	Type
FNMA	Various	\$ 474,729	15.18%	AAA	GB
FHLMC	Various	811,676	25.96%	AAA	GB
FHLB	Various	59,440	1.90%	AAA	GB
FMLMC	Various	148,152	4.74%	AAA	GB
FHLBC	Various	393,676	12.59%	AAA	GB
FNMAN	Various	83,539	2.67%	AAA	GB
Discover Bank	05/15/06	96,859	3.10%	N/A	CD
First Federal Savings	07/28/10	97,941	3.13%	N/A	CD
First Bank Puerto Rico	12/27/11	94,905	3.04%	N/A	CD
Community Central Bank	04/15/13	96,963	3.10%	N/A	CD
Providian National Bank	10/04/07	20,530	0.66%	N/A	CD
GMAC Automotive Bank	10/22/07	93,451	2.99%	N/A	CD
Beacon Federal NY	10/29/07	95,081	3.04%	N/A	CD
Capital One Bank	07/23/08	96,417	3.08%	N/A	CD
Banco Bilbao Vizcaya	09/17/09	93,110	2.98%	N/A	CD
National Bank of South Carolina	09/24/10	92,172	2.95%	N/A	CD
First Bank Puerto Rico PR	11/14/11	92,408	2.96%	N/A	CD
Lehman Brothers Bank	11/29/13	93,524	2.99%	N/A	CD
Money Market	Various	92,084	2.95%	N/A	MM
Total		\$ 3,126,659	100.00%		

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 3 – DEPOSITS AND INVESTMENTS

B. Investments (Continued)

The City and the component unit do not have investment policies in place as of December 31, 2005 to address the following risks:

Interest Rate Risk: Managing exposure to fair value arising from increasing interest rates. The City was not exposed to interest rate risks due to the fact their investments are not exposed to highly sensitive changes in interest rates.

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. As of December 31, 2005, the City’s investments were rated in the table on the previous page.

Concentration of Credit Risk: Limits the amount the City may invest in any one issuer. The City was exposed to concentration of credit risk at December 31, 2005, due to the fact FNMA (15.18%), FHLMC (25.96%) and FHLBC (12.59%) investments exceeded 5% of the City’s total investment portfolio.

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 investment or collateral securities that are in the possession of an outside party. The City was not exposed to custodial credit risk; all deposits and investments were insured or fully collateralized and were registered in the name of the government.

The following is a summary of total deposits and investments:

Deposits (Note 3.A.)	\$	4,846,233
Investments		3,126,659
Total Deposits and Investments - City		7,972,892
Deposits - Component Unit		1,858,153
Cash Held in Escrow - Component Unit		2,698,341
Total Component Unit		4,556,494
Total Deposits and Investments	\$	12,529,386

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 4 – CAPITAL ASSETS

A. Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ 1,344,458	\$ -	\$ -	\$ 1,344,458
Capital Assets being Depreciated:				
Buildings and Systems	2,143,531	1,125	-	2,144,656
Other Improvements	1,376,071	6,083	-	1,382,154
Machinery and Equipment	2,452,507	99,418	132,792	2,419,133
Infrastructure	7,227,045	775,973	-	8,003,018
Total Capital Assets being Depreciated	13,199,154	882,599	132,792	13,948,961
Less Accumulated Depreciation for:				
Buildings and Systems	665,745	44,778	-	710,523
Other Improvements	733,469	47,503	-	780,972
Machinery and Equipment	1,158,563	138,177	104,998	1,191,742
Infrastructure	2,412,076	199,615	-	2,611,691
Total Accumulated Depreciation	4,969,853	430,073	104,998	5,294,928
Total Capital Assets being Depreciated, Net	8,229,301	452,526	27,794	8,654,033
Governmental Activities Capital Assets, Net	\$ 9,573,759	\$ 452,526	\$ 27,794	\$ 9,998,491

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 4 – CAPITAL ASSETS

A. Primary Government (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital Assets not being Depreciated:				
Land	\$ 650,688	\$ -	\$ -	\$ 650,688
Construction in Progress	632,412	169,589	93,493	708,508
Total Capital Assets not being Depreciated	<u>1,283,100</u>	<u>169,589</u>	<u>93,493</u>	<u>1,359,196</u>
Capital Assets being Depreciated:				
Buildings and Systems	360,241	-	-	360,241
Other Improvements	8,201,967	1,500,578	-	9,702,545
Machinery and Equipment	491,538	105,723	-	597,261
Total Capital Assets being Depreciated	<u>9,053,746</u>	<u>1,606,301</u>	<u>-</u>	<u>10,660,047</u>
Less Accumulated Depreciation for:				
Buildings and Systems	113,564	11,313	-	124,877
Other Improvements	2,547,891	223,493	-	2,771,384
Machinery and Equipment	284,444	38,675	-	323,119
Total Accumulated Depreciation	<u>2,945,899</u>	<u>273,481</u>	<u>-</u>	<u>3,219,380</u>
Total Capital Assets being Depreciated, Net	<u>6,107,847</u>	<u>1,332,820</u>	<u>-</u>	<u>7,440,667</u>
Business-Type Activities Capital Assets, Net	<u>\$ 7,390,947</u>	<u>\$ 1,502,409</u>	<u>\$ 93,493</u>	<u>\$ 8,799,863</u>

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

Governmental Activities:	
General Government	\$ 40,721
Public Safety	70,852
Public Works	265,103
Park and Recreation	<u>53,397</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 430,073</u>

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 4 – CAPITAL ASSETS

A. Primary Government (Continued)

Business-Type Activities:

Airport	\$ 80,360
Sanitary Sewer	175,294
Municipal Liquor	<u>17,827</u>

Total Depreciation Expense - Business-Type Activities	<u><u>\$ 273,481</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, 2005, consist of the following:

Bellamy:

Annual payments of \$ 589, including interest at 3%, through September 2024	\$ 11,281
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Cartwright:

Annual payments of \$ 303, including interest at 3%, through September 2024	5,657
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Annual payments of \$ 583, including interest at 3%, through September 2024	10,861
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Annual payments of \$ 361, including interest at 3%, through September 2024	6,722
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Vurchota:

Annual payments of \$ 275, including interest at 3%, through September 2024	3,793
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Beattie:

Annual payments of \$ 310, including interest at 3%, through September 2024	4,274
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Annual payments of \$ 886, including interest at 3%, through September 2024	12,203
--	--------

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 5 – NOTES/LOANS RECEIVABLE

Anderson:

Annual payments of \$ 262, including interest at 3%, through September 2024	\$ 3,614
--	----------

Annual payments of \$ 264, including interest at 3%, through September 2024	3,631
--	-------

Knapp:

Annual payments of \$ 606, including interest at 3%, through September 2024	8,350
--	-------

Total Urban Development Action Grants	<u>\$ 70,386</u>
---------------------------------------	------------------

The principal balance for the above notes was financed by UDAG grants 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, 2004	\$ 358,242
Transfers	253,294
2005 Uses	<u>(207,626)</u>
Balance - December 31, 2005	<u>\$ 403,910</u>

B. Reserve Fund

The 2005 Revenue Bonds required a reserve account in the amount of \$ 984,955. The amount of \$ 417,335 is required to be reserved in the Water Fund, of which \$ 242,077 is being held in escrow and \$ 567,620 in the Electric Fund.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 6 – RESTRICTED ASSETS – COMPONENT UNIT

C. Debt Retirement

The 2005, 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, 2005 are \$ 103,265.

The 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, 2005 is \$ 228,869.

D. Restricted Cash held in Escrow

Restricted cash held in escrow as of December 31, 2005 consists of \$ 2,698,341 of cash proceeds from the Midwest Consortium of Municipal Utilities Water Revenue Bonds. \$ 242,077 is escrowed in a Debt Service Reserve Fund and \$ 2,456,264 is escrowed in a Project Fund for capital projects in the Water Fund.

NOTE 7 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2005 is as follows:

Receivable Fund	Payable Fund	Amount
General	Other Governmental Funds	\$ 79,014
Other Governmental Funds	Other Governmental Funds	70,150
Liquor	Airport	2,825
Liquor	Downtown Redevelopment Tax Increment	207,250
Liquor	Other Governmental Funds	104,483
Total		\$ 463,722

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 7 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

B. Interfund Transfers

The composition of interfund transfers as of December 31, 2005 is as follows:

	Transfer In:				Total
	Primary Government				
		Downtown Redevelopment Tax Increment	Other Governmental Funds	Airport Fund	
	General	Increment	Funds	Fund	
Transfer Out:					
General	\$ -	\$ -	\$ 40,750	\$ 7,000	\$ 47,750
Capital Improvements Nonmajor	60,000	-	-	-	60,000
Governmental Funds	-	7,500	138,635	-	146,135
Municipal Liquor	-	-	-	7,640	7,640
Total	\$ 60,000	\$ 7,500	\$ 179,385	\$ 14,640	\$ 261,525

The purpose of the above transfers are 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 government. 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, 2005

NOTE 8 – LONG-TERM DEBT

B. Components of Long-Term Liabilities

Primary Government

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-Term Liabilities:						
Governmental Activities:						
G.O. Bonds, Including						
Special Assessment Bonds:						
G.O. Improvement 1993A	10/01/93	3.10%-5.25%	\$ 395,000	02/01/09	\$ 80,000	\$ 20,000
G.O. Improvement 1997	08/01/97	4-10%-4.75%	1,290,000	02/01/08	450,000	145,000
G.O. Improvement 1999	09/01/99	4.50%-5.20%	820,000	02/01/10	455,000	85,000
G.O. Improvement Refunding 2000B	11/01/00	4.80%-5.25%	535,000	02/01/13	395,000	40,000
G.O. Improvement 2002	11/01/02	2.10%-4.45%	510,000	02/01/13	425,000	45,000
G.O. Improvement 2004	01/01/04	2.75%-4.25%	1,875,000	02/01/20	1,875,000	50,000
G.O. Improvement 2004A	09/01/04	2.25%-3.80%	400,000	02/01/15	400,000	35,000
G.O. Improvement 2005A	09/20/05	3.00%-4.20%	1,100,000	02/01/21	1,100,000	-
G.O. Bonds:						
G.O. Library 1993B	10/01/93	2.95%-5.25%	215,000	02/01/09	75,000	15,000
G.O. TIF Refunding 2003	12/01/03	2.00%-4.25%	735,000	08/01/09	530,000	125,000
Compensated Absences					<u>229,326</u>	<u>141,050</u>
Total Governmental Activities					6,014,326	701,050
Business-Type Activities:						
G.O. Revenue Bonds:						
PFA Sewer Revenue	03/13/95	3.880%	4,254,663	08/20/16	2,728,159	203,199
Compensated Absences					<u>18,580</u>	<u>8,609</u>
Total Business-Type Activities					<u>2,746,739</u>	<u>211,808</u>
Total all Long-Term Liabilities					<u>\$ 8,761,065</u>	<u>\$ 912,858</u>

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

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:						
Midwest Consortium of						
Municipal Utilities Revenue						
Bonds, Series 2005A	04/14/05	4.00%	\$ 2,865,000	12/01/24	\$ 2,820,000	\$ 90,000
MNPFA G.O. Revenue Note	06/10/04	2.53%	847,422	08/20/23	832,000	37,000
Public Utility System Revenue						
Bonds, Series 2004	02/01/04	3.00%-4.55%	670,000	04/01/24	670,000	-
Public Utility System Refunding						
Revenue	09/01/03	1.25%-4.70%	710,000	07/01/18	550,000	85,000
MNPFA G.O. Revenue Bond	09/08/99	3.29%	670,000	08/20/19	529,000	30,000
Public Utility System Revenue						
Bonds, Series 2002	04/01/02	2.40%-5.40%	280,000	04/01/22	250,000	10,000
Bonds, Series 2004	02/01/04	1.25%-4.70%	2,795,000	04/01/24	2,720,000	85,000
Public Utility System Refunding						
Revenue	09/01/03	1.25%-4.70%	1,560,000	07/01/18	1,375,000	90,000
Public Utility System Revenue						
Bonds, Series 2002	04/01/02	2.40%-5.40%	2,365,000	04/01/22	2,120,000	85,000
Bond Discount and						
Issuance Costs						
					<u>(192,808)</u>	<u>(18,285)</u>
Total all Long-Term Liabilities					<u>\$ 11,673,192</u>	<u>\$ 493,715</u>

Long-term bonded indebtedness listed 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, 2005 are listed on the following page.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 8 – LONG-TERM DEBT

B. Components of Long-Term Liabilities (Continued)

Primary Government

Year	Governmental Activities			
	G.O. Special Assessment Bonds		G.O. Improvement Bonds	
	Principal	Interest	Principal	Interest
2006	\$ 420,000	\$ 198,489	\$ 140,000	\$ 23,330
2007	475,000	183,523	150,000	18,695
2008	535,000	162,662	155,000	12,920
2009	395,000	143,473	160,000	6,475
2010	425,000	126,640	-	-
2011-2015	1,580,000	424,408	-	-
2016-2020	1,255,000	154,241	-	-
2021-2025	95,000	1,995	-	-
Total	<u>\$ 5,180,000</u>	<u>\$ 1,395,431</u>	<u>\$ 605,000</u>	<u>\$ 61,420</u>

Year	Governmental Activities	
	Total	
	Principal	Interest
2006	\$ 560,000	\$ 221,819
2007	625,000	202,218
2008	690,000	175,582
2009	555,000	149,948
2010	425,000	126,640
2011-2015	1,580,000	424,408
2016-2020	1,255,000	154,241
2021-2025	95,000	1,995
Total	<u>\$ 5,785,000</u>	<u>\$ 1,456,851</u>

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 8 – LONG-TERM DEBT

B. Components of Long-Term Liabilities (Continued)

Component Unit

Year	Business-Type Activities			
	G.O. Revenue Bonds		G.O. Revenue Bonds	
	Principal	Interest	Principal	Interest
2006	\$ 203,199	\$ 103,900	\$ 512,000	\$ 485,402
2007	211,160	95,940	529,000	468,895
2008	219,432	87,667	551,000	450,815
2009	228,029	79,071	569,000	431,251
2010	236,962	70,137	581,000	410,259
2011-2015	1,331,553	203,947	3,246,000	1,670,848
2016-2020	297,824	8,689	3,487,000	938,741
2021-2020	-	-	2,391,000	207,675
Total	<u>\$ 2,728,159</u>	<u>\$ 649,351</u>	<u>\$ 11,866,000</u>	<u>\$ 5,063,886</u>

C. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

Primary Government

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds Payable:					
G.O. Special Assessment Bonds	\$ 4,400,000	\$ 1,100,000	\$ 320,000	\$ 5,180,000	\$ 420,000
G.O. Improvement Bonds	1,090,000	-	485,000	605,000	140,000
Total Bonds Payable	<u>5,490,000</u>	<u>1,100,000</u>	<u>805,000</u>	<u>5,785,000</u>	<u>560,000</u>
Compensated Absences	204,967	161,300	136,941	229,326	141,050
Total Governmental Activiti	<u>5,694,967</u>	<u>1,261,300</u>	<u>941,941</u>	<u>6,014,326</u>	<u>701,050</u>

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 8 – LONG-TERM DEBT

C. Changes in Long-Term Liabilities (Continued)

Primary Government (Continued)

	<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:					
G.O. PFA Sewer Revenue Bonds	2,923,698	-	195,539	2,728,159	203,199
Compensated Absences	18,295	8,645	8,360	18,580	8,609
Total Business-Type Activities	<u>2,941,993</u>	<u>8,645</u>	<u>203,899</u>	<u>2,746,739</u>	<u>211,808</u>
Total Long-Term Liabilities	<u>\$ 8,636,960</u>	<u>\$ 1,269,945</u>	<u>\$ 1,145,840</u>	<u>\$ 8,761,065</u>	<u>\$ 912,858</u>

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	\$ 2,965,422	\$ 2,865,000	\$ 179,422	\$ 5,651,000	\$ 252,000
Electric Fund:					
Revenue Bonds	6,470,000	-	255,000	6,215,000	260,000
Sanitation Fund:					
Certificates of Indebtedness	8,171	-	8,171	-	-
Bond Discount and Issuance Costs	<u>(138,316)</u>	<u>(72,777)</u>	<u>(18,285)</u>	<u>(192,808)</u>	<u>(18,285)</u>
Total Business-Type Activities	<u>9,305,277</u>	<u>2,792,223</u>	<u>424,308</u>	<u>11,673,192</u>	<u>493,715</u>
Total Long-Term Liabilities	<u>\$ 9,305,277</u>	<u>\$ 2,792,223</u>	<u>\$ 424,308</u>	<u>\$ 11,673,192</u>	<u>\$ 493,715</u>

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 8 – LONG-TERM DEBT

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, 2005, there were several issues outstanding. The bonds are not reported as liabilities in the accompanying financial statements. The outstanding balance at December 31, 2005 was not determinable.

NOTE 9 – RESERVED FUND BALANCES/NET ASSETS

Reserved/Designated Fund Equity

Fund equity balances are classified as follows to reflect the limitations and restrictions of the respective funds.

A. Reserved/Designated Fund Balance

	<u>Debt Service</u>	<u>Capital Projects</u>			
	Western Area Improvements	2005 21st Avenue Improvement	Capital Improvements	Other Governmental Funds	<u>Total</u>
Reserved for:					
Debt Service	\$ 155,206	\$ -	\$ -	\$ 1,751,715	\$ 1,906,921
Capital Projects	-	360,516	1,386,928	292,134	2,039,578
Total	<u>\$ 155,206</u>	<u>\$ 360,516</u>	<u>\$ 1,386,928</u>	<u>\$ 2,043,849</u>	<u>\$ 3,946,499</u>
Designated for:					
Working Capital					<u>\$ 1,270,535</u>

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 10 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association

A. Plan Description

All full-time and certain part-time employees of the City of Princeton 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 Plan are established and administered in accordance with *Minnesota Statutes* Chapters 353 and 356.

PERF members belong to either the Coordinated Plan 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 PERF'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 PEPFF and PERF 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 is the age for unreduced social security benefits 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, 2005

NOTE 10 – DEFINED BENEFIT PENSION PLANS – STATEWIDE

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 web at 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 are required to contribute 9.1% and 5.1%, respectively, of their annual covered salary in 2005. Contribution rates in the Coordinated Plan will increase in 2006 to 5.5%. PEPFF members were required to contribute 6.2% of their annual covered salary in 2005. That rate will increase to 7.0% in 2006. The City of Princeton is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 5.53% for Coordinated Plan PERF members and 9.3% for PEPFF members. Employer contribution rates for the Coordinated Plan and PEPFF will increase to 6.0% and 10.5%, respectively, effective January 1, 2006. The City's contributions to PERF for the years ending December 31, 2005, 2004 and 2003 were \$ 43,884, \$ 42,763 and \$ 38,779, respectively. The City's contributions to PEPFF for the years ending December 31, 2005, 2004 and 2003 were \$ 39,906, \$ 39,970 and \$ 37,055, 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, 2005

NOTE 11 – RISK MANAGEMENT

The City purchases commercial insurance coverage through the League of Minnesota Cities Insurance Trust 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 League for its insurance coverage. The League of Minnesota Cities Insurance Trust 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 2005 is estimated to be immaterial based on workers’ compensation rates and salaries for the year.

At December 31, 2005, there are 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.

NOTE 12 – COMMITMENTS

<u>Project</u>	<u>Project Authorization</u>	<u>Work Completed</u>	<u>Commitments</u>
21st Avenue Street and Utility Improvements	<u>\$ 703,476</u>	<u>\$ 600,968</u>	<u>\$ 102,508</u>

NOTE 13 – SUBSEQUENT EVENTS

The City received notification that they are the recipient of a \$ 1,440,000 grant to help fund the improvement of 21st Avenue North and improve the portion of TH95 west of 169. The grant award was made as part of the “Transportation Equity Act: A Legacy for Users.”

The City also received a FEMA Grant for the purchase of fire equipment of \$ 184,133.

Both of these grants will be spent in subsequent years.

SUPPLEMENTARY INFORMATION

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2005

	Special Revenue			
	202	205	210	211
	Insurance Deductible Reserve	Cemetery Operation and Maintenance	Property Confiscation	Public Safety and Awareness
ASSETS:				
Cash and Investments	\$ 7,778	\$ 6,121	\$ 109,126	\$ -
Taxes Receivable	-	-	-	-
Special Assessments Receivable:				
Delinquent	-	-	-	-
Deferred	-	-	-	-
Accounts Receivable	-	689	-	-
Interest Receivable	-	-	-	-
Notes Receivable	-	-	-	-
Due from Other Funds	-	-	-	-
	<u>7,778</u>	<u>6,810</u>	<u>109,126</u>	<u>-</u>
Total Assets	<u>\$ 7,778</u>	<u>\$ 6,810</u>	<u>\$ 109,126</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Cash Overdraft	\$ -	\$ -	\$ -	\$ 1,078
Salaries Payable	-	660	-	-
Accounts and Contracts Payable	-	44	-	-
Due to Other Governments	-	-	1,200	-
Due to Other Funds	-	-	-	-
Deferred Revenue	-	-	-	-
Total Liabilities	<u>-</u>	<u>704</u>	<u>1,200</u>	<u>1,078</u>
Fund Balances:				
Reserved	-	-	-	-
Unreserved:				
Undesignated	<u>7,778</u>	<u>6,106</u>	<u>107,926</u>	<u>(1,078)</u>
Total Fund Balances	<u>7,778</u>	<u>6,106</u>	<u>107,926</u>	<u>(1,078)</u>
	<u>7,778</u>	<u>6,810</u>	<u>109,126</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ 7,778</u>	<u>\$ 6,810</u>	<u>\$ 109,126</u>	<u>\$ -</u>

Special Revenue

212	214	216	240	242	250	252
Investigation Information Buy Fund	Felony Investigation	Solheim Field Improvements	Civic Center	Community Beautification	Community Projects	Development Grants
\$ -	\$ 9,789	\$ 4,969	\$ 668	\$ 2,091	\$ 16,513	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ 9,789</u>	<u>\$ 4,969</u>	<u>\$ 668</u>	<u>\$ 2,091</u>	<u>\$ 16,513</u>	<u>\$ -</u>
\$ 1,107	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 70,535
-	-	-	52	-	-	-
-	-	-	435	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>1,107</u>	<u>-</u>	<u>-</u>	<u>487</u>	<u>-</u>	<u>-</u>	<u>70,535</u>
-	-	-	-	-	-	-
<u>(1,107)</u>	<u>9,789</u>	<u>4,969</u>	<u>181</u>	<u>2,091</u>	<u>16,513</u>	<u>(70,535)</u>
<u>(1,107)</u>	<u>9,789</u>	<u>4,969</u>	<u>181</u>	<u>2,091</u>	<u>16,513</u>	<u>(70,535)</u>
<u>\$ -</u>	<u>\$ 9,789</u>	<u>\$ 4,969</u>	<u>\$ 668</u>	<u>\$ 2,091</u>	<u>\$ 16,513</u>	<u>\$ -</u>

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2005

	Special Revenue			
	253	260	262	600
	Development Expenses	Fire Equipment Reserve	Disaster Relocation	Economic Development Authority
ASSETS:				
Cash and Investments	\$ 22,875	\$ 159,962	\$ 22,642	\$ -
Taxes Receivable	-	-	-	851
Special Assessments Receivable:				
Delinquent	-	-	-	-
Deferred	-	-	-	-
Accounts Receivable	565	-	-	-
Interest Receivable	-	135	-	-
Notes Receivable	-	-	-	129,453
Due from Other Funds	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 23,440</u>	<u>\$ 160,097</u>	<u>\$ 22,642</u>	<u>\$ 130,304</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Cash Overdraft	\$ -	\$ -	\$ -	\$ 17,679
Salaries Payable	-	-	-	1,321
Accounts and Contracts Payable	10,094	-	2,388	21
Due to Other Governments	-	-	-	-
Due to Other Funds	-	104,483	-	-
Deferred Revenue	26,944	-	-	851
Total Liabilities	<u>37,038</u>	<u>104,483</u>	<u>2,388</u>	<u>19,872</u>
Fund Balances:				
Reserved	-	-	-	-
Unreserved:				
Undesignated	(13,598)	55,614	20,254	110,432
Total Fund Balances	<u>(13,598)</u>	<u>55,614</u>	<u>20,254</u>	<u>110,432</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$ 23,440</u>	<u>\$ 160,097</u>	<u>\$ 22,642</u>	<u>\$ 130,304</u>

Special Revenue						Debt Service
701	802	803	814	820		494
Water Availability	Park Improvements	Cemetery Perpetual Care	UDAG No. 2 Downtown Project	UDAG No. 5 Crystal Cabinets	Total	1994 Library Project
\$ 75,412	\$ 221,132	\$ 127,856	\$ 575	\$ 80,860	\$ 868,369	\$ 28,361
-	-	-	-	-	851	959
-	-	-	-	-	-	-
-	-	280	-	-	1,534	-
-	-	555	705	-	1,395	-
-	-	-	70,386	-	199,839	-
-	-	-	-	-	-	-
<u>\$ 75,412</u>	<u>\$ 221,132</u>	<u>\$ 128,691</u>	<u>\$ 71,666</u>	<u>\$ 80,860</u>	<u>\$ 1,071,988</u>	<u>\$ 29,320</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 90,399	\$ -
-	-	-	-	-	2,033	-
-	5,769	-	-	-	18,751	-
75,412	-	-	-	-	76,612	-
-	-	-	-	-	104,483	-
-	-	-	70,386	-	98,181	959
<u>75,412</u>	<u>5,769</u>	<u>-</u>	<u>70,386</u>	<u>-</u>	<u>390,459</u>	<u>959</u>
-	-	-	-	-	-	28,361
-	215,363	128,691	1,280	80,860	681,529	-
-	<u>215,363</u>	<u>128,691</u>	<u>1,280</u>	<u>80,860</u>	<u>681,529</u>	<u>28,361</u>
<u>\$ 75,412</u>	<u>\$ 221,132</u>	<u>\$ 128,691</u>	<u>\$ 71,666</u>	<u>\$ 80,860</u>	<u>\$ 1,071,988</u>	<u>\$ 29,320</u>

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2005

	Debt Service			
	500	502	504	506
	1999 Industrial Park Improvements	2002/2003 1st Street Improvements	2nd and 7th Improvements	2005 21st Avenue Improvements
ASSETS:				
Cash and Investments	\$ 324,207	\$ 271,857	\$ 101,917	\$ 15,866
Taxes Receivable	969	901	537	-
Special Assessments Receivable:				
Delinquent	2,022	5,999	1,131	-
Deferred	163,300	196,198	276,870	301,512
Accounts Receivable	-	-	-	-
Interest Receivable	-	-	-	-
Notes Receivable	-	-	-	-
Due from Other Funds	-	-	-	-
	<u>\$ 490,498</u>	<u>\$ 474,955</u>	<u>\$ 380,455</u>	<u>\$ 317,378</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Cash Overdraft	\$ -	\$ -	\$ -	\$ -
Salaries Payable	-	-	-	-
Accounts and Contracts Payable	-	-	-	-
Due to Other Governments	-	-	-	-
Due to Other Funds	-	-	-	-
Deferred Revenue	166,291	203,098	278,538	301,512
Total Liabilities	<u>166,291</u>	<u>203,098</u>	<u>278,538</u>	<u>301,512</u>
Fund Balances:				
Reserved	324,207	271,857	101,917	15,866
Unreserved:				
Undesignated	-	-	-	-
Total Fund Balances	<u>324,207</u>	<u>271,857</u>	<u>101,917</u>	<u>15,866</u>
	<u>\$ 490,498</u>	<u>\$ 474,955</u>	<u>\$ 380,455</u>	<u>\$ 317,378</u>
Total Liabilities and Fund Balances	<u>\$ 490,498</u>	<u>\$ 474,955</u>	<u>\$ 380,455</u>	<u>\$ 317,378</u>

Debt Service

530	552	590	592	593	597	599
2000 Street and Utilities Improvements	Revolving Account Fund	1990 Assessment Refunding	1992 Street and Utilities	1993 Street and Utilities	1997 LaGrande Improvements	1999 Street and Utilities Improvements
\$ 26,330	\$ 179,208	\$ -	\$ 251,837	\$ 105,226	\$ 376,756	\$ -
-	-	5	593	-	4,482	484
-	-	-	-	-	1,483	218
23,792	875	-	318,245	24,436	85,571	9,484
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	70,150	-	-	-	-	-
\$ 50,122	\$ 250,233	\$ 5	\$ 570,675	\$ 129,662	\$ 468,292	\$ 10,186
\$ -	\$ -	\$ 61,118	\$ -	\$ -	\$ -	\$ 10,152
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
23,792	875	5	318,838	24,436	91,536	10,186
23,792	875	61,123	318,838	24,436	91,536	20,338
26,330	249,358	-	251,837	105,226	376,756	-
-	-	(61,118)	-	-	-	(10,152)
26,330	249,358	(61,118)	251,837	105,226	376,756	(10,152)
\$ 50,122	\$ 250,233	\$ 5	\$ 570,675	\$ 129,662	\$ 468,292	\$ 10,186

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2005

	Debt Service	Capital Projects		
		301	303	304
	Total	2002/2003 First Street Improvements	2003 Utility Improvement	2nd Street Street and Utilities Improvements
ASSETS:				
Cash and Investments	\$ 1,681,565	\$ -	\$ -	\$ 20,885
Taxes Receivable	8,930	-	-	-
Special Assessments Receivable:				
Delinquent	10,853	-	-	-
Deferred	1,400,283	-	-	-
Accounts Receivable	-	-	54,937	-
Interest Receivable	-	-	-	-
Notes Receivable	-	-	-	-
Due from Other Funds	70,150	-	-	-
	<u>\$ 3,171,781</u>	<u>\$ -</u>	<u>\$ 54,937</u>	<u>\$ 20,885</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Cash Overdraft	\$ 71,270	\$ 130,767	\$ 127,306	\$ -
Salaries Payable	-	-	-	-
Accounts and Contracts Payable	-	-	3,880	-
Due to Other Governments	-	-	-	-
Due to Other Funds	-	-	-	-
Deferred Revenue	1,420,066	-	-	-
Total Liabilities	<u>1,491,336</u>	<u>130,767</u>	<u>131,186</u>	<u>-</u>
Fund Balances:				
Reserved	1,751,715	-	-	20,885
Unreserved:				
Undesignated	(71,270)	(130,767)	(76,249)	-
Total Fund Balances	<u>1,680,445</u>	<u>(130,767)</u>	<u>(76,249)</u>	<u>20,885</u>
	<u>\$ 3,171,781</u>	<u>\$ -</u>	<u>\$ 54,937</u>	<u>\$ 20,885</u>
Total Liabilities and Fund Balances	<u>\$ 3,171,781</u>	<u>\$ -</u>	<u>\$ 54,937</u>	<u>\$ 20,885</u>

Capital Projects

305	330	389	390	391	392	395
Heritage Village	2000 Street and Utility Improvements	Rum River Redevelopment District	Railroad Property Redevelopment	District No. 3-5 Redevelopment District	District No. 3-6 Redevelopment District	Development District No. 4
\$ -	\$ 5	\$ 7,424	\$ 241,990	\$ 2,092	\$ 5,062	\$ 9,140
-	-	123	-	4,225	405	-
-	-	-	-	-	-	-
-	-	-	-	300	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ 5</u>	<u>\$ 7,547</u>	<u>\$ 241,990</u>	<u>\$ 6,617</u>	<u>\$ 5,467</u>	<u>\$ 9,140</u>
\$ 54,737	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	9,140
-	-	-	-	-	-	-
-	70,150	-	79,014	-	-	-
-	-	123	-	4,225	405	-
<u>54,737</u>	<u>70,150</u>	<u>123</u>	<u>79,014</u>	<u>4,225</u>	<u>405</u>	<u>9,140</u>
-	-	7,424	162,976	2,392	5,062	-
(54,737)	(70,145)	-	-	-	-	-
<u>(54,737)</u>	<u>(70,145)</u>	<u>7,424</u>	<u>162,976</u>	<u>2,392</u>	<u>5,062</u>	<u>-</u>
<u>\$ -</u>	<u>\$ 5</u>	<u>\$ 7,547</u>	<u>\$ 241,990</u>	<u>\$ 6,617</u>	<u>\$ 5,467</u>	<u>\$ 9,140</u>

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2005

	Capital Projects			Total	Total Nonmajor Governmental Funds
	397	398	821		
	1997 Housing District	Armory Redevelopment District	Industrial Park Development		
ASSETS:					
Cash and Investments	\$ 1,531	\$ 1,271	\$ 90,593	\$ 379,993	\$ 2,929,927
Taxes Receivable	-	-	-	4,753	14,534
Special Assessments Receivable:					
Delinquent	-	-	-	-	10,853
Deferred	-	-	-	-	1,400,283
Accounts Receivable	-	-	-	55,237	56,771
Interest Receivable	-	-	-	-	1,395
Notes Receivable	-	-	-	-	199,839
Due from Other Funds	-	-	-	-	70,150
Total Assets	\$ 1,531	\$ 1,271	\$ 90,593	\$ 439,983	\$ 4,683,752
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Cash Overdraft	\$ -	\$ -	\$ -	\$ 312,810	\$ 474,479
Salaries Payable	-	-	-	-	2,033
Accounts and Contracts Payable	-	-	-	13,020	31,771
Due to Other Governments	-	-	-	-	76,612
Due to Other Funds	-	-	-	149,164	253,647
Deferred Revenue	-	-	-	4,753	1,523,000
Total Liabilities	-	-	-	479,747	2,361,542
Fund Balances:					
Reserved	1,531	1,271	90,593	292,134	2,043,849
Unreserved:					
Undesignated	-	-	-	(331,898)	278,361
Total Fund Balances	1,531	1,271	90,593	(39,764)	2,322,210
Total Liabilities and Fund Balances	\$ 1,531	\$ 1,271	\$ 90,593	\$ 439,983	\$ 4,683,752

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, 2005

	Special Revenue				
	202	205	210	211	212
	Insurance Deductible Reserve	Cemetery Operation and Maintenance	Property Confiscation	Public Safety and Awareness	Investigation Information Buy Fund
REVENUES:					
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Tax Increments	-	-	-	-	-
Special Assessments	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for Services	-	32,200	13,812	-	-
Miscellaneous:					
Investment Income	282	15	2,304	-	-
Other	-	-	-	750	-
Total Revenues	<u>282</u>	<u>32,215</u>	<u>16,116</u>	<u>750</u>	<u>-</u>
EXPENDITURES:					
Current:					
Public Safety	9,203	-	18,074	2,293	-
Cemetery	-	37,602	-	-	-
Public Works	-	-	-	-	-
Parks and Culture	-	-	-	-	-
Economic Development	-	-	-	-	-
Debt Service:					
Principal	-	-	-	-	-
Interest and Fiscal Charges	-	-	-	-	-
Capital Outlay:					
Public Safety	-	-	-	-	-
Public Works	-	-	-	-	-
Economic Development	-	-	-	-	-
Total Expenditures	<u>9,203</u>	<u>37,602</u>	<u>18,074</u>	<u>2,293</u>	<u>-</u>
Excess of Revenues Over (Under) Expenditures	(8,921)	(5,387)	(1,958)	(1,543)	-
OTHER FINANCING SOURCES (USES):					
Transfers In	-	5,585	-	-	-
Transfers Out	-	-	-	-	-
Bond Issuance	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>5,585</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(8,921)	198	(1,958)	(1,543)	-
FUND BALANCES:					
Beginning of Year	<u>16,699</u>	<u>5,908</u>	<u>109,884</u>	<u>465</u>	<u>(1,107)</u>
End of Year	<u>\$ 7,778</u>	<u>\$ 6,106</u>	<u>\$ 107,926</u>	<u>\$ (1,078)</u>	<u>\$ (1,107)</u>

Special Revenue

214	216	240	242	250	252	253	260
Felony Investigation	Solheim Field Improvements	Civic Center	Community Beautification	Community Projects	Development Grants	Development Expenses	Fire Equipment Reserve
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	1,280	44,399	-	-
-	-	1,805	-	-	-	-	45,953
223	104	-	59	-	-	45	2,969
-	1,500	-	720	20,315	-	-	8,457
223	1,604	1,805	779	21,595	44,399	45	57,379
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	3,239	5,525	2,010	-	-	-	-
-	-	-	-	10,257	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	10,435
-	-	-	-	-	-	-	5,045
-	-	-	-	-	-	-	-
-	-	-	-	-	114,934	13,643	-
-	3,239	5,525	2,010	10,257	114,934	13,643	15,480
223	(1,635)	(3,720)	(1,231)	11,338	(70,535)	(13,598)	41,899
-	1,600	3,800	-	-	-	-	28,400
-	-	-	-	-	-	-	-
-	1,600	3,800	-	-	-	-	28,400
223	(35)	80	(1,231)	11,338	(70,535)	(13,598)	70,299
9,566	5,004	101	3,322	5,175	-	-	(14,685)
\$ 9,789	\$ 4,969	\$ 181	\$ 2,091	\$ 16,513	\$ (70,535)	\$ (13,598)	\$ 55,614

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, 2005

	Special Revenue				
	262	600	701	802	803
	Disaster Relocation	Economic Development Authority	Water Availability	Park Improvements	Cemetery Perpetual Care
REVENUES:					
Property Taxes	\$ -	\$ 16,471	\$ -	\$ -	\$ -
Tax Increments	-	-	-	-	-
Special Assessments	-	-	-	-	-
Intergovernmental	40,000	1,362	-	-	-
Charges for Services	-	1,500	205,177	100,160	5,505
Miscellaneous:					
Investment Income	-	2,654	-	3,329	3,118
Other	-	-	-	3,365	-
Total Revenues	<u>40,000</u>	<u>21,987</u>	<u>205,177</u>	<u>106,854</u>	<u>8,623</u>
EXPENDITURES:					
Current:					
Public Safety	15,980	-	-	-	-
Cemetery	-	-	-	-	-
Public Works	-	-	205,177	-	-
Parks and Culture	-	-	-	8,798	-
Economic Development	-	85,727	-	-	-
Debt Service:					
Principal	-	-	-	-	-
Interest and Fiscal Charges	-	-	-	-	-
Capital Outlay:					
Public Safety	3,766	-	-	-	-
Public Works	-	-	-	-	-
Economic Development	-	4,743	-	-	-
Total Expenditures	<u>19,746</u>	<u>90,470</u>	<u>205,177</u>	<u>8,798</u>	<u>-</u>
Excess of Revenues Over (Under) Expenditures	20,254	(68,483)	-	98,056	8,623
OTHER FINANCING SOURCES (USES):					
Transfers In	-	140,000	-	-	-
Transfers Out	-	-	-	(800)	(2,835)
Bond Issuance	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>140,000</u>	<u>-</u>	<u>(800)</u>	<u>(2,835)</u>
Net Change in Fund Balances	20,254	71,517	-	97,256	5,788
FUND BALANCES:					
Beginning of Year	<u>-</u>	<u>38,915</u>	<u>-</u>	<u>118,107</u>	<u>122,903</u>
End of Year	<u>\$ 20,254</u>	<u>\$ 110,432</u>	<u>\$ -</u>	<u>\$ 215,363</u>	<u>\$ 128,691</u>

Special Revenue			Debt Service				
814	820		494	500	502	504	506
UDAG No. 2 Downtown Project	UDAG No. 5 Crystal Cabinets	Total	1994 Library Project	1999 Industrial Park Improvements	2002/2003 1st Street Improvements	2nd and 7th Improvements	2005 21st Avenue Improvements
\$ -	\$ -	\$ 16,471	\$ 18,253	\$ 15,948	\$ 18,540	\$ 12,450	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	54,560	21,223	31,593	-
2,895	-	89,936	1,506	1,268	1,537	1,065	-
-	-	406,112	-	-	-	-	-
2,323	1,814	19,239	342	20,070	20,129	22,302	2,294
-	-	35,107	-	-	-	-	-
<u>5,218</u>	<u>1,814</u>	<u>566,865</u>	<u>20,101</u>	<u>91,846</u>	<u>61,429</u>	<u>67,410</u>	<u>2,294</u>
-	-	45,550	-	-	-	-	-
-	-	37,602	-	-	-	-	-
-	-	205,177	-	-	-	-	-
-	-	19,572	-	-	-	-	-
-	-	95,984	-	-	-	-	-
-	-	-	15,000	53,300	45,000	-	-
-	-	10,435	4,650	17,046	16,949	12,242	728
-	-	8,811	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	133,320	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>556,451</u>	<u>19,650</u>	<u>70,346</u>	<u>61,949</u>	<u>12,242</u>	<u>728</u>
5,218	1,814	10,414	451	21,500	(520)	55,168	1,566
-	-	179,385	-	-	-	-	-
(7,500)	(135,000)	(146,135)	-	-	-	-	-
-	-	-	-	-	-	-	14,300
<u>(7,500)</u>	<u>(135,000)</u>	<u>33,250</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,300</u>
(2,282)	(133,186)	43,664	451	21,500	(520)	55,168	15,866
3,562	214,046	637,865	27,910	302,707	272,377	46,749	-
<u>\$ 1,280</u>	<u>\$ 80,860</u>	<u>\$ 681,529</u>	<u>\$ 28,361</u>	<u>\$ 324,207</u>	<u>\$ 271,857</u>	<u>\$ 101,917</u>	<u>\$ 15,866</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, 2005

	Debt Service				
	530	552	590	592	593
	2000 Street and Utilities Improvements	Revolving Account Fund	1990 Assessment Refunding	1992 Street and Utilities	1993 Street and Utilities
REVENUES:					
Property Taxes	\$ -	\$ -	\$ -	\$ 11,451	\$ -
Tax Increments	-	-	-	-	-
Special Assessments	1,703	-	1	34,525	2,032
Intergovernmental	-	-	-	947	-
Charges for Services	-	-	-	-	-
Miscellaneous:					
Investment Income	2,064	4,028	-	29,031	3,840
Other	-	-	-	-	-
Total Revenues	<u>3,767</u>	<u>4,028</u>	<u>1</u>	<u>75,954</u>	<u>5,872</u>
EXPENDITURES:					
Current:					
Public Safety	-	-	-	-	-
Cemetery	-	-	-	-	-
Public Works	-	-	-	-	-
Parks and Culture	-	-	-	-	-
Economic Development	-	-	-	-	-
Debt Service:					
Principal	-	-	-	40,000	20,000
Interest and Fiscal Charges	-	-	521	21,600	4,998
Capital Outlay:					
Public Safety	-	-	-	-	-
Public Works	-	-	-	-	-
Economic Development	-	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>521</u>	<u>61,600</u>	<u>24,998</u>
Excess of Revenues Over (Under) Expenditures	3,767	4,028	(520)	14,354	(19,126)
OTHER FINANCING SOURCES (USES):					
Transfers In	-	-	-	-	-
Transfers Out	-	-	-	-	-
Bond Issuance	-	-	-	-	-
Total Other Financial Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>3,767</u>	<u>4,028</u>	<u>(520)</u>	<u>14,354</u>	<u>(19,126)</u>
FUND BALANCES:					
Beginning of Year	<u>22,563</u>	<u>245,330</u>	<u>(60,598)</u>	<u>237,483</u>	<u>124,352</u>
End of Year	<u>\$ 26,330</u>	<u>\$ 249,358</u>	<u>\$ (61,118)</u>	<u>\$ 251,837</u>	<u>\$ 105,226</u>

Debt Service			Capital Projects			
597	599		301	303	304	305
1997 LaGrande Improvements	1999 Street and Utilities Improvements	Total	2002/2003 First Street Improvement	2003 Utility Improvement	2nd Street Street and Utilities Improvements	Heritage Village
\$ 84,289	\$ 7,974	\$ 168,905	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
47,729	1,811	195,177	-	-	-	-
6,923	634	13,880	-	-	-	-
-	-	-	-	-	-	-
14,974	966	120,040	-	-	490	-
-	-	-	-	46,031	-	-
<u>153,915</u>	<u>11,385</u>	<u>498,002</u>	<u>-</u>	<u>46,031</u>	<u>490</u>	<u>-</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
135,000	26,700	335,000	-	-	-	-
24,120	8,527	111,381	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	39,603	302	43,118
-	-	-	-	-	-	-
<u>159,120</u>	<u>35,227</u>	<u>446,381</u>	<u>-</u>	<u>39,603</u>	<u>302</u>	<u>43,118</u>
(5,205)	(23,842)	51,621	-	6,428	188	(43,118)
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	14,300	-	-	-	-
<u>-</u>	<u>-</u>	<u>14,300</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(5,205)	(23,842)	65,921	-	6,428	188	(43,118)
381,961	13,690	1,614,524	(130,767)	(82,677)	20,697	(11,619)
<u>\$ 376,756</u>	<u>\$ (10,152)</u>	<u>\$ 1,680,445</u>	<u>\$ (130,767)</u>	<u>\$ (76,249)</u>	<u>\$ 20,885</u>	<u>\$ (54,737)</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, 2005**

	Capital Projects				
	330	389	390	391	392
	2000 Street and Utility Improvements	Rum River Redevelopment District	Railroad Property Redevelopment	District 3-5 Redevelopment District	District 3-6 Redevelopment District
REVENUES:					
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Tax Increments	-	36,363	28,656	21,888	43,499
Special Assessments	-	-	-	-	-
Intergovernmental	-	4,305	5,048	2,060	3,485
Charges for Services	-	-	-	-	-
Miscellaneous:					
Investment Income	-	-	4,919	-	-
Other	-	-	-	-	-
Total Revenues	<u>-</u>	<u>40,668</u>	<u>38,623</u>	<u>23,948</u>	<u>46,984</u>
EXPENDITURES:					
Current:					
Public Safety	-	-	-	-	-
Cemetery	-	-	-	-	-
Public Works	-	-	-	-	-
Parks and Culture	-	-	-	-	-
Economic Development	-	-	-	-	-
Debt Service:					
Principal	-	-	-	-	-
Interest and Fiscal Charges	-	-	-	-	-
Capital Outlay:					
Public Safety	-	-	-	-	-
Public Works	-	-	-	-	-
Economic Development	-	44,502	-	24,121	44,865
Total Expenditures	<u>-</u>	<u>44,502</u>	<u>-</u>	<u>24,121</u>	<u>44,865</u>
Excess of Revenues Over (Under) Expenditures	-	(3,834)	38,623	(173)	2,119
OTHER FINANCING SOURCES (USES):					
Transfers In	-	-	-	-	-
Transfers Out	-	-	-	-	-
Bond Issuance	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	-	(3,834)	38,623	(173)	2,119
FUND BALANCES:					
Beginning of Year	<u>(70,145)</u>	<u>11,258</u>	<u>124,353</u>	<u>2,565</u>	<u>2,943</u>
End of Year	<u>\$ (70,145)</u>	<u>\$ 7,424</u>	<u>\$ 162,976</u>	<u>\$ 2,392</u>	<u>\$ 5,062</u>

Capital Projects

395	397	398	821		Total Nonmajor Governmental Funds
Development District No. 4	1997 Housing District	Armory Redevelopment District	Industrial Park Development	Total	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 185,376
29,229	15,318	5,448	-	180,401	180,401
-	-	-	-	-	195,177
102	-	-	-	15,000	118,816
-	-	-	-	-	406,112
-	-	-	2,244	7,653	146,932
-	-	-	-	46,031	81,138
29,331	15,318	5,448	2,244	249,085	1,313,952
-	-	-	-	-	45,550
-	-	-	-	-	37,602
-	-	-	-	-	205,177
-	-	-	-	-	19,572
-	-	-	-	-	95,984
-	-	-	-	-	335,000
-	-	-	-	-	121,816
-	-	-	-	-	8,811
-	-	-	-	83,023	83,023
36,117	15,267	5,482	19,662	190,016	323,336
36,117	15,267	5,482	19,662	273,039	1,275,871
(6,786)	51	(34)	(17,418)	(23,954)	38,081
-	-	-	-	-	179,385
-	-	-	-	-	(146,135)
-	-	-	-	-	14,300
-	-	-	-	-	47,550
(6,786)	51	(34)	(17,418)	(23,954)	85,631
6,786	1,480	1,305	108,011	(15,810)	2,236,579
\$ -	\$ 1,531	\$ 1,271	\$ 90,593	\$ (39,764)	\$ 2,322,210



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

May 18, 2006

Honorable Mayor and 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, 2005, and have issued our report thereon dated May 18, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described below.

- The City does not have adequate segregation of accounting duties due to a limited number of office employees. Management has determined that this weakness is not practical to correct.



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

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 that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we reported to management of the City in a separate letter dated May 18, 2006.

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

A handwritten signature in cursive script that reads "Kern, DeWenter, Viere, Ltd.".

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



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REPORT ON LEGAL COMPLIANCE

May 18, 2006

Honorable Mayor and 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, 2005, and have issued our report thereon dated May 18, 2006.

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 of Princeton, Minnesota, complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings on Legal Compliance.

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.

A handwritten signature in cursive script that reads "Kern, DeWenter, Viere, Ltd.".

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St. Cloud, Minnesota

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota
SCHEDULE OF FINDINGS ON LEGAL COMPLIANCE
Year Ended December 31, 2005

CURRENT AND PRIOR YEAR STATUTE FINDING:

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.