

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

***Audited Financial Statements
For the Fiscal Year Ended December 31, 2009***

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, 2009

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Jeremy Riddle	Mayor	December 31, 2010
Dick Dobson	Council Member	December 31, 2012
Victoria Hallin	Council Member	December 31, 2012
Lee Steinbrecher	Council Member	December 31, 2010
Paul Whitcomb	Council Member	December 31, 2010
<u>Administration</u>		
Mark Karnowski	City Administrator	
Steven L. Jackson	Finance Director	
Katie Hunter	City Clerk	
Bonnie Nelson	Finance Clerk	



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INDEPENDENT AUDITOR'S REPORT

June 17, 2010

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Princeton, Minnesota, as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Princeton Public Utilities Commission, which represent 100% of the assets and revenues of the discretely presented component unit column. These statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Princeton Public Utilities Commission, is based solely upon the report of the other auditors.

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

In our opinion, based on our report and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Princeton, Minnesota, as of December 31, 2009, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with U.S. generally accepted accounting principles.



As discussed in Note 12 to the financial statements, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other than Pensions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2010, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, which follows this report letter, and the Schedule of Funding Progress – Other Post Employment Benefits on page 62, are not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Kern, DeWenter, Viere, Ltd.

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

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CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2009

As management of the City of Princeton (the "City"), we offer readers of the City's financial statement this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2009.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the recent fiscal year by \$ 25,659,231 (net assets) which is an increase of \$ 658,730 (2.6%) over the December 31, 2008 amount. Of this amount, \$ 6,835,219 for 2009 and \$ 4,902,572 for 2008 were unrestricted net assets available to be used to meet the City's ongoing obligations to citizens and creditors.
- Of the City's total net assets increase of \$ 658,730 during the most recent fiscal year, the entire amount came from the governmental funds. The proprietary funds had a slight decrease in net assets of \$ 20,582. This decrease was the result of losses in the airport and sanitary sewer funds.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$ 8,496,450, an increase of \$ 2,133,240 from the prior year. Approximately 71% of this increase was due to \$ 1,505,000 of a debt refunding issue that was received in 2009 but not expended for the refunding until January 2010.
- At the end of the current fiscal year, all but \$ 66,630 of the General Fund's balance of \$ 1,886,217 was unreserved.
- The City's total debt increased by \$ 743,632 (9.3%) during the current fiscal year. This was primarily the net result of payments of current maturities during the year and the timing of the \$ 1,505,000 obtained in a refunding issue in November 2009 that was not used until January 2010 to pay off the refunded debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2009

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).

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

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

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

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

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

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

The City maintains 56 individual governmental funds. Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund, Debt Service Funds (Downtown Redevelopment Tax Increment, Western Area Improvement and 2005 21st Avenue Improvements) and Capital Improvements Capital Project Fund, all of which are presented as major funds.

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Data from the other 51 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 adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

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

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

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

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

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

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

The Notes to the Financial Statements can be found on pages 29-57 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 62 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and Internal Service Funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 64-85 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a City's financial position. In the case of the City, assets exceeded liabilities by \$ 25,659,231 at the close of the most recent fiscal year.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2009

City of Princeton's Net Assets

	Governmental Activities	Business-Type Activities	Total 12/31/09	Total 12/31/08
Current and Other Assets	\$ 10,861,205	\$ 2,488,106	\$ 13,349,311	\$ 11,689,412
Capital Assets	10,117,093	11,749,042	21,866,135	22,123,828
Total Assets	\$ 20,978,298	\$ 14,237,148	\$ 35,215,446	\$ 33,813,240
Long-Term Liabilities				
Outstanding	\$ 3,242,189	\$ 3,372,509	\$ 6,614,698	\$ 7,270,644
Other Liabilities	2,465,800	475,717	2,941,517	1,542,095
Total Liabilities	\$ 5,707,989	\$ 3,848,226	9,556,215	8,812,739
Net Assets:				
Invested in Capital Assets, Net of Related Debt	\$ 7,922,750	\$ 8,185,065	\$ 14,725,158	\$ 15,732,369
Restricted	4,098,854	-	4,098,854	4,365,560
Unrestricted	3,248,705	2,203,857	6,835,219	4,902,572
Total Net Assets	\$ 15,270,309	\$ 10,388,922	\$ 25,659,231	\$ 25,000,501

By far, the largest portion (57.4%) of the City's net assets reflects its investment in capital assets (e.g., land, buildings, machinery and equipment) less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted the resources needed to repay this debt must be provided from other sources. Since the capital assets themselves are needed to provide services, they cannot be used to liquidate these liabilities.

An additional 16.0% of the City's net assets represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$ 6,835,219) may be used to meet the City's ongoing obligations to citizens and creditors.

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

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2009

City of Princeton's Change in Net Assets

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total 12/31/2009</u>	<u>Total 12/31/2008</u>
REVENUES:				
Program Revenues:				
Charges for Services	\$ 515,583	\$ 3,079,810	\$ 3,595,393	\$ 3,502,820
Operating Grants and Contributions	262,807	21,617	284,424	158,393
Capital Grants and Contributions	459,890	153	460,043	924,528
General Revenues:				
Property Taxes	2,022,597	-	2,022,597	1,978,574
Tax Increments	369,277	-	369,277	369,334
Intergovernmental	815,105	-	815,105	776,199
PUC Payment in Lieu of Taxes	52,500	-	52,500	52,500
Other Revenue	4,557	6,477	11,034	27,888
Investment Income	189,603	40,784	230,387	286,271
Total Revenues	<u>4,691,919</u>	<u>3,148,841</u>	<u>7,840,760</u>	<u>8,076,507</u>
EXPENSES:				
General Government	616,069	-	616,069	633,855
Public Safety	1,388,034	-	1,388,034	1,344,407
Cemetery	53,424	-	53,424	41,488
Public Works	945,885	-	945,885	998,071
Culture and Recreation	327,306	-	327,306	306,734
Economic Development	501,823	-	501,823	292,033
Interest on Long-Term Debt	160,566	-	160,566	178,160
Water	-	8,100	8,100	13,325
Sewer	-	657,065	657,065	655,081
Municipal Liquor	-	2,373,465	2,373,465	2,394,096
Airport	-	150,293	150,293	202,606
Total Expenses	<u>3,993,107</u>	<u>3,188,923</u>	<u>7,182,030</u>	<u>7,059,856</u>
Change in Net Assets before				
Transfers	698,812	(40,082)	658,730	1,016,651
Transfers	(19,500)	19,500	-	-
Change in Net Assets	679,312	(20,582)	658,730	1,016,651
Net Assets January 1	<u>14,590,997</u>	<u>10,409,504</u>	<u>25,000,501</u>	<u>23,983,850</u>
Net Assets December 31	<u>\$ 15,270,309</u>	<u>\$ 10,388,922</u>	<u>\$ 25,659,231</u>	<u>\$ 25,000,501</u>

There was an increase of \$ 658,730 in the City's net assets during the current fiscal year. Since the net assets of the business-type (enterprise) funds had a slight decrease due to losses in the airport and sanitary sewer funds, the increase was due to the governmental funds increase. An infusion of federal Department of Housing and Urban Development funds accounted for 33.8% of the increase. There was also an infusion of grant money for radiological emergency relocation preparedness that accounts for 7.3% of the increase. Interest revenue on investments and special assessment receivables accounted for over 34.9% of the increase in 2009. The remainder of this increase largely reflects fees and tax levy revenue increases and a reduction in spending, especially for long-term capital assets.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2009

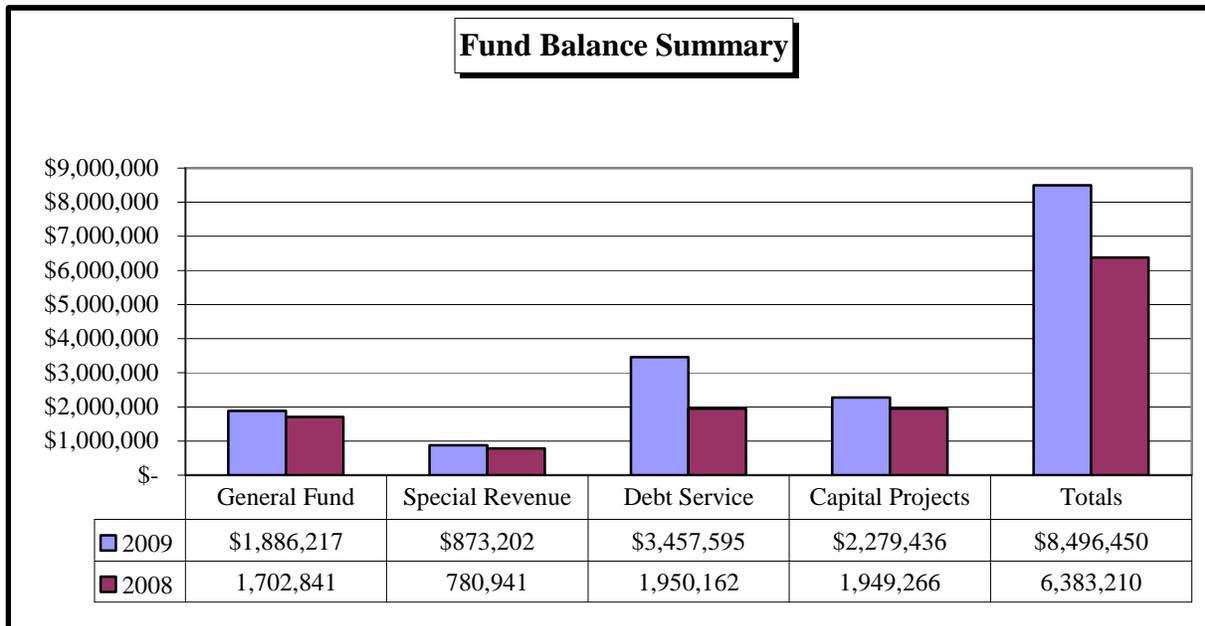
Governmental Activities. Governmental activities increased the City's net assets by \$ 679,312, thereby accounting for 103.1% of the total growth in the net assets of the City. This increase resulted from a combination of increased tax revenue, interest revenue, special assessment receipts, Department of Housing and Urban Development grant receipts for dealing with housing foreclosures and vacancies and grant money for radiological emergency preparedness.

Business-Type Activities. Business-type activities resulted in a net asset decrease of \$ 20,582, which reduced the City's total net asset increase by 3.1%, due primarily to losses from operations in the Airport and Sanitary Sewer funds.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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



As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$ 8,496,450, an increase of \$ 2,113,240 over the prior year. Approximately 24.1% of this total amount (\$ 2,043,604) constitutes fund balance that is available for spending at the City's discretion. The remainder of the total fund balance has been used to pay for prepaid items or land held for resale or is committed to capital projects or debt service.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota
MANAGEMENT'S DISCUSSION AND ANALYSIS
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The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the fund balance of the General Fund was \$ 1,886,217, which was 96.5% unreserved; however, 79.5% of the unreserved balance is designated for working capital (cash flow) purposes.

The General Fund balance increased by \$ 183,376 during the current fiscal year. This increase was \$ 163,312 more than the prior year's increase of \$ 20,064. Key factors in this growth and the difference between the two years' fund balance increases are as follows:

- Property tax revenues of the General Fund increased by \$ 53,685.
- There were also increases in intergovernmental revenue of \$ 56,547 due primarily to a smaller unallotment of Local Government Aid in 2009.
- Increase of \$ 25,842 in licenses and permits.
- There were revenue decreases in charges for services of \$ 12,079; \$ 1,689 in fines and forfeitures, \$ 8,880 of interest income due to interest rate declines.
- There was a \$ 258,126 decrease in expenditures. Increases of \$ 34,845 for public safety activities for personnel step and medical insurance increases, \$ 28,005 in parks and recreation primarily from park maintenance due to personnel expense increases and a \$ 2,332 increase in economic development. These increases however, were more than offset by decreases of \$ 7,074 in general government, \$ 60,925 for public works activities from a decrease in sealcoat program expense and general supplies and \$ 253,811 in capital outlay due to significantly less money budgeted for capital items.

Debt Service Funds had a total fund balance of \$ 3,457,595, all of which is committed for the payment of debt service. The net increase in fund balance during the current year in the Debt Service Funds was \$ 1,507,433. This increase is almost entirely due to the proceeds of a \$1,505,000 refunding bond issued in 2009 but not expended until January 2010.

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

Total net assets of the Liquor Fund at the end of the year amounted to \$ 3,254,098, the Sanitary Sewer Fund was \$ 5,549,168 and the Airport Fund was \$ 1,585,656. Unrestricted net assets, which are amounts available for operating expenditures and spending at the discretion of the City, at year-end for the Liquor Fund amounted to \$ 1,722,997, the Sanitary Sewer Fund was \$ 518,471 and the Airport unrestricted net assets was a negative \$ 37,611. The increase (decrease) in unrestricted net assets for each of these Funds was \$ 204,466, \$ (552,128) and \$ (17,472), respectively. The increases (decreases) in these Funds result predominantly from the revenue generating nature of these Funds. The use of funds for the sewer phosphorus reduction project and planning for the Wastewater Treatment Facility expansion caused a large shift in the Sanitary Sewer Fund from "unrestricted net assets" to "invested in capital assets".

GENERAL FUND BUDGETARY HIGHLIGHTS

The change from the original budget and the final amended budget was a significant \$ 275,880 decrease in appropriations (8.5%) included cuts of \$ 17,604 in general government activities, \$ 20,039 in public safety, \$ 23,271 in public works, \$ 228,445 in capital outlay with the only increased allocation for parks and recreation of \$ 16,006.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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GENERAL FUND BUDGETARY HIGHLIGHTS

This decrease in the appropriation budget allowed the budgeted transfers in to be decreased by \$ 228,445. The remainder of the appropriation decrease went to offset the decrease of \$ 66,195 in revenues. The revenue decrease was the result of the Governor's \$ 95,695 unallotment of Local Government Aid (LGA) in 2009.

The eventual difference between the final amended budget and the actual amount of the change in fund balance also was a significant \$ 156,581. This difference was due to property tax collections greater than budget of nearly \$ 64,000, total under budget variances in general government, public safety and public works of \$ 263,754 which was offset to a large degree by an increase in transfers out of \$ 157,015.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The City's investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities amounts to \$ 21,866,135 as of December 31, 2009 and \$ 22,123,828 as of December 31, 2008. 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 wastewater treatment facilities expansion for the Sanitary Sewer Fund with construction in progress at year-end of \$ 695,115. 2009 saw the completion of the phosphorus reduction improvement with final costs of \$ 1,953,113.
- Development of a revised Airport Layout Plan began in 2007 and continued through 2009 with a year-end construction in progress of \$ 48,087.
- A used 95 foot aerial fire truck was purchased and equipped for \$ 65,765.

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

	Governmental Activities	Business-type Activities	Total 12/31/09	Total 12/31/08
Land	\$ 1,341,160	\$ 1,025,295	\$ 2,366,455	\$ 2,265,701
Buildings	1,322,965	1,884,923	3,207,888	2,401,022
Improvements other than Buildings	483,764	7,177,337	7,661,101	7,170,653
Machinery and Equipment	1,424,563	888,736	2,313,299	1,929,568
Infrastructure	5,515,246	-	5,515,246	5,753,798
Construction in Progress	29,395	772,751	802,146	2,603,086
Total	<u>\$ 10,117,093</u>	<u>\$ 11,749,042</u>	<u>\$ 21,866,135</u>	<u>\$ 22,123,828</u>

Additional information on the City's capital assets can be found in Note 4 on pages 43-46 of this report.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
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Long-Term Debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$ 8,737,000. At year-end, the City had no debt backed by the full faith and credit of the City and \$ 5,082,000 is special assessment debt for which the City is liable in the event of default by the property owners subject to the assessment. The remainder of the City's debt, \$ 3,655,000, represents bonds secured by specified revenue sources (i.e. revenue bonds) for which the City is liable in the event the revenue sources are insufficient to pay the debt service.

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

	Governmental Activities	Business-type Activities	Total 12/31/09	Total 12/31/08
General Obligation Bonds	\$ -	\$ -	\$ -	\$ 160,000
Special Assessment Debt with Governmental Commitment	5,082,000	-	5,082,000	3,984,000
Revenue Bonds with Governmental Commitment	-	3,655,000	3,655,000	3,849,368
Total	<u>\$ 5,082,000</u>	<u>\$ 3,655,000</u>	<u>\$ 8,737,000</u>	<u>\$ 7,993,368</u>

The City's total indebtedness increased by \$ 803,632 (9.3%) during the year. This increase was due to the issue of \$3,545,000 of new refunding debt and the payment of the refunded and the scheduled principal maturity amounts of \$ 2,801,368.

The City has an "AA-" rating from Standard & Poor's for general obligation (G.O.) debt. The Public Utilities Commission maintains a Baa1 rating from Moody's.

Minnesota Statutes, Section 475.53 limits the amount of G.O. debt a governmental entity may issue to 3% of its total assessed valuation. The current debt limitation for the City is \$ 9,036,834. As of December 31, 2009, the City did not have any applicable outstanding G.O. debt.

Additional information on the City's long-term debt can be found in Note 8 on pages 49-54 of this report.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
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ECONOMIC FACTORS AND NEW YEAR'S BUDGETS AND RATES

- The City is situated in two counties, Mille Lacs and Sherburne. The 2009 unemployment rate for Mille Lacs was at 12.5% and the Sherburne rate was 8.8% at the end of the year. This was up from the 2008 rate of 12.0% for Mille Lacs County and 7.8% for Sherburne County. Compare this to the state's December 2009 unemployment rate of 7.4% and the national rate of 10.0%. The City has economic similarities to both Counties and the City utilizes this knowledge when setting its budget and tax levy.
- The inflationary trend in the region that includes the Minneapolis-St. Paul area was at an annual negative 0.05% compared to the national rate of 2.72% for the 2009 annual rate.
- During 2008, 2009 and projected for 2010, the City has received or is scheduled to receive LGA reductions of \$ 531,352. Although the City has the option of increasing the property taxes to offset this amount, tax levies were only increased \$ 80,100 for this purpose. The City Council considered the impact of increased taxes along with other economic factors including unemployment, foreclosure rates and investment income rates and decided to keep tax increases to a minimum.
- In addition to the amounts of the LGA cuts discussed above, is the timing of the reductions. In all three years, the amount of the reductions were not known until after the state deadline for setting the city budget and certifying the tax levy to the county. This makes the budgeting process extremely difficult. As an example, the amount of the 2010 reduction of \$ 321,607 was not known until May 2010.

These are some of the factors considered in preparing the City's budget for the 2010 fiscal year.

Other factors considered during the budget process are that sanitary sewer rates had been maintained at a constant level since 2001. This rate was changed in early 2009 to cover increasing costs and in anticipation of higher operating costs once the phosphorus project and the expansion project are completed. The sewer access charge was increased in 2007 to assist in the payment of system repairs and enhancements. A rate study for the sanitary sewer system will be done during 2010 to determine the rate requirements for the expansion project. This study will also review access charges to determine the best rate structure. A sewer trunk fee was initiated in 2005 to assure new development pays for the cost of extensions and new facilities. This trunk fee is scheduled for annual increases to keep in line with construction cost increases.

The City's new liquor store facility was opened in 2007. All costs incurred in the facility were funded from the Liquor Fund's unrestricted net assets. During 2009, the previous store was sold.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

STATEMENT OF NET ASSETS
December 31, 2009

	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS:				
Cash and Investments (Including Cash Equivalents)	\$ 7,958,682	\$ 1,435,361	\$ 9,394,043	\$ 2,178,968
Cash with Fiscal Agent	-	-	-	239,894
Property Tax Receivable	134,279	-	134,279	-
Accounts Receivable	17,764	13,719	31,483	700,283
Interest Receivable	38,656	1,855	40,511	-
Due from Other Governments	355,555	79,216	434,771	20,453
Internal Balances	(164,226)	164,226	-	-
Notes Receivable:				
Due Within One Year	4,406	-	4,406	-
Due After One Year	49,226	-	49,226	-
Special Assessments Receivable:				
Due Within One Year	276,559	4,700	281,259	-
Due After One Year	1,474,489	22,940	1,497,429	-
Inventories	-	473,651	473,651	461,583
Land Held for Resale	648,400	-	648,400	-
Contract for Deed	-	187,000	187,000	-
Prepaid Expenses	67,415	14,415	81,830	4,628
Unamortized Discount	-	91,023	91,023	-
Capital Assets not being Depreciated:				
Land	1,341,160	1,025,295	2,366,455	33,162
Construction in Progress	29,395	772,751	802,146	-
Capital Assets being Depreciated (Net of Accumulated Depreciation):				
Infrastructure	5,515,246	-	5,515,246	15,988,884
Buildings and Systems	1,322,965	1,884,923	3,207,888	1,289,388
Other Improvements	483,764	-	483,764	-
Machinery and Equipment	1,424,563	888,736	2,313,299	866,473
Sewer and Water Improvements	-	7,177,337	7,177,337	-
Restricted Assets:				
Reserve Fund	-	-	-	697,181
Debt Retirement	-	-	-	396,388
Improvements and Replacements	-	-	-	965,482
Total Assets	\$ 20,978,298	\$ 14,237,148	\$ 35,215,446	\$ 23,842,767
LIABILITIES AND NET ASSETS:				
Liabilities:				
Accounts Payable	\$ 94,648	\$ 81,573	\$ 176,221	\$ 381,942
Due to Other Governments	132,903	28,909	161,812	143,975
Unearned Revenue	54,369	-	54,369	12,760
Salaries and Benefits Payable	39,876	2,975	42,851	9,741
Interest Payable	67,004	45,515	112,519	82,305
Customer Meter Deposits	-	-	-	187,033
Severance Payable	-	-	-	103,707
Deferred Rate Stabilization	-	-	-	1,187,681
Bond Principal Payable:				
Payable Within One Year	1,937,000	315,000	2,252,000	801,000
Payable After One Year	3,145,000	3,340,000	6,485,000	13,590,834
Compensated Absences Payable:				
Payable Within One Year	140,000	1,745	141,745	-
Payable After One Year	79,786	29,455	109,241	-
Other Post Employment Benefits (OPEB) Payable:				
Payable After One Year	17,403	3,054	20,457	-
Total Liabilities	5,707,989	3,848,226	9,556,215	16,500,978
Net Assets:				
Investment in Capital Assets, Net of Related Debt	7,922,750	8,185,065	14,725,158	3,786,073
Restricted for:				
Debt Service	3,690,428	-	3,690,428	1,333,463
Tax Increment	408,426	-	408,426	-
Capital Asset Acquisition	-	-	-	965,482
Unrestricted	3,248,705	2,203,857	6,835,219	1,256,771
Total Net Assets	15,270,309	10,388,922	25,659,231	7,341,789
Total Liabilities and Net Assets	\$ 20,978,298	\$ 14,237,148	\$ 35,215,446	\$ 23,842,767

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, 2009

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Governmental Activities:								
General Government	\$ 616,069	\$ 109,964	\$ 100	\$ -	\$ (506,005)	\$ -	\$ (506,005)	\$ -
Public Safety	1,388,034	338,594	121,158	77,246	(851,036)	-	(851,036)	-
Cemetery	53,424	31,375	-	-	(22,049)	-	(22,049)	-
Public Works	945,885	7,340	104,199	159,575	(674,771)	-	(674,771)	-
Parks and Recreation	327,306	26,136	7,350	-	(468,337)	-	(468,337)	-
Economic Development	501,823	2,174	30,000	223,069	(72,063)	-	(72,063)	-
Interest on Long-Term Debt	160,566	-	-	-	(160,566)	-	(160,566)	-
Total Governmental Activities	3,993,107	515,583	262,807	459,890	(2,754,827)	-	(2,754,827)	-
Business-Type Activities:								
Water	8,100	8,100	-	-	-	-	-	140,344
Sewer	657,065	526,392	-	-	-	(130,673)	(130,673)	-
Municipal Liquor	2,373,465	2,517,766	-	-	-	144,301	144,301	-
Airport	150,293	27,552	21,617	153	-	(100,971)	(100,971)	-
Electric	-	-	-	-	-	-	-	134,864
Total Business-Type Activities	3,188,923	3,079,810	21,617	153	-	(87,343)	(87,343)	275,208
Total Governmental and Business-Type Activities	\$ 7,182,030	\$ 3,595,393	\$ 284,424	\$ 460,043	(2,754,827)	(87,343)	(2,842,170)	275,208
General Revenues:								
Property Taxes					2,022,597	-	2,022,597	-
Tax Increments					369,277	-	369,277	-
State Aids					815,105	-	815,105	-
PUC Payment in Lieu of Taxes					52,500	-	52,500	-
Investment Income					189,603	40,784	230,387	39,660
Miscellaneous					4,557	6,477	11,034	40,175
Gain on Sale of Asset					-	-	-	1,248
Transfers					(19,500)	19,500	-	-
Total General Revenues and Transfers					3,434,139	66,761	3,500,900	81,083
Change in Net Assets					679,312	(20,582)	658,730	356,291
Net Assets - Beginning					14,590,997	10,409,504	25,000,501	6,985,498
Net Assets - Ending					\$ 15,270,309	\$ 10,388,922	\$ 25,659,231	\$ 7,341,789

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

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2009

	Debt Service			
	General Fund (101)	Downtown Redevelopment Tax Increment (490)	Western Area Improvements (503)	2005 21st Avenue Improvements (506)
ASSETS:				
Cash and Investments	\$ 1,824,405	\$ 312,866	\$ 1,722,718	\$ 204,233
Taxes Receivable - Delinquent	81,622	29,654	4,620	4,578
Special Assessments Receivable:				
Delinquent	-	-	2,087	1,364
Deferred	-	-	558,527	552,349
Accounts Receivable	2,895	-	-	-
Interest Receivable	35,050	-	-	-
Due from Other Funds	79,014	-	-	-
Due from Other Governments	157,329	-	-	-
Notes Receivable	-	-	-	-
Land Held for Resale	-	-	-	-
Prepaid Expenses	66,630	-	-	-
	\$ 2,246,945	\$ 342,520	\$ 2,287,952	\$ 762,524
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts and Contracts Payable	\$ 61,960	\$ -	\$ 8,932	\$ -
Due to Other Funds	-	207,250	-	-
Due to Other Governments	19,459	97,887	15,453	-
Salaries Payable	39,318	-	-	-
Deferred Revenue	239,991	29,654	565,234	558,291
Total Liabilities	360,728	334,791	589,619	558,291
Fund Balances:				
Reserved for:				
Prepaid Expense	66,630	-	-	-
Land Held for Resale	-	-	-	-
Unreserved, Reported in:				
General Fund - Designated for Working Capital	1,446,300	-	-	-
General Fund - Undesignated	373,287	-	-	-
Special Revenue - Undesignated	-	-	-	-
Debt Service - Undesignated	-	7,729	1,698,333	204,233
Capital Projects - Undesignated	-	-	-	-
Total Fund Balances	1,886,217	7,729	1,698,333	204,233
	\$ 2,246,945	\$ 342,520	\$ 2,287,952	\$ 762,524
Total Liabilities and Fund Balances	\$ 2,246,945	\$ 342,520	\$ 2,287,952	\$ 762,524

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

Capital Projects

<u>Capital Improvements (351)</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 620,564	\$ 3,278,896	\$ 7,963,682
8,812	4,993	134,279
-	20,409	23,860
-	616,312	1,727,188
-	14,869	17,764
-	3,606	38,656
1,540,362	70,150	1,689,526
-	198,226	355,555
-	53,632	53,632
-	648,400	648,400
-	785	67,415
<u>\$ 2,169,738</u>	<u>\$ 4,910,278</u>	<u>\$ 12,719,957</u>
\$ -	\$ 23,756	\$ 94,648
-	1,646,502	1,853,752
104	5,000	137,903
-	558	39,876
8,812	695,346	2,097,328
<u>8,916</u>	<u>2,371,162</u>	<u>4,223,507</u>
-	785	67,415
-	648,400	648,400
-	-	1,446,300
-	-	373,287
-	224,017	224,017
-	1,547,300	3,457,595
2,160,822	118,614	2,279,436
<u>2,160,822</u>	<u>2,539,116</u>	<u>8,496,450</u>
<u>\$ 2,169,738</u>	<u>\$ 4,910,278</u>	<u>\$ 12,719,957</u>

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CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

**RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET ASSETS- GOVERNMENTAL FUNDS**
December 31, 2009

Total Fund Balances - Governmental Funds	\$ 8,496,450
 Amounts reported for governmental activities in the Statement of Net Assets are different because:	
 Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of Capital Assets	17,328,812
Less Accumulated Depreciation	(7,211,719)
 Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of:	
Bond Principal Payable	(5,082,000)
Compensated Absences Payable	(219,786)
OPEB Payable	(17,403)
 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	134,279
Delinquent Special Assessments	23,860
Deferred Special Assessments	1,727,188
 Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
Notes Receivable	53,632
Development Revenue Reserve	104,000
 Governmental funds do not report a liability for accrued interest due and payable.	 <u>(67,004)</u>
Total Net Assets - Governmental Activities	<u><u>\$ 15,270,309</u></u>

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, 2009

	General Fund (101)	Debt Service		
		Downtown Redevelopment Tax Increment (490)	Western Area Improvements (503)	2005 21st Avenue Improvements (506)
REVENUES:				
Property Taxes	\$ 1,599,829	\$ -	\$ 85,508	\$ 90,731
Tax Increments	-	204,143	-	-
Special Assessments	-	-	77,243	64,965
Licenses and Permits	119,570	-	-	-
Intergovernmental	885,083	-	559	5,368
Charges for Services	215,839	-	-	-
Fine and Forfeitures	43,340	-	-	-
Miscellaneous:				
Investment Income	36,934	6,626	10,656	2,786
Contributions and Donations	-	-	-	-
Other	117,767	2,994	-	-
Total Revenues	3,018,362	213,763	173,966	163,850
EXPENDITURES:				
Current:				
General Government	568,157	-	-	-
Public Safety	1,223,349	-	-	-
Cemetery	554	-	-	-
Public Works	540,055	-	-	-
Parks and Recreation	243,987	-	-	-
Economic Development	23,164	97,887	34,706	-
Debt Service:				
Principal	-	140,000	80,000	60,000
Interest and Other Charges	-	5,950	65,997	37,613
Capital Outlay:				
General Government	29,395	-	-	-
Public Safety	-	-	-	-
Public Works	5,488	-	-	-
Parks and Recreation	35,552	-	-	-
Economic Development	-	-	-	-
Total Expenditures	2,669,701	243,837	180,703	97,613
Excess of Revenues Over (Under) Expenditures	348,661	(30,074)	(6,737)	66,237
OTHER FINANCING SOURCES (USES):				
Proceeds from Sale of Capital Asset	-	-	-	-
Issuance on Long-Term Debt, Net	-	-	1,505,000	-
Payment in Lieu of Taxes - Component Unit	52,500	-	-	-
Transfers In	-	-	-	-
Transfers Out	(217,785)	-	-	-
Total Other Financing Sources (Uses)	(165,285)	-	1,505,000	-
Net Change in Fund Balances	183,376	(30,074)	1,498,263	66,237
FUND BALANCES:				
Beginning of Year	1,702,841	37,803	200,070	137,996
End of Year	\$ 1,886,217	\$ 7,729	\$ 1,698,333	\$ 204,233

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

Capital Projects

Capital Improvements (351)	Other Governmental Funds	Total Governmental Funds
\$ 166,577	\$ 70,448	\$ 2,013,093
-	165,134	369,277
-	211,219	353,427
-	-	119,570
9,819	300,079	1,200,908
-	58,725	274,564
-	-	43,340
58,117	74,484	189,603
-	100	100
-	148,323	269,084
<u>234,513</u>	<u>1,028,512</u>	<u>4,832,966</u>
-	-	568,157
105	35,659	1,259,113
-	51,021	51,575
-	21,099	561,154
-	17,924	261,911
-	166,920	322,677
-	287,000	567,000
-	54,143	163,703
-	-	29,395
-	65,765	65,765
-	90,374	95,862
-	3,233	38,785
-	277,919	277,919
<u>105</u>	<u>1,071,057</u>	<u>4,263,016</u>
234,408	(42,545)	569,950
5,290	-	5,290
-	-	1,505,000
-	-	52,500
-	402,095	402,095
(72,890)	(130,920)	(421,595)
<u>(67,600)</u>	<u>271,175</u>	<u>1,543,290</u>
166,808	228,630	2,113,240
<u>1,994,014</u>	<u>2,310,486</u>	<u>6,383,210</u>
<u>\$ 2,160,822</u>	<u>\$ 2,539,116</u>	<u>\$ 8,496,450</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, 2009**

Net Change in Fund Balances - Total Governmental Funds \$ 2,113,240

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	238,742
Depreciation Expense	(536,474)
Loss on Disposal	(19,122)

Compensated absences are recognized as paid in the governmental funds but
recognized as the expense is incurred in the Statement of Activities.

20,639

OPEB are recognized as paid in the governmental funds but recognized as
expensed in the Statement of Activities.

(17,403)

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

567,000

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

3,137

Proceeds from long-term debt are recognized as an other financing source in the
governmental funds but as a decrease in net assets in the Statement of Activities.

Bonds Payable	(1,505,000)
---------------	-------------

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.

(1,099)

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

Delinquent Property Taxes	9,504
Delinquent Special Assessments	8,222
Deferred Special Assessments	(202,074)

Change in Net Assets - Governmental Activities

\$ 679,312

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

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Property Taxes	\$ 1,529,330	\$ 1,535,830	\$ 1,599,829	\$ 63,999
Licenses and Permits	84,950	107,435	119,570	12,135
Intergovernmental	967,495	877,625	885,083	7,458
Charges for Services	227,240	214,475	215,839	1,364
Fines and Forfeitures	44,700	41,880	43,340	1,460
Miscellaneous Revenues:				
Investment Income	27,000	25,000	36,934	11,934
Other	98,955	111,230	117,767	6,537
Total Revenues	<u>2,979,670</u>	<u>2,913,475</u>	<u>3,018,362</u>	<u>104,887</u>
EXPENDITURES:				
Current:				
General Government	651,563	633,959	568,157	(65,802)
Public Safety	1,329,539	1,309,500	1,223,349	(86,151)
Cemetery	932	872	554	(318)
Public Works	675,127	651,856	540,055	(111,801)
Parks and Recreation	229,779	245,785	243,987	(1,798)
Economic Development	38,905	36,438	23,164	(13,274)
Capital Outlay:				
General Government	125,500	5,000	29,395	24,395
Public Safety	90,300	50,300	-	(50,300)
Public Works	64,000	5,500	5,488	(12)
Parks and Recreation	45,000	35,555	35,552	(3)
Total Expenditures	<u>3,250,645</u>	<u>2,974,765</u>	<u>2,669,701</u>	<u>(305,064)</u>
Excess of Revenues Over (Under) Expenditures	(270,975)	(61,290)	348,661	409,951
OTHER FINANCING SOURCES (USES):				
Payment in Lieu of Taxes - Component Unit	52,500	52,500	52,500	-
Transfers In	324,800	96,355	-	(96,355)
Transfers Out	(68,260)	(60,770)	(217,785)	(157,015)
Total Other Financing Sources (Uses)	<u>309,040</u>	<u>88,085</u>	<u>(165,285)</u>	<u>(253,370)</u>
Net Change in Fund Balances	<u>\$ 38,065</u>	<u>\$ 26,795</u>	183,376	<u>\$ 156,581</u>
FUND BALANCES:				
Beginning of Year			<u>1,702,841</u>	
End of Year			<u>\$ 1,886,217</u>	

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

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
December 31, 2009

	Airport (208)	Sanitary Sewer (702/704)	Municipal Liquor (703)	Total
ASSETS:				
Current Assets:				
Cash and Investments	\$ -	\$ 447,332	\$ 983,029	\$ 1,430,361
Special Assessment Receivable				
Deferred	-	27,640	-	27,640
Accounts Receivable	-	12,819	900	13,719
Accrued Interest	-	-	1,855	1,855
Due from Other Funds	-	-	210,075	210,075
Due from Other Governments	-	79,216	-	79,216
Inventories	8,500	-	465,151	473,651
Contract for Deed	-	-	187,000	187,000
Prepaid Expenses	1,325	6,430	6,660	14,415
Unamortized Discount	-	91,023	-	91,023
Total Current Assets	9,825	664,460	1,854,670	2,528,955
Noncurrent Assets:				
Capital Assets:				
Land	488,323	129,120	407,852	1,025,295
Buildings and System	76,766	947,087	999,651	2,023,504
Other Improvements	2,221,443	8,677,329	43,608	10,942,380
Machinery and Equipment	260,078	777,016	189,974	1,227,068
Construction in Progress	77,636	695,115	-	772,751
Total Capital Assets	3,124,246	11,225,667	1,641,085	15,990,998
Less Accumulated Depreciation	(1,500,979)	(2,630,993)	(109,984)	(4,241,956)
Net Capital Assets	1,623,267	8,594,674	1,531,101	11,749,042
Total Assets	\$ 1,633,092	\$ 9,259,134	\$ 3,385,771	\$ 14,277,997
LIABILITIES AND NET ASSETS:				
Current Liabilities:				
Accounts Payable	\$ 1,082	\$ 7,964	\$ 72,527	\$ 81,573
Salaries Payable	284	508	2,183	2,975
Interest Payable	-	45,515	-	45,515
Due to Other Funds	45,849	-	-	45,849
Due to Other Governmental Units	-	-	23,909	23,909
Compensated Absences Payable	-	-	1,745	1,745
Current Portion of Revenue Bonds	-	315,000	-	315,000
Total Current Liabilities	47,215	368,987	100,364	516,566
Noncurrent Liabilities:				
Compensated Absences Payable	-	-	29,455	29,455
OPEB Payable	221	979	1,854	3,054
Bonds Payable	-	3,340,000	-	3,340,000
Total Noncurrent Liabilities	221	3,340,979	31,309	3,372,509
Total Liabilities	47,436	3,709,966	131,673	3,889,075
Net Assets:				
Invested in Capital Assets, Net of Related Debt	1,623,267	5,030,697	1,531,101	8,185,065
Unrestricted	(37,611)	518,471	1,722,997	2,203,857
Total Net Assets	1,585,656	5,549,168	3,254,098	10,388,922
Total Liabilities and Net Assets	\$ 1,633,092	\$ 9,259,134	\$ 3,385,771	\$ 14,277,997

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

CITY OF PRINCETON
Millie Lacs County and Sherburne County, Minnesota

STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS
For the Year Ended December 31, 2009

	Airport (208)	Sanitary Sewer (702/704)	Municipal Liquor (703)	Total
SALES AND COST OF SALES:				
Sales	\$ 17,725	\$ -	\$ 2,516,766	\$ 2,534,491
Cost of Sales	15,093	-	1,944,467	1,959,560
Gross Profit	<u>2,632</u>	<u>-</u>	<u>572,299</u>	<u>574,931</u>
OPERATING REVENUES:				
Charges for Services	<u>9,827</u>	<u>526,392</u>	<u>1,000</u>	<u>537,219</u>
Total Gross Profit and Operating Revenues	<u>12,459</u>	<u>526,392</u>	<u>573,299</u>	<u>1,112,150</u>
OPERATING EXPENSES:				
Wages and Salaries	20,241	97,742	250,754	368,737
Materials and Supplies	21,127	197,691	101,237	320,055
Professional Services	-	-	27,725	27,725
Depreciation	93,832	231,527	44,095	369,454
Total Operating Expenses	<u>135,200</u>	<u>526,960</u>	<u>423,811</u>	<u>1,085,971</u>
Operating Income (Loss)	(122,741)	(568)	149,488	26,179
NONOPERATING REVENUES (EXPENSES):				
Interest Income	-	15,771	25,013	40,784
Intergovernmental Revenues	21,770	-	-	21,770
Loss on Sale of Asset	-	(340)	(5,187)	(5,527)
Interest Expense and Charges	-	(129,765)	-	(129,765)
Other Income	100	5,661	716	6,477
Total Nonoperating Revenue (Expenses)	<u>21,870</u>	<u>(108,673)</u>	<u>20,542</u>	<u>(66,261)</u>
Income (Loss) before Capital Contributions and Transfers	(100,871)	(109,241)	170,030	(40,082)
Transfers In	23,710	-	-	23,710
Transfers Out	<u>-</u>	<u>-</u>	<u>(4,210)</u>	<u>(4,210)</u>
Change in Net Assets	(77,161)	(109,241)	165,820	(20,582)
NET ASSETS:				
Beginning of Year	<u>1,662,817</u>	<u>5,658,409</u>	<u>3,088,278</u>	<u>10,409,504</u>
End of Year	<u>\$ 1,585,656</u>	<u>\$ 5,549,168</u>	<u>\$ 3,254,098</u>	<u>\$ 10,388,922</u>

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

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended December 31, 2009

	<u>Airport (208)</u>	<u>Sanitary Sewer (702/704)</u>	<u>Municipal Liquor (703)</u>	<u>Total</u>
CASH FLOWS - OPERATING ACTIVITIES:				
Receipts from Customers and Users	\$ 83,190	\$ 500,373	\$ 2,517,766	\$ 3,101,329
Payments to Suppliers	(36,318)	(284,659)	(2,050,212)	(2,371,189)
Payments to Employees	(19,820)	(96,716)	(240,462)	(356,998)
Net Cash Flows - Operating Activities	<u>27,052</u>	<u>118,998</u>	<u>227,092</u>	<u>373,142</u>
CASH FLOWS - NONCAPITAL FINANCING ACTIVITIES:				
Transfer from Other Funds	23,710	-	-	23,710
Transfer to Other Funds	-	-	(4,210)	(4,210)
Reduction of Due to Other Funds	(38,489)	-	-	(38,489)
Reduction of Due from Other Funds	-	-	28,162	28,162
Other Income	100	5,661	716	6,477
Intergovernmental Revenues	21,770	-	-	21,770
Net Cash Flows - Noncapital Financing Activities	<u>7,091</u>	<u>5,661</u>	<u>24,668</u>	<u>37,420</u>
CASH FLOWS - CAPITAL AND RELATED FINANCING ACTIVITIES:				
Principal Paid on Debt	-	(2,234,368)	-	(2,234,368)
Interest Paid on Debt	-	(180,588)	-	(180,588)
Bond Proceeds	-	2,040,000	-	2,040,000
Proceeds from Disposal of Capital Assets	-	3,761	-	3,761
Proceeds from Disposal of Land Held for Resale	-	-	2,225	2,225
Acquisition of Capital Assets	(34,143)	(393,124)	(5,449)	(432,716)
Net Cash Flows - Capital and Related Financing Activities	<u>(34,143)</u>	<u>(764,319)</u>	<u>(3,224)</u>	<u>(801,686)</u>
CASH FLOWS - INVESTING ACTIVITIES:				
Interest and Dividends Received	-	15,771	27,033	42,804
Net Change in Cash and Cash Equivalents	-	(623,889)	275,569	(348,320)
CASH AND CASH EQUIVALENTS:				
January 1	-	1,071,221	707,460	1,778,681
December 31	<u>\$ -</u>	<u>\$ 447,332</u>	<u>\$ 983,029</u>	<u>\$ 1,430,361</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS - OPERATING ACTIVITIES:				
Operating Income (Loss)	\$ (122,741)	\$ (568)	\$ 149,488	\$ 26,179
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows - Operating Activities:				
Depreciation Expense	93,832	231,527	44,095	369,454
Accounts Receivable	-	4,001	-	4,001
Special Assessments Receivable	-	(27,640)	-	(27,640)
Due from Other Governments	57,150	(2,380)	-	54,770
Prepaid Items	(45)	(1,260)	2,600	1,295
Inventory	-	-	(25,275)	(25,275)
Accounts Payable	(53)	(85,667)	43,240	(42,480)
Due to Other Governmental Units	-	(41)	2,652	2,611
Salaries Payable	200	47	273	520
Unearned Income	(1,512)	-	-	(1,512)
Compensated Absences Payable	-	-	8,165	8,165
OPEB Payable	221	979	1,854	3,054
Total Adjustments	<u>149,793</u>	<u>119,566</u>	<u>77,604</u>	<u>346,963</u>
Net Cash Flows - Operating Activities	<u>\$ 27,052</u>	<u>\$ 118,998</u>	<u>\$ 227,092</u>	<u>\$ 373,142</u>

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

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

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

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

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

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

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

1. Blended Component Unit

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

CITY OF PRINCETON
Millie Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity (Continued)

2. Discretely Presented Component Unit

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

3. Related Organization

Princeton Firefighters' Relief Association

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

4. Joint Ventures and Jointly Governed Organizations

Dalbo-Princeton-Wyanett Fire Districts

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

B. Government-Wide and Fund Financial Statements

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

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

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

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

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

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Description of Funds:

Major Governmental Funds:

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

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

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

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

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

Proprietary Funds:

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

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

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of GASB.

Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

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

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

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

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

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

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Deposits and Investments (Continued)

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

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

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State statutes limit investments to those listed in Section 118A, the statute limits investments to those in the top two ratings issued by nationally recognized statistical rating organizations. The City's investment policy further restricts investments to instruments which are direct obligations of the federal government, with the principal fully guaranteed by the U.S. Treasury, certificates of deposit, general obligations of the State of Minnesota and its municipalities, state-wide investment pool and money market mutual funds.

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

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

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2. Receivables and Payables

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

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

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

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

3. Prepaid Items

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

4. Capital Assets

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

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

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

4. Capital Assets (Continued)

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

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

5. Compensated Absences

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

City employees in a supervisory position accumulate 40 hours of severance pay for each year of service. The accumulated time vests after 3 years of service.

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

Employees are granted vacation based on years of service. The City compensates employees who resign, retire or are terminated for all their unused vacation days. The liability for accumulated vacation and sick pay at December 31, 2009 is recorded in the financial statements.

6. Long-Term Obligations

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

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

6. Long-Term Obligations (Continued)

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

7. Fund Equity

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

8. Net Assets

Net assets represent the difference between assets and liabilities in the government-wide financial statements. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. A reclassification of \$ 1,382,657 was made between this net asset class and unrestricted net assets in the total column in the Statement of Net Assets to recognize the portion of debt attributable to capital assets donated from governmental activities to business-type activities. Net assets are reported as restricted in the government-wide financial statement when there are limitations on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

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

9. Use of Estimates

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

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

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

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

B. Deficit Fund Balance

The following Funds had deficit balances at December 31, 2009:

Nonmajor Funds:

Special Revenue:

Development Grants	\$ 70,535
Development Expenses	94,378
Stormwater Management	94,680

Debt Service:

1999 Street and Utilities Improvements	48,721
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Capital Projects:

2002/2003 First Street Improvements	135,816
2003 Utility Improvements	80,293
Heritage Village	283,025
21st Avenue Improvements - North Portion	98,163
2nd Street and 10th Avenue Street and Utility Improvements	41,863
Arcadian Homes Utility Project	26,486
2000 Street and Utility Improvements	70,145

C. Excess of Expenditures over Appropriations

The following funds expenditures exceeded appropriations during the year:

Fund	Appropriations	Disbursements	Excess
Nonmajor Funds:			
Special Revenue:			
Property Confiscation	\$ 1,285	\$ 3,106	\$ 1,821
Economic Development Authority	130,855	192,888	62,033
Park Improvements	5,630	8,863	3,233

CITY OF PRINCETON
Millie Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits

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

Custodial Credit Risk – Deposits: As of December 31, 2009, 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	\$ 1,594,513
Savings	2,779,387
Nonnegotiable Certificates of Deposit	<u>1,335,104</u>
Total Deposits	<u><u>\$ 5,709,004</u></u>

B. Investments

As of December 31, 2009, the City had the following investments:

Type	Investment	Fair Value	Investment Maturities				Percentage of Total	Credit Rating
			Less Than One Year	1 - 5 Years	6 - 10 Years	Greater Than 10 Years		
MM	Money Market Mutual Funds	\$ 284,798	\$284,798	\$ -	\$ -	\$ -	7.7%	NR
GB	FNMA	642,052	-	-	541,035	101,017	17.4%	AAA
GB	FHLB	41,626	-	41,626	-	-	1.1%	AAA
GB	FHLMC	280,810	-	-	226,772	54,038	7.6%	AAA
GB	FFCB	73,875	-	-	73,875	-	2.0%	AAA
SEC	Mortgage Securities	72,182	-	-	-	72,182	2.0%	AA3
CD	Brokered Certificates of Deposit	2,286,879	464,102	1,822,777	-	-	62.1%	NR
Total		<u>\$ 3,682,222</u>	<u>\$748,900</u>	<u>\$ 1,864,403</u>	<u>\$ 841,682</u>	<u>\$ 227,237</u>	100.0%	

Credit Risk: As of December 31, 2009, the City’s investments were rated in the table above.

Concentration of Credit Risk: The City was exposed to concentration of credit risk at December 31, 2009 as investments in FNMA (17.4%) and FHLMC (7.6%) exceeded 5% of the City’s total investment portfolio.

The City’s investment policy states that under no circumstances should any investment extend beyond fifteen years. At December 31, 2009, the City held investments that were in non-compliance with this policy.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 3 – DEPOSITS AND INVESTMENTS

C. Deposits and Investments – Component Unit

In accordance with applicable *Minnesota Statutes*, the component unit maintains deposits at depository banks authorized by the Commission.

Custodial Credit Risk – Deposits: As of December 31, 2009, the component unit’s bank balance was not exposed to custodial credit risk because it was fully insured through the FDIC as well as collateral pledged. The component unit’s deposits had a book balance at December 31, 2009 of \$ 3,535,636.

As of December 31, 2009, the component unit had the following investments:

<u>Type</u>	<u>Investment</u>	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Percentage of Total</u>
	Cash Held in Escrow	\$ 239,894	NR	25.5%
GB	Grand Rapids MN GO Taxable	212,729	A3	22.6%
GB	Grimes IA GO Taxable Build America	232,982	A3	24.8%
GB	Wyoming MN GO Taxable Build America	<u>254,537</u>	A3	27.1%
Total		<u>\$ 940,142</u>		

Credit Risk: As of December 31, 2009, the component unit’s investments were rated in the table above.

Concentration of Credit Risk: The component unit was exposed to concentration of credit risk at December 31, 2009 as all individual investments above exceeded 5% of the component units total investment portfolio.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 3 – DEPOSITS AND INVESTMENTS

D. Deposits and Investments

The following is a summary of total deposits and investments:

Deposits (Note 3.A.)	\$ 5,709,004
Investments (Note 3.B.)	3,682,222
Petty Cash	<u>2,817</u>
Total Deposits and Investments - City	<u>9,394,043</u>
Deposits - Component Unit (Note 3.C.)	3,535,636
Investments - Component Unit (Note 3.C.)	940,142
Petty Cash	<u>2,135</u>
Total Deposits and Investments - Component Unit	<u>4,477,913</u>
Total Deposits and Investments	<u>\$ 13,871,956</u>

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

Statement of Net Assets:	
Cash and Investments, Including	
Component Units	\$ 11,573,011
Cash Held in Escrow	239,894
Restricted Assets	<u>2,059,051</u>
Total	<u>\$ 13,871,956</u>

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 4 – CAPITAL ASSETS

A. Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ 1,241,851	\$ 99,309	\$ -	\$ 1,341,160
Construction in Progress	-	29,395	-	29,395
Total Capital Assets not being Depreciated	<u>1,241,851</u>	<u>128,704</u>	<u>-</u>	<u>1,370,555</u>
Capital Assets being Depreciated:				
Buildings and Systems	2,194,207	22,444	-	2,216,651
Other Improvements	1,456,151	3,233	-	1,459,384
Machinery and Equipment	3,179,706	84,361	57,203	3,206,864
Infrastructure	9,075,358	-	-	9,075,358
Total Capital Assets being Depreciated	<u>15,905,422</u>	<u>110,038</u>	<u>57,203</u>	<u>15,958,257</u>
Less Accumulated Depreciation for:				
Buildings and Systems	846,232	47,454	-	893,686
Other Improvements	926,106	49,514	-	975,620
Machinery and Equipment	1,619,428	200,954	38,081	1,782,301
Infrastructure	3,321,560	238,552	-	3,560,112
Total Accumulated Depreciation	<u>6,713,326</u>	<u>536,474</u>	<u>38,081</u>	<u>7,211,719</u>
Total Capital Assets being Depreciated, Net	<u>9,192,096</u>	<u>(426,436)</u>	<u>19,122</u>	<u>8,746,538</u>
Governmental Activities Capital Assets, Net	<u>\$ 10,433,947</u>	<u>\$ (297,732)</u>	<u>\$ 19,122</u>	<u>\$ 10,117,093</u>

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

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	\$ 1,023,850	\$ 1,445	\$ -	\$ 1,025,295
Construction in Progress	<u>2,603,086</u>	<u>122,778</u>	<u>1,953,113</u>	<u>772,751</u>
Total Capital Assets not being Depreciated	<u>3,626,936</u>	<u>124,223</u>	<u>1,953,113</u>	<u>1,798,046</u>
Capital Assets being Depreciated:				
Buildings and Systems	1,147,391	876,113	-	2,023,504
Other Improvements	10,145,215	797,165	-	10,942,380
Machinery and Equipment	<u>730,072</u>	<u>588,328</u>	<u>91,332</u>	<u>1,227,068</u>
Total Capital Assets being Depreciated	<u>12,022,678</u>	<u>2,261,606</u>	<u>91,332</u>	<u>14,192,952</u>
Less Accumulated Depreciation for:				
Buildings and Systems	94,344	44,237	-	138,581
Other Improvements	3,504,607	260,436	-	3,765,043
Machinery and Equipment	<u>360,782</u>	<u>64,781</u>	<u>87,231</u>	<u>338,332</u>
Total Accumulated Depreciation	<u>3,959,733</u>	<u>369,454</u>	<u>87,231</u>	<u>4,241,956</u>
 Total Capital Assets being Depreciated, Net	 <u>8,062,945</u>	 <u>1,892,152</u>	 <u>4,101</u>	 <u>9,950,996</u>
 Business-Type Activities Capital Assets, Net	 <u>\$11,689,881</u>	 <u>\$ 2,016,375</u>	 <u>\$ 1,957,214</u>	 <u>\$ 11,749,042</u>

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

Governmental Activities:	
General Government	\$ 50,973
Public Safety	102,111
Cemetery	1,454
Public Works	318,164
Parks and Recreation	<u>63,772</u>
 Total Depreciation Expense - Governmental Activities	 <u>\$ 536,474</u>

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 4 – CAPITAL ASSETS

A. Primary Government (Continued)

Business-Type Activities:

Airport	\$ 93,832
Sanitary Sewer	231,527
Municipal Liquor	<u>44,095</u>

Total Depreciation Expense -
 Business-Type Activities

\$ 369,454

B. Component Unit

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets not being Depreciated:				
Land	\$ 33,162	\$ -	\$ -	\$ 33,162
Capital Assets being Depreciated:				
Buildings and Systems	1,840,215	886	-	1,841,101
Infrastructure	22,983,051	300,581	1,265	23,282,367
Machinery and Equipment	2,451,425	55,039	25,010	2,481,454
Total Capital Assets being Depreciated	<u>27,274,691</u>	<u>356,506</u>	<u>26,275</u>	<u>27,604,922</u>
Less Accumulated Depreciation for:				
Buildings and Systems	489,328	62,385	-	551,713
Infrastructure	6,595,589	697,894	-	7,293,483
Machinery and Equipment	1,499,346	140,134	24,499	1,614,981
Total Accumulated Depreciation	<u>8,584,263</u>	<u>900,413</u>	<u>24,499</u>	<u>9,460,177</u>
Total Capital Assets being Depreciated, Net	<u>18,690,428</u>	<u>(543,907)</u>	<u>1,776</u>	<u>18,144,745</u>
Business-Type Activities Capital Assets, Net	<u><u>\$ 18,723,590</u></u>	<u><u>\$ (543,907)</u></u>	<u><u>\$ 1,776</u></u>	<u><u>\$ 18,177,907</u></u>

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 4 – CAPITAL ASSETS

B. Component Unit (Continued)

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

Business-Type Activities:	
Electric	\$ 567,096
Water	<u>333,317</u>
Total Depreciation Expense - Business-Type Activities	<u><u>\$ 900,413</u></u>

NOTE 5 – NOTES/LOANS RECEIVABLE

Notes receivable issued in connection with Urban Development Action Grants (UDAG) at December 31, 2009 consisted of the following:

Bellamy:	
Annual payments of \$ 786, including interest at 3%, through September 2024	\$ 10,378
Cartwright:	
Annual payments of \$ 395, including interest at 3%, through September 2024	4,714
Annual payments of \$ 758, including interest at 3%, through September 2024	9,052
Annual payments of \$ 469, including interest at 3%, through September 2024	5,594
Vurchota:	
Annual payments of \$ 275, including interest at 3%, through September 2024	3,293
Beattie:	
Annual payments of \$ 310, including interest at 3%, through September 2024	3,713
Annual payments of \$ 886, including interest at 3%, through September 2024	10,597

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 5 – NOTES/LOANS RECEIVABLE

Anderson:

Annual payments of \$ 262, including interest at 3%, through September 2024	\$ 3,138
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Annual payments of \$ 264, including interest at 3%, through September 2024	3,153
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Total UDAG	<u>\$ 53,632</u>
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The principal balance for the notes above and on the previous page was financed by UDAG issued to the City.

NOTE 6 – RESTRICTED ASSETS – COMPONENT UNIT

A. Improvements and Replacements

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

BALANCE - December 31, 2008	\$ 666,572
Transfers	298,910
Uses	-
BALANCE - December 31, 2009	\$ 965,482

B. Reserve Fund

The 2006 and 2005 Revenue Bonds required a reserve account in the amount of \$ 937,075. The amount of \$ 151,475 is required to be reserved in the Water Fund and \$ 785,600 in the Electric Fund, of which \$ 239,894 is being held in escrow.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 6 – RESTRICTED ASSETS – COMPONENT UNIT

C. Debt Retirement

The 2008, 2004, 2003, 2002 and 1999 Water Revenue Bond indentures require the Water Fund to set aside bimonthly, at least one-sixth of the total principal and interest payable during the ensuing 12 months. The total set aside as of December 31, 2009 was \$ 121,540.

The 2006, 2004, 2003 and 2002 Electric Revenue Bond indentures require the Electric Fund to set aside an amount equal to not less than one-sixth of the interest due within the next 6 months and monthly, to set aside an amount equal to not less than one-twelfth of the principal due within the next 12 months. The total set aside at December 31, 2009 was \$ 274,848.

D. Restricted Cash Held in Escrow

Restricted cash held in escrow as of December 31, 2009 consisted of \$ 239,894 of cash proceeds from the Electric Revenue Note, Series 2006A.

NOTE 7 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2009 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Other Governmental Funds	\$ 79,014
Capital Improvements	Other Governmental Funds	1,497,338
Capital Improvements	Airport	43,024
Other Governmental Funds	Other Governmental Funds	70,150
Municipal Liquor	Airport	2,825
Municipal Liquor	Downtown Redevelopment Tax Increment	207,250
		<u>207,250</u>
Total		<u>\$ 1,899,601</u>

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 7 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

B. Interfund Transfers

The composition of interfund transfers as of December 31, 2009 was as follows:

	Transfer In		Total
	Other Governmental Funds	Airport Fund	
Transfer Out:			
General	\$ 195,785	\$ 22,000	\$ 217,785
Capital Improvements	72,890	-	72,890
Other Governmental Funds	130,920	-	130,920
Municipal Liquor	2,500	1,710	4,210
Total	\$ 402,095	\$ 23,710	\$ 425,805

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

NOTE 8 – LONG-TERM DEBT

A. General Obligation Bonds

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

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

On April 16, 2009, the City issued \$ 2,040,000 G.O. Sanitary Sewer Revenue Refunding Bonds, Series 2009A, to refund the 1995 Public Facilities Authority Sewer Revenue Notes, resulting in a cash flow savings over the life of the Bonds of \$ 79,318 and an economic gain of \$ 82,599.

On November 3, 2009, the City issued \$ 1,505,000 G.O. Improvement Refunding Bonds, Series 2009B, to refund the G.O. Improvement Bonds of 2004 on February 1, 2010. The refunding will result in a cash flow savings over the life of the Bonds of \$ 77,550 and an economic gain of \$ 78,203.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 8 – LONG-TERM DEBT

A. General Obligation Bonds (Continued)

On January 13, 2009, the City accepted a United States Department of Agriculture (USDA) Rural Development loan and grant in the amounts of \$ 15,118,000 and \$ 857,000, respectively, for the construction of the Wastewater Treatment Plant. As of December 31, 2009, the City has approximately \$ 695,115 in construction in progress in the Sewer Fund relating to the construction of the Plant; however, none of the costs have been requested for reimbursement from the USDA.

B. Components of Long-Term Liabilities

Primary Government

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>	<u>Due Within One Year</u>
Long-Term Liabilities:						
Governmental Activities:						
G.O. Bonds, Including						
Special Assessment Bonds:						
G.O. Improvement 1999	09/01/99	4.50%-5.20%	\$ 820,000	02/01/10	\$ 100,000	\$ 100,000
G.O. Improvement Refunding 2000B	11/01/00	4.80%-5.25%	535,000	02/01/13	215,000	50,000
G.O. Improvement 2002	11/01/02	2.10%-4.45%	510,000	02/01/13	230,000	55,000
G.O. Improvement 2004	01/01/04	2.75%-4.25%	1,875,000	02/01/20	1,615,000	1,615,000
G.O. Improvement 2004A	09/01/04	2.25%-3.80%	400,000	02/01/15	255,000	40,000
G.O. Improvement 2005A	09/20/05	3.00%-4.20%	1,100,000	02/01/21	940,000	65,000
G.O. Improvement 2007A	08/23/07	4.00%-4.25%	234,000	02/01/23	222,000	12,000
G.O. Improvement Refunding 2009B	11/01/09	2.00%-3.50%	1,505,000	02/01/20	1,505,000	-
Compensated Absences					219,786	140,000
OPEB Payable					17,403	-
Total Governmental Activities					5,319,189	2,077,000
Business-Type Activities:						
G.O. Revenue Bonds:						
G.O. Sewer Revenue	09/01/07	3.75%-4.35%	1,755,000	02/21/28	1,755,000	60,000
G.O. Sewer Revenue Refunding 2009A	04/01/09	0.85%-2.70%	2,040,000	08/01/16	1,900,000	255,000
Compensated Absences					31,200	1,745
OPEB Payable					3,054	-
Total Business-Type Activities					3,689,254	316,745
Total all Long-Term Liabilities					<u>\$ 9,008,443</u>	<u>\$ 2,393,745</u>

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 8 – LONG-TERM DEBT

B. Components of Long-Term Liabilities (Continued)

Component Unit

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-Term Liabilities:						
Business-Type Activities:						
G.O. Revenue Bonds:						
MNPFA G.O. Revenue Note	06/10/04	2.53%	\$ 847,422	08/20/23	\$ 678,000	\$ 41,000
Public Utility System Revenue Bonds, Series 2004	02/01/04	3.00%-4.55%	670,000	04/01/24	610,000	30,000
Public Utility System Refunding Revenue	09/01/03	1.25%-4.70%	710,000	07/01/18	325,000	30,000
MNPFA G.O. Revenue Bond	09/08/99	3.29%	670,000	08/20/19	402,000	35,000
Public Utility System Revenue Bonds, Series 2002	04/01/02	2.40%-5.40%	280,000	04/01/22	210,000	10,000
Electric Revenue Note, Series 2006A	04/02/06	4.05%	3,065,000	12/01/25	2,675,000	110,000
Public Utility System Revenue Bonds, Series 2004	02/01/04	1.25%-4.70%	2,795,000	04/01/24	2,320,000	115,000
Public Utility System Refunding Revenue	09/01/03	1.25%-4.70%	1,560,000	07/01/18	980,000	110,000
Public Utility System Revenue Bonds, Series 2002	04/01/02	2.40%-5.40%	2,365,000	04/01/22	1,760,000	100,000
G.O. Water Revenue Bond Series 2008A	03/04/08	2.20%-4.05%	4,880,000	12/01/27	4,565,000	220,000
Bond Discount and Issuance Costs					<u>(133,166)</u>	<u>-</u>
Total all Long-Term Liabilities					<u>\$ 14,391,834</u>	<u>\$ 801,000</u>

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

Annual debt service requirements to maturity for all bonded debt outstanding as of December 31, 2009 are listed on the following page.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 8 -- LONG-TERM DEBT

B. Components of Long-Term Liabilities (Continued)

Primary Government

Year Ending December 31,	Governmental Activities		Business-Type Activities		Total
	G.O. Special Assessment Bonds		G.O. Revenue Bonds		
	Principal	Interest	Principal	Interest	
2010	\$ 1,937,000	\$ 136,045	\$ 315,000	\$ 107,516	\$ 2,495,561
2011	342,000	101,556	325,000	102,336	870,892
2012	378,000	89,482	330,000	96,307	893,789
2013	388,000	76,427	340,000	89,123	893,550
2014	279,000	65,566	350,000	80,795	775,361
2015-2019	1,320,000	199,727	990,000	278,643	2,788,370
2020-2024	438,000	17,759	510,000	163,481	1,129,240
2025-2028	-	-	495,000	44,450	539,450
Total	\$ 5,082,000	\$ 686,562	\$ 3,655,000	\$ 962,651	\$ 10,386,213

Component Unit

Year Ending December 31,	Business-Type Activities	
	G.O. Revenue Bonds	
	Principal	Interest
2010	\$ 801,000	\$ 578,170
2011	833,000	549,473
2012	845,000	518,444
2013	912,000	485,588
2014	929,000	450,432
2015-2019	4,841,000	1,685,200
2020-2024	4,659,000	667,621
2025-2028	705,000	44,346
Total	\$ 14,525,000	\$ 4,979,274

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 8 – LONG-TERM DEBT

C. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2009 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds Payable:					
G.O. Special Assessment Bonds	\$ 3,984,000	\$ 1,505,000	\$ 407,000	\$ 5,082,000	\$ 1,937,000
G.O. Improvement Bonds	160,000	-	160,000	-	-
Total Bonds Payable	<u>4,144,000</u>	<u>1,505,000</u>	<u>567,000</u>	<u>5,082,000</u>	<u>1,937,000</u>
Compensated Absences	240,425	135,766	156,405	219,786	140,000
OPEB Payable	-	24,412	7,009	17,403	-
Total Governmental Activities	<u>4,384,425</u>	<u>1,665,178</u>	<u>730,414</u>	<u>5,319,189</u>	<u>2,077,000</u>
Business-Type Activities:					
Bonds Payable:					
G.O. PFA Sewer Revenue Bonds	2,094,368	-	2,094,368	-	-
G.O. Sewer Revenue Bonds	1,755,000	2,040,000	140,000	3,655,000	315,000
Total Bonds Payable	<u>3,849,368</u>	<u>2,040,000</u>	<u>2,234,368</u>	<u>3,655,000</u>	<u>315,000</u>
Compensated Absences	23,035	13,212	5,047	31,200	1,745
OPEB Payable	-	4,284	1,230	3,054	-
Total Business-Type Activities	<u>3,872,403</u>	<u>2,057,496</u>	<u>2,240,645</u>	<u>3,689,254</u>	<u>316,745</u>
Total Long-Term Liabilities	<u>\$ 8,256,828</u>	<u>\$ 3,722,674</u>	<u>\$ 2,971,059</u>	<u>\$ 9,008,443</u>	<u>\$ 2,393,745</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	\$ 7,097,831	\$ -	\$ 353,248	\$ 6,744,583	\$ 366,000
Electric Fund:					
Revenue Bonds	<u>8,055,389</u>	<u>-</u>	<u>408,138</u>	<u>7,647,251</u>	<u>435,000</u>
Total Long-Term Liabilities	<u>\$ 15,153,220</u>	<u>\$ -</u>	<u>\$ 761,386</u>	<u>\$ 14,391,834</u>	<u>\$ 801,000</u>

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

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, 2009, there were several issues outstanding that were refunded during the year. The bonds are not reported as liabilities in the accompanying financial statements. The outstanding balance at December 31, 2009 was not determinable.

NOTE 9 – RESERVED FUND BALANCES/NET ASSETS

Reserved/Designated Fund Equity

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

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Reserved for:			
Prepays	\$ 66,630	\$ 785	\$ 67,415
Land Held for Resale	-	648,400	648,400
Designated for:			
Working Capital	<u>1,446,300</u>	<u>-</u>	<u>1,446,300</u>
Total	<u>\$ 1,512,930</u>	<u>\$ 649,185</u>	<u>\$ 2,162,115</u>

CITY OF PRINCETON
Millie Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 10 – RISK MANAGEMENT

The City purchases commercial insurance coverage through the League of Minnesota Cities Insurance Trust (LMCIT) with other cities in the state which is a public entity risk pool currently operating as a common risk management and insurance program. The City pays an annual premium to the LMCIT for its insurance coverage. The LMCIT is self-sustaining through commercial companies for excess claims. The City is covered through the pool for any claims incurred but unreported, however, 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 2009 is estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2009, there were no other claims liabilities reported in the Fund based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

NOTE 11 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association

A. Plan Description

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

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

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 11 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

A. Plan Description (Continued)

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

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

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

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

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

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 11 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These Statutes are established and amended by the State Legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.0%, respectively, of their annual covered salary in 2009. PEPFF members were required to contribute 9.4% of their annual covered salary in 2009. The City is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 6.75% for Coordinated Plan PERF members and 14.1% for PEPFF members. The City's contributions to the PERF for the years ending December 31, 2009, 2008 and 2007 were \$ 54,725, \$ 57,363 and \$ 51,397, respectively. The City's contributions to PEPFF for the years ending December 31, 2009, 2008 and 2007 were \$ 77,026, \$ 66,310 and \$ 53,623, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 12 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The City provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical coverage and dental coverage. Medical coverage is administered by BlueCross BlueShield and dental coverage is administered by Delta Dental. It is the City's policy to periodically review its medical coverage and to obtain requests for proposals in order to provide the most favorable benefits and premiums for City employees and retirees.

B. Funding Policy

Retirees and their spouses contribute to the health care plan at the same rate as City employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the City, based on the contract terms with BlueCross BlueShield and Delta Dental. The required contributions are based on projected pay-as-you-go financing requirements. For fiscal year 2009, the City contributed \$ 8,238 to the plan. As of December 31, 2009, there was one retiree receiving health and dental benefits from the City.

CITY OF PRINCETON
Millie Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 12 – POST EMPLOYMENT HEALTH CARE PLAN

C. Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the City, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB cost of the year, the amount actually contributed to the plan and changes in the City's net OPEB obligation to the plan.

ARC	\$ 28,695
Interest on Net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB Cost (Expense)	28,695
Contributions Made	(8,238)
Increase in Net OPEB Obligation	20,457
Net OPEB Obligation - Beginning of Year	-
Net OPEB Obligation - End of Year	\$ 20,457

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2009 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2009	\$ 28,695	\$ 8,238	29%	\$ 20,457

D. Funded Status and Funding Progress

As of December 31, 2009, the most recent actuarial valuation date, the City had no assets deposited to fund the plan. The actuarial accrued liability for benefits was \$ 224,329 and the actuarial value of assets was \$ 0, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 224,329. The covered payroll (annual payroll of active employees covered by the plan) was \$ 1,613,894 and the ratio of the UAAL to the covered payroll was 13.9%.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE 12 – POST EMPLOYMENT HEALTH CARE PLAN

D. Funded Status and Funding Progress (Continued)

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The Schedule of Funding Progress – Other Post Employment Benefits, presented as required supplementary information following the Notes to the Financial Statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the Substantive Plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

On December 31, 2009, the actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.0 % discount rate, which is based on the investment yield expected to finance benefits depending on whether the plan is funded in a separate trust (about 7% to 8.5%, long-term, similar to a pension plan) or unfunded (3.5% to 5%, shorter-term, based on City’s general assets). The City currently does not plan to prefund for this benefit. At the actuarial valuation date, the annual health care cost trend rate was calculated to be 10 % initially, reduced incrementally to an ultimate rate of 5% after 10 years. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at December 31, 2009 was 30 years.

NOTE 13 – COMMITMENTS

The City has entered into the following construction contract.

Project	Contract	Expended Through 12/31/09	Commitment
Crack Patching - Airport Main Runway	\$ 364,617	\$ -	\$ 364,617

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

SCHEDULE OF FUNDING PROGRESS -- OTHER POST EMPLOYMENT BENEFITS
December 31, 2009

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Estimated Covered Payroll	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/09	\$ -	\$ 224,329	\$ 224,329	0%	\$ 1,613,894	13.9%

This Schedule was implemented in 2009 and, therefore, contains only one year of data.

See Note 12 in the Notes to the Financial Statements for more details on this Schedule.

SUPPLEMENTARY INFORMATION

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2009

Special Revenue

	Insurance Deductible Reserve (202)	Cemetery Operation and Maintenance (205)	Property Confiscation (210)	Public Safety and Awareness (211)
ASSETS:				
Cash and Investments	\$ 58,455	\$ 3,574	\$ 125,103	\$ 190
Taxes Receivable - Delinquent	-	-	-	-
Special Assessment Receivable:				
Delinquent	-	-	-	-
Deferred	-	-	-	-
Accounts Receivable	-	3,000	-	-
Interest Receivable	-	-	-	-
Due from Other Funds	-	-	-	-
Due from Other Governments	-	-	-	-
Notes Receivable	-	-	-	-
Land Held for Resale	-	-	-	-
Prepaid Expenses	-	785	-	-
	<u>\$ 58,455</u>	<u>\$ 7,359</u>	<u>\$ 125,103</u>	<u>\$ 190</u>
Total Assets				
	<u>\$ 58,455</u>	<u>\$ 7,359</u>	<u>\$ 125,103</u>	<u>\$ 190</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts and Contracts Payable	\$ -	\$ 500	\$ -	\$ -
Due to Other Funds	-	-	-	-
Due to Other Governments	-	-	-	-
Salaries Payable	-	88	-	-
Deferred Revenue	-	-	-	-
Total Liabilities	<u>-</u>	<u>588</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Reserved for:				
Prepaid Expense	-	785	-	-
Land Held for Resale	-	-	-	-
Unreserved, Reported in:				
Special Revenue - Undesignated	58,455	5,986	125,103	190
Debt Service - Undesignated	-	-	-	-
Capital Projects - Undesignated	-	-	-	-
Total Fund Balances	<u>58,455</u>	<u>6,771</u>	<u>125,103</u>	<u>190</u>
Total Liabilities and Fund Balances	<u>\$ 58,455</u>	<u>\$ 7,359</u>	<u>\$ 125,103</u>	<u>\$ 190</u>

Special Revenue

Investigation Information Buy Fund (212)	Felony Investigation (214)	Solheim Field Improvements (216)	Civic Center (240)	Community Beautification (242)	Community Projects (250)
\$ 1,311	\$ 10,642	\$ 6,054	\$ 361	\$ 9,028	\$ 3,217
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 1,311</u>	<u>\$ 10,642</u>	<u>\$ 6,054</u>	<u>\$ 361</u>	<u>\$ 9,028</u>	<u>\$ 3,217</u>
\$ -	\$ -	\$ 20	\$ 274	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>20</u>	<u>274</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-
-	-	-	-	-	-
1,311	10,642	6,034	87	9,028	3,217
-	-	-	-	-	-
<u>1,311</u>	<u>10,642</u>	<u>6,034</u>	<u>87</u>	<u>9,028</u>	<u>3,217</u>
<u>\$ 1,311</u>	<u>\$ 10,642</u>	<u>\$ 6,054</u>	<u>\$ 361</u>	<u>\$ 9,028</u>	<u>\$ 3,217</u>

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2009

	Special Revenue			
	Development Grants (252)	Development Expenses (253)	Fire Equipment Reserve (260)	Disaster Relocation (262)
ASSETS:				
Cash and Investments	\$ -	\$ -	\$ 201,705	\$ 72,799
Taxes Receivable - Delinquent	-	-	-	-
Special Assessment Receivable:				
Delinquent	-	-	-	-
Deferred	-	-	-	-
Accounts Receivable	-	2,409	8,900	-
Interest Receivable	-	-	505	-
Due from Other Funds	-	-	-	-
Due from Other Governments	-	-	-	12,227
Notes Receivable	-	-	-	-
Land Held for Resale	-	-	-	-
Prepaid Expenses	-	-	-	-
	\$ -	\$ 2,409	\$ 211,110	\$ 85,026
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts and Contracts Payable	\$ -	\$ 9,429	\$ -	\$ 5,734
Due to Other Funds	70,535	87,358	-	-
Due to Other Governments	-	-	-	-
Salaries Payable	-	-	-	150
Deferred Revenue	-	-	-	-
Total Liabilities	70,535	96,787	-	5,884
Fund Balances:				
Reserved for:				
Prepaid Expense	-	-	-	-
Land Held for Resale	-	-	-	-
Unreserved, Reported in:				
Special Revenue - Undesignated	(70,535)	(94,378)	211,110	79,142
Debt Service - Undesignated	-	-	-	-
Capital Projects - Undesignated	-	-	-	-
Total Fund Balances	(70,535)	(94,378)	211,110	79,142
	\$ -	\$ 2,409	\$ 211,110	\$ 85,026
Total Liabilities and Fund Balances	\$ -	\$ 2,409	\$ 211,110	\$ 85,026

Special Revenue

<u>Economic Development Authority (600)</u>	<u>Stormwater Management (601)</u>	<u>Neighborhood Stabilization Program (602)</u>	<u>Water Availability (701)</u>	<u>Park Improvements (802)</u>	<u>Cemetery Perpetual Care (803)</u>
\$ -	\$ -	\$ -	\$ 5,000	\$ 60,066	\$ 143,978
898	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	1,135
-	-	81,800	-	-	-
512,400	-	136,000	-	-	-
-	-	-	-	-	-
<u>\$ 513,298</u>	<u>\$ -</u>	<u>\$ 217,800</u>	<u>\$ 5,000</u>	<u>\$ 60,066</u>	<u>\$ 145,113</u>
\$ 210	\$ 2,999	\$ 487	\$ -	\$ 3,233	\$ -
352,050	91,681	77,027	-	-	-
-	-	-	5,000	-	-
320	-	-	-	-	-
898	-	-	-	-	-
<u>353,478</u>	<u>94,680</u>	<u>77,514</u>	<u>5,000</u>	<u>3,233</u>	<u>-</u>
512,400	-	136,000	-	-	-
(352,580)	(94,680)	4,286	-	56,833	145,113
-	-	-	-	-	-
-	-	-	-	-	-
<u>159,820</u>	<u>(94,680)</u>	<u>140,286</u>	<u>-</u>	<u>56,833</u>	<u>145,113</u>
<u>\$ 513,298</u>	<u>\$ -</u>	<u>\$ 217,800</u>	<u>\$ 5,000</u>	<u>\$ 60,066</u>	<u>\$ 145,113</u>

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2009

	Special Revenue			Debt Service
	UDAG No. 2 Downtown Project (814)	UDAG No. 5 Crystal Cabinets (820)	Total	1994 Library Project (494)
ASSETS:				
Cash and Investments	\$ 24,238	\$ 93,449	\$ 819,170	\$ 2,511
Taxes Receivable - Delinquent	-	-	898	187
Special Assessment Receivable:				
Delinquent	-	-	-	-
Deferred	-	-	-	-
Accounts Receivable	-	-	14,309	-
Interest Receivable	1,966	-	3,606	-
Due from Other Funds	-	-	-	-
Due from Other Governments	-	-	94,027	-
Notes Receivable	53,632	-	53,632	-
Land Held for Resale	-	-	648,400	-
Prepaid Expenses	-	-	785	-
	\$ 79,836	\$ 93,449	\$ 1,634,827	\$ 2,698
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts and Contracts Payable	\$ -	\$ -	\$ 22,886	\$ -
Due to Other Funds	-	-	678,651	-
Due to Other Governments	-	-	5,000	-
Salaries Payable	-	-	558	-
Deferred Revenue	53,632	-	54,530	187
Total Liabilities	53,632	-	761,625	187
Fund Balances:				
Reserved for:				
Prepaid Expense	-	-	785	-
Land Held for Resale	-	-	648,400	-
Unreserved, Reported in:				
Special Revenue - Undesignated	26,204	93,449	224,017	-
Debt Service - Undesignated	-	-	-	2,511
Capital Projects - Undesignated	-	-	-	-
Total Fund Balances	26,204	93,449	873,202	2,511
	\$ 79,836	\$ 93,449	\$ 1,634,827	\$ 2,698
Total Liabilities and Fund Balances	\$ 79,836	\$ 93,449	\$ 1,634,827	\$ 2,698

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2009

Debt Service

	1992 Street and Utilities (592)	1993 Street and Utilities (593)	1999 Street and Utilities Improvements (599)	Total
ASSETS:				
Cash and Investments	\$ 327,827	\$ 38,250	\$ -	\$ 1,526,302
Taxes Receivable - Delinquent	624	-	579	3,372
Special Assessment Receivable:				
Delinquent	(1,022)	-	(79)	20,409
Deferred	154,660	15,070	-	579,156
Accounts Receivable	-	-	-	-
Interest Receivable	-	-	-	-
Due from Other Funds	-	-	-	70,150
Due from Other Governments	-	-	-	-
Notes Receivable	-	-	-	-
Land Held for Resale	-	-	-	-
Prepaid Expenses	-	-	-	-
Total Assets	\$ 482,089	\$ 53,320	\$ 500	\$ 2,199,389
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts and Contracts Payable	\$ 431	\$ -	\$ -	\$ 431
Due to Other Funds	-	-	48,721	48,721
Due to Other Governments	-	-	-	-
Salaries Payable	-	-	-	-
Deferred Revenue	154,262	15,070	500	602,937
Total Liabilities	154,693	15,070	49,221	652,089
Fund Balances:				
Reserved for:				
Prepaid Expense	-	-	-	-
Land Held for Resale	-	-	-	-
Unreserved, Reported in:				
Special Revenue - Undesignated	-	-	-	-
Debt Service - Undesignated	327,396	38,250	(48,721)	1,547,300
Capital Projects - Undesignated	-	-	-	-
Total Fund Balances	327,396	38,250	(48,721)	1,547,300
Total Liabilities and Fund Balances	\$ 482,089	\$ 53,320	\$ 500	\$ 2,199,389

Capital Projects

2002/2003 First Street Improvements (301)	2003 Utility Improvement (303)	2nd Street Street and Utilities Improvements (304)	Heritage Village (305)	21st Avenue Improvements South Portion (306)	21st Avenue Improvements North Portion (307)	10th Avenue Street and Utility Improvements (308)
\$ -	\$ -	\$ 24,163	\$ -	\$ 268,099	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	104,199
-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,163</u>	<u>\$ -</u>	<u>\$ 268,099</u>	<u>\$ -</u>	<u>\$ 104,199</u>
\$ 135,816	\$ 80,293	\$ -	\$ 283,025	\$ -	\$ 98,163	\$ 146,062
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>135,816</u>	<u>80,293</u>	<u>-</u>	<u>283,025</u>	<u>-</u>	<u>98,163</u>	<u>146,062</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>(135,816)</u>	<u>(80,293)</u>	<u>24,163</u>	<u>(283,025)</u>	<u>268,099</u>	<u>(98,163)</u>	<u>(41,863)</u>
<u>(135,816)</u>	<u>(80,293)</u>	<u>24,163</u>	<u>(283,025)</u>	<u>268,099</u>	<u>(98,163)</u>	<u>(41,863)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,163</u>	<u>\$ -</u>	<u>\$ 268,099</u>	<u>\$ -</u>	<u>\$ 104,199</u>

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2009

Capital Projects

	Arcadian Homes Utility Project (328)	2000 Street and Utility Improvements (330)	Rum River Redevelopment District (389)	Railroad Property Redevelopment (390)
ASSETS:				
Cash and Investments	\$ -	\$ 5	\$ 20,404	\$ 424,640
Taxes Receivable - Delinquent	-	-	-	-
Special Assessment Receivable:				
Delinquent	-	-	-	-
Deferred	37,156	-	-	-
Accounts Receivable	560	-	-	-
Interest Receivable	-	-	-	-
Due from Other Funds	-	-	-	-
Due from Other Governments	-	-	-	-
Notes Receivable	-	-	-	-
Land Held for Resale	-	-	-	-
Prepaid Expenses	-	-	-	-
Total Assets	\$ 37,716	\$ 5	\$ 20,404	\$ 424,640
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts and Contracts Payable	\$ 439	\$ -	\$ -	\$ -
Due to Other Funds	26,607	70,150	-	79,014
Due to Other Governments	-	-	-	-
Salaries Payable	-	-	-	-
Deferred Revenue	37,156	-	-	-
Total Liabilities	64,202	70,150	-	79,014
Fund Balances:				
Reserved for:				
Prepaid Expense	-	-	-	-
Land Held for Resale	-	-	-	-
Unreserved, Reported in:				
Special Revenue - Undesignated	-	-	-	-
Debt Service - Undesignated	-	-	-	-
Capital Projects - Undesignated	(26,486)	(70,145)	20,404	345,626
Total Fund Balances	(26,486)	(70,145)	20,404	345,626
Total Liabilities and Fund Balances	\$ 37,716	\$ 5	\$ 20,404	\$ 424,640

Capital Projects

District No. 3-5 Redevelopment District (391)	District No. 3-6 Redevelopment District (392)	1997 Housing District (397)	Armory Redevelopment District (398)	Industrial Park Development (821)	Total	Total Governmental Funds
\$ 9,463 723	\$ 27,171	\$ 3,160	\$ 2,602	\$ 153,717	\$ 933,424 723	\$ 3,278,896 4,993
-	-	-	-	-	-	20,409
-	-	-	-	-	37,156	616,312
-	-	-	-	-	560	14,869
-	-	-	-	-	-	3,606
-	-	-	-	-	-	70,150
-	-	-	-	-	104,199	198,226
-	-	-	-	-	-	53,632
-	-	-	-	-	-	648,400
-	-	-	-	-	-	785
<u>\$ 10,186</u>	<u>\$ 27,171</u>	<u>\$ 3,160</u>	<u>\$ 2,602</u>	<u>\$ 153,717</u>	<u>\$ 1,076,062</u>	<u>\$ 4,910,278</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 439	\$ 23,756
-	-	-	-	-	919,130	1,646,502
-	-	-	-	-	-	5,000
-	-	-	-	-	-	558
723	-	-	-	-	37,879	695,346
<u>723</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>957,448</u>	<u>2,371,162</u>
-	-	-	-	-	-	785
-	-	-	-	-	-	648,400
-	-	-	-	-	-	224,017
-	-	-	-	-	-	1,547,300
9,463	27,171	3,160	2,602	153,717	118,614	118,614
<u>9,463</u>	<u>27,171</u>	<u>3,160</u>	<u>2,602</u>	<u>153,717</u>	<u>118,614</u>	<u>2,539,116</u>
<u>\$ 10,186</u>	<u>\$ 27,171</u>	<u>\$ 3,160</u>	<u>\$ 2,602</u>	<u>\$ 153,717</u>	<u>\$ 1,076,062</u>	<u>\$ 4,910,278</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, 2009

	Special Revenue				
	Insurance Deductible Reserve (202)	Cemetery Operation and Maintenance (205)	Property Confiscation (210)	Public Safety and Awareness (211)	Investigation Information Buy Fund (212)
REVENUES:					
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Tax Increments	-	-	-	-	-
Special Assessments	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for Services	-	27,270	3,355	-	-
Miscellaneous:					
Investment Income	1,198	-	3,483	33	-
Contributions and Donations	-	-	100	-	-
Other	-	-	-	-	-
Total Revenues	<u>1,198</u>	<u>27,270</u>	<u>6,938</u>	<u>33</u>	<u>-</u>
EXPENDITURES:					
Current:					
Public Safety	-	-	3,106	60	-
Cemetery	-	51,021	-	-	-
Public Works	10,000	-	-	-	-
Parks and Recreation	-	-	-	-	-
Economic Development	-	-	-	-	-
Debt Service:					
Principal	-	-	-	-	-
Interest and Other Charges	-	-	-	-	-
Capital Outlay:					
Public Safety	-	-	-	-	-
Public Works	-	-	-	-	-
Parks and Recreation	-	-	-	-	-
Economic Development	-	-	-	-	-
Total Expenditures	<u>10,000</u>	<u>51,021</u>	<u>3,106</u>	<u>60</u>	<u>-</u>
Excess of Revenues Over (Under) Expenditures	(8,802)	(23,751)	3,832	(27)	-
OTHER FINANCING SOURCES (USES):					
Transfers In	21,000	23,753	-	-	2,418
Transfers Out	-	-	-	(1,000)	-
Total Other Financing Sources (Uses)	<u>21,000</u>	<u>23,753</u>	<u>-</u>	<u>(1,000)</u>	<u>2,418</u>
Net Change in Fund Balances	12,198	2	3,832	(1,027)	2,418
FUND BALANCES:					
Beginning of Year	46,257	6,769	121,271	1,217	(1,107)
End of Year	<u>\$ 58,455</u>	<u>\$ 6,771</u>	<u>\$ 125,103</u>	<u>\$ 190</u>	<u>\$ 1,311</u>

Special Revenue

Felony Investigation (214)	Solheim Field Improvements (216)	Civic Center (240)	Community Beautification (242)	Community Projects (250)	Development Grants (252)	Development Expenses (253)	Fire Equipment Reserve (260)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	2,880
-	-	1,000	-	-	-	-	14,895
395	129	-	192	-	-	-	5,282
-	-	-	-	-	-	-	-
-	1,000	-	600	5,655	-	-	36,769
<u>395</u>	<u>1,129</u>	<u>1,000</u>	<u>792</u>	<u>5,655</u>	<u>-</u>	<u>-</u>	<u>59,826</u>
800	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	1,599	3,774	1,742	5,179	-	-	-
-	-	-	-	-	-	15,659	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	1,107
-	-	-	-	-	-	-	65,765
-	-	-	-	-	-	-	-
<u>800</u>	<u>1,599</u>	<u>3,774</u>	<u>1,742</u>	<u>5,179</u>	<u>-</u>	<u>15,659</u>	<u>66,872</u>
(405)	(470)	(2,774)	(950)	476	-	(15,659)	(7,046)
-	1,600	2,800	2,500	1,582	-	-	42,280
<u>(3,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(3,000)</u>	<u>1,600</u>	<u>2,800</u>	<u>2,500</u>	<u>1,582</u>	<u>-</u>	<u>-</u>	<u>42,280</u>
(3,405)	1,130	26	1,550	2,058	-	(15,659)	35,234
<u>14,047</u>	<u>4,904</u>	<u>61</u>	<u>7,478</u>	<u>1,159</u>	<u>(70,535)</u>	<u>(78,719)</u>	<u>175,876</u>
<u>\$ 10,642</u>	<u>\$ 6,034</u>	<u>\$ 87</u>	<u>\$ 9,028</u>	<u>\$ 3,217</u>	<u>\$ (70,535)</u>	<u>\$ (94,378)</u>	<u>\$ 211,110</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, 2009

	Special Revenue				
	Disaster Relocation (262)	Economic Development Authority (600)	Stormwater Management (601)	Neighborhood Stabilization Program (602)	Water Availability (701)
REVENUES:					
Property Taxes	\$ -	\$ 16,972	\$ -	\$ -	\$ -
Tax Increments	-	-	-	-	-
Special Assessments	-	-	-	-	-
Intergovernmental	47,977	1,000	-	223,069	-
Charges for Services	-	-	-	-	8,100
Miscellaneous:					
Investment Income	-	-	-	-	-
Contributions and Donations	-	-	-	-	-
Other	-	-	-	-	-
Total Revenues	<u>47,977</u>	<u>17,972</u>	<u>-</u>	<u>223,069</u>	<u>8,100</u>
EXPENDITURES:					
Current:					
Public Safety	31,693	-	-	-	-
Cemetery	-	-	-	-	-
Public Works	-	-	2,999	-	8,100
Parks and Recreation	-	-	-	-	-
Economic Development	-	124,873	-	26,388	-
Debt Service:					
Principal	-	-	-	-	-
Interest and Other Charges	-	-	-	-	-
Capital Outlay:					
Public Safety	-	-	-	-	-
Public Works	-	-	-	-	-
Parks and Recreation	-	-	-	-	-
Economic Development	-	68,015	-	56,395	-
Total Expenditures	<u>31,693</u>	<u>192,888</u>	<u>2,999</u>	<u>82,783</u>	<u>8,100</u>
Excess of Revenues Over (Under) Expenditures	16,284	(174,916)	(2,999)	140,286	-
OTHER FINANCING SOURCES (USES):					
Transfers In	-	73,015	-	-	-
Transfers Out	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>73,015</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	16,284	(101,901)	(2,999)	140,286	-
FUND BALANCES:					
Beginning of Year	<u>62,858</u>	<u>261,721</u>	<u>(91,681)</u>	<u>-</u>	<u>-</u>
End of Year	<u>\$ 79,142</u>	<u>\$ 159,820</u>	<u>\$ (94,680)</u>	<u>\$ 140,286</u>	<u>\$ -</u>

Special Revenue					Debt Service		
Park Improvements (802)	Cemetery Perpetual Care (803)	UDAG No. 2 Downtown Project (814)	UDAG No. 5 Crystal Cabinets (820)	Total	1994 Library Project (494)	1999 Industrial Park Improvements (500)	2002/2003 1st Street Improvements (502)
\$ -	\$ -	\$ -	\$ -	\$ 16,972	\$ 337	\$ 9,557	\$ 9,586
-	-	-	-	-	-	-	-
-	-	-	-	-	-	42,539	41,143
-	-	1,099	-	276,025	-	559	866
-	4,105	-	-	58,725	-	-	-
1,753	3,918	2,258	2,582	21,223	63	8,162	6,310
-	-	-	-	100	-	-	-
100	-	-	-	44,124	-	-	-
<u>1,853</u>	<u>8,023</u>	<u>3,357</u>	<u>2,582</u>	<u>417,169</u>	<u>400</u>	<u>60,817</u>	<u>57,905</u>
-	-	-	-	35,659	-	-	-
-	-	-	-	51,021	-	-	-
-	-	-	-	21,099	-	-	-
5,630	-	-	-	17,924	-	-	-
-	-	-	-	166,920	-	-	-
-	-	-	-	-	20,000	63,333	50,000
-	-	-	-	1,107	525	5,401	10,790
-	-	-	-	65,765	-	-	-
3,233	-	-	-	3,233	-	-	-
-	-	-	-	124,410	-	-	-
<u>8,863</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>487,138</u>	<u>20,525</u>	<u>68,734</u>	<u>60,790</u>
(7,010)	8,023	3,357	2,582	(69,969)	(20,125)	(7,917)	(2,885)
-	-	-	-	170,948	-	-	-
(800)	(3,918)	-	-	(8,718)	-	-	-
<u>(800)</u>	<u>(3,918)</u>	<u>-</u>	<u>-</u>	<u>162,230</u>	<u>-</u>	<u>-</u>	<u>-</u>
(7,810)	4,105	3,357	2,582	92,261	(20,125)	(7,917)	(2,885)
64,643	141,008	22,847	90,867	780,941	22,636	339,436	268,551
<u>\$ 56,833</u>	<u>\$ 145,113</u>	<u>\$ 26,204</u>	<u>\$ 93,449</u>	<u>\$ 873,202</u>	<u>\$ 2,511</u>	<u>\$ 331,519</u>	<u>\$ 265,666</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, 2009**

	Debt Service				
	2nd and 7th Improvements (504)	2007 PUC Area Improvements (507)	2000 Street and Utilities Improvements (530)	Revolving Account Fund (552)	1990 Assessment Refunding (590)
REVENUES:					
Property Taxes	\$ 14,696	\$ 2,296	\$ -	\$ -	\$ -
Tax Increments	-	-	-	-	-
Special Assessments	38,172	13,279	3,233	-	-
Intergovernmental	5,033	140	-	-	-
Charges for Services	-	-	-	-	-
Miscellaneous:					
Investment Income	3,558	3,704	1,158	5,725	-
Contributions and Donations	-	-	-	-	-
Other	-	-	-	-	-
Total Revenues	<u>61,459</u>	<u>19,419</u>	<u>4,391</u>	<u>5,725</u>	<u>-</u>
EXPENDITURES:					
Current:					
Public Safety	-	-	-	-	-
Cemetery	-	-	-	-	-
Public Works	-	-	-	-	-
Parks and Recreation	-	-	-	-	-
Economic Development	-	-	-	-	-
Debt Service:					
Principal	40,000	12,000	-	-	-
Interest and Other Charges	10,198	9,545	-	-	-
Capital Outlay:					
Public Safety	-	-	-	-	-
Public Works	-	-	-	-	-
Parks and Recreation	-	-	-	-	-
Economic Development	-	-	-	-	-
Total Expenditures	<u>50,198</u>	<u>21,545</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues Over (Under) Expenditures	11,261	(2,126)	4,391	5,725	-
OTHER FINANCING SOURCES (USES):					
Transfers In	-	-	-	-	61,118
Transfers Out	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>61,118</u>
Net Change in Fund Balances	11,261	(2,126)	4,391	5,725	61,118
FUND BALANCES:					
Beginning of Year	<u>155,816</u>	<u>144,221</u>	<u>39,812</u>	<u>271,579</u>	<u>(61,118)</u>
End of Year	<u>\$ 167,077</u>	<u>\$ 142,095</u>	<u>\$ 44,203</u>	<u>\$ 277,304</u>	<u>\$ -</u>

Debt Service					Capital Projects		
1992 Street and Utilities (592)	1993 Street and Utilities (593)	1997 LaGrande Improvements (597)	1999 Street and Utilities Improvements (599)	Total	2002/2003 First Street Improvements (301)	2003 Utility Improvement (303)	2nd Street Street and Utilities Improvements (304)
\$ 11,803	\$ -	\$ 422	\$ 4,779	\$ 53,476	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
66,127	3,999	809	1,918	211,219	-	-	-
696	-	-	280	7,574	-	-	-
-	-	-	-	-	-	-	-
7,753	973	3,368	-	40,774	-	-	668
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>86,379</u>	<u>4,972</u>	<u>4,599</u>	<u>6,977</u>	<u>313,043</u>	<u>-</u>	<u>-</u>	<u>668</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
50,000	20,000	-	31,667	287,000	-	-	-
13,351	525	-	2,701	53,036	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>63,351</u>	<u>20,525</u>	<u>-</u>	<u>34,368</u>	<u>340,036</u>	<u>-</u>	<u>-</u>	<u>-</u>
23,028	(15,553)	4,599	(27,391)	(26,993)	-	-	668
-	-	-	61,084	122,202	-	-	-
-	-	(122,202)	-	(122,202)	-	-	-
-	-	(122,202)	61,084	-	-	-	-
23,028	(15,553)	(117,603)	33,693	(26,993)	-	-	668
<u>304,368</u>	<u>53,803</u>	<u>117,603</u>	<u>(82,414)</u>	<u>1,574,293</u>	<u>(135,816)</u>	<u>(80,293)</u>	<u>23,495</u>
<u>\$ 327,396</u>	<u>\$ 38,250</u>	<u>\$ -</u>	<u>\$ (48,721)</u>	<u>\$ 1,547,300</u>	<u>\$ (135,816)</u>	<u>\$ (80,293)</u>	<u>\$ 24,163</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, 2009**

	Capital Projects				
	Heritage Village (305)	21st Avenue Improvements South Portion (306)	21st Avenue Improvements North Portion (307)	2nd Street and 10th Avenue Street and Utility Improvements (308)	Arcadian Homes Utility Project (328)
REVENUES:					
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Tax Increments	-	-	-	-	-
Special Assessments	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for Services	-	-	-	-	-
Miscellaneous:					
Investment Income	-	7,410	-	-	-
Contributions and Donations	-	-	-	-	-
Other	-	-	-	104,199	-
Total Revenues	<u>-</u>	<u>7,410</u>	<u>-</u>	<u>104,199</u>	<u>-</u>
EXPENDITURES:					
Current:					
Public Safety	-	-	-	-	-
Cemetery	-	-	-	-	-
Public Works	-	-	-	-	-
Parks and Recreation	-	-	-	-	-
Economic Development	-	-	-	-	-
Debt Service:					
Principal	-	-	-	-	-
Interest and Other Charges	-	-	-	-	-
Capital Outlay:					
Public Safety	-	-	-	-	-
Public Works	74,670	-	10,273	-	5,431
Parks and Recreation	-	-	-	-	-
Economic Development	-	-	-	-	-
Total Expenditures	<u>74,670</u>	<u>-</u>	<u>10,273</u>	<u>-</u>	<u>5,431</u>
Excess of Revenues Over (Under) Expenditures	(74,670)	7,410	(10,273)	104,199	(5,431)
OTHER FINANCING SOURCES (USES):					
Transfers In	-	-	-	-	-
Transfers Out	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(74,670)	7,410	(10,273)	104,199	(5,431)
FUND BALANCES:					
Beginning of Year	<u>(208,355)</u>	<u>260,689</u>	<u>(87,890)</u>	<u>(146,062)</u>	<u>(21,055)</u>
End of Year	<u>\$ (283,025)</u>	<u>\$ 268,099</u>	<u>\$ (98,163)</u>	<u>\$ (41,863)</u>	<u>\$ (26,486)</u>

Capital Projects

2000 Street and Utility Improvements (330)	1st Street Apartment Tax Increment District (338)	Rum River Redevelopment District (389)	Railroad Property Redevelopment (390)	District No. 3-5 Redevelopment District (391)	District No. 3-6 Redevelopment District (392)	1997 Housing District (397)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	38,657	35,190	17,325	56,260	8,516
-	-	4,157	4,586	2,404	5,333	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	42,814	39,776	19,729	61,593	8,516
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	42,795	-	19,407	61,958	8,517
-	-	42,795	-	19,407	61,958	8,517
-	-	19	39,776	322	(365)	(1)
-	108,945	-	-	-	-	-
-	108,945	-	-	-	-	-
-	108,945	19	39,776	322	(365)	(1)
(70,145)	(108,945)	20,385	305,850	9,141	27,536	3,161
\$ (70,145)	\$ -	\$ 20,404	\$ 345,626	\$ 9,463	\$ 27,171	\$ 3,160

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, 2009**

	Capital Projects			Total Other Governmental Funds
	Armory Redevelopment District (398)	Industrial Park Development (821)	Total	
REVENUES:				
Property Taxes	\$ -	\$ -	\$ -	\$ 70,448
Tax Increments	9,186	-	165,134	165,134
Special Assessments	-	-	-	211,219
Intergovernmental	-	-	16,480	300,079
Charges for Services	-	-	-	58,725
Miscellaneous:				
Investment Income	-	4,409	12,487	74,484
Contributions and Donations	-	-	-	100
Other	-	-	104,199	148,323
Total Revenues	9,186	4,409	298,300	1,028,512
EXPENDITURES:				
Current:				
Public Safety	-	-	-	35,659
Cemetery	-	-	-	51,021
Public Works	-	-	-	21,099
Parks and Recreation	-	-	-	17,924
Economic Development	-	-	-	166,920
Debt Service:				
Principal	-	-	-	287,000
Interest and Other Charges	-	-	-	54,143
Capital Outlay:				
Public Safety	-	-	-	65,765
Public Works	-	-	90,374	90,374
Parks and Recreation	-	-	-	3,233
Economic Development	9,064	11,768	153,509	277,919
Total Expenditures	9,064	11,768	243,883	1,071,057
Excess of Revenues Over (Under) Expenditures	122	(7,359)	54,417	(42,545)
OTHER FINANCING SOURCES (USES):				
Transfers In	-	-	108,945	402,095
Transfers Out	-	-	-	(130,920)
Total Other Financing Sources (Uses)	-	-	108,945	271,175
Net Change in Fund Balances	122	(7,359)	163,362	228,630
FUND BALANCES:				
Beginning of Year	2,480	161,076	(44,748)	2,310,486
End of Year	\$ 2,602	\$ 153,717	\$ 118,614	\$ 2,539,116

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Property Taxes	\$ 1,529,330	\$ 1,535,830	\$ 1,599,829	\$ 63,999
Licenses and Permits	84,950	107,435	119,570	12,135
Intergovernmental Revenue:				
Local Government Aid	768,920	673,226	673,226	-
Market Value Credit	96,185	91,750	94,205	2,455
Fire Aid	42,890	35,790	39,790	4,000
Police Aid	53,625	67,934	67,934	-
Other Grants and Aids	5,875	8,925	9,928	1,003
Total Intergovernmental Revenue	<u>967,495</u>	<u>877,625</u>	<u>885,083</u>	<u>7,458</u>
Charges for Services:				
General Government	74,340	72,435	73,538	1,103
Public Safety	119,940	118,950	118,570	(380)
Public Works	6,750	1,750	1,530	(220)
Park and Recreation	26,210	21,340	22,201	861
Total Charges for Services	<u>227,240</u>	<u>214,475</u>	<u>215,839</u>	<u>1,364</u>
Fines or Forfeitures	44,700	41,880	43,340	1,460
Miscellaneous Revenues:				
Investment Income	27,000	25,000	36,934	11,934
Other	98,955	111,230	117,767	6,537
Total Miscellaneous	<u>125,955</u>	<u>136,230</u>	<u>154,701</u>	<u>18,471</u>
Total Revenues	<u>2,979,670</u>	<u>2,913,475</u>	<u>3,018,362</u>	<u>104,887</u>
EXPENDITURES:				
General Government:				
Mayor and Council	31,430	30,990	29,260	(1,730)
Administrative and Finance	336,535	341,280	335,512	(5,768)
Other General Government	283,598	261,689	203,385	(58,304)
Capital Outlay	125,500	5,000	29,395	24,395
Total General Government	<u>777,063</u>	<u>638,959</u>	<u>597,552</u>	<u>(41,407)</u>

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
EXPENDITURES: (Continued)				
Public Safety:				
Police:				
Current	\$ 981,090	\$ 958,535	\$ 945,306	\$ (13,229)
Capital Outlay	90,300	50,300	-	(50,300)
Fire:				
Current	183,200	184,690	163,381	(21,309)
Other:				
Current	165,249	166,275	114,662	(51,613)
Total Public Safety	1,419,839	1,359,800	1,223,349	(136,451)
Cemetery:				
Current	932	872	554	(318)
Public Works:				
Streets and Highways:				
Street Maintenance and Storm Sewers	675,127	651,856	540,055	(111,801)
Street Construction Capital Outlay	55,000	-	-	-
Street - Other Capital Outlay	9,000	5,500	5,488	(12)
Total Public Works	739,127	657,356	545,543	(111,813)
Parks and Recreation:				
Libraries:				
Current Expenditures	36,810	37,260	33,564	(3,696)
Other Parks and Recreation:				
Current Expenditures	192,969	208,525	210,423	1,898
Capital Outlay	45,000	35,555	35,552	(3)
Total Parks and Recreation	274,779	281,340	279,539	(1,801)
Economic Development:				
Economic Development:				
Current Expenditures	38,905	36,438	23,164	(13,274)
Total Expenditures	3,250,645	2,974,765	2,669,701	(305,064)
Excess of Revenues Over (Under) Expenditures	(270,975)	(61,290)	348,661	409,951

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

**SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL - GENERAL FUND
 For the Year Ended December 31, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
OTHER FINANCING SOURCES (USES):				
Payment in Lieu of Taxes - Component Unit	\$ 52,500	\$ 52,500	\$ 52,500	\$ -
Transfers In	324,800	96,355	-	(96,355)
Transfers Out	(68,260)	(60,770)	(217,785)	(157,015)
Total Other Financing Sources (Uses)	309,040	88,085	(165,285)	(253,370)
Net Change in Fund Balances	\$ 38,065	\$ 26,795	183,376	\$ 156,581
FUND BALANCES:				
Beginning of Year			1,702,841	
End of Year			\$ 1,886,217	

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

June 17, 2010

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Princeton, Minnesota, as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 17, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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



Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined on the previous page. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses on Internal Control as Audit Finding 06-01, that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain additional matters that we reported to management of the City in a separate letter dated June 17, 2010.

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

This report is intended solely for the information and use of the City Council, management and state and federal awarding and oversight agencies and is not intended to be and should not be used by anyone other than those specified parties.

Kern, DeWenter, Viere, Ltd.

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



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REPORT ON LEGAL COMPLIANCE

June 17, 2010

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Princeton, Minnesota, as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 17, 2010.

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

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

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

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

Kern, DeWenter, Viere, Ltd.

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

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

**SCHEDULE OF FINDINGS AND RESPONSES ON LEGAL
COMPLIANCE AND INTERNAL CONTROL**
December 31, 2009

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDING:

Significant Deficiency:

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

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

During the year ended December 31, 2009, the City had a lack of segregation of accounting duties due to a limited number of office employees. Although this meets the definition of a significant deficiency, it may not be practical to correct since the costs of obtaining desirable segregation of accounting duties may exceed benefits that could be derived. This lack of segregation of accounting duties can be demonstrated in the following areas, which is not intended to be all inclusive:

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

In addition to having responsibilities in the cycles listed above, the City’s Finance Director has full general ledger access and the ability to write and post journal entries. While we believe this access is necessary to efficiently perform the financial duties required, this access has the ability to override many of the controls and segregation the City has in place.

Management is aware of this condition and will take certain steps to compensate for the lack of segregation. However, due to the small accounting staff needed to handle all of the accounting duties, the cost of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to correct.

City’s Response:

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

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

**SCHEDULE OF FINDINGS AND RESPONSES ON LEGAL
COMPLIANCE AND INTERNAL CONTROL**
December 31, 2009

CURRENT YEAR LEGAL COMPLIANCE FINDING:

Broker Acknowledgement Certification

Minnesota Statutes 118A.04 Subd. 9 states that prior to completing an initial transaction with a broker, a city is required to provide a written statement of investment restrictions which shall include a provision that all future investments are to be made in accordance with *Minnesota Statutes* governing the investment of public funds. The broker must acknowledge annually receipt of the Statement of Investment Restrictions in writing and agree to handle the city's account in accordance with these restrictions. The Statute also goes on to say the city is also required to retain documentation of compliance with this Statute.

A Broker Acknowledgement Certification could not be located for one of the City's investment brokers as the broker would no longer sign the certification.

City's Response:

As the current investments with this Broker mature the amounts are being withdrawn. This will ensure that securities are only being invested with brokers who will comply with *Minnesota Statutes*.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

**SCHEDULE OF FINDINGS AND RESPONSES ON LEGAL
COMPLIANCE AND INTERNAL CONTROL**
December 31, 2009

CURRENT AND PRIOR YEAR LEGAL COMPLIANCE FINDING:

Park Dedication Fees Based on Fair Market Value

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

City's Response:

The City is in process of amending its fee structure to conform to the current state statute requirements. The amendment should be completed in 2010.

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

**SCHEDULE OF FINDINGS AND RESPONSES ON LEGAL
COMPLIANCE AND INTERNAL CONTROL
December 31, 2009**

PRIOR YEAR LEGAL COMPLIANCE FINDING:

Issuance of Administrative Tickets

Minnesota Statutes 169.022 previously provided 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.

The City has updated its practice of issuing administrative penalties for traffic regulations in accordance with *Minnesota Statutes* 169.022.