

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

***Audited Financial Statements
For the Fiscal Year Ended December 31, 2007***

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, 2007

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



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INDEPENDENT AUDITORS' REPORT

June 16, 2008

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, 2007, 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 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, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with U.S. generally accepted accounting principles.



In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2008, 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, is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries 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 conducted 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, 2007

As management of 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, 2007.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the recent fiscal year by \$ 23,983,850 (net assets) which is an increase of \$ 1,867,976 (8.45%) over the December 31, 2006 amount. Of this amount, \$ 6,185,267 for 2007 and \$ 6,442,240 for 2006 were unrestricted net assets available to be used to meet the City's ongoing obligations to citizens and creditors.
- Of the City's total net assets increase of \$ 1,867,976 during the most recent fiscal year, about 25% came from net income from the City's proprietary funds, primarily the Municipal Liquor and Sanitary Sewer Funds. The remainder of the net asset increase came from the governmental funds.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$ 5,720,395, an increase of \$ 164,965 from the prior year.
- At the end of the current fiscal year, all but \$ 61,210 of the General Fund balance of \$ 1,682,777 was unreserved.
- The City's total debt increased by \$ 1,152,840 (14.88%) during the current fiscal year. This resulted from two debt issues during 2007 totaling \$ 1,989,000.

Overview of the Financial Statements

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

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

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

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

CITY OF PRINCETON
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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 a 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, an electric generation and distribution system and a sanitation operation for which the City is accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

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

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

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

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

The City maintains 57 individual governmental funds. Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund, the Downtown Redevelopment Tax Increment, the 2003 Western Area Improvement, the 2005 21st Avenue Improvements, Debt Service Funds and the Capital Improvement Capital Project Fund all four of which are considered to be major funds. Data from the other 52 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

CITY OF PRINCETON
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MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2007

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.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the liquor store, sanitary sewer and airport all of which are considered to be major funds of the City.

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

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

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

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

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

The combining statements referred to earlier in connection with nonmajor governmental funds and Internal Service Funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 58-79 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 \$ 23,983,850 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, 2007

City's Net Assets

	Governmental Activities	Business-Type Activities	Total 12/31/2007	Total 12/31/2006
Current and Other Assets	\$ 8,584,640	\$ 3,030,645	\$ 11,615,285	\$ 11,180,682
Capital Assets	10,862,749	11,276,301	22,139,050	19,676,870
Total Assets	19,447,389	14,306,946	33,754,335	30,857,552
Long-Term Liabilities				
Outstanding	4,208,322	3,870,594	8,078,916	7,033,596
Other Liabilities	1,192,067	499,502	1,691,569	1,708,082
Total Liabilities	5,400,389	4,370,096	9,770,485	8,741,678
Net Assets:				
Invested in Capital Assets, Net of Related Debt	7,778,633	7,207,501	13,236,250	11,926,910
Restricted	4,562,333	-	4,562,333	3,746,724
Unrestricted	1,706,034	2,729,349	6,185,267	6,442,240
Total Net Assets	\$ 14,047,000	\$ 9,936,850	\$ 23,983,850	\$ 22,115,874

By far, the largest portion (55.%) of the City's net assets reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted the resources needed to repay this debt must be provided from other sources. Since the capital assets themselves are needed to provide services, they cannot be used to liquidate these liabilities.

An additional 19.0% 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 (\$ 6,185,267) 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.

The City's net assets increased by \$ 1,867,976 during the current fiscal year. About 25% of this increase results from the net income of the business-type (enterprise) funds. About 34.3% of this increase is attributable to a one-time infusion of resources from special assessments. Another 1.5% of the increase results from the one-time infusion of federal aid for improvements to the airport. There was also an infusion of grant money for emergency relocation due to a radiological event that accounts for 5.4% of the increase. Interest revenue on investments and special assessment receivables accounted for over 19% of the increase in 2007. The remainder of this growth largely reflects increases in fees and tax levy revenues.

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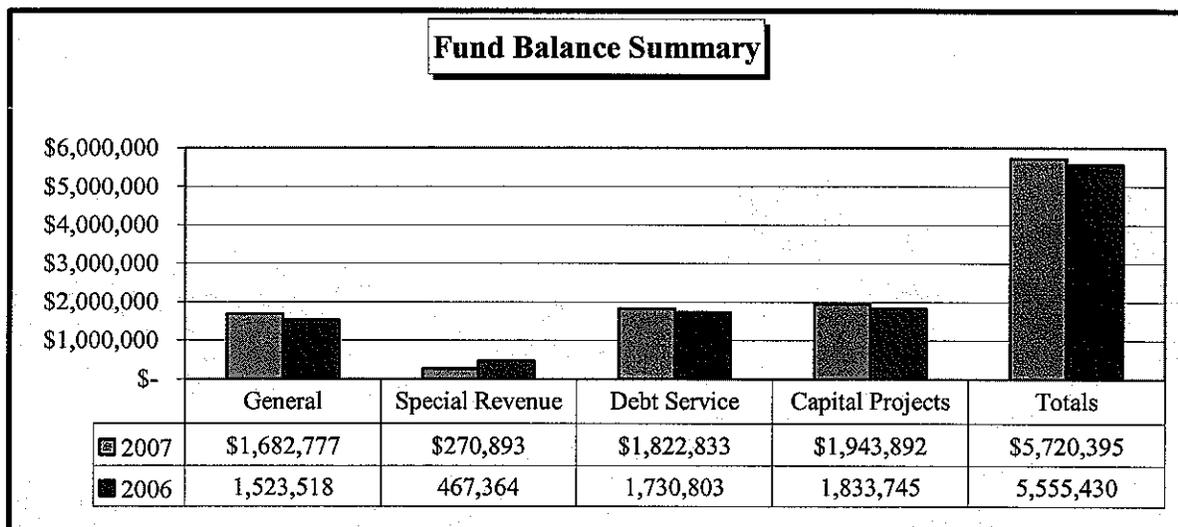
Governmental activities. Governmental activities increased the City's net assets by \$ 1,396,518, thereby accounting for 74.8% of the total growth in the net assets of the City.

Business-type activities. Business-type activities resulted in a net asset increase of \$ 471,458, which accounts for 25.2% of the City's total net asset increase.

Financial Analysis of the Government'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 \$ 5,720,395, an increase of \$ 164,965 over the prior year. Approximately thirty percent of this total amount (\$ 1,706,034) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to pay for prepaid items.

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 \$ 1,682,777, which was 96.4% unreserved; however, 91% of this balance is designated for working capital (cash flow) purposes.

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The City's General Fund balance increased by \$ 159,259 during the current fiscal year. This is a significant increase, but it was \$ 68,145 less than the prior year's fund balance increase of \$ 227,404. Key factors in this growth and the difference between the current and prior year fund balance increases are as follows:

- Property tax revenues of the General Fund increased by \$ 243,774.
- Charges for services in the General Fund increased by \$ 16,357 along with increases of \$ 9,097 in intergovernmental revenue, \$ 5,167 in fines and forfeitures and \$ 17,217 of interest income. There were some minor decreases in revenue, specifically \$ 2,850 in fines and forfeitures and \$ 5,496 in licenses and permits (primarily from a decrease in building permits).
- Increases in revenue were offset by a \$ 324,917 increase in expenditures. This increase was primarily due to increases of \$ 122,280 for public safety activities, \$ 27,934 for public works activities, \$ 12,179 in general government, \$ 10,756 in economic development and \$ 150,030 in capital outlay expenditures.

Debt Service Funds had a total fund balance of \$ 1,822,833, all of which is designated for the payment of debt service. The net increase in fund balance during the current year in the Debt Service Funds was \$ 92,030. This increase is due to the collection of tax and assessment revenue in excess of the debt service for the year.

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

Total net assets of the Liquor Fund at the end of the year amounted to \$ 2,980,538, the Sanitary Sewer Fund was \$ 5,287,845 and the Airport Fund was \$ 1,668,467. Unrestricted net assets, which are amounts available for operating expenditures and spending at the discretion of the City, at the end of the year for the Liquor Fund amounted to \$ 1,164,989, the Sanitary Sewer Fund was \$ 1,661,995 and the Airport unrestricted net assets was a negative \$ 97,635. The increase (decrease) in unrestricted net assets for these Funds was \$ 253,301, \$ 283,173 and (\$ 65,016), respectively. The increases (decreases) in these Funds result predominantly from the revenue generating nature of these Funds. Other factors concerning the finances of these three Funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The change from the original budget and the final amended budget was a reasonable \$ 192,795 decrease in appropriation (6.2% decrease) and can be briefly summarized as follows:

- \$ 51,701 in decreases in general government activities.
- \$ 5,567 in increases allocated to public safety.
- \$ 16,395 in decreases allocated to public works.
- \$ 1,084 in decreases allocated to cemetery operations.
- \$ 6,438 in increases allocated for parks and recreation.
- \$ 7,815 in decreases allocated to economic development.
- \$ 127,805 in decreases allocated to capital outlay.

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This decrease in expenditure budget allowed the budgeted transfers in to be decreased by \$ 127,805. The remainder of the expenditure decrease along with the \$ 23,375 decrease in revenues would go to increase the fund balance.

The eventual difference between the final amended budget and the actual amount of the change in fund balance also was a respectable 7% or \$ 101,814.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities amounts to \$ 22,139,050 as of December 31, 2007 and \$ 19,676,870 (after restatement) as of December 31, 2006. This investment in capital assets includes land, buildings and improvements, machinery and equipment, park facilities, roads, sidewalks and infrastructure.

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

- Planning and design continued on the expansion of the wastewater treatment facilities for the Sanitary Sewer Fund; construction in progress for the expansion at the end of the fiscal year was \$ 604,007. Planning was completed and construction started on a phosphorus reduction improvement for the wastewater treatment plant with construction in progress for this project at \$ 1,101,982 at the end of the current year.
- Construction of the new liquor store was completed in May of 2007. Land acquisition, building construction and machinery and equipment for the new store totaled \$ 1,624,142.
- Construction was completed on the airport's hanger improvement project with a total cost of \$ 240,834.
- Development of a new revised Airport Layout Plan was begun in 2007 with an end of year construction in progress of \$ 32,058.
- One small street and utility renovation special assessment project was completed in the current year and with a total cost of \$ 253,804.

City's Capital Assets
(Net of depreciation)

	Governmental Activities	Business-type Activities	Total 12/31/07	Total 12/31/06
Land	\$ 1,526,736	\$ 1,111,688	\$ 2,638,424	\$ 2,396,279
Buildings	1,350,763	1,197,733	2,548,496	1,620,060
Improvements other than Buildings	1,826,103	6,871,532	8,697,635	7,304,288
Machinery and Equipment	156,827	356,552	513,379	1,588,528
Infrastructure	6,002,320	-	6,002,320	5,174,810
Construction in Progress	-	1,738,796	1,738,796	1,592,905
Total	\$ 10,862,749	11,276,301	\$ 22,139,050	\$ 19,676,870

CITY OF PRINCETON
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MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2007

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

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$ 8,902,800. Of this amount, \$ 315,000 comprises debt backed by the full faith and credit of the City and \$ 4,519,000 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, \$ 4,068,800, 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's Outstanding Debt
General Obligation and Revenue Bonds

	Governmental Activities	Business-type Activities	Total 12/31/2007	Total 12/31/2006
General Obligation Bonds	\$ 315,000	\$ -	\$ 315,000	\$ 465,000
Special Assessment Debt with Governmental Commitment	4,519,000	-	4,519,000	4,760,000
Revenue Bonds with Governmental Commitment	-	4,068,800	4,068,800	2,524,960
Total	\$ 4,834,000	\$ 4,068,800	\$ 8,902,800	\$ 7,749,960

The City's total debt increased by \$ 1,152,840 (14.88%) during the year. This resulted from two bond issues sales of \$ 234,000 and \$ 1,755,000 and the scheduled principal maturity payments of \$ 836,160.

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

State statutes limit the amount of general obligation debt a governmental entity may issued to 2% of its total assessed valuation. The current debt limitation for the City is \$ 5,655,770, which exceeds the City's outstanding general obligation debt of \$ 315,000 by nearly 1,800%.

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

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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 2007 average annual unemployment rate for Mille Lacs was currently 7.7% and the Sherburne rate is 5.0% which is an approximate increase of 0.15% from a year ago for Mille Lacs County and 13.6% increase for Sherburne County. This compares to the state's average unemployment rate of 4.6% and the national average rate of 4.6%. The City has economic similarities to both Counties, and the City utilizes this knowledge when setting its budget and tax levy.
- Inflationary trends in the region that includes the Minneapolis-St. Paul area were about 0.2% lower than national indices for the 2007 annual rate.

These are some of the factors considered in preparing the City's budget for the 2008 fiscal year.

The sanitary sewer rates have been maintained at their current level since 2001. However, the sewer access charge was increased in the 2005 and again in 2007 to assist in the payment of system repairs and enhancements. Also in 2005, a sewer trunk fee was initiated to help assure that new development pays for the cost of extensions and new facilities. The sewer trunk fee is scheduled for annual increases to keep in line with construction cost increases.

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

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to City, 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.

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BASIC FINANCIAL STATEMENTS

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

STATEMENT OF NET ASSETS
December 31, 2007

	Governmental Activities	Business-Type Activities	Total	Component Unit
ASSETS:				
Cash and Investments (Including Cash Equivalents)	\$ 5,984,106	\$ 2,288,433	\$ 8,272,539	\$ 1,834,093
Cash Held in Escrow	-	-	-	503,504
Receivables:				
Accounts Receivable	13,075	28,295	41,370	682,726
Interest Receivable	43,519	3,785	47,304	-
Taxes Receivable	115,251	-	115,251	-
Special Assessments:				
Due Within One Year	250,182	-	250,182	-
Due in More than One Year	2,064,470	-	2,064,470	-
Due from Other Governments	130,411	115,622	246,033	25,376
Due from Other Funds	(134,655)	134,655	-	-
Inventory	-	389,121	389,121	515,454
Prepaid Expenses	61,210	13,585	74,795	-
Unamortized Discount	-	57,149	57,149	-
Notes Receivable:				
Due Within One Year	2,860	-	2,860	-
Due in More than One Year	54,211	-	54,211	-
Capital Assets:				
Land	1,526,736	1,111,688	2,638,424	30,562
Buildings and Systems	2,151,306	1,359,892	3,511,198	22,612,586
Other Improvements	1,456,151	10,126,074	11,582,225	-
Machinery and Equipment	2,840,302	777,391	3,617,693	1,367,683
Infrastructure	9,075,358	-	9,075,358	1,999,501
Construction in Progress	-	1,738,796	1,738,796	45,286
Total Capital Assets	17,049,853	15,113,841	32,163,694	26,055,618
Less Accumulated Depreciation	(6,187,104)	(3,837,540)	(10,024,644)	(8,138,397)
Net Capital Assets	10,862,749	11,276,301	22,139,050	17,917,221
Restricted Assets:				
Reserve Fund	-	-	-	699,466
Debt Retirement	-	-	-	365,520
Improvements and Replacements	-	-	-	511,902
Total Restricted Assets	-	-	-	1,576,888
Total Assets	\$ 19,447,389	\$ 14,306,946	\$ 33,754,335	\$ 23,055,262
LIABILITIES AND NET ASSETS:				
Liabilities:				
Salaries Payable	\$ 68,775	\$ 9,578	\$ 78,353	\$ 28,917
Accounts and Contracts Payable	111,897	172,866	284,763	1,684,527
Interest Payable	81,988	55,785	137,773	75,186
Customer Meter Deposits	-	-	-	134,124
Unearned Revenue	29,769	-	29,769	11,600
Due to Other Governmental Units	62,830	41,328	104,158	39,448
Severance Payable	-	-	-	85,306
Deferred Rate Stabilization	-	-	-	915,581
Bond Principal Payable:				
Due Within One Year	690,000	219,432	909,432	651,000
Due in More than One Year	4,144,000	3,849,368	7,993,368	12,865,890
Compensated Absences Payable:				
Due Within One Year	146,808	513	147,321	-
Due in More than One Year	64,322	21,226	85,548	-
Total Liabilities	5,400,389	4,370,096	9,770,485	16,491,579
Net Assets:				
Invested in Capital Assets, Net of Related Debt	7,778,633	7,207,501	13,236,250	3,368,561
Restricted for:				
Debt Service	4,211,180	-	4,211,180	1,568,416
Tax Increment	351,153	-	351,153	-
Capital Outlay	-	-	-	557,188
Unrestricted	1,706,034	2,729,349	6,185,267	1,069,518
Total Net Assets	14,047,000	9,936,850	23,983,850	6,563,683
Total Liabilities and Net Assets	\$ 19,447,389	\$ 14,306,946	\$ 33,754,335	\$ 23,055,262

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, 2007

Functions/Programs	Program Revenues			Net (Expense) Revenues and Changes in Net Assets			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental Activities:							
General Government	\$ 609,231	\$ 108,587	\$ -	\$ -	\$ (500,644)	\$ -	\$ (500,644)
Public Safety	1,309,850	338,270	155,236	123,888	(692,456)	-	(692,456)
Cemetery	37,391	31,930	-	-	(5,461)	-	(5,461)
Public Works	1,161,345	12,247	206	994,406	(154,486)	-	(154,486)
Park and Recreation	248,033	29,661	24,430	-	(193,942)	-	(193,942)
Economic Development	720,696	29,761	-	411,348	(279,587)	-	(279,587)
Interest and Fiscal Charges	211,132	-	-	-	(211,132)	-	(211,132)
Total Governmental Activities	4,297,678	550,456	179,872	1,529,642	(2,037,708)	-	(2,037,708)
Business-Type Activities:							
Airport	187,947	54,936	21,617	27,878	-	(83,516)	(83,516)
Municipal Liquor	2,319,775	2,526,709	-	-	-	206,934	206,934
Electric	-	-	-	-	-	-	-
Water	88,325	88,325	-	-	-	-	-
Sanitation	-	-	-	-	-	-	-
Sewer	549,840	652,298	-	-	-	102,458	102,458
Total Business-Type Activities	3,145,887	3,322,268	21,617	27,878	-	225,876	225,876
Total Governmental and Business-Type Activities	\$ 7,443,565	\$ 3,872,724	\$ 201,489	\$ 1,557,520	(2,037,708)	225,876	(1,811,832)
General Revenues:							
Property Taxes	-	-	-	-	1,852,883	-	1,852,883
Tax Increments	-	-	-	-	380,851	-	380,851
Investment Income	-	-	-	-	260,414	94,113	354,527
State Aid	-	-	-	-	913,425	-	913,425
PUC Payment in Lieu of Taxes	-	-	-	-	52,500	-	52,500
Miscellaneous	-	-	-	-	106,718	18,904	125,622
Loss on Sale of Asset	-	-	-	-	-	-	-
Transfers	-	-	-	-	(132,565)	132,565	-
Total General Revenues and Transfers					3,434,226	245,582	3,679,808
Change in Net Assets					1,396,518	471,458	1,867,976
Net Assets - Beginning					12,225,940	9,465,392	22,115,874
Prior Period Adjustment					424,542	-	-
Net Assets - Beginning, Restated					12,650,482	9,465,392	22,115,874
Net Assets - Ending					\$ 14,047,000	\$ 9,936,850	\$ 23,983,850

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

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

BALANCE SHEET - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2007

	Debt Service		
	101	490	503
	General	Downtown Redevelopment Tax Increment	Western Area Improvements
ASSETS:			
Cash and Investments (Including Cash Equivalents)	\$ 1,557,079	\$ 195,772	\$ 206,577
Taxes Receivable - Delinquent	72,450	10,159	5,520
Special Assessments:			
Delinquent	-	-	7,719
Deferred	-	-	640,895
Accounts Receivable	2,455	-	-
Interest Receivable	39,375	-	-
Due from Other Governments	116,661	-	-
Notes Receivable	-	-	-
Due from Other Funds	207,635	-	-
Prepaid Expense	61,210	-	-
Total Assets	\$ 2,056,865	\$ 205,931	\$ 860,711
LIABILITIES AND FUND BALANCES:			
Liabilities:			
Salaries Payable	\$ 66,121	\$ -	\$ -
Accounts and Contracts Payable	81,984	-	-
Due to Other Governments	19,764	-	13,701
Due to Other Funds	-	207,250	-
Deferred Revenue	206,219	10,159	654,134
Total Liabilities	374,088	217,409	667,835
Fund Balances:			
Reserved for:			
Prepaid Items	61,210	-	-
Unreserved, Reported in:			
General Fund - Designated for Working Capital	1,478,205	-	-
General Fund - Undesignated	143,362	-	-
Special Revenue Funds - Undesignated	-	-	-
Debt Service Funds - Designated	-	-	192,876
Debt Service Funds - Undesignated	-	(11,478)	-
Capital Projects Funds - Designated	-	-	-
Capital Projects Funds - Undesignated	-	-	-
Total Fund Balances	1,682,777	(11,478)	192,876
Total Liabilities and Fund Balances	\$ 2,056,865	\$ 205,931	\$ 860,711

<u>Debt Service</u>	<u>Capital Projects</u>		
<u>506</u>	<u>351</u>		
2005 21st Avenue Improvements	Capital Improvements	Other Governmental Funds	Total Governmental Funds
\$ 43,644	\$ 762,368	\$ 3,237,266	\$ 6,002,706
3,569	9,619	13,934	115,251
4,516	-	10,573	22,808
630,831	-	1,020,118	2,291,844
-	-	10,620	13,075
-	-	4,144	43,519
-	-	13,750	130,411
-	-	57,071	57,071
-	1,098,615	70,150	1,376,400
-	-	-	61,210
<u>\$ 682,560</u>	<u>\$ 1,870,602</u>	<u>\$ 4,437,626</u>	<u>\$ 10,114,295</u>
\$ -	\$ -	\$ 2,654	\$ 68,775
-	-	29,913	111,897
-	-	47,965	81,430
-	-	1,303,805	1,511,055
638,916	9,619	1,101,696	2,620,743
<u>638,916</u>	<u>9,619</u>	<u>2,486,033</u>	<u>4,393,900</u>
-	-	-	61,210
-	-	-	1,478,205
-	-	-	143,362
-	-	270,893	270,893
43,644	-	1,714,735	1,951,255
-	-	(116,944)	(128,422)
-	1,860,983	790,606	2,651,589
-	-	(707,697)	(707,697)
<u>43,644</u>	<u>1,860,983</u>	<u>1,951,593</u>	<u>5,720,395</u>
<u>\$ 682,560</u>	<u>\$ 1,870,602</u>	<u>\$ 4,437,626</u>	<u>\$ 10,114,295</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, 2007**

Total Fund Balances - Governmental Funds \$ 5,720,395

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	17,049,853
Less Accumulated Depreciation	(6,187,104)

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

Bond Principal Payable	(4,834,000)
Compensated Absences Payable	(211,130)

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	115,251
Delinquent Special Assessments Receivable	22,808
Deferred Special Assessments Receivable	2,291,844

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

Notes Receivable	57,071
Development Revenue Reserve	104,000

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

(81,988)

Total Net Assets - Governmental Activities

\$ 14,047,000

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, 2007

	Debt Service			
	101	490	503	506
	General	Downtown Redevelopment Tax Increment	Western Area Improvements	2005 21st Avenue Improvements
REVENUES:				
Property Taxes	\$ 1,341,431	\$ -	\$ 106,244	\$ 91,245
Tax Increments	-	198,214	-	-
Special Assessments	-	-	74,860	25,398
Licenses and Permits	180,707	-	-	-
Intergovernmental	967,512	-	6,846	3,064
Charges for Services	219,083	-	-	-
Fines and Forfeitures	54,380	-	-	-
Miscellaneous:				
Investment Income	50,893	5,333	4,510	-
Other	33,133	2,822	-	-
Total Revenues	2,847,139	206,369	192,460	119,707
EXPENDITURES:				
Current:				
General Government	529,259	-	-	-
Public Safety	1,153,321	-	-	-
Cemetery	2,090	-	-	-
Public Works	564,858	-	-	-
Park and Recreation	182,650	-	-	-
Economic Development	15,065	-	29,590	-
Debt Service:				
Principal	-	130,000	50,000	40,000
Interest and Fiscal Charges	-	16,526	69,428	41,011
Capital Outlay:				
General Government	29,349	-	-	-
Public Safety	109,791	-	-	-
Cemetery	-	-	-	-
Public Works	62,517	-	-	-
Park and Recreation	10,075	-	-	-
Economic Development	-	-	-	-
Total Expenditures	2,658,975	146,526	149,018	81,011
Excess of Revenues Over (Under) Expenditures	188,164	59,843	43,442	38,696
OTHER FINANCING SOURCES (USES):				
Payment in Lieu of Taxes - Component Unit	52,500	-	-	-
Proceeds from Sale of Fixed Assets	-	-	-	-
Proceeds from Bond Issuance	-	-	-	-
Transfers In	-	-	-	-
Transfers Out	(81,405)	-	-	-
Total Other Financing Sources (Uses)	(28,905)	-	-	-
Net Change in Fund Balances	159,259	59,843	43,442	38,696
FUND BALANCES:				
Beginning of Year	1,523,518	(71,321)	149,434	4,948
End of Year	<u>\$ 1,682,777</u>	<u>\$ (11,478)</u>	<u>\$ 192,876</u>	<u>\$ 43,644</u>

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

Capital Projects

351		
Capital Improvements	Other Governmental Funds	Total Governmental Funds
\$ 170,864	\$ 143,696	\$ 1,853,480
-	182,637	380,851
-	235,722	335,980
-	-	180,707
10,929	568,952	1,557,303
-	137,735	356,818
-	-	54,380
75,746	123,932	260,414
-	196,371	232,326
<u>257,539</u>	<u>1,589,045</u>	<u>5,212,259</u>
-	-	529,259
-	42,221	1,195,542
-	35,301	37,391
-	191,931	756,789
-	23,746	206,396
-	518,296	562,951
-	405,000	625,000
-	83,878	210,843
-	-	29,349
-	82,551	192,342
-	14,909	14,909
-	541,430	603,947
-	200,967	211,042
-	156,936	156,936
-	<u>2,297,166</u>	<u>5,332,696</u>
257,539	(708,121)	(120,437)
-	-	52,500
4,032	4,370	8,402
-	234,000	234,000
-	94,459	94,459
(14,909)	(7,645)	(103,959)
<u>(10,877)</u>	<u>325,184</u>	<u>285,402</u>
246,662	(382,937)	164,965
<u>1,614,321</u>	<u>2,334,530</u>	<u>5,555,430</u>
<u>\$ 1,860,983</u>	<u>\$ 1,951,593</u>	<u>\$ 5,720,395</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, 2007

Total Net Change in Fund Balances - Governmental Funds \$ 164,965

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	704,136
Depreciation Expense	(522,668)
Capital Contribution	254,222

The net effect of the disposal of fixed assets:

Disposals	(69,106)
Depreciation on Disposals	63,162

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

18,258

Principal payments of long-term debt consumes the current financial resources
of governmental funds; however, they have no effect on net assets.

625,000

The issuance of long-term debt provides current financial resources to governmental
funds and has no effect on net assets. These amounts are reported in the governmental
funds as a source of financing. These amounts are not shown as revenues in the Statement
of Activities, but rather constitute long-term liabilities in the Statement of Net Assets.

(234,000)

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

(289)

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.

(9,960)

Discount on prepayment of note receivable.

(809)

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	(597)
Delinquent Special Assessments	(2,291)
Deferred Special Assessments	406,495

Change in Net Assets - Governmental Activities

\$ 1,396,518

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, 2007**

	<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	\$ 1,337,580	\$ 1,278,645	\$ 1,341,431	\$ 62,786
Licenses and Permits	202,895	153,015	180,707	27,692
Intergovernmental	877,825	973,995	967,512	(6,483)
Charges for Services	219,160	207,955	219,083	11,128
Fines and Forfeitures	53,850	49,250	54,380	5,130
Miscellaneous Revenues:				
Investment Income	22,000	27,000	50,893	23,893
Other	32,500	32,575	33,133	558
Total Revenues	<u>2,745,810</u>	<u>2,722,435</u>	<u>2,847,139</u>	<u>124,704</u>
EXPENDITURES:				
Current:				
General Government	631,021	579,320	529,259	(50,061)
Public Safety	1,229,962	1,235,529	1,153,321	(82,208)
Cemetery	4,128	3,044	2,090	(954)
Public Works	621,877	605,482	564,858	(40,624)
Park and Recreation	207,541	213,979	182,650	(31,329)
Economic Development	29,756	21,941	15,065	(6,876)
Capital Outlay:				
General Government	122,050	30,650	29,349	(1,301)
Public Safety	168,900	168,900	109,791	(59,109)
Public Works	74,000	62,520	62,517	(3)
Park and Recreation	35,000	10,075	10,075	-
Total Expenditures	<u>3,124,235</u>	<u>2,931,440</u>	<u>2,658,975</u>	<u>(272,465)</u>
Excess of Revenues Over (Under) Expenditures	(378,425)	(209,005)	188,164	397,169
OTHER FINANCING SOURCES (USES):				
Payment in Lieu of Taxes - Component Unit	52,500	52,500	52,500	-
Transfers In	399,950	272,145	-	(272,145)
Transfers Out	(60,300)	(58,195)	(81,405)	(23,210)
Total Other Financing Sources (Uses)	<u>392,150</u>	<u>266,450</u>	<u>(28,905)</u>	<u>(295,355)</u>
Net Change in Fund Balances	<u>\$ 13,725</u>	<u>\$ 57,445</u>	159,259	<u>\$ 101,814</u>
FUND BALANCES:				
Beginning of Year			<u>1,523,518</u>	
End of Year			<u>\$ 1,682,777</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, 2007

	208	702/704	703	
	Airport	Sanitary Sewer	Municipal Liquor	Total
ASSETS:				
Current Assets:				
Cash and Investments (Including Cash Equivalents)	\$ -	\$1,632,212	\$ 637,621	\$ 2,269,833
Accounts Receivable	1,000	26,395	900	28,295
Interest Receivable	-	-	3,785	3,785
Due from Other Governments	37,961	77,661	-	115,622
Due from Other Funds	-	-	264,994	264,994
Inventory	8,500	-	380,621	389,121
Prepaid Expense	1,200	5,530	6,855	13,585
Unamortized Discount	-	57,149	-	57,149
Total Current Assets	48,661	1,798,947	1,294,776	3,142,384
Noncurrent Assets:				
Capital Assets:				
Land	488,323	129,120	494,245	1,111,688
Buildings and System	76,766	70,974	1,212,152	1,359,892
Other Improvements	2,221,443	7,861,023	43,608	10,126,074
Machinery and Equipment	260,078	218,185	299,128	777,391
Construction in Progress	32,807	1,705,989	-	1,738,796
Total Capital Assets	3,079,417	9,985,291	2,049,133	15,113,841
Less Accumulated Depreciation	(1,313,315)	(2,290,641)	(233,584)	(3,837,540)
Net Capital Assets	1,766,102	7,694,650	1,815,549	11,276,301
Total Assets	\$1,814,763	\$9,493,597	\$3,110,325	\$14,418,685
LIABILITIES AND NET ASSETS:				
Current Liabilities:				
Salaries Payable	\$ 200	\$ 2,236	\$ 7,142	\$ 9,578
Accounts Payable	15,757	33,495	78,183	127,435
Interest Payable	-	55,785	-	55,785
Retainage Payable	-	45,431	-	45,431
Due to Other Governmental Units	-	5	22,723	22,728
Due to Other Funds	130,339	-	-	130,339
Current Portion of Revenue Bonds	-	219,432	-	219,432
Compensated Absences Payable	-	-	513	513
Total Current Liabilities	146,296	356,384	108,561	611,241
Noncurrent Liabilities:				
Compensated Absences Payable	-	-	21,226	21,226
Loan Payable	-	2,094,368	-	2,094,368
Bond Payable	-	1,755,000	-	1,755,000
Total Noncurrent Liabilities	-	3,849,368	21,226	3,870,594
Total Liabilities	146,296	4,205,752	129,787	4,481,835
Net Assets:				
Invested in Capital Assets, Net of Related Debt	1,766,102	3,625,850	1,815,549	7,207,501
Unrestricted	(97,635)	1,661,995	1,164,989	2,729,349
Total Net Assets	1,668,467	5,287,845	2,980,538	9,936,850
Total Liabilities and Net Assets	\$1,814,763	\$9,493,597	\$3,110,325	\$14,418,685

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

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS
For the Year Ended December 31, 2007

	208	702/704	703	
	Airport	Sanitary Sewer	Municipal Liquor	Total
SALES AND COST OF SALES:				
Sales	\$ 47,123	\$ -	\$2,525,640	\$2,572,763
Cost of Sales	48,679	-	1,932,383	1,981,062
Gross Profit (Loss)	(1,556)	-	593,257	591,701
OPERATING REVENUES:				
Charges for Services	7,813	652,298	1,069	661,180
Total Gross Profit and Operating Revenues	6,257	652,298	594,326	1,252,881
OPERATING EXPENSES:				
Personnel	18,138	74,868	223,814	316,820
Other Services and Supplies	30,309	164,636	94,614	289,559
Service Charges	-	-	32,109	32,109
Depreciation	90,821	193,352	36,855	321,028
Total Operating Expenses	139,268	432,856	387,392	959,516
Operating Income (Loss)	(133,011)	219,442	206,934	293,365
NONOPERATING REVENUES (EXPENSES):				
Interest Income	-	52,063	42,050	94,113
Intergovernmental Revenues	49,495	-	-	49,495
Other Income	100	5,587	13,217	18,904
Interest Expense and Charges	-	(116,984)	-	(116,984)
Total Nonoperating Revenues (Expenses)	49,595	(59,334)	55,267	45,528
Income (Loss) before Transfers	(83,416)	160,108	262,201	338,893
Contributed Revenue	-	123,065	-	123,065
Transfers In	18,400	-	-	18,400
Transfers Out	-	-	(8,900)	(8,900)
Change in Net Assets	(65,016)	283,173	253,301	471,458
NET ASSETS:				
Beginning of Year	1,733,483	5,004,672	2,727,237	9,465,392
End of Year	\$1,668,467	\$5,287,845	\$2,980,538	\$9,936,850

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, 2007

	208	702/704	703	
	Airport	Sanitary Sewer	Municipal Liquor	Total
CASH FLOWS - OPERATING ACTIVITIES:				
Receipts from Customers and Users	\$ 61,484	\$ 631,651	\$ 2,526,709	\$ 3,219,844
Payments to Suppliers	(103,182)	(162,046)	(2,193,953)	(2,459,181)
Payments to Employees	(18,116)	(75,395)	(219,820)	(313,331)
Net Cash Flows - Operating Activities	<u>(59,814)</u>	<u>394,210</u>	<u>112,936</u>	<u>447,332</u>
CASH FLOWS - NONCAPITAL FINANCING ACTIVITIES:				
Transfer from Other Funds	18,400	-	-	18,400
Transfer to Other Funds	-	-	(8,900)	(8,900)
Reduction of Due from Other Funds	-	-	25,418	25,418
Increase of Due to Other Funds	127,514	-	-	127,514
Other Income	100	5,587	13,217	18,904
Intergovernmental Revenues	49,495	-	-	49,495
Net Cash Flows - Noncapital Financing Activities	<u>195,509</u>	<u>5,587</u>	<u>29,735</u>	<u>230,831</u>
CASH FLOWS - CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of Capital Assets	(128,177)	(1,099,337)	(957,452)	(2,184,966)
Proceeds of Long-Term Debt	-	1,755,000	-	1,755,000
Principal Payments on Long-Term Debt	-	(211,160)	-	(211,160)
Interest Payments on Long-Term Debt	-	(96,724)	-	(96,724)
Net Cash Flows - Capital and Related Financing Activities	<u>(128,177)</u>	<u>347,779</u>	<u>(957,452)</u>	<u>(737,850)</u>
CASH FLOWS - INVESTING ACTIVITIES:				
Interest and Dividends Received	-	52,063	39,645	91,708
Net Change in Cash and Cash Equivalents	7,518	799,639	(775,136)	32,021
CASH AND CASH EQUIVALENTS:				
January 1	<u>(7,518)</u>	<u>889,722</u>	<u>1,412,757</u>	<u>2,294,961</u>
December 31	<u>\$ -</u>	<u>\$ 1,689,361</u>	<u>\$ 637,621</u>	<u>\$ 2,326,982</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS - OPERATING ACTIVITIES:				
Operating Income (Loss)	<u>\$ (133,011)</u>	<u>\$ 219,442</u>	<u>\$ 206,934</u>	<u>\$ 293,365</u>
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows - Operating Activities:				
Depreciation Expense	90,821	193,352	36,855	321,028
Accounts Receivable	4,834	(21,075)	-	(16,241)
Due from Other Governmental Units	1,714	428	-	2,142
Inventory	-	-	(151,091)	(151,091)
Prepaid Items	(160)	180	(1,910)	(1,890)
Salaries Payable	22	(283)	1,021	760
Accounts Payable	(24,034)	2,928	16,031	(5,075)
Compensated Absences Payable	-	(244)	2,973	2,729
Due to Other Governmental Units	-	(518)	2,123	1,605
Total Adjustments	<u>73,197</u>	<u>174,768</u>	<u>(93,998)</u>	<u>153,967</u>
Net Cash Flows - Operating Activities	<u>\$ (59,814)</u>	<u>\$ 394,210</u>	<u>\$ 112,936</u>	<u>\$ 447,332</u>
NONCASH CAPITAL ACTIVITIES:				
Capital Contributions	\$ -	\$ 123,065	\$ -	\$ 123,065
Discount on Debt Issuance	-	57,149	-	57,149

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, 2007

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 City is considered to be financially accountable.

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

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

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

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

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

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

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

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

1. Blended Component Unit

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

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

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

None

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.

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.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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.

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.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Description of Funds: (Continued)

Major Governmental Funds: (Continued)

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

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

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

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

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

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

The City and the component unit do not have formal policies in place to address custodial credit risk for deposits. The City and the component unit also do not have formal policies in place to address credit risk, custodial credit risk, concentration of credit risk or interest rate risk for investments.

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.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Deposits and Investments (Continued)

Interest Rate Risk: This is the risk that market values of securities in a portfolio would decrease due to changes in market interest rates.

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations.

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.

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.

Custodial Credit Risk – Deposits: This is the risk that in the event of bank failure, the City's deposits may not be returned to it.

2. Receivables and Payables

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

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

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

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2. Receivables and Payables (Continued)

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

3. Prepaid Items

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

4. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the 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.

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	5-40
Infrastructure	20-60
Vehicles	3-40
Buildings	7-40

5. Compensated Absences

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

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

5. Compensated Absences (Continued)

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

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

Employees are granted vacation based on years of service. The City compensates employees who resign, retire or are terminated for all their unused vacation days. The liability for accumulated vacation and sick pay at December 31, 2007 is recorded in the financial statements.

6. Long-Term Obligations

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

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

7. Fund Equity

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

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

8. Net Assets

Net assets represent the difference between assets and liabilities in the government-wide financial statements. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. A reclassification of \$ 1,749,884 was made between this net asset class and unrestricted net assets in the total column on 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.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

1. Budget requests are submitted by all department heads to the City Administrator. The City Administrator compiles the budget requests into an overall preliminary City budget. The City Administrator presents the proposed budget to the City Council.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution after obtaining taxpayer comments. The budget resolution adopted by the City Council sets forth the budgets at the function level for the General and Special Revenue Funds.
4. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with U.S. generally accepted accounting principles.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information (Continued)

5. Expenditures may not legally exceed budgeted appropriations at the department level. No fund's budget can be increased without City Council approval. The City Council may authorize transfer of budgeted amounts between departments within any fund. Management may amend budgets within a department level, so long as the total department budget is not changed.
6. Annual appropriated budgets are adopted during the year for the General and Special Revenue Funds. Annual appropriated budgets are not adopted for Debt Service Funds because effective budgetary control is alternatively achieved through bond indenture provisions. Budgetary control for Capital Projects Funds is accomplished through the use of project controls and formal appropriated budgets are not adopted.
7. Budgeted amounts are as originally adopted or as amended by the City Council. Individual amendments were not material in relation to the original amounts budgeted. Budgeted expenditure appropriations lapse at year-end.

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

B. Deficit Fund Balance

The following Funds had deficit balances at December 31, 2007:

Nonmajor Funds:

Special Revenue:

Investigation Information Buy Fund	\$ 1,107
Development Grants	70,535
Development Expenses	73,291
Fire Equipment Grant	10,277
Economic Development Authority	127,626
Stormwater Management Plan	61,047
Park Improvements	20,867

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

B. Deficit Fund Balance (Continued)

Nonmajor Funds: (Continued)

Debt Service:

Downtown Redevelopment Tax Increment	\$ 11,478
1990 Assessment Refunding	61,118
1999 Street and Utilities Improvements	55,826

Capital Projects:

2002/2003 First Street Improvements	135,816
2003 Utility Improvements	80,293
Heritage Village	182,049
21st Avenue Improvements - North Portion	87,123
2nd Street and 10th Avenue Street and Utility Improvements	149,316
Arcadian Homes Utility Project	1,465
2000 Street and Utility Improvements	70,145
1st Street Apartment Tax Increment District	1,490

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, 2007, the City's bank balance was not exposed to custodial credit risk because it was fully insured through the FDIC or by collateral pledged. As of December 31, 2007, the City's deposits and petty cash had a book balance as listed below.

Checking	\$ 560,818
Savings	2,827,045
Petty Cash	2,298
Nonnegotiable Certificates of Deposit	<u>1,338,962</u>
Total Deposits and Petty Cash	<u>\$ 4,729,123</u>

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

NOTE 3 – DEPOSITS AND INVESTMENTS

B. Investments

As of December 31, 2007, the City had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>Credit Rating</u>	<u>Type</u>
FNMA	Various	\$ 486,172	13.72%	AAA	GB
FHLMC	Various	784,974	22.15%	AAA	GB
FMLMC	09/26/12	150,015	4.23%	AAA	GB
FHLBC	Various	450,217	12.71%	AAA	GB
FNMAN	04/15/13	85,239	2.41%	AAA	GB
FBLB	02/25/13	41,869	1.18%	AAA	GB
CitiCorp Mortgage Securities	04/25/35	46,935	1.32%	AAA	SEC
Lehman Brothers Bank	11/29/13	94,796	2.68%	N/A	CD
Capital One Bank	07/23/08	99,151	2.80%	N/A	CD
City Bank Utah	01/29/10	75,204	2.12%	N/A	CD
Rabobank National Assoc. California	04/10/13	39,500	1.11%	N/A	CD
Western Bank of Puerto Rico	10/25/10	95,743	2.70%	N/A	CD
Enterprise National Bank Palm Springs	11/07/12	95,586	2.70%	N/A	CD
Southwest Bank of St. Louis	12/19/14	95,183	2.69%	N/A	CD
Banco Bilbao Vazcaja	09/17/09	95,285	2.69%	N/A	CD
National Bank of South Carolina	09/24/10	94,906	2.68%	N/A	CD
First Bank Puerto Rico PR	11/14/11	94,214	2.66%	N/A	CD
Eurobank Puerto Rico	10/11/11	59,789	1.69%	N/A	CD
Banco Santander	01/14/08	96,999	2.74%	N/A	CD
Countrywide Bank	04/11/08	96,958	2.74%	N/A	CD
First Bank of Beverly Hills	01/10/08	55,999	1.58%	N/A	CD
Indymac Bank	05/27/08	96,960	2.74%	N/A	CD
Washington Mutual Bank	02/25/08	97,002	2.74%	N/A	CD
Money Market	Various	114,720	3.24%	N/A	MM
Total		<u>\$3,543,416</u>	<u>100.00%</u>		

Concentration of Credit Risk: The City was exposed to concentration of credit risk at December 31, 2007; due to the fact FNMA (13.72%), FHLMC (22.15%) and FHLBC (12.71%) investments exceeded 5% of the City's total investment portfolio.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

NOTE 3 – DEPOSITS AND INVESTMENTS

B. Investments (Continued)

The following is a summary of total deposits and investments:

Deposits (Note 3.A.)	\$ 4,729,123
Investments	<u>3,543,416</u>
Total Deposits and Investments - City	<u>8,272,539</u>
Deposits - Component Unit	1,834,093
Cash Held in Escrow - Component Unit	503,504
Restricted Assets - Component Unit	<u>1,576,888</u>
Total Component Unit	<u>3,914,485</u>
Total Deposits and Investments	<u><u>\$ 12,187,024</u></u>

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

Statement of Net Assets:	
Cash and Investments, Including Component Units	\$ 10,106,632
Cash Held in Escrow	503,504
Restricted Assets	<u>1,576,888</u>
Total	<u><u>\$ 12,187,024</u></u>

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

NOTE 4 – CAPITAL ASSETS

A. Primary Government

	Beginning Balance	Prior Period Adjustment	Restated Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:						
Capital Assets not being Depreciated:						
Land	\$ 1,344,458	\$ -	\$ 1,344,458	\$ 182,278	\$ -	\$ 1,526,736
Construction in Progress	139,772	424,542	564,314	-	564,314	-
Total Capital Assets not being Depreciated	<u>1,484,230</u>	<u>424,542</u>	<u>1,908,772</u>	<u>182,278</u>	<u>564,314</u>	<u>1,526,736</u>
Capital Assets being Depreciated:						
Buildings and Systems	2,151,306	-	2,151,306	-	-	2,151,306
Other Improvements	1,429,126	(3,641)	1,425,485	30,666	-	1,456,151
Machinery and Equipment	2,668,379	3,641	2,672,020	237,388	69,106	2,840,302
Infrastructure	8,003,018	-	8,003,018	1,072,340	-	9,075,358
Total Capital Assets being Depreciated	<u>14,251,829</u>	<u>-</u>	<u>14,251,829</u>	<u>1,340,394</u>	<u>69,106</u>	<u>15,523,117</u>
Less Accumulated Depreciation for:						
Buildings and Systems	755,330	-	755,330	45,213	-	800,543
Other Improvements	828,615	-	828,615	47,968	-	876,583
Machinery and Equipment	1,315,445	-	1,315,445	184,657	63,162	1,436,940
Infrastructure	2,828,208	-	2,828,208	244,830	-	3,073,038
Total Accumulated Depreciation	<u>5,727,598</u>	<u>-</u>	<u>5,727,598</u>	<u>522,668</u>	<u>63,162</u>	<u>6,187,104</u>
Total Capital Assets being Depreciated, Net	<u>8,524,231</u>	<u>-</u>	<u>8,524,231</u>	<u>817,726</u>	<u>5,944</u>	<u>9,336,013</u>
Governmental Activities Capital Assets, Net	<u>\$ 10,008,461</u>	<u>\$ 424,542</u>	<u>\$ 10,433,003</u>	<u>\$ 1,000,004</u>	<u>\$ 570,258</u>	<u>\$ 10,862,749</u>

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

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	\$1,051,821	\$ 59,867	\$ -	\$ 1,111,688
Construction in Progress	<u>1,028,591</u>	<u>1,211,093</u>	<u>500,888</u>	<u>1,738,796</u>
Total Capital Assets not being Depreciated	<u>2,080,412</u>	<u>1,270,960</u>	<u>500,888</u>	<u>2,850,484</u>
Capital Assets being Depreciated:				
Buildings and Systems	360,241	999,651	-	1,359,892
Other Improvements	9,713,945	412,129	-	10,126,074
Machinery and Equipment	<u>605,781</u>	<u>171,610</u>	<u>-</u>	<u>777,391</u>
Total Capital Assets being Depreciated	<u>10,679,967</u>	<u>1,583,390</u>	<u>-</u>	<u>12,263,357</u>
Less Accumulated Depreciation for:				
Buildings and Systems	136,158	26,001	-	162,159
Other Improvements	3,010,168	244,374	-	3,254,542
Machinery and Equipment	<u>370,186</u>	<u>50,653</u>	<u>-</u>	<u>420,839</u>
Total Accumulated Depreciation	<u>3,516,512</u>	<u>321,028</u>	<u>-</u>	<u>3,837,540</u>
Total Capital Assets being Depreciated, Net	<u>7,163,455</u>	<u>1,262,362</u>	<u>-</u>	<u>8,425,817</u>
Business-Type Activities Capital Assets, Net	<u>\$9,243,867</u>	<u>\$2,533,322</u>	<u>\$ 500,888</u>	<u>\$11,276,301</u>

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

Governmental Activities:	
General Government	\$ 60,896
Public Safety	94,941
Public Works	326,890
Park and Recreation	<u>39,941</u>
 Total Depreciation Expense - Governmental Activities	 <u>\$ 522,668</u>

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

NOTE 4 – CAPITAL ASSETS

A. Primary Government (Continued)

Business-Type Activities:

Airport	\$ 90,821
Sanitary Sewer	193,352
Municipal Liquor	<u>36,855</u>

Total Depreciation Expense - Business-Type Activities	<u>\$ 321,028</u>
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NOTE 5 – NOTES/LOANS RECEIVABLE

Notes receivable issued in connection with Urban Development Action Grants (UDAG) at December 31, 2007 consisted of the following:

Bellamy:

Annual payments of \$ 589, including interest at 3%, through September 2024	\$ 10,573
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Cartwright:

Annual payments of \$ 303, including interest at 3%, through September 2024	5,199
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Annual payments of \$ 583, including interest at 3%, through September 2024	9,983
--	-------

Annual payments of \$ 361, including interest at 3%, through September 2024	6,179
--	-------

Vurchota:

Annual payments of \$ 275, including interest at 3%, through September 2024	3,465
--	-------

Beattie:

Annual payments of \$ 310, including interest at 3%, through September 2024	3,905
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Annual payments of \$ 886, including interest at 3%, through September 2024	11,148
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CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

NOTE 5 – NOTES/LOANS RECEIVABLE

Anderson:

Annual payments of \$ 262, including interest at 3%, through September 2024	\$ 3,302
Annual payments of \$ 264, including interest at 3%, through September 2024	<u>3,317</u>
Total Urban Development Action Grants	<u><u>\$ 57,071</u></u>

The principal balance for the above notes was financed by UDAG grants issued to the City.

NOTE 6 – RESTRICTED ASSETS – COMPONENT UNIT

A. Improvements and Replacements

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

Balance - December 31, 2006	\$ 239,138
Transfers	272,764
Uses	<u>-</u>
Balance - December 31, 2007	<u><u>\$ 511,902</u></u>

B. Reserve Fund

The 2006 and 2005 Revenue Bonds required a reserve account in the amount of \$ 1,202,896. The amount of \$ 417,335 is required to be reserved in the Water Fund, of which \$ 267,174 is being held in escrow and \$ 785,561 in the Electric Fund, of which \$ 236,256 is being held in escrow.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

NOTE 6 – RESTRICTED ASSETS – COMPONENT UNIT

C. Debt Retirement

The 2005, 2004, 2003, 2002 and 1999 Water Revenue Bond indentures require the Water Fund to set aside bimonthly at least one-sixth of the total principal and interest payable during the ensuing 12 months. The amounts set aside as of December 31, 2007 are \$ 98,925.

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, 2007 is \$ 266,595.

D. Restricted Cash Held in Escrow

Restricted cash held in escrow as of December 31, 2007 consists of \$ 503,504 of cash proceeds from the Water Revenue Note, Series 2005A, Electric Revenue Note, Series 2006A, \$ 267,174 is escrowed in the Water Debt Service Reserve Fund, \$ 236,255 is an Electric Debt Service Reserve Fund and \$ 75 is escrowed in a project fund for capital projects in the Electric Fund.

NOTE 7 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2007 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Other Governmental Funds	\$ 80,121
General	Airport	127,514
Capital Improvements	Other Governmental Funds	1,098,615
Other Governmental Funds	Other Governmental Funds	70,150
Liquor	Airport	2,825
Liquor	Downtown Redevelopment Tax Increment	262,169
Total		<u>\$ 1,641,394</u>

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

NOTE 7 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

B. Interfund Transfers

The composition of interfund transfers as of December 31, 2007 is as follows:

	Transfer In		Total
	Other Governmental Funds	Airport Fund	
Transfer Out:			
General	\$ 69,405	\$ 12,000	\$ 81,405
Capital Improvements	14,909	-	14,909
Other Governmental Funds	7,645	-	7,645
Municipal Liquor	2,500	6,400	8,900
Total	<u>\$ 94,459</u>	<u>\$ 18,400</u>	<u>\$ 112,859</u>

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

NOTE 8 – LONG-TERM DEBT

A. General Obligation Bonds

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

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

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

NOTE 8 – LONG-TERM DEBT

B. Components of Long-Term Liabilities

Primary Government

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-Term Liabilities:						
Governmental Activities:						
G.O. Bonds, Including						
Special Assessment Bonds:						
G.O. Improvement 1993A	10/01/93	3.10%-5.25%	\$ 395,000	02/01/09	\$ 40,000	\$ 20,000
G.O. Improvement 1997	08/01/97	4-10%-4.75%	1,290,000	02/01/08	155,000	155,000
G.O. Improvement 1999	09/01/99	4.50%-5.20%	820,000	02/01/10	285,000	90,000
G.O. Improvement Refunding 2000B	11/01/00	4.80%-5.25%	535,000	02/01/13	310,000	45,000
G.O. Improvement 2002	11/01/02	2.10%-4.45%	510,000	02/01/13	330,000	50,000
G.O. Improvement 2004	01/01/04	2.75%-4.25%	1,875,000	02/01/20	1,775,000	80,000
G.O. Improvement 2004A	09/01/04	2.25%-3.80%	400,000	02/01/15	330,000	35,000
G.O. Improvement 2005A	09/20/05	3.00%-4.20%	1,100,000	02/01/21	1,060,000	60,000
G.O. Improvement 2007A	08/23/07	4.00%-4.25%	234,000	02/01/23	234,000	-
G.O. Bonds:						
G.O. Library 1993B	10/01/93	2.95%-5.25%	215,000	02/01/09	40,000	20,000
G.O. TIF Refunding 2003	12/01/03	2.00%-4.25%	735,000	08/01/09	275,000	135,000
Compensated Absences						
					<u>211,130</u>	<u>146,808</u>
Total Governmental Activities					<u>5,045,130</u>	<u>836,808</u>
Business-Type Activities:						
G.O. Revenue Bonds:						
PFA Sewer Revenue	03/13/95	3.880%	4,254,663	08/20/16	2,313,800	219,432
G.O. Sewer Revenue	09/01/07	3.75%-4.35%	1,755,000	02/21/28	1,755,000	-
Compensated Absences						
					<u>21,739</u>	<u>513</u>
Total Business-Type Activities					<u>4,090,539</u>	<u>219,945</u>
Total all Long-Term Liabilities					<u>\$ 7,380,669</u>	<u>\$ 1,056,753</u>

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

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:						
Midwest Consortium of						
Municipal Utilities Revenue						
Bonds, Series 2005A	04/14/05	4.00%	\$ 2,865,000	12/01/24	\$ 2,630,000	\$ 100,000
MNPFA G.O. Revenue Note	06/10/04	2.53%	847,422	08/20/23	757,000	39,000
Public Utility System Revenue						
Bonds, Series 2004	02/01/04	3.00%-4.55%	670,000	04/01/24	670,000	30,000
Public Utility System Refunding						
Revenue	09/01/03	1.25%-4.70%	710,000	07/01/18	385,000	30,000
MNPFA G.O. Revenue Bond	09/08/99	3.29%	670,000	08/20/19	468,000	32,000
Public Utility System Revenue						
Bonds, Series 2002	04/01/02	2.40%-5.40%	280,000	04/01/22	230,000	10,000
Electric Revenue Note,						
Series 2006A	04/02/06	4.05%	3,065,000	12/01/25	2,880,000	100,000
Public Utility System Revenue						
Bonds, Series 2004	02/01/04	1.25%-4.70%	2,795,000	04/01/24	2,545,000	110,000
Public Utility System Refunding						
Revenue	09/01/03	1.25%-4.70%	1,560,000	07/01/18	1,195,000	110,000
Public Utility System Revenue						
Bonds, Series 2002	04/01/02	2.40%-5.40%	2,365,000	04/01/22	1,945,000	90,000
Bond Discount and						
Issuance Costs					(188,110)	(21,691)
Total all Long-Term Liabilities					<u>\$ 13,516,890</u>	<u>\$ 629,309</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, 2007 are listed on the following page.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

NOTE 8 – LONG-TERM DEBT

B. Components of Long-Term Liabilities (Continued)

Primary Government

Year Ended December 31,	Governmental Activities				Total
	G.O. Special Assessment Bonds		G.O. Improvement Bonds		
	Principal	Interest	Principal	Interest	
2008	\$ 535,000	\$ 172,448	\$ 155,000	\$ 12,920	
2009	407,000	153,020	160,000	6,475	
2010	437,000	135,706	-	-	
2011	342,000	120,108	-	-	
2012	368,000	106,259	-	-	
2013-2017	1,438,000	338,584	-	-	
2018-2022	971,000	78,563	-	-	
2023	21,000	446	-	-	
Total	\$ 4,519,000	\$ 1,105,134	\$ 315,000	\$ 19,395	

Year Ended December 31,	Governmental Activities Total		Business-Type Activities G.O. Revenue Bonds		Total
	Principal	Interest	Principal	Interest	
	2008	\$ 690,000	\$ 185,368	\$ 219,432	
2009	567,000	159,495	228,030	151,771	1,106,296
2010	437,000	135,706	296,962	141,712	1,011,380
2011	342,000	120,108	311,246	130,085	903,439
2012	368,000	106,259	320,893	117,985	913,137
2013-2017	1,438,000	338,584	1,512,238	392,267	3,681,089
2018-2022	971,000	78,563	470,000	204,971	1,724,534
2023-2027	21,000	446	575,000	93,816	690,262
2028	-	-	135,000	2,936	137,936
Total	\$ 4,834,000	\$ 1,124,529	\$ 4,068,801	\$ 1,389,852	\$11,417,182

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

NOTE 8 – LONG-TERM DEBT

B. Components of Long-Term Liabilities (Continued)

Component Unit

<u>Year Ended December 31,</u>	<u>Business-Type Activities</u>	
	<u>G.O. Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 651,000	\$ 566,105
2009	674,000	542,484
2010	691,000	517,113
2011	728,000	489,382
2012	740,000	459,411
2013-2017	4,155,000	1,798,065
2018-2022	4,364,000	869,081
2023-2027	1,702,000	95,920
Total	<u>\$ 13,705,000</u>	<u>\$ 5,337,561</u>

C. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007 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	\$ 4,760,000	\$ 234,000	\$ 475,000	\$ 4,519,000	\$ 535,000
G.O. Improvement Bonds	465,000	-	150,000	315,000	155,000
Total Bonds Payable	<u>5,225,000</u>	<u>234,000</u>	<u>625,000</u>	<u>4,834,000</u>	<u>690,000</u>
Compensated Absences	229,388	154,917	173,175	211,130	146,808
Total Governmental Activities	<u>5,454,388</u>	<u>388,917</u>	<u>798,175</u>	<u>5,045,130</u>	<u>836,808</u>
Business-Type Activities:					
Bonds Payable:					
G.O. PFA Sewer Revenue Bonds	2,524,960	-	211,160	2,313,800	219,432
G.O. Sewer Revenue Bonds	-	1,755,000	-	1,755,000	-
Total Bonds Payable	<u>2,524,960</u>	<u>1,755,000</u>	<u>211,160</u>	<u>4,068,800</u>	<u>219,432</u>
Compensated Absences	19,010	12,254	9,525	21,739	513
Total Business-Type Activities	<u>2,543,970</u>	<u>1,767,254</u>	<u>220,685</u>	<u>4,090,539</u>	<u>219,945</u>
Total Long-Term Liabilities	<u>\$ 7,998,358</u>	<u>\$2,156,171</u>	<u>\$1,018,860</u>	<u>\$ 9,135,669</u>	<u>\$1,056,753</u>

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

NOTE 8 – LONG-TERM DEBT

C. Changes in Long-Term Liabilities (Continued)

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

Component Unit

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-Type Activities:					
Bonds Payable:					
Water Fund:					
Revenue Bonds	\$ 5,399,000	\$ -	\$ 259,000	\$ 5,140,000	\$ 241,000
Electric Fund:					
Revenue Bonds	8,930,000	-	365,000	8,565,000	410,000
Bond Discount and Issuance Costs	<u>(209,801)</u>	<u>-</u>	<u>21,691</u>	<u>(188,110)</u>	<u>21,691</u>
Total Business-Type Activities	<u>14,119,199</u>	<u>-</u>	<u>645,691</u>	<u>13,516,890</u>	<u>672,691</u>
Total Long-Term Liabilities	<u>\$14,119,199</u>	<u>\$ -</u>	<u>\$ 645,691</u>	<u>\$13,516,890</u>	<u>\$ 672,691</u>

D. Conduit Debt Obligations

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

As of December 31, 2007, there were several issues outstanding. The bonds are not reported as liabilities in the accompanying financial statements. The outstanding balance at December 31, 2007 was not determinable.

NOTE 9 – RESERVED FUND BALANCES/NET ASSETS

Reserved/Designated Fund Equity

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

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

NOTE 9 – RESERVED FUND BALANCES/NET ASSETS

Reserved/Designated Fund Equity (Continued)

	General	Debt Service		Capital Projects	Other Governmental Funds	Total
		Western Area Improvements	2005 21st Avenue Improvements	Capital Improvements		
Reserved for:						
Prepays	\$ 61,210	\$ -	\$ -	\$ -	\$ -	\$ 61,210
Designated for:						
Working Capital	\$ 1,478,205	\$ -	\$ -	\$ -	\$ -	\$ 1,478,205
Debt Service	-	192,876	43,644	-	1,714,735	1,951,255
Capital Projects	-	-	-	1,860,983	790,606	2,651,589
Total	<u>\$ 1,478,205</u>	<u>\$ 192,876</u>	<u>\$ 43,644</u>	<u>\$ 1,860,983</u>	<u>\$ 2,505,341</u>	<u>\$ 6,081,049</u>

NOTE 10 – RISK MANAGEMENT

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

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

The City's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment for 2006 is estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2007, there were no other claims liabilities reported in the Fund based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

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

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

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

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

NOTE 11 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

A. Plan Description (Continued)

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

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

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

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These Statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 5.75%, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan will increase in 2008 to 6.0%. PEPFF members were required to contribute 7.8% of their annual covered salary in 2007. That rate will increase to 8.6% in 2008. The City is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 6.25% for Coordinated Plan PERF members and 11.7% for PEPFF members. Employer contribution rates for the Coordinated Plan and PEPFF will increase to 6.5% and 12.9%, respectively, effective January 1, 2008. The City's contributions to PERF for the years ending December 31, 2007, 2006 and 2005 were \$ 51,397, \$ 46,835 and \$ 43,884, respectively. The City's contributions to PEPFF for the years ending December 31, 2007, 2006 and 2005 were \$ 53,623, \$ 46,033 and \$ 39,906, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

NOTE 12 – COMMITMENTS

The City has entered into the following construction contract.

<u>Project</u>	<u>Contractor</u>	<u>Original Contract</u>	<u>Change Orders</u>	<u>Revised Contract</u>	<u>Expended Through 12/31/07</u>	<u>Commitment</u>
WWTP Phosphorus Removal	Municipal Builders, Inc.	<u>\$ 1,644,200</u>	<u>\$ 8,347</u>	<u>\$ 1,652,547</u>	<u>\$ 954,045</u>	<u>\$ 698,502</u>

NOTE 13 – PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to record capital assets for a project completed in 2007, but never tracked in construction in progress. The adjustment increased net assets in the governmental activities by \$ 424,542.

SUPPLEMENTARY INFORMATION

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2007

	Special Revenue			
	202	205	210	211
	Insurance Deductible Reserve	Cemetery Operation and Maintenance	Property Confiscation	Public Safety and Awareness
ASSETS:				
Cash and Investments	\$ 47,277	\$ 5,174	\$ 117,170	\$ 1,163
Taxes Receivable	-	-	-	-
Special Assessments Receivable:				
Delinquent	-	-	-	-
Deferred	-	-	-	-
Accounts Receivable	-	1,818	-	-
Interest Receivable	-	-	-	-
Notes Receivable	-	-	-	-
Due from Other Governments	-	-	-	-
Due from Other Funds	-	-	-	-
Total Assets	<u>\$ 47,277</u>	<u>\$ 6,992</u>	<u>\$ 117,170</u>	<u>\$ 1,163</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Salaries Payable	\$ -	\$ 624	\$ -	\$ -
Accounts and Contracts Payable	-	58	11	-
Due to Other Governments	-	-	-	-
Due to Other Funds	-	-	-	-
Deferred Revenue	-	-	-	-
Total Liabilities	<u>-</u>	<u>682</u>	<u>11</u>	<u>-</u>
Fund Balances:				
Reserved	-	-	-	-
Unreserved:				
Designated for Debt Service	-	-	-	-
Designated for Capital Projects	-	-	-	-
Undesignated	47,277	6,310	117,159	1,163
Total Fund Balances	<u>47,277</u>	<u>6,310</u>	<u>117,159</u>	<u>1,163</u>
Total Liabilities and Fund Balances	<u>\$ 47,277</u>	<u>\$ 6,992</u>	<u>\$ 117,170</u>	<u>\$ 1,163</u>

Special Revenue

212	214	216	240	242	250	252
Investigation Information Buy Fund	Felony Investigation	Solheim Field Improvements	Civic Center	Community Beautification	Community Projects	Development Grants
\$ -	\$ 10,617	\$ 4,847	\$ 838	\$ 6,081	\$ 259	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ 10,617</u>	<u>\$ 4,847</u>	<u>\$ 838</u>	<u>\$ 6,081</u>	<u>\$ 259</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ 19	\$ -	\$ -	\$ -
-	-	-	219	-	-	-
-	-	-	8	-	1	-
1,107	-	-	-	-	-	70,535
-	-	-	-	-	-	-
<u>1,107</u>	<u>-</u>	<u>-</u>	<u>246</u>	<u>-</u>	<u>1</u>	<u>70,535</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
(1,107)	10,617	4,847	592	6,081	258	(70,535)
<u>(1,107)</u>	<u>10,617</u>	<u>4,847</u>	<u>592</u>	<u>6,081</u>	<u>258</u>	<u>(70,535)</u>
<u>\$ -</u>	<u>\$ 10,617</u>	<u>\$ 4,847</u>	<u>\$ 838</u>	<u>\$ 6,081</u>	<u>\$ 259</u>	<u>\$ -</u>

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2007

	Special Revenue			
	253	260	261	262
	Development Expenses	Fire Equipment Reserve	Fire Equipment Grant	Disaster Relocation
ASSETS:				
Cash and Investments	\$ -	\$ 163,588	\$ -	\$ 77,189
Taxes Receivable	-	-	-	-
Special Assessments Receivable:				
Delinquent	-	-	-	-
Deferred	-	-	-	-
Accounts Receivable	3,900	-	-	-
Interest Receivable	-	15	-	-
Notes Receivable	-	-	-	-
Due from Other Governments	-	-	-	13,750
Due from Other Funds	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 3,900</u>	<u>\$ 163,603</u>	<u>\$ -</u>	<u>\$ 90,939</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Salaries Payable	\$ -	\$ -	\$ -	\$ 525
Accounts and Contracts Payable	1,000	-	-	1,188
Due to Other Governments	-	-	-	-
Due to Other Funds	76,191	54,919	10,277	-
Deferred Revenue	-	-	-	-
Total Liabilities	<u>77,191</u>	<u>54,919</u>	<u>10,277</u>	<u>1,713</u>
Fund Balances:				
Reserved	-	-	-	-
Unreserved:				
Designated for Debt Service	-	-	-	-
Designated for Capital Projects	-	-	-	-
Undesignated	(73,291)	108,684	(10,277)	89,226
Total Fund Balances	<u>(73,291)</u>	<u>108,684</u>	<u>(10,277)</u>	<u>89,226</u>
Total Liabilities and Fund Balances	<u>\$ 3,900</u>	<u>\$ 163,603</u>	<u>\$ -</u>	<u>\$ 90,939</u>

Special Revenue

600	601	701	802	803	814
Economic Development Authority	Stormwater Management Plan	Water Availability	Park Improvements	Cemetery Perpetual Care	UDAG No. 2 Downtown Project
\$ -	\$ -	\$ 18,600	\$ -	\$ 134,020	\$ 17,291
1,000	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
4,500	-	-	-	402	-
-	-	-	-	3,355	774
-	-	-	-	-	57,071
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 5,500</u>	<u>\$ -</u>	<u>\$ 18,600</u>	<u>\$ -</u>	<u>\$ 137,777</u>	<u>\$ 75,136</u>
\$ 1,486	\$ -	\$ -	\$ -	\$ -	\$ -
1,363	20,001	-	-	-	-
-	-	18,600	47	-	-
129,277	41,046	-	20,820	-	-
1,000	-	-	-	-	57,071
<u>133,126</u>	<u>61,047</u>	<u>18,600</u>	<u>20,867</u>	<u>-</u>	<u>57,071</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
(127,626)	(61,047)	-	(20,867)	137,777	18,065
<u>(127,626)</u>	<u>(61,047)</u>	<u>-</u>	<u>(20,867)</u>	<u>137,777</u>	<u>18,065</u>
<u>\$ 5,500</u>	<u>\$ -</u>	<u>\$ 18,600</u>	<u>\$ -</u>	<u>\$ 137,777</u>	<u>\$ 75,136</u>

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2007

	Special Revenue		Debt Service	
	820		494	500
	UDAG No. 5 Crystal Cabinets	Total	1994 Library Project	1999 Industrial Park Improvements
ASSETS:				
Cash and Investments	\$ 87,587	\$ 691,701	\$ 36,064	\$ 338,609
Taxes Receivable	-	1,000	1,334	937
Special Assessments Receivable:				
Delinquent	-	-	-	-
Deferred	-	-	-	86,660
Accounts Receivable	-	10,620	-	-
Interest Receivable	-	4,144	-	-
Notes Receivable	-	57,071	-	-
Due from Other Governments	-	13,750	-	-
Due from Other Funds	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 87,587</u>	<u>\$ 778,286</u>	<u>\$ 37,398</u>	<u>\$ 426,206</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Salaries Payable	\$ -	\$ 2,654	\$ -	\$ -
Accounts and Contracts Payable	-	23,840	448	288
Due to Other Governments	-	18,656	-	-
Due to Other Funds	-	404,172	-	-
Deferred Revenue	-	58,071	1,334	87,597
Total Liabilities	<u>-</u>	<u>507,393</u>	<u>1,782</u>	<u>87,885</u>
Fund Balances:				
Reserved	-	-	-	-
Unreserved:				
Designated for Debt Service	-	-	35,616	338,321
Designated for Capital Projects	-	-	-	-
Undesignated	87,587	270,893	-	-
Total Fund Balances	<u>87,587</u>	<u>270,893</u>	<u>35,616</u>	<u>338,321</u>
Total Liabilities and Fund Balances	<u>\$ 87,587</u>	<u>\$ 778,286</u>	<u>\$ 37,398</u>	<u>\$ 426,206</u>

Debt Service

502	504	507	530	552	590
2002/2003 1st Street Improvements	2nd and 7th Improvements	2007 PUC Area Improvements	2000 Street and Utilities Improvements	Revolving Account Fund	1990 Assessment Refunding
\$ 278,167 1,064	\$ 137,607 794	\$ 598 -	\$ 35,208 -	\$ 194,143 -	\$ - 64
7,460 145,023	1,937 221,033	- 281,369	- 20,074	- 875	- -
- -	- -	- -	- -	- -	- -
- -	- -	- -	- -	- -	- -
- -	- -	- -	- -	70,150	- -
<u>\$ 431,714</u>	<u>\$ 361,371</u>	<u>\$ 281,967</u>	<u>\$ 55,282</u>	<u>\$ 265,168</u>	<u>\$ 64</u>
\$ - -	\$ - 431	\$ - -	\$ - -	\$ - -	\$ - -
- -	- -	- -	- -	- -	- -
153,547	223,764	281,369	20,074	875	61,118
<u>153,547</u>	<u>224,195</u>	<u>281,369</u>	<u>20,074</u>	<u>875</u>	<u>64</u>
- -	- -	- -	- -	- -	- -
278,167	137,176	598	35,208	264,293	-
- -	- -	- -	- -	- -	- -
<u>278,167</u>	<u>137,176</u>	<u>598</u>	<u>35,208</u>	<u>264,293</u>	<u>(61,118)</u>
<u>\$ 431,714</u>	<u>\$ 361,371</u>	<u>\$ 281,967</u>	<u>\$ 55,282</u>	<u>\$ 265,168</u>	<u>\$ 64</u>

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2007

	Debt Service			
	592	593	597	599
	1992 Street and Utilities	1993 Street and Utilities	1997 LaGrande Improvements	1999 Street and Utilities Improvements
ASSETS:				
Cash and Investments	\$ 290,817	\$ 71,250	\$ 264,168	\$ -
Taxes Receivable	719	-	2,633	468
Special Assessments Receivable:				
Delinquent	-	-	958	218
Deferred	241,894	20,014	-	3,176
Accounts Receivable	-	-	-	-
Interest Receivable	-	-	-	-
Notes Receivable	-	-	-	-
Due from Other Governments	-	-	-	-
Due from Other Funds	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 533,430</u>	<u>\$ 91,264</u>	<u>\$ 267,759</u>	<u>\$ 3,862</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Salaries Payable	\$ -	\$ -	\$ -	\$ -
Accounts and Contracts Payable	431	448	-	144
Due to Other Governments	-	-	-	-
Due to Other Funds	-	-	-	55,682
Deferred Revenue	242,613	20,014	3,591	3,862
Total Liabilities	<u>243,044</u>	<u>20,462</u>	<u>3,591</u>	<u>59,688</u>
Fund Balances:				
Reserved	-	-	-	-
Unreserved:				
Designated for Debt Service	290,386	70,802	264,168	-
Designated for Capital Projects	-	-	-	-
Undesignated	-	-	-	(55,826)
Total Fund Balances	<u>290,386</u>	<u>70,802</u>	<u>264,168</u>	<u>(55,826)</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$ 533,430</u>	<u>\$ 91,264</u>	<u>\$ 267,759</u>	<u>\$ 3,862</u>

Debt Service	Capital Projects				
	301	303	304	305	306
Total	2002/2003 First Street Improvements	2003 Utility Improvement	2nd Street Street and Utilities Improvements	Heritage Village	21st Avenue Improvement South Portion
\$ 1,646,631	\$ -	\$ -	\$ 22,635	\$ -	\$ 279,486
8,013	-	-	-	-	-
10,573	-	-	-	-	-
1,020,118	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
70,150	-	-	-	-	-
<u>\$ 2,755,485</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,635</u>	<u>\$ -</u>	<u>\$ 279,486</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2,190	-	-	-	-	-
-	-	-	-	-	29,309
116,800	135,816	80,293	-	182,049	-
1,038,704	-	-	-	-	-
<u>1,157,694</u>	<u>135,816</u>	<u>80,293</u>	<u>-</u>	<u>182,049</u>	<u>29,309</u>
-	-	-	-	-	-
1,714,735	-	-	-	-	-
-	-	-	22,635	-	250,177
(116,944)	(135,816)	(80,293)	-	(182,049)	-
<u>1,597,791</u>	<u>(135,816)</u>	<u>(80,293)</u>	<u>22,635</u>	<u>(182,049)</u>	<u>250,177</u>
<u>\$ 2,755,485</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,635</u>	<u>\$ -</u>	<u>\$ 279,486</u>

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2007

	Capital Projects			
	307	308	328	330
	21st Avenue Improvement North Portion	2nd Street and 10th Avenue Street and Utility Improvements	Arcadian Home Utility Improvements	2000 Street and Utility Improvements
ASSETS:				
Cash and Investments	\$ -	\$ -	\$ -	\$ 5
Taxes Receivable	-	-	-	-
Special Assessments Receivable:				
Delinquent	-	-	-	-
Deferred	-	-	-	-
Accounts Receivable	-	-	-	-
Interest Receivable	-	-	-	-
Notes Receivable	-	-	-	-
Due from Other Governments	-	-	-	-
Due from Other Funds	-	-	-	-
Total Assets	\$ -	\$ -	\$ -	\$ 5
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Salaries Payable	\$ -	\$ -	\$ -	\$ -
Accounts and Contracts Payable	-	1,428	1,465	-
Due to Other Governments	-	-	-	-
Due to Other Funds	87,123	147,888	-	70,150
Deferred Revenue	-	-	-	-
Total Liabilities	87,123	149,316	1,465	70,150
Fund Balances:				
Reserved	-	-	-	-
Unreserved:				
Designated for Debt Service	-	-	-	-
Designated for Capital Projects	-	-	-	-
Undesignated	(87,123)	(149,316)	(1,465)	(70,145)
Total Fund Balances	(87,123)	(149,316)	(1,465)	(70,145)
Total Liabilities and Fund Balances	\$ -	\$ -	\$ -	\$ 5

Capital Projects

338	389	390	391	392	395
1st Street Apartment Tax Increment District	Rum River Redevelopment District	Railroad Property Redevelopment	District No. 3-5 Redevelopment District	District No. 3-6 Redevelopment District	Development District No. 4
\$ -	\$ 19,068	\$ 343,591	\$ 8,929	\$ 23,392	\$ 29,549
-	-	-	2,895	2,026	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ -</u>	<u>\$ 19,068</u>	<u>\$ 343,591</u>	<u>\$ 11,824</u>	<u>\$ 25,418</u>	<u>\$ 29,549</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
990	-	-	-	-	-
-	-	-	-	-	-
500	-	79,014	-	-	-
-	-	-	2,895	2,026	-
<u>1,490</u>	<u>-</u>	<u>79,014</u>	<u>2,895</u>	<u>2,026</u>	<u>-</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	19,068	264,577	8,929	23,392	29,549
(1,490)	-	-	-	-	-
<u>(1,490)</u>	<u>19,068</u>	<u>264,577</u>	<u>8,929</u>	<u>23,392</u>	<u>29,549</u>
<u>\$ -</u>	<u>\$ 19,068</u>	<u>\$ 343,591</u>	<u>\$ 11,824</u>	<u>\$ 25,418</u>	<u>\$ 29,549</u>

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CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2007

	Capital Projects			Total	Total Nonmajor Governmental Funds
	397	398	821		
	1997 Housing District	Armory Redevelopment District	Industrial Park Development	Total	
ASSETS:					
Cash and Investments	\$ 3,159	\$ 2,479	\$ 166,641	\$ 898,934	\$ 3,237,266
Taxes Receivable	-	-	-	4,921	13,934
Special Assessments Receivable:					
Delinquent	-	-	-	-	10,573
Deferred	-	-	-	-	1,020,118
Accounts Receivable	-	-	-	-	10,620
Interest Receivable	-	-	-	-	4,144
Notes Receivable	-	-	-	-	57,071
Due from Other Governments	-	-	-	-	13,750
Due from Other Funds	-	-	-	-	70,150
Total Assets	\$ 3,159	\$ 2,479	\$ 166,641	\$ 903,855	\$ 4,437,626
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Salaries Payable	\$ -	\$ -	\$ -	\$ -	\$ 2,654
Accounts and Contracts Payable	-	-	-	3,883	29,913
Due to Other Governments	-	-	-	29,309	47,965
Due to Other Funds	-	-	-	782,833	1,303,805
Deferred Revenue	-	-	-	4,921	1,101,696
Total Liabilities	-	-	-	820,946	2,486,033
Fund Balances:					
Reserved	-	-	-	-	-
Unreserved:					
Designated for Debt Service	-	-	-	-	1,714,735
Designated for Capital Projects	3,159	2,479	166,641	790,606	790,606
Undesignated	-	-	-	(707,697)	(553,748)
Total Fund Balances	3,159	2,479	166,641	82,909	1,951,593
Total Liabilities and Fund Balances	\$ 3,159	\$ 2,479	\$ 166,641	\$ 903,855	\$ 4,437,626

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, 2007

	Special Revenue				
	202	205	210	211	212
	Insurance Deductible Reserve	Cemetery Operation and Maintenance	Property Confiscation	Public Safety and Awareness	Investigation Information Buy Fund
REVENUES:					
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Tax Increments	-	-	-	-	-
Special Assessments	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for Services	-	28,542	4,360	-	-
Miscellaneous:					
Investment Income	1,185	-	5,168	66	-
Other	22,701	-	-	80	-
Total Revenues	<u>23,886</u>	<u>28,542</u>	<u>9,528</u>	<u>146</u>	<u>-</u>
EXPENDITURES:					
Current:					
Public Safety	-	-	3,537	560	-
Cemetery	-	35,301	-	-	-
Public Works	42,559	-	-	-	-
Parks and Culture	-	-	-	-	-
Economic Development	-	-	-	-	-
Debt Service:					
Principal	-	-	-	-	-
Interest and Fiscal Charges	-	-	-	-	-
Capital Outlay:					
Public Safety	-	-	-	-	-
Cemetery	-	14,909	-	-	-
Public Works	-	-	-	-	-
Parks and Culture	-	-	-	-	-
Economic Development	-	-	-	-	-
Total Expenditures	<u>42,559</u>	<u>50,210</u>	<u>3,537</u>	<u>560</u>	<u>-</u>
Excess of Revenues Over (Under) Expenditures	(18,673)	(21,668)	5,991	(414)	-
OTHER FINANCING SOURCES (USES):					
Sale of Capital Assets	-	-	-	-	-
Transfers In	30,000	21,754	-	-	-
Transfers Out	-	-	-	-	-
Bond Issuance	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>30,000</u>	<u>21,754</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	11,327	86	5,991	(414)	-
FUND BALANCES:					
Beginning of Year	35,950	6,224	111,168	1,577	(1,107)
End of Year	<u>\$ 47,277</u>	<u>\$ 6,310</u>	<u>\$ 117,159</u>	<u>\$ 1,163</u>	<u>\$ (1,107)</u>

Special Revenue

214	216	240	242	250	252	253	260
Felony Investigation	Solheim Field Improvements	Civic Center	Community Beautification	Community Projects	Development Grants	Development Expenses	Fire Equipment Reserve
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	411,348	-	-
-	-	1,500	-	-	-	-	-
461	165	-	165	-	-	-	6,330
-	1,500	-	3,100	9,794	-	24,526	32,773
461	1,665	1,500	3,265	9,794	411,348	24,526	39,103
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	3,058	4,595	1,824	14,269	-	-	-
-	-	-	-	-	411,348	18,812	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	3,852
-	-	-	-	-	-	-	61,907
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	3,058	4,595	1,824	14,269	411,348	18,812	65,759
461	(1,393)	(3,095)	1,441	(4,475)	-	5,714	(26,656)
-	-	-	-	-	-	-	4,370
-	1,600	3,500	2,500	-	-	-	30,105
-	-	-	-	-	-	-	-
-	1,600	3,500	2,500	-	-	-	34,475
461	207	405	3,941	(4,475)	-	5,714	7,819
10,156	4,640	187	2,140	4,733	(70,535)	(79,005)	100,865
\$ 10,617	\$ 4,847	\$ 592	\$ 6,081	\$ 258	\$ (70,535)	\$ (73,291)	\$ 108,684

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, 2007**

	Special Revenue					
	261	262	600	601	701	802
	Fire Equipment Grant	Disaster Relocation	Economic Development Authority	Stormwater Management Plan	Water Availability	Park Improvements
REVENUES:						
Property Taxes	\$ -	\$ -	\$ 17,425	\$ -	\$ -	\$ -
Tax Increments	-	-	-	-	-	-
Special Assessments	-	-	-	-	-	-
Intergovernmental	17,215	101,500	1,114	-	-	-
Charges for Services	-	-	-	-	88,325	11,620
Miscellaneous:						
Investment Income	-	-	-	-	-	4,049
Other	-	-	4,000	-	-	1,010
Total Revenues	<u>17,215</u>	<u>101,500</u>	<u>22,539</u>	<u>-</u>	<u>88,325</u>	<u>16,679</u>
EXPENDITURES:						
Current:						
Public Safety	7,939	30,185	-	-	-	-
Cemetery	-	-	-	-	-	-
Public Works	-	-	-	61,047	88,325	-
Parks and Culture	-	-	-	-	-	-
Economic Development	-	-	88,136	-	-	-
Debt Service:						
Principal	-	-	-	-	-	-
Interest and Fiscal Charges	-	-	-	-	-	-
Capital Outlay:						
Public Safety	10,644	10,000	-	-	-	-
Cemetery	-	-	-	-	-	-
Public Works	-	-	-	-	-	-
Parks and Culture	-	-	-	-	-	200,967
Economic Development	-	-	-	-	-	-
Total Expenditures	<u>18,583</u>	<u>40,185</u>	<u>88,136</u>	<u>61,047</u>	<u>88,325</u>	<u>200,967</u>
Excess of Revenues Over (Under) Expenditures	(1,368)	61,315	(65,597)	(61,047)	-	(184,288)
OTHER FINANCING SOURCES (USES):						
Sale of Capital Assets	-	-	-	-	-	-
Transfers In	-	-	5,000	-	-	-
Transfers Out	-	-	-	-	-	(800)
Bond Issuance	-	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>(800)</u>
Net Change in Fund Balances	<u>(1,368)</u>	<u>61,315</u>	<u>(60,597)</u>	<u>(61,047)</u>	<u>-</u>	<u>(185,088)</u>
FUND BALANCES:						
Beginning of Year	<u>(8,909)</u>	<u>27,911</u>	<u>(67,029)</u>	<u>-</u>	<u>-</u>	<u>164,221</u>
End of Year	<u>\$ (10,277)</u>	<u>\$ 89,226</u>	<u>\$ (127,626)</u>	<u>\$ (61,047)</u>	<u>\$ -</u>	<u>\$ (20,867)</u>

Special Revenue				Debt Service			
803	814	820		494	500	502	504
Cemetery Perpetual Care	UDAG No. 2 Downtown Project	UDAG No. 5 Crystal Cabinets	Total	1994 Library Project	1999 Industrial Park Improvements	2002/2003 1st Street Improvements	2nd and 7th Improvements
\$ -	\$ -	\$ -	\$ 17,425	\$ 23,067	\$ 16,302	\$ 19,665	\$ 14,644
-	-	-	-	-	-	-	-
-	-	-	-	-	53,577	29,757	38,869
-	9,960	-	541,137	1,477	1,037	4,417	933
3,388	-	-	137,735	-	-	-	-
6,845	2,119	3,785	30,338	856	12,805	10,568	4,542
-	-	-	99,484	-	-	-	-
<u>10,233</u>	<u>12,079</u>	<u>3,785</u>	<u>826,119</u>	<u>25,400</u>	<u>83,721</u>	<u>64,407</u>	<u>58,988</u>
-	-	-	42,221	-	-	-	-
-	-	-	35,301	-	-	-	-
-	-	-	191,931	-	-	-	-
-	-	-	23,746	-	-	-	-
-	-	-	518,296	-	-	-	-
-	-	-	-	20,000	56,665	50,000	35,000
-	-	-	3,852	3,048	11,796	14,315	12,999
-	-	-	82,551	-	-	-	-
-	-	-	14,909	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	200,967	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	<u>1,113,774</u>	<u>23,048</u>	<u>68,461</u>	<u>64,315</u>	<u>47,999</u>
10,233	12,079	3,785	(287,655)	2,352	15,260	92	10,989
-	-	-	4,370	-	-	-	-
-	-	-	94,459	-	-	-	-
(6,845)	-	-	(7,645)	-	-	-	-
-	-	-	-	-	-	-	-
<u>(6,845)</u>	<u>-</u>	<u>-</u>	<u>91,184</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
3,388	12,079	3,785	(196,471)	2,352	15,260	92	10,989
134,389	5,986	83,802	467,364	33,264	323,061	278,075	126,187
<u>\$ 137,777</u>	<u>\$ 18,065</u>	<u>\$ 87,587</u>	<u>\$ 270,893</u>	<u>\$ 35,616</u>	<u>\$ 338,321</u>	<u>\$ 278,167</u>	<u>\$ 137,176</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, 2007

	Debt Service				
	507	530	552	590	592
	2007 PUC Area Improvements	2000 Street and Utilities Improvements	Revolving Account Fund	1990 Assessment Refunding	1992 Street and Utilities
REVENUES:					
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ 12,117
Tax Increments	-	-	-	-	-
Special Assessments	-	3,232	-	-	58,831
Intergovernmental	-	-	-	-	774
Charges for Services	-	-	-	-	-
Miscellaneous:					
Investment Income	598	1,415	8,395	-	10,600
Other	-	-	-	-	-
Total Revenues	<u>598</u>	<u>4,647</u>	<u>8,395</u>	<u>-</u>	<u>82,322</u>
EXPENDITURES:					
Current:					
Public Safety	-	-	-	-	-
Cemetery	-	-	-	-	-
Public Works	-	-	-	-	-
Parks and Culture	-	-	-	-	-
Economic Development	-	-	-	-	-
Debt Service:					
Principal	-	-	-	-	45,000
Interest and Fiscal Charges	-	-	-	-	18,034
Capital Outlay:					
Public Safety	-	-	-	-	-
Cemetery	-	-	-	-	-
Public Works	-	-	-	-	-
Parks and Culture	-	-	-	-	-
Economic Development	-	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>63,034</u>
Excess of Revenues Over (Under) Expenditures	598	4,647	8,395	-	19,288
OTHER FINANCING SOURCES (USES):					
Sale of Capital Assets	-	-	-	-	-
Transfers In	-	-	-	-	-
Transfers Out	-	-	-	-	-
Bond Issuance	-	-	-	-	-
Total Other Financial Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	598	4,647	8,395	-	19,288
FUND BALANCES:					
Beginning of Year	-	30,561	255,898	(61,118)	271,098
End of Year	<u>\$ 598</u>	<u>\$ 35,208</u>	<u>\$ 264,293</u>	<u>\$ (61,118)</u>	<u>\$ 290,386</u>

Debt Service				Capital Projects		
593	597	599		301	303	304
1993 Street and Utilities	1997 LaGrande Improvements	1999 Street and Utilities Improvements	Total	2002/2003 First Street Improvement	2003 Utility Improvement	2nd Street Street and Utilities Improvements
\$ -	\$ 32,325	\$ 8,151	\$ 126,271	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
3,563	43,747	4,146	235,722	-	-	-
-	1,868	519	11,025	-	-	-
-	-	-	-	-	-	-
2,996	9,282	-	62,057	-	-	988
-	-	-	-	-	-	-
<u>6,559</u>	<u>87,222</u>	<u>12,816</u>	<u>435,075</u>	<u>-</u>	<u>-</u>	<u>988</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
20,000	150,000	28,335	405,000	-	-	-
3,048	10,888	5,898	80,026	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>23,048</u>	<u>160,888</u>	<u>34,233</u>	<u>485,026</u>	<u>-</u>	<u>-</u>	<u>-</u>
(16,489)	(73,666)	(21,417)	(49,951)	-	-	988
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>(16,489)</u>	<u>(73,666)</u>	<u>(21,417)</u>	<u>(49,951)</u>	<u>-</u>	<u>-</u>	<u>988</u>
<u>87,291</u>	<u>337,834</u>	<u>(34,409)</u>	<u>1,647,742</u>	<u>(135,816)</u>	<u>(80,293)</u>	<u>21,647</u>
<u>\$ 70,802</u>	<u>\$ 264,168</u>	<u>\$ (55,826)</u>	<u>\$ 1,597,791</u>	<u>\$ (135,816)</u>	<u>\$ (80,293)</u>	<u>\$ 22,635</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, 2007

	Capital Projects			
	305	306	307	308
	Heritage Village	21st Avenue Improvements South Portion	21st Avenue Improvements North Portion	2nd Street 10th Avenue Street and Utility Improvements
REVENUES:				
Property Taxes	\$ -	\$ -	\$ -	\$ -
Tax Increments	-	-	-	-
Special Assessments	-	-	-	-
Intergovernmental	-	-	-	-
Charges for Services	-	-	-	-
Miscellaneous:				
Investment Income	-	12,312	-	-
Other	-	-	-	-
Total Revenues	<u>-</u>	<u>12,312</u>	<u>-</u>	<u>-</u>
EXPENDITURES:				
Current:				
Public Safety	-	-	-	-
Cemetery	-	-	-	-
Public Works	-	-	-	-
Parks and Culture	-	-	-	-
Economic Development	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest and Fiscal Charges	-	-	-	-
Capital Outlay:				
Public Safety	-	-	-	-
Cemetery	-	-	-	-
Public Works	123,323	31,002	834	383,316
Parks and Culture	-	-	-	-
Economic Development	-	-	-	-
Total Expenditures	<u>123,323</u>	<u>31,002</u>	<u>834</u>	<u>383,316</u>
Excess of Revenues Over (Under) Expenditures	(123,323)	(18,690)	(834)	(383,316)
OTHER FINANCING SOURCES (USES):				
Sale of Capital Assets	-	-	-	-
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Bond Issuance	-	-	-	234,000
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>234,000</u>
Net Change in Fund Balances	(123,323)	(18,690)	(834)	(149,316)
FUND BALANCES:				
Beginning of Year	<u>(58,726)</u>	<u>268,867</u>	<u>(86,289)</u>	<u>-</u>
End of Year	<u>\$ (182,049)</u>	<u>\$ 250,177</u>	<u>\$ (87,123)</u>	<u>\$ (149,316)</u>

Capital Projects

328	330	338	389	390	391
Arcadian Home Utility Improvements	2000 Street and Utility Improvements	1st Street Apartment Tax Increment District	Rum River Redevelopment District	Railroad Property Redevelopment	District 3-5 Redevelopment District
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	38,258	36,114	26,210
-	-	-	4,122	4,904	1,966
-	-	-	-	13,596	-
-	-	-	42,380	54,614	28,176
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,465	-	1,490	-	-	-
-	-	-	-	-	-
-	-	-	38,700	-	26,289
1,465	-	1,490	38,700	-	26,289
(1,465)	-	(1,490)	3,680	54,614	1,887
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
(1,465)	-	(1,490)	3,680	54,614	1,887
-	(70,145)	-	15,388	209,963	7,042
\$ (1,465)	\$ (70,145)	\$ (1,490)	\$ 19,068	\$ 264,577	\$ 8,929

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, 2007

	Capital Projects			
	392	395	397	398
	District 3-6 Redevelopment District	Development District No. 4	1997 Housing District	Armory Redevelopment District
REVENUES:				
Property Taxes	\$ -	\$ -	\$ -	\$ -
Tax Increments	65,866	-	8,598	7,591
Special Assessments	-	-	-	-
Intergovernmental	5,798	-	-	-
Charges for Services	-	-	-	-
Miscellaneous:				
Investment Income	-	-	-	-
Other	-	-	-	-
Total Revenues	<u>71,664</u>	<u>-</u>	<u>8,598</u>	<u>7,591</u>
EXPENDITURES:				
Current:				
Public Safety	-	-	-	-
Cemetery	-	-	-	-
Public Works	-	-	-	-
Parks and Culture	-	-	-	-
Economic Development	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest and Fiscal Charges	-	-	-	-
Capital Outlay:				
Public Safety	-	-	-	-
Cemetery	-	-	-	-
Public Works	-	-	-	-
Parks and Culture	-	-	-	-
Economic Development	64,482	-	7,770	6,920
Total Expenditures	<u>64,482</u>	<u>-</u>	<u>7,770</u>	<u>6,920</u>
Excess of Revenues Over (Under) Expenditures	7,182	-	828	671
OTHER FINANCING SOURCES (USES):				
Sale of Capital Assets	-	-	-	-
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Bond Issuance	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	7,182	-	828	671
FUND BALANCES:				
Beginning of Year	<u>16,210</u>	<u>29,549</u>	<u>2,331</u>	<u>1,808</u>
End of Year	<u>\$ 23,392</u>	<u>\$ 29,549</u>	<u>\$ 3,159</u>	<u>\$ 2,479</u>

Capital Projects

821		
Industrial Park Development	Total	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 143,696
-	182,637	182,637
-	-	235,722
-	16,790	568,952
-	-	137,735
4,641	31,537	123,932
96,887	96,887	196,371
<u>101,528</u>	<u>327,851</u>	<u>1,589,045</u>
-	-	42,221
-	-	35,301
-	-	191,931
-	-	23,746
-	-	518,296
-	-	405,000
-	-	83,878
-	-	82,551
-	-	14,909
-	541,430	541,430
-	-	200,967
12,775	156,936	156,936
<u>12,775</u>	<u>698,366</u>	<u>2,297,166</u>
88,753	(370,515)	(708,121)
-	-	4,370
-	-	94,459
-	-	(7,645)
-	234,000	234,000
-	234,000	325,184
88,753	(136,515)	(382,937)
77,888	219,424	2,334,530
<u>\$ 166,641</u>	<u>\$ 82,909</u>	<u>\$ 1,951,593</u>

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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, 2007**

	<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	\$ 1,337,580	\$ 1,278,645	\$ 1,341,431	\$ 62,786
Licenses and Permits	202,895	153,015	180,707	27,692
Intergovernmental Revenue:				
Local Government Aid	771,265	771,265	771,267	2
Market Value Credit	-	85,180	86,516	1,336
Fire Aid	58,245	62,025	54,204	(7,821)
Police Aid	42,440	49,650	49,651	1
Other Grants and Aids	5,875	5,875	5,874	(1)
Total Intergovernmental Revenue	<u>877,825</u>	<u>973,995</u>	<u>967,512</u>	<u>(6,483)</u>
Charges for Services:				
General Government	77,900	77,755	78,375	620
Public Safety	111,360	99,665	108,711	9,046
Public Works	5,400	6,130	6,568	438
Park and Recreation	24,500	24,405	25,429	1,024
Total Charges for Services	<u>219,160</u>	<u>207,955</u>	<u>219,083</u>	<u>11,128</u>
Fines or Forfeitures	53,850	49,250	54,380	5,130
Miscellaneous Revenues:				
Investment Income	22,000	27,000	50,893	23,893
Other	32,500	32,575	33,133	558
Total Miscellaneous	<u>54,500</u>	<u>59,575</u>	<u>84,026</u>	<u>24,451</u>
Total Revenues	<u>2,745,810</u>	<u>2,722,435</u>	<u>2,847,139</u>	<u>124,704</u>
EXPENDITURES:				
General Government:				
Mayor and Council	32,275	31,805	29,875	(1,930)
Administrative and Finance	306,140	307,985	303,396	(4,589)
Other General Government	292,606	239,530	195,988	(43,542)
Capital Outlay	122,050	30,650	29,349	(1,301)
Total General Government	<u>753,071</u>	<u>609,970</u>	<u>558,608</u>	<u>(51,362)</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, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES:				
Public Safety:				
Police:				
Current	\$ 833,435	\$ 841,300	\$ 822,731	\$ (18,569)
Capital Outlay	168,900	168,900	109,791	(59,109)
Fire:				
Current	163,855	177,080	163,750	(13,330)
Other:				
Current	232,672	217,149	166,840	(50,309)
Total Public Safety	<u>1,398,862</u>	<u>1,404,429</u>	<u>1,263,112</u>	<u>(141,317)</u>
Cemetery:				
Current	4,128	3,044	2,090	(954)
Public Works:				
Streets and Highways:				
Street Maintenance and Storm Sewers	621,877	605,482	564,858	(40,624)
Street Construction Capital Outlay	66,000	55,380	55,377	(3)
Street - Other Capital Outlay	8,000	7,140	7,140	-
Total Public Works	<u>695,877</u>	<u>668,002</u>	<u>627,375</u>	<u>(40,627)</u>
Parks and Recreation:				
Libraries:				
Current Expenditures	30,760	32,445	29,152	(3,293)
Capital Outlay Expenditures	30,000	-	-	-
Other Parks and Recreation:				
Current Expenditures	176,781	181,534	153,498	(28,036)
Capital Outlay	5,000	10,075	10,075	-
Total Parks and Recreation	<u>242,541</u>	<u>224,054</u>	<u>192,725</u>	<u>(31,329)</u>
Economic Development:				
Current Expenditures	29,756	21,941	15,065	(6,876)
Total Expenditures	<u>3,124,235</u>	<u>2,931,440</u>	<u>2,658,975</u>	<u>(272,465)</u>
Excess of Revenues Over (Under) Expenditures				
	(378,425)	(209,005)	188,164	397,169

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, 2007**

	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	399,950	272,145	-	(272,145)
Transfers Out	(60,300)	(58,195)	(81,405)	(23,210)
Total Other Financing Sources (Uses)	392,150	266,450	(28,905)	(295,355)
Net Change in Fund Balances	\$ 13,725	\$ 57,445	159,259	\$ 101,814
FUND BALANCES:				
Beginning of Year			1,523,518	
End of Year			\$ 1,682,777	

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

June 16, 2008

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, 2007, and have issued our report thereon dated June 16, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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



A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course or performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be detected by the City's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses on Legal Compliance and Internal Control as Audit Findings 06-01 and 07-01 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the significant deficiency described in the accompanying Schedule of Findings and Responses on Legal Compliance and Internal Control as Audit Finding 07-01 to be a material weakness in internal control over financial reporting.

COMPLIANCE AND OTHER MATTERS

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

We also noted certain additional matters that we reported to management of the City in a separate letter dated June 16, 2008.

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

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

Kern, DeWenter, Viere, Ltd.

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



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REPORT ON LEGAL COMPLIANCE

June 16, 2008

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, 2007, and have issued our report thereon dated June 16, 2008.

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, 2007

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDING:

Material Weakness

Audit Finding 07-01 – Prior Period Adjustment

A prior period adjustment was done to correct the 2006 financial statements. An adjustment to the government-wide statements was necessary to add additional construction in progress not capitalized in prior years.

City's Response

This resulted from the length of time preliminary work is done on an improvement project until final completion and project acceptance. In the future, City finance and development staff, along with the City engineer, will be more alert to identify costs that will become part of a project early in the process and make the necessary statement adjustment to show as construction in progress. Also, the City may adopt a policy of recording costs that potentially could become part of a project as construction in progress and write it off if the project does not proceed.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

**SCHEDULE OF FINDINGS AND RESPONSES ON LEGAL
COMPLIANCE AND INTERNAL CONTROL**
December 31, 2007

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, 2007, the City had a lack of segregation of accounting duties due to a limited number of office employees.

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

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

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

City’s Response

We agree 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, 2007

CURRENT AND PRIOR YEAR STATUTE FINDINGS:

Public Purpose Expenditures

According to Attorney General Publications *442a-17*, January 17, 1938; *59a-22*, November 23, 1966; *270-D*, August 12, 1977 and *174E*, the City must refrain from paying for Christmas parties and other employee social events, unless the celebrations are a form of compensation, as described in the City's personnel manual.

During our audit, we noted the City paid for food for a Christmas party and was not formally approved in the City personnel manual.

As of August 1, 2007, *Minnesota Statutes* changed to allow cities to pay for employee recognition items, as long as they are listed in the personnel policy.

We recommend the City revise their personnel policy to incorporate this change as of August 1, 2007.

City's Response

The City has approved a policy regarding employment recognition events to enhance employee and volunteer efficiency and performance by improved employee morale. A program will be developed and included as part of the policy to further specify the steps that will be used to accomplish this goal.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

**SCHEDULE OF FINDINGS AND RESPONSES ON LEGAL
COMPLIANCE AND INTERNAL CONTROL**
December 31, 2007

CURRENT AND PRIOR YEAR STATUTE FINDINGS:

Issuance of Administrative Tickets

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

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

We recommend the City refrain from further issuing administrative tickets.

City's Response

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

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

**SCHEDULE OF FINDINGS AND RESPONSES ON LEGAL
COMPLIANCE AND INTERNAL CONTROL**
December 31, 2007

CURRENT YEAR STATUTE FINDINGS:

Update Collateral Assignment Agreement

Minnesota Statutes 118A.03, subd. 4 requires that the written assignment shall recite that, upon default, the financial institution shall release to the City entity on demand, free of exchange or any other charges, the collateral pledged.

It was noted during our legal compliance audit, the City's collateral assignment agreement did not require the release of collateral upon default.

We recommend the City update its assignment agreement in order to be in compliance with the *Minnesota Statutes*.

City's Response

The City has finished an update of the collateral assignment agreement that conforms to statutory requirements with one of the two banks that are required to provide collateral. The process of updating the assignment agreement has been started with the other bank with preliminary approval of a draft agreement at a staff level that also conforms to state requirements.

Bids and Quotes

Minnesota Statutes 471.345 requires the City to retain all quotes received for a period of at least one year.

During our audit, we noted the bids received by the City for the Waste Water Treatment Plan Phosphorus Removal had not been retained.

We recommend the City retain these quotes on file for at least one year.

City's Response

It is the City's policy to keep all bids and quotes for the required time period. In this instance, the engineering firm took the bids with them to verify the accuracy and completeness of the bids prior to award. The firm then returned the bids to all but the two lowest bidders. Staff will make sure engineers hired by the City realize the policy of keeping all bids by requiring the return of the bids to the City for filing.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

**SCHEDULE OF FINDINGS AND RESPONSES ON LEGAL
COMPLIANCE AND INTERNAL CONTROL**
December 31, 2007

CURRENT YEAR STATUTE FINDINGS:

Prompt Payment to Subcontractors

Minnesota Statutes 471.425, Subd. 4a requires contracts of a municipality to have the prime contractor pay any subcontractor within 10 days of the prime contractor's receipt of payment. The contract also must require the prime contractor pay interest of 1.5% per month or any part of a month to the subcontractor for any undisputed amount not paid to the subcontractor within the 10 days.

We recommend the required verbiage be added to future contracts in order to be in compliance with *Minnesota Statutes*.

City's Response

The City will ensure this requirement is included in all future bid requests by notifying the project engineer and reviewing the documents to assure conformity.

Park Dedication Fees Based on Fair Market Value

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

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

City's Response

The City is in process of amending its fee structure to conform to the current state statute requirements. The amendment should be completed in 2008.

CITY OF PRINCETON
Mille Lacs County and Sherburne County, Minnesota

**SCHEDULE OF FINDINGS AND RESPONSES ON LEGAL
COMPLIANCE AND INTERNAL CONTROL**
December 31, 2007

CURRENT YEAR STATUTE FINDINGS:

Out of State Travel Policy

Minnesota Statutes 471.661 states all cities must have an approved policy that controls travel outside the State of Minnesota which specifies when out of state travel is appropriate, the expense limits of out of state travel and procedures for approval of the travel. The City currently has no policy regarding travel outside of Minnesota.

We recommend the City comply with *Minnesota Statutes* and develop a written policy for out of state travel, which is approved by the City Council. The policy should specify when out of state travel is appropriate, expense limits for out of state travel and procedures for approval of out of state travel.

City's Response

Although out of state travel is a very rare occurrence for City employees, we will include language in our travel policy that requires all out of state travel (other than incidental trips with only mileage involved) to be preapproved by the City Council.

Timely Disbursement of State Aid to Relief Association

According to *Minnesota Statutes* 69.031, Subd. 4(a), the city treasurer is required to distribute the fire state aid within 30 days of receipt from the state.

During our audit, it was noted the Princeton Firefighters' Relief Association did not receive state aid from the City Treasurer within 30 days.

In order to be in compliance with *Minnesota Statutes*, we recommend the City disburse the fire state aid in a timely manner to the Princeton Firefighters' Relief Association.

City's Response

The cause of the delay in 2007 has been identified and precautions will be taken to avoid the situation in the future.