

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

AUDITED FINANCIAL STATEMENTS

For the Year Ended December 31, 2012

CITY OF PRINCETON

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CITY OF PRINCETON
ELECTED OFFICIALS AND ADMINISTRATION
December 31, 2012

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Jeremy Riddle	Mayor	December 31, 2012
Dick Dobson	Council Member	December 31, 2016
Victoria Hallin	Council Member	December 31, 2016
Thom Walker	Council Member	December 31, 2014
Paul Whitcomb	Council Member	December 31, 2014
<u>Administration</u>		
Mark Karnowski	City Administrator	
Steven L. Jackson	Finance Director	
Shawna Jenkins	City Clerk	
Karen Hodge	Finance Clerk	



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the Economic Development Authority 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, 2012, and the related Notes to the Financial Statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 Princeton Public Utilities Commission discretely presented component unit column. These statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Princeton Public Utilities Commission, is based solely upon the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report 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 Public Utilities Commission and the Economic Development Authority discretely presented component units, each major fund and the aggregate remaining fund information of the City of Princeton, Minnesota, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of GASB 63

As discussed in Note 15 to the financial statements, the City has adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, and the Schedule of Funding Progress – Other Post-Employment Benefits as identified in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Other Information

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 financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) *Circular A-133, Audits of States, Local Governments and Nonprofit Organizations*, and is also not a required part of the financial statements. The supplementary information and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2013, 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* in considering the City's internal control over financial reporting and compliance.

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
June 17, 2013

CITY OF PRINCETON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

As management of the City of Princeton (the "City"), we offer readers of the City's financial statement this narrative overview and analysis of the financial activities of the City for the year ended December 31, 2012.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the recent year by \$ 27,558,174 (net position) which is an increase of \$ 1,626,224 (6.27%) over the December 31, 2011 amount. Of this amount, \$ 8,290,700 for 2012 and \$ 8,048,132 for 2011 were unrestricted net position available to be used to meet the City's ongoing obligations to citizens and creditors.
- Of the City's total net position increase of \$ 1,626,224 during the year 2012, only \$ 174,307 of this increase came from the governmental funds. The remainder of the increase, \$ 1,451,917, came from the proprietary funds, primarily the result of income in the three Proprietary Funds of the City, the Sewer Fund, the Airport Fund and the Liquor Fund
- As of the close of the current year, the City's governmental funds reported combined ending fund balances of \$ 8,472,732, an increase of \$ 1,092,960. This was primarily due to increases fund balance in the Capital Improvements Fund, the General Fund and debt service funds resulting primarily from refunding bond issue proceeds.
- At the end of the current year, all but \$ 160,791 of the General Fund fund balance of \$ 2,359,793 was unassigned.
- The City's total bonded debt increased by \$ 1,372,000 (6.55%) during the current year. This resulted from the issuance of \$ 2,275,000 refunding bonds issued to take advantage of interest savings and payments of current maturities during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may be useful to indicate if the financial position of the City is improving or deteriorating.

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

CITY OF PRINCETON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

Thus, revenues and expenses are reported in this Statement for some items that will only result in cash flows in future periods (e.g., uncollected taxes and earned but unused vacation leave).

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

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

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

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

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the 1 year. Such information may be useful in evaluating a city's near-term financing requirements.

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

The City maintains 56 individual governmental funds. Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund and Capital Project Fund (Capital Improvements) both of which are presented as major funds. Data from 54 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. Data for the Economic Development Authority is presented as a discretely presented component unit of the City.

CITY OF PRINCETON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

The City adopts an annual appropriated budget for its General Fund and the Special Revenue Funds. A budgetary comparison statement has been provided for the General Fund.

The basic governmental fund financial statements can be found on pages 18-22 of this report.

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

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

The basic proprietary fund financial statements can be found on pages 23-25 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 27-58 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 60 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 62-86 of this report.

CITY OF PRINCETON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a City's financial position. In the case of the City, assets exceeded liabilities (net position) by \$ 27,558,174 at the close of the most recent year.

City of Princeton's Net Position

	Governmental Activities	Business-Type Activities	Total 12/31/12	Total 12/31/11
Current and Other Assets	\$ 9,915,347	\$ 6,900,845	\$ 16,816,192	\$ 21,529,809
Capital Assets	9,229,292	25,470,156	34,699,448	27,291,958
Total Assets	<u>\$ 19,144,639</u>	<u>\$ 32,371,001</u>	<u>\$ 51,515,640</u>	<u>\$ 48,821,767</u>
Long-Term Liabilities				
Outstanding	\$ 2,221,934	\$ 18,924,516	\$ 21,146,450	\$ 20,493,737
Other Liabilities	1,471,231	1,339,785	2,811,016	2,396,080
Total Liabilities	<u>3,693,165</u>	<u>20,264,301</u>	<u>23,957,466</u>	<u>22,889,817</u>
Net Position:				
Net Investment in				
Capital Assets	8,007,716	8,896,679	15,896,971	14,524,094
Restricted	3,370,503	-	3,370,503	3,359,724
Unrestricted	4,073,255	3,210,021	8,290,700	8,048,132
Total Net Position	<u>\$ 15,451,474</u>	<u>\$ 12,106,700</u>	<u>\$ 27,558,174</u>	<u>\$ 25,931,950</u>

By far, the largest portion (61.34%) of the City's net position reflects its investment in capital assets (e.g., land, buildings, machinery and equipment net of depreciation) less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted the resources needed to repay this debt must be provided from other sources. Since the capital assets themselves are needed to provide services, they cannot be used to liquidate these liabilities.

An additional 12.23% of the City's net position represent resources that are subject to external restrictions on how they may be used. The predominant restriction is for debt service, which comprises 84.12% of the restricted net position classification. The remaining balance of unrestricted net position (\$ 7,283,276) may be used to meet the City's ongoing commitments and obligations to citizens and creditors.

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

CITY OF PRINCETON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

City of Princeton's Change in Net Position

	Governmental Activities	Business-type Activities	Total 12/31/2012	Total 12/31/2011
Revenue:				
Program Revenues:				
Charges for Services	\$ 562,503	\$ 4,670,263	\$ 5,232,766	\$ 3,956,897
Operating Grants and Contributions	141,566	-	141,566	144,919
Capital Grants and Contributions	424,558	952,948	1,377,506	234,157
General Revenues:				
Property Taxes	2,215,374	-	2,215,374	2,037,678
Tax Increments	97,454	-	97,454	114,195
Intergovernmental	541,806	-	541,806	604,112
PUC Payment in Lieu of Taxes	52,500	-	52,500	52,500
Other Revenue	3,791	-	3,791	3,837
Gain on Sale of Asset	-	-	-	12,427
Investment Income	85,026	27,857	112,883	92,465
Total Revenues	<u>4,124,578</u>	<u>5,651,068</u>	<u>9,775,646</u>	<u>7,253,187</u>
Expenses:				
General Government	601,027	-	601,027	623,250
Public Safety	1,500,065	-	1,500,065	1,488,082
Cemetery	29,792	-	29,792	29,637
Public Works	856,976	-	856,976	889,917
Culture and Recreation	297,218	-	297,218	343,928
Economic Development	530,414	-	530,414	287,119
Interest on Long-Term Debt	122,279	-	122,279	98,349
Water	-	247,394	247,394	67,705
Sewer	-	1,180,848	1,180,848	1,001,443
Municipal Liquor	-	2,536,667	2,536,667	2,402,518
Airport	-	246,742	246,742	246,887
Total Expenses	<u>3,937,771</u>	<u>4,211,651</u>	<u>8,149,422</u>	<u>7,478,835</u>
Change in Net Assets before				
Transfers	186,807	1,439,417	1,626,224	(225,648)
Transfers	(12,500)	12,500	-	-
Change in Net Assets	<u>174,307</u>	<u>1,451,917</u>	<u>1,626,224</u>	<u>(225,648)</u>
Net Position January 1	<u>15,277,167</u>	<u>10,654,783</u>	<u>25,931,950</u>	<u>26,157,598</u>
Net Position December 31	<u>\$ 15,451,474</u>	<u>\$ 12,106,700</u>	<u>\$ 27,558,174</u>	<u>\$ 25,931,950</u>

There was an increase of \$ 1,626,224 in the City's net position during the current year. The majority of this increase (89.3%) resulted from the business-type (enterprise) funds operations, primarily from net income in the proprietary funds along with intergovernmental revenues. These intergovernmental revenues were in the form of a \$ 500,000 grant for the completion of a phosphorus reduction project at the wastewater plant and a \$ 431,330 grant for construction projects at the municipal airport. The remainder of the increase (10.7%) was due to an increase in the net position in the governmental funds. The primary reason for this increase was net revenues over expenditures in the General Fund, which was largely due to better than expected collection of taxes and less insurance and unanticipated legal expenses than prior years.

CITY OF PRINCETON

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2012

Governmental Activities. Governmental activities increased the City's net position by \$ 174,307, which represented 10.7% of the total increase in the net position of the City. This increase resulted from higher than expected tax collections, lower insurance and legal expenses than previous years. There was also a significant reduction in expert and professional expenditures in the planning and zoning department.

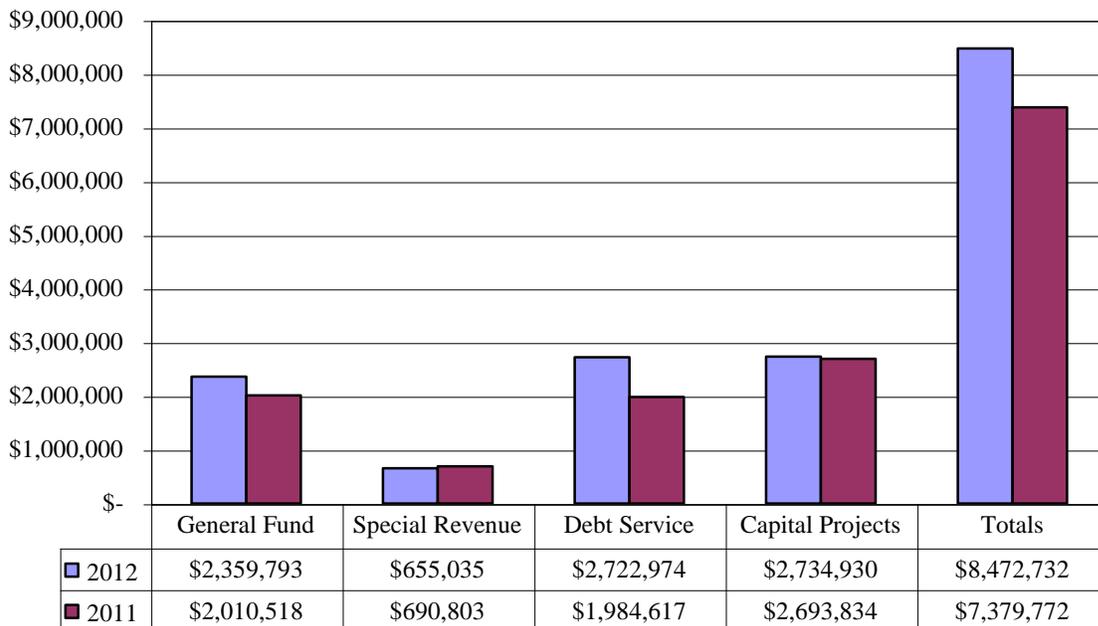
Business-Type Activities. Business-type activities resulted in a net asset increase of \$ 1,451,917, which accounted for 89.3% of the City's total net asset increase. This resulted primarily from net operating income in the three proprietary funds.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

Fund Balance Summary



As of the end of the current year, the City's governmental funds reported combined ending fund balances of \$ 8,472,732, an increase of \$ 1,092,960 from the prior year. This increase was largely due to refunding bond issues of approximately \$ 770,000 and to increases in the City's General Fund and the Capital Improvements Fund for future projects. The City reported a total unrestricted fund balance of \$ 5,069,835 at December 31, 2012, which was an increase of \$ 126,273 from the prior year.

CITY OF PRINCETON

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2012

The General Fund is the chief operating fund of the City. At the end of the current year, the fund balance of the General Fund was \$ 2,359,793, which was 93.18% unassigned and considered available for spending; however, 71.86% of the unassigned balance is designated by the City Council for working capital (cash flow) purposes.

The General Fund balance increased by \$ 349,275 during the year. This increase includes a change in accounting principle of \$ 75,023 in the presentation of the insurance deductible transactions. The operating increase of \$ 274,252 was \$ 194,786 more than the prior year's increase of \$ 79,466. Key factors in this growth and the difference between the two years' fund balance increases are as follows:

- Property tax revenues of the General Fund increased by \$ 131,138, which at the time the original budget was adopted, this increase was necessitated by the continuing uncertainty in state aids.
- There was a decrease in intergovernmental revenue of \$ 50,011 even though there has been a stabilization of Local Government Aid (LGA). The complete elimination of Market Value Credit Aid and slight decreases in aid for firefighter relief of \$ 805 police aid of \$ 2,488 were factors in this decrease. There also was a \$ 10,000 grant from the Department of Natural Resources for trail planning and a \$ 4,992 grant for police body armor in 2011.
- Licenses and permits decreased by \$ 31,852 and investment income actually increased by \$873 due interest rate stabilization and other income experienced an increase of \$ 35,384 due to an increase in miscellaneous income and reimbursements from an increase in school youth services officer reimbursement due to an additional officer.
- There was a revenue decrease of \$ 7,723 in fines and forfeitures.
- There was a \$ 118,553 decrease in total expenditures. There was a decrease of \$ 418 for public safety activities. Increases for police personnel step increases and supplies and fire calls were offset by decreases in insurance and building inspection expenses. Public works expenditures decreased by \$ 34,075 from reductions in labor costs and sealcoating, and there was a decrease of \$ 47,798 in parks and recreation from decreases in park labor, insurance and utility costs. There was a decrease of \$ 32,290 in general government primarily from decreases in insurance and other expert and professional costs and a decrease of \$ 24,014 in capital outlay. There was a slight increase of \$ 10,054 in the economic development functions.

Debt Service Funds had a total fund balance of \$ 2,722,974, all of which is restricted for the payment of debt service. There was an increase in fund balance during the current year in the Debt Service Funds of \$ 738,357. This increase is due to proceeds from refunding bonds received but not expended at the end of the year.

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

Total net position of the Liquor Fund at the end of the year amounted to \$ 3,813,503, the Sanitary Sewer Fund was \$ 6,079,771 and the Airport Fund was \$ 2,213,426. Unrestricted net position, which are amounts available for operating expenditures and spending at the discretion of the City, at year-end for the Liquor Fund amounted to \$ 2,411,587, the Sanitary Sewer Fund was \$ 803,305 and the Airport unrestricted net position was a negative \$ 4,871. The increases (decrease) in unrestricted net position for each of these Funds were \$ 240,066, \$ 88,064 and (\$ 22,337), respectively. The increases (decreases) in these Funds result predominantly from the operations of these revenue generating Funds.

CITY OF PRINCETON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

GENERAL FUND BUDGETARY HIGHLIGHTS

The change from the original budget and the final amended budget was a significant \$ 309,220 decrease in appropriations (9.48%), and included cuts of \$ 108,990 in general government activities, \$ 5,515 in public works and \$ 209,530 in capital outlay. Increases in appropriations were \$ 10,160 in public safety and \$ 4,655 for parks and recreation.

The eventual difference between the final amended budget and the actual amount of the change in fund balance was \$ 274,102. The major factors that resulted in this difference were a \$ 242,022 positive variance in general government expenditures offset by a \$ 128,348 negative variance in net transfers. An \$ 80,693 positive variance in tax collections, a \$ 20,091 positive variance in charges for services, a \$ 28,492 positive variance in capital outlay, a \$ 35,888 positive variance in other income and an \$ 18,770 positive variance in public works expenditures all added to the difference.

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 \$ 34,699,448 as of December 31, 2012 and \$ 27,291,958 as of December 31, 2011. This investment in capital assets includes land, easements buildings and improvements, machinery and equipment, park facilities, roads, sidewalks and utility infrastructure and construction in progress.

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

- Planning and design work continued and construction neared completion on the wastewater treatment facilities expansion for the Sanitary Sewer Fund with construction in progress at year-end of \$ 14,721,123 (an increase of \$ 7,661,444).
- Total depreciation expense for 2012 of \$ 1,483,901.

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

	Governmental Activities	Business-type Activities	Total 12/31/12	Total 12/31/11
Land and Easements	\$ 1,570,934	\$ 1,036,041	\$ 2,606,975	\$ 2,606,975
Buildings	1,188,494	1,719,356	2,907,850	3,011,246
Improvements other than Buildings	369,853	6,697,523	7,067,376	7,407,231
Machinery and Equipment	1,266,739	732,739	1,999,478	2,114,506
Infrastructure	4,799,590	-	4,799,590	5,038,142
Construction in Progress	33,682	15,284,497	15,318,179	7,113,858
Total	<u>\$ 9,229,292</u>	<u>\$ 25,470,156</u>	<u>\$ 34,699,448</u>	<u>\$ 27,291,958</u>

Additional information on the City's capital assets can be found in Note 4 on pages 40-43 of this report.

CITY OF PRINCETON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

Long-Term Debt. At the end of the year, the City had total bonded debt outstanding of \$ 22,309,000. As was the case last year, none of the City debt was backed by the full faith and credit of the City but \$ 3,139,000 is special assessment debt for which the City is liable in the event of default by the property owners subject to the assessment and for the difference between the amount of the debt and the special assessment amounts applied to the benefitting properties. The remainder of the City's debt, \$ 19,170,000, represents bonds secured by specified revenue sources (i.e. revenue bonds) for which the City is liable in the event the revenue sources are insufficient to pay the debt service.

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

	Governmental Activities	Business-type Activities	Total 12/31/2012	Total 12/31/2011
Special Assessment Debt with Governmental Commitment	\$ 3,139,000	\$ -	\$ 3,139,000	\$ 2,802,000
Revenue Bonds with Governmental Commitment	-	19,170,000	19,170,000	18,135,000
Total	\$ 3,139,000	\$ 19,170,000	\$ 22,309,000	\$ 20,937,000

The City's total indebtedness increased by \$ 1,372,000 (6.55%) during the year. This increase was due to the issuance of bonds in the amount of \$ 2,275,000 to refund previously issued bonds to capture interest savings. Some of the proceeds from this refunding bond remain in escrow until the bonds to be refunded become callable. The construction bond of \$ 15,120,000 that was issued in 2011 will be repaid when the long-term financing from the Rural Development section of the United States Department of Agriculture is finalized which was done in March of 2013.

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

Minnesota Statutes Section 475.53 limits the amount of G.O. debt a governmental entity may issue to 3% of its total assessed valuation. The current debt limitation for the City is \$ 6,877,155. As of December 31, 2012, the City did not have any outstanding G.O. debt.

Additional information on the City's long-term debt can be found in Note 8 on pages 47-51 of this [report](#).

CITY OF PRINCETON

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2012

ECONOMIC FACTORS AND NEW YEAR'S BUDGETS AND RATES

- The City is situated in two counties, Mille Lacs and Sherburne. The 2012 unemployment rate for Mille Lacs was at 9.4% and the Sherburne rate was 6.5% at the end of the year. This was a decrease from the 2011 rate of 10.2% for Mille Lacs County and 7.0% for Sherburne County. Compare this to the state's December 2012 unemployment rate of 5.4% and the national rate of 7.6%. The City has economic similarities to both Counties and the City utilizes this knowledge when setting its budget and tax levy.
- The inflationary trend in the region that includes the Minneapolis-St. Paul area was at an annual 2.3% compared to the national rate of 2.1% for the 2012 annual rate.
- During 2008, 2009, 2010 and 2011, the City received LGA and Market Value Credit Aid reductions of \$ 831,477. Although the City has the option of increasing the property taxes to offset this amount, tax levies were only increased \$ 325,297 over those years. The City Council considered the impact of increased taxes along with other economic factors including rapidly decreasing residential valuation, unemployment, foreclosure rates and investment income rates and decided to keep tax increases to a minimum. In 2012, LGA was maintained at the same level as 2011, but the Market Value Credit Aid was eliminated. This resulted in a decrease to the City General Fund of \$ 21,505. The tax levy was increased \$ 43,750 from 2011 partially to offset the Market Value Credit Aid elimination and partly to make up for the continuing lower level of LGA funding.

These are some of the factors considered by the City Council and staff in preparing the City's budget for the 2013 year.

Other factors considered, was that a rate study for the sanitary sewer system was completed in 2011. The cost of the Wastewater Treatment Facility improvements and associated operating cost increases required that rates required an increase of 169%. This increase was implemented in two phases. The first increase occurred in November 2011 and the second increase took effect in May 2012. The sewer access charge was increased in 2007 to assist in the payment of system repairs and enhancements. A sewer trunk fee was initiated in 2005 to assure new development pays for the cost of extensions and new facilities. 2012 was the year that the final decision was made to proceed with the construction of a new Public Safety building. Planning was nearly complete in 2012 with construction expected through the summer with move in expected in late fall of 2013. While this will provide a new facility to address serious space deficiencies and modernization, the larger facility will have an impact on future budgets with utility and maintenance requirements.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

CITY OF PRINCETON

**STATEMENT OF NET POSITION
December 31, 2012**

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Public Utilities Commission	Economic Development Authority
ASSETS					
Cash and Investments (Including Cash Equivalents)	\$ 7,110,981	\$ 4,272,987	\$ 11,383,968	\$ 3,432,481	\$ -
Cash with Fiscal Agent	-	-	-	239,896	-
Investments with Fiscal Agent	674,305	1,341,374	2,015,679	-	-
Property Tax Receivable	159,008	-	159,008	-	1,287
Accounts Receivable	26,203	8,300	34,503	790,407	-
Interest Receivable	20,925	545	21,470	-	-
Due from Other Governments	815,481	368,633	1,184,114	13,960	-
Notes Receivable:					
Due Within One Year	9,492	-	9,492	-	-
Due After One Year	70,964	-	70,964	-	-
Special Assessments Receivable:					
Due Within One Year	188,319	12,356	200,675	-	-
Due After One Year	773,248	-	773,248	-	-
Inventories	-	611,401	611,401	423,124	-
Land Held for Resale	1	-	1	-	522,650
Contract for Deed	-	183,271	183,271	-	-
Prepaid Expenses	66,420	15,815	82,235	37,426	1,035
Deferred Charge	-	86,163	86,163	-	-
Capital Assets not being Depreciated:					
Land	1,568,300	1,036,041	2,604,341	33,162	-
Easements	2,634	-	2,634	-	-
Construction in Progress	33,682	15,284,497	15,318,179	-	-
Capital Assets being Depreciated (Net of Accumulated Depreciation):					
Buildings and Systems	1,188,494	1,719,356	2,907,850	1,237,662	-
Other Improvements	369,853	-	369,853	-	-
Sewer and Water Improvements	-	6,697,523	6,697,523	-	-
Machinery and Equipment	1,266,739	732,739	1,999,478	505,233	-
Infrastructure	4,799,590	-	4,799,590	14,998,635	-
Restricted Assets:					
Reserve Fund	-	-	-	571,750	-
Debt Retirement	-	-	-	476,598	-
Improvements and Replacements	-	-	-	1,692,462	-
Total Assets	\$ 19,144,639	\$ 32,371,001	\$ 51,515,640	\$ 24,452,796	\$ 524,972
LIABILITIES AND NET POSITION					
Liabilities					
Accounts Payable	\$ 73,344	\$ 768,493	\$ 841,837	\$ 376,067	\$ 7,592
Due to Other Governments	30,168	29,184	59,352	106,484	643,088
Unearned Revenue	36,919	1,912	38,831	14,550	-
Salaries and Benefits Payable	43,647	6,700	50,347	21,492	929
Interest Payable	34,870	166,901	201,771	47,181	-
Customer Meter Deposits	-	-	-	216,339	-
Severance Payable	-	-	-	111,456	-
Deferred Rate Stabilization	-	-	-	1,738,443	-
Bond Principal Payable, Net:					
Payable Within One Year	1,067,000	340,000	1,407,000	947,000	-
Payable After One Year	2,072,000	18,898,267	20,970,267	10,870,212	-
Compensated Absences Payable:					
Payable Within One Year	126,000	15,696	141,696	-	-
Payable After One Year	149,934	26,249	176,183	-	-
Other Post Employment Benefits (OPEB) Payable	59,283	10,899	70,182	-	-
Total Liabilities	3,693,165	20,264,301	23,957,466	14,449,224	651,609
Net Position					
Net Investment in Capital Assets	8,007,716	8,896,679	15,896,971	4,957,480	-
Restricted for:					
Debt Service	2,835,398	-	2,835,398	1,288,245	-
Tax Increment	144,532	-	144,532	-	-
Capital Asset Acquisition	-	-	-	1,692,462	-
Other Projects	390,573	-	390,573	-	-
Unrestricted	4,073,255	3,210,021	8,290,700	2,065,385	(126,637)
Total Net Position	15,451,474	12,106,700	27,558,174	10,003,572	(126,637)
Total Liabilities and Net Position	\$ 19,144,639	\$ 32,371,001	\$ 51,515,640	\$ 24,452,796	\$ 524,972

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

CITY OF PRINCETON
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2012

Functions/Programs	Primary Government							Component Units	
	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position			Public Utilities Commission	Economic Development Authority
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total		
Governmental Activities									
General Government	\$ 601,027	\$ 115,037	\$ -	\$ -	\$ (485,990)	\$ -	\$ (485,990)	\$ -	\$ -
Public Safety	1,500,065	380,021	136,716	48,463	(934,865)	-	(934,865)	-	-
Cemetery	29,792	22,410	500	-	(6,882)	-	(6,882)	-	-
Public Works	856,976	8,285	-	33,575	(815,116)	-	(815,116)	-	-
Parks and Recreation	297,218	35,630	4,350	31,800	(458,634)	-	(458,634)	-	-
Economic Development	530,414	1,120	-	310,720	14,622	-	14,622	-	(96,547)
Interest on Long-Term Debt	122,279	-	-	-	(122,279)	-	(122,279)	-	-
Total Governmental Activities	<u>3,937,771</u>	<u>562,503</u>	<u>141,566</u>	<u>424,558</u>	<u>(2,809,144)</u>	<u>-</u>	<u>(2,809,144)</u>	<u>-</u>	<u>(96,547)</u>
Business-Type Activities									
Water	247,394	247,394	-	-	-	-	-	475,744	-
Sewer	1,180,848	1,547,284	-	500,000	-	866,436	866,436	-	-
Municipal Liquor	2,536,667	2,773,415	-	-	-	236,748	236,748	-	-
Airport	246,742	102,170	-	452,948	-	308,376	308,376	-	-
Electric	-	-	-	-	-	-	-	649,557	-
Total Business-Type Activities	<u>4,211,651</u>	<u>4,670,263</u>	<u>-</u>	<u>952,948</u>	<u>-</u>	<u>1,411,560</u>	<u>1,411,560</u>	<u>1,125,301</u>	<u>-</u>
Total Governmental and Business-Type Activities	<u>\$ 8,149,422</u>	<u>\$ 5,232,766</u>	<u>\$ 141,566</u>	<u>\$ 1,377,506</u>	<u>(2,809,144)</u>	<u>1,411,560</u>	<u>(1,397,584)</u>	<u>1,125,301</u>	<u>(96,547)</u>
General Revenues									
Property Taxes					2,215,374	-	2,215,374	-	17,950
Tax Increments					97,454	-	97,454	-	-
State Aids					541,806	-	541,806	-	-
PUC Payment in Lieu of Taxes					52,500	-	52,500	(52,500)	-
Investment Income					85,026	27,857	112,883	62,434	-
Miscellaneous					3,791	-	3,791	60,684	-
Gain on Sale of Asset					-	-	-	8,200	-
Transfers					(12,500)	12,500	-	-	-
Total General Revenues and Transfers					<u>2,983,451</u>	<u>40,357</u>	<u>3,023,808</u>	<u>78,818</u>	<u>17,950</u>
Change in Net Position					<u>174,307</u>	<u>1,451,917</u>	<u>1,626,224</u>	<u>1,204,119</u>	<u>(78,597)</u>
Net Position - Beginning					<u>15,277,167</u>	<u>10,654,783</u>	<u>25,931,950</u>	<u>8,799,453</u>	<u>(48,040)</u>
Net Position - Ending					<u>\$ 15,451,474</u>	<u>\$ 12,106,700</u>	<u>\$ 27,558,174</u>	<u>\$ 10,003,572</u>	<u>\$ (126,637)</u>

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

CITY OF PRINCETON

BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2012

	General Fund	Capital Projects Capital Improvements	Other Governmental Funds	Total Governmental Funds
	<u>(101, 202)</u>	<u>(351)</u>		
ASSETS				
Cash and Investments	\$ 2,358,457	\$ 1,573,565	\$ 3,178,959	\$ 7,110,981
Investments with Fiscal Agent	-	-	674,305	674,305
Taxes Receivable - Delinquent	129,058	12,621	17,329	159,008
Special Assessments Receivable:				
Delinquent	-	-	28,787	28,787
Deferred	-	-	932,780	932,780
Accounts Receivable	1,603	-	24,600	26,203
Interest Receivable	18,595	-	2,330	20,925
Due from Other Funds	-	803,280	-	803,280
Due from Other Governments	170,642	643,088	1,751	815,481
Notes Receivable	-	-	80,456	80,456
Land Held for Resale	-	-	1	1
Prepaid Expenses	65,345	-	1,075	66,420
Advance to Other Funds	-	-	70,150	70,150
	<u>-</u>	<u>-</u>	<u>70,150</u>	<u>70,150</u>
Total Assets	<u>\$ 2,743,700</u>	<u>\$ 3,032,554</u>	<u>\$ 5,012,523</u>	<u>\$ 10,788,777</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts and Contracts Payable	\$ 50,947	\$ -	\$ 22,397	\$ 73,344
Due to Other Funds	-	-	803,280	803,280
Due to Other Governments	19,336	-	10,832	30,168
Salaries and Benefits Payable	43,647	-	-	43,647
Deferred Revenue	269,977	12,621	1,012,858	1,295,456
Advance from Other Funds	-	-	70,150	70,150
	<u>-</u>	<u>-</u>	<u>70,150</u>	<u>70,150</u>
Total Liabilities	<u>383,907</u>	<u>12,621</u>	<u>1,919,517</u>	<u>2,316,045</u>
Fund Balances				
Nonspendable	65,345	-	1,075	66,420
Restricted	-	-	3,336,477	3,336,477
Assigned	95,446	3,019,933	644,853	3,760,232
Unassigned	2,199,002	-	(889,399)	1,309,603
	<u>2,359,793</u>	<u>3,019,933</u>	<u>3,093,006</u>	<u>8,472,732</u>
Total Fund Balances	<u>2,359,793</u>	<u>3,019,933</u>	<u>3,093,006</u>	<u>8,472,732</u>
Total Liabilities and Fund Balances	<u>\$ 2,743,700</u>	<u>\$ 3,032,554</u>	<u>\$ 5,012,523</u>	<u>\$ 10,788,777</u>

CITY OF PRINCETON

**RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET POSITION- GOVERNMENTAL FUNDS
December 31, 2012**

Total Fund Balances - Governmental Funds \$ 8,472,732

Amounts reported for governmental activities in the Statement of Net Position
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	17,815,213
Less Accumulated Depreciation	(8,585,921)

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

Long-term liabilities at year-end consist of:

Bond Principal Payable	(3,139,000)
Compensated Absences Payable	(275,934)
OPEB Payable	(59,283)

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	159,008
Delinquent Special Assessments	28,787
Deferred Special Assessments	932,780

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

Notes Receivable	33,962
Development Revenue Reserve	104,000

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

(34,870)

Total Net Position - Governmental Activities

\$ 15,451,474

CITY OF PRINCETON

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012**

	General Fund (101, 202)	Capital Projects Capital Improvements (351)	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property Taxes	\$ 1,912,343	\$ 174,778	\$ 113,162	\$ 2,200,283
Tax Increments	-	-	97,454	97,454
Special Assessments	-	-	244,037	244,037
Licenses and Permits	134,194	-	-	134,194
Intergovernmental	663,272	-	364,349	1,027,621
Charges for Services	252,876	-	300,129	553,005
Fine and Forfeitures	33,571	-	-	33,571
Miscellaneous:				
Investment Income	14,143	23,428	47,455	85,026
Contributions and Donations	-	-	24,345	24,345
Other	94,278	-	22,695	116,973
Total Revenues	<u>3,104,677</u>	<u>198,206</u>	<u>1,213,626</u>	<u>4,516,509</u>
EXPENDITURES				
Current				
General Government	539,408	-	-	539,408
Public Safety	1,311,716	-	74,526	1,386,242
Cemetery	504	-	27,856	28,360
Public Works	517,990	-	258,649	776,639
Parks and Recreation	219,206	-	11,446	230,652
Economic Development	29,960	30,000	368,926	428,886
Debt Service				
Principal	-	-	573,000	573,000
Interest and Other Charges	-	-	127,352	127,352
Capital Outlay				
General Government	10,020	-	-	10,020
Public Safety	35,068	-	101,210	136,278
Public Works	15,535	-	33	15,568
Parks and Recreation	355	-	19,517	19,872
Economic Development	-	-	101,272	101,272
Total Expenditures	<u>2,679,762</u>	<u>30,000</u>	<u>1,663,787</u>	<u>4,373,549</u>
Excess of Revenues Over (Under) Expenditures	424,915	168,206	(450,161)	142,960
OTHER FINANCING SOURCES (USES)				
Bond Issuance	-	-	910,000	910,000
Payment in Lieu of Taxes - Component Unit	52,500	-	-	52,500
Transfers In	-	-	520,598	520,598
Transfers Out	(203,163)	(50,000)	(279,935)	(533,098)
Total Other Financing Sources (Uses)	<u>(150,663)</u>	<u>(50,000)</u>	<u>1,150,663</u>	<u>950,000</u>
Net Change in Fund Balances	274,252	118,206	700,502	1,092,960
FUND BALANCES				
Beginning of Year	2,010,518	2,901,727	2,467,527	7,379,772
Change in Accounting Principle	75,023	-	(75,023)	-
Beginning of Year, Restated	<u>2,085,541</u>	<u>2,901,727</u>	<u>2,392,504</u>	<u>7,379,772</u>
End of Year	<u>\$ 2,359,793</u>	<u>\$ 3,019,933</u>	<u>\$ 3,093,006</u>	<u>\$ 8,472,732</u>

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

CITY OF PRINCETON

**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, 2012**

Net Change in Fund Balances - Total Governmental Funds	\$ 1,092,960
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
<p>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.</p>	
Capital Outlays	181,351
Depreciation Expense	(527,598)
<p>Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.</p>	
	(31,948)
<p>OPEB are recognized as paid in the governmental funds but recognized as expensed in the Statement of Activities.</p>	
	(11,494)
<p>Principal payments on long-term debt are recognized as expenditures in the governmental funds but as an increase in the net position in the Statement of Activities.</p>	
	573,000
<p>Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>	
	5,073
<p>Bonds were refunded during the year. The amount paid off with the new funding is reported in the governmental funds as a use of financing. However, the payments are not expenditures in the Statement of Activities, but rather a reduction in long-term liabilities in the Statement of Net Position.</p>	
	(910,000)
<p>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.</p>	
	(1,666)
<p>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.</p>	
Delinquent Property Taxes	15,091
Delinquent Special Assessments	(17,839)
Deferred Special Assessments	(192,623)
	15,091
	(17,839)
	(192,623)
Change in Net Position- Governmental Activities	\$ 174,307

CITY OF PRINCETON

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
Property Taxes	\$ 1,829,600	\$ 1,831,650	\$ 1,912,343	\$ 80,693
Licenses and Permits	135,980	131,710	134,194	2,484
Intergovernmental	661,705	671,230	663,272	(7,958)
Charges for Services	240,295	232,785	252,876	20,091
Fines and Forfeitures	42,400	37,000	33,571	(3,429)
Miscellaneous Revenues:				
Investment Income	25,750	11,400	14,143	2,743
Other	57,100	58,390	94,278	35,888
Total Revenues	2,992,830	2,974,165	3,104,677	130,512
EXPENDITURES				
Current				
General Government	890,420	781,430	539,408	(242,022)
Public Safety	1,306,950	1,317,110	1,311,716	(5,394)
Cemetery	-	-	504	504
Public Works	542,275	536,760	517,990	(18,770)
Parks and Recreation	224,775	229,430	219,206	(10,224)
Economic Development	-	-	29,960	29,960
Capital Outlay				
General Government	140,500	12,020	10,020	(2,000)
Public Safety	75,500	58,500	35,068	(23,432)
Public Works	73,000	18,500	15,535	(2,965)
Parks and Recreation	10,000	450	355	(95)
Total Expenditures	3,263,420	2,954,200	2,679,762	(274,438)
Excess of Revenues Over (Under) Expenditures	(270,590)	19,965	424,915	404,950
OTHER FINANCING SOURCES (USES)				
Payment in Lieu of Taxes - Component Unit	52,500	52,500	52,500	-
Transfers In	288,000	2,500	-	(2,500)
Transfers Out	(68,950)	(74,815)	(203,163)	(128,348)
Total Other Financing Sources (Uses)	271,550	(19,815)	(150,663)	(130,848)
Net Change in Fund Balances	\$ 960	\$ 150	274,252	\$ 274,102
FUND BALANCES				
Beginning of Year			2,010,518	
Change in Accounting Principle			75,023	
Beginning of Year, Restated			2,085,541	
End of Year			\$ 2,359,793	

CITY OF PRINCETON

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
December 31, 2012

	<u>Airport (208)</u>	<u>Sanitary Sewer (702/704)</u>	<u>Municipal Liquor (703)</u>	<u>Total</u>
ASSETS				
Current Assets				
Cash and Investments	\$ -	\$ 2,564,970	\$ 1,708,017	\$ 4,272,987
Investments with Fiscal Agent	-	1,341,374	-	1,341,374
Special Assessment Receivable Deferred	-	12,356	-	12,356
Accounts Receivable	-	7,400	900	8,300
Accrued Interest	-	490	55	545
Due from Other Funds	-	-	5,686	5,686
Due from Other Governments	157,927	210,706	-	368,633
Inventories	16,500	-	594,901	611,401
Contract for Deed	-	-	183,271	183,271
Prepaid Expenses	1,515	8,200	6,100	15,815
Deferred Charges	-	86,163	-	86,163
Total Current Assets	<u>175,942</u>	<u>4,231,659</u>	<u>2,498,930</u>	<u>6,906,531</u>
Noncurrent Assets				
Capital Assets:				
Land	495,923	129,120	410,998	1,036,041
Buildings and System	76,766	947,087	999,651	2,023,504
Other Improvements	2,610,707	8,677,329	43,608	11,331,644
Machinery and Equipment	298,231	789,369	189,974	1,277,574
Construction in Progress	563,374	14,721,123	-	15,284,497
Total Capital Assets	<u>4,045,001</u>	<u>25,264,028</u>	<u>1,644,231</u>	<u>30,953,260</u>
Less Accumulated Depreciation	<u>(1,826,704)</u>	<u>(3,414,085)</u>	<u>(242,315)</u>	<u>(5,483,104)</u>
Net Capital Assets	<u>2,218,297</u>	<u>21,849,943</u>	<u>1,401,916</u>	<u>25,470,156</u>
Total Assets	<u>\$ 2,394,239</u>	<u>\$ 26,081,602</u>	<u>\$ 3,900,846</u>	<u>\$ 32,376,687</u>
LIABILITIES AND NET POSITION				
Current Liabilities				
Accounts Payable	\$ 172,451	\$ 588,024	\$ 8,018	\$ 768,493
Salaries Payable	309	1,319	5,072	6,700
Unearned Revenue	1,912	-	-	1,912
Interest Payable	-	166,901	-	166,901
Due to Other Funds	5,686	-	-	5,686
Due to Other Governmental Units	-	3,147	26,037	29,184
Compensated Absences Payable	-	-	15,696	15,696
Current Portion of Revenue Bonds	-	340,000	-	340,000
Total Current Liabilities	<u>180,358</u>	<u>1,099,391</u>	<u>54,823</u>	<u>1,334,572</u>
Noncurrent Liabilities				
Compensated Absences Payable	-	-	26,249	26,249
OPEB Payable	455	4,173	6,271	10,899
Bonds Payable	-	18,830,000	-	18,830,000
Premium or Discount on Bonds Payable	-	68,267	-	68,267
Total Noncurrent Liabilities	<u>455</u>	<u>18,902,440</u>	<u>32,520</u>	<u>18,935,415</u>
Total Liabilities	<u>180,813</u>	<u>20,001,831</u>	<u>87,343</u>	<u>20,269,987</u>
Net Position				
Net Investment in Capital Assets	2,218,297	5,276,466	1,401,916	8,896,679
Unrestricted	(4,871)	803,305	2,411,587	3,210,021
Total Net Position	<u>2,213,426</u>	<u>6,079,771</u>	<u>3,813,503</u>	<u>12,106,700</u>
Total Liabilities and Net Position	<u>\$ 2,394,239</u>	<u>\$ 26,081,602</u>	<u>\$ 3,900,846</u>	<u>\$ 32,376,687</u>

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

CITY OF PRINCETON

**STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUNDS
For the Year Ended December 31, 2012**

	<u>Airport (208)</u>	<u>Sanitary Sewer (702/704)</u>	<u>Municipal Liquor (703)</u>	<u>Total</u>
SALES AND COST OF SALES				
Sales	\$ 91,628	\$ -	\$ 2,773,003	\$ 2,864,631
Cost of Sales	82,942	-	2,079,610	2,162,552
Gross Profit	<u>8,686</u>	<u>-</u>	<u>693,393</u>	<u>702,079</u>
OPERATING REVENUES				
Charges for Services	<u>10,542</u>	<u>1,479,000</u>	<u>412</u>	<u>1,489,954</u>
Total Gross Profit and Operating Revenues	<u>19,228</u>	<u>1,479,000</u>	<u>693,805</u>	<u>2,192,033</u>
OPERATING EXPENSES				
Wages and Salaries	16,470	126,589	251,950	395,009
Materials and Supplies	34,848	319,635	123,554	478,037
Professional Services	-	-	37,681	37,681
Depreciation	112,482	260,548	43,872	416,902
Total Operating Expenses	<u>163,800</u>	<u>706,772</u>	<u>457,057</u>	<u>1,327,629</u>
Operating Income (Loss)	(144,572)	772,228	236,748	864,404
NONOPERATING REVENUES (EXPENSES)				
Interest Income	-	14,911	12,946	27,857
Intergovernmental Revenues	452,948	500,000	-	952,948
Amortization of Bond Premium	-	58,514	-	58,514
Interest Expense and Charges	-	(474,076)	-	(474,076)
Other Income	-	9,770	-	9,770
Total Nonoperating Revenues (Expenses)	<u>452,948</u>	<u>109,119</u>	<u>12,946</u>	<u>575,013</u>
Income (Loss) before Capital Contributions and Transfers	308,376	881,347	249,694	1,439,417
Transfers In	66,000	-	-	66,000
Transfers Out	<u>-</u>	<u>-</u>	<u>(53,500)</u>	<u>(53,500)</u>
Change in Net Position	374,376	881,347	196,194	1,451,917
NET POSITION				
Beginning of Year	<u>1,839,050</u>	<u>5,198,424</u>	<u>3,617,309</u>	<u>10,654,783</u>
End of Year	<u>\$ 2,213,426</u>	<u>\$ 6,079,771</u>	<u>\$ 3,813,503</u>	<u>\$ 12,106,700</u>

CITY OF PRINCETON

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended December 31, 2012**

	Airport (208)	Sanitary Sewer (702/704)	Municipal Liquor (703)	Total
CASH FLOWS - OPERATING ACTIVITIES				
Receipts from Customers and Users	\$ 112,684	\$ 1,417,707	\$ 2,773,415	\$ 4,303,806
Payments to Suppliers	(132,548)	(367,811)	(2,423,405)	(2,923,764)
Payments to Employees	(16,721)	(124,354)	(247,460)	(388,535)
Other Income	-	9,770	-	9,770
Net Cash Flows - Operating Activities	(36,585)	935,312	102,550	1,001,277
CASH FLOWS - NONCAPITAL FINANCING ACTIVITIES				
Transfer from Other Funds	66,000	-	-	66,000
Transfer to Other Funds	-	-	(53,500)	(53,500)
Increase in Due to Other Funds	2,861	-	-	2,861
Increase in Due from Other Funds	-	-	(2,861)	(2,861)
Intergovernmental Revenues	295,021	500,000	-	795,021
Net Cash Flows - Noncapital Financing Activities	363,882	500,000	(56,361)	807,521
CASH FLOWS - CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal Paid on Debt	-	(330,000)	-	(330,000)
Interest Paid on Debt	-	(582,982)	-	(582,982)
Proceeds from Disposal of Land Held for Resale	-	-	573	573
Acquisition of Capital Assets	(338,119)	(7,809,868)	-	(8,147,987)
Net Cash Flows - Capital and Related Financing Activities	(338,119)	(8,722,850)	573	(9,060,396)
CASH FLOWS - INVESTING ACTIVITIES				
Interest and Dividends Received	-	27,496	13,756	41,252
Net Change in Cash and Cash Equivalents	(10,822)	(7,260,042)	60,518	(7,210,346)
CASH AND CASH EQUIVALENTS				
January 1	10,822	9,825,012	1,647,499	11,483,333
December 31	\$ -	\$ 2,564,970	\$ 1,708,017	\$ 4,272,987
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS - OPERATING ACTIVITIES				
Operating Income (Loss)	\$ (144,572)	\$ 772,228	\$ 236,748	\$ 864,404
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows - Operating Activities:				
Other Income	-	9,770	-	9,770
Depreciation Expense	112,482	260,548	43,872	416,902
Accounts Receivable	1,382	-	-	1,382
Special Assessments Receivable	-	5,501	-	5,501
Due from Other Governments	7,220	(66,794)	-	(59,574)
Prepaid Items	(285)	1,220	230	1,165
Inventory	-	-	(93,694)	(93,694)
Accounts Payable	(14,473)	(46,248)	(91,174)	(151,895)
Due to Other Governmental Units	-	(3,148)	2,078	(1,070)
Salaries Payable	75	455	1,358	1,888
Unearned Income	1,912	-	-	1,912
Compensated Absences Payable	-	-	2,255	2,255
OPEB Payable	(326)	1,780	877	2,331
Total Adjustments	107,987	163,084	(134,198)	136,873
Net Cash Flows - Operating Activities	\$ (36,585)	\$ 935,312	\$ 102,550	\$ 1,001,277

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CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

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

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

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

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

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

1. Blended Component Unit

None identified.

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.

The Princeton Economic Development Authority (EDA) meets the criteria to be included as a discretely presented component unit in the basic financial statements. Separate financial statements are not prepared for the Princeton EDA.

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity (Continued)

3. Related Organization

Princeton Firefighters' Relief Association

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

4. Joint Ventures and Jointly Governed Organizations

Dalbo-Princeton-Wyanett Fire Districts

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

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position 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 Position 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.

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.

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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 period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Only the portion of special assessments receivable due within the current 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.

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.

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

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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.

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.

D. Assets, Liabilities and Net Position or Equity

1. Deposits and Investments

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

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

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

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

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

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Deposits and Investments (Continued)

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

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

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

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. Investments should be diversified to avoid incurring unreasonable risk inherent in over investing in specific instruments, individual financial institutions or maturities. The City's investment policy states the City will attempt to diversify their investments according to type and maturity and the portfolio should contain both short-term and long-term investments to meet anticipated cash flow requirements. Extended maturities may be utilized to take advantage of higher yields; however, no more than 50% of the total investments should extend beyond 5 years and in no circumstances should any extend beyond 15 years.

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

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2. Receivables and Payables

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

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

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

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

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items are reported using the consumption method and recorded as expenditures/expenses at the time of consumption.

4. Capital Assets

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

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

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

4. Capital Assets (Continued)

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

<u>Assets</u>	<u>Years</u>
Equipment	5-40
Infrastructure	20-60
Vehicles	3-40
Buildings and Building Improvements	7-40
Land Improvements	5-30

The City implemented GASB Statement No. 51 and began accounting for intangible assets during 2010. A restatement of net position was not considered necessary as the City meets the requirements for only reporting intangibles prospectively.

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 union employees is the same except only 5 years of service is necessary and there is a maximum payment of 480 hours of unused sick leave.

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

The Public Utility Commission (PUC) 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, 2012 is recorded in the financial statements.

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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 Position. 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

a. Classification

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purpose for which amounts in those funds can be spent.

- Nonspendable Fund Balance – These are amounts that cannot be spent because they are not in spendable form.
- Restricted Fund Balance – These are amounts that are restricted to specific purposes either by a) constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through enabling legislation.
- Committed Fund Balance – These are amounts that can only be used for specific purposes pursuant to constraints imposed by the City Council (highest level of decision making authority) through resolution.
- Assigned Fund Balance – These are amounts that are constrained by the City's intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by the City Administrator based on the City Council's direction.

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

7. Fund Equity (Continued)

a. Classification (Continued)

- Unassigned Fund Balance – These are residual amounts in the General Fund not reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted and committed fund balances exceed the total net resources of that fund.

When both restricted and unrestricted resources are available for use, it is the City's policy to first use restricted resources, and then use unrestricted resources as they are needed. When committed, assigned and unassigned resources are available for use, it is the City's policy to use resources in the following order: committed, assigned and unassigned.

b. Minimum Fund Balance

The City's target General Fund balance is to maintain an unassigned fund balance in the amount of 30%-50% of the subsequent year's operating budget.

8. Net Position

Net position represents the difference between assets and liabilities in the government-wide financial statements. Net investment in capital assets 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 \$ 1,007,424 was made between this net asset class and unrestricted net position in the total column in the Statement of Net Position to recognize the portion of debt attributable to capital assets donated from governmental activities to business-type activities. Net position is 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 position.

9. Use of Estimates

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

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

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

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

B. Deficit Fund Balance

The following Funds had deficit balances at December 31, 2012:

Nonmajor Funds:

Special Revenue:

Development Grants	\$ 70,535
Development Expenses	123,433
Fire Department Grants	9,733
Small Cities Development Program	141
Stormwater Management	146,700
Neighborhood Stabilization Program	18,725

Debt Service:

1999 Street and Utilities Improvements	79,930
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Capital Projects:

Heritage Village	284,747
Northland/Old 18 Improvements	53,760
Public Safety Building	18,000
District No. 3-7 Redevelopment District	10,074
2000 Street and Utility Improvements	70,145
Industrial Park Development	3,475

C. Excess of Expenditures over Appropriations

The following Funds' expenditures exceeded appropriations during the year:

Fund	Appropriations	Disbursements	Excess
Nonmajor Funds:			
Special Revenue:			
Public Safety and Awareness	\$ 705	\$ 726	\$ 21
Solheim Field Improvements	2,375	2,658	283
Fire Department Grants	-	1,379	1,379
Disaster Relocation	38,685	57,875	19,190
Small Cities Development Program	200,000	310,719	110,719
Neighborhood Stabilization Program	9,000	15,505	6,505
Park Improvements	3,550	6,627	3,077
EDA Discretely Presented Component Unit	140,335	144,704	4,369

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

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, 2012, the City’s bank balance was not exposed to custodial credit risk because it was fully insured through the FDIC as well as collateral pledged. The City’s deposits had a book balance as follows:

Checking	\$ 491,610
Savings	3,393,187
Nonnegotiable Certificates of Deposit	<u>1,501,270</u>
 Total Deposits	 <u><u>\$ 5,386,067</u></u>

B. Investments

As of December 31, 2012, the City had the following investments:

Type	Investment	Fair Value	Investment Maturities				Percentage of Total	Credit Rating
			Less than One Year	1 - 5 Years	6 - 10 Years	Greater than 10 Years		
MM	Brokered Money Markets	\$ 1,442,198	\$ 1,442,198	\$ -	\$ -	\$ -	18.0%	N/A
GB	FNMA	232,343	-	-	-	232,343	2.9%	AA
GB	FHLB	179,269	13,433	-	165,836	-	2.2%	AAA
GB	FHLMC	352,287	-	-	351,690	597	4.4%	AA
SLGS	State and Local Government Securities	2,015,679	674,305	1,341,374	-	-	25.2%	N/R
SEC	Mortgage Securities	64,547	-	-	-	64,547	0.8%	AAA
CD	Brokered Certificates of Deposit	<u>3,724,324</u>	<u>1,592,520</u>	<u>1,836,200</u>	<u>295,604</u>	<u>-</u>	<u>46.5%</u>	N/A
	Total	<u><u>\$ 8,010,647</u></u>	<u><u>\$ 3,722,456</u></u>	<u><u>\$ 3,177,574</u></u>	<u><u>\$ 813,130</u></u>	<u><u>\$ 297,487</u></u>	<u><u>100.0%</u></u>	

Credit Risk: As of December 31, 2012, the City’s investments were rated in the table above.

Concentration of Credit Risk: The City was exposed to concentration of credit risk at December 31, 2012 as investments in State and Local Government Securities (25.2%) exceeded 5% of the City’s total investment portfolio.

The City’s investment policy states that under no circumstances should any investment extend beyond 15 years. At December 31, 2012, the City held investments that were in noncompliance with this policy.

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 3 – DEPOSITS AND INVESTMENTS

C. Deposits and Investments – Component Unit

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

Custodial Credit Risk – Deposits: As of December 31, 2012, the component unit’s bank balance was not exposed to custodial credit risk because it was fully insured through the FDIC as well as collateral pledged. The component unit’s deposits had a book balance at December 31, 2012 of \$ 5,765,212.

As of December 31, 2012, the component unit had the following investments:

Type	Investment	Fair Value	Credit Rating	Percentage of Total
GB	Grand Rapids, MN GO Taxable	\$ 253,068	A1	39.2%
GB	Grimes, IA GO Taxable Build America	100,155	A1	15.5%
GB	Wyoming, MN GO Taxable Build America	<u>292,617</u>	A1	45.3%
Total		<u>\$ 645,840</u>		

Credit Risk: As of December 31, 2012, the component unit’s investments were rated in the table above.

Concentration of Credit Risk: The component unit was exposed to concentration of credit risk at December 31, 2012 as all individual investments above exceeded 5% of the component units total investment portfolio.

D. Deposits and Investments

The following is a summary of total deposits and investments:

Deposits (Note 3.A.)	\$ 5,386,067
Investments (Note 3.B.)	8,010,647
Petty Cash	<u>2,933</u>
Total Deposits and Investments - City	<u>13,399,647</u>
Deposits - Component Unit (Note 3.C.)	5,765,212
Investments - Component Unit (Note 3.C.)	645,840
Petty Cash	<u>2,135</u>
Total Deposits and Investments - Component Unit	<u>6,413,187</u>
Total Deposits and Investments	<u>\$ 19,812,834</u>

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 3 – DEPOSITS AND INVESTMENTS

D. Deposits and Investments (Continued)

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

Statement of Net Position:

Cash and Investments, Primary Government	\$ 11,383,968
Investments with Fiscal Agent, Primary Government	2,015,679
Cash and Investments, Component Unit	3,432,481
Cash Held in Escrow	239,896
Restricted Assets	<u>2,740,810</u>
Total	<u><u>\$ 19,812,834</u></u>

NOTE 4 – CAPITAL ASSETS

A. Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ 1,568,300	\$ -	\$ -	\$ 1,568,300
Easements	2,634	-	-	2,634
Construction in Progress	-	33,682	-	33,682
Total Capital Assets not being Depreciated	<u>1,570,934</u>	<u>33,682</u>	<u>-</u>	<u>1,604,616</u>
Capital Assets being Depreciated:				
Buildings and Systems	2,226,092	-	-	2,226,092
Other Improvements	1,492,069	3,835	-	1,495,904
Machinery and Equipment	3,276,518	143,834	7,109	3,413,243
Infrastructure	9,075,358	-	-	9,075,358
Total Capital Assets being Depreciated	<u>16,070,037</u>	<u>147,669</u>	<u>7,109</u>	<u>16,210,597</u>
Less Accumulated Depreciation for:				
Buildings and Systems	989,391	48,207	-	1,037,598
Other Improvements	1,075,247	50,804	-	1,126,051
Machinery and Equipment	1,963,578	190,035	7,109	2,146,504
Infrastructure	4,037,216	238,552	-	4,275,768
Total Accumulated Depreciation	<u>8,065,432</u>	<u>527,598</u>	<u>7,109</u>	<u>8,585,921</u>
Total Capital Assets being Depreciated, Net	<u>8,004,605</u>	<u>(379,929)</u>	<u>-</u>	<u>7,624,676</u>
Governmental Activities Capital Assets, Net	<u><u>\$ 9,575,539</u></u>	<u><u>\$ (346,247)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 9,229,292</u></u>

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 4 – CAPITAL ASSETS

A. Primary Government (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets not being Depreciated:				
Land	\$ 1,036,041	\$ -	\$ -	\$ 1,036,041
Construction in Progress	7,113,858	8,170,639	-	15,284,497
Total Capital Assets not being Depreciated	8,149,899	8,170,639	-	16,320,538
Capital Assets being Depreciated:				
Buildings and Systems	2,023,504	-	-	2,023,504
Other Improvements	11,331,644	-	-	11,331,644
Machinery and Equipment	1,277,574	-	-	1,277,574
Total Capital Assets being Depreciated	14,632,722	-	-	14,632,722
Less Accumulated Depreciation for:				
Buildings and Systems	248,959	55,189	-	304,148
Other Improvements	4,341,235	292,886	-	4,634,121
Machinery and Equipment	476,008	68,827	-	544,835
Total Accumulated Depreciation	5,066,202	416,902	-	5,483,104
Total Capital Assets being Depreciated, Net	9,566,520	(416,902)	-	9,149,618
Business-Type Activities Capital Assets, Net	\$ 17,716,419	\$ 7,753,737	\$ -	\$ 25,470,156

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

Governmental Activities:	
General Government	\$ 50,062
Public Safety	95,152
Cemetery	1,341
Public Works	315,884
Parks and Recreation	65,159
Total Depreciation Expense - Governmental Activities	\$ 527,598

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 4 – CAPITAL ASSETS

A. Primary Government (Continued)

Business-Type Activities:	
Airport	\$ 112,482
Sanitary Sewer	260,548
Municipal Liquor	<u>43,872</u>
Total Depreciation Expense - Business-Type Activities	<u><u>\$ 416,902</u></u>

B. Component Unit

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets not being Depreciated:				
Land	\$ 33,162	\$ -	\$ -	\$ 33,162
Capital Assets being Depreciated:				
Buildings and Systems	1,864,188	116,440	-	1,980,628
Infrastructure	23,976,000	474,661	-	24,450,661
Machinery and Equipment	<u>2,517,865</u>	<u>17,285</u>	<u>16,097</u>	<u>2,519,053</u>
Total Capital Assets being Depreciated	<u>28,358,053</u>	<u>608,386</u>	<u>16,097</u>	<u>28,950,342</u>
Less Accumulated Depreciation for:				
Buildings and Systems	676,433	66,533	-	742,966
Infrastructure	8,700,331	751,695	-	9,452,026
Machinery and Equipment	<u>1,891,842</u>	<u>138,075</u>	<u>16,097</u>	<u>2,013,820</u>
Total Accumulated Depreciation	<u>11,268,606</u>	<u>956,303</u>	<u>16,097</u>	<u>12,208,812</u>
Total Capital Assets being Depreciated, Net	<u>17,089,447</u>	<u>(347,917)</u>	<u>-</u>	<u>16,741,530</u>
Business-Type Activities Capital Assets, Net	<u><u>\$ 17,122,609</u></u>	<u><u>\$ (347,917)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 16,774,692</u></u>

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

Business-Type Activities:	
Electric	\$ 614,872
Water	<u>341,431</u>
Total Depreciation Expense - Business-Type Activities	<u><u>\$ 956,303</u></u>

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 5 – NOTES/LOANS RECEIVABLE

Notes receivable issued in connection with Urban Development Action Grants (UDAG) at December 31, 2012 consisted of the following:

Bellamy:

Annual payments of \$ 786, including interest at 3%, through September 2024	\$ 10,378
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Cartwright:

Annual payments of \$ 395, including interest at 3%, through September 2024	3,931
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Annual payments of \$ 758, including interest at 3%, through September 2024	7,548
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Annual payments of \$ 469, including interest at 3%, through September 2024	4,671
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Vrchota:

Annual payments of \$ 275, including interest at 3%, through September 2024	2,554
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Anderson:

Annual payments of \$ 262, including interest at 3%, through September 2024	2,434
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Annual payments of \$ 264, including interest at 3%, through September 2024	2,446
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Hy Tech:

Annual payments of \$ 2,099, including interest at 4.5%, through September 2026	21,495
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Rum River Health:

Annual payments of \$ 466, including interest at 4.5%, through January 2016, and a balloon payment at that date for the balance	<u>24,999</u>
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Total UDAG	<u><u>\$ 80,456</u></u>
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CITY OF PRINCETON
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

NOTE 6 – RESTRICTED ASSETS – COMPONENT UNIT

A. Improvements and Replacements

In 1986, the PUC 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, 2011	\$ 1,350,879
Transfers	<u>341,583</u>
Balance- December 31, 2012	<u><u>\$ 1,692,462</u></u>

B. Reserve Fund

Bond and note covenants required a reserve account in the amount of \$ 811,646 be established. The amount of \$ 97,500 is required to be reserved in the Water Fund and \$ 714,146 in the Electric Fund, of which \$ 239,896 is being held in escrow.

C. Debt Retirement

The 2012, 2010, 2008, 2004 and 1999 Water Revenue Bond indentures require the Water Fund to set aside bimonthly, at least one-sixth of the total principal and interest payable during the ensuing 12 months. The total set aside as of December 31, 2012 was \$ 139,133.

The 2012, 2010 and 2006 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, 2012 was \$ 337,465.

D. Restricted Cash Held in Escrow

Restricted cash held in escrow as of December 31, 2012 consisted of \$ 239,896 of cash proceeds from the Electric Revenue Note, Series 2006A.

CITY OF PRINCETON

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**

NOTE 7 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2012 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital Improvements	Other Governmental Funds	\$ 803,280
Municipal Liquor	Airport	<u>5,686</u>
Total		<u>\$ 808,966</u>

The purpose of the above interfund receivables and payables are to finance operations and to cover cash deficits.

There were also long-term advances between other governmental funds totaling \$ 70,150 at December 31, 2012 to finance capital projects.

The City’s Capital Improvements Fund had a receivable from the EDA Component Unit of \$ 643,088 at December 31, 2012 to cover cash deficits.

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 7 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

B. Interfund Transfers

The composition of interfund transfers as of December 31, 2012 was as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Description</u>	<u>Amount</u>
Fire Equipment Reserve	General Fund	Equipment Purchases	\$ 52,457
Solheim Field Improvements	General Fund	Capital Improvements	800
Solheim Field Improvements	Park Improvements	Capital Improvements	800
Cemetery Operations and Maintenance	General Fund	Operations	7,500
Airport Fund	General Fund	Operations	15,000
Civic Center	General Fund	Operations	5,000
2003 Utility Improvement	General Fund	Close Improvement Fund	80,543
2nd Street and 10th Avenue Street and Utility Improvements	General Fund	Close Improvement Fund	41,863
21st Avenue Improvements North Portion	21st Avenue Improvements South Portion	Close Improvement Fund	98,163
2005 21st Avenue Improvements	21st Avenue Improvements South Portion	Close Improvement Fund	179,852
Civic Center	Capital Improvements	Operations	25,000
Park Improvements	Capital Improvements	Capital Improvements	25,000
Airport Fund	Liquor	Operations	51,000
Community Beautification	Liquor	Operations	2,500
Cemetery Operations and Maintenance	Cemetery Perpetual Care	Operations	1,120
			<u>\$ 586,598</u>

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

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 8 – LONG-TERM DEBT

A. General Obligation Bonds

Primary Government

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

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

On January 13, 2009, the City accepted a United States Department of Agriculture (USDA) Rural Development loan and grant in the amounts of \$ 15,118,000 and \$ 857,000, respectively, for the construction of the Wastewater Treatment Plant. On March 1, 2011, the City issued \$ 15,120,000 in Temporary Sewer Revenue Bonds to fund the project. As of December 31, 2012, the City had approximately \$ 13,974,640 in construction in progress in the Sewer Fund relating to the project; however, none of the costs have been requested for reimbursement from the USDA. When the project is completed, the City will receive the USDA loan and grant proceeds, which will be used to refund the temporary bond.

On June 21, 2012, the City issued the G.O. Refunding Bonds, Series 2012B. The bonds were issued to refund the G.O. Improvement Refunding Bonds, Series 2000B, G.O. Improvement Bonds, Series 2004A, G.O. Improvement Bonds, Series 2005A and G.O. Sewer Revenue Bonds, Series 2007B. The refunding was undertaken to reduce future debt service principal and interest payments. The refunding results in a cash flow savings of \$ 132,500 and a net present value benefit of \$ 115,906.

CITY OF PRINCETON
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

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 2002	11/01/02	2.10%-4.45%	510,000	02/01/13	\$ 60,000	\$ 60,000
G.O. Improvement 2005A	09/20/05	3.00%-4.20%	1,100,000	02/01/21	740,000	740,000
G.O. Improvement 2007A	08/23/07	4.00%-4.25%	234,000	02/01/23	184,000	12,000
G.O. Improvement Refunding 2009B	11/01/09	2.00%-3.50%	1,505,000	02/01/20	1,245,000	140,000
G.O. Improvement Refunding 2012B	06/21/12	0.35-2.75%	910,000	02/01/28	910,000	115,000
Compensated Absences					275,934	126,000
Total Governmental Activities					3,414,934	1,193,000
Business-Type Activities:						
G.O. Revenue Bonds:						
G.O. Sewer Revenue 2007B	09/01/07	3.75%-4.35%	1,755,000	02/21/28	1,565,000	70,000
G.O. Sewer Revenue Refunding 2009A	04/01/09	0.85%-2.70%	2,040,000	08/01/16	1,120,000	270,000
G.O. Temporary Sewer Revenue 2011A	03/01/11	2.250%	15,120,000	03/01/14	15,120,000	-
G.O. Sewer Revenue Refunding 2012B	06/21/12	0.35-2.75%	1,365,000	02/01/28	1,365,000	-
Bond Premiums					68,267	-
Compensated Absences					41,945	15,696
Total Business-Type Activities					19,280,212	355,696
Total all Long-Term Liabilities					<u>\$ 22,695,146</u>	<u>\$ 1,548,696</u>

CITY OF PRINCETON
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

NOTE 8 – LONG-TERM DEBT

B. Components of Long-Term Liabilities (Continued)

Component Unit

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>	<u>Due Within One Year</u>
Long-Term Liabilities:						
Business-Type Activities:						
G.O. Revenue Bonds:						
MNPFA G.O. Revenue Note	06/10/04	2.53%	\$ 847,422	08/20/23	\$ 552,000	\$ 44,000
MNPFA G.O. Revenue Bond Electric Revenue Note, Series 2006A	09/08/99	3.29%	670,000	08/20/19	294,000	38,000
G.O. Water Revenue Bond Series 2008A	04/02/06	4.05%	3,065,000	12/01/25	2,325,000	130,000
Public Utility System Refunding Revenue Bonds, Series 2010A	03/04/08	2.20%-4.05%	4,880,000	12/01/27	3,890,000	240,000
Public Utility System Refunding Revenue Bonds, Series 2012A	11/18/10	2.0%-3.50%	3,040,000	04/01/22	2,445,000	305,000
Bond Discount and Issuance Costs	02/01/12	1.0%-2.85%	2,450,000	04/01/24	2,450,000	190,000
					<u>(138,788)</u>	<u>-</u>
Total all Long-Term Liabilities					<u>\$ 11,817,212</u>	<u>\$ 947,000</u>

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

Annual debt service requirements to maturity for all bonded debt outstanding as of December 31, 2012 are listed on the following page.

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 8 – LONG-TERM DEBT

B. Components of Long-Term Liabilities (Continued)

Primary Government

Year Ending December 31,	Governmental Activities		Business-Type Activities		Total
	G.O. Special Assessment Bonds		G.O. Revenue Bonds		
	Principal	Interest	Principal	Interest	
2013	\$ 1,067,000	\$ 66,557	\$ 340,000	\$ 460,178	\$ 1,933,735
2014	289,000	45,095	15,470,000	277,343	16,081,438
2015	290,000	40,400	360,000	97,933	788,333
2016	255,000	35,206	370,000	87,681	747,887
2017	261,000	29,372	190,000	78,107	558,479
2018-2022	956,000	51,452	1,010,000	314,532	2,331,984
2023-2027	21,000	446	1,165,000	148,710	1,335,156
2028	-	-	265,000	4,723	269,723
Total	<u>\$ 3,139,000</u>	<u>\$ 268,528</u>	<u>\$ 19,170,000</u>	<u>\$ 1,469,207</u>	<u>\$ 24,046,735</u>

Component Unit

Year Ending December 31,	Business-Type Activities		Total
	G.O. Revenue Bonds		
	Principal	Interest	
2013	\$ 947,000	\$ 361,723	\$ 1,308,723
2014	959,000	339,023	1,298,023
2015	937,000	315,810	1,252,810
2016	960,000	291,234	1,251,234
2017	997,000	263,732	1,260,732
2018-2022	4,804,000	871,553	5,675,553
2023-2027	2,352,000	176,521	2,528,521
Total	<u>\$ 11,956,000</u>	<u>\$ 2,619,596</u>	<u>\$ 14,575,596</u>

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 8 – LONG-TERM DEBT

C. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Governmental Activities:				
Bonds Payable:				
G.O. Special Assessment Bonds	\$ 2,802,000	\$ 910,000	\$ 573,000	\$ 3,139,000
Compensated Absences	243,986	153,179	121,231	275,934
Total Governmental Activities	<u>3,045,986</u>	<u>1,063,179</u>	<u>694,231</u>	<u>3,414,934</u>
Business-Type Activities:				
Bonds Payable:				
G.O. Sewer Revenue Bonds	18,135,000	1,365,000	330,000	19,170,000
Bond Premiums	126,781	-	58,514	68,267
Compensated Absences	39,690	17,222	14,967	41,945
Total Business-Type Activities	<u>18,301,471</u>	<u>1,382,222</u>	<u>403,481</u>	<u>19,280,212</u>
Total Long-Term Liabilities	<u>\$ 21,347,457</u>	<u>\$ 2,445,401</u>	<u>\$ 1,097,712</u>	<u>\$ 22,695,146</u>

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

Component Unit

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-Type Activities:					
Bonds Payable:					
Revenue Bonds	12,851,000	2,450,000	3,345,000	11,956,000	947,000
Bond Discounts and Issuance Costs	<u>(121,022)</u>	<u>-</u>	<u>17,766</u>	<u>(138,788)</u>	<u>-</u>
Total Long-Term Liabilities	<u>\$ 12,729,978</u>	<u>\$ 2,450,000</u>	<u>\$ 3,362,766</u>	<u>\$ 11,817,212</u>	<u>\$ 947,000</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, 2012, there were several issues outstanding. The bonds are not reported as liabilities in the accompanying financial statements. The outstanding balance at December 31, 2012 was not determinable.

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 9 – RESERVED FUND BALANCES/NET POSITION

Reserved/Designated Fund Equity

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

	General	Capital Improvements	Other Governmental Funds	Total
Nonspendable:				
Prepaid Expenses	\$ 65,345	\$ -	\$ 1,075	\$ 66,420
Restricted:				
Debt Service	-	-	2,802,904	2,802,904
Tax Increments	-	-	143,000	143,000
Police Equipment and K-9 Unit	-	-	133,873	133,873
Urban Development Loans	-	-	148,864	148,864
Park Improvements	-	-	107,429	107,429
Community Projects	-	-	406	406
Neighborhood Stabilization Land Proceeds	-	-	1	1
Total Restricted	-	-	3,336,477	3,336,477
Assigned:				
Capital Improvements	-	3,019,933	-	3,019,933
Insurance Deductible	95,446	-	-	95,446
Cemetery Operation and Maintenance	-	-	9,542	9,542
Public Safety	-	-	6,185	6,185
Investigations	-	-	2,311	2,311
Felony Investigations	-	-	13,067	13,067
Solheim Field Improvements	-	-	9,437	9,437
Civic Center	-	-	35,671	35,671
Community Beautification	-	-	18,338	18,338
Fire Equipment	-	-	272,370	272,370
Disaster Relocation	-	-	112,401	112,401
Cemetery Perpetual Care	-	-	153,333	153,333
Arcadian Home Utilities	-	-	12,198	12,198
Total Assigned	95,446	3,019,933	644,853	3,760,232
Unassigned	2,199,002	-	(889,399)	1,309,603
Total	\$ 2,359,793	\$ 3,019,933	\$ 3,093,006	\$ 8,472,732

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 10 – RISK MANAGEMENT

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

There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three 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 2012 is estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2012, there were no other claims liabilities reported in the Fund based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

NOTE 11 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association

A. Plan Description

All full-time and certain part-time employees of the City are covered by defined benefit plans administered by the Public Employees' Retirement Association of Minnesota (PERA). PERA administers the General Employees' Retirement Fund (GERF) 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.

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

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

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 11 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

A. Plan Description (Continued)

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 GERF and PEPFF members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF and 65 for Basic and Coordinated Plan members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

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

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 11 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These Statutes are established and amended by the State Legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2011. PEPFF members were required to contribute 9.6% of their annual covered salary in 2011. In 2011, the City was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.25% for Coordinated Plan members and 14.4% for PEPFF members. The City's contributions to the Public Employees' Retirement Fund for the years ending December 31, 2012, 2011 and 2010 were \$ 53,371, \$ 56,090 and \$ 55,577, respectively. The City's contributions to PEPFF for the years ending December 31, 2012, 2011 and 2010 were \$ 83,719, \$ 82,471 and \$ 79,405, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 12 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

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

B. Funding Policy

Retirees and their spouses contribute to the health care plan at the same rate as City employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the City, based on the contract terms with BlueCross BlueShield and Delta Dental. The required contributions are based on projected pay-as-you-go financing requirements. For year 2012, the City contributed \$ 14,654 to the plan. As of December 31, 2012, there were two retirees receiving health and dental benefits from the City.

C. Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the City, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The table on the following page shows the components of the City's annual OPEB cost of the year, the amount actually contributed to the plan and changes in the City's net OPEB obligation to the plan.

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 12 – POST EMPLOYMENT HEALTH CARE PLAN

C. Annual OPEB Cost and Net OPEB Obligation (Continued)

ARC	\$ 29,484
Interest on Net OPEB obligation	2,254
Adjustment to ARC	(3,259)
Annual OPEB Cost (Expense)	28,479
Contributions Made	(14,654)
Increase in Net OPEB Obligation	13,825
Net OPEB Obligation - Beginning of Year	56,357
Net OPEB Obligation - End of Year	\$ 70,182

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2012 was as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/12	\$ 28,479	\$ 14,654	51%	\$ 70,182
12/31/11	30,331	14,883	49%	56,357
12/31/10	29,513	9,061	31%	40,909

D. Funded Status and Funding Progress

As of December 31, 2012, the most recent actuarial valuation date, the City had no assets deposited to fund the plan. The actuarial accrued liability for benefits was \$ 230,405 and the actuarial value of assets was \$ 0, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 230,405. The covered payroll (annual payroll of active employees covered by the plan) was \$ 1,618,649, and the ratio of the UAAL to the covered payroll was 14.2%.

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

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

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 12 – POST EMPLOYMENT HEALTH CARE PLAN

E. Actuarial Methods and Assumptions

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

At the December 31, 2012 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.0 % discount rate, which is based on the investment yield expected to finance benefits depending on whether the plan is funded in a separate trust (about 7.0% to 8.5%, long-term, similar to a pension plan) or unfunded (3.5% to 5.0%, shorter-term, based on City's general assets). The City currently does not plan to prefund for this benefit. At the actuarial valuation date, the annual health care cost trend rate was calculated to be 8% initially, reduced incrementally to an ultimate rate of 5.0% after 6 years. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at December 31, 2012 was 30 years.

NOTE 13 – COMMITMENTS

As of December 31, 2012, the City has entered into the following construction contracts.

<u>Project</u>	<u>Contract</u>	<u>Expended Through 12/31/12</u>	<u>Commitment</u>
Wastewater Treatment Plant Construction	\$ 10,566,536	\$ 10,057,275	\$ 509,261
Wastewater Treatment Plant Engineering	2,583,800	2,043,562	540,238
Airport Project Improvements	434,651	414,059	20,592
Airport Project Engineering	99,700	94,750	4,950
Total	<u>\$ 13,684,687</u>	<u>\$ 12,609,646</u>	<u>\$ 1,075,041</u>

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

NOTE 14 – SUBSEQUENT EVENTS

The City and EDA Component Unit have evaluated subsequent events through June 17, 2013, the date which the financial statements were available to be issued.

In April 2013, the City's contract for deed receivable in the Liquor Fund was foreclosed upon and the City took possession of the property and building.

On March 28, 2013, the City issued the \$ 7,618,000 and \$ 7,500,000 G.O. Sewer Revenue Bonds, Series 2013A and 2013B. The proceeds of these bonds will be used to pay off the outstanding balance of the G.O. Temporary Sewer Revenue Bonds, Series 2011A.

On June 13, 2013, the EDA Board approved the issuance of the \$ 2,260,000 Lease Revenue Bonds, Series 2013C for the construction of the public safety building.

NOTE 15 – CHANGE IN ACCOUNTING PRINCIPLE

For the year ended December 31, 2012, the City implemented GASB Statement No. 63. This action resulted in the establishment of categories outside of assets and liabilities titled deferred outflows and deferred inflows. The Statement also retitled Net Assets as Net Position

In 2012, the City combined the Insurance Deductible Reserve Special Revenue Fund with the General Fund. A change in accounting principle to combine the funds in the amount of \$ 75,023 was made. This was made in accordance with GASB Statement No. 54, which was implemented in 2011, which requires special revenue funds to have a specific revenue source. In 2012, it was determined that the Insurance Deductible Reserve Special Revenue Fund would not likely have a specific revenue source in future years.

NOTE 16 – NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The Statement establishes standards of financial reporting for deferred outflows and deferred inflows as established by GASB Statement No. 63. This statement will also eliminate the recognition of deferred charges associated with bond issuances.

GASB Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PRINCETON

**SCHEDULE OF FUNDING PROGRESS – OTHER POST EMPLOYMENT BENEFITS
December 31, 2012**

<u>Year-End Date</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Estimated Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/09	12/31/09	\$ -	\$ 224,329	\$ 224,329	0%	\$ 1,613,894	13.9%
12/31/10	12/31/09	-	224,329	224,329	0%	1,613,894	13.9%
12/31/11	12/31/09	-	224,329	224,329	0%	1,613,894	13.9%
12/31/12	12/31/12	-	230,405	230,405	0%	1,618,649	14.2%

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

SUPPLEMENTARY INFORMATION

CITY OF PRINCETON

**COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2012**

	Special Revenue			
	Cemetery Operation and Maintenance (205)	Property Confiscation (210)	Public Safety and Awareness (211)	Investigation Information Buy Fund (212)
ASSETS				
Cash and Investments	\$ 9,073	\$ 133,937	\$ 6,185	\$ 2,311
Cash with a Fiscal Agent	-	-	-	-
Taxes Receivable - Delinquent	-	-	-	-
Special Assessment Receivable:				
Delinquent	-	-	-	-
Deferred	-	-	-	-
Accounts Receivable	500	-	-	-
Interest Receivable	-	-	-	-
Due from Other Governments	-	-	-	-
Notes Receivable	-	-	-	-
Land Held for Resale	-	-	-	-
Prepaid Expenses	735	-	-	-
Advance to Other Funds	-	-	-	-
	<u>\$ 10,308</u>	<u>\$ 133,937</u>	<u>\$ 6,185</u>	<u>\$ 2,311</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts and Contracts Payable	\$ 31	\$ 64	\$ -	\$ -
Due to Other Funds	-	-	-	-
Due to Other Governments	-	-	-	-
Deferred Revenue	-	-	-	-
Advance from Other Funds	-	-	-	-
Total Liabilities	<u>31</u>	<u>64</u>	<u>-</u>	<u>-</u>
Fund Balances				
Nonspendable	735	-	-	-
Restricted	-	133,873	-	-
Assigned	9,542	-	6,185	2,311
Unassigned	-	-	-	-
Total Fund Balances	<u>10,277</u>	<u>133,873</u>	<u>6,185</u>	<u>2,311</u>
	<u>\$ 10,308</u>	<u>\$ 133,937</u>	<u>\$ 6,185</u>	<u>\$ 2,311</u>
Total Liabilities and Fund Balances	<u>\$ 10,308</u>	<u>\$ 133,937</u>	<u>\$ 6,185</u>	<u>\$ 2,311</u>

Special Revenue

Felony Investigation (214)	Solheim Field Improvements (216)	Civic Center (240)	Community Beautification (242)	Community Projects (250)	Development Grants (252)
\$ 13,067	\$ 9,456	\$ 35,835	\$ 18,338	\$ 406	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	340	-	-	-
-	-	-	-	-	-
<u>\$ 13,067</u>	<u>\$ 9,456</u>	<u>\$ 36,175</u>	<u>\$ 18,338</u>	<u>\$ 406</u>	<u>\$ -</u>
\$ -	\$ -	\$ 164	\$ -	\$ -	\$ -
-	-	-	-	-	70,535
-	19	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>-</u>	<u>19</u>	<u>164</u>	<u>-</u>	<u>-</u>	<u>70,535</u>
-	-	340	-	-	-
-	-	-	-	406	-
13,067	9,437	35,671	18,338	-	-
-	-	-	-	-	(70,535)
<u>13,067</u>	<u>9,437</u>	<u>36,011</u>	<u>18,338</u>	<u>406</u>	<u>(70,535)</u>
<u>\$ 13,067</u>	<u>\$ 9,456</u>	<u>\$ 36,175</u>	<u>\$ 18,338</u>	<u>\$ 406</u>	<u>\$ -</u>

CITY OF PRINCETON

**COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2012**

	Special Revenue			
	Development Expenses (253)	Fire Equipment Reserve (260)	Fire Department Grants (261)	Disaster Relocation (262)
ASSETS				
Cash and Investments	\$ -	\$ 252,615	\$ -	\$ 112,459
Cash with a Fiscal Agent	-	-	-	-
Taxes Receivable - Delinquent	-	-	-	-
Special Assessment Receivable:				
Delinquent	-	-	-	-
Deferred	-	-	-	-
Accounts Receivable	4,350	19,750	-	-
Interest Receivable	-	5	-	-
Due from Other Governments	-	-	-	1,751
Notes Receivable	-	-	-	-
Land Held for Resale	-	-	-	-
Prepaid Expenses	-	-	-	-
Advance to Other Funds	-	-	-	-
	<u>\$ 4,350</u>	<u>\$ 272,370</u>	<u>\$ -</u>	<u>\$ 114,210</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts and Contracts Payable	\$ 16,146	\$ -	\$ 1,379	\$ 1,809
Due to Other Funds	111,637	-	8,354	-
Due to Other Governments	-	-	-	-
Deferred Revenue	-	-	-	-
Advance from Other Funds	-	-	-	-
Total Liabilities	<u>127,783</u>	<u>-</u>	<u>9,733</u>	<u>1,809</u>
Fund Balances				
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Assigned	-	272,370	-	112,401
Unassigned	(123,433)	-	(9,733)	-
Total Fund Balances	<u>(123,433)</u>	<u>272,370</u>	<u>(9,733)</u>	<u>112,401</u>
	<u>\$ 4,350</u>	<u>\$ 272,370</u>	<u>\$ -</u>	<u>\$ 114,210</u>
Total Liabilities and Fund Balances	<u>\$ 4,350</u>	<u>\$ 272,370</u>	<u>\$ -</u>	<u>\$ 114,210</u>

Special Revenue

Small Cities Development Program (603)	Stormwater Management (601)	Neighborhood Stabilization Program (602)	Park Improvements (802)	Cemetery Perpetual Care (803)	UDAG No. 2 Downtown Project (814)
\$ -	\$ -	\$ -	\$ 107,429	\$ 153,083	\$ 48,866
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	250	1,990
-	-	-	-	-	-
-	-	-	-	-	33,962
-	-	1	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 107,429</u>	<u>\$ 153,333</u>	<u>\$ 84,818</u>
\$ -	\$ 533	\$ -	\$ -	\$ -	\$ -
141	146,167	18,726	-	-	-
-	-	-	-	-	-
-	-	-	-	-	33,962
-	-	-	-	-	-
<u>141</u>	<u>146,700</u>	<u>18,726</u>	<u>-</u>	<u>-</u>	<u>33,962</u>
-	-	-	-	-	-
-	-	1	107,429	-	50,856
-	-	-	-	153,333	-
<u>(141)</u>	<u>(146,700)</u>	<u>(18,726)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(141)</u>	<u>(146,700)</u>	<u>(18,725)</u>	<u>107,429</u>	<u>153,333</u>	<u>50,856</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 107,429</u>	<u>\$ 153,333</u>	<u>\$ 84,818</u>

CITY OF PRINCETON
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2012

	Special Revenue		Debt Service	
	UDAG No. 5 Crystal Cabinets (820)	Total	Downtown Redevelopment Tax Increment (490)	1999 Industrial Park Improvements (500)
ASSETS				
Cash and Investments	\$ 51,429	\$ 954,489	\$ 16,138	\$ 278,561
Cash with a Fiscal Agent	-	-	-	-
Taxes Receivable - Delinquent	-	-	3,807	508
Special Assessment Receivable:				
Delinquent	-	-	-	-
Deferred	-	-	-	-
Accounts Receivable	-	24,600	-	-
Interest Receivable	85	2,330	-	-
Due from Other Governments	-	1,751	-	-
Notes Receivable	46,494	80,456	-	-
Land Held for Resale	-	1	-	-
Prepaid Expenses	-	1,075	-	-
Advance to Other Funds	-	-	-	-
	<u>\$ 98,008</u>	<u>\$ 1,064,702</u>	<u>\$ 19,945</u>	<u>\$ 279,069</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts and Contracts Payable	\$ -	\$ 20,126	\$ -	\$ -
Due to Other Funds	-	355,560	-	-
Due to Other Governments	-	19	-	-
Deferred Revenue	-	33,962	3,807	508
Advance from Other Funds	-	-	-	-
Total Liabilities	<u>-</u>	<u>409,667</u>	<u>3,807</u>	<u>508</u>
Fund Balances				
Nonspendable	-	1,075	-	-
Restricted	98,008	390,573	16,138	278,561
Assigned	-	632,655	-	-
Unassigned	-	(369,268)	-	-
Total Fund Balances	<u>98,008</u>	<u>655,035</u>	<u>16,138</u>	<u>278,561</u>
	<u>\$ 98,008</u>	<u>\$ 1,064,702</u>	<u>\$ 19,945</u>	<u>\$ 279,069</u>

Debt Service

2002/2003 1st Street Improvements (502)	Western Area Improvements (503)	2nd and 7th Improvements (504)	2005 21st Avenue Improvements (506)	2007 PUC Area Improvements (507)	2000 Street and Utilities Improvements (530)
\$ 169,672	\$ 139,167	\$ 185,454	\$ 507,548	\$ 113,472	\$ 55,648
-	-	-	674,305	-	-
359	6,576	392	3,519	158	-
18,387	4,938	-	5,462	-	-
8,472	353,457	66,252	354,653	132,684	8,643
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 196,890</u>	<u>\$ 504,138</u>	<u>\$ 252,098</u>	<u>\$ 1,545,487</u>	<u>\$ 246,314</u>	<u>\$ 64,291</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	10,813	-	-	-	-
27,218	364,971	66,644	363,634	132,842	8,643
-	-	-	-	-	-
<u>27,218</u>	<u>375,784</u>	<u>66,644</u>	<u>363,634</u>	<u>132,842</u>	<u>8,643</u>
-	-	-	-	-	-
169,672	128,354	185,454	1,181,853	113,472	55,648
-	-	-	-	-	-
-	-	-	-	-	-
<u>169,672</u>	<u>128,354</u>	<u>185,454</u>	<u>1,181,853</u>	<u>113,472</u>	<u>55,648</u>
<u>\$ 196,890</u>	<u>\$ 504,138</u>	<u>\$ 252,098</u>	<u>\$ 1,545,487</u>	<u>\$ 246,314</u>	<u>\$ 64,291</u>

CITY OF PRINCETON

**COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2012**

	Debt Service			
	Revolving Account Fund (552)	1992 Street and Utilities (592)	1993 Street and Utilities (593)	1999 Street and Utilities Improvements (599)
ASSETS				
Cash and Investments	\$ 214,816	\$ 339,286	\$ 49,500	\$ 5
Cash with a Fiscal Agent	-	-	-	-
Taxes Receivable - Delinquent	-	210	-	268
Special Assessment Receivable:				
Delinquent	-	-	-	-
Deferred	875	1,209	6,535	-
Accounts Receivable	-	-	-	-
Interest Receivable	-	-	-	-
Due from Other Governments	-	-	-	-
Notes Receivable	-	-	-	-
Land Held for Resale	-	-	-	-
Prepaid Expenses	-	-	-	-
Advance to Other Funds	70,150	-	-	-
	<u>\$ 285,841</u>	<u>\$ 340,705</u>	<u>\$ 56,035</u>	<u>\$ 273</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts and Contracts Payable	\$ -	\$ -	\$ -	\$ -
Due to Other Funds	-	-	-	79,935
Due to Other Governments	-	-	-	-
Deferred Revenue	875	1,419	6,535	268
Advance from Other Funds	-	-	-	-
Total Liabilities	<u>875</u>	<u>1,419</u>	<u>6,535</u>	<u>80,203</u>
Fund Balances				
Nonspendable	-	-	-	-
Restricted	284,966	339,286	49,500	-
Assigned	-	-	-	-
Unassigned	-	-	-	(79,930)
Total Fund Balances	<u>284,966</u>	<u>339,286</u>	<u>49,500</u>	<u>(79,930)</u>
	<u>\$ 285,841</u>	<u>\$ 340,705</u>	<u>\$ 56,035</u>	<u>\$ 273</u>

Debt Service	Capital Projects				
Total	Heritage Village (305)	Northland/Old 18 Improvements (310)	Public Safety Building (313)	Arcadian Homes Utility Project (328)	District No. 3-7 Redevelopment District (329)
\$ 2,069,267	\$ -	\$ -	\$ -	\$ 12,198	\$ -
674,305	-	-	-	-	-
15,797	-	-	-	-	-
28,787	-	-	-	-	-
932,780	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
70,150	-	-	-	-	-
<u>\$ 3,791,086</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,198</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,271
79,935	284,747	53,760	18,000	-	7,803
10,813	-	-	-	-	-
977,364	-	-	-	-	-
-	-	-	-	-	-
<u>1,068,112</u>	<u>284,747</u>	<u>53,760</u>	<u>18,000</u>	<u>-</u>	<u>10,074</u>
-	-	-	-	-	-
2,802,904	-	-	-	-	-
-	-	-	-	12,198	-
(79,930)	(284,747)	(53,760)	(18,000)	-	(10,074)
<u>2,722,974</u>	<u>(284,747)</u>	<u>(53,760)</u>	<u>(18,000)</u>	<u>12,198</u>	<u>(10,074)</u>
<u>\$ 3,791,086</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,198</u>	<u>\$ -</u>

CITY OF PRINCETON

**COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2012**

	Capital Projects			
	2000 Street and Utility Improvements (330)	Rum River Redevelopment District (389)	Railroad Property Redevelopment (390)	District No. 3-5 Redevelopment District (391)
ASSETS				
Cash and Investments	\$ 5	\$ 16,247	\$ 88,168	\$ 7,059
Cash with a Fiscal Agent	-	-	-	-
Taxes Receivable - Delinquent	-	-	-	-
Special Assessment Receivable:				
Delinquent	-	-	-	-
Deferred	-	-	-	-
Accounts Receivable	-	-	-	-
Interest Receivable	-	-	-	-
Due from Other Governments	-	-	-	-
Notes Receivable	-	-	-	-
Land Held for Resale	-	-	-	-
Prepaid Expenses	-	-	-	-
Advance to Other Funds	-	-	-	-
	\$ 5	\$ 16,247	\$ 88,168	\$ 7,059
Total Assets	\$ 5	\$ 16,247	\$ 88,168	\$ 7,059
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts and Contracts Payable	\$ -	\$ -	\$ -	\$ -
Due to Other Funds	-	-	-	-
Due to Other Governments	-	-	-	-
Deferred Revenue	-	-	-	-
Advance from Other Funds	70,150	-	-	-
Total Liabilities	70,150	-	-	-
Fund Balances				
Nonspendable	-	-	-	-
Restricted	-	16,247	88,168	7,059
Assigned	-	-	-	-
Unassigned	(70,145)	-	-	-
Total Fund Balances	(70,145)	16,247	88,168	7,059
Total Liabilities and Fund Balances	\$ 5	\$ 16,247	\$ 88,168	\$ 7,059

Capital Projects

District No. 3-6 Redevelopment District (392)	1997 Housing District (397)	Armory Redevelopment District (398)	Industrial Park Development (821)	Total	Total Governmental Funds
\$ 25,693	\$ 3,160	\$ 2,673	\$ -	\$ 155,203	\$ 3,178,959
-	-	-	-	-	674,305
1,532	-	-	-	1,532	17,329
-	-	-	-	-	28,787
-	-	-	-	-	932,780
-	-	-	-	-	24,600
-	-	-	-	-	2,330
-	-	-	-	-	1,751
-	-	-	-	-	80,456
-	-	-	-	-	1
-	-	-	-	-	1,075
-	-	-	-	-	70,150
<u>\$ 27,225</u>	<u>\$ 3,160</u>	<u>\$ 2,673</u>	<u>\$ -</u>	<u>\$ 156,735</u>	<u>\$ 5,012,523</u>
\$ -	\$ -	\$ -	\$ -	\$ 2,271	\$ 22,397
-	-	-	3,475	367,785	803,280
-	-	-	-	-	10,832
1,532	-	-	-	1,532	1,012,858
-	-	-	-	70,150	70,150
<u>1,532</u>	<u>-</u>	<u>-</u>	<u>3,475</u>	<u>441,738</u>	<u>1,919,517</u>
-	-	-	-	-	1,075
25,693	3,160	2,673	-	143,000	3,336,477
-	-	-	-	12,198	644,853
-	-	-	(3,475)	(440,201)	(889,399)
<u>25,693</u>	<u>3,160</u>	<u>2,673</u>	<u>(3,475)</u>	<u>(285,003)</u>	<u>3,093,006</u>
<u>\$ 27,225</u>	<u>\$ 3,160</u>	<u>\$ 2,673</u>	<u>\$ -</u>	<u>\$ 156,735</u>	<u>\$ 5,012,523</u>

CITY OF PRINCETON

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012

	Special Revenue				
	Insurance Deductible Reserve (202)	Cemetery Operation and Maintenance (205)	Property Confiscation (210)	Public Safety and Awareness (211)	Investigation Information Buy Fund (212)
REVENUES					
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Tax Increments	-	-	-	-	-
Special Assessments	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for Services	-	22,005	11,190	-	-
Miscellaneous:					
Investment Income	-	29	1,068	36	-
Contributions and Donations	-	-	-	-	-
Other	-	230	-	4,500	-
Total Revenues	-	22,264	12,258	4,536	-
EXPENDITURES					
Current					
Public Safety	-	-	11,146	726	-
Cemetery	-	27,856	-	-	-
Public Works	-	-	-	-	-
Parks and Recreation	-	-	-	-	-
Economic Development	-	-	-	-	-
Debt Service					
Principal	-	-	-	-	-
Interest and Other Charges	-	-	-	-	-
Capital Outlay					
Public Safety	-	-	4,295	-	-
Public Works	-	-	-	-	-
Parks and Recreation	-	-	-	-	-
Economic Development	-	-	-	-	-
Total Expenditures	-	27,856	15,441	726	-
Excess of Revenues Over (Under) Expenditures	-	(5,592)	(3,183)	3,810	-
OTHER FINANCING SOURCES (USES)					
Bond Issuance	-	-	-	-	-
Transfers In	-	8,620	-	-	-
Transfers Out	-	-	-	-	-
Total Other Financing Sources (Uses)	-	8,620	-	-	-
Net Change in Fund Balances	-	3,028	(3,183)	3,810	-
FUND BALANCES					
Beginning of Year	75,023	7,249	137,056	2,375	2,311
Change in Accounting Principle	(75,023)	-	-	-	-
Beginning of Year, Restated	-	7,249	137,056	2,375	2,311
End of Year	\$ -	\$ 10,277	\$ 133,873	\$ 6,185	\$ 2,311

Special Revenue

Felony Investigation (214)	Solheim Field Improvements (216)	Civic Center (240)	Community Beautification (242)	Community Projects (250)	Development Grants (252)	Development Expenses (253)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	125	-	-	-	-
103	72	-	123	-	-	24,245
-	-	23,845	-	-	-	-
-	-	-	600	2,900	-	-
<u>103</u>	<u>72</u>	<u>23,970</u>	<u>723</u>	<u>2,900</u>	<u>-</u>	<u>24,245</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	2,658	2,495	190	3,311	-	-
-	-	-	-	-	-	17,641
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	15,682	-	-	-	-
-	-	-	-	-	-	-
<u>-</u>	<u>2,658</u>	<u>18,177</u>	<u>190</u>	<u>3,311</u>	<u>-</u>	<u>17,641</u>
103	(2,586)	5,793	533	(411)	-	6,604
-	-	-	-	-	-	-
-	1,600	30,000	2,500	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>1,600</u>	<u>30,000</u>	<u>2,500</u>	<u>-</u>	<u>-</u>	<u>-</u>
103	(986)	35,793	3,033	(411)	-	6,604
12,964	10,423	218	15,305	817	(70,535)	(130,037)
-	-	-	-	-	-	-
<u>12,964</u>	<u>10,423</u>	<u>218</u>	<u>15,305</u>	<u>817</u>	<u>(70,535)</u>	<u>(130,037)</u>
<u>\$ 13,067</u>	<u>\$ 9,437</u>	<u>\$ 36,011</u>	<u>\$ 18,338</u>	<u>\$ 406</u>	<u>\$ (70,535)</u>	<u>\$ (123,433)</u>

CITY OF PRINCETON

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012

	Special Revenue				
	Fire Equipment Reserve (260)	Fire Department Grants (261)	Disaster Relocation (262)	Small Cities Development Program (603)	Stormwater Management (601)
REVENUES					
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Tax Increments	-	-	-	-	-
Special Assessments	-	-	-	-	-
Intergovernmental	-	-	48,463	310,719	-
Charges for Services	14,785	-	-	-	-
Miscellaneous:					
Investment Income	1,821	-	-	-	-
Contributions and Donations	-	-	-	-	-
Other	10,800	-	-	-	-
Total Revenues	<u>27,406</u>	<u>-</u>	<u>48,463</u>	<u>310,719</u>	<u>-</u>
EXPENDITURES					
Current					
Public Safety	7,247	1,379	54,028	-	-
Cemetery	-	-	-	-	-
Public Works	-	-	-	-	11,255
Parks and Recreation	-	-	-	-	-
Economic Development	-	-	-	310,719	-
Debt Service					
Principal	-	-	-	-	-
Interest and Other Charges	-	-	-	-	-
Capital Outlay					
Public Safety	75,068	-	3,847	-	-
Public Works	-	-	-	-	-
Parks and Recreation	-	-	-	-	-
Economic Development	-	-	-	-	-
Total Expenditures	<u>82,315</u>	<u>1,379</u>	<u>57,875</u>	<u>310,719</u>	<u>11,255</u>
Excess of Revenues Over (Under) Expenditures	(54,909)	(1,379)	(9,412)	-	(11,255)
OTHER FINANCING SOURCES (USES)					
Bond Issuance	-	-	-	-	-
Transfers In	52,457	-	-	-	-
Transfers Out	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>52,457</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(2,452)	(1,379)	(9,412)	-	(11,255)
FUND BALANCES					
Beginning of Year	274,822	(8,354)	121,813	(141)	(135,445)
Change in Accounting Principle	-	-	-	-	-
Beginning of Year, Restated	<u>274,822</u>	<u>(8,354)</u>	<u>121,813</u>	<u>(141)</u>	<u>(135,445)</u>
End of Year	<u>\$ 272,370</u>	<u>\$ (9,733)</u>	<u>\$ 112,401</u>	<u>\$ (141)</u>	<u>\$ (146,700)</u>

Special Revenue

Neighborhood Stabilization Program (602)	Water Availability (701)	Park Improvements (802)	Cemetery Perpetual Care (803)	UDAG No. 2 Downtown Project (814)	UDAG No. 5 Crystal Cabinets (820)	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	3,500	-	1,667	-	364,349
-	247,394	4,455	175	-	-	300,129
-	-	694	1,119	1,333	1,571	32,214
-	-	-	500	-	-	24,345
-	-	-	-	-	-	19,030
-	247,394	8,649	1,794	3,000	1,571	740,067
-	-	-	-	-	-	74,526
-	-	-	-	-	-	27,856
-	247,394	-	-	-	-	258,649
-	-	2,792	-	-	-	11,446
15,505	-	-	-	-	-	343,865
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	83,210
-	-	-	-	-	-	-
-	-	3,835	-	-	-	19,517
-	-	-	-	-	-	-
15,505	247,394	6,627	-	-	-	819,069
(15,505)	-	2,022	1,794	3,000	1,571	(79,002)
-	-	-	-	-	-	-
-	-	25,000	-	-	-	120,177
-	-	(800)	(1,120)	-	-	(1,920)
-	-	24,200	(1,120)	-	-	118,257
(15,505)	-	26,222	674	3,000	1,571	39,255
(3,220)	-	81,207	152,659	47,856	96,437	690,803
-	-	-	-	-	-	(75,023)
(3,220)	-	81,207	152,659	47,856	96,437	615,780
\$ (18,725)	\$ -	\$ 107,429	\$ 153,333	\$ 50,856	\$ 98,008	\$ 655,035

CITY OF PRINCETON

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012

	Debt Service			
	Downtown Redevelopment Tax Increment (490)	1999 Industrial Park Improvements (500)	2002/2003 1st Street Improvements (502)	Western Area Improvements (503)
REVENUES				
Property Taxes	\$ -	\$ 31	\$ 96	\$ 89,583
Tax Increments	-	-	-	-
Special Assessments	-	-	16,473	64,538
Intergovernmental	-	-	-	-
Charges for Services	-	-	-	-
Miscellaneous:				
Investment Income	127	2,191	1,256	428
Contributions and Donations	-	-	-	-
Other	1,612	-	-	-
Total Revenues	<u>1,739</u>	<u>2,222</u>	<u>17,825</u>	<u>154,549</u>
EXPENDITURES				
Current				
Public Safety	-	-	-	-
Cemetery	-	-	-	-
Public Works	-	-	-	-
Parks and Recreation	-	-	-	-
Economic Development	-	-	-	25,061
Debt Service				
Principal	-	-	60,000	140,000
Interest and Other Charges	-	-	3,960	36,888
Capital Outlay				
Public Safety	-	-	-	-
Public Works	-	-	-	-
Parks and Recreation	-	-	-	-
Economic Development	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>63,960</u>	<u>201,949</u>
Excess of Revenues Over (Under) Expenditures	1,739	2,222	(46,135)	(47,400)
OTHER FINANCING SOURCES (USES)				
Bond Issuance	-	-	-	-
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	1,739	2,222	(46,135)	(47,400)
FUND BALANCES				
Beginning of Year	14,399	276,339	215,807	175,754
Change in Accounting Principle	-	-	-	-
Beginning of Year, Restated	<u>14,399</u>	<u>276,339</u>	<u>215,807</u>	<u>175,754</u>
End of Year	<u>\$ 16,138</u>	<u>\$ 278,561</u>	<u>\$ 169,672</u>	<u>\$ 128,354</u>

Debt Service

2nd and 7th Improvements (504)	2005 21st Avenue Improvements (506)	2007 PUC Area Improvements (507)	2000 Street and Utilities Improvements (530)	Revolving Account Fund (552)	1992 Street and Utilities (592)	1993 Street and Utilities (593)
\$ 113	\$ 20,800	\$ 2,481	\$ -	\$ -	\$ 39	\$ -
-	-	-	-	-	-	-
34,915	54,058	7,979	3,232	-	59,196	3,646
-	-	-	-	-	-	-
-	-	-	-	-	-	-
1,264	2,232	852	420	1,690	2,224	370
-	-	-	-	-	-	-
-	2,053	-	-	-	-	-
<u>36,292</u>	<u>79,143</u>	<u>11,312</u>	<u>3,652</u>	<u>1,690</u>	<u>61,459</u>	<u>4,016</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
175,000	70,000	13,000	-	-	115,000	-
8,261	61,718	8,075	-	-	8,450	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>183,261</u>	<u>131,718</u>	<u>21,075</u>	<u>-</u>	<u>-</u>	<u>123,450</u>	<u>-</u>
(146,969)	(52,575)	(9,763)	3,652	1,690	(61,991)	4,016
140,000	705,000	-	-	-	65,000	-
-	179,852	-	-	-	-	-
-	-	-	-	-	-	-
<u>140,000</u>	<u>884,852</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>65,000</u>	<u>-</u>
(6,969)	832,277	(9,763)	3,652	1,690	3,009	4,016
192,423	349,576	123,235	51,996	283,276	336,277	45,484
-	-	-	-	-	-	-
<u>192,423</u>	<u>349,576</u>	<u>123,235</u>	<u>51,996</u>	<u>283,276</u>	<u>336,277</u>	<u>45,484</u>
<u>\$ 185,454</u>	<u>\$ 1,181,853</u>	<u>\$ 113,472</u>	<u>\$ 55,648</u>	<u>\$ 284,966</u>	<u>\$ 339,286</u>	<u>\$ 49,500</u>

CITY OF PRINCETON

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012**

	Debt Service		Capital Projects	
	1999 Street and Utilities Improvements (599)	Total	2003 Utility Improvement (303)	Heritage Village (305)
REVENUES				
Property Taxes	\$ 19	\$ 113,162	\$ -	\$ -
Tax Increments	-	-	-	-
Special Assessments	-	244,037	-	-
Intergovernmental	-	-	-	-
Charges for Services	-	-	-	-
Miscellaneous:				
Investment Income	-	13,054	-	-
Contributions and Donations	-	-	-	-
Other	-	3,665	-	-
Total Revenues	19	373,918	-	-
EXPENDITURES				
Current				
Public Safety	-	-	-	-
Cemetery	-	-	-	-
Public Works	-	-	-	-
Parks and Recreation	-	-	-	-
Economic Development	-	25,061	-	-
Debt Service				
Principal	-	573,000	-	-
Interest and Other Charges	-	127,352	-	-
Capital Outlay				
Public Safety	-	-	-	-
Public Works	-	-	-	33
Parks and Recreation	-	-	-	-
Economic Development	-	-	-	-
Total Expenditures	-	725,413	-	33
Excess of Revenues Over (Under) Expenditures	19	(351,495)	-	(33)
OTHER FINANCING SOURCES (USES)				
Bond Issuance	-	910,000	-	-
Transfers In	-	179,852	80,543	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	-	1,089,852	80,543	-
Net Change in Fund Balances	19	738,357	80,543	(33)
FUND BALANCES				
Beginning of Year	(79,949)	1,984,617	(80,543)	(284,714)
Change in Accounting Principle	-	-	-	-
Beginning of Year, Restated	(79,949)	1,984,617	(80,543)	(284,714)
End of Year	\$ (79,930)	\$ 2,722,974	\$ -	\$ (284,747)

Capital Projects

21st Avenue Improvements South Portion (306)	21st Avenue Improvements North Portion (307)	2nd Street and 10th Avenue Street and Utility Improvements (308)	Northland/Old 18 Improvements (310)	Public Safety Building (313)	Arcadian Homes Utility Project (328)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
2,187	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>2,187</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	18,000	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,000</u>	<u>-</u>
2,187	-	-	-	(18,000)	-
-	-	-	-	-	-
-	98,163	41,863	-	-	-
<u>(278,015)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(278,015)</u>	<u>98,163</u>	<u>41,863</u>	<u>-</u>	<u>-</u>	<u>-</u>
(275,828)	98,163	41,863	-	(18,000)	-
275,828	(98,163)	(41,863)	(53,760)	-	12,198
-	-	-	-	-	-
<u>275,828</u>	<u>(98,163)</u>	<u>(41,863)</u>	<u>(53,760)</u>	<u>-</u>	<u>12,198</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (53,760)</u>	<u>\$ (18,000)</u>	<u>\$ 12,198</u>

CITY OF PRINCETON

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012

	Capital Projects			
	District No. 3-7 Redevelopment District (329)	2000 Street and Utility Improvements (330)	Rum River Redevelopment District (389)	Railroad Property Redevelopment (390)
REVENUES				
Property Taxes	\$ -	\$ -	\$ -	\$ -
Tax Increments	2,730	-	17,973	13,475
Special Assessments	-	-	-	-
Intergovernmental	-	-	-	-
Charges for Services	-	-	-	-
Miscellaneous:				
Investment Income	-	-	-	-
Contributions and Donations	-	-	-	-
Other	-	-	-	-
Total Revenues	<u>2,730</u>	<u>-</u>	<u>17,973</u>	<u>13,475</u>
EXPENDITURES				
Current				
Public Safety	-	-	-	-
Cemetery	-	-	-	-
Public Works	-	-	-	-
Parks and Recreation	-	-	-	-
Economic Development	-	-	-	-
Debt Service				
Principal	-	-	-	-
Interest and Other Charges	-	-	-	-
Capital Outlay				
Public Safety	-	-	-	-
Public Works	-	-	-	-
Parks and Recreation	-	-	-	-
Economic Development	2,458	-	23,183	2,999
Total Expenditures	<u>2,458</u>	<u>-</u>	<u>23,183</u>	<u>2,999</u>
Excess of Revenues Over (Under) Expenditures	272	-	(5,210)	10,476
OTHER FINANCING SOURCES (USES)				
Bond Issuance	-	-	-	-
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	272	-	(5,210)	10,476
FUND BALANCES				
Beginning of Year	(10,346)	(70,145)	21,457	77,692
Change in Accounting Principle	-	-	-	-
Beginning of Year, Restated	<u>(10,346)</u>	<u>(70,145)</u>	<u>21,457</u>	<u>77,692</u>
End of Year	<u>\$ (10,074)</u>	<u>\$ (70,145)</u>	<u>\$ 16,247</u>	<u>\$ 88,168</u>

Capital Projects

District No. 3-5 Redevelopment District (391)	District No. 3-6 Redevelopment District (392)	1997 Housing District (397)	Armory Redevelopment District (398)	Industrial Park Development (821)	Total	Total Other Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 113,162
8,004	34,010	9,999	11,263	-	97,454	97,454
-	-	-	-	-	-	244,037
-	-	-	-	-	-	364,349
-	-	-	-	-	-	300,129
-	-	-	-	-	2,187	47,455
-	-	-	-	-	-	24,345
-	-	-	-	-	-	22,695
<u>8,004</u>	<u>34,010</u>	<u>9,999</u>	<u>11,263</u>	<u>-</u>	<u>99,641</u>	<u>1,213,626</u>
-	-	-	-	-	-	74,526
-	-	-	-	-	-	27,856
-	-	-	-	-	-	258,649
-	-	-	-	-	-	11,446
-	-	-	-	-	-	368,926
-	-	-	-	-	-	573,000
-	-	-	-	-	-	127,352
-	-	-	-	-	18,000	101,210
-	-	-	-	-	33	33
-	-	-	-	-	-	19,517
10,231	39,376	10,000	11,262	1,763	101,272	101,272
<u>10,231</u>	<u>39,376</u>	<u>10,000</u>	<u>11,262</u>	<u>1,763</u>	<u>119,305</u>	<u>1,663,787</u>
(2,227)	(5,366)	(1)	1	(1,763)	(19,664)	(450,161)
-	-	-	-	-	-	910,000
-	-	-	-	-	220,569	520,598
-	-	-	-	-	(278,015)	(279,935)
-	-	-	-	-	(57,446)	1,150,663
(2,227)	(5,366)	(1)	1	(1,763)	(77,110)	700,502
9,286	31,059	3,161	2,672	(1,712)	(207,893)	2,467,527
-	-	-	-	-	-	(75,023)
<u>9,286</u>	<u>31,059</u>	<u>3,161</u>	<u>2,672</u>	<u>(1,712)</u>	<u>(207,893)</u>	<u>2,392,504</u>
<u>\$ 7,059</u>	<u>\$ 25,693</u>	<u>\$ 3,160</u>	<u>\$ 2,673</u>	<u>\$ (3,475)</u>	<u>\$ (285,003)</u>	<u>\$ 3,093,006</u>

CITY OF PRINCETON

**BALANCE SHEET - ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT
December 31, 2012**

	Economic Development Authority Authority <u>(600)</u>
ASSETS	
Taxes Receivable - Delinquent	\$ 1,287
Land Held for Resale	522,650
Prepaid Expenses	<u>1,035</u>
Total Assets	<u><u>\$ 524,972</u></u>
LIABILITIES AND FUND BALANCES	
Liabilities	
Accounts and Contracts Payable	\$ 7,592
Due to Other Governments	643,088
Salaries and Benefits Payable	929
Deferred Revenue	<u>1,287</u>
Total Liabilities	<u><u>652,896</u></u>
Fund Balances	
Nonspendable	1,035
Unassigned	<u>(128,959)</u>
Total Fund Balances	<u><u>(127,924)</u></u>
Total Liabilities and Fund Balances	<u><u>\$ 524,972</u></u>
Total Fund Balance - Economic Development Authority Component Unit	\$ (127,924)
Amounts reported for governmental activities in the Statement of Net Position are different because:	
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	<u>1,287</u>
Total Net Position - Economic Development Authority Component Unit	<u><u>\$ (126,637)</u></u>

CITY OF PRINCETON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT
For the Year Ended December 31, 2012**

	Economic Development Authority (600)
	(600)
REVENUES	
Property Taxes	\$ 17,824
Intergovernmental	46,630
Other	1,527
Total Revenues	65,981
 EXPENDITURES	
Current	
Economic Development	144,704
Net Change in Fund Balances	(78,723)
 FUND BALANCES	
Beginning of Year	(49,201)
End of Year	\$ (127,924)
 Net Change in Fund Balances - Economic Development Authority Component Unit	\$ (78,723)
 Amounts reported for Governmental Activities in the Statement of Activities are different because:	
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	126
 Change in Net Position - Economic Development Authority Component Unit	\$ (78,597)

CITY OF PRINCETON

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget -</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property Taxes	\$ 1,829,600	\$ 1,831,650	\$ 1,912,343	\$ 80,693
Licenses and Permits	135,980	131,710	134,194	2,484
Intergovernmental Revenue				
Local Government Aid	535,930	535,931	535,932	1
Fire Aid	41,435	42,630	42,631	1
Police Aid	77,340	74,849	74,851	2
Other Grants and Aids	7,000	17,820	9,858	(7,962)
Total Intergovernmental Revenue	<u>661,705</u>	<u>671,230</u>	<u>663,272</u>	<u>(7,958)</u>
Charges for Services				
General Government	72,590	64,655	81,001	16,346
Public Safety	135,805	134,305	136,919	2,614
Public Works	1,000	1,650	2,520	870
Parks and Recreation	30,900	32,175	32,436	261
Total Charges for Services	<u>240,295</u>	<u>232,785</u>	<u>252,876</u>	<u>20,091</u>
Fines or Forfeitures	42,400	37,000	33,571	(3,429)
Miscellaneous Revenues				
Investment Income	25,750	11,400	14,143	2,743
Other	57,100	58,390	94,278	35,888
Total Miscellaneous Revenues	<u>82,850</u>	<u>69,790</u>	<u>108,421</u>	<u>38,631</u>
Total Revenues	<u>2,992,830</u>	<u>2,974,165</u>	<u>3,104,677</u>	<u>130,512</u>
EXPENDITURES				
General Government				
Mayor and Council	31,055	29,930	27,341	(2,589)
Administrative and Finance	325,300	325,070	314,254	(10,816)
Other General Government	534,065	426,430	197,813	(228,617)
Capital Outlay	140,500	12,020	10,020	(2,000)
Total General Government	<u>1,030,920</u>	<u>793,450</u>	<u>549,428</u>	<u>(244,022)</u>

CITY OF PRINCETON

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final		
EXPENDITURES				
Public Safety				
Police:				
Current	\$ 1,025,205	\$ 1,036,950	\$ 1,046,274	\$ 9,324
Capital Outlay	75,500	58,500	35,068	(23,432)
Total Police	<u>1,100,705</u>	<u>1,095,450</u>	<u>1,081,342</u>	<u>(14,108)</u>
Fire:				
Current	189,660	186,950	172,275	(14,675)
Other:				
Current	92,085	93,210	93,167	(43)
Total Public Safety	<u>1,382,450</u>	<u>1,375,610</u>	<u>1,346,784</u>	<u>(28,826)</u>
Public Works				
Streets and Highways:				
Street Maintenance and Storm Sewers	542,275	536,760	517,990	(18,770)
Street Construction Capital Outlay	23,000	18,500	15,535	(2,965)
Street - Other Capital Outlay	50,000	-	-	-
Total Public Works	<u>615,275</u>	<u>555,260</u>	<u>533,525</u>	<u>(21,735)</u>
Parks and Recreation				
Libraries:				
Current Expenditures	37,570	36,310	35,005	(1,305)
Other Parks and Recreation:				
Current Expenditures	187,205	193,120	184,201	(8,919)
Capital Outlay	10,000	450	355	(95)
Total Other Parks and Recreation	<u>197,205</u>	<u>193,570</u>	<u>184,556</u>	<u>(9,014)</u>
Total Parks and Recreation	<u>234,775</u>	<u>229,880</u>	<u>219,561</u>	<u>(10,319)</u>
Economic Development				
Economic Development:				
Current Expenditures	-	-	29,960	29,960
Total Expenditures	<u>3,263,420</u>	<u>2,954,200</u>	<u>2,679,762</u>	<u>(274,438)</u>
Excess of Revenues Over (Under) Expenditures	(270,590)	19,965	424,915	404,950

CITY OF PRINCETON

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Payment in Lieu of Taxes -				
Component Unit	\$ 52,500	\$ 52,500	\$ 52,500	\$ -
Transfers In	288,000	2,500	-	(2,500)
Transfers Out	(68,950)	(74,815)	(203,163)	(128,348)
Total Other Financing Sources (Uses)	271,550	(19,815)	(150,663)	(130,848)
Net Change in Fund Balances	\$ 960	\$ 150	274,252	\$ 274,102
FUND BALANCES				
Beginning of Year			2,010,518	
Change in Accounting Principle			75,023	
Beginning of Year, Restated			2,085,541	
End of Year			\$ 2,359,793	

CITY OF PRINCETON

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012**

Federal Agency/Pass Through Agency/Program Title	CFDA Number	Expenditures
U.S. Department Housing and Urban Development		
Through Minnesota Department of Housing and Urban Development: Small Cities Development Program	14.228	\$ 310,719
U.S. Department of Homeland Security		
Through Minnesota Department of Public Safety: Disaster Grants - Public Assistance	97.036	4,287
U.S. Department of Transportation		
Through Minnesota Department of Transportation: Airport Improvement Program	20.106	431,331
U.S. Department of Agriculture		
Received Directly Water and Waste Disposal Systems for Rural Communities	10.760	<u>7,737,890</u>
Total Federal Expenditures		<u>\$ 8,484,227</u>

CITY OF PRINCETON

NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2012

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of the OMB *Circular A-133, Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.



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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**

INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the Economic Development Authority 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, 2012, and the related Notes to the Financial Statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 17, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City's internal control. Accordingly, we do not express an opinion on the effectiveness of City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133* as Audit Finding 06-01, which we consider to be a significant deficiency in internal control over financial reporting.

Compliance and Other Matters

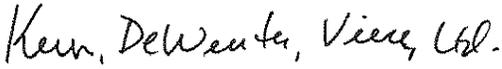
As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material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

City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133*. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
June 17, 2013



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**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM; AND REPORT
ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY
OMB CIRCULAR A-133**

INDEPENDENT AUDITOR'S REPORT

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

Report on Compliance for Each Major Federal Program

We have audited the City of Princeton, Minnesota's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133*.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB *Circular A-133, Audits of States, Local Governments and Nonprofit Organizations*. Those Standards and OMB *Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide legal determination of the City's compliance.



Opinion on Each Major Federal Program

In our opinion, the City of Princeton, Minnesota, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB *Circular A-133*. Accordingly, this report is not suitable for any other purpose.


KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
June 17, 2013

CITY OF PRINCETON

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
December 31, 2012**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	Yes, Audit Finding 06-01
Noncompliance material to financial statements noted?	No

Federal Awards

Type of auditor’s report issued on compliance for major programs:	Unqualified
Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB <i>Circular A-133</i> ?	No

Identification of Major Programs

CFDA No.:	10.760
Name of Federal Program or Cluster:	Water and Waste Disposal Systems for Rural Communities
CFDA No.:	20.106
Name of Federal Program or Cluster:	Airport Improvement Program
CFDA No.:	14.228
Name of Federal Program or Cluster:	Small Cities Development Program
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low risk auditee?	Yes

CITY OF PRINCETON

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
December 31, 2012**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	Yes, Audit Finding 06-01
Noncompliance material to financial statements noted?	No

Federal Awards

Type of auditor’s report issued on compliance for major programs:	Unqualified
Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB <i>Circular A-133</i> ?	No

Identification of Major Programs

CFDA No.:	10.760
Name of Federal Program or Cluster:	Water and Waste Disposal Systems for Rural Communities
CFDA No.:	20.106
Name of Federal Program or Cluster:	Airport Improvement Program
CFDA No.:	14.228
Name of Federal Program or Cluster:	Small Cities Development Program
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low risk auditee?	Yes

CITY OF PRINCETON

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
December 31, 2012**

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 06-01

Criteria or Specific Requirement:

Internal control that supports the City's ability to initiate, record, process and report financial data, consistent with the assertions of management in the financial statements, requires adequate segregation of accounting duties.

Condition:

During the year ended December 31, 2012, the City had a lack of segregation of accounting duties due to a limited number of office employees.

Management is aware of this condition and has taken certain steps to compensate for the lack of segregation. However, due to the small accounting staff needed to handle all of the accounting duties, the cost of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to correct. However, management, along with the City Council, must remain aware of this situation and should continually monitor the accounting system, including changes that occur.

Questioned Costs:

None

Context:

This finding impacts the internal control for all significant accounting functions.

Effect:

The lack of adequate segregation of accounting duties could adversely affect the City's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

Cause:

There are a limited number of office employees.

Recommendation:

Continue to review the accounting system, including changes that may occur. Implement segregation whenever practical.

CITY OF PRINCETON

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133***

December 31, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 06-01 (Continued)

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The City agrees with the auditor's analysis of the situation. It seems impossible to correct the current situation without additional personnel. Even having cursory review by someone outside of the Finance Department would not seem beneficial without significant training and exposure to the financial transactions. The City has taken measures to help reduce the exposure by requiring three different people at all times to sign or stamp every check. Also, review of this point on what will be an annual basis during the audit presentation, should remind both management and the City Council of the weakness and possible problems that could result.
3. Official Responsible for Ensuring CAP
Steven L. Jackson, Finance Director, is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP
The planned completion date for the CAP is ongoing.
5. Plan to Monitor Completion of CAP
The City Council will be monitoring this CAP.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

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REPORT ON LEGAL COMPLIANCE

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the financial statements of the City of Princeton, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, and have issued our report thereon dated June 17, 2013.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven 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 audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the *Schedule of Findings and Responses on Legal Compliance*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

Kern, DeWenter, Viere, Ltd.
KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
June 17, 2013

CITY OF PRINCETON

**SCHEDULE OF FINDINGS AND RESPONSES ON LEGAL
COMPLIANCE
December 31, 2012**

CURRENT YEAR LEGAL COMPLIANCE FINDING:

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.

During the review of contracts the City held, it was noted this verbiage was missing.

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

City's Response:

The City's engineer is reviewing contract verbiage and is planning on adding required verbiage to future contracts.

CITY OF PRINCETON
SCHEDULE OF FINDINGS AND RESPONSES ON
INTERNAL CONTROL
December 31, 2012

PRIOR YEAR LEGAL COMPLIANCE FINDING:

Unclaimed Property

During our 2011 audit, we noted outstanding checks listed over three years old and reconciled each month on the cash reconciliation.

Minnesota Statutes 345.41 to 345.43 states a city must report and deliver unclaimed or uncashed checks or other intangible property over \$ 100 held for more than three years to the State Commissioner of Commerce. If any of them include payment for personal services or wages, these items are presumed to be abandoned after one year and not three years.

Corrective Action Taken:

The City submitted new checks to the parties and/or to the State Commissioner of Commerce.