

**City of Princeton  
Mille Lacs County and  
Sherburne County, Minnesota**

**Financial Statements**

**December 31, 2015**



**City of Princeton  
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**City of Princeton  
Elected Officials and Administration  
December 31, 2015**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Paul Whitcomb	Mayor	December 31, 2016
Dick Dobson	Council Member	December 31, 2016
Victoria Hallin	Council Member	December 31, 2016
Thom Walker	Council Member	December 31, 2018
Jules Zimmer	Council Member	December 31, 2018
<hr/> <u>Administration</u>		
Mark Karnowski	City Administrator	
Steven L. Jackson	Finance Director	
Shawna Jenkins	City Clerk	
Karen Hodge	Finance Clerk	



BerganKDV, Ltd.

## Independent Auditor's Report

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of the City Council  
City of Princeton  
Princeton, Minnesota

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### 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, 2015, and the related notes to 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.



### **Auditor's Responsibility (Continued)**

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 on the previous page 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, 2015, 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 68 and GASB 71**

As discussed in Note 15 to the financial statements, the City has adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

### **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 required supplementary information 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 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.



*Required Supplementary Information*

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 combining and individual fund financial statements 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. Such 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 combining and individual nonmajor fund financial statements are 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 8, 2016, on our consideration of the City of Princeton'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 of Princeton's internal control over financial reporting and compliance.

*Bergan KDV, Ltd.*

St. Cloud, Minnesota  
June 8, 2016

## City of Princeton Management's Discussion and Analysis

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, 2015.

### FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the recent year by \$28,784,426 (net position) which is an increase of \$691,011 (2.46%) over the December 31, 2014 amount. Of this amount, \$7,944,853 for 2015 and \$8,513,371 for 2014 were unrestricted net position available to be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increase of \$691,011 during the year 2015 resulted from a combination of a \$313,450 increase from the governmental funds and an increase of \$377,561 from the proprietary funds. The increase in the governmental funds was mainly the result of decreases in expenditures, and the increase in the proprietary funds was primarily the result of operating income in two of the proprietary funds; the Sanitary Sewer Fund and the Liquor Fund.
- As of the close of the year 2015, the City's governmental funds reported combined ending fund balances of \$7,753,977, a slight decrease of \$3,794. This was largely due to offsetting increases in the General Fund and the Capital Improvement Fund and decreases in fund balance in the special revenue and capital projects funds.
- At year end, all but \$164,619 of the General Fund balance of \$2,691,192 was unassigned.
- The City's total bonded debt increased by \$114,583 (0.6%) during the current year. This was due to the payments of current maturities during the year, which was partially offset by a \$910,000 new bond issue during the year.
- The City implemented GASB Statements No. 68 and No. 71 relating to financial reporting for pension plans. Qualifying City employees, by Minnesota statutes are required to participate in the Public Employee Retirement Association pension plan. This implementation of the two statements required a change in accounting principle. For more information of these issues please see Notes 11 and 15.

### 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 deferred outflows of resources and liabilities and deferred inflows of resources, with the difference 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

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 two categories: governmental funds and proprietary 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 one 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 55 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 52 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report. 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**

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 account 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.

**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 27-67 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 pages 70-74 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 76-104 of this report.

**City of Princeton  
Management's Discussion and Analysis**

**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 \$28,784,426 at the close of the most recent year.

**City of Princeton's Net Position**

	Governmental Activities	Business-Type Activities	Total 12/31/15	Total 12/31/14
<b>Assets</b>				
Current and other assets	\$ 9,921,712	\$ 5,762,924	\$ 15,684,636	\$ 14,554,475
Capital assets	<u>10,448,846</u>	<u>25,340,955</u>	<u>35,789,801</u>	<u>34,548,924</u>
<b>Total assets</b>	<u><u>\$ 20,370,558</u></u>	<u><u>\$ 31,103,879</u></u>	<u><u>\$ 51,474,437</u></u>	<u><u>\$ 49,103,399</u></u>
<b>Deferred Outflows of Resources</b>	<u><u>\$ 437,163</u></u>	<u><u>\$ 38,864</u></u>	<u><u>\$ 476,027</u></u>	<u><u>\$ -</u></u>
<b>Liabilities</b>				
Other liabilities	\$ 2,589,498	\$ 2,407,835	\$ 4,997,333	\$ 1,697,113
Long-term liabilities	<u>2,321,565</u>	<u>15,620,496</u>	<u>17,942,061</u>	<u>19,312,871</u>
<b>Total liabilities</b>	<u><u>\$ 4,911,063</u></u>	<u><u>\$ 18,028,331</u></u>	<u><u>\$ 22,939,394</u></u>	<u><u>\$ 21,009,984</u></u>
<b>Deferred Inflows of Resources</b>	<u><u>\$ 197,928</u></u>	<u><u>\$ 28,716</u></u>	<u><u>\$ 226,644</u></u>	<u><u>\$ -</u></u>
<b>Net Position</b>				
Net investment in capital assets	\$ 8,665,037	\$ 9,216,464	\$ 17,255,059	\$ 16,183,765
Restricted	3,581,614	2,900	3,584,514	3,227,683
Unrestricted	<u>3,452,079</u>	<u>3,866,332</u>	<u>7,944,853</u>	<u>8,681,967</u>
<b>Total net position</b>	<u><u>\$ 15,698,730</u></u>	<u><u>\$ 13,085,696</u></u>	<u><u>\$ 28,784,426</u></u>	<u><u>\$ 28,093,415</u></u>

By far, the largest portion (59.95%) 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 12.45% of the City's net position represents resources that are subject to external restrictions on how they may be used. The predominant restriction is for debt service, which comprises 89.98% of the restricted net position classification. The remaining balance of unrestricted net position (\$7,944,853) 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. This is true 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**

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

	Governmental Activities	Business-type Activities	Total 12/31/2015	Total 12/31/2014
Revenue:				
Program Revenues:				
Charges for Services	\$ 669,018	\$ 4,946,656	\$ 5,615,674	\$ 5,455,747
Operating Grants and Contributions	168,978	-	168,978	165,260
Capital Grants and Contributions	1,338,877	537,324	1,876,201	499,943
General Revenues:				
Property Taxes	2,258,566	-	2,258,566	2,179,066
Tax Increments	162,936	-	162,936	140,208
Intergovernmental	845,561	-	845,561	818,949
PUC Payment in Lieu of Taxes	52,500	-	52,500	52,500
Other Revenue	3,390	-	3,390	4,045
Gain on Sale of Asset	-	-	-	35,747
Investment Income	68,196	33,647	101,843	140,187
Total Revenues	<u>5,568,022</u>	<u>5,517,627</u>	<u>11,085,649</u>	<u>9,491,652</u>
Expenses:				
General Government	667,776	-	667,776	655,523
Public Safety	1,898,893	-	1,898,893	1,848,241
Cemetery	33,225	-	33,225	30,800
Public Works	1,112,496	-	1,112,496	1,053,431
Parks and Recreation	383,266	-	383,266	350,873
Economic Development	332,663	-	332,663	435,375
Interest on Long-Term Debt	43,139	-	43,139	43,745
Water	-	-	-	74,169
Sewer	-	1,391,292	1,391,292	1,269,580
Municipal Liquor	-	3,092,324	3,092,324	2,980,594
Airport	-	235,183	235,183	258,222
Total Expenses	<u>4,471,458</u>	<u>4,718,799</u>	<u>9,190,257</u>	<u>9,000,553</u>
Change in Net Position before Transfers	1,096,564	798,828	1,895,392	491,099
Transfers	158,082	(158,082)	-	-
Change in Net Position	<u>1,254,646</u>	<u>640,746</u>	<u>1,895,392</u>	<u>491,099</u>
Net Position - January 1	15,385,280	12,708,135	28,093,415	27,602,316
Change in Accounting Principle	(941,196)	(263,185)	(1,204,381)	-
Net Position January 1	<u>14,444,084</u>	<u>12,444,950</u>	<u>26,889,034</u>	<u>27,602,316</u>
Net Position December 31	<u>\$ 15,698,730</u>	<u>\$ 13,085,696</u>	<u>\$ 28,784,426</u>	<u>\$ 28,093,415</u>

There was an increase of \$1,895,392 in the City's net position during the current year. A major portion in the increase was from operating income in the business-type, proprietary or enterprise. The \$1,254,646 increase in the net position in the governmental funds was primarily the result of increases in the General and Capital Improvement Funds along with contributions and assessments on capital improvement projects.

**City of Princeton  
Management's Discussion and Analysis**

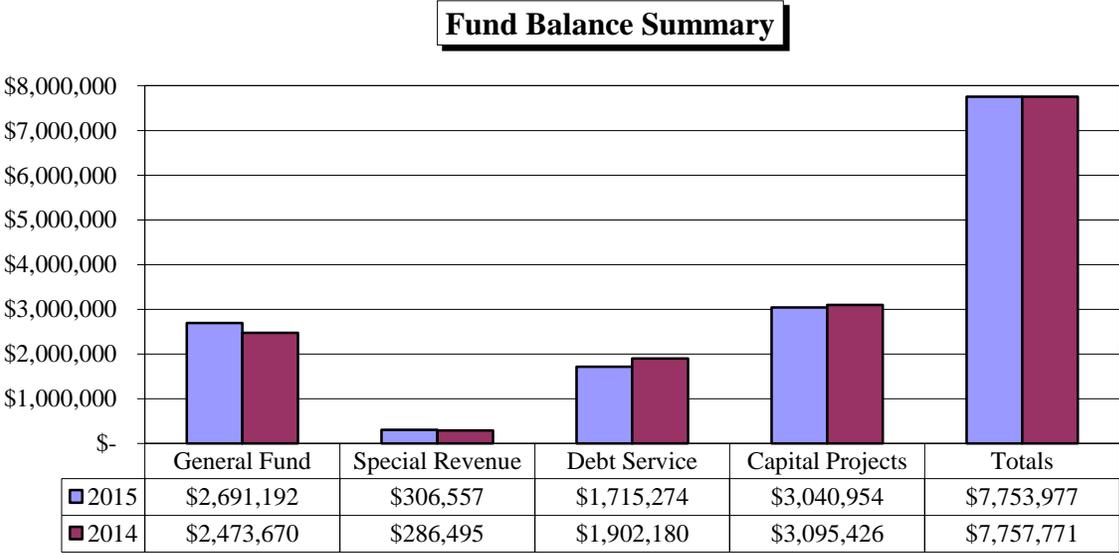
**Governmental Activities.** Governmental activities increased the City's net position by \$1,254,646. This increase resulted from significant increases in net position in the General Fund due to higher than expected tax collections, the Capital Improvement Fund due to lower transfers out than expected and contributions and assessments in an infrastructure improvement project.

**Business-Type Activities.** Business-type activities resulted in a net position increase of \$640,746, which accounted for 33.8 % of the City's total net position increase. This resulted primarily from net operating income in two of 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.



As of the end of the current year, the City's governmental funds reported combined ending fund balances of \$7,753,977, a decrease of \$3,794 from the prior year. This decrease was largely due to returns of excess tax increments in funds with completed planned development. This decrease was reduced by increases in the City's General Fund balance and the Capital Improvements Fund for future projects. The City reported a total unrestricted fund balance of \$5,205,556 at December 31, 2015, which was a decrease of \$11,661 from the prior year.

## City of Princeton Management's Discussion and Analysis

The General Fund is the chief operating fund of the City providing for what is viewed as essential services. At the end of the current year, the fund balance of the General Fund was \$2,691,192, of which 93.88% unassigned and considered available for spending; however, 71.93% of the unassigned balance is designated by the City Council for working capital (cash flow) purposes.

The General Fund balance increased by \$217,522 during the year. This increase was \$186,856 more than the 2014 increase of \$30,666. 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 \$114,311 as opposed to a decrease in 2014 of \$115,936.
- There was an increase in intergovernmental revenue of \$30,924, which was due in large part to a \$25,612 increase in Local Government Aid (LGA) and an increase of \$7,543 in state fire aid.
- Licenses and permits increased by \$80,507, which was almost entirely due to an increase of \$77,224 in building permits and fines and forfeitures increased by \$5,201. There was a revenue increase of \$4,248 in miscellaneous.
- There was a revenue decrease of \$31,955 in charges for services due exclusively to a decrease in the lease rate for the Automated Flight Service Station. Investment income decreased by \$4,510 due to the continuing trend of decreasing interest rates.
- There was a \$113,049 increase in total expenditures as compared to a \$512,498 increase in 2014. These two years along with 2013 were after several years of decreases or minimal increases due to cuts in LGA. There were increases in public safety activities of \$127,482, of which \$165,582 was due to rent paid to the Economic Development Authority for the public service building. This increase was partially offset by a small decrease in personnel cost (partly due to a resignation of a long time employee and an internal promotion and replacement with an entry-level officer) and decreases in fuel costs and supplies. There were increases of \$22,754 in parks and recreation due to increases in labor hours devoted to parks and \$23,590 in capital outlay. Economic development also increased \$33,594. Public works expenditures decreased by \$91,751 from decreases in labor allocation costs and \$14,788 decrease in sealcoating, along with significant decreases in fuel and supplies. There were minimal decreases in general government of \$2,560 and \$60 in cemetery.

Debt Service Funds had a total fund balance of \$1,715,274, all of which is restricted for the payment of debt service. There was a decrease in fund balance during the current year in the Debt Service Funds of \$186,906, which is the result of payment of current maturities.

**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 \$4,322,701, the Sanitary Sewer Fund was \$6,500,619, and the Airport Fund was \$2,276,626. Unrestricted net position, which is amounts available for operating expenditures and spending at the discretion of the City, at year-end for the Liquor Fund amounted to \$3,040,967, the Sanitary Sewer Fund was \$826,916 and the Airport unrestricted net position was a negative \$12,699. The increases in unrestricted net position for each of these Funds were \$294,200, \$179,016, and \$13,972, respectively. The increases in these Funds result predominantly from the operations of these revenue generating funds.

**City of Princeton  
Management's Discussion and Analysis**

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The change from the original budget and the final amended budget was a significant \$649,715 decrease in appropriations (14.28%), and included cuts of \$71,020 in general government activities, \$25,235 in public works, \$11,035 in parks and recreation and \$579,370 in capital outlay. The only increase in appropriations was \$36,945 in public safety.

The eventual difference between the final amended budget and the actual amount of the change in fund balance was only \$21,163. The major factors that resulted in this difference was a \$215,259 favorable variance in general government expenditures offset by a \$526,874 unfavorable variance in net transfers. Favorable variances of \$159,119 in property taxes, \$19,364 in licenses and permits, \$12,022 in charges for services, \$3,201 in fines and forfeitures \$5,270 in investment income, \$11,122 in public safety \$14,260 in public works and \$162,174 in capital outlay all added to the difference. However, there were unfavorable variances of \$1,756 in intergovernmental revenue \$1,419 in miscellaneous revenues, \$40,953 in parks and recreation, \$751 in cemetery and \$51,201 in economic development expenditures that increased the variance in the fund balance.

**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 \$35,789,801 as of December 31, 2015 and \$34,548,924 as of December 31, 2014. Capital assets include land rights, buildings and improvements, equipment, park facilities, roads, sidewalks and utility infrastructure and construction in progress.

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

- Although construction was completed on the actual wastewater treatment facilities expansion project for the Sanitary Sewer Fund in 2014, work on a few smaller projects relating to the expansion project continued with construction in progress at year-end of \$1,125,829 (a decrease of \$675,764 from 2014). There were two larger improvement projects that were partially completed which increased governmental activities construction in progress to \$1,574,713.
- Total depreciation expense for 2015 was \$1,252,563.

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

	Governmental Activities	Business-type Activities	Total 12/31/15	Total 12/31/14
Land and Easements	\$1,570,934	\$1,036,041	\$2,606,975	\$2,606,975
Buildings	1,264,408	1,554,358	2,818,766	2,780,807
Improvements other than Buildings	505,159	20,568,845	21,074,004	20,749,762
Machinery and Equipment	1,404,094	569,542	1,973,636	1,905,150
Infrastructure	4,129,538	-	4,129,538	4,343,059
Construction in Progress	1,574,713	1,612,169	3,186,882	2,163,171
<b>Total</b>	<b>\$10,448,846</b>	<b>\$25,340,955</b>	<b>\$35,789,801</b>	<b>\$34,548,924</b>

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**

**Long-Term Debt.** At the end of the year, the City had total bonded debt outstanding of \$19,899,742. As was the case last year, none of the City debt was backed by the full faith and credit of the City. However, \$2,410,251 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, \$17,489,491 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 12/31/2015	Total 12/31/2014
Special Assessment Debt with Governmental Commitment	\$2,410,251	\$ -	\$2,410,251	\$1,783,000
Revenue Bonds with Governmental Commitment	-	17,489,491	17,489,491	18,002,159
Total	\$2,410,251	\$17,489,491	\$19,899,742	\$19,785,159

The City's total bonded indebtedness increased by \$114,583 (0.6%) during the year. This increase was due to a bond issue of \$910,000. The increase was offset by payments on current maturities. Some of the proceeds from the refunding bond remain in escrow until the bonds to be refunded become callable. A portion of the escrowed money was used in 2015 to pay off the callable bonds.

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

*Minnesota Statutes* Section 475.53 limits the amount of G.O. debt a governmental entity may issue to 3% of its total assessed valuation. The current debt limitation for the City is \$7,951,035. As of December 31, 2015, 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 46-51 of this report.

## **City of Princeton Management's Discussion and Analysis**

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

- The City is situated in two counties, Mille Lacs and Sherburne. The 2015 unemployment rate for Mille Lacs was at 6.9% and the Sherburne rate was 4.0% at the end of the year. This was an increase from the 2014 rate of 6.4% for Mille Lacs County, with Sherburne County remaining at the same rate as in 2014. Compare this to the state's December 2015 unemployment rate of 3.7% and the national rate of 4.8%. The City has economic similarities to both Counties and the City factors in this information when setting its budget and tax levy.
- The inflationary trend in the region that includes the Minneapolis-St. Paul area was at an annual 0.3% compared to the national rate of 0.7% for the 2015 annual rate.
- During the years 2008 through 2012, the City received LGA and Market Value Credit Aid reductions of \$1,058,726. Although the City had the option of increasing the property taxes to offset this amount, tax levy increases have been held to a minimum in order to reduce the impact on the taxpayers. 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 through 2016.

These are some of the factors considered by the City Council and staff in preparing the City's budget for the 2016 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 needed 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. Construction of the public safety building was nearly completed in 2014 with move in of the two departments completed in late January of 2014. While this new facility addresses serious space deficiencies and modernizes the two departments, the larger facility will have an ongoing impact on future budgets with utility and maintenance requirements. 2014 also saw the completion of the major portion of the Wastewater Treatment Facility and full operation of the new sections started in early 2014. Engineering and construction work continued in 2015 on some smaller projects related to the Wastewater Treatment expansion project which will continue to impact the budget for this fund with increased operating and maintenance costs. There were some local improvement projects started during 2015 with only 1 completed project.

### **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. However, questions concerning information provided in this report or a request for additional financial information regarding the component unit, the Princeton Public Utilities Commission, should be addressed to Princeton Public Utilities, 907 1<sup>st</sup> Street, Princeton, Minnesota 55371.

## **BASIC FINANCIAL STATEMENTS**

**City of Princeton  
Statement of Net Position  
December 31, 2015**

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Public Utilities Commission	Economic Development Authority
<b>Assets</b>					
Cash and investments (including cash equivalents)	\$ 6,750,745	\$ 3,211,746	\$ 9,962,491	\$ 3,375,474	\$ -
Cash with fiscal agent	-	-	-	239,896	-
Investments with fiscal agent	-	1,275,417	1,275,417	-	169,696
Property tax receivable	92,414	-	92,414	-	745
Accounts receivable	8,292	8,300	16,592	828,337	-
Interest receivable	26,565	755	27,320	-	-
Due from other governments	1,557,503	435,876	1,993,379	-	-
Internal balances	14,250	(14,250)	-	-	-
Notes receivable					
Due within one year	9,683	-	9,683	-	2,000
Due after one year	60,598	-	60,598	-	18,000
Special assessments receivable					
Due within one year	114,383	-	114,383	-	-
Due after one year	932,572	-	932,572	-	-
Inventories	-	654,464	654,464	473,848	-
Land held for resale	1	-	1	-	361,400
Contract for deed					
Due within one year	-	4,610	4,610	-	-
Due after one year	-	163,986	163,986	-	-
Prepaid expenses	81,215	22,020	103,235	59,094	70
Deferred charge	-	-	-	-	-
Net pension asset - Fire Relief Association	273,491	-	273,491	-	-
Capital assets not being depreciated					
Land	1,568,300	1,036,041	2,604,341	33,162	78,600
Easements	2,634	-	2,634	-	-
Construction in progress	1,574,713	1,612,169	3,186,882	-	-
Capital assets being depreciated (net of accumulated depreciation)					
Buildings and systems	1,264,408	1,554,358	2,818,766	1,136,456	2,269,153
Other improvements	505,159	-	505,159	-	-
Sewer and water improvements	-	20,568,845	20,568,845	-	-
Machinery and equipment	1,404,094	569,542	1,973,636	693,508	-
Infrastructure	4,129,538	-	4,129,538	14,540,562	-
Restricted assets					
Reserve fund	-	-	-	571,750	-
Debt retirement	-	-	-	446,188	-
Improvements and replacements	-	-	-	2,126,882	-
Total assets	<u>20,370,558</u>	<u>31,103,879</u>	<u>51,474,437</u>	<u>24,525,157</u>	<u>2,899,664</u>
<b>Deferred Outflows of Resources</b>					
Deferred outflows of resources related to pensions	437,163	38,864	476,027	126,747	-
Total assets and deferred outflows of resources	<u>\$ 20,807,721</u>	<u>\$ 31,142,743</u>	<u>\$ 51,950,464</u>	<u>\$ 24,651,904</u>	<u>\$ 2,899,664</u>
<b>Liabilities</b>					
Accounts payable	\$ 263,461	\$ 91,987	\$ 355,448	\$ 415,441	\$ 12,758
Contracts payable	22,997	-	22,997	-	-
Due to other governments	187,359	33,336	220,695	479,224	989,179
Unearned revenue	69,032	5,588	74,620	15,246	-
Salaries and benefits payable	64,980	11,543	76,523	36,917	1,285
Interest payable	20,136	37,986	58,122	37,022	35,241
Customer meter deposits	-	-	-	256,348	-
Severance payable	-	-	-	156,829	-
Bond principal payable, net					
Payable within one year	255,000	1,909,000	2,164,000	960,000	90,000
Payable after one year	2,155,251	15,580,491	17,735,742	8,153,000	2,077,735
Compensated absences payable					
Payable within one year	144,000	17,250	161,250	-	-
Payable after one year	166,314	40,005	206,319	-	-
Other post employment benefits (OPEB) payable	90,317	19,231	109,548	-	-
Net pension liability	1,472,216	281,914	1,754,130	881,029	-
Total liabilities	<u>4,911,063</u>	<u>18,028,331</u>	<u>22,939,394</u>	<u>11,391,056</u>	<u>3,206,198</u>
<b>Deferred Inflows of Resources</b>					
Deferred rate stabilization	-	-	-	1,461,858	-
Deferred inflows of resources related to pensions	197,928	28,716	226,644	93,743	-
Total deferred inflows of resources	<u>197,928</u>	<u>28,716</u>	<u>226,644</u>	<u>1,555,601</u>	<u>-</u>
<b>Net Position</b>					
Net investment in capital assets	8,665,037	9,216,464	17,255,059	7,290,688	180,018
Restricted for					
Debt service	3,225,169	-	3,225,169	1,257,834	-
Tax increment	57,643	-	57,643	-	-
Capital asset replacement cost	-	2,900	2,900	2,126,882	-
Other projects	298,802	-	298,802	-	-
Unrestricted	3,452,079	3,866,332	7,944,853	1,029,843	(486,552)
Total net position	<u>15,698,730</u>	<u>13,085,696</u>	<u>28,784,426</u>	<u>11,705,247</u>	<u>(306,534)</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 20,807,721</u>	<u>\$ 31,142,743</u>	<u>\$ 51,950,464</u>	<u>\$ 24,651,904</u>	<u>\$ 2,899,664</u>

See notes to financial statements.

**City of Princeton  
Statement of Activities  
Year Ended December 31, 2015**

Functions/Programs	Primary Government					Component Units	
	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		
<b>Governmental activities</b>							
General government	\$ 667,776	\$ 1,000	\$ -	\$ (599,011)	\$ -	\$ -	\$ -
Public safety	1,898,893	162,878	108,518	(1,119,005)	-	-	(63,107)
Cemetery	33,225	-	-	(6,750)	-	-	-
Public works	1,112,496	-	955,709	(147,471)	-	-	-
Parks and recreation	383,266	5,100	180,131	(101,130)	-	-	-
Economic development	332,663	-	94,519	(278,079)	-	-	73,321
Interest on long-term debt	43,139	-	-	(43,139)	-	-	(74,063)
Total governmental activities	<u>4,471,458</u>	<u>168,978</u>	<u>1,338,877</u>	<u>(2,294,585)</u>	<u>-</u>	<u>-</u>	<u>(63,849)</u>
<b>Business-type activities</b>							
Water	-	-	-	-	-	319,826	-
Sewer	1,391,292	-	282,392	-	277,356	-	-
Municipal Liquor	3,092,324	-	-	-	394,749	-	-
Airport	235,183	-	254,932	-	93,076	-	-
Electric	-	-	-	-	-	447,730	-
Total business-type activities	<u>4,718,799</u>	<u>-</u>	<u>537,324</u>	<u>-</u>	<u>765,181</u>	<u>767,556</u>	<u>-</u>
Total governmental and business-type activities	<u>\$ 9,190,257</u>	<u>\$ 168,978</u>	<u>\$ 1,876,201</u>	<u>(2,294,585)</u>	<u>765,181</u>	<u>767,556</u>	<u>(63,849)</u>
<b>General revenues</b>							
Property taxes				2,258,566	-	-	18,293
Tax increments				162,936	-	-	-
State aids				845,561	-	-	-
Puc payment in lieu of taxes				52,500	-	(52,500)	-
Investment income				68,196	33,647	43,217	1
Miscellaneous				3,390	-	89,767	1,600
Gain on sale of asset				-	-	4,694	-
<b>Transfers</b>				158,082	(158,082)	-	-
Total general revenues and transfers				<u>3,549,231</u>	<u>(124,435)</u>	<u>85,178</u>	<u>19,894</u>
<b>Change in net position</b>				<u>1,254,646</u>	<u>640,746</u>	<u>852,734</u>	<u>(43,955)</u>
<b>Net position - beginning</b>				<u>15,385,280</u>	<u>12,708,135</u>	<u>11,678,588</u>	<u>(262,579)</u>
<b>Change in accounting principle (see Note 15)</b>				<u>(941,196)</u>	<u>(263,185)</u>	<u>(826,075)</u>	<u>-</u>
<b>Net position - beginning, restated</b>				<u>14,444,084</u>	<u>12,444,950</u>	<u>10,852,513</u>	<u>(262,579)</u>
<b>Net Position - Ending</b>				<u>\$ 15,698,730</u>	<u>\$ 13,085,696</u>	<u>\$ 11,705,247</u>	<u>\$ (306,534)</u>

17 See notes to financial statements.

**City of Princeton**  
**Balance Sheet - Governmental Funds**  
**December 31, 2015**

	Capital Projects				Total Governmental Funds
	General Fund (101, 202)	West Branch and 7th Avenue North Projects (315)	Capital Improvements (351)	Other Governmental Funds	
<b>Assets</b>					
Cash and investments	\$ 2,732,142	\$ -	\$ 803,224	\$ 3,215,379	\$ 6,750,745
Taxes receivable - delinquent	79,266	-	6,474	6,674	92,414
Special assessments receivable					
Delinquent	-	-	-	1,161	1,161
Deferred	-	-	-	1,045,794	1,045,794
Accounts receivable	715	-	-	7,577	8,292
Interest receivable	22,940	-	-	3,625	26,565
Due from other funds	-	-	1,925,111	-	1,925,111
Due from other governments	184,587	368,411	989,179	15,326	1,557,503
Notes receivable	-	-	-	70,281	70,281
Land held for resale	-	-	-	1	1
Prepaid expenses	79,975	-	-	1,240	81,215
Advance to other funds	-	-	-	70,150	70,150
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 3,099,625</u>	<u>\$ 368,411</u>	<u>\$ 3,723,988</u>	<u>\$ 4,437,208</u>	<u>\$ 11,629,232</u>
<b>Liabilities</b>					
Accounts payable	\$ 74,276	\$ 107,918	\$ 19,843	\$ 61,424	\$ 263,461
Contracts payable	-	22,997	-	-	22,997
Due to other funds	-	527,183	-	1,397,928	1,925,111
Due to other governments	20,749	-	136	166,474	187,359
Salaries and benefits payable	64,478	-	-	502	64,980
Unearned revenue	65,664	-	-	3,368	69,032
Advance from other funds	-	-	-	70,150	70,150
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	<u>225,167</u>	<u>658,098</u>	<u>19,979</u>	<u>1,699,846</u>	<u>2,603,090</u>
<b>Deferred Inflows Resources</b>					
Unavailable revenue - long-term assets	104,000	-	-	29,096	133,096
Unavailable revenue - property taxes	79,266	-	6,474	6,674	92,414
Unavailable revenue - special assessments	-	-	-	1,046,655	1,046,655
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total deferred inflows of resources	<u>183,266</u>	<u>-</u>	<u>6,474</u>	<u>1,082,425</u>	<u>1,272,165</u>
<b>Fund Balances</b>					
Nonspendable	79,975	-	-	1,240	81,215
Restricted	-	-	-	2,548,421	2,548,421
Assigned	84,644	-	3,697,535	597,920	4,380,099
Unassigned	2,526,573	(289,687)	-	(1,492,644)	744,242
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balances	<u>2,691,192</u>	<u>(289,687)</u>	<u>3,697,535</u>	<u>1,654,937</u>	<u>7,753,977</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 3,099,625</u>	<u>\$ 368,411</u>	<u>\$ 3,723,988</u>	<u>\$ 4,437,208</u>	<u>\$ 11,629,232</u>

**City of Princeton**  
**Reconciliation of the Balance Sheet to**  
**the Statement of Net Position - Governmental Funds**  
**December 31, 2015**

Total fund balances - governmental funds	\$ 7,753,977
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	20,384,376
Less accumulated depreciation	(9,935,530)
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, net of premiums	(2,410,251)
Compensated absences payable	(310,314)
OPEB payable	(90,317)
Net pension liability	(1,472,216)
Net pension assets created through non-employer contributions to defined benefit plans are not recognized in the governmental funds.	
	273,491
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.	
Deferred outflows of resources related to pensions	437,163
Deferred inflows of resources related to pensions	(197,928)
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	92,414
Delinquent special assessments	1,161
Deferred special assessments	1,045,494
Other long-term assets are not available to pay for current period Expenditures and, therefore, are deferred in the funds.	
Notes receivable	29,096
Development revenue reserve	104,000
The water availability special revenue fund is proprietary in nature and relates to the water access charges for the water fund. Therefore, it is included as a business-type activity.	
	14,250
Governmental funds do not report a liability for accrued interest due and payable.	
	<u>(20,136)</u>
Total net position - governmental activities	<u><u>\$ 15,698,730</u></u>

**City of Princeton**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Governmental Funds**  
**Year Ended December 31, 2015**

	Capital Projects				Total Governmental Funds
	General Fund (101, 202)	West Branch and 7th Avenue North Projects (315)	Capital Improvements (351)	Other Governmental Funds	
<b>Revenues</b>					
Property taxes	\$ 2,008,054	\$ -	\$ 182,414	\$ 118,519	\$ 2,308,987
Tax increments	-	-	-	162,936	162,936
Special assessments	-	-	-	179,885	179,885
Licenses and permits	271,459	-	-	-	271,459
Intergovernmental	999,889	-	58,010	367,457	1,425,356
Charges for services	235,107	-	-	28,830	263,937
Fine and forfeitures	25,731	-	-	-	25,731
Miscellaneous					
Investment income	15,870	-	28,826	23,500	68,196
Contributions and donations	-	-	-	1,131	1,131
Other	100,921	368,411	-	36,048	505,380
Total revenues	<u>3,657,031</u>	<u>368,411</u>	<u>269,250</u>	<u>918,306</u>	<u>5,212,998</u>
<b>Expenditures</b>					
<b>Current</b>					
General government	607,486	-	-	-	607,486
Public safety	1,675,968	-	-	92,694	1,768,662
Cemetery	751	-	-	27,189	27,940
Public works	646,060	-	29,537	148,265	823,862
Parks and recreation	270,313	-	-	34,089	304,402
Economic development	51,201	-	-	155,792	206,993
<b>Debt service</b>					
Principal	-	-	-	290,000	290,000
Interest and other charges	-	-	-	41,389	41,389
<b>Capital outlay</b>					
General government	29,754	-	-	-	29,754
Public safety	38,205	-	-	9,685	47,890
Public works	267,902	1,574,713	-	-	1,842,615
Parks and recreation	3,330	-	-	228,818	232,148
Economic development	-	-	-	123,976	123,976
Total expenditures	<u>3,590,970</u>	<u>1,574,713</u>	<u>29,537</u>	<u>1,151,897</u>	<u>6,347,117</u>
Excess of revenues over (under) expenditures	66,061	(1,206,302)	239,713	(233,591)	(1,134,119)
<b>Other Financing Sources (Uses)</b>					
Proceeds from sale of capital asset	-	-	1,974	-	1,974
Bond issuance	-	908,846	-	1,154	910,000
Bond premium	-	7,769	-	-	7,769
Payment in lieu of taxes - component unit	52,500	-	-	-	52,500
Transfers in	165,582	-	-	60,806	226,388
Transfers out	(66,621)	-	-	(1,685)	(68,306)
Total other financing sources (uses)	<u>151,461</u>	<u>916,615</u>	<u>1,974</u>	<u>60,275</u>	<u>1,130,325</u>
Net change in fund balances	217,522	(289,687)	241,687	(173,316)	(3,794)
<b>Fund Balances</b>					
Beginning of year	<u>2,473,670</u>	<u>-</u>	<u>3,455,848</u>	<u>1,828,253</u>	<u>7,757,771</u>
End of year	<u>\$ 2,691,192</u>	<u>\$ (289,687)</u>	<u>\$ 3,697,535</u>	<u>\$ 1,654,937</u>	<u>\$ 7,753,977</u>

**City of Princeton**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances to**  
**the Statement of Activities - Governmental Funds**  
**Year Ended December 31, 2015**

Net change in fund balances - total governmental funds \$ (3,794)

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

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

Capital outlays	2,174,463
Depreciation expense	(531,381)
Loss on disposal	(3,506)

Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities. (17,557)

OPEB are recognized as paid in the governmental funds but recognized as expensed in the Statement of Activities. (11,990)

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. 290,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. (2,268)

Premiums are recognized when debt is issued in the governmental funds but amortized over the life of the debt in the Statement of Activities. 518

The issuance of long-term debt and related premiums are shown as other financing sources in the funds but are recorded as a long-term liability in the Statement of Net Position. (917,769)

Principal payments on notes receivable will be collected, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds. (2,758)

Governmental funds recognized pension contributions as expenditures at the time of payment whereas the statement of activities factors in items related to pensions on a full accrual perspective.

Pension expense	(24,594)
State aid	6,300

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	(50,421)
Delinquent special assessments	(2,711)
Deferred special assessments	352,114

Change in net position - governmental activities \$ 1,254,646

**City of Princeton**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances -**  
**Budget and Actual - General Fund**  
**Year Ended December 31, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues</b>				
Property taxes	\$ 1,834,250	\$ 1,848,935	\$ 2,008,054	\$ 159,119
Licenses and permits	169,460	252,095	271,459	19,364
Intergovernmental	993,550	1,001,645	999,889	(1,756)
Charges for services	212,345	223,085	235,107	12,022
Fines and forfeitures	20,000	22,530	25,731	3,201
Miscellaneous revenues				
Investment income	2,100	10,600	15,870	5,270
Other	98,500	102,340	100,921	(1,419)
Total revenues	<u>3,330,205</u>	<u>3,461,230</u>	<u>3,657,031</u>	<u>195,801</u>
<b>Expenditures</b>				
Current				
General government	893,765	822,745	607,486	(215,259)
Public safety	1,650,145	1,687,090	1,675,968	(11,122)
Cemetery	-	-	751	751
Public works	685,555	660,320	646,060	(14,260)
Parks and recreation	240,395	229,360	270,313	40,953
Economic development	-	-	51,201	51,201
Capital outlay				
General government	65,650	30,600	29,754	(846)
Public safety	168,085	158,085	38,205	(119,880)
Public works	792,000	285,920	267,902	(18,018)
Parks and recreation	55,000	26,760	3,330	(23,430)
Total expenditures	<u>4,550,595</u>	<u>3,900,880</u>	<u>3,590,970</u>	<u>(309,910)</u>
Excess of revenues over (under) expenditures	(1,220,390)	(439,650)	66,061	505,711
<b>Other Financing Sources (Uses)</b>				
Payment in lieu of taxes - component unit	52,500	52,500	52,500	-
Transfers in	1,245,035	688,515	165,582	(522,933)
Transfers out	(70,495)	(62,680)	(66,621)	(3,941)
Total other financing sources (uses)	<u>1,227,040</u>	<u>678,335</u>	<u>151,461</u>	<u>(526,874)</u>
Net change in fund balances	<u>\$ 6,650</u>	<u>\$ 238,685</u>	217,522	<u>\$ (21,163)</u>
<b>Fund Balances</b>				
Beginning of year			<u>2,473,670</u>	
End of year			<u>\$ 2,691,192</u>	

**City of Princeton**  
**Statement of Net Position - Proprietary Funds**  
**December 31, 2015**

	Airport (208)	Sanitary Sewer (702/704)	Municipal Liquor (703)	Total
<b>Assets</b>				
<b>Current assets</b>				
Cash and investments	\$ -	\$ 871,409	\$ 2,340,337	\$ 3,211,746
Investments with fiscal agent	-	1,275,417	-	1,275,417
Accounts receivable	-	7,400	900	8,300
Accrued interest	-	-	755	755
Due from other funds	-	-	188,015	188,015
Due from other governments	216,500	219,376	-	435,876
Inventories	8,500	-	645,964	654,464
Contract for deed	-	-	4,610	4,610
Prepaid expenses	775	12,665	8,580	22,020
<b>Total current assets</b>	<u>225,775</u>	<u>2,386,267</u>	<u>3,189,161</u>	<u>5,801,203</u>
<b>Noncurrent assets</b>				
Contract for deed	-	-	163,986	163,986
<b>Capital assets</b>				
Land	495,923	129,120	410,998	1,036,041
Buildings and system	76,766	947,087	999,651	2,023,504
Other improvements	3,124,852	23,697,639	43,608	26,866,099
Machinery and equipment	281,743	739,328	174,259	1,195,330
Construction in progress	486,340	1,125,829	-	1,612,169
<b>Total capital assets</b>	<u>4,465,624</u>	<u>26,639,003</u>	<u>1,628,516</u>	<u>32,733,143</u>
Less accumulated depreciation	(2,201,697)	(4,843,709)	(346,782)	(7,392,188)
<b>Net capital assets</b>	<u>2,263,927</u>	<u>21,795,294</u>	<u>1,281,734</u>	<u>25,340,955</u>
<b>Total assets</b>	<u>2,489,702</u>	<u>24,181,561</u>	<u>4,634,881</u>	<u>31,306,144</u>
<b>Deferred Outflows Of Resources</b>				
Deferred outflows of resources related to pensions	1,566	15,391	21,907	38,864
<b>Total assets and deferred outflows of resources</b>	<u>\$ 2,491,268</u>	<u>\$ 24,196,952</u>	<u>\$ 4,656,788</u>	<u>\$ 31,345,008</u>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable	\$ 6,863	\$ 20,846	\$ 64,278	\$ 91,987
Salaries payable	773	4,332	6,438	11,543
Unearned revenue	5,588	-	-	5,588
Interest payable	-	37,986	-	37,986
Due to other funds	188,015	-	-	188,015
Due to other governmental units	-	-	33,336	33,336
Compensated absences payable	-	3,850	13,400	17,250
Current portion of revenue bonds	-	1,909,000	-	1,909,000
<b>Total current liabilities</b>	<u>201,239</u>	<u>1,976,014</u>	<u>117,452</u>	<u>2,294,705</u>
<b>Noncurrent liabilities</b>				
Compensated absences payable	-	8,060	31,945	40,005
Opeb payable	886	8,753	9,592	19,231
Bonds payable	-	15,580,491	-	15,580,491
Net pension liability	11,360	111,643	158,911	281,914
<b>Total noncurrent liabilities</b>	<u>12,246</u>	<u>15,708,947</u>	<u>200,448</u>	<u>15,921,641</u>
<b>Total liabilities</b>	<u>213,485</u>	<u>17,684,961</u>	<u>317,900</u>	<u>18,216,346</u>
<b>Deferred Inflows Of Resources</b>				
Deferred inflows of resources related to pensions	1,157	11,372	16,187	28,716
<b>Net Position</b>				
Net investment in capital assets	2,263,927	5,670,803	1,281,734	9,216,464
Restricted	-	2,900	-	2,900
Unrestricted	12,699	826,916	3,040,967	3,880,582
<b>Total net position</b>	<u>2,276,626</u>	<u>6,500,619</u>	<u>4,322,701</u>	<u>13,099,946</u>
<b>Total liabilities, deferred inflows of resources and net position</b>	<u>\$ 2,491,268</u>	<u>\$ 24,196,952</u>	<u>\$ 4,656,788</u>	<u>\$ 31,345,008</u>
Adjustment to reflect the consolidation of the water availability special revenue fund related to enterprise funds				(14,250)
<b>Total business-type activities net position</b>				<u>\$ 13,085,696</u>

**City of Princeton**  
**Statement of Revenues, Expenses, and Changes**  
**in Fund Net Position - Proprietary Funds**  
**Year Ended December 31, 2015**

	Airport (208)	Sanitary Sewer (702/704)	Municipal Liquor (703)	Total
Sales and cost of sales				
Sales	\$ 63,991	\$ -	\$ 3,486,943	\$ 3,550,934
Cost of sales	57,836	-	2,588,629	2,646,465
Gross profit	<u>6,155</u>	<u>-</u>	<u>898,314</u>	<u>904,469</u>
Operating revenues				
Charges for services	<u>9,336</u>	<u>1,376,736</u>	<u>130</u>	<u>1,386,202</u>
Total gross profit and operating revenues	<u>15,491</u>	<u>1,376,736</u>	<u>898,444</u>	<u>2,290,671</u>
Operating expenses				
Wages and salaries	18,517	189,141	283,526	491,184
Materials and supplies	21,469	282,816	116,595	420,880
Professional services	-	-	66,333	66,333
Depreciation	137,361	546,580	37,241	721,182
Total operating expenses	<u>177,347</u>	<u>1,018,537</u>	<u>503,695</u>	<u>1,699,579</u>
Operating income (loss)	(161,856)	358,199	394,749	591,092
Nonoperating revenues (expenses)				
Interest income	-	11,497	22,150	33,647
Intergovernmental revenues	254,932	282,392	-	537,324
Interest expense and charges	-	(372,755)	-	(372,755)
Other income	-	9,520	-	9,520
Total nonoperating revenues (expenses)	<u>254,932</u>	<u>(69,346)</u>	<u>22,150</u>	<u>207,736</u>
Income before capital				
Contributions and transfers	93,076	288,853	416,899	798,828
Transfers in	22,100	-	-	22,100
Transfers out	<u>-</u>	<u>-</u>	<u>(180,182)</u>	<u>(180,182)</u>
Change in net position	115,176	288,853	236,717	640,746
Net position				
Beginning of year	2,172,055	6,315,992	4,234,338	12,722,385
Change in accounting principle (see Note 15)	(10,605)	(104,226)	(148,354)	(263,185)
Beginning of year, restated	<u>2,161,450</u>	<u>6,211,766</u>	<u>4,085,984</u>	<u>12,459,200</u>
End of year	<u>\$ 2,276,626</u>	<u>\$ 6,500,619</u>	<u>\$ 4,322,701</u>	<u>\$ 13,099,946</u>

**City of Princeton**  
**Statement of Cash Flows - Proprietary Funds**  
**Year Ended December 31, 2015**

	Airport (208)	Sanitary Sewer (702/704)	Municipal Liquor (703)	Total
<b>Cash Flows - Operating Activities</b>				
Receipts from customers and users	\$ 75,519	\$ 1,376,695	\$ 3,487,073	\$ 4,939,287
Payments to suppliers	(68,229)	(359,975)	(2,783,994)	(3,212,198)
Payments to employees	(18,189)	(178,978)	(274,726)	(471,893)
Other income	-	9,520	-	9,520
Net cash flows - operating activities	<u>(10,899)</u>	<u>847,262</u>	<u>428,353</u>	<u>1,264,716</u>
<b>Cash Flows - Noncapital</b>				
<b>Financing Activities</b>				
Transfer from other funds	22,100	-	-	22,100
Transfer to other funds	-	-	(180,182)	(180,182)
Increase in due to other funds	(14,907)	-	-	(14,907)
Increase in due from other funds	-	-	14,907	14,907
Net cash flows - noncapital financing activities	<u>7,193</u>	<u>-</u>	<u>(165,275)</u>	<u>(158,082)</u>
<b>Cash Flows - Capital and Related</b>				
<b>Financing Activities</b>				
Principal paid on debt	-	(632,000)	-	(632,000)
Interest paid on debt	-	(347,975)	-	(347,975)
Bond proceeds	-	119,332	-	119,332
Principal paid on contract for deed	-	-	4,518	4,518
Intergovernmental revenues	236,801	282,392	-	519,193
Acquisition of capital assets	(233,095)	(223,753)	-	(456,848)
Net cash flows - capital and related financing activities	<u>3,706</u>	<u>(802,004)</u>	<u>4,518</u>	<u>(793,780)</u>
<b>Cash Flows - Investing Activities</b>				
Interest and dividends received	-	5,832	22,560	28,392
Net change in cash and cash equivalents	-	51,090	290,156	341,246
<b>Cash and Cash Equivalents</b>				
January 1	-	820,319	2,050,181	2,870,500
December 31	<u>\$ -</u>	<u>\$ 871,409</u>	<u>\$ 2,340,337</u>	<u>\$ 3,211,746</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Flows - Operating Activities</b>				
Operating income (loss)	\$ (161,856)	\$ 358,199	\$ 394,749	\$ 591,092
Adjustments to reconcile operating income (loss) to net cash flows - operating activities				
Other income	-	9,520	-	9,520
Depreciation expense	137,361	546,580	37,241	721,182
Special assessments receivable	-	4,965	-	4,965
Due from other governments	-	(5,006)	-	(5,006)
Prepaid items	(135)	(920)	(735)	(1,790)
Inventory	8,000	-	(25,128)	(17,128)
Accounts payable	3,211	(71,756)	9,988	(58,557)
Due to other governmental units	-	(4,483)	3,438	(1,045)
Salaries payable	41	1,017	524	1,582
Unearned income	2,192	-	-	2,192
Compensated absences payable	-	4,565	2,190	6,755
Pension payable and related deferred outflows and inflows	346	3,398	4,837	8,581
Opeb payable	(59)	1,183	1,249	2,373
Total adjustments	<u>150,957</u>	<u>489,063</u>	<u>33,604</u>	<u>673,624</u>
Net cash flows - operating activities	<u>\$ (10,899)</u>	<u>\$ 847,262</u>	<u>\$ 428,353</u>	<u>\$ 1,264,716</u>

See notes to financial statements.

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**City of Princeton**  
**Notes to Financial Statements**

**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 Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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. Separate financial statements are not prepared for the Fire District.

**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. 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 Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

West Branch and 7<sup>th</sup> Avenue North Capital Projects Fund – This Fund accounts for the bonds proceeds and costs of the West Branch and 7<sup>th</sup> Avenue North street projects.

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 Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. Further, the City applies unrestricted funds in this order if various levels of unrestricted fund balances exist: committed, assigned, and unassigned.

**D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, 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 Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, 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 Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, 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. Inventory and 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.

Inventory is valued at cost using the first in, first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

**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 Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, 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:

Assets	Years
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. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The City presents deferred outflows of resources on the Statements of Net Position for deferred outflows of resources related to pensions.

In addition to liabilities, the statement of financial position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City presents deferred inflows of resources on the Governmental Fund Balance Sheet as unavailable revenue. The governmental funds report unavailable revenues from three sources: long-term assets, property taxes, and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City also presents deferred inflows of resources on the Statements of Net Position for deferred inflows of resources related to pensions.

**6. 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.

**City of Princeton**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)**

**6. Compensated Absences (Continued)**

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, 2015 is recorded in the financial statements.

**7. 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 are deferred and amortized over the life of the bonds using the straight line method.

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.

**8. Pensions**

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and the relief association and additions to/deductions from PERA's and the relief association's fiduciary net position have been determined on the same basis as they are reported by PERA and the relief association except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**9. 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.

**City of Princeton**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)**

**9. Fund Equity (Continued)**

**a. Classification (Continued)**

- 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.
- 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.

**10. Net Position**

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources 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 \$626,442 was made between this net position 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.

**City of Princeton**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)**

**10. Net Position (Continued)**

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.

**11. 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.

**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 Financial Statements**

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)**

**B. Deficit Fund Balance**

The following Funds had deficit balances at December 31, 2015:

City Major Fund:	
West Branch and 7th Avenue North Capital Projects Fund	\$ 289,687
City Nonmajor Funds:	
Special Revenue:	
Development grants	70,535
Development expenses	262,571
Fire Department grants	11,743
Stormwater management	146,949
Neighborhood Stabilization Program	73,159
Water availability	14,250
Debt Service:	
G.O. Refunding Bonds, 2012B	398,668
1999 Street and Utilities Improvements	79,885
Capital Projects:	
Heritage Village	284,747
Northland/Old 18 Improvements	53,760
MN Industrial Coatings Expansion District	22,494
2000 Street and Utility Improvements	70,145
Industrial Park Development	3,738
EDA Component Unit:	
General Fund	453,707

**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, 2015, 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.

Checking	\$ 1,907,852
Savings	2,345,123
Nonnegotiable certificates of deposit	<u>1,517,534</u>
Total deposits	<u>\$ 5,770,509</u>

**City of Princeton**  
**Notes to Financial Statements**

**NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**B. Investments – City and EDA Component Unit**

As of December 31, 2015, 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	\$ 340,061	\$ 340,061	\$ -	\$ -	\$ -	6.2%	N/A
GB	FNMA	10,486	-	-	-	10,486	0.2%	NR
GB	FHLB	897,844	-	-	897,844	-	16.4%	AA+
GB	FFCB	98,150	-	-	98,150	-	1.8%	AA+
GB	GNMA	15,264	-	-	-	15,264	0.3%	NR
SLGS	State and Local Government Securities	1,275,417	1,275,417	-	-	-	23.3%	NR
SEC	Mortgage Securities	25,093	-	-	-	25,093	0.5%	AA+
CD	Brokered Certificates of Deposit	2,802,151	282,724	2,120,101	399,326	-	51.3%	N/A
	Total	\$ 5,464,466	\$ 1,898,202	\$ 2,120,101	\$ 1,395,320	\$ 50,843	100.0%	

As of December 31, 2015, the EDA Component Unit 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		
SLGS	State and Local Government Securities	\$ 169,696	\$ 169,696	\$ -	\$ -	\$ -	100.0%	NR

**Credit Risk:** As of December 31, 2015, the City and EDA's investments were rated in the tables above.

**Concentration of Credit Risk:** The City and EDA were exposed to concentration of credit risk at December 31, 2015, as investments in State and Local Government Securities exceeded 5% of the total investment portfolio as noted in the tables above.

The City and EDA's investment policy states that under no circumstances should any investment extend beyond 15 years. At December 31, 2015, the City held investments that were in noncompliance with this policy.

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, 2015, the PUC component unit's bank balance 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, 2015 of \$6,031,277.

**City of Princeton**  
**Notes to Financial Statements**

**NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**C. Deposits and Investments – PUC Component Unit**

As of December 31, 2015, the PUC component unit had the following investments:

Type	Investment	Fair Value	Credit Rating	Percentage of Total
CD	Brokered Certificates of Deposit	\$ 72,922	NR	10.0%
MM	Brokered Money Markets	48,498	Aaa	6.7%
GB	Grand Rapids, MN G.O. Taxable	239,684	A1	33.0%
GB	Grimes, IA G.O. Taxable Build America	91,915	AA3	12.6%
GB	Wyoming, MN G.O. Taxable Build America	<u>273,759</u>	A1	<u>37.7%</u>
Total		<u>\$ 726,778</u>		<u>100.00%</u>

Credit Risk: As of December 31, 2015, the component unit's investments were rated in the table above.

Concentration of Credit Risk: The PUC component unit was exposed to concentration of credit risk at December 31, 2013 as individual investments in governmental bonds exceeded 5% of the component units total investment portfolio.

**D. Deposits and Investments Summary**

The following is a summary of total deposits and investments:

Deposits (Note 3.A.)	\$ 5,770,509
City investments (Note 3.B.)	5,464,466
EDA investments (Note 3.B.)	169,696
Petty cash	<u>2,933</u>
Total deposits and investments - City and EDA component unit	<u>11,407,604</u>
Deposits - component unit (Note 3.C.)	6,031,277
Investments - component unit (Note 3.C.)	726,778
Petty cash	<u>2,135</u>
Total deposits and investments - component unit	<u>6,760,190</u>
Total deposits and investments	<u>\$ 18,167,794</u>

**City of Princeton**  
**Notes to Financial Statements**

**NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**D. Deposits and Investments Summary (Continued)**

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

Statement of Net Position

Cash and investments, primary government	\$ 9,962,491
Investments with fiscal agent, primary government	1,275,417
Investments with fiscal agent, EDA component unit	169,696
Cash and investments, PUC component unit	3,375,474
Cash held in escrow, PUC component unit	239,896
Restricted assets, PUC component unit	<u>3,144,820</u>
	<u><u>\$ 18,167,794</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	103,198	1,616,294	144,779	1,574,713
Total capital assets not being depreciated	<u>1,674,132</u>	<u>1,616,294</u>	<u>144,779</u>	<u>3,145,647</u>
Capital assets being depreciated				
Building and systems	2,305,207	144,779	-	2,449,986
Other improvements	1,568,064	217,468	-	1,785,532
Machinery and equipment	3,723,125	340,701	135,973	3,927,853
Infrastructure	9,075,358	-	-	9,075,358
Total capital assets being depreciated	<u>16,671,754</u>	<u>702,948</u>	<u>135,973</u>	<u>17,238,729</u>
Less accumulated depreciation for:				
Building and systems	1,133,533	52,045	-	1,185,578
Other improvements	1,228,157	52,216	-	1,280,373
Machinery and equipment	2,442,627	213,599	132,467	2,523,759
Infrastructure	4,732,299	213,521	-	4,945,820
Total accumulated depreciation	<u>9,536,616</u>	<u>531,381</u>	<u>132,467</u>	<u>9,935,530</u>
Total capital assets being depreciated, net	<u>7,135,138</u>	<u>171,567</u>	<u>3,506</u>	<u>7,303,199</u>
Governmental activities capital assets, net	<u>\$ 8,809,270</u>	<u>\$ 1,787,861</u>	<u>\$ 148,285</u>	<u>\$ 10,448,846</u>

**City of Princeton**  
**Notes to Financial Statements**

**NOTE 4 – CAPITAL ASSETS (CONTINUED)**

**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	2,059,973	322,483	770,287	1,612,169
Total capital assets not being depreciated	3,096,014	322,483	770,287	2,648,210
Capital assets being depreciated				
Buildings and systems	2,023,504	-	-	2,023,504
Other improvements	26,095,812	770,287	-	26,866,099
Machinery and equipment	1,195,330	-	-	1,195,330
Total capital assets being depreciated	29,314,646	770,287	-	30,084,933
Less accumulated depreciation for				
Buildings and systems	414,371	54,775	-	469,146
Other improvements	5,685,957	611,297	-	6,297,254
Machinery and equipment	570,678	55,110	-	625,788
Total accumulated depreciation	6,671,006	721,182	-	7,392,188
Total capital assets being depreciated, net	22,643,640	49,105	-	22,692,745
Business-type activities capital assets, net	\$ 25,739,654	\$ 371,588	\$ 770,287	\$ 25,340,955

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

Governmental activities	
General government	\$ 42,858
Public safety	100,758
Cemetery	4,527
Public works	311,995
Parks and recreation	71,243
Total depreciation expense - governmental activities	\$ 531,381

**City of Princeton**  
**Notes to Financial Statements**

**NOTE 4 – CAPITAL ASSETS (CONTINUED)**

**A. Primary Government (Continued)**

Business-type activities	
Airport	\$ 137,361
Sanitary sewer	546,580
Municipal Liquor	<u>37,241</u>
 Total depreciation expense - business-type activities	 <u><u>\$ 721,182</u></u>

**B. EDA Component Unit**

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ -	\$ 78,600	\$ -	\$ 78,600
Capital assets being depreciated				
Buildings and systems	<u>2,395,368</u>	<u>-</u>	<u>-</u>	<u>2,395,368</u>
Less accumulated depreciation for				
Buildings and systems	<u>63,108</u>	<u>63,107</u>	<u>-</u>	<u>126,215</u>
Total capital assets being depreciated, net	<u>2,332,260</u>	<u>(63,107)</u>	<u>-</u>	<u>2,269,153</u>
Governmental activities capital assets, net	<u><u>\$ 2,332,260</u></u>	<u><u>\$ 15,493</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,347,753</u></u>

Depreciation expense is charged to the police safety program.

**C. PUC 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	2,027,753	72,387	-	2,100,140
Infrastructure	25,364,230	901,246	-	26,265,476
Machinery and equipment	<u>2,687,472</u>	<u>113,755</u>	<u>38,802</u>	<u>2,762,425</u>
Total capital assets being depreciated	<u>30,079,455</u>	<u>1,087,388</u>	<u>38,802</u>	<u>31,128,041</u>
Less accumulated depreciation for				
Buildings and systems	887,778	75,906	-	963,684
Infrastructure	10,907,286	817,628	-	11,724,914
Machinery and equipment	<u>2,021,200</u>	<u>86,519</u>	<u>38,802</u>	<u>2,068,917</u>
Total accumulated depreciation	<u>13,816,264</u>	<u>980,053</u>	<u>38,802</u>	<u>14,757,515</u>
Total capital assets being depreciated, net	<u>16,263,191</u>	<u>107,335</u>	<u>-</u>	<u>16,370,526</u>
Business-type activities capital assets, net	<u><u>\$ 16,296,353</u></u>	<u><u>\$ 107,335</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 16,403,688</u></u>

**City of Princeton**  
**Notes to Financial Statements**

**NOTE 4 – CAPITAL ASSETS (CONTINUED)**

**C. PUC Component Unit (Continued)**

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

Business-type activities	
Electric	\$ 634,578
Water	<u>345,475</u>
 Total depreciation expense - business-type activities	 <u><u>\$ 980,053</u></u>

**NOTE 5 – NOTES RECEIVABLE**

Notes receivable issued in connection with Urban Development Action Grants (UDAG) at December 31, 2015 consisted of the following:

Bellamy	
Annual payments of \$786, including interest at 3%, through September 2024	\$ 10,378
Cartwright	
Annual payments of \$395, including interest at 3%, through September 2024	3,654
Annual payments of \$758, including interest at 3%, through September 2024	7,016
Annual payments of \$469, including interest at 3%, through September 2024	4,342
Anderson	
Annual payments of \$262, including interest at 3%, through September 2024	1,848
Annual payments of \$264, including interest at 3%, through September 2024	1,858
Stahl	
Monthly payments of \$470, including interest at 5%, through April 2020	23,426
Hy Tech	
Annual payments of \$2,099, including interest at 4.5%, through September 2026	<u>17,759</u>
 Total UDAG	 <u><u>\$ 70,281</u></u>

**City of Princeton  
Notes to Financial Statements**

**NOTE 5 – NOTES/LOANS RECEIVABLE (CONTINUED)**

In addition, the EDA had the following notes receivable at December 31, 2015:

**It Starts Here**

Equal principal payments due on the 2nd-5th anniversaries of the loan plus a balloon payment due on the 6th anniversary, interest at 2.5% through 2020	\$ 10,000
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**Mama Gracie's Pregnancy Shop**

Equal principal payments due on the 2nd-5th anniversaries of the loan plus a balloon payment due on the 6th anniversary, interest at 2.5% through 2021	10,000
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	\$ 20,000
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**NOTE 6 – RESTRICTED ASSETS – PUC 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, 2014	\$ 1,972,091
Transfers	154,791
Balance - December 31, 2015	\$ 2,126,882

**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, 2015 was \$138,130.

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, 2015 was \$308,058.

**D. Restricted Cash Held in Escrow**

Restricted cash held in escrow as of December 31, 2015 consisted of \$239,896 of cash proceeds from the Electric Revenue Note, Series 2006A.

**City of Princeton**  
**Notes to Financial Statements**

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

**A. Interfund Receivables and Payables**

The composition of interfund balances as of December 31, 2015 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital improvements	West Branch and 7th Avenue North projects	\$ 527,183
Capital improvements	Other governmental funds	1,397,928
Municipal liquor	Airport	<u>188,015</u>
Total		<u><u>\$ 2,113,126</u></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, 2015 to finance capital projects.

The City's Capital Improvements Fund had a receivable from the EDA Component Unit of \$989,179 at December 31, 2015 to cover cash deficits. This amount is included in due from/to other governments.

**B. Interfund Transfers**

The composition of interfund transfers as of December 31, 2015 was as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Description</u>	<u>Amount</u>
General Fund	Liquor	EDA bond debt payments	\$ 165,582
Airport Fund	Liquor	Operations	12,100
Airport Fund	General Fund	Operations	10,000
Cemetery operations	Cemetery perpetual care	Operations	885
Cemetery operations	General Fund	Operations	4,500
Solheim field improvements	General Fund	Field improvements	800
Solheim field improvements	Park improvements	Field improvements	800
Civic Center	General Fund	Operations	8,000
Community beautification	Liquor	City contribution for beautification	2,500
Fire equipment reserve	General Fund	City contribution for fire equipment	<u>43,321</u>
			<u><u>\$ 248,488</u></u>

**City of Princeton**  
**Notes to Financial Statements**

**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. In 2013, the City issued the 2013A and 2013B G.O. Sewer Revenue Bonds in the total amount of \$15,118,000 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. The 2000B and 2004A bonds were paid off in the prior year at the 2012 call dates. The 2005A bond was paid off at the 2013 call date. The 2007B bond will be paid off in 2016.

**City of Princeton  
Notes to Financial Statements**

**NOTE 8 – LONG-TERM DEBT (CONTINUED)**

**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 2007A	08/23/07	4.00%-4.25%	\$ 234,000	02/01/23	\$ 143,000	\$ 15,000
G.O. improvement						
Refunding 2009B	11/01/09	2.00%-3.50%	1,505,000	02/01/20	815,000	150,000
G.O. improvement						
Refunding 2012B	06/21/12	0.35-2.75%	910,000	02/01/28	535,000	90,000
G.O. improvement						
2015A	10/22/15	1.00%-3.00%	910,000	02/01/31	910,000	-
Bond premium					7,251	-
Compensated absences					310,314	144,000
Total governmental activities					<u>2,720,565</u>	<u>399,000</u>
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	1,345,000	1,345,000
G.O. sewer revenue						
Refunding 2009A	04/01/09	0.85%-2.70%	2,040,000	08/01/16	290,000	290,000
G.O. sewer revenue						
Refunding 2012B	06/21/12	0.35-2.75%	1,365,000	02/01/28	1,365,000	-
G.O. sewer 2013A&B	03/28/13	1.880%	15,118,000	01/01/53	14,489,491	274,000
Compensated absences					57,255	17,250
Total business-type activities					<u>17,546,746</u>	<u>1,926,250</u>
Total all long-term liabilities					<u>\$ 20,267,311</u>	<u>\$ 2,325,250</u>

**EDA Component Unit**

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-term liabilities						
Governmental activities						
G. O. bonds						
Lease revenue 2013C	06/10/04	2.53%	\$ 847,422	08/20/23	\$ 2,150,000	\$ 90,000
Bond premium					17,735	-
Total all long-term liabilities					<u>\$ 2,167,735</u>	<u>\$ 90,000</u>

**City of Princeton**  
**Notes to Financial Statements**

**NOTE 8 – LONG-TERM DEBT (CONTINUED)**

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

**PUC Component Unit**

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-term liabilities						
Business-type activities						
G.O. revenue bonds						
MNPFA G.O. Revenue note	06/10/04	2.53%	\$ 847,422	08/20/23	\$ 417,000	\$ 48,000
MNPFA G.O. revenue bond	09/08/99	3.29%	670,000	08/20/19	176,000	42,000
Electric revenue note, Series 2006A	04/02/06	4.05%	3,065,000	12/01/25	1,915,000	150,000
G.O. water revenue bond Series 2008A	03/04/08	2.20%-4.05%	4,880,000	12/01/27	3,155,000	260,000
Public utility system refunding Revenue bonds, series 2010A	11/18/10	2.0%-3.50%	3,040,000	04/01/22	1,590,000	255,000
Public utility system refunding Revenue bonds, series 2012A	02/01/12	1.0%-2.85%	2,450,000	04/01/24	<u>1,860,000</u>	<u>205,000</u>
Total all long-term liabilities					<u>\$ 9,113,000</u>	<u>\$ 960,000</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, 2015 are listed below and on the following page.

**Primary Government**

Year Ending December 31,	Governmental Activities		Business-Type Activities		Total
	G.O. Bonds		G.O. Revenue Bonds		
	Principal	Interest	Principal	Interest	
2016	\$ 255,000	\$ 51,685	\$ 1,909,000	\$ 334,926	\$ 2,550,611
2017	306,000	48,922	387,000	294,249	1,036,171
2018	317,000	42,069	390,000	287,912	1,036,981
2019	332,000	34,578	397,000	281,309	1,044,887
2020	338,000	25,926	405,000	275,016	1,043,942
2021-2025	450,000	75,550	2,139,000	1,255,922	3,920,472
2026-2030	335,000	34,613	2,107,000	1,037,885	3,514,498
2031-2035	70,000	1,050	1,895,000	854,005	2,820,055
2036-2040	-	-	2,085,000	669,545	2,754,545
2041-2045	-	-	2,281,000	466,357	2,747,357
2046-2050	-	-	2,513,000	243,997	2,756,997
2051-2052	-	-	981,491	30,327	1,011,818
Total	<u>\$ 2,403,000</u>	<u>\$ 314,393</u>	<u>\$ 17,489,491</u>	<u>\$ 6,031,450</u>	<u>\$ 26,238,334</u>

**City of Princeton  
Notes to Financial Statements**

**NOTE 8 – LONG-TERM DEBT (CONTINUED)**

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

**EDA Component Unit**

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>		<u>Total</u>
	<u>Lease Revenue Bond</u>		
	<u>Principal</u>	<u>Interest</u>	
2016	\$ 90,000	\$ 72,792	\$ 162,792
2017	95,000	71,755	166,755
2018	95,000	70,445	165,445
2019	95,000	68,830	163,830
2020	100,000	66,847	166,847
2021-2025	520,000	281,326	801,326
2026-2030	605,000	175,175	780,175
2031-2034	550,000	45,663	595,663
Total	<u>\$ 2,150,000</u>	<u>\$ 852,833</u>	<u>\$ 3,002,833</u>

**PUC Component Unit**

<u>Year Ending December 31,</u>	<u>Business-Type Activities</u>		<u>Total</u>
	<u>G.O. Revenue Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	
2016	\$ 960,000	\$ 291,235	\$ 1,251,235
2017	997,000	263,732	1,260,732
2018	980,000	234,438	1,214,438
2019	942,000	205,181	1,147,181
2020	928,000	175,205	1,103,205
2021-2025	3,991,000	414,090	4,405,090
2026-2027	315,000	19,160	334,160
Total	<u>\$ 9,113,000</u>	<u>\$ 1,603,041</u>	<u>\$ 10,716,041</u>

**City of Princeton**  
**Notes to Financial Statements**

**NOTE 8 – LONG-TERM DEBT (CONTINUED)**

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

Long-term liability activity for the year ended December 31, 2015 was as follows:

**Primary Government**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Bonds payable					
G.O. Bonds	\$ 1,783,000	\$ 910,000	\$ 290,000	\$ 2,403,000	\$ 255,000
Bond premium	-	7,769	518	7,251	-
Compensated absences	292,757	164,541	146,984	310,314	144,000
Total governmental activities	<u>2,075,757</u>	<u>1,082,310</u>	<u>437,502</u>	<u>2,720,565</u>	<u>399,000</u>
Business-type activities:					
Bonds payable					
G.O. Sewer Revenue Bonds	18,002,159	119,332	632,000	17,489,491	1,909,000
Compensated absences	50,500	24,684	17,929	57,255	17,250
Total business-type activities	<u>18,052,659</u>	<u>144,016</u>	<u>649,929</u>	<u>17,546,746</u>	<u>1,926,250</u>
Total long-term liabilities	<u>\$ 20,128,416</u>	<u>\$ 1,226,326</u>	<u>\$ 1,087,431</u>	<u>\$ 20,267,311</u>	<u>\$ 2,325,250</u>

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

**EDA Component Unit**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Bonds payable					
Lease revenue bond	\$ 2,240,000	-	\$ 90,000	\$ 2,150,000	\$ 90,000
Bond premium	18,778	-	1,043	17,735	-
Total long-term liabilities	<u>\$ 2,258,778</u>	<u>\$ -</u>	<u>\$ 91,043</u>	<u>\$ 2,167,735</u>	<u>\$ 90,000</u>

**PUC 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	\$ 10,050,000	-	\$ 937,000	\$ 9,113,000	\$ 960,000
Severance Payable	145,594	41,864	30,629	156,829	-
Total long-term Liabilities	<u>\$ 11,817,212</u>	<u>\$ 41,864</u>	<u>\$ 967,629</u>	<u>\$ 9,269,829</u>	<u>\$ 960,000</u>

**City of Princeton**  
**Notes to Financial Statements**

**NOTE 8 – LONG-TERM DEBT (CONTINUED)**

**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, 2015, there were several issues outstanding. The bonds are not reported as liabilities in the accompanying financial statements. The outstanding balance at December 31, 2015 was not determinable.

**E. Operating Lease Obligations**

In 2013, the City entered into an operating lease agreement with the EDA Component Unit to lease the Public Safety Building, which is classified as operating lease, the last of which expires in January 15, 2034. In 2015, the City made rental payments totaling \$165,582 to the EDA Component Unit. The payment schedule called for principal and interest payments of \$163,783 in 2015 in addition to future payments noted in the schedule below.

Expected minimum future rental payments under the operating lease having remaining terms in excess of one year for each of the next five years and in aggregate are:

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>		<u>Total</u>
	<u>Operating Lease</u>		
	<u>Principal</u>	<u>Interest</u>	
2016	\$ 90,000	\$ 72,792	\$ 162,792
2017	95,000	71,755	166,755
2018	95,000	70,445	165,445
2019	95,000	68,830	163,830
2020	100,000	66,847	166,847
2021-2025	520,000	281,326	801,326
2026-2030	605,000	175,175	780,175
2031-2034	550,000	45,663	595,663
<b>Total</b>	<b><u>\$ 2,150,000</u></b>	<b><u>\$ 852,833</u></b>	<b><u>\$ 3,002,833</u></b>

**City of Princeton  
Notes to Financial Statements**

**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	West Branch and 7th Avenue North Projects	Capital Improvements	Other Governmental Funds	Total
<b>Nonspendable</b>					
Prepaid expenses	\$ 79,975	\$ -	\$ -	\$ 1,240	\$ 81,215
<b>Restricted</b>					
Debt service	-	-	-	2,193,827	2,193,827
Tax increments	-	-	-	55,792	55,792
Urban development loans	-	-	-	138,935	138,935
Park improvement	-	-	-	33,810	33,810
Property confiscation	-	-	-	81,111	81,111
Community projects	-	-	-	392	392
Small cities development loans	-	-	-	44,554	44,554
Total restricted	-	-	-	2,548,421	2,548,421
<b>Assigned</b>					
Capital improvements	-	-	3,697,535	-	3,697,535
Insurance deductible	84,644	-	-	-	84,644
Cemetery operation and maintenance	-	-	-	15,771	15,771
Public safety	-	-	-	7,755	7,755
Investigations	-	-	-	2,011	2,011
Felony investigations	-	-	-	13,318	13,318
Solheim Field improvements	-	-	-	8,839	8,839
Civic Center	-	-	-	3,710	3,710
Community beautification	-	-	-	11,535	11,535
Fire equipment	-	-	-	228,169	228,169
Disaster relocation	-	-	-	129,820	129,820
Arts grant	-	-	-	243	243
Cemetery perpetual care	-	-	-	164,551	164,551
Arcadian Home utilities	-	-	-	12,198	12,198
Total assigned	84,644	-	3,697,535	597,920	4,380,099
Unassigned	2,526,573	(289,687)	-	(1,492,644)	744,242
Total	\$ 2,691,192	\$ (289,687)	\$ 3,697,535	\$ 1,654,937	\$ 7,753,977

The Sewer Fund has \$2,900 of net position restricted for future capital asset replacement costs as required by the water and waste disposal systems loan agreement.

**City of Princeton**  
**Notes to Financial Statements**

**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 2015 is estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2015, 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 – PENSION PLANS**

**Public Employees' Retirement Association**

**A. Plan Description**

The City and PUC participate in the following cost-sharing multiple-employer defined benefit pension plans administered by PERA. PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

**General Employees Retirement Fund (GERF)**

All full-time and certain part-time employees of the City and PUC are covered by the GERF. GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

**Public Employees Police and Fire Fund (PEPFF)**

The PEPFF, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the PEPFF also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

**City of Princeton  
Notes to Financial Statements**

**NOTE 11 – PENSION PLANS (CONTINUED)**

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

**B. Benefits Provided**

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

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

**GERF Benefits**

Benefits are based on a member's highest average salary for any five successive years of allowable service, age and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten 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 ten 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 members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

**PEPFF Benefits**

Benefits for the PEPFF members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. Benefits for PEPFF members first hired after June 30, 2014, vest on a prorated basis from 50% after ten years up to 100% after twenty years of credited service. The annuity accrual rate is 3% of average salary for each year of service. For PEPFF who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

**City of Princeton**  
**Notes to Financial Statements**

**NOTE 11 – PENSION PLANS (CONTINUED)**

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

**C. Contributions**

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

**GERF Contributions**

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The City's contributions to the GERF for the year ended December 31, 2015, were \$82,822, while the PUC's contributions were \$78,398. The City's contributions were equal to the required contributions as set by state statute.

**PEPPF Contributions**

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2015. The City was required to contribute 16.20% of pay for PEPPF members in calendar year 2015. The City's contributions to the PEPPF for the year ended December 31, 2015, were \$106,192. The City's contributions were equal to the required contributions as set by state statute.

**D. Pension Costs**

**GERF Pension Costs**

At December 31, 2015, the City reported a liability of \$958,766 and the PUC reported a liability of \$881,028 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion was 0.0185%, while the PUC's proportion was 0.0170%.

For the year ended December 31, 2015, the City recognized pension expense of \$111,360 and the PUC recognized pension expense of \$100,998 for its proportionate share of GERF's pension expense.

**City of Princeton  
Notes to Financial Statements**

**NOTE 11 – PENSION PLANS (CONTINUED)**

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

**D. Pension Costs**

At December 31, 2015, the City reported its proportionate share of GERS's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 48,338
Difference between projected and actual investment earnings	90,762	-
Changes in proportion	-	49,324
Contributions paid to PERA subsequent to the measurement date	41,411	-
	\$ 132,173	\$ 97,662

\$41,411 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense Amount
2016	\$ (9,863)
2017	(9,863)
2018	(9,863)
2019	22,689

At December 31, 2015, the PUC reported its proportionate share of GERS's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

**City of Princeton  
Notes to Financial Statements**

**NOTE 11 – PENSION PLANS (CONTINUED)**

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

**D. Pension Costs (Continued)**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 44,419
Difference between projected and actual investment earnings	83,403	-
Changes in proportion	-	49,324
Contributions paid to PERA subsequent to the measurement date	43,344	-
	\$ 126,747	\$ 93,743

\$43,344 reported as deferred outflows of resources related to pensions resulting from PUC contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense Amount
2016	\$ (10,397)
2017	(10,397)
2018	(10,397)
2019	20,851

**PEPFF Pension Costs**

At December 31, 2015, the City reported a liability of \$795,364 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion was 0.070%.

**City of Princeton  
Notes to Financial Statements**

**NOTE 11 – PENSION PLANS (CONTINUED)**

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

**D. Pension Costs (Continued)**

For the year ended December 31, 2015, the City recognized pension expense of \$137,060 for its proportionate share of the PEPFF's pension expense. The City also recognized \$6,300 for the year ended December 31, 2015, as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's on-behalf contributions to the PEPFF. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the PEPFF each year, starting in fiscal year 2014.

At December 31, 2015, the City reported its proportionate share of the PEPFF's deferred outflows of resources and deferred inflows of resources related to pensions from the sources below.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 128,982
Difference between projected and actual investment earnings	138,579	-
Contributions paid to PERA subsequent to the measurement date	53,096	-
	\$ 191,675	\$ 128,982

\$53,096 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense Amount
2016	\$ 8,849
2017	8,849
2018	8,849
2019	8,848
2020	(25,798)

**City of Princeton  
Notes to Financial Statements**

**NOTE 11 – PENSION PLANS (CONTINUED)**

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

**E. Actuarial Assumptions**

The total pension liability in the June 30, 2015, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.75 % Per year
Active member payroll growth	3.50 % Per year
Investment rate of return	7.90 %

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Benefit increases for retirees are assumed to be 1% effective every January 1<sup>st</sup> through 2026 and 2.5% thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERP was for the period July 1, 2004 through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	45%	5.50 %
International stocks	15%	6.00
Bonds	18%	1.45
Alternative assets	20%	6.40
Cash	2%	0.50
Total	<u>100%</u>	

**City of Princeton  
Notes to Financial Statements**

**NOTE 11 – PENSION PLANS (CONTINUED)**

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

**F. Discount Rate**

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on those assumptions, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**G. Pension Liability Sensitivity**

The following table presents the City and the PUC's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
City's proportionate share of the GERP net pension liability	\$ 1,507,521	\$ 958,766	\$ 505,579
PUC's proportionate share of the GERP net pension liability	\$ 1,385,290	\$ 881,028	\$ 464,856
City's proportionate share of the PEPFF net pension liability	\$ 1,550,172	\$ 795,364	\$ 171,760

**H. Pension Plan Fiduciary Net Position**

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

**Defined Benefit Pension Plan – Volunteer Fire Fighter's Relief Association**

**A. Plan Description**

The Princeton Firefighters' Relief Association is the administrator of a single employer defined benefit pension plan established to provide benefits for members of the Princeton Fire Department.

The Association issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Princeton Firefighters' Association, 705 2<sup>nd</sup> Street North, Princeton, Minnesota 55371.

**City of Princeton  
Notes to Financial Statements**

**NOTE 11 – PENSION PLANS (CONTINUED)**

**Defined Benefit Pension Plan – Volunteer Fire Fighter's Relief Association (Continued)**

**B. Benefits Provided**

Volunteer firefighters of the City are members of the Princeton Fire Fighters' Relief Association. Full retirement benefits are payable to members who have reached age 50 and have completed 20 years of service for lump sum service pension. Partial benefits are payable to members who have reached 50 and have completed 10 years of service. Disability benefits and widow and children's survivor benefits are also payable to members or their beneficiaries based upon requirements set forth in the bylaws. These benefit provisions and all other requirements are consistent with enabling state statutes.

**C. Employees Covered by Benefit Terms**

At December 31, 2014, the following volunteers were covered by the benefit terms:

Inactive employees entitled to but not yet receiving benefits	4
Active employees	34
	38
Total	38

**D. Contributions**

Minnesota Statutes Chapter 424A.092 specifies minimum support rates required on an annual basis. The minimum support rates from the municipality and from State aid are determined as the amount required to meet the normal cost plus amortizing any existing prior service costs over a ten year period. The City's obligation is the financial requirement for the year less state aids. Any additional payments by the City shall be used to amortize the unfunded liability of the relief association. The Association is comprised of volunteers; therefore, there are no payroll expenditures (i.e., there are no covered payroll percentage calculations). During the year, the City recognized as revenue and as an expenditure an on- behalf payment of \$69,591 made by the State of Minnesota for the Relief Association.

**E. Net Pension Liability**

The City's net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

*Actuarial assumptions*

The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	5.00 %
Salary increase	2.5 %, average, including inflation
Investment rate of return	4.75 %, net of pensions plan investment expense: including inflation

**City of Princeton  
Notes to Financial Statements**

**NOTE 11 – PENSION PLANS (CONTINUED)**

**Defined Benefit Pension Plan – Volunteer Fire Fighter's Relief Association (Continued)**

**E. Net Pension Liability (Continued)**

The value of death benefits is similar to the value of the retirement pension. Because of low retirement ages, the plan assumes no pre-retirement mortality. Post-retirement mortality does not apply as the benefit structure and form of payment do not reflect lifetime benefits.

The long-term return on assets has been set based on the plan's target investment allocation along with long-term return expectations by asset class. When there is sufficient historical evidence of market outperformance, historical average returns may be considered. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of the measurement date are summarized in the below.

<u>Asset Class</u>	<u>Allocation at Measurement Date</u>	<u>Long-Term Expected Nominal Rate of Return</u>
Domestic equity	49.19%	8.00%
International equity	11.98%	8.00%
Fixed income	25.05%	4.50%
Real estate and alternatives	1.09%	6.50%
Cash and equivalents	12.69%	3.00%
	<hr/>	<hr/>
Total	100%	6.47%
	<hr/>	-1.40%
		<hr/>
		5.00%
		<hr/>

The discount rate used to measure the total pension liability was 5.0%. Assets were projected using expected benefit payments and expected asset returns. Expected benefit payments by year were discounted using the expected asset return assumption for years in which the assets were sufficient to pay all benefit payments. Any remaining benefit payments after the trust fund is exhausted are discounted at the municipal bond rate. The equivalent single rate is the discount rate.

**City of Princeton  
Notes to Financial Statements**

**NOTE 11 – PENSION PLANS (CONTINUED)**

**Defined Benefit Pension Plan – Volunteer Fire Fighter's Relief Association (Continued)**

**F. Changes in the Net Pension Liability**

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at January 1, 2015	\$ 1,011,386	\$ 1,410,403	\$ (399,017)
Changes for the year			
Service cost	41,503	-	41,503
Interest cost	63,235	-	63,235
Change of assumptions	29,103		29,103
State contributions	-	69,591	(69,591)
Municipal contributions	-	19,135	(19,135)
Net investment income	-	(70,586)	70,586
Gain or loss	-	-	-
Benefit payments	(82,250)	(82,250)	-
Administrative expense	-	(9,825)	9,825
Other charges	-	-	-
Net charges	51,591	(73,935)	125,526
Balances at December 31, 2015	\$ 1,062,977	\$ 1,336,468	\$ (273,491)

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the City, calculated using the discount rate of 5.0%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.0%) or 1-percentage-point higher (6.0%) than the current rate:

	1% Decrease (4.0%)	Current Discount Rate (5.0%)	1% Increase (6.0%)
Net pension liability/(asset)	\$ (248,345)	\$ (273,491)	\$ (298,072)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued relief association financial report.

**City of Princeton  
Notes to Financial Statements**

**NOTE 11 – PENSION PLANS (CONTINUED)**

**Defined Benefit Pension Plan – Volunteer Fire Fighter's Relief Association (Continued)**

**G. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended December 31, 2015, the City recognized pension expense of \$62,073. At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 25,792	\$ -
Difference between projected and actual investment earnings	126,387	-
Total	\$ 152,179	\$ -

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2016	\$ 34,908
2017	34,908
2018	34,908
2019	34,907
2020	3,311
Thereafter	9,237
Total	\$ 152,179

**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 Principal. 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.

**City of Princeton  
Notes to Financial Statements**

**NOTE 12 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**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 2015, the City contributed \$14,381 to the plan. As of December 31, 2015, there were no retirees receiving health and dental benefits from the City.

**C. Annual OPEB Cost and Net OPEB Obligation**

The City's annual other post employment benefits (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 below shows the components of the City's annual OPEB cost of the year, the amount actually contributed to the plan and changes in the City's net OPEB obligation to the plan.

ARC	\$ 30,588
Interest on net OPEB obligation	3,331
Adjustment to ARC	(5,175)
Annual OPEB cost (expense)	28,744
Contributions made	(14,381)
Increase in net OPEB obligation	14,363
Net OPEB obligation - beginning of year	95,185
Net OPEB obligation - end of year	\$ 109,548

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

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/15	\$ 28,744	\$ 14,381	50%	\$ 109,548
12/31/14	29,110	17,092	59%	95,185
12/31/13	28,811	15,826	55%	83,167

**City of Princeton  
Notes to Financial Statements**

**NOTE 12 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**D. Funded Status and Funding Progress**

As of December 31, 2015, the most recent actuarial valuation date, the City had no assets deposited to fund the plan. The actuarial accrued liability for benefits was \$200,214 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$200,214. The covered payroll (annual payroll of active employees covered by the plan) was \$1,933,355, and the ratio of the UAAL to the covered payroll was 10.4%.

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

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

**E. Actuarial Methods and Assumptions**

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

At the December 31, 2015 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.5% discount rate, which includes a 2.75% inflation assumption. 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 6.6% initially, reduced incrementally to an ultimate rate of 4.4% after 60 years. The UAAL is being amortized as a level dollar amount on an open basis. The remaining amortization period at December 31, 2015 was 30 years.

**NOTE 13 – COMMITMENTS**

As of December 31, 2015, the City has entered into the following construction contracts:

Project	Contract	Expended Through 12/31/15	Commitment
7th Avenue Sewer and Water	\$ 285,259	\$ 263,490	\$ 21,769

**City of Princeton**  
**Notes to Financial Statements**

**NOTE 14 – SUBSEQUENT EVENT**

On April 28, 2016, the City Council authorized the issuance and awarded the sale of the \$2,285,000 G.O. Capital Improvement Plan Bonds, Series 2016A.

**NOTE 15 – CHANGE IN ACCOUNTING PRINCIPLE**

For the year ended December 31, 2015, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This resulted in an adjustment to the beginning net position on the Statement of Activities of (\$941,196) to add the beginning net pension liability, and an adjustment to the beginning net position on the Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds of (\$263,185) to add the beginning net pension liability.

**NOTE 16 – NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED**

GASB has issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. The new statement requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about OPEB liabilities.

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**REQUIRED SUPPLEMENTARY INFORMATION**

**City of Princeton**  
**Schedule of Funding Progress – Other Post Employment Benefits**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Estimated Covered Payroll	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/09	\$ -	\$ 224,329	\$ 224,329	0%	\$ 1,613,894	13.9%
12/31/12	-	230,405	230,405	0%	1,618,649	14.2%
12/31/15	-	200,214	200,214	0%	1,933,355	10.4%

See Note 12 in the notes to financial statements for more details on this Schedule.

**City of Princeton**  
**Schedule of City's Proportionate Share**  
**of Net Pension Liability**  
**GERF Retirement Fund**

For Year Ended June 30,	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset)	City's Covered- Employee Payroll	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0185%	\$ 958,766	\$ 1,088,686	88.07%	78.19%

**Schedule of PUC's Proportionate Share**  
**of Net Pension Liability**  
**GERF Retirement Fund**

For Year Ended June 30,	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset)	City's Covered- Employee Payroll	City's Proportionate Share of the Net Pension Liability (Asset) as a	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0170%	\$ 881,028	\$ 995,180	88.53%	78.19%

**Schedule of City's Proportionate Share**  
**of Net Pension Liability**  
**PEPPF Retirement Fund**

For Year Ended June 30,	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset)	City's Covered- Employee Payroll	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0700%	\$ 795,364	\$ 643,505	123.60%	86.61%

**City of Princeton  
Schedule of City Contributions  
GERF Retirement Fund**

<u>Year Ending December 31,</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>City's Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2015	\$ 82,822	\$ 82,822	\$ -	\$ 1,104,293	7.50%

**Schedule of PUC Contributions  
GERF Retirement Fund**

<u>Year Ending December 31,</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily</u>	<u>Contribution Deficiency (Excess)</u>	<u>City's Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered-</u>
2015	\$ 78,398	\$ 78,398	\$ -	\$ 1,045,307	7.50%

**Schedule of City Contributions  
PEPF Retirement Fund**

<u>Year Ending December 31,</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>City's Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2015	\$ 106,192	\$ 106,192	\$ -	\$ 655,506	16.20%

**City of Princeton**  
**Schedule of Changes in Net Pension Liability**  
**and Related Ratios - Princeton Fire Relief Association**

	Measurement Date <u>12/31/2015</u>
<b>Total Pension Liability (TPL)</b>	
Service cost	\$ 41,503
Interest costs	63,235
Differenced between expected and actual experience	-
Changes of assumptions	29,103
Changes of benefit terms	-
Benefit payments	<u>(82,250)</u>
Net change in total pension liability	<u>51,591</u>
Beginning of year	<u>1,011,386</u>
End of Year	<u><u>\$ 1,062,977</u></u>
<b>Plan Fiduciary Net Pension (FNP)</b>	
State and municipal contributions	\$ 88,726
Net investment income	(70,586)
Benefit payments	(82,250)
Administrative expense	<u>(9,825)</u>
Net change in plan fiduciary net position	<u>(73,935)</u>
Beginning of year	<u>1,410,403</u>
End of year	<u><u>\$ 1,336,468</u></u>
<b>Net Pension Liability (NPL)</b>	<u><u>\$ (273,491)</u></u>
<b>FNP as a percentage of the TPL</b>	125.73%

The City implemented the Provisions of Governmental Accounting Standards Board Statement No. 68 for the year ended December 31, 2015. The schedules within the Required Supplementary Information section required a ten-year presentation, but does not require retroactive reporting.

**City of Princeton**  
**Schedule of City Contributions - and Non Employer**  
**Contributing Entites**  
**Princeton Fire Relief Association**

	Measurement Date <u>12/31/2015</u>
Statutorily determined contribution (SDC)	\$ -
Actual contribution	<u>19,135</u>
Contribution deficiency (excess)	<u><u>\$ (19,135)</u></u>

The City implemented the Provisions of Governmental Accounting Standards Board Statement No. 68 for the year ended December 31, 2015. The schedules within the Required Supplementary Information section required a ten-year presentation, but does not require retroactive reporting.

**SUPPLEMENTARY INFORMATION**

**City of Princeton  
Combining Balance Sheet -  
Nonmajor Governmental Funds  
December 31, 2015**

	Special Revenue		
	Cemetery Operation and Maintenance (205)	Property Confiscation (210)	Public Safety and Awareness (211)
<b>Assets</b>			
Cash and investments	\$ 16,724	\$ 81,323	\$ 7,755
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	915	-	-
Advance to other funds	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 18,139</u>	<u>\$ 81,323</u>	<u>\$ 7,755</u>
<b>Liabilities</b>			
Accounts and contracts payable	\$ 951	\$ 212	\$ -
Due to other funds	-	-	-
Due to other governments	-	-	-
Salaries and benefits payable	502	-	-
Unearned revenue	-	-	-
Advance from other funds	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	<u>1,453</u>	<u>212</u>	<u>-</u>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue - long-term assets	-	-	-
Unavailable revenue - property taxes	-	-	-
Unavailable revenue - special assessments	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balances</b>			
Nonspendable	915	-	-
Restricted	-	81,111	-
Assigned	15,771	-	7,755
Unassigned	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balances	<u>16,686</u>	<u>81,111</u>	<u>7,755</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 18,139</u>	<u>\$ 81,323</u>	<u>\$ 7,755</u>

Special Revenue

Investigation Information Buy Fund (212)	Felony Investigation (214)	Solheim Field Improvements (216)	Civic Center (240)	Community Beautification (242)	Community Projects (250)
\$ 2,011	\$ 13,318	\$ 8,839	\$ 5,561	\$ 11,535	\$ 392
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	325	-	-
-	-	-	-	-	-
<u>\$ 2,011</u>	<u>\$ 13,318</u>	<u>\$ 8,839</u>	<u>\$ 5,886</u>	<u>\$ 11,535</u>	<u>\$ 392</u>
\$ -	\$ -	\$ -	\$ 359	\$ -	\$ -
-	-	-	-	-	-
-	-	-	124	-	-
-	-	-	-	-	-
-	-	-	1,368	-	-
-	-	-	-	-	-
-	-	-	<u>1,851</u>	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	325	-	-
-	-	-	-	-	392
2,011	13,318	8,839	3,710	11,535	-
-	-	-	-	-	-
<u>2,011</u>	<u>13,318</u>	<u>8,839</u>	<u>4,035</u>	<u>11,535</u>	<u>392</u>
<u>\$ 2,011</u>	<u>\$ 13,318</u>	<u>\$ 8,839</u>	<u>\$ 5,886</u>	<u>\$ 11,535</u>	<u>\$ 392</u>

**City of Princeton  
Combining Balance Sheet -  
Nonmajor Governmental Funds  
December 31, 2015**

	Special Revenue		
	Development Grants (252)	Development Expenses (253)	Fire Equipment Reserve (260)
<b>Assets</b>			
Cash and investments	\$ -	\$ -	\$ 226,379
Taxes receivable - delinquent	-	-	-
Special assessment receivable			
Delinquent	-	-	-
Deferred	-	-	-
Accounts receivable	-	4,677	2,400
Interest receivable	-	-	40
Due from other governments	-	-	-
Notes receivable	-	-	-
Land held for resale	-	-	-
Prepaid expenses	-	-	-
Advance to other funds	-	-	-
	\$ -	\$ 4,677	\$ 228,819
Total assets	\$ -	\$ 4,677	\$ 228,819
<b>Liabilities</b>			
Accounts and contracts payable	\$ -	\$ 15,249	\$ 650
Due to other funds	70,535	249,999	-
Due to other governments	-	-	-
Salaries and benefits payable	-	-	-
Unearned revenue	-	2,000	-
Advance from other funds	-	-	-
	70,535	267,248	650
Total liabilities	70,535	267,248	650
<b>Deferred Inflows of Resources</b>			
Unavailable revenue - long-term assets	-	-	-
Unavailable revenue - property taxes	-	-	-
Unavailable revenue - special assessments	-	-	-
	-	-	-
Total deferred inflows of resources	-	-	-
<b>Fund Balances</b>			
Nonspendable	-	-	-
Restricted	-	-	-
Assigned	-	-	228,169
Unassigned	(70,535)	(262,571)	-
	(70,535)	(262,571)	-
Total fund balances	(70,535)	(262,571)	228,169
Total liabilities, deferred inflows of resources, and fund balances	\$ -	\$ 4,677	\$ 228,819



**City of Princeton  
Combining Balance Sheet -  
Nonmajor Governmental Funds  
December 31, 2015**

	Special Revenue		
	Water Availability (701)	Park Improvements (802)	Cemetery Perpetual Care (803)
<b>Assets</b>			
Cash and investments	\$ -	\$ 33,810	\$ 164,271
Taxes receivable - delinquent	-	-	-
Special assessment receivable			
Delinquent	-	-	-
Deferred	-	-	-
Accounts receivable	-	-	-
Interest receivable	-	-	280
Due from other governments	-	-	-
Notes receivable	-	-	-
Land held for resale	-	-	-
Prepaid expenses	-	-	-
Advance to other funds	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ -</u>	<u>\$ 33,810</u>	<u>\$ 164,551</u>
<b>Liabilities</b>			
Accounts and contracts payable	\$ -	\$ -	\$ -
Due to other funds	14,250	-	-
Due to other governments	-	-	-
Salaries and benefits payable	-	-	-
Unearned revenue	-	-	-
Advance from other funds	-	-	-
	<u>14,250</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>14,250</u>	<u>-</u>	<u>-</u>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue - long-term assets	-	-	-
Unavailable revenue - property taxes	-	-	-
Unavailable revenue - special assessments	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balances</b>			
Nonspendable	-	-	-
Restricted	-	33,810	-
Assigned	-	-	164,551
Unassigned	(14,250)	-	-
	<u>(14,250)</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>(14,250)</u>	<u>33,810</u>	<u>164,551</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ -</u>	<u>\$ 33,810</u>	<u>\$ 164,551</u>

Special Revenue			Debt Service		
UDAG No. 2 Downtown Project (814)	UDAG No. 5 Crystal Cabinets (820)	Total	Downtown Redevelopment Tax Increment (490)	1994 Library Project (494)	1999 Industrial Park Improvements (500)
\$ 55,806	\$ 38,639	\$ 854,757	\$ 21,660	\$ 5	\$ 284,019
-	-	-	-	-	6
-	-	-	-	-	-
-	-	-	-	-	-
-	-	7,577	-	-	-
3,305	-	3,625	-	-	-
-	-	15,326	-	-	-
29,096	41,185	70,281	-	-	-
-	-	1	-	-	-
-	-	1,240	-	-	-
-	-	-	-	-	-
<u>\$ 88,207</u>	<u>\$ 79,824</u>	<u>\$ 952,807</u>	<u>\$ 21,660</u>	<u>\$ 5</u>	<u>\$ 284,025</u>
\$ -	\$ -	\$ 46,524	\$ -	\$ -	\$ -
-	-	566,636	-	-	-
-	-	124	-	-	-
-	-	502	-	-	-
-	-	3,368	-	-	-
-	-	-	-	-	-
-	-	617,154	-	-	-
29,096	-	29,096	-	-	-
-	-	-	-	-	6
-	-	-	-	-	-
<u>29,096</u>	<u>-</u>	<u>29,096</u>	<u>-</u>	<u>-</u>	<u>6</u>
-	-	1,240	-	-	-
59,111	79,824	298,802	21,660	5	284,019
-	-	585,722	-	-	-
-	-	(579,207)	-	-	-
<u>59,111</u>	<u>79,824</u>	<u>306,557</u>	<u>21,660</u>	<u>5</u>	<u>284,019</u>
<u>\$ 88,207</u>	<u>\$ 79,824</u>	<u>\$ 952,807</u>	<u>\$ 21,660</u>	<u>\$ 5</u>	<u>\$ 284,025</u>

**City of Princeton  
Combining Balance Sheet -  
Nonmajor Governmental Funds  
December 31, 2015**

	Debt Service		
	2002/2003 1st Street Improvements (502)	Western Area Improvements (503)	2nd and 7th Improvements (504)
<b>Assets</b>			
Cash and investments	\$ 182,239	\$ 15,850	\$ 213,891
Taxes receivable - delinquent	12	3,744	16
Special assessment receivable			
Delinquent	-	-	468
Deferred	2,699	209,766	-
Accounts receivable	-	-	-
Interest receivable	-	-	-
Due from other governments	-	-	-
Notes receivable	-	-	-
Land held for resale	-	-	-
Prepaid expenses	-	-	-
Advance to other funds	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 184,950</u>	<u>\$ 229,360</u>	<u>\$ 214,375</u>
<b>Liabilities</b>			
Accounts and contracts payable	\$ -	\$ -	\$ -
Due to other funds	-	-	-
Due to other governments	-	-	-
Salaries and benefits payable	-	-	-
Unearned revenue	-	-	-
Advance from other funds	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue - long-term assets	-	-	-
Unavailable revenue - property taxes	12	3,744	16
Unavailable revenue - special assessments	2,699	209,766	468
	<u>          </u>	<u>          </u>	<u>          </u>
Total deferred inflows of resources	<u>2,711</u>	<u>213,510</u>	<u>484</u>
<b>Fund Balances</b>			
Nonspendable	-	-	-
Restricted	182,239	15,850	213,891
Assigned	-	-	-
Unassigned	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balances	<u>182,239</u>	<u>15,850</u>	<u>213,891</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 184,950</u>	<u>\$ 229,360</u>	<u>\$ 214,375</u>

Debt Service

2005 21st Avenue Improvements (506)	2007 PUC Area Improvements (507)	G.O. Refunding Bonds, 2012B (512)	G.O. Improvement Bonds, 2015A (515)	2000 Street and Utilities Improvements (530)	Revolving Account Fund (552)	1992 Street and Utilities (592)
\$ 734,982	\$ 108,557	\$ -	\$ 21,964	\$ 66,532	\$ 72,234	\$ 345,524
931	103	-	-	-	-	7
-	693	-	-	-	-	-
232,865	97,742	-	479,757	-	22,965	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	70,150	-
<u>\$ 968,778</u>	<u>\$ 207,095</u>	<u>\$ -</u>	<u>\$ 501,721</u>	<u>\$ 66,532</u>	<u>\$ 165,349</u>	<u>\$ 345,531</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 629	\$ -
-	-	398,668	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	398,668	-	-	629	-
-	-	-	-	-	-	-
931	103	-	-	-	-	7
232,865	98,435	-	479,457	-	22,965	-
<u>233,796</u>	<u>98,538</u>	<u>-</u>	<u>479,457</u>	<u>-</u>	<u>22,965</u>	<u>7</u>
-	-	-	-	-	-	-
734,982	108,557	-	22,264	66,532	141,755	345,524
-	-	-	-	-	-	-
-	-	(398,668)	-	-	-	-
<u>734,982</u>	<u>108,557</u>	<u>(398,668)</u>	<u>22,264</u>	<u>66,532</u>	<u>141,755</u>	<u>345,524</u>
<u>\$ 968,778</u>	<u>\$ 207,095</u>	<u>\$ -</u>	<u>\$ 501,721</u>	<u>\$ 66,532</u>	<u>\$ 165,349</u>	<u>\$ 345,531</u>

**City of Princeton  
Combining Balance Sheet -  
Nonmajor Governmental Funds  
December 31, 2015**

	Debt Service			Total
	1993 Street and Utilities (593)	1997 LaGrande Improvements (597)	1999 Street and Utilities Improvements (599)	
<b>Assets</b>				
Cash and investments	\$ 56,524	\$ 25	\$ -	\$ 2,124,006
Taxes receivable - delinquent	-	-	4	4,823
Special assessment receivable				
Delinquent	-	-	-	1,161
Deferred	-	-	-	1,045,794
Accounts receivable	-	-	-	-
Interest receivable	-	-	-	-
Due from other governments	-	-	-	-
Notes receivable	-	-	-	-
Land held for resale	-	-	-	-
Prepaid expenses	-	-	-	-
Advance to other funds	-	-	-	70,150
	-	-	-	-
Total assets	<u>\$ 56,524</u>	<u>\$ 25</u>	<u>\$ 4</u>	<u>\$ 3,245,934</u>
<b>Liabilities</b>				
Accounts and contracts payable	\$ -	\$ -	\$ -	\$ 629
Due to other funds	-	-	79,885	478,553
Due to other governments	-	-	-	-
Salaries and benefits payable	-	-	-	-
Unearned revenue	-	-	-	-
Advance from other funds	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>79,885</u>	<u>479,182</u>
<b>Deferred Inflows of Resources</b>				
Unavailable revenue - long-term assets	-	-	-	-
Unavailable revenue - property taxes	-	-	4	4,823
Unavailable revenue - special assessments	-	-	-	1,046,655
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>4</u>	<u>1,051,478</u>
<b>Fund Balances</b>				
Nonspendable	-	-	-	-
Restricted	56,524	25	-	2,193,827
Assigned	-	-	-	-
Unassigned	-	-	(79,885)	(478,553)
Total fund balances	<u>56,524</u>	<u>25</u>	<u>(79,885)</u>	<u>1,715,274</u>
	-	-	-	-
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 56,524</u>	<u>\$ 25</u>	<u>\$ 4</u>	<u>\$ 3,245,934</u>



**City of Princeton  
Combining Balance Sheet -  
Nonmajor Governmental Funds  
December 31, 2015**

	Capital Projects		
	Rum River Redevelopment District (389)	Railroad Property Redevelopment (390)	District No. 3-5 Redevelopment District (391)
<b>Assets</b>			
Cash and investments	\$ 16,248	\$ 143,630	\$ 7,060
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	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 16,248</u>	<u>\$ 143,630</u>	<u>\$ 7,060</u>
<b>Liabilities</b>			
Accounts and contracts payable	\$ -	\$ -	\$ -
Due to other funds	-	-	-
Due to other governments	-	143,630	-
Salaries and benefits payable	-	-	-
Unearned revenue	-	-	-
Advance from other funds	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	<u>-</u>	<u>143,630</u>	<u>-</u>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue - long-term assets	-	-	-
Unavailable revenue - property taxes	-	-	-
Unavailable revenue - special assessments	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balances</b>			
Nonspendable	-	-	-
Restricted	16,248	-	7,060
Assigned	-	-	-
Unassigned	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balances	<u>16,248</u>	<u>-</u>	<u>7,060</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 16,248</u>	<u>\$ 143,630</u>	<u>\$ 7,060</u>

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
\$ 26,886 1,851	\$ 22,720 -	\$ 2,673 -	\$ - -	\$ 236,616 1,851	\$ 3,215,379 6,674
-	-	-	-	-	1,161
-	-	-	-	-	1,045,794
-	-	-	-	-	7,577
-	-	-	-	-	3,625
-	-	-	-	-	15,326
-	-	-	-	-	70,281
-	-	-	-	-	1
-	-	-	-	-	1,240
-	-	-	-	-	70,150
<u>\$ 28,737</u>	<u>\$ 22,720</u>	<u>\$ 2,673</u>	<u>\$ -</u>	<u>\$ 238,467</u>	<u>\$ 4,437,208</u>
\$ -	\$ -	\$ -	\$ -	\$ 14,271	\$ 61,424
-	-	-	3,738	352,739	1,397,928
-	22,720	-	-	166,350	166,474
-	-	-	-	-	502
-	-	-	-	-	3,368
-	-	-	-	70,150	70,150
-	22,720	-	3,738	603,510	1,699,846
-	-	-	-	-	29,096
1,851	-	-	-	1,851	6,674
-	-	-	-	-	1,046,655
<u>1,851</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,851</u>	<u>1,082,425</u>
-	-	-	-	-	1,240
26,886	-	2,673	-	55,792	2,548,421
-	-	-	-	12,198	597,920
-	-	-	(3,738)	(434,884)	(1,492,644)
<u>26,886</u>	<u>-</u>	<u>2,673</u>	<u>(3,738)</u>	<u>(366,894)</u>	<u>1,654,937</u>
<u>\$ 28,737</u>	<u>\$ 22,720</u>	<u>\$ 2,673</u>	<u>\$ -</u>	<u>\$ 238,467</u>	<u>\$ 4,437,208</u>

**City of Princeton**  
**Combining Statement of Revenues, Expenditures,**  
**and Changes in Fund Balances -Nonmajor Governmental Funds**  
**Year Ended December 31, 2015**

	Special Revenue		
	Cemetery Operation and Maintenance (205)	Property Confiscation (210)	Public Safety and Awareness (211)
<b>Revenues</b>			
Property taxes	\$ -	\$ -	\$ -
Tax increments	-	-	-
Special assessments	-	-	-
Intergovernmental	-	-	-
Charges for services	20,824	10,991	-
Miscellaneous			
Investment income	125	655	62
Contributions and donations	-	1,000	-
Other	820	-	3,654
Total revenues	<u>21,769</u>	<u>12,646</u>	<u>3,716</u>
<b>Expenditures</b>			
Current			
Public safety	-	862	4,632
Cemetery	27,189	-	-
Public works	-	-	-
Parks and recreation	-	-	-
Economic development	-	-	-
Debt service			
Principal	-	-	-
Interest and other charges	-	-	-
Capital outlay			
Public safety	-	-	-
Parks and recreation	-	-	-
Economic development	-	-	-
Total expenditures	<u>27,189</u>	<u>862</u>	<u>4,632</u>
Excess of revenues over (under) expenditures	(5,420)	11,784	(916)
<b>Other Financing Sources (uses)</b>			
Bond issuance	-	-	-
Transfers in	5,385	-	-
Transfers out	-	-	-
Total other financing sources (uses)	<u>5,385</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(35)	11,784	(916)
<b>Fund Balances</b>			
Beginning of year	<u>16,721</u>	<u>69,327</u>	<u>8,671</u>
End of year	<u>\$ 16,686</u>	<u>\$ 81,111</u>	<u>\$ 7,755</u>

Special Revenue

Investigation Information Buy Fund (212)	Felony Investigation (214)	Solheim Field Improvements (216)	Civic Center (240)	Community Beautification (242)	Community Projects (250)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	6,575	-	-
-	108	71	39	163	-
-	-	-	131	-	-
-	-	-	300	3,100	2,000
<u>-</u>	<u>108</u>	<u>71</u>	<u>7,045</u>	<u>3,263</u>	<u>2,000</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	2,707	14,596	14,788	2,000
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	41,926	-	-
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>2,707</u>	<u>56,522</u>	<u>14,788</u>	<u>2,000</u>
-	108	(2,636)	(49,477)	(11,525)	-
-	-	-	-	-	-
-	-	1,600	8,000	2,500	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	1,600	8,000	2,500	-
-	108	(1,036)	(41,477)	(9,025)	-
<u>2,011</u>	<u>13,210</u>	<u>9,875</u>	<u>45,512</u>	<u>20,560</u>	<u>392</u>
<u>\$ 2,011</u>	<u>\$ 13,318</u>	<u>\$ 8,839</u>	<u>\$ 4,035</u>	<u>\$ 11,535</u>	<u>\$ 392</u>

**City of Princeton**  
**Combining Statement of Revenues, Expenditures,**  
**and Changes in Fund Balances -Nonmajor Governmental Funds**  
**Year Ended December 31, 2015**

	Special Revenue		
	Development Grants (252)	Development Expenses (253)	Fire Equipment Reserve (260)
<b>Revenues</b>			
Property taxes	\$ -	\$ -	\$ -
Tax increments	-	-	-
Special assessments	-	-	-
Intergovernmental	-	-	-
Charges for services	-	-	(14,391)
Miscellaneous			
Investment income	-	-	1,548
Contributions and donations	-	-	-
Other	-	-	6,075
Total revenues	-	-	(6,768)
<b>Expenditures</b>			
Current			
Public safety	-	-	36,262
Cemetery	-	-	-
Public works	-	-	-
Parks and recreation	-	-	-
Economic development	-	38,774	-
Debt service			
Principal	-	-	-
Interest and other charges	-	-	-
Capital outlay			
Public safety	-	-	9,685
Parks and recreation	-	-	-
Economic development	-	-	-
Total expenditures	-	38,774	45,947
Excess of revenues over (under) expenditures	-	(38,774)	(52,715)
<b>Other Financing Sources (uses)</b>			
Bond issuance	-	-	-
Transfers in	-	-	43,321
Transfers out	-	-	-
Total other financing sources (uses)	-	-	43,321
Net change in fund balances	-	(38,774)	(9,394)
<b>Fund Balances</b>			
Beginning of year	(70,535)	(223,797)	237,563
End of year	\$ (70,535)	\$ (262,571)	\$ 228,169

Special Revenue

Fire Department Grants (261)	Disaster Relocation (262)	Small Cities Development Program (603)	Stormwater Management (601)	Neighborhood Stabilization Program (602)	Central MN Arts Grant (605)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
59,592	48,926	76,181	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	18,308	-	-	-
<u>59,592</u>	<u>48,926</u>	<u>94,489</u>	<u>-</u>	<u>-</u>	<u>-</u>
1	50,937	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	39,535	-	6,038	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>1</u>	<u>50,937</u>	<u>39,535</u>	<u>-</u>	<u>6,038</u>	<u>-</u>
59,591	(2,011)	54,954	-	(6,038)	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
59,591	(2,011)	54,954	-	(6,038)	-
<u>(71,334)</u>	<u>131,831</u>	<u>(10,400)</u>	<u>(146,949)</u>	<u>(67,121)</u>	<u>243</u>
<u>\$ (11,743)</u>	<u>\$ 129,820</u>	<u>\$ 44,554</u>	<u>\$ (146,949)</u>	<u>\$ (73,159)</u>	<u>\$ 243</u>

**City of Princeton**  
**Combining Statement of Revenues, Expenditures,**  
**and Changes in Fund Balances -Nonmajor Governmental Funds**  
**Year Ended December 31, 2015**

	Special Revenue		
	Water Availability (701)	Park Improvements (802)	Cemetery Perpetual Care (803)
<b>Revenues</b>			
Property taxes	\$ -	\$ -	\$ -
Tax increments	-	-	-
Special assessments	-	-	-
Intergovernmental	-	180,000	-
Charges for services	-	-	4,831
Miscellaneous			
Investment income	-	-	887
Contributions and donations	-	-	-
Other	-	-	-
Total revenues	-	180,000	5,718
<b>Expenditures</b>			
Current			
Public safety	-	-	-
Cemetery	-	-	-
Public works	-	-	-
Parks and recreation	-	(2)	-
Economic development	-	-	-
Debt service			
Principal	-	-	-
Interest and other charges	-	-	-
Capital outlay			
Public safety	-	-	-
Parks and recreation	-	186,892	-
Economic development	-	-	-
Total expenditures	-	186,890	-
Excess of revenues over (under) expenditures	-	(6,890)	5,718
<b>Other Financing Sources (uses)</b>			
Bond issuance	-	-	-
Transfers in	-	-	-
Transfers out	-	(800)	(885)
Total other financing sources (uses)	-	(800)	(885)
Net change in fund balances	-	(7,690)	4,833
<b>Fund Balances</b>			
Beginning of year	(14,250)	41,500	159,718
End of year	\$ (14,250)	\$ 33,810	\$ 164,551

Special Revenue			Debt Service		
UDAG No. 2 Downtown Project (814)	UDAG No. 5 Crystal Cabinets (820)	Total	Downtown Redevelopment Tax Increment (490)	1994 Library Project (494)	1999 Industrial Park Improvements (500)
\$ -	\$ -	\$ -	\$ -	\$ 1	\$ 40
-	-	-	-	-	-
-	-	-	-	-	-
2,758	-	367,457	-	-	-
-	-	28,830	-	-	-
884	1,561	6,103	175	-	2,304
-	-	1,131	-	-	-
30	-	34,287	1,761	-	-
<u>3,672</u>	<u>1,561</u>	<u>437,808</u>	<u>1,936</u>	<u>1</u>	<u>2,344</u>
-	-	92,694	-	-	-
-	-	27,189	-	-	-
-	-	-	-	-	-
-	-	34,089	-	-	-
45	-	84,392	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	9,685	-	-	-
-	-	228,818	-	-	-
-	-	-	-	-	-
<u>45</u>	<u>-</u>	<u>476,867</u>	<u>-</u>	<u>-</u>	<u>-</u>
3,627	1,561	(39,059)	1,936	1	2,344
-	-	-	-	-	-
-	-	60,806	-	-	-
-	-	(1,685)	-	-	-
<u>-</u>	<u>-</u>	<u>59,121</u>	<u>-</u>	<u>-</u>	<u>-</u>
3,627	1,561	20,062	1,936	1	2,344
55,484	78,263	286,495	19,724	4	281,675
<u>\$ 59,111</u>	<u>\$ 79,824</u>	<u>\$ 306,557</u>	<u>\$ 21,660</u>	<u>\$ 5</u>	<u>\$ 284,019</u>

**City of Princeton**  
**Combining Statement of Revenues, Expenditures,**  
**and Changes in Fund Balances -Nonmajor Governmental Funds**  
**Year Ended December 31, 2015**

	Debt Service		
	2002/2003 1st Street Improvements (502)	Western Area Improvements (503)	2nd and 7th Improvements (504)
<b>Revenues</b>			
Property taxes	\$ 82	\$ 94,102	\$ 92
Tax increments	-	-	-
Special assessments	2,021	74,415	220
Intergovernmental	-	-	-
Charges for services	-	-	-
Miscellaneous			
Investment income	1,442	1	1,733
Contributions and donations	-	-	-
Other	-	-	-
Total revenues	<u>3,545</u>	<u>168,518</u>	<u>2,045</u>
<b>Expenditures</b>			
Current			
Public safety	-	-	-
Cemetery	-	-	-
Public works	-	-	-
Parks and recreation	-	-	-
Economic development	-	25,968	-
Debt service			
Principal	-	145,000	-
Interest and other charges	-	27,683	-
Capital outlay			
Public safety	-	-	-
Parks and recreation	-	-	-
Economic development	-	-	-
Total expenditures	<u>-</u>	<u>198,651</u>	<u>-</u>
Excess of revenues over (under) expenditures	3,545	(30,133)	2,045
<b>Other Financing Sources (uses)</b>			
Bond issuance	-	-	-
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	3,545	(30,133)	2,045
<b>Fund Balances</b>			
Beginning of year	<u>178,694</u>	<u>45,983</u>	<u>211,846</u>
End of year	<u>\$ 182,239</u>	<u>\$ 15,850</u>	<u>\$ 213,891</u>

Debt Service

2005 21st Avenue Improvements (506)	2007 PUC Area Improvements (507)	G.O. Refunding Bonds, 2012B (512)	G.O. Improvement Bonds, 2015A (515)	2000 Street and Utilities Improvements (530)	Revolving Account Fund (552)	1992 Street and Utilities (592)
\$ 21,488	\$ 2,605	\$ -	\$ -	\$ -	\$ -	\$ 64
-	-	-	-	-	-	-
65,122	10,788	-	21,574	3,235	2,510	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
5,520	823	-	31	522	1,586	2,802
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>92,130</u>	<u>14,216</u>	<u>-</u>	<u>21,605</u>	<u>3,757</u>	<u>4,096</u>	<u>2,866</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	148,265	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	15,000	130,000	-	-	-	-
-	6,374	6,837	495	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>-</u>	<u>21,374</u>	<u>136,837</u>	<u>495</u>	<u>-</u>	<u>148,265</u>	<u>-</u>
92,130	(7,158)	(136,837)	21,110	3,757	(144,169)	2,866
-	-	-	1,154	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>1,154</u>	<u>-</u>	<u>-</u>	<u>-</u>
92,130	(7,158)	(136,837)	22,264	3,757	(144,169)	2,866
642,852	115,715	(261,831)	-	62,775	285,924	342,658
<u>\$ 734,982</u>	<u>\$ 108,557</u>	<u>\$ (398,668)</u>	<u>\$ 22,264</u>	<u>\$ 66,532</u>	<u>\$ 141,755</u>	<u>\$ 345,524</u>

**City of Princeton**  
**Combining Statement of Revenues, Expenditures,**  
**and Changes in Fund Balances -Nonmajor Governmental Funds**  
**Year Ended December 31, 2015**

	Debt Service			Total
	1993 Street and Utilities (593)	1997 LaGrande Improvements (597)	1999 Street and Utilities Improvements (599)	
<b>Revenues</b>				
Property taxes	\$ -	\$ 25	\$ 20	\$ 118,519
Tax increments	-	-	-	-
Special assessments	-	-	-	179,885
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Miscellaneous				
Investment income	458	-	-	17,397
Contributions and donations	-	-	-	-
Other	-	-	-	1,761
Total revenues	<u>458</u>	<u>25</u>	<u>20</u>	<u>317,562</u>
<b>Expenditures</b>				
Current				
Public safety	-	-	-	-
Cemetery	-	-	-	-
Public works	-	-	-	148,265
Parks and recreation	-	-	-	-
Economic development	-	-	-	25,968
Debt service				
Principal	-	-	-	290,000
Interest and other charges	-	-	-	41,389
Capital outlay				
Public safety	-	-	-	-
Parks and recreation	-	-	-	-
Economic development	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>505,622</u>
Excess of revenues over (under) expenditures	458	25	20	(188,060)
<b>Other Financing Sources (uses)</b>				
Bond issuance	-	-	-	1,154
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,154</u>
Net change in fund balances	458	25	20	(186,906)
<b>Fund Balances</b>				
Beginning of year	<u>56,066</u>	<u>-</u>	<u>(79,905)</u>	<u>1,902,180</u>
End of year	<u>\$ 56,524</u>	<u>\$ 25</u>	<u>\$ (79,885)</u>	<u>\$ 1,715,274</u>



**City of Princeton**  
**Combining Statement of Revenues, Expenditures,**  
**and Changes in Fund Balances -Nonmajor Governmental Funds**  
**Year Ended December 31, 2015**

	Capital Projects		
	Rum River Redevelopment District (389)	Railroad Property Redevelopment (390)	District No. 3-5 Redevelopment District (391)
<b>Revenues</b>			
Property taxes	\$ -	\$ -	\$ -
Tax increments	23,374	23,433	10,741
Special assessments	-	-	-
Intergovernmental	-	-	-
Charges for services	-	-	-
Miscellaneous			
Investment income	-	-	-
Contributions and donations	-	-	-
Other	-	-	-
Total revenues	<u>23,374</u>	<u>23,433</u>	<u>10,741</u>
<b>Expenditures</b>			
Current			
Public safety	-	-	-
Cemetery	-	-	-
Public works	-	-	-
Parks and recreation	-	-	-
Economic development	-	23,433	-
Debt service			
Principal	-	-	-
Interest and other charges	-	-	-
Capital outlay			
Public safety	-	-	-
Parks and recreation	-	-	-
Economic development	23,373	-	10,740
Total expenditures	<u>23,373</u>	<u>23,433</u>	<u>10,740</u>
Excess of revenues over (under) expenditures	1	-	1
<b>Other Financing Sources (uses)</b>			
Bond issuance	-	-	-
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	1	-	1
<b>Fund Balances</b>			
Beginning of year	<u>16,247</u>	<u>-</u>	<u>7,059</u>
End of year	<u>\$ 16,248</u>	<u>\$ -</u>	<u>\$ 7,060</u>

Capital Projects

District No. 3-6 Redevelopment District (392)	1997 Housing District (397)	Armory Redevelopment District (398)	Industrial Park Development (821)	Total	Total Other Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 118,519
43,650	9,999	8,420	-	162,936	162,936
-	-	-	-	-	179,885
-	-	-	-	-	367,457
-	-	-	-	-	28,830
-	-	-	-	-	23,500
-	-	-	-	-	1,131
-	-	-	-	-	36,048
<u>43,650</u>	<u>9,999</u>	<u>8,420</u>	<u>-</u>	<u>162,936</u>	<u>918,306</u>
-	-	-	-	-	92,694
-	-	-	-	-	27,189
-	-	-	-	-	148,265
-	-	-	-	-	34,089
-	9,999	-	-	45,432	155,792
-	-	-	-	-	290,000
-	-	-	-	-	41,389
-	-	-	-	-	9,685
-	-	-	-	-	228,818
42,457	-	8,420	-	123,976	123,976
<u>42,457</u>	<u>9,999</u>	<u>8,420</u>	<u>-</u>	<u>169,408</u>	<u>1,151,897</u>
1,193	-	-	-	(6,472)	(233,591)
-	-	-	-	-	1,154
-	-	-	-	-	60,806
-	-	-	-	-	(1,685)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,275</u>
1,193	-	-	-	(6,472)	(173,316)
25,693	-	2,673	(3,738)	(360,422)	1,828,253
<u>\$ 26,886</u>	<u>\$ -</u>	<u>\$ 2,673</u>	<u>\$ (3,738)</u>	<u>\$ (366,894)</u>	<u>\$ 1,654,937</u>

**City of Princeton**  
**Balance Sheet - Economic Development Authority Component Unit**  
**December 31, 2015**

	<u>Economic Development Authority (600)</u>	<u>Total</u>
<b>Assets</b>		
Investments with fiscal agent	\$ 169,696	\$ 169,696
Taxes receivable - delinquent	745	745
Notes receivable	20,000	20,000
Land held for resale	361,400	361,400
Prepaid expenses	70	70
	<hr/>	<hr/>
Total assets	<u>\$ 551,911</u>	<u>\$ 551,911</u>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>		
<b>Liabilities</b>		
Accounts and contracts payable	\$ 12,758	\$ 12,758
Due to other governments	989,179	989,179
Salaries and benefits payable	1,285	1,285
Interest payable	1,651	1,651
Total liabilities	<u>1,004,873</u>	<u>1,004,873</u>
<b>Deferred inflows of resources</b>		
Unavailable revenue - property taxes	<u>745</u>	<u>745</u>
<b>Fund balances</b>		
Unassigned	<u>(453,707)</u>	<u>(453,707)</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 551,911</u>	<u>\$ 551,911</u>
Total fund balance - economic development authority component unit		\$ (453,707)
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		2,473,968
Less accumulated depreciation		(126,215)
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		(2,150,000)
Bond premium		(17,735)
Governmental funds do not report a liability for accrued interest due and payable.		
		(33,590)
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>745</u>
Total net position - economic development authority component unit		<u>\$ (306,534)</u>

**City of Princeton**  
**Schedule of Revenues, Expenditures, and Changes in**  
**Fund Balances - Economic Development Authority Component Unit**  
**Year Ended December 31, 2015**

	Economic Development Authority (600)	EDA Public Safety Building (313)	Total
<b>Revenues</b>			
Property taxes	\$ 18,720	\$ -	\$ 18,720
Intergovernmental	5,000	44,539	49,539
Charges for services	165,582	-	165,582
Miscellaneous			
Investment income	1	-	1
Other	1,600	-	1,600
Total revenues	190,903	44,539	235,442
<b>Expenditures</b>			
Current			
Economic development	220,400	-	220,400
Debt service			
Principal	90,000	-	90,000
Interest and other charges	75,560	-	75,560
Total expenditures	385,960	-	385,960
Excess of revenues over	(195,057)	44,539	(150,518)
<b>Fund Balances</b>			
Beginning of year	(258,650)	(44,539)	(303,189)
End of year	\$ (453,707)	\$ -	\$ (453,707)
Net change in fund balances - economic development Authority component unit			\$ (150,518)
Amounts reported for governmental activities in the statement of activities are different because:			
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.			
Reclassification of land held for resale			78,600
Depreciation expense			(63,107)
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.			
			90,000
Amortization of premium on bond payable			
			1,043
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.			
			454
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			(427)
Change in net position - economic development authority component unit			\$ (43,955)

**City of Princeton**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances -**  
**Budget and Actual - General Fund**  
**Year Ended December 31, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues</b>				
Property taxes	\$ 1,834,250	\$ 1,848,935	\$ 2,008,054	\$ 159,119
Licenses and permits	169,460	252,095	271,459	19,364
Intergovernmental revenue				
Local government aid	838,685	838,685	838,687	2
Fire aid	60,050	68,590	68,590	-
Police aid	87,315	87,315	85,738	(1,577)
Other grants and aids	7,500	7,055	6,874	(181)
Total intergovernmental revenue	<u>993,550</u>	<u>1,001,645</u>	<u>999,889</u>	<u>(1,756)</u>
Charges for services				
General government	23,980	32,310	31,947	(363)
Public safety	154,165	158,230	161,749	3,519
Public works	3,000	3,000	4,100	1,100
Parks and recreation	31,200	29,545	37,311	7,766
Total charges for services	<u>212,345</u>	<u>223,085</u>	<u>235,107</u>	<u>12,022</u>
Fines or forfeitures	<u>20,000</u>	<u>22,530</u>	<u>25,731</u>	<u>3,201</u>
Miscellaneous revenues				
Investment income	2,100	10,600	15,870	5,270
Other	98,500	102,340	100,921	(1,419)
Total miscellaneous revenues	<u>100,600</u>	<u>112,940</u>	<u>116,791</u>	<u>3,851</u>
Total revenues	<u>3,330,205</u>	<u>3,461,230</u>	<u>3,657,031</u>	<u>195,801</u>
<b>Expenditures</b>				
General government				
Mayor and council	32,430	31,440	31,247	(193)
Administrative and finance	369,625	361,835	356,509	(5,326)
Other general government	491,710	429,470	219,730	(209,740)
Capital outlay	65,650	30,600	29,754	(846)
Total general government	<u>959,415</u>	<u>853,345</u>	<u>637,240</u>	<u>(216,105)</u>

**City of Princeton**  
**Schedule of Revenues, Expenditures and**  
**Changes in Fund Balances -**  
**Budget and Actual - General Fund**  
**For the Year Ended December 31, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Expenditures</b>				
Public safety				
Police				
Current	\$ 1,246,790	\$ 1,250,825	\$ 1,224,513	\$ (26,312)
Capital outlay	130,085	130,085	38,205	(91,880)
Total police	<u>1,376,875</u>	<u>1,380,910</u>	<u>1,262,718</u>	<u>(118,192)</u>
Fire				
Current	<u>299,535</u>	<u>295,795</u>	<u>286,371</u>	<u>(9,424)</u>
Other:				
Current	103,820	140,470	165,084	24,614
Capital outlay	<u>38,000</u>	<u>28,000</u>	<u>-</u>	<u>(28,000)</u>
Total other	<u>141,820</u>	<u>168,470</u>	<u>165,084</u>	<u>(3,386)</u>
Total public safety	<u>1,818,230</u>	<u>1,845,175</u>	<u>1,714,173</u>	<u>(131,002)</u>
Cemetery				
Current	<u>-</u>	<u>-</u>	<u>751</u>	<u>751</u>
Public works				
Streets and highways				
Street maintenance and storm sewers	685,555	660,320	646,060	(14,260)
Street - capital outlay	<u>792,000</u>	<u>285,920</u>	<u>267,902</u>	<u>(18,018)</u>
Total public works	<u>1,477,555</u>	<u>946,240</u>	<u>913,962</u>	<u>(32,278)</u>
Parks and recreation				
Libraries:				
Current expenditures	49,865	40,305	31,111	(9,194)
Other parks and recreation				
Current expenditures	190,530	189,055	239,202	50,147
Capital outlay	<u>55,000</u>	<u>26,760</u>	<u>3,330</u>	<u>(23,430)</u>
Total other parks and recreation	<u>245,530</u>	<u>215,815</u>	<u>242,532</u>	<u>26,717</u>
Total parks and recreation	<u>295,395</u>	<u>256,120</u>	<u>273,643</u>	<u>17,523</u>
Economic development				
Economic development				
Current expenditures	<u>-</u>	<u>-</u>	<u>51,201</u>	<u>51,201</u>
Total expenditures	<u>4,550,595</u>	<u>3,900,880</u>	<u>3,590,970</u>	<u>(309,910)</u>
Excess of revenues over (under) expenditures	(1,220,390)	(439,650)	66,061	505,711

**City of Princeton**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances -**  
**Budget and Actual - General Fund**  
**Year Ended December 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>Other Financing Sources (Uses)</b>				
Payment in lieu of taxes - Component unit	\$ 52,500	\$ 52,500	\$ 52,500	\$ -
Transfers in	1,245,035	688,515	165,582	(522,933)
Transfers out	<u>(70,495)</u>	<u>(62,680)</u>	<u>(66,621)</u>	<u>(3,941)</u>
Total other financing sources (uses)	<u>1,227,040</u>	<u>678,335</u>	<u>151,461</u>	<u>(526,874)</u>
Net change in fund balances	<u>\$ 6,650</u>	<u>\$ 238,685</u>	217,522	<u>\$ (21,163)</u>
<b>Fund Balances</b>				
Beginning of year			<u>2,473,670</u>	
End of year			<u>\$ 2,691,192</u>	



**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, 2015, and the related notes to financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 8, 2016. Our report includes a reference to other auditors who audited the financial statements of Princeton Public Utilities Commission, as described in our report on the City's financial statements. This report does not include the results of the other auditors testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**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.

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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 City'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. We did identify a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses on Legal Compliance and Internal Control as Audit Finding 2006-001, 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 Responses on Legal Compliance and Internal Control. 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.

*Bergan KDV, Ltd.*

St. Cloud, Minnesota  
June 8, 2016

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## Report on Legal Compliance

### Independent Auditor's Report

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 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, 2015, and the related Notes to the Financial Statements and have issued our report thereon dated June 8, 2016. Our report includes a reference to other auditors who audited the financial statements of Princeton Public Utilities Commission, as described in our report on the City's financial statements. This report does not include the results of the other auditors testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to *Minnesota Statutes* § 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 Cities*. 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.

This report is intended solely for the information and use of those charged with governance and management of the City and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

St. Cloud, Minnesota  
June 8, 2016

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**City of Princeton**  
**Schedule of Findings and Responses on Legal**  
**Compliance and Internal Control**  
**December 31, 2015**

**SECTION II – FINANCIAL STATEMENT FINDING**

**Audit Finding 2006-001**

*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, 2015, 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 Responses on Legal**  
**Compliance and Internal Control**  
**December 31, 2015**

**SECTION II – FINANCIAL STATEMENT FINDING**

**Audit Finding 2006-001 (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.