

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

AUDITED FINANCIAL STATEMENTS

For the Year Ended December 31, 2014

CITY OF PRINCETON

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CITY OF PRINCETON

**ELECTED OFFICIALS AND ADMINISTRATION
December 31, 2014**

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



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the Economic Development Authority discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Princeton, Minnesota, as of and for the year ended December 31, 2014, and the related Notes to the Financial Statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Princeton Public Utilities Commission, which represent 100% of the assets and revenues of the Princeton Public Utilities Commission discretely presented component unit column. These statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Princeton Public Utilities Commission, is based solely upon the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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



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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to 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, 2014, 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.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) *Circular A-133, Audits of States, Local Governments and Nonprofit Organizations*, and is also not a required part of the financial statements. The supplementary information and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to, the underlying accounting and other records used to prepare the financial statements. 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 and the Schedule of Expenditures of Federal Awards 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 11, 2015, 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.

Kern, Dewenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.

St. Cloud, Minnesota

June 11, 2015

CITY OF PRINCETON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

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, 2014.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the recent year by \$ 28,093,415 (net position) which is an increase of \$ 491,099 (1.78%) over the December 31, 2013 amount. Of this amount, \$ 8,681,967 for 2014 and \$ 8,291,419 for 2013 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 \$ 491,099 during the year 2014 resulted from a combination of a \$ 44,952 decrease from the governmental funds and an increase of \$ 536,051 from the proprietary funds. This 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 2014, the City's governmental funds reported combined ending fund balances of \$ 7,757,771, a decrease of \$ 84,004. This was largely due to decreases in fund balance in the special revenue and capital projects funds and partially offset by increases in the General Fund and the Capital Improvements Fund.
- At the end of the current year, all but \$ 159,616 of the General Fund balance of \$ 2,473,670 was unassigned.
- The City's total bonded debt decreased by \$ 706,789 (8.14%) during the current year. This was due almost exclusively to the payments of current maturities during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

CITY OF PRINCETON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

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

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

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

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

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

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the 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 52 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 50 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
December 31, 2014

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.

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

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

The Notes to the Financial Statements can be found on pages 27-59 of this report.

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

The combining statements referred to earlier in connection with 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 64-92 of this report.

CITY OF PRINCETON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

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 \$ 28,093,415 at the close of the most recent year.

City of Princeton's Net Position

	Governmental Activities	Business-Type Activities	Total 12/31/14	Total 12/31/13
Current and Other Assets	\$ 9,130,981	\$ 5,423,494	\$ 14,554,475	\$ 14,654,659
Capital Assets	8,809,270	25,739,654	34,548,924	34,754,395
Total Assets	<u>\$ 17,940,251</u>	<u>\$ 31,163,148</u>	<u>\$ 49,103,399</u>	<u>\$ 49,409,054</u>
Long-Term Liabilities				
Outstanding	\$ 1,641,757	\$ 17,671,114	\$ 19,312,871	\$ 20,052,587
Other Liabilities	913,214	783,899	1,697,113	1,754,151
Total Liabilities	<u>2,554,971</u>	<u>18,455,013</u>	<u>21,009,984</u>	<u>21,806,738</u>
Net Position:				
Net Investment in				
Capital Assets	7,764,858	9,157,495	16,183,765	15,897,028
Restricted	3,224,783	2,900	3,227,683	3,413,869
Unrestricted	<u>4,395,639</u>	<u>3,547,740</u>	<u>8,681,967</u>	<u>8,291,419</u>
Total Net Position	<u>\$ 15,385,280</u>	<u>\$ 12,708,135</u>	<u>\$ 28,093,415</u>	<u>\$ 27,602,316</u>

By far, the largest portion (57.61%) 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 11.49% 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 90.69% of the restricted net position classification. The remaining balance of unrestricted net position (\$ 8,681,967) 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
December 31, 2014

City of Princeton's Change in Net Position

	Governmental Activities	Business-type Activities	Total 12/31/2014	Total 12/31/2013
Revenue:				
Program Revenues:				
Charges for Services	\$ 622,204	\$ 4,833,543	\$ 5,455,747	\$ 5,237,669
Operating Grants and Contributions	165,260	-	165,260	186,321
Capital Grants and Contributions	277,795	222,148	499,943	362,317
General Revenues:				
Property Taxes	2,179,066	-	2,179,066	2,192,867
Tax Increments	140,208	-	140,208	137,470
Intergovernmental	818,949	-	818,949	622,343
PUC Payment in Lieu of Taxes	52,500	-	52,500	52,500
Other Revenue	4,045	-	4,045	3,558
Gain on Sale of Asset	-	35,747	35,747	1,858
Investment Income	93,370	46,817	140,187	5,238
Total Revenues	<u>4,353,397</u>	<u>5,138,255</u>	<u>9,491,652</u>	<u>8,802,141</u>
Expenses:				
General Government	655,523	-	655,523	680,791
Public Safety	1,848,241	-	1,848,241	1,621,896
Cemetery	30,800	-	30,800	26,303
Public Works	1,053,431	-	1,053,431	981,527
Culture and Recreation	350,873	-	350,873	316,065
Economic Development	435,375	-	435,375	411,629
Interest on Long-Term Debt	43,745	-	43,745	53,018
Water	-	74,169	74,169	36,506
Sewer	-	1,269,580	1,269,580	1,259,479
Municipal Liquor	-	2,980,594	2,980,594	3,025,450
Airport	-	258,222	258,222	254,427
Total Expenses	<u>4,417,988</u>	<u>4,582,565</u>	<u>9,000,553</u>	<u>8,667,091</u>
Change in Net Position before Transfers	(64,591)	555,690	491,099	135,050
Transfers	19,639	(19,639)	-	-
Special Item - Forgiveness of Bad Debt	-	-	-	(22,745)
Change in Net Position	<u>(44,952)</u>	<u>536,051</u>	<u>491,099</u>	<u>112,305</u>
Net Position - January 1	15,430,232	12,172,084	27,602,316	27,558,174
Change in Accounting Principle	-	-	-	(68,163)
Net Position January 1	<u>15,430,232</u>	<u>12,172,084</u>	<u>27,602,316</u>	<u>27,490,011</u>
Net Position December 31	<u>\$ 15,385,280</u>	<u>\$ 12,708,135</u>	<u>\$ 28,093,415</u>	<u>\$ 27,602,316</u>

There was an increase of \$ 491,099 in the City's net position during the current year. The increase resulted primarily from operating income in the business-type, proprietary or enterprise. The \$ 44,952 decrease in the net position in the governmental funds was primarily the result of operations in the special revenue and capital project funds groups.

CITY OF PRINCETON

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2014

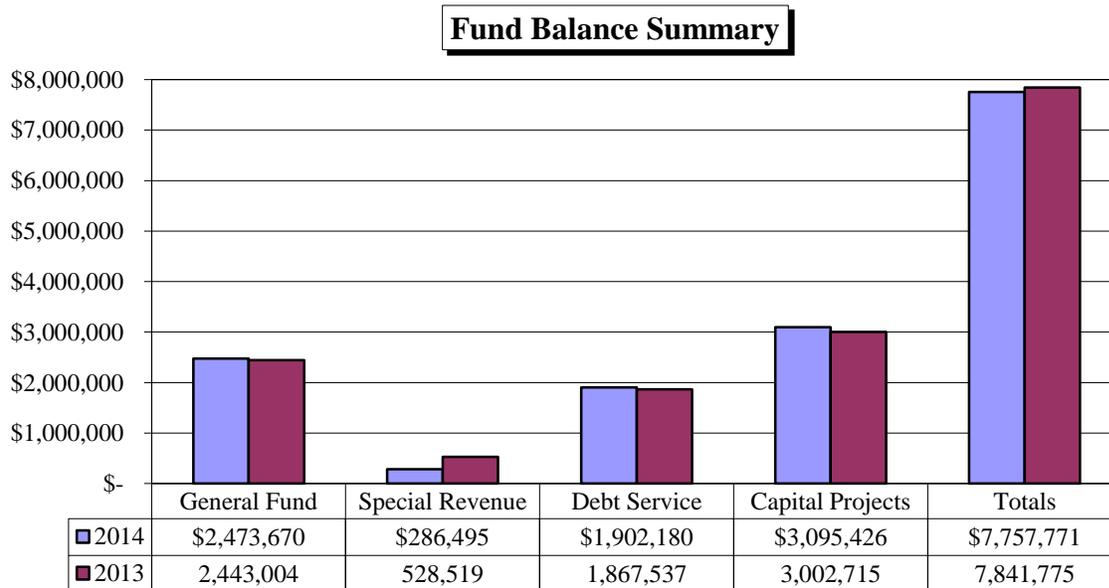
Governmental Activities. Governmental activities decreased the City's net position by \$ 44,952. This decrease resulted primarily from final expenditures of equipment and furnishing of the Public Safety Building. These expenditures were partially offset by higher than expected tax collections and better than anticipated investment income years in the General Fund.

Business-Type Activities. Business-type activities resulted in a net asset increase of \$ 536,051, which accounted for 100.0% 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 \$ 7,757,771, a decrease of \$ 84,004 from the prior year. This decrease was largely due to final equipment and furnishing of the Public Safety Building. There were also additional expenses involved with maintaining the old fire and police stations waiting for the sale of the facilities. 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 \$ 5,217,217 at December 31, 2014, which was a decrease of \$ 80,569 from the prior year.

CITY OF PRINCETON

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2014

The General Fund is the chief operating fund of the City. At the end of the current year, the fund balance of the General Fund was \$ 2,473,670, of which 93.55% unassigned and considered available for spending; however, 76.50% of the unassigned balance is designated by the City Council for working capital (cash flow) purposes.

The General Fund balance increased by \$ 30,666 during the year. This increase was \$ 52,545 less than the 2013 increase of \$ 83,211. 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 decreased by \$ 115,936 as opposed to an increase in 2013 of \$ 97,336.
- There was an increase in intergovernmental revenue of \$ 200,816 which was almost entirely due to a \$ 200,244 increase in Local Government Aid (LGA).
- Licenses and permits increased by \$ 82,696 and investment income also increased by \$ 22,160 due to a recovery in market value of fixed interest rate investments at the end of the year from the levels in 2013. There were revenue increases of \$ 12,434 in charges for services and \$ 485 in miscellaneous.
- There was a revenue decrease of \$ 9,766 in fines and forfeitures.
- There was a \$ 512,498 increase in total expenditures as compared to a \$ 285,661 increase in 2013. These two years were after several years of decreases or minimal increases due to cuts in LGA. There were increases across the board in the major divisions partially due to wage and medical insurance increases in each division. The increases were in general government of \$ 19,912; public safety activities of \$ 170,489, of which \$ 77,877 was due to personnel cost increases (partly due to a retirement of a long time employee) and the rest was due to increases in services and supplies, maintaining the previous facilities and costs associated with furnishing the new building. Public works expenditures increased by \$ 72,699 from increases in labor allocation and costs and \$ 29,607 increase in sealcoating, along with significant increases in fuel, supplies and repairs and there was an increase of \$ 28,313 in parks and recreation primarily due to increase in labor hours devoted to parks. There was an increase of \$ 234,845 in capital outlay. Economic development was the lone classification with a decrease and that was \$ 13,760.

Debt Service Funds had a total fund balance of \$ 1,902,180, all of which is restricted for the payment of debt service. There was an increase in fund balance during the current year in the Debt Service Funds of \$ 34,643.

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 \$ 4,234,338, the Sanitary Sewer Fund was \$ 6,315,992 and the Airport Fund was \$ 2,172,055. 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 \$ 2,915,363, the Sanitary Sewer Fund was \$ 647,900 and the Airport unrestricted net position was a negative \$ 1,273. The increases in unrestricted net position for each of these Funds were \$ 310,457, \$ 127,603 and \$ 7,960, respectively. The increases in these Funds result predominantly from the operations of these revenue generating funds.

CITY OF PRINCETON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

GENERAL FUND BUDGETARY HIGHLIGHTS

The change from the original budget and the final amended budget was a relatively small \$ 41,110 decrease in appropriations (1.12%), and included cuts of \$ 139,800 in general government activities, and \$ 74,000 in capital outlay. Increases in appropriations were \$ 125,240 in public safety (primarily due to increased cost for the new facility and continuing costs with the prior facilities; \$ 45,260 in public works \$ 2,190 in parks and recreation.

The eventual difference between the final amended budget and the actual amount of the change in fund balance was \$ 61,064. The major factors that resulted in this difference was a \$ 159,069 favorable variance in general government expenditures offset by a \$ 401,130 unfavorable variance in net transfers. Favorable variances of \$ 108,143 in property taxes, \$ 25,062 in intergovernmental revenue, \$ 22,892 in charges for services \$ 57,879 in capital outlay and \$ 18,280 in investment income all added to the difference. However, there were unfavorable variances of \$ 33,482 in miscellaneous revenues, \$ 5,301 in public safety, \$ 29,267 in public works, \$ 9,824 in parks and recreation and \$ 17,607 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 \$ 34,548,924 as of December 31, 2014 and \$ 34,754,395 as of December 31, 2013. This investment in capital assets includes land, easements buildings and improvements, machinery and equipment, park facilities, roads, sidewalks and utility infrastructure and construction in progress.

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

- Construction was completed on the actual wastewater treatment facilities expansion project for the Sanitary Sewer Fund in 2013. Planning, design and construction work continued on a few smaller projects relating to the overall project continued with construction in progress at the 2014 year-end of \$ 1,801,593 (an increase of \$ 399,045 from 2013).
- Total depreciation expense for 2014 was \$ 1,244,008.

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

	Governmental Activities	Business-type Activities	Total 12/31/14	Total 12/31/13
Land and Easements	\$ 1,570,934	\$ 1,036,041	\$ 2,606,975	\$ 2,606,975
Buildings	1,171,674	1,609,133	2,780,807	2,846,904
Improvements other than Buildings	339,907	20,409,855	20,749,762	21,344,432
Machinery and Equipment	1,280,498	624,652	1,905,150	1,908,600
Infrastructure	4,343,059	-	4,343,059	4,569,480
Construction in Progress	103,198	2,059,973	2,163,171	1,478,004
Total	\$ 8,809,270	\$ 25,739,654	\$ 34,548,924	\$ 34,754,395

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

CITY OF PRINCETON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

Long-Term Debt. At the end of the year, the City had total bonded debt outstanding of \$ 19,785,159. As was the case last year, none of the City debt was backed by the full faith and credit of the City, but \$ 1,783,000 is special assessment debt for which the City is liable in the event of default by the property owners subject to the assessment and for the difference between the amount of the debt and the special assessment amounts applied to the benefitting properties. The remainder of the City's debt, \$ 18,002,159 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 12/31/2014	Total 12/31/2013
Special Assessment Debt with Governmental Commitment	\$ 1,783,000	\$ -	\$ 1,783,000	\$ 2,072,000
Revenue Bonds with Governmental Commitment	-	18,002,159	18,002,159	18,419,948
Total	\$ 1,783,000	\$ 18,002,159	\$ 19,785,159	\$ 20,491,948

The City's total bonded indebtedness decreased by \$ 706,789 (3.45%) during the year. This decrease was due to payment on current maturities. Some of the proceeds from this refunding bond remain in escrow until the bonds to be refunded become callable. A portion of the escrowed money was used in 2014 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 \$ 7,207,044. As of December 31, 2014, 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 December 31, 2014

ECONOMIC FACTORS AND NEW YEAR'S BUDGETS AND RATES

- The City is situated in two counties, Mille Lacs and Sherburne. The 2014 unemployment rate for Mille Lacs was at 6.4% and the Sherburne rate was 4.0% at the end of the year. This was a decrease from the 2013 rate of 8.7% for Mille Lacs County and 5.6% for Sherburne County. Compare this to the state's December 2014 unemployment rate of 3.7% and the national rate of 5.6%. 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 1.6% compared to the national rate of 0.8% for the 2014 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 has 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. In 2014, LGA was increased from the 2013 level, which finally brought the amount greater than what was received in 2007 by \$ 41,808. In recognition of the restoration of LGA, the tax levy was decreased \$ 32,000 from the 2013 amount which is in addition to the \$ 31,180 from the 2012 levy.

These are some of the factors considered by the City Council and staff in preparing the City's budget for the 2014 year.

Other factors considered, was that a rate study for the sanitary sewer system was completed in 2011. The cost of the Wastewater Treatment Facility improvements and associated operating cost increases required that rates required an increase of 169%. This increase was implemented in two phases. The first increase occurred in November 2011 and the second increase took effect in May 2012. The sewer access charge was increased in 2007 to assist in the payment of system repairs and enhancements. A sewer trunk fee was initiated in 2005 to assure new development pays for the cost of extensions and new facilities. Construction of the 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. 2013 also saw the completion of the major portion of the Wastewater Treatment Facility and full operation of the new sections started in early 2013. Engineering and construction work continued in 2014 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.

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 1st Street, Princeton, Minnesota 55371.

BASIC FINANCIAL STATEMENTS

CITY OF PRINCETON

STATEMENT OF NET POSITION
December 31, 2014

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Public Utilities Commission	Economic Development Authority
ASSETS					
Cash and Investments (Including Cash Equivalents)	\$ 6,990,682	\$ 2,870,500	\$ 9,861,182	\$ 3,482,903	\$ -
Cash with Fiscal Agent	-	-	-	239,896	-
Investments with Fiscal Agent	-	1,296,199	1,296,199	-	169,674
Property Tax Receivable	142,835	-	142,835	-	1,172
Accounts Receivable	42,605	8,300	50,905	798,238	-
Interest Receivable	21,341	1,165	22,506	-	-
Due from Other Governments	1,110,766	412,739	1,523,505	30,952	-
Internal Balances	1,054	(1,054)	-	-	-
Notes Receivable:					
Due Within One Year	3,627	-	3,627	-	-
Due After One Year	47,358	-	47,358	-	10,000
Special Assessments Receivable:					
Due Within One Year	134,718	2,510	137,228	-	-
Due After One Year	562,534	2,455	564,989	-	-
Inventories	-	637,336	637,336	484,935	-
Land Held for Resale	1	-	1	-	440,000
Contract for Deed					
Due Within One Year	-	4,518	4,518	-	-
Due After One Year	-	168,596	168,596	-	-
Prepaid Expenses	73,460	20,230	93,690	7,589	50
Deferred Charge	-	-	-	-	-
Capital Assets not being Depreciated:					
Land	1,568,300	1,036,041	2,604,341	33,162	-
Easements	2,634	-	2,634	-	-
Construction in Progress	103,198	2,059,973	2,163,171	-	-
Capital Assets being Depreciated (Net of Accumulated Depreciation):					
Buildings and Systems	1,171,674	1,609,133	2,780,807	1,139,975	2,332,260
Other Improvements	339,907	-	339,907	-	-
Sewer and Water Improvements	-	20,409,855	20,409,855	-	-
Machinery and Equipment	1,280,498	624,652	1,905,150	666,272	-
Infrastructure	4,343,059	-	4,343,059	14,456,944	-
Restricted Assets:					
Reserve Fund	-	-	-	571,750	-
Debt Retirement	-	-	-	443,136	-
Improvements and Replacements	-	-	-	1,972,091	-
Total Assets	\$ 17,940,251	\$ 31,163,148	\$ 49,103,399	\$ 24,327,843	\$ 2,953,156
LIABILITIES					
Accounts Payable	\$ 138,445	\$ 284,909	\$ 423,354	\$ 453,006	\$ 174
Due to Other Governments	170,105	47,577	217,682	108,240	919,976
Unearned Revenue	50,235	3,396	53,631	15,246	-
Salaries and Benefits Payable	24,234	9,961	34,195	29,796	1,112
Interest Payable	17,868	39,653	57,521	40,386	35,695
Customer Meter Deposits	-	-	-	232,995	-
Severance Payable	-	-	-	145,594	-
Deferred Rate Stabilization	-	-	-	1,573,992	-
Bond Principal Payable, Net:					
Payable Within One Year	290,000	360,000	650,000	937,000	90,000
Payable After One Year	1,493,000	17,642,159	19,135,159	9,113,000	2,168,778
Compensated Absences Payable:					
Payable Within One Year	144,000	21,545	165,545	-	-
Payable After One Year	148,757	28,955	177,712	-	-
Other Post Employment Benefits (OPEB) Payable	78,327	16,858	95,185	-	-
Total Liabilities	2,554,971	18,455,013	21,009,984	12,649,255	3,215,735
NET POSITION					
Net Investment in Capital Assets	7,764,858	9,326,091	16,352,361	6,246,353	73,482
Restricted for:					
Debt Service	2,927,152	-	2,927,152	1,254,781	-
Tax Increment	52,665	-	52,665	-	-
Capital Asset Replacement Cost	-	2,900	2,900	1,972,091	-
Other Projects	244,966	-	244,966	-	-
Unrestricted	4,395,639	3,379,144	8,513,371	2,205,363	(336,061)
Total Net Position	15,385,280	12,708,135	28,093,415	11,678,588	(262,579)
Total Liabilities and Net Position	\$ 17,940,251	\$ 31,163,148	\$ 49,103,399	\$ 24,327,843	\$ 2,953,156

CITY OF PRINCETON
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2014

	Primary Government					Component Units		
	Program Revenue			Net (Expense) Revenue and Changes in Net Position				
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Public Utilities Commission	Economic Development Authority
Governmental Activities								
General Government	\$ 655,523	\$ -	\$ -	\$ (540,546)	\$ -	\$ (540,546)	\$ -	\$ -
Public Safety	1,848,241	155,176	52,485	(1,209,765)	-	(1,209,765)	-	(79,356)
Cemetery	30,800	-	-	(1,475)	-	(1,475)	-	-
Public Works	1,053,431	-	91,547	(953,493)	-	(953,493)	-	-
Parks and Recreation	350,873	10,084	124,515	(267,022)	-	(267,022)	-	-
Economic Development	435,375	-	9,248	(336,683)	-	(336,683)	-	129,953
Interest on Long-Term Debt	43,745	-	-	(43,745)	-	(43,745)	-	(74,679)
Total Governmental Activities	4,417,988	165,260	277,795	(3,352,729)	-	(3,352,729)	-	(24,082)
Business-Type Activities								
Water	74,169	-	-	-	-	-	249,382	-
Sewer	1,269,580	-	-	-	129,540	129,540	-	-
Storm Sewer	-	-	-	-	-	-	-	-
Municipal Liquor	2,980,594	-	-	-	298,629	298,629	-	-
Airport	258,222	-	222,148	-	44,957	44,957	-	-
Electric	-	-	-	-	-	-	500,980	-
Total Business-Type Activities	4,582,565	-	222,148	-	473,126	473,126	750,362	-
Total Governmental and Business-Type Activities	\$ 9,000,553	\$ 165,260	\$ 499,943	(3,352,729)	473,126	(2,879,603)	750,362	(24,082)
General Revenues								
Property Taxes			2,179,066			2,179,066		18,090
Tax Increments			140,208			140,208		-
State Aids			818,949			818,949		-
PUC Payment in Lieu of Taxes			52,500			52,500	(52,500)	-
Investment Income			93,370		46,817	140,187	56,531	11
Miscellaneous			4,045		-	4,045	69,250	3,251
Gain on Sale of Asset			-		35,747	35,747	-	-
Transfers			19,639		(19,639)	-	-	-
Special Item - Loss on Sale of Asset			-		-	-	(278)	-
Total General Revenues, Transfers and Special Item			3,307,777		62,925	3,370,702	73,003	21,352
Change in Net Position			(44,952)		536,051	491,099	823,365	(2,730)
Net Position - Beginning			15,430,232		12,172,084	27,602,316	10,855,223	(259,849)
Net Position - Ending			\$ 15,385,280		\$ 12,708,135	\$ 28,093,415	\$ 11,678,588	\$ (262,579)

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

CITY OF PRINCETON

**BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2014**

	General Fund (101, 202)	Capital Projects Capital Improvements (351)	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 2,457,930	\$ 1,289,015	\$ 3,243,737	\$ 6,990,682
Taxes Receivable - Delinquent	123,992	9,694	9,149	142,835
Special Assessments Receivable:				
Delinquent	-	-	3,872	3,872
Deferred	-	-	693,380	693,380
Accounts Receivable	16,766	-	25,839	42,605
Interest Receivable	17,465	-	3,876	21,341
Due from Other Funds	-	1,246,985	-	1,246,985
Due from Other Governments	170,223	919,917	20,626	1,110,766
Notes Receivable	-	-	50,985	50,985
Land Held for Resale	-	-	1	1
Prepaid Expenses	72,455	-	1,005	73,460
Advance to Other Funds	-	-	70,150	70,150
	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$ 2,858,831</u>	<u>\$ 3,465,611</u>	<u>\$ 4,122,620</u>	<u>\$ 10,447,062</u>
LIABILITIES				
Accounts and Contracts Payable	\$ 56,550	\$ -	\$ 81,895	\$ 138,445
Due to Other Funds	-	-	1,246,985	1,246,985
Due to Other Governments	23,846	69	159,386	183,301
Salaries and Benefits Payable	24,234	-	-	24,234
Unearned Revenue	52,539	-	2,000	54,539
Advance from Other Funds	-	-	70,150	70,150
Total Liabilities	<hr/> <u>157,169</u>	<hr/> <u>69</u>	<hr/> <u>1,560,416</u>	<hr/> <u>1,717,654</u>
DEFERRED INFLOWS RESOURCES				
Unavailable Revenue - Long-Term Assets	104,000	-	31,854	135,854
Unavailable Revenue - Property Taxes	123,992	9,694	9,149	142,835
Unavailable Revenue - Special Assessments	-	-	692,948	692,948
Total Deferred Inflows of Resources	<hr/> <u>227,992</u>	<hr/> <u>9,694</u>	<hr/> <u>733,951</u>	<hr/> <u>971,637</u>
FUND BALANCES				
Nonspendable	72,455	-	1,005	73,460
Restricted	-	-	2,540,554	2,540,554
Assigned	87,161	3,455,848	657,108	4,200,117
Unassigned	2,314,054	-	(1,370,414)	943,640
Total Fund Balances	<hr/> <u>2,473,670</u>	<hr/> <u>3,455,848</u>	<hr/> <u>1,828,253</u>	<hr/> <u>7,757,771</u>
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 2,858,831</u>	<u>\$ 3,465,611</u>	<u>\$ 4,122,620</u>	<u>\$ 10,447,062</u>

CITY OF PRINCETON

**RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS
December 31, 2014**

Total Fund Balances - Governmental Funds	\$ 7,757,771
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	18,345,886
Less Accumulated Depreciation	(9,536,616)
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	(1,783,000)
Compensated Absences Payable	(292,757)
OPEB Payable	(78,327)
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	142,835
Delinquent Special Assessments	3,872
Deferred Special Assessments	693,380
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
Notes Receivable	31,854
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>(17,868)</u>
Total Net Position - Governmental Activities	<u><u>\$ 15,385,280</u></u>

CITY OF PRINCETON

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014**

	General Fund (101, 202)	Capital Projects Capital Improvements (351)	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property Taxes	\$ 1,893,743	\$ 175,423	\$ 114,362	\$ 2,183,528
Tax Increments	-	-	140,208	140,208
Special Assessments	-	-	258,924	258,924
Licenses and Permits	190,952	-	-	190,952
Intergovernmental	968,965	-	70,121	1,039,086
Charges for Services	267,062	-	117,827	384,889
Fine and Forfeitures	20,530	-	-	20,530
Miscellaneous:				
Investment Income	20,380	39,293	33,697	93,370
Contributions and Donations	-	-	101,515	101,515
Other	96,673	-	14,820	111,493
Total Revenues	<u>3,458,305</u>	<u>214,716</u>	<u>851,474</u>	<u>4,524,495</u>
EXPENDITURES				
Current				
General Government	610,046	-	203	610,249
Public Safety	1,548,486	-	235,039	1,783,525
Cemetery	811	-	25,312	26,123
Public Works	737,811	-	74,169	811,980
Parks and Recreation	247,559	2,994	32,014	282,567
Economic Development	17,607	-	308,551	326,158
Debt Service				
Principal	-	-	289,000	289,000
Interest and Other Charges	-	-	45,589	45,589
Capital Outlay				
General Government	44,206	-	-	44,206
Public Safety	99,671	-	-	99,671
Public Works	150,169	8,932	-	159,101
Parks and Recreation	21,555	-	118,921	140,476
Economic Development	-	-	108,992	108,992
Total Expenditures	<u>3,477,921</u>	<u>11,926</u>	<u>1,237,790</u>	<u>4,727,637</u>
Excess of Revenues Over (Under) Expenditures	(19,616)	202,790	(386,316)	(203,142)
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Asset	1,380	2,992	690	5,062
Insurance Recoveries	41,937	-	-	41,937
Payment in Lieu of Taxes - Component Unit	52,500	-	-	52,500
Transfers In	37,139	-	66,994	104,133
Transfers Out	(82,674)	-	(1,820)	(84,494)
Total Other Financing Sources (Uses)	<u>50,282</u>	<u>2,992</u>	<u>65,864</u>	<u>119,138</u>
Net Change in Fund Balances	30,666	205,782	(320,452)	(84,004)
FUND BALANCES				
Beginning of Year	<u>2,443,004</u>	<u>3,250,066</u>	<u>2,148,705</u>	<u>7,841,775</u>
End of Year	<u>\$ 2,473,670</u>	<u>\$ 3,455,848</u>	<u>\$ 1,828,253</u>	<u>\$ 7,757,771</u>

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

CITY OF PRINCETON

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO
THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014**

Net Change in Fund Balances - Total Governmental Funds \$ (84,004)

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	445,051
Depreciation Expense	(520,643)
Loss on Disposal	(39,702)
Donated Assets	23,000

Compensated absences are recognized as paid in the governmental funds but
recognized as the expense is incurred in the Statement of Activities. 21,267

OPEB are recognized as paid in the governmental funds but recognized as
expensed in the Statement of Activities. (8,336)

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. 289,000

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. 1,844

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. (590)

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	(4,462)
Delinquent Special Assessments	(18,623)
Deferred Special Assessments	(148,754)

Change in Net Position- Governmental Activities \$ (44,952)

CITY OF PRINCETON

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
Property Taxes	\$ 1,817,425	\$ 1,785,600	\$ 1,893,743	\$ 108,143
Licenses and Permits	105,135	165,890	190,952	25,062
Intergovernmental	941,985	968,540	968,965	425
Charges for Services	237,850	244,170	267,062	22,892
Fines and Forfeitures	33,500	20,050	20,530	480
Miscellaneous Revenues:				
Investment Income	12,400	2,100	20,380	18,280
Other	96,700	130,155	96,673	(33,482)
Total Revenues	3,244,995	3,316,505	3,458,305	141,800
EXPENDITURES				
Current				
General Government	908,915	769,115	610,046	(159,069)
Public Safety	1,417,945	1,543,185	1,548,486	5,301
Cemetery	-	-	811	811
Public Works	664,095	709,355	737,811	28,456
Parks and Recreation	235,545	237,735	247,559	9,824
Economic Development	-	-	17,607	17,607
Capital Outlay				
General Government	109,500	52,985	44,206	(8,779)
Public Safety	188,980	134,810	99,671	(35,139)
Public Works	124,500	164,170	150,169	(14,001)
Parks and Recreation	24,500	21,515	21,555	40
Total Expenditures	3,673,980	3,632,870	3,477,921	(154,949)
Excess of Revenues Over (Under) Expenditures	(428,985)	(316,365)	(19,616)	296,749
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Asset	-	-	1,380	1,380
Insurance Recoveries	-	-	41,937	41,937
Payment in Lieu of Taxes - Component Unit	52,500	52,500	52,500	-
Transfers In	447,480	390,980	37,139	(353,841)
Transfers Out	(70,075)	(35,385)	(82,674)	(47,289)
Total Other Financing Sources (Uses)	429,905	408,095	50,282	(357,813)
Net Change in Fund Balances	\$ 920	\$ 91,730	30,666	\$ (61,064)
FUND BALANCES				
Beginning of Year			2,443,004	
End of Year			\$ 2,473,670	

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

CITY OF PRINCETON

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
December 31, 2014

	Airport (208)	Sanitary Sewer (702/704)	Municipal Liquor (703)	Total
ASSETS				
Current Assets				
Cash and Investments	\$ -	\$ 820,319	\$ 2,050,181	\$ 2,870,500
Investments with Fiscal Agent	-	1,296,199	-	1,296,199
Special Assessment Receivable Deferred	-	4,965	-	4,965
Accounts Receivable	-	7,400	900	8,300
Accrued Interest	-	-	1,165	1,165
Due from Other Funds	-	-	202,922	202,922
Due from Other Governments	198,369	214,370	-	412,739
Inventories	16,500	-	620,836	637,336
Contract for Deed	-	-	4,518	4,518
Prepaid Expenses	640	11,745	7,845	20,230
Total Current Assets	<u>215,509</u>	<u>2,354,998</u>	<u>2,888,367</u>	<u>5,458,874</u>
Noncurrent Assets				
Contract for Deed	-	-	168,596	168,596
Capital Assets:				
Land	495,923	129,120	410,998	1,036,041
Buildings and System	76,766	947,087	999,651	2,023,504
Other Improvements	3,124,852	22,927,352	43,608	26,095,812
Machinery and Equipment	281,743	739,328	174,259	1,195,330
Construction in Progress	258,380	1,801,593	-	2,059,973
Total Capital Assets	<u>4,237,664</u>	<u>26,544,480</u>	<u>1,797,112</u>	<u>32,579,256</u>
Less Accumulated Depreciation	<u>(2,064,336)</u>	<u>(4,297,129)</u>	<u>(309,541)</u>	<u>(6,671,006)</u>
Net Capital Assets	<u>2,173,328</u>	<u>22,247,351</u>	<u>1,487,571</u>	<u>25,908,250</u>
Total Assets	<u>\$ 2,388,837</u>	<u>\$ 24,602,349</u>	<u>\$ 4,375,938</u>	<u>\$ 31,367,124</u>
LIABILITIES AND NET POSITION				
Current Liabilities				
Accounts Payable	\$ 8,787	\$ 221,832	\$ 54,290	\$ 284,909
Salaries Payable	732	3,315	5,914	9,961
Unearned Revenue	3,396	-	-	3,396
Interest Payable	-	39,653	-	39,653
Due to Other Funds	202,922	-	-	202,922
Due to Other Governmental Units	-	4,483	29,898	34,381
Compensated Absences Payable	-	7,345	14,200	21,545
Current Portion of Revenue Bonds	-	360,000	-	360,000
Total Current Liabilities	<u>215,837</u>	<u>636,628</u>	<u>104,302</u>	<u>956,767</u>
Noncurrent Liabilities				
Compensated Absences Payable	-	-	28,955	28,955
OPEB Payable	945	7,570	8,343	16,858
Bonds Payable	-	17,642,159	-	17,642,159
Total Noncurrent Liabilities	<u>945</u>	<u>17,649,729</u>	<u>37,298</u>	<u>17,687,972</u>
Total Liabilities	<u>216,782</u>	<u>18,286,357</u>	<u>141,600</u>	<u>18,644,739</u>
Net Position				
Net Investment in Capital Assets	2,173,328	5,665,192	1,487,571	9,326,091
Restricted	-	2,900	-	2,900
Unrestricted	(1,273)	647,900	2,746,767	3,393,394
Total Net Position	<u>2,172,055</u>	<u>6,315,992</u>	<u>4,234,338</u>	<u>12,722,385</u>
Total Liabilities and Net Position	<u>\$ 2,388,837</u>	<u>\$ 24,602,349</u>	<u>\$ 4,375,938</u>	<u>\$ 31,367,124</u>
Adjustment to Reflect the Consolidation of the Water Availability Special Revenue Fund related to Enterprise Funds				<u>(14,250)</u>
Total Business-Type Activities Net Position				<u>\$ 12,708,135</u>

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

CITY OF PRINCETON

**STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUNDS
For the Year Ended December 31, 2014**

	<u>Airport (208)</u>	<u>Sanitary Sewer (702/704)</u>	<u>Municipal Liquor (703)</u>	<u>Total</u>
SALES AND COST OF SALES				
Sales	\$ 67,207	\$ -	\$ 3,278,953	\$ 3,346,160
Cost of Sales	65,826	-	2,439,790	2,505,616
Gross Profit	<u>1,381</u>	<u>-</u>	<u>839,163</u>	<u>840,544</u>
OPERATING REVENUES				
Charges for Services	<u>13,824</u>	<u>1,389,588</u>	<u>270</u>	<u>1,403,682</u>
Total Gross Profit and Operating Revenues	<u>15,205</u>	<u>1,389,588</u>	<u>839,433</u>	<u>2,244,226</u>
OPERATING EXPENSES				
Wages and Salaries	22,251	180,858	276,212	479,321
Materials and Supplies	31,696	283,868	131,771	447,335
Professional Services	-	-	46,140	46,140
Depreciation	138,449	544,913	40,003	723,365
Miscellaneous	-	-	46,678	46,678
Total Operating Expenses	<u>192,396</u>	<u>1,009,639</u>	<u>540,804</u>	<u>1,742,839</u>
Operating Income (Loss)	(177,191)	379,949	298,629	501,387
NONOPERATING REVENUES (EXPENSES)				
Interest Income	-	19,753	27,064	46,817
Intergovernmental Revenues	222,148	-	-	222,148
Gain on Sale of Asset	2,760	32,987	-	35,747
Interest Expense and Charges	-	(259,941)	-	(259,941)
Other Income	-	9,532	-	9,532
Total Nonoperating Revenues (Expenses)	<u>224,908</u>	<u>(197,669)</u>	<u>27,064</u>	<u>54,303</u>
Income before Capital Contributions and Transfers	47,717	182,280	325,693	555,690
Transfers In	35,600	-	-	35,600
Transfers Out	<u>-</u>	<u>-</u>	<u>(55,239)</u>	<u>(55,239)</u>
Change in Net Position	83,317	182,280	270,454	536,051
NET POSITION				
Beginning of Year	<u>2,088,738</u>	<u>6,133,712</u>	<u>3,963,884</u>	<u>12,186,334</u>
End of Year	<u>\$ 2,172,055</u>	<u>\$ 6,315,992</u>	<u>\$ 4,234,338</u>	<u>\$ 12,722,385</u>

CITY OF PRINCETON

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended December 31, 2014**

	<u>Airport (208)</u>	<u>Sanitary Sewer (702/704)</u>	<u>Municipal Liquor (703)</u>	<u>Total</u>
CASH FLOWS - OPERATING ACTIVITIES				
Receipts from Customers and Users	\$ 84,461	\$ 1,387,783	\$ 3,279,223	\$ 4,751,467
Payments to Suppliers	(100,996)	(205,855)	(2,684,142)	(2,990,993)
Payments to Employees	(21,721)	(170,338)	(268,334)	(460,393)
Other Income	-	9,532	-	9,532
Net Cash Flows - Operating Activities	<u>(38,256)</u>	<u>1,021,122</u>	<u>326,747</u>	<u>1,309,613</u>
CASH FLOWS - NONCAPITAL FINANCING ACTIVITIES				
Transfer from Other Funds	35,600	-	-	35,600
Transfer to Other Funds	-	-	(55,239)	(55,239)
Increase in Due to Other Funds	179,608	-	-	179,608
Increase in Due from Other Funds	-	-	(200,097)	(200,097)
Net Cash Flows - Noncapital Financing Activities	<u>215,208</u>	<u>-</u>	<u>(255,336)</u>	<u>(40,128)</u>
CASH FLOWS - CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal Paid on Debt	-	(706,509)	-	(706,509)
Interest Paid on Debt	-	(358,564)	-	(358,564)
Bond Proceeds	-	288,720	-	288,720
Proceeds from Disposal of Capital Assets	2,760	35,650	-	38,410
Cash Paid for Disposal of Land Held for Resale	-	-	4,429	4,429
Intergovernmental Revenues	23,779	-	-	23,779
Acquisition of Capital Assets	<u>(203,491)</u>	<u>(563,939)</u>	<u>-</u>	<u>(767,430)</u>
Net Cash Flows - Capital and Related Financing Activities	<u>(176,952)</u>	<u>(1,304,642)</u>	<u>4,429</u>	<u>(1,477,165)</u>
CASH FLOWS - INVESTING ACTIVITIES				
Interest and Dividends Received	<u>-</u>	<u>14,033</u>	<u>26,484</u>	<u>40,517</u>
Net Change in Cash and Cash Equivalents	<u>-</u>	<u>(269,487)</u>	<u>102,324</u>	<u>(167,163)</u>
CASH AND CASH EQUIVALENTS				
January 1	<u>-</u>	<u>1,089,806</u>	<u>1,947,857</u>	<u>3,037,663</u>
December 31	<u>\$ -</u>	<u>\$ 820,319</u>	<u>\$ 2,050,181</u>	<u>\$ 2,870,500</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS - OPERATING ACTIVITIES				
Operating Income (Loss)	\$ (177,191)	\$ 379,949	\$ 298,629	\$ 501,387
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows - Operating Activities:				
Other Income	-	9,532	-	9,532
Depreciation Expense	138,449	544,913	40,003	723,365
Accounts Receivable	346	5,108	-	5,454
Special Assessments Receivable	-	1,450	-	1,450
Due from Other Governments	-	(8,363)	-	(8,363)
Prepaid Items	5	(345)	875	535
Inventory	-	-	(4,439)	(4,439)
Accounts Payable	(3,479)	77,022	(16,926)	56,617
Due to Other Governmental Units	-	1,336	727	2,063
Salaries Payable	215	836	610	1,661
Unearned Income	3,084	-	-	3,084
Compensated Absences Payable	-	7,345	6,240	13,585
OPEB Payable	315	2,339	1,028	3,682
Total Adjustments	<u>138,935</u>	<u>641,173</u>	<u>28,118</u>	<u>808,226</u>
Net Cash Flows - Operating Activities	<u>\$ (38,256)</u>	<u>\$ 1,021,122</u>	<u>\$ 326,747</u>	<u>\$ 1,309,613</u>

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CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

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

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

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

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

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

1. Blended Component Unit

None identified.

2. Discretely Presented Component Unit

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

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

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity (Continued)

3. Related Organization

Princeton Firefighters' Relief Association

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

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 THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Description of Funds:

Major Governmental Funds:

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

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

Proprietary Funds:

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

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

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

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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, 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 THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, 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 THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, 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 THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, 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:

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

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

5. Deferred Inflows of Resources

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.

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.

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.

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

6. Compensated Absences (Continued)

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, 2014 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. Fund Equity

a. Classification

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

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

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

8. Fund Equity (Continued)

a. Classification (Continued)

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

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

b. Minimum Fund Balance

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

9. Net Position

Net position represents the difference between assets and liabilities and deferred inflows 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 \$ 738,588 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.

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.

10. Use of Estimates

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

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

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

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

B. Deficit Fund Balance

The following Funds had deficit balances at December 31, 2014:

City Nonmajor Funds:

Special Revenue:

Development Grants	\$ 70,535
Development Expenses	223,797
Fire Department Grants	71,334
Small Cities Development Program	10,400
Stormwater Management	146,949
Neighborhood Stabilization Program	67,121
Water Availability	14,250

Debt Service:

G.O. Refunding Bonds, 2012B	261,831
1999 Street and Utilities Improvements	79,905

Capital Projects:

Heritage Village	284,747
Northland/Old 18 Improvements	53,760
MN Industrial Coatings Expansion District	10,494
District No. 3-7 Redevelopment District	1,408
2000 Street and Utility Improvements	70,145
Industrial Park Development	3,738

EDA Component Unit:

General Fund	258,650
Public Safety Building	44,539

C. Excess of Expenditures Over Appropriations

The following Funds' expenditures exceeded appropriations during the year:

Fund	Appropriations	Disbursements	Excess
Nonmajor Funds:			
Special Revenue:			
Property Confiscation	\$ 3,925	\$ 34,759	\$ 30,834
Public Safety and Awareness	1,075	2,071	996
Fire Equipment Reserve	12,800	146,842	134,042
Disaster Relocation	46,825	46,917	92
Small Cities Development Program	780	18,024	17,244
Water Availability	70,345	74,169	3,824
EDA Discretely Presented Component Unit	187,680	212,854	25,174

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS December 31, 2014

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, 2014, 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	\$ 1,921,420
Savings	2,344,556
Nonnegotiable Certificates of Deposit	<u>1,511,208</u>
 Total Deposits	 <u><u>\$ 5,777,184</u></u>

B. Investments – City and EDA Component Unit

As of December 31, 2014, 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	\$ 377,513	\$ 377,513	\$ -	\$ -	\$ -	7.0%	N/A
GB	FNMA	14,174	-	-	-	14,174	0.3%	NR
GB	FHLB	799,741	-	-	799,741	-	14.9%	AA+
GB	FFCB	97,743	-	-	97,743	-	1.8%	AA+
GB	GNMA	44,092	-	-	-	44,092	0.8%	NR
SLGS	State and Local Government Securities	1,296,199	-	1,296,199	-	-	24.1%	NR
SEC	Mortgage Securities	26,260	-	-	-	26,260	0.5%	AA+
CD	Brokered Certificates of Deposit	<u>2,721,542</u>	<u>531,846</u>	<u>1,892,017</u>	<u>297,679</u>	<u>-</u>	<u>50.6%</u>	NR
	Total	<u>\$ 5,377,264</u>	<u>\$ 909,359</u>	<u>\$ 3,188,216</u>	<u>\$ 1,195,163</u>	<u>\$ 84,526</u>	<u>100.0%</u>	

As of December 31, 2014, 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	<u>\$ 169,674</u>	<u>\$ 169,674</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	100.0%	NR

Credit Risk: As of December 31, 2014, 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, 2014 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, 2014, the City held investments that were in noncompliance with this policy.

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 3 – DEPOSITS AND INVESTMENTS

C. Deposits and Investments – PUC Component Unit

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

Custodial Credit Risk – Deposits: As of December 31, 2014, 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, 2014 of \$ 6,087,316.

As of December 31, 2014, the component unit had the following investments:

Type	Investment	Fair Value	Credit Rating	Percentage of Total
GB	Grand Rapids, MN G.O. Taxable	\$ 244,294	A1	39.4%
GB	Grimes, IA G.O. Taxable Build America	95,221	AA3	15.4%
GB	Wyoming, MN G.O. Taxable Build America	<u>280,810</u>	A1	45.3%
Total		<u><u>\$ 620,325</u></u>		

Credit Risk: As of December 31, 2014, 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 all individual investments above 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.)	\$ 5,777,184
City Investments (Note 3.B.)	5,377,264
EDA Investments (Note 3.B.)	169,674
Petty Cash	<u>2,933</u>
Total Deposits and Investments - City and EDA Component Unit	<u>11,327,055</u>
Deposits - Component Unit (Note 3.C.)	6,087,316
Investments - Component Unit (Note 3.C.)	620,325
Petty Cash	<u>2,135</u>
Total Deposits and Investments - Component Unit	<u>6,709,776</u>
Total Deposits and Investments	<u><u>\$ 18,036,831</u></u>

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 3 – DEPOSITS AND INVESTMENTS

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	\$ 9,861,182
Investments with Fiscal Agent, Primary Government	1,296,199
Investments with Fiscal Agent, EDA Component Unit	169,674
Cash and Investments, PUC Component Unit	3,482,903
Cash Held in Escrow, PUC Component Unit	239,896
Restricted Assets, PUC Component Unit	<u>2,986,977</u>

Total	<u><u>\$ 18,036,831</u></u>
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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	<u>21,277</u>	<u>81,921</u>	<u>-</u>	<u>103,198</u>
Total Capital Assets not being Depreciated	<u>1,592,211</u>	<u>81,921</u>	<u>-</u>	<u>1,674,132</u>
Capital Assets being Depreciated:				
Buildings and Systems	2,268,221	36,986	-	2,305,207
Other Improvements	1,508,064	60,000	-	1,568,064
Machinery and Equipment	3,546,780	289,144	112,799	3,723,125
Infrastructure	<u>9,075,358</u>	<u>-</u>	<u>-</u>	<u>9,075,358</u>
Total Capital Assets being Depreciated	<u>16,398,423</u>	<u>386,130</u>	<u>112,799</u>	<u>16,671,754</u>
Less Accumulated Depreciation for:				
Buildings and Systems	1,085,484	48,049	-	1,133,533
Other Improvements	1,177,081	51,076	-	1,228,157
Machinery and Equipment	2,320,627	195,097	73,097	2,442,627
Infrastructure	<u>4,505,878</u>	<u>226,421</u>	<u>-</u>	<u>4,732,299</u>
Total Accumulated Depreciation	<u>9,089,070</u>	<u>520,643</u>	<u>73,097</u>	<u>9,536,616</u>
Total Capital Assets being Depreciated, Net	<u>7,309,353</u>	<u>(134,513)</u>	<u>39,702</u>	<u>7,135,138</u>
Governmental Activities Capital Assets, Net	<u><u>\$ 8,901,564</u></u>	<u><u>\$ (52,592)</u></u>	<u><u>\$ 39,702</u></u>	<u><u>\$ 8,809,270</u></u>

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 4 – CAPITAL ASSETS

A. Primary Government (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets not being Depreciated:				
Land	\$ 1,036,041	\$ -	\$ -	\$ 1,036,041
Construction in Progress	1,456,727	603,246	-	2,059,973
Total Capital Assets not being Depreciated	2,492,768	603,246	-	3,096,014
Capital Assets being Depreciated:				
Buildings and Systems	2,023,504	-	-	2,023,504
Other Improvements	26,095,812	-	-	26,095,812
Machinery and Equipment	1,296,132	9,605	110,407	1,195,330
Total Capital Assets being Depreciated	29,415,448	9,605	110,407	29,314,646
Less Accumulated Depreciation for:				
Buildings and Systems	359,337	55,034	-	414,371
Other Improvements	5,082,363	603,594	-	5,685,957
Machinery and Equipment	613,685	64,737	107,744	570,678
Total Accumulated Depreciation	6,055,385	723,365	107,744	6,671,006
Total Capital Assets being Depreciated, Net	23,360,063	(713,760)	2,663	22,643,640
Business-Type Activities Capital Assets, Net	\$ 25,852,831	\$ (110,514)	\$ 2,663	\$ 25,739,654

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

Governmental Activities:	
General Government	\$ 44,344
Public Safety	103,569
Cemetery	4,527
Public Works	302,368
Parks and Recreation	65,835
 Total Depreciation Expense - Governmental Activities	 \$ 520,643

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 4 – CAPITAL ASSETS

A. Primary Government (Continued)

Business-Type Activities:	
Airport	\$ 138,449
Sanitary Sewer	544,913
Municipal Liquor	<u>40,003</u>
Total Depreciation Expense - Business-Type Activities	<u><u>\$ 723,365</u></u>

B. EDA Component Unit

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets being Depreciated:				
Buildings and Systems	\$ 2,272,967	\$ 122,401	\$ -	\$ 2,395,368
Less Accumulated Depreciation for:				
Buildings and Systems	-	63,108	-	63,108
Total Capital Assets being Depreciated, Net	<u>\$ 2,272,967</u>	<u>\$ 59,293</u>	<u>\$ -</u>	<u>\$ 2,332,260</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	2,037,225	(9,472)	-	2,027,753
Infrastructure	24,943,204	536,759	115,733	25,364,230
Machinery and Equipment	2,716,306	113,689	142,523	2,687,472
Total Capital Assets being Depreciated	29,696,735	640,976	258,256	30,079,455
Less Accumulated Depreciation for:				
Buildings and Systems	814,692	73,086	-	887,778
Infrastructure	10,222,045	800,974	115,733	10,907,286
Machinery and Equipment	2,083,891	78,930	141,621	2,021,200
Total Accumulated Depreciation	13,120,628	952,990	257,354	13,816,264
Total Capital Assets being Depreciated, Net	16,576,107	(312,014)	902	16,263,191
Business-Type Activities Capital Assets, Net	<u>\$ 16,609,269</u>	<u>\$ (312,014)</u>	<u>\$ 902</u>	<u>\$ 16,296,353</u>

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 4 – CAPITAL ASSETS

C. PUC Component Unit (Continued)

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

Business-Type Activities:

Electric	\$ 610,802
Water	<u>342,188</u>

Total Depreciation Expense - Business-Type Activities	<u><u>\$ 952,990</u></u>
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NOTE 5 – NOTES/LOANS RECEIVABLE

Notes receivable issued in connection with Urban Development Action Grants (UDAG) at December 31, 2014 consisted of the following:

Bellamy:

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

Annual payments of \$ 395, including interest at 3%, through September 2024	3,654
--	-------

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
--	-------

Vrchota:

Annual payments of \$ 275, including interest at 3%, through September 2024	2,355
--	-------

Anderson:

Annual payments of \$ 262, including interest at 3%, through September 2024	2,049
--	-------

Annual payments of \$ 264, including interest at 3%, through September 2024	2,060
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CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 5 – NOTES/LOANS RECEIVABLE (continued)

Hy Tech:

Annual payments of \$ 2,099, including interest at 4.5%,
through September 2026

\$ 19,131

Total UDAG

\$ 50,985

In addition, the EDA loaned \$ 10,000 to It Starts Here due in annual payments of \$ 2,000 with a balloon payment due on the sixth anniversary. The interest rate is 2.5%.

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, 2013

\$ 1,782,967

Transfers

189,124

Balance - December 31, 2014

\$ 1,972,091

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, 2014 was \$ 138,151.

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, 2014 was \$ 304,985.

D. Restricted Cash Held in Escrow

Restricted cash held in escrow as of December 31, 2014 consisted of \$ 239,896 of cash proceeds from the Electric Revenue Note, Series 2006A.

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 7 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2014 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital Improvements	Other Governmental Funds	\$ 1,246,985
Municipal Liquor	Airport	<u>202,922</u>
Total		<u><u>\$ 1,449,907</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, 2014 to finance capital projects.

The City’s Capital Improvements Fund had a receivable from the EDA Component Unit of \$ 919,976 at December 31, 2014 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, 2014 was as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Description</u>	<u>Amount</u>
General Fund	Liquor	EDA Bond Debt Payments	\$ 37,139
Airport Fund	Liquor	Operations	15,600
Airport Fund	General Fund	Operations	20,000
Cemetery Operations	Cemetery Perpetual Care	Operations	1,020
Solheim Field Improvements	General Fund	Field Improvements	800
Solheim Field Improvements	Park Improvements	Field Improvements	800
Civic Center	General Fund	Operations	4,400
Community Beautification	Liquor	City Contribution for Beautification	2,500
Fire Equipment Reserve	General Fund	City Contribution for Fire Equipment	<u>57,474</u>
			<u><u>\$ 139,733</u></u>

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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 THE FINANCIAL STATEMENTS
December 31, 2014**

NOTE 8 – LONG-TERM DEBT

B. Components of Long-Term Liabilities

Primary Government

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>	<u>Due Within One Year</u>
Long-Term Liabilities:						
Governmental Activities:						
G.O. Bonds, Including						
Special Assessment Bonds:						
G.O. Improvement 2007A	08/23/07	4.00%-4.25%	\$ 234,000	02/01/23	\$ 158,000	\$ 15,000
G.O. Improvement						
Refunding 2009B	11/01/09	2.00%-3.50%	1,505,000	02/01/20	960,000	145,000
G.O. Improvement						
Refunding 2012B	06/21/12	0.35-2.75%	910,000	02/01/28	665,000	130,000
Compensated Absences					<u>292,757</u>	<u>144,000</u>
Total Governmental						
Activities					2,075,757	434,000
Business-Type Activities:						
G.O. Revenue Bonds:						
G.O. Sewer Revenue 2007B	09/01/07	3.75%-4.35%	1,755,000	02/21/28	1,420,000	75,000
G.O. Sewer Revenue						
Refunding 2009A	04/01/09	0.85%-2.70%	2,040,000	08/01/16	575,000	285,000
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	14,642,159	-
Compensated Absences					<u>50,500</u>	<u>21,545</u>
Total Business-Type						
Activities					18,052,659	381,545
Total all Long-Term						
Liabilities					<u>\$ 20,128,416</u>	<u>\$ 815,545</u>

EDA Component Unit

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>	<u>Due Within One Year</u>
Long-Term Liabilities:						
Governmental Activities:						
G.O. Bonds:						
Lease Revenue 2013C	06/10/04	2.53%	\$ 847,422	08/20/23	\$ 2,240,000	\$ 90,000
Bond Premium					<u>18,778</u>	<u>-</u>
Total all Long-Term						
Liabilities					<u>\$ 2,258,778</u>	<u>\$ 90,000</u>

CITY OF PRINCETON

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014**

NOTE 8 – LONG-TERM DEBT

B. Components of Long-Term Liabilities (Continued)

PUC Component Unit

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>	<u>Due Within One Year</u>
Long-Term Liabilities:						
Business-Type Activities:						
G.O. Revenue Bonds:						
MNPFA G.O. Revenue Note	06/10/04	2.53%	\$ 847,422	08/20/23	\$ 463,000	\$ 46,000
MNPFA G.O. Revenue Bond	09/08/99	3.29%	670,000	08/20/19	217,000	41,000
Electric Revenue Note, Series 2006A	04/02/06	4.05%	3,065,000	12/01/25	2,060,000	145,000
G.O. Water Revenue Bond Series 2008A	03/04/08	2.20%-4.05%	4,880,000	12/01/27	3,405,000	250,000
Public Utility System Refunding Revenue Bonds, Series 2010A	11/18/10	2.0%-3.50%	3,040,000	04/01/22	1,840,000	250,000
Public Utility System Refunding Revenue Bonds, Series 2012A	02/01/12	1.0%-2.85%	2,450,000	04/01/24	<u>2,065,000</u>	<u>205,000</u>
Total all Long-Term Liabilities					<u>\$ 10,050,000</u>	<u>\$ 937,000</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, 2014 are listed below and on the following page.

Primary Government

Year Ending December 31,	Governmental Activities		Business-Type Activities		Total
	G.O. Special Assessment Bonds		G.O. Revenue Bonds		
	Principal	Interest	Principal	Interest	
2015	\$ 290,000	\$ 40,400	\$ 360,000	\$ 97,933	\$ 788,333
2016	255,000	35,206	1,907,000	339,277	2,536,483
2017	261,000	29,372	379,000	300,136	969,508
2018	267,000	22,994	387,000	293,200	970,194
2019	277,000	16,028	390,000	286,652	969,680
2020-2024	433,000	12,876	2,070,000	1,324,290	3,840,166
2025-2029	-	-	2,159,000	1,112,720	3,271,720
2030-2034	-	-	1,831,000	923,268	2,754,268
2035-2039	-	-	2,006,000	745,178	2,751,178
2040-2044	-	-	2,200,000	549,698	2,749,698
2045-2049	-	-	2,417,000	333,767	2,750,767
2050-2053	-	-	1,896,159	99,777	1,995,936
Total	<u>\$ 1,783,000</u>	<u>\$ 156,876</u>	<u>\$ 18,002,159</u>	<u>\$ 6,405,896</u>	<u>\$ 26,347,931</u>

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 8 – LONG-TERM DEBT

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>	
2015	\$ 90,000	\$ 73,783	\$ 163,783
2016	90,000	72,792	162,792
2017	95,000	71,775	166,775
2018	95,000	70,445	165,445
2019	95,000	68,830	163,830
2018-2024	510,000	299,157	809,157
2025-2029	585,000	198,976	783,976
2030-2034	680,000	70,878	750,878
Total	<u>\$ 2,240,000</u>	<u>\$ 926,636</u>	<u>\$ 3,166,636</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>	
2015	\$ 937,000	\$ 315,810	\$ 1,252,810
2016	960,000	291,234	1,251,234
2017	997,000	263,732	1,260,732
2018	980,000	234,438	1,214,438
2019	942,000	205,181	1,147,181
2020-2024	4,529,000	564,109	5,093,109
2025-2027	705,000	44,346	749,346
Total	<u>\$ 10,050,000</u>	<u>\$ 1,918,850</u>	<u>\$ 11,968,850</u>

CITY OF PRINCETON

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014**

NOTE 8 – LONG-TERM DEBT

C. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2014 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds Payable:					
G.O. Special Assessment Bonds	\$ 2,072,000	\$ -	\$ 289,000	\$ 1,783,000	\$ 290,000
Compensated Absences	314,024	132,186	153,453	292,757	144,000
Total Governmental Activities	<u>2,386,024</u>	<u>132,186</u>	<u>442,453</u>	<u>2,075,757</u>	<u>434,000</u>
Business-Type Activities:					
Bonds Payable:					
G.O. Sewer Revenue Bonds	18,419,948	288,720	706,509	18,002,159	360,000
Compensated Absences	36,915	17,421	3,836	50,500	21,545
Total Business-Type Activities	<u>18,456,863</u>	<u>306,141</u>	<u>710,345</u>	<u>18,052,659</u>	<u>381,545</u>
Total Long-Term Liabilities	<u>\$ 20,842,887</u>	<u>\$ 438,327</u>	<u>\$ 1,152,798</u>	<u>\$ 20,128,416</u>	<u>\$ 815,545</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	\$ -	\$ -	\$ 2,240,000	\$ 90,000
Bond Premium	19,821	-	1,043	18,778	-
Total Long-Term Liabilities	<u>\$ 11,817,212</u>	<u>\$ -</u>	<u>\$ 1,043</u>	<u>\$ 2,258,778</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	<u>\$ 11,009,000</u>	<u>\$ -</u>	<u>\$ 959,000</u>	<u>\$ 10,050,000</u>	<u>\$ 937,000</u>

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 8 – LONG-TERM DEBT

D. Conduit Debt Obligations

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

As of December 31, 2014, there were several issues outstanding. The bonds are not reported as liabilities in the accompanying financial statements. The outstanding balance at December 31, 2014 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 2014, the City made rental payments totaling \$ 37,139 to the EDA Component Unit and contributed \$ 176,173 for future debt service payments. The payment schedule called for principal and interest payments of \$ 125,468 in 2014 in addition to 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>	
2015	\$ 90,000	\$ 73,783	\$ 163,783
2016	90,000	72,792	162,792
2017	95,000	71,775	166,775
2018	95,000	70,445	165,445
2019	95,000	68,830	163,830
2018-2024	510,000	299,157	809,157
2025-2029	585,000	198,976	783,976
2030-2034	680,000	70,878	750,878
Total	<u>\$ 2,240,000</u>	<u>\$ 926,636</u>	<u>\$ 3,166,636</u>

CITY OF PRINCETON
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

NOTE 9 – RESERVED FUND BALANCES/NET POSITION

Reserved/Designated Fund Equity

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

	General	Capital Improvements	Other Governmental Funds	Total
Nonspendable:				
Prepaid Expenses	\$ 72,455	\$ -	\$ 1,005	\$ 73,460
Restricted:				
Debt Service	-	-	2,243,916	2,243,916
Tax Increments	-	-	51,672	51,672
Urban Development Loans	-	-	133,747	133,747
Park Improvement	-	-	41,500	41,500
Property Confiscation	-	-	69,327	69,327
Community Projects	-	-	392	392
Total Restricted	-	-	2,540,554	2,540,554
Assigned:				
Capital Improvements	-	3,455,848	-	3,455,848
Insurance Deductible	87,161	-	-	87,161
Cemetery Operation and Maintenance	-	-	15,976	15,976
Public Safety	-	-	8,671	8,671
Investigations	-	-	2,011	2,011
Felony Investigations	-	-	13,210	13,210
Solheim Field Improvements	-	-	9,875	9,875
Civic Center	-	-	45,252	45,252
Community Beautification	-	-	20,560	20,560
Fire Equipment	-	-	237,563	237,563
Disaster Relocation	-	-	131,831	131,831
Arts Grant	-	-	243	243
Cemetery Perpetual Care	-	-	159,718	159,718
Arcadian Home Utilities	-	-	12,198	12,198
Total Assigned	87,161	3,455,848	657,108	4,200,117
Unassigned	2,314,054	-	(1,370,414)	943,640
Total	\$ 2,473,670	\$ 3,455,848	\$ 1,828,253	\$ 7,757,771

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 THE FINANCIAL STATEMENTS

December 31, 2014

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 2014 is estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2014, 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

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

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

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

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 11 – PENSION PLANS

Public Employees' Retirement Association (Continued)

A. Plan Description (Continued)

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

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

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active Plan participants.

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

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 11 – PENSION PLANS

Public Employees' Retirement Association (Continued)

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These Statutes are established and amended by the State Legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2014. PEPFF members were required to contribute 10.2% of their annual covered salary in 2014. In 2014, the City was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.25% for Coordinated Plan members and 15.3% for PEPFF members. The City's contributions to the Public Employees' Retirement Fund for the years ending December 31, 2014, 2013 and 2012 were \$ 68,504, \$ 70,923 and \$ 53,371, respectively. The City's contributions to PEPFF for the years ending December 31, 2014, 2013 and 2012 were \$ 95,402, \$ 87,961 and \$ 83,719, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute. Contribution rates will increase on January 1, 2015 in the Coordinated Plan (6.5% for members and 7.5% for employers) and the PEPFF (10.8% for members and 16.2% for employers).

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.

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.

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 2nd Street North, Princeton, Minnesota 55371.

B. Funding Policy

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 \$ 60,047 made by the State of Minnesota for the Relief Association.

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 11 – PENSION PLANS

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

B. Funding Policy

Additional information regarding statutory assumptions and valuation methods are outlined below:

SC Form Valuation Date July 23, 2014

Statutory Assumptions:

Administration Expense Increase	3.5%
Investment Rate of Return	5.0%
2014 State Aid Contribution	100.0%
Amortization of Pension Benefit Surplus (Deficit)	10.0%

C. Three Year Trend Information

Year Ended December 31,	Actual Contribution			Required Contribution	Percentage Contributed
	City	State	Total		
2014	\$ 18,575	\$ 60,047	\$ 78,622	\$ 60,047	131%
2013	18,035	60,123	78,158	70,820	110%
2012	17,510	41,631	59,141	58,492	101%
2011	17,000	41,436	58,436	58,134	101%

D. Required Supplementary Information

Statutory Value of Assets Date	Statutory Value of Assets	Statutory Accrued Liability (SAL)	Unfunded (Funded) SAL	Funded Ratio
12/31/14	\$ 1,410,403	\$ 1,196,026	\$ (214,377)	118%
12/31/13	1,293,432	1,100,448	(192,984)	118%
12/31/12	1,129,815	1,097,890	(31,925)	103%
12/31/11	1,076,982	1,125,069	48,087	96%

The Association is comprised of volunteers; therefore, there are no payroll expenditures (i.e., there are no covered payroll percentage calculations).

CITY OF PRINCETON
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

NOTE 12 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

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

B. Funding Policy

Retirees and their spouses contribute to the health care plan at the same rate as City employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the City, based on the contract terms with BlueCross BlueShield and Delta Dental. The required contributions are based on projected pay-as-you-go financing requirements. For 2014, the City contributed \$ 17,092 to the plan. As of December 31, 2012, there were two retirees receiving health and dental benefits from the City.

C. Annual OPEB Cost and Net OPEB Obligation

The City’s annual 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	\$ 30,593
Interest on Net OPEB obligation	3,327
Adjustment to ARC	(4,810)
Annual OPEB Cost (Expense)	<u>29,110</u>
Contributions Made	<u>(17,092)</u>
Increase in Net OPEB Obligation	12,018
Net OPEB Obligation - Beginning of Year	<u>83,167</u>
Net OPEB Obligation - End of Year	<u><u>\$ 95,185</u></u>

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 12 – POST EMPLOYMENT HEALTH CARE PLAN

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

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:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/14	\$ 29,110	\$ 17,092	59%	\$ 95,185
12/31/13	28,811	15,826	55%	83,167
12/31/12	28,479	14,654	51%	70,182

D. Funded Status and Funding Progress

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

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

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

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.

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

NOTE 12 – POST EMPLOYMENT HEALTH CARE PLAN

E. Actuarial Methods and Assumptions (Continued)

At the December 31, 2012 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% discount rate, which includes a 3% 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 8% initially, reduced incrementally to an ultimate rate of 5% after 6 years. The UAAL is being amortized as a level dollar amount on an open basis. The remaining amortization period at December 31, 2012 was 30 years.

NOTE 13 – COMMITMENTS

As of December 31, 2014, the City has entered into the following construction contracts:

Project	Contract	Expended Through 12/31/14	Commitment
Streambank Stabilization	\$ 329,490	\$ 311,840	\$ 17,650

NOTE 14 – NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED

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

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, an amendment of GASB Statement No. 68, requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning new pension liability. The provisions of this Statement should be applied simultaneously with the provisions of Statement 68 which is effective for periods beginning after June 15, 2014.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PRINCETON

**SCHEDULE OF FUNDING PROGRESS – OTHER POST EMPLOYMENT BENEFITS
December 31, 2014**

<u>Year-End Date</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Estimated Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/10	12/31/09	\$ -	\$ 224,329	\$ 224,329	0%	\$ 1,613,894	13.9%
12/31/11	12/31/09	-	224,329	224,329	0%	1,613,894	13.9%
12/31/12	12/31/12	-	230,405	230,405	0%	1,618,649	14.2%
12/31/13	12/31/12	-	230,405	230,405	0%	1,618,649	14.2%
12/31/14	12/31/12	-	230,405	230,405	0%	1,618,649	14.2%

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

SUPPLEMENTARY INFORMATION

CITY OF PRINCETON
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2014

	Special Revenue		
	Cemetery Operation and Maintenance (205)	Property Confiscation (210)	Public Safety and Awareness (211)
ASSETS			
Cash and Investments	\$ 15,521	\$ 69,327	\$ 8,671
Taxes Receivable - Delinquent	-	-	-
Special Assessment Receivable:			
Delinquent	-	-	-
Deferred	-	-	-
Accounts Receivable	500	-	1,000
Interest Receivable	-	-	-
Due from Other Governments	-	-	-
Notes Receivable	-	-	-
Land Held for Resale	-	-	-
Prepaid Expenses	745	-	-
Advance to Other Funds	-	-	-
	<u>16,766</u>	<u>69,327</u>	<u>9,671</u>
Total Assets	<u>\$ 16,766</u>	<u>\$ 69,327</u>	<u>\$ 9,671</u>
LIABILITIES			
Accounts and Contracts Payable	\$ 45	\$ -	\$ 1,000
Due to Other Funds	-	-	-
Due to Other Governments	-	-	-
Unearned Revenue	-	-	-
Advance from Other Funds	-	-	-
Total Liabilities	<u>45</u>	<u>-</u>	<u>1,000</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Long-Term Assets	-	-	-
Unavailable Revenue - Property Taxes	-	-	-
Unavailable Revenue - Special Assessments	-	-	-
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Nonspendable	745	-	-
Restricted	-	69,327	-
Assigned	15,976	-	8,671
Unassigned	-	-	-
Total Fund Balances	<u>16,721</u>	<u>69,327</u>	<u>8,671</u>
	<u>\$ 16,766</u>	<u>\$ 69,327</u>	<u>\$ 9,671</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 16,766</u>	<u>\$ 69,327</u>	<u>\$ 9,671</u>

CITY OF PRINCETON
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2014

	Special Revenue		
	Development Grants (252)	Development Expenses (253)	Fire Equipment Reserve (260)
ASSETS			
Cash and Investments	\$ -	\$ -	\$ 216,237
Taxes Receivable - Delinquent	-	-	-
Special Assessment Receivable:			
Delinquent	-	-	-
Deferred	-	-	-
Accounts Receivable	-	2,309	21,700
Interest Receivable	-	-	125
Due from Other Governments	-	-	-
Notes Receivable	-	-	-
Land Held for Resale	-	-	-
Prepaid Expenses	-	-	-
Advance to Other Funds	-	-	-
	\$ -	\$ 2,309	\$ 238,062
Total Assets	\$ -	\$ 2,309	\$ 238,062
LIABILITIES			
Accounts and Contracts Payable	\$ -	\$ 18,096	\$ 499
Due to Other Funds	70,535	206,010	-
Due to Other Governments	-	-	-
Unearned Revenue	-	2,000	-
Advance from Other Funds	-	-	-
	70,535	226,106	499
Total Liabilities	70,535	226,106	499
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Long-Term Assets	-	-	-
Unavailable Revenue - Property Taxes	-	-	-
Unavailable Revenue - Special Assessments	-	-	-
	-	-	-
Total Deferred Inflows of Resources	-	-	-
FUND BALANCES			
Nonspendable	-	-	-
Restricted	-	-	-
Assigned	-	-	237,563
Unassigned	(70,535)	(223,797)	-
	(70,535)	(223,797)	237,563
Total Fund Balances	(70,535)	(223,797)	237,563
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ -	\$ 2,309	\$ 238,062

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)
\$ -	\$ 112,176	\$ 18,299	\$ -	\$ -	\$ 243
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	20,626	-	-	-	-
-	-	-	-	-	-
-	-	-	-	1	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ -</u>	<u>\$ 132,802</u>	<u>\$ 18,299</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 243</u>
\$ -	\$ 971	\$ 28,699	\$ -	\$ -	\$ -
71,334	-	-	146,949	67,122	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>71,334</u>	<u>971</u>	<u>28,699</u>	<u>146,949</u>	<u>67,122</u>	<u>-</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	131,831	-	-	-	243
(71,334)	-	(10,400)	(146,949)	(67,121)	-
<u>(71,334)</u>	<u>131,831</u>	<u>(10,400)</u>	<u>(146,949)</u>	<u>(67,121)</u>	<u>243</u>
<u>\$ -</u>	<u>\$ 132,802</u>	<u>\$ 18,299</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 243</u>

CITY OF PRINCETON

**COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2014**

	Special Revenue		
	Water Availability (701)	Park Improvements (802)	Cemetery Perpetual Care (803)
ASSETS			
Cash and Investments	\$ -	\$ 41,170	\$ 159,138
Taxes Receivable - Delinquent	-	-	-
Special Assessment Receivable:			
Delinquent	-	-	-
Deferred	-	-	-
Accounts Receivable	-	330	-
Interest Receivable	-	-	580
Due from Other Governments	-	-	-
Notes Receivable	-	-	-
Land Held for Resale	-	-	-
Prepaid Expenses	-	-	-
Advance to Other Funds	-	-	-
	-	-	-
Total Assets	<u>\$ -</u>	<u>\$ 41,500</u>	<u>\$ 159,718</u>
LIABILITIES			
Accounts and Contracts Payable	\$ -	\$ -	\$ -
Due to Other Funds	1,054	-	-
Due to Other Governments	13,196	-	-
Unearned Revenue	-	-	-
Advance from Other Funds	-	-	-
Total Liabilities	<u>14,250</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Long-Term Assets	-	-	-
Unavailable Revenue - Property Taxes	-	-	-
Unavailable Revenue - Special Assessments	-	-	-
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Nonspendable	-	-	-
Restricted	-	41,500	-
Assigned	-	-	159,718
Unassigned	(14,250)	-	-
Total Fund Balances	<u>(14,250)</u>	<u>41,500</u>	<u>159,718</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ -</u>	<u>\$ 41,500</u>	<u>\$ 159,718</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)
\$ 52,383	\$ 59,062	\$ 861,841	\$ 19,724	\$ 4	\$ 281,675
-	-	-	-	-	26
-	-	-	-	-	-
-	-	-	-	-	-
-	-	25,839	-	-	-
3,101	70	3,876	-	-	-
-	-	20,626	-	-	-
31,854	19,131	50,985	-	-	-
-	-	1	-	-	-
-	-	1,005	-	-	-
-	-	-	-	-	-
<u>\$ 87,338</u>	<u>\$ 78,263</u>	<u>\$ 964,173</u>	<u>\$ 19,724</u>	<u>\$ 4</u>	<u>\$ 281,701</u>
\$ -	\$ -	\$ 67,624	\$ -	\$ -	\$ -
-	-	563,004	-	-	-
-	-	13,196	-	-	-
-	-	2,000	-	-	-
-	-	-	-	-	-
-	-	645,824	-	-	-
31,854	-	31,854	-	-	-
-	-	-	-	-	26
-	-	-	-	-	-
<u>31,854</u>	<u>-</u>	<u>31,854</u>	<u>-</u>	<u>-</u>	<u>26</u>
-	-	1,005	-	-	-
55,484	78,263	244,966	19,724	4	281,675
-	-	644,910	-	-	-
-	-	(604,386)	-	-	-
<u>55,484</u>	<u>78,263</u>	<u>286,495</u>	<u>19,724</u>	<u>4</u>	<u>281,675</u>
<u>\$ 87,338</u>	<u>\$ 78,263</u>	<u>\$ 964,173</u>	<u>\$ 19,724</u>	<u>\$ 4</u>	<u>\$ 281,701</u>

CITY OF PRINCETON
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2014

	Debt Services		
	2002/2003 1st Street Improvements (502)	Western Area Improvements (503)	2nd and 7th Improvements (504)
ASSETS			
Cash and Investments	\$ 174,390	\$ 59,255	\$ 211,846
Taxes Receivable - Delinquent	71	5,892	85
Special Assessment Receivable:			
Delinquent	1,469	1,143	605
Deferred	16,945	263,980	-
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>\$ 192,875</u>	<u>\$ 330,270</u>	<u>\$ 212,536</u>
LIABILITIES			
Accounts and Contracts Payable	\$ -	\$ -	\$ -
Due to Other Funds	-	-	-
Due to Other Governments	-	13,272	-
Unearned Revenue	-	-	-
Advance from Other Funds	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>-</u>	<u>13,272</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Long-Term Assets	-	-	-
Unavailable Revenue - Property Taxes	71	5,892	85
Unavailable Revenue - Special Assessments	14,110	265,123	605
	<u> </u>	<u> </u>	<u> </u>
Total Deferred Inflows of Resources	<u>14,181</u>	<u>271,015</u>	<u>690</u>
FUND BALANCES			
Nonspendable	-	-	-
Restricted	178,694	45,983	211,846
Assigned	-	-	-
Unassigned	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>178,694</u>	<u>45,983</u>	<u>211,846</u>
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 192,875</u>	<u>\$ 330,270</u>	<u>\$ 212,536</u>

Debt Services

2005 21st Avenue Improvements (506)	2007 PUC Area Improvements (507)	G.O. Refunding Bonds, 2012B (512)	2000 Street and Utilities Improvements (530)	Revolving Account Fund (552)	1992 Street and Utilities (592)
\$ 642,852	\$ 115,715	\$ -	\$ 62,775	\$ 215,774	\$ 342,658
1,873	163	-	-	-	32
-	655	-	-	-	-
279,834	103,961	-	3,052	25,608	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	70,150	-
<u>\$ 924,559</u>	<u>\$ 220,494</u>	<u>\$ -</u>	<u>\$ 65,827</u>	<u>\$ 311,532</u>	<u>\$ 342,690</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	261,831	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	261,831	-	-	-
-	-	-	-	-	-
1,873	163	-	-	-	32
279,834	104,616	-	3,052	25,608	-
<u>281,707</u>	<u>104,779</u>	<u>-</u>	<u>3,052</u>	<u>25,608</u>	<u>32</u>
-	-	-	-	-	-
642,852	115,715	-	62,775	285,924	342,658
-	-	-	-	-	-
-	-	(261,831)	-	-	-
<u>642,852</u>	<u>115,715</u>	<u>(261,831)</u>	<u>62,775</u>	<u>285,924</u>	<u>342,658</u>
<u>\$ 924,559</u>	<u>\$ 220,494</u>	<u>\$ -</u>	<u>\$ 65,827</u>	<u>\$ 311,532</u>	<u>\$ 342,690</u>

CITY OF PRINCETON
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2014

	Debt Services		
	1993 Street and Utilities (593)	1999 Street and Utilities Improvements (599)	Total
ASSETS			
Cash and Investments	\$ 56,066	\$ -	\$ 2,182,734
Taxes Receivable - Delinquent	-	14	8,156
Special Assessment Receivable:			
Delinquent	-	-	3,872
Deferred	-	-	693,380
Accounts Receivable	-	-	-
Interest Receivable	-	-	-
Due from Other Governments	-	-	-
Notes Receivable	-	-	-
Land Held for Resale	-	-	-
Prepaid Expenses	-	-	-
Advance to Other Funds	-	-	70,150
	<u>\$ 56,066</u>	<u>\$ 14</u>	<u>\$ 2,958,292</u>
LIABILITIES			
Accounts and Contracts Payable	\$ -	\$ -	\$ -
Due to Other Funds	-	79,905	341,736
Due to Other Governments	-	-	13,272
Unearned Revenue	-	-	-
Advance from Other Funds	-	-	-
Total Liabilities	<u>-</u>	<u>79,905</u>	<u>355,008</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Long-Term Assets	-	-	-
Unavailable Revenue - Property Taxes	-	14	8,156
Unavailable Revenue - Special Assessments	-	-	692,948
Total Deferred Inflows of Resources	<u>-</u>	<u>14</u>	<u>701,104</u>
FUND BALANCES			
Nonspendable	-	-	-
Restricted	56,066	-	2,243,916
Assigned	-	-	-
Unassigned	-	(79,905)	(341,736)
Total Fund Balances	<u>56,066</u>	<u>(79,905)</u>	<u>1,902,180</u>
	<u>\$ 56,066</u>	<u>\$ 14</u>	<u>\$ 2,958,292</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 56,066</u>	<u>\$ 14</u>	<u>\$ 2,958,292</u>

CITY OF PRINCETON
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2014

	Capital Projects		
	Rum River Redevelopment District (389)	Railroad Property Redevelopment (390)	District No. 3-5 Redevelopment District (391)
ASSETS			
Cash and Investments	\$ 16,247	\$ 120,197	\$ 7,059
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>16,247</u>	<u>120,197</u>	<u>7,059</u>
Total Assets	<u>\$ 16,247</u>	<u>\$ 120,197</u>	<u>\$ 7,059</u>
LIABILITIES			
Accounts and Contracts Payable	\$ -	\$ -	\$ -
Due to Other Funds	-	-	-
Due to Other Governments	-	120,197	-
Unearned Revenue	-	-	-
Advance from Other Funds	-	-	-
	<u>-</u>	<u>120,197</u>	<u>-</u>
Total Liabilities	<u>-</u>	<u>120,197</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES			
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>
FUND BALANCES			
Nonspendable	-	-	-
Restricted	16,247	-	7,059
Assigned	-	-	-
Unassigned	-	-	-
	<u>16,247</u>	<u>-</u>	<u>7,059</u>
Total Fund Balances	<u>16,247</u>	<u>-</u>	<u>7,059</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 16,247</u>	<u>\$ 120,197</u>	<u>\$ 7,059</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
\$ 25,693 993	\$ 12,721 -	\$ 2,673 -	\$ - -	\$ 199,162 993	\$ 3,243,737 9,149
-	-	-	-	-	3,872
-	-	-	-	-	693,380
-	-	-	-	-	25,839
-	-	-	-	-	3,876
-	-	-	-	-	20,626
-	-	-	-	-	50,985
-	-	-	-	-	1
-	-	-	-	-	1,005
-	-	-	-	-	70,150
<u>\$ 26,686</u>	<u>\$ 12,721</u>	<u>\$ 2,673</u>	<u>\$ -</u>	<u>\$ 200,155</u>	<u>\$ 4,122,620</u>
\$ -	\$ -	\$ -	\$ -	\$ 14,271	\$ 81,895
-	-	-	3,738	342,245	1,246,985
-	12,721	-	-	132,918	159,386
-	-	-	-	-	2,000
-	-	-	-	70,150	70,150
-	12,721	-	3,738	559,584	1,560,416
-	-	-	-	-	31,854
993	-	-	-	993	9,149
-	-	-	-	-	692,948
993	-	-	-	993	733,951
-	-	-	-	-	1,005
25,693	-	2,673	-	51,672	2,540,554
-	-	-	-	12,198	657,108
-	-	-	(3,738)	(424,292)	(1,370,414)
25,693	-	2,673	(3,738)	(360,422)	1,828,253
<u>\$ 26,686</u>	<u>\$ 12,721</u>	<u>\$ 2,673</u>	<u>\$ -</u>	<u>\$ 200,155</u>	<u>\$ 4,122,620</u>

CITY OF PRINCETON

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014**

	Special Revenue		
	Cemetery Operation and Maintenance (205)	Property Confiscation (210)	Public Safety and Awareness (211)
REVENUES			
Property Taxes	\$ -	\$ -	\$ -
Tax Increments	-	-	-
Special Assessments	-	-	-
Intergovernmental	-	-	-
Charges for Services	23,374	11,268	-
Miscellaneous:			
Investment Income	184	1,152	97
Contributions and Donations	-	-	-
Other	1,435	-	2,300
Total Revenues	<u>24,993</u>	<u>12,420</u>	<u>2,397</u>
EXPENDITURES			
Current			
General Government	-	-	-
Public Safety	-	34,759	2,071
Cemetery	25,312	-	-
Public Works	-	-	-
Parks and Recreation	-	-	-
Economic Development	-	-	-
Debt Service			
Principal	-	-	-
Interest and Other Charges	-	-	-
Capital Outlay			
Parks and Recreation	-	-	-
Economic Development	-	-	-
Total Expenditures	<u>25,312</u>	<u>34,759</u>	<u>2,071</u>
Excess of Revenues Over (Under) Expenditures	(319)	(22,339)	326
OTHER FINANCING SOURCES (USES)			
Proceeds from Sale of Capital Asset	-	-	-
Transfers In	1,020	-	-
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	<u>1,020</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	701	(22,339)	326
FUND BALANCES			
Beginning of Year	<u>16,020</u>	<u>91,666</u>	<u>8,345</u>
End of Year	<u>\$ 16,721</u>	<u>\$ 69,327</u>	<u>\$ 8,671</u>

Special Revenue

Investigation Information Buy Fund (212)	Felony Investigation (214)	Solheim Field Improvements (216)	Civic Center (240)	Community Beautification (242)	Community Projects (250)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	155	105	795	230	-
-	-	-	101,515	-	-
-	-	-	-	1,086	1,200
<u>-</u>	<u>155</u>	<u>105</u>	<u>102,310</u>	<u>1,316</u>	<u>1,200</u>
-	-	-	-	-	-
300	-	-	-	-	-
-	-	-	-	-	-
-	-	1,175	10,531	4,152	1,514
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	81,921	-	-
-	-	-	-	-	-
<u>300</u>	<u>-</u>	<u>1,175</u>	<u>92,452</u>	<u>4,152</u>	<u>1,514</u>
-	-	-	-	-	-
(300)	155	(1,070)	9,858	(2,836)	(314)
-	-	-	-	-	-
-	-	1,600	4,400	2,500	-
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>1,600</u>	<u>4,400</u>	<u>2,500</u>	<u>-</u>
(300)	155	530	14,258	(336)	(314)
<u>2,311</u>	<u>13,055</u>	<u>9,345</u>	<u>31,254</u>	<u>20,896</u>	<u>706</u>
<u>\$ 2,011</u>	<u>\$ 13,210</u>	<u>\$ 9,875</u>	<u>\$ 45,512</u>	<u>\$ 20,560</u>	<u>\$ 392</u>

CITY OF PRINCETON

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014**

	Special Revenue		
	Development Grants (252)	Development Expenses (253)	Fire Equipment Reserve (260)
REVENUES			
Property Taxes	\$ -	\$ -	\$ -
Tax Increments	-	-	-
Special Assessments	-	-	-
Intergovernmental	-	-	-
Charges for Services	-	-	4,500
Miscellaneous:			
Investment Income	-	-	3,176
Contributions and Donations	-	-	-
Other	-	729	6,360
Total Revenues	-	729	14,036
EXPENDITURES			
Current			
General Government	-	-	-
Public Safety	-	-	146,842
Cemetery	-	-	-
Public Works	-	-	-
Parks and Recreation	-	-	-
Economic Development	-	57,749	-
Debt Service			
Principal	-	-	-
Interest and Other Charges	-	-	-
Capital Outlay			
Parks and Recreation	-	-	-
Economic Development	-	-	-
Total Expenditures	-	57,749	146,842
Excess of Revenues Over (Under) Expenditures	-	(57,020)	(132,806)
OTHER FINANCING SOURCES (USES)			
Proceeds from Sale of Capital Asset	-	-	690
Transfers In	-	-	57,474
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	-	-	58,164
Net Change in Fund Balances	-	(57,020)	(74,642)
FUND BALANCES			
Beginning of Year	(70,535)	(166,777)	312,205
End of Year	\$ (70,535)	\$ (223,797)	\$ 237,563

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)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	52,485	1,925	-	7,323	7,798
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>-</u>	<u>52,485</u>	<u>1,925</u>	<u>-</u>	<u>7,323</u>	<u>7,798</u>
-	-	-	-	-	-
13,073	37,994	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	7,555
-	8,923	18,024	-	51,227	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>13,073</u>	<u>46,917</u>	<u>18,024</u>	<u>-</u>	<u>51,227</u>	<u>7,555</u>
(13,073)	5,568	(16,099)	-	(43,904)	243
-	-	-	-	-	-
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(13,073)	5,568	(16,099)	-	(43,904)	243
<u>(58,261)</u>	<u>126,263</u>	<u>5,699</u>	<u>(146,949)</u>	<u>(23,217)</u>	<u>-</u>
<u>\$ (71,334)</u>	<u>\$ 131,831</u>	<u>\$ (10,400)</u>	<u>\$ (146,949)</u>	<u>\$ (67,121)</u>	<u>\$ 243</u>

CITY OF PRINCETON

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014**

	Special Revenue		
	Water Availability (701)	Park Improvements (802)	Cemetery Perpetual Care (803)
REVENUES			
Property Taxes	\$ -	\$ -	\$ -
Tax Increments	-	-	-
Special Assessments	-	-	-
Intergovernmental	-	-	-
Charges for Services	74,169	-	4,516
Miscellaneous:			
Investment Income	-	858	1,021
Contributions and Donations	-	-	-
Other	-	-	-
Total Revenues	74,169	858	5,537
EXPENDITURES			
Current			
General Government	-	-	-
Public Safety	-	-	-
Cemetery	-	-	-
Public Works	74,169	-	-
Parks and Recreation	-	7,087	-
Economic Development	-	-	-
Debt Service			
Principal	-	-	-
Interest and Other Charges	-	-	-
Capital Outlay			
Parks and Recreation	-	37,000	-
Economic Development	-	-	-
Total Expenditures	74,169	44,087	-
Excess of Revenues Over (Under) Expenditures	-	(43,229)	5,537
OTHER FINANCING SOURCES (USES)			
Proceeds from Sale of Capital Asset	-	-	-
Transfers In	-	-	-
Transfers Out	-	(800)	(1,020)
Total Other Financing Sources (Uses)	-	(800)	(1,020)
Net Change in Fund Balances	-	(44,029)	4,517
FUND BALANCES			
Beginning of Year	(14,250)	85,529	155,201
End of Year	\$ (14,250)	\$ 41,500	\$ 159,718

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)
\$ -	\$ -	\$ -	\$ -	\$ 2	\$ 16
-	-	-	-	-	-
-	-	-	-	-	-
590	-	70,121	-	-	-
-	-	117,827	-	-	-
1,574	1,570	10,917	232	-	3,313
-	-	101,515	-	-	-
-	-	13,110	1,710	-	-
<u>2,164</u>	<u>1,570</u>	<u>313,490</u>	<u>1,942</u>	<u>2</u>	<u>3,329</u>
-	-	-	-	-	-
-	-	235,039	-	-	-
-	-	25,312	-	-	-
-	-	74,169	-	-	-
-	-	32,014	-	-	-
-	-	135,923	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	118,921	-	-	-
-	-	-	-	-	-
-	-	<u>621,378</u>	-	-	-
2,164	1,570	(307,888)	1,942	2	3,329
-	-	690	-	-	-
-	-	66,994	-	-	-
-	-	(1,820)	-	-	-
-	-	<u>65,864</u>	-	-	-
2,164	1,570	(242,024)	1,942	2	3,329
<u>53,320</u>	<u>76,693</u>	<u>528,519</u>	<u>17,782</u>	<u>2</u>	<u>278,346</u>
<u>\$ 55,484</u>	<u>\$ 78,263</u>	<u>\$ 286,495</u>	<u>\$ 19,724</u>	<u>\$ 4</u>	<u>\$ 281,675</u>

CITY OF PRINCETON

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014**

	Debt Service		
	2002/2003 1st Street Improvements (502)	Western Area Improvements (503)	2nd and 7th Improvements (504)
REVENUES			
Property Taxes	\$ 34	\$ 91,172	\$ 43
Tax Increments	-	-	-
Special Assessments	21,490	81,835	34,007
Intergovernmental	-	-	-
Charges for Services	-	-	-
Miscellaneous:			
Investment Income	1,295	-	2,208
Contributions and Donations	-	-	-
Other	-	-	-
Total Revenues	22,819	173,007	36,258
EXPENDITURES			
Current			
General Government	-	-	-
Public Safety	-	-	-
Cemetery	-	-	-
Public Works	-	-	-
Parks and Recreation	-	-	-
Economic Development	-	28,341	-
Debt Service			
Principal	-	145,000	-
Interest and Other Charges	-	31,126	-
Capital Outlay			
Parks and Recreation	-	-	-
Economic Development	-	-	-
Total Expenditures	-	204,467	-
Excess of Revenues Over (Under) Expenditures	22,819	(31,460)	36,258
OTHER FINANCING SOURCES (USES)			
Proceeds from Sale of Capital Asset	-	-	-
Transfers In	-	-	-
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Net Change in Fund Balances	22,819	(31,460)	36,258
FUND BALANCES			
Beginning of Year	155,875	77,443	175,588
End of Year	\$ 178,694	\$ 45,983	\$ 211,846

Debt Service

2005 21st Avenue Improvements (506)	2007 PUC Area Improvements (507)	G.O. Refunding Bonds, 2012B (512)	2000 Street and Utilities Improvements (530)	Revolving Account Fund (552)	1992 Street and Utilities (592)
\$ 20,525	\$ 2,542	\$ -	\$ -	\$ -	\$ 20
-	-	-	-	-	-
70,074	13,014	-	3,233	30,139	1,583
-	-	-	-	-	-
-	-	-	-	-	-
6,848	1,245	-	711	2,266	4,030
-	-	-	-	-	-
-	-	-	-	-	-
<u>97,447</u>	<u>16,801</u>	<u>-</u>	<u>3,944</u>	<u>32,405</u>	<u>5,633</u>
-	-	-	-	203	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	14,000	130,000	-	-	-
-	6,976	7,487	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>-</u>	<u>20,976</u>	<u>137,487</u>	<u>-</u>	<u>203</u>	<u>-</u>
97,447	(4,175)	(137,487)	3,944	32,202	5,633
-	-	-	-	-	-
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
97,447	(4,175)	(137,487)	3,944	32,202	5,633
545,405	119,890	(124,344)	58,831	253,722	337,025
<u>\$ 642,852</u>	<u>\$ 115,715</u>	<u>\$ (261,831)</u>	<u>\$ 62,775</u>	<u>\$ 285,924</u>	<u>\$ 342,658</u>

CITY OF PRINCETON

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014**

	Debt Service		
	1993 Street and Utilities (593)	1999 Street and Utilities Improvements (599)	Total
REVENUES			
Property Taxes	\$ -	\$ 8	\$ 114,362
Tax Increments	-	-	-
Special Assessments	3,549	-	258,924
Intergovernmental	-	-	-
Charges for Services	-	-	-
Miscellaneous:			
Investment Income	632	-	22,780
Contributions and Donations	-	-	-
Other	-	-	1,710
Total Revenues	<u>4,181</u>	<u>8</u>	<u>397,776</u>
EXPENDITURES			
Current			
General Government	-	-	203
Public Safety	-	-	-
Cemetery	-	-	-
Public Works	-	-	-
Parks and Recreation	-	-	-
Economic Development	-	-	28,341
Debt Service			
Principal	-	-	289,000
Interest and Other Charges	-	-	45,589
Capital Outlay			
Parks and Recreation	-	-	-
Economic Development	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>363,133</u>
Excess of Revenues Over (Under) Expenditures	4,181	8	34,643
OTHER FINANCING SOURCES (USES)			
Proceeds from Sale of Capital Asset	-	-	-
Transfers In	-	-	-
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	4,181	8	34,643
FUND BALANCES			
Beginning of Year	<u>51,885</u>	<u>(79,913)</u>	<u>1,867,537</u>
End of Year	<u>\$ 56,066</u>	<u>\$ (79,905)</u>	<u>\$ 1,902,180</u>

Capital Projects

Heritage Village (305)	Northland/Old 18 Improvements (310)	MN Industrial Coatings Expansion District (314)	Arcadian Homes Utility Project (328)	District No. 3-7 Redevelopment District (329)	2000 Street and Utility Improvements (330)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	43,319	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	43,319	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	10,494	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	38,986	-
-	-	10,494	-	38,986	-
-	-	(10,494)	-	4,333	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	(10,494)	-	4,333	-
(284,747)	(53,760)	-	12,198	(5,741)	(70,145)
<u>\$ (284,747)</u>	<u>\$ (53,760)</u>	<u>\$ (10,494)</u>	<u>\$ 12,198</u>	<u>\$ (1,408)</u>	<u>\$ (70,145)</u>

CITY OF PRINCETON

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014**

	Capital Projects		
	Rum River Redevelopment District (389)	Railroad Property Redevelopment (390)	District No. 3-5 Redevelopment District (391)
REVENUES			
Property Taxes	\$ -	\$ -	\$ -
Tax Increments	18,701	16,882	8,498
Special Assessments	-	-	-
Intergovernmental	-	-	-
Charges for Services	-	-	-
Miscellaneous:			
Investment Income	-	-	-
Contributions and Donations	-	-	-
Other	-	-	-
Total Revenues	18,701	16,882	8,498
EXPENDITURES			
Current			
General Government	-	-	-
Public Safety	-	-	-
Cemetery	-	-	-
Public Works	-	-	-
Parks and Recreation	-	-	-
Economic Development	-	120,634	-
Debt Service			
Principal	-	-	-
Interest and Other Charges	-	-	-
Capital Outlay			
Parks and Recreation	-	-	-
Economic Development	18,701	-	8,498
Total Expenditures	18,701	120,634	8,498
Excess of Revenues Over (Under) Expenditures	-	(103,752)	-
OTHER FINANCING SOURCES (USES)			
Proceeds from Sale of Capital Asset	-	-	-
Transfers In	-	-	-
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Net Change in Fund Balances	-	(103,752)	-
FUND BALANCES			
Beginning of Year	16,247	103,752	7,059
End of Year	\$ 16,247	\$ -	\$ 7,059

Capital Projects

District No. 3-6 Redevelopment District (392)	1997 Housing District (397)	Armory Redevelopment District (398)	Industrial Park Development (821)	Total	Total Other Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 114,362
33,463	10,000	9,345	-	140,208	140,208
-	-	-	-	-	258,924
-	-	-	-	-	70,121
-	-	-	-	-	117,827
-	-	-	-	-	33,697
-	-	-	-	-	101,515
-	-	-	-	-	14,820
<u>33,463</u>	<u>10,000</u>	<u>9,345</u>	<u>-</u>	<u>140,208</u>	<u>851,474</u>
-	-	-	-	-	203
-	-	-	-	-	235,039
-	-	-	-	-	25,312
-	-	-	-	-	74,169
-	-	-	-	-	32,014
-	13,159	-	-	144,287	308,551
-	-	-	-	-	289,000
-	-	-	-	-	45,589
-	-	-	-	-	118,921
<u>33,463</u>	<u>-</u>	<u>9,344</u>	<u>-</u>	<u>108,992</u>	<u>108,992</u>
<u>33,463</u>	<u>13,159</u>	<u>9,344</u>	<u>-</u>	<u>253,279</u>	<u>1,237,790</u>
-	(3,159)	1	-	(113,071)	(386,316)
-	-	-	-	-	690
-	-	-	-	-	66,994
-	-	-	-	-	(1,820)
-	-	-	-	-	65,864
-	(3,159)	1	-	(113,071)	(320,452)
<u>25,693</u>	<u>3,159</u>	<u>2,672</u>	<u>(3,738)</u>	<u>(247,351)</u>	<u>2,148,705</u>
<u>\$ 25,693</u>	<u>\$ -</u>	<u>\$ 2,673</u>	<u>\$ (3,738)</u>	<u>\$ (360,422)</u>	<u>\$ 1,828,253</u>

CITY OF PRINCETON

**BALANCE SHEET - ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT
December 31, 2014**

	Economic Development Authority (600)	EDA Public Safety Building (313)	Total
ASSETS			
Investments with Fiscal Agent	\$ 169,674	\$ -	\$ 169,674
Taxes Receivable - Delinquent	1,172	-	1,172
Notes Receivable	10,000	-	10,000
Land Held for Resale	440,000	-	440,000
Prepaid Expenses	50	-	50
	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$ 620,896</u>	<u>\$ -</u>	<u>\$ 620,896</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts and Contracts Payable	\$ 174	\$ -	\$ 174
Due to Other Governments	875,437	44,539	919,976
Salaries and Benefits Payable	1,112	-	1,112
Interest Payable	1,651	-	1,651
Total Liabilities	<hr/>	<hr/>	<hr/>
	878,374	44,539	922,913
Deferred Inflows of Resources			
Unavailable Revenue - Property Taxes	<hr/>	<hr/>	<hr/>
	1,172	-	1,172
Fund Balances			
Unassigned	<hr/>	<hr/>	<hr/>
	(258,650)	(44,539)	(303,189)
	<hr/>	<hr/>	<hr/>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 620,896</u>	<u>\$ -</u>	<u>\$ 620,896</u>
Total Fund Balance - Economic Development Authority Component Unit			\$ (303,189)
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Capital assets used in governmental activities are not current financial and, therefore, are not reported as assets in governmental funds.			
Cost of Capital Assets			2,395,368
Less Accumulated Depreciation			(63,108)
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			(2,240,000)
Bond Premium			(18,778)
Governmental funds do not report a liability for accrued interest due and payable.			
			(34,044)
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			<hr/>
			1,172
Total Net Position - Economic Development Authority Component Unit			<u>\$ (262,579)</u>

CITY OF PRINCETON

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT
For the Year Ended December 31, 2014**

	Economic Development Authority (600)	EDA Public Safety Building (313)	Total
REVENUES			
Property Taxes	\$ 18,129	\$ -	\$ 18,129
Intergovernmental	50,678	176,173	226,851
Charges for Services	37,139	-	37,139
Miscellaneous:			
Investment Income	11	-	11
Contributions and Donations	-	1,400	1,400
Other	1,851	-	1,851
Total Revenues	107,808	177,573	285,381
EXPENDITURES			
Current			
Economic Development	134,037	-	134,037
Debt Service			
Interest and Other Charges	78,817	-	78,817
Capital Outlay			
Public Safety	-	138,649	138,649
Total Expenditures	212,854	138,649	351,503
Excess of Revenues Over	(105,046)	38,924	(66,122)
OTHER FINANCING SOURCES (USES)			
Transfers In	-	575,347	575,347
Transfers Out	(575,347)	-	(575,347)
Total Other Financing Sources (Uses)	(575,347)	575,347	-
Net Change in Fund Balances	(680,393)	614,271	(66,122)
FUND BALANCES			
Beginning of Year	421,743	-	421,743
End of Year	\$ (258,650)	\$ (44,539)	\$ (303,189)
Net Change in Fund Balances - Economic Development Authority Component Unit			\$ (66,122)
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			122,401
Depreciation Expense			(63,108)
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.			
			3,095
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			(39)
Change in Net Position - Economic Development Authority Component Unit			\$ (2,730)

CITY OF PRINCETON

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
Property Taxes	\$ 1,817,425	\$ 1,785,600	\$ 1,893,743	\$ 108,143
Licenses and Permits	105,135	165,890	190,952	25,062
Intergovernmental Revenue				
Local Government Aid	813,075	813,076	813,075	(1)
Fire Aid	46,410	60,050	61,047	997
Police Aid	75,000	87,314	87,316	2
Other Grants and Aids	7,500	8,100	7,527	(573)
Total Intergovernmental Revenue	941,985	968,540	968,965	425
Charges for Services				
General Government	57,375	59,430	75,263	15,833
Public Safety	144,625	150,295	157,005	6,710
Public Works	2,500	3,100	3,560	460
Parks and Recreation	33,350	31,345	31,234	(111)
Total Charges for Services	237,850	244,170	267,062	22,892
Fines or Forfeitures	33,500	20,050	20,530	480
Miscellaneous Revenues				
Investment Income	12,400	2,100	20,380	18,280
Other	96,700	130,155	96,673	(33,482)
Total Miscellaneous Revenues	109,100	132,255	117,053	(15,202)
Total Revenues	3,244,995	3,316,505	3,458,305	141,800
EXPENDITURES				
General Government				
Mayor and Council	31,420	31,505	29,887	(1,618)
Administrative and Finance	350,725	353,220	342,528	(10,692)
Other General Government	526,770	384,390	237,631	(146,759)
Capital Outlay	109,500	52,985	44,206	(8,779)
Total General Government	1,018,415	822,100	654,252	(167,848)

CITY OF PRINCETON

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
EXPENDITURES				
Public Safety				
Police:				
Current	\$ 1,126,010	\$ 1,199,875	\$ 1,187,594	\$ (12,281)
Capital Outlay	188,980	134,810	99,671	(35,139)
Total Police	<u>1,314,990</u>	<u>1,334,685</u>	<u>1,287,265</u>	<u>(47,420)</u>
Fire:				
Current	206,425	239,145	222,460	(16,685)
Other:				
Current	85,510	104,165	138,432	34,267
Total Public Safety	<u>1,606,925</u>	<u>1,677,995</u>	<u>1,648,157</u>	<u>(29,838)</u>
Cemetery				
Current	-	-	811	811
Public Works				
Streets and Highways:				
Street Maintenance and Storm Sewers	664,095	709,355	737,811	28,456
Street Construction Capital Outlay	60,500	150,170	150,169	(1)
Street - Other Capital Outlay	64,000	14,000	-	(14,000)
Total Public Works	<u>788,595</u>	<u>873,525</u>	<u>887,980</u>	<u>14,455</u>
Parks and Recreation				
Libraries:				
Current Expenditures	44,165	55,800	49,678	(6,122)
Other Parks and Recreation:				
Current Expenditures	191,380	181,935	197,881	15,946
Capital Outlay	24,500	21,515	21,555	40
Total Other Parks and Recreation	<u>215,880</u>	<u>203,450</u>	<u>219,436</u>	<u>15,986</u>
Total Parks and Recreation	<u>260,045</u>	<u>259,250</u>	<u>269,114</u>	<u>9,864</u>
Economic Development				
Economic Development:				
Current Expenditures	-	-	17,607	17,607
Total Expenditures	<u>3,673,980</u>	<u>3,632,870</u>	<u>3,477,921</u>	<u>(154,949)</u>
Excess of Revenues Over (Under) Expenditures	(428,985)	(316,365)	(19,616)	296,749

CITY OF PRINCETON

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2014**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Over (Under)
	<u>Original</u>	<u>Final</u>		
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Asset	\$ -	\$ -	\$ 1,380	\$ 1,380
Insurance Recoveries	-	-	41,937	41,937
Payment in Lieu of Taxes - Component Unit	52,500	52,500	52,500	-
Transfers In	447,480	390,980	37,139	(353,841)
Transfers Out	(70,075)	(35,385)	(82,674)	(47,289)
Total Other Financing Sources (Uses)	<u>429,905</u>	<u>408,095</u>	<u>50,282</u>	<u>(357,813)</u>
Net Change in Fund Balances	<u>\$ 920</u>	<u>\$ 91,730</u>	30,666	<u>\$ (61,064)</u>
FUND BALANCES				
Beginning of Year			<u>2,443,004</u>	
End of Year			<u>\$ 2,473,670</u>	

CITY OF PRINCETON

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2014**

Federal Agency/Pass Through Agency/Program Title	CFDA Number	Expenditures
U.S. Department Housing and Urban Development		
Through Minnesota Department of Housing and Urban Development		
Small Cities Development Program	14.228	\$ 1,925
U.S. Department Housing and Urban Development		
Received Directly		
Community Development Block Grants	14.218	7,323
U.S. Department of Homeland Security		
Through Mille Lacs County		
Assistance to Firefighters	97.044	50,981
U.S. Department of Transportation		
Through Minnesota Department of Transportation		
Airport Improvement Program	20.106	175,658
U.S. Department of Agriculture		
Received Directly		
Water and Waste Disposal Systems for Rural Communities	10.760	<u>316,497</u>
Total Federal Expenditures		<u>\$ 552,384</u>

CITY OF PRINCETON

NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS December 31, 2014

NOTE 1 – BASIS OF PRESENTATION

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

NOTE 2 – PASS-THROUGH GRANT NUMBERS

All pass-through entities listed above use the same CFDA numbers as the federal grantors to identify these grants and have not assigned any additional identifying numbers.



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

INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the Economic Development Authority discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Princeton, Minnesota, as of and for the year ended December 31, 2014, and the related Notes to the Financial Statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 11, 2015. 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.

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. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133* as Audit Finding 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 Questioned Costs in Accordance with OMB *Circular A-133*. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Kern, DeWenter, Viere, Ltd.
KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
June 11, 2015



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

INDEPENDENT AUDITOR'S REPORT

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

Report on Compliance for Each Major Federal Program

We have audited the City of Princeton, Minnesota with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2014. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133*.

Management's Responsibility

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

Auditor's Responsibility

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

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



Opinion on Each Major Federal Program

In our opinion, the City of Princeton, Minnesota, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

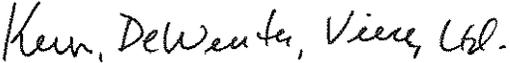
Report on Internal Control Over Compliance

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

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

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

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


KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
June 11, 2015

CITY OF PRINCETON

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

December 31, 2014

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	Yes, Audit Finding 2006-001
Noncompliance material to financial statements noted?	No

Federal Awards

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

Identification of Major Programs

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

CITY OF PRINCETON

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
December 31, 2014**

SECTION II – FINANCIAL STATEMENT FINDINGS

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, 2014, the City had a lack of segregation of accounting duties due to a limited number of office employees.

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

Questioned Costs:

None

Context:

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

Effect:

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

Cause:

There are a limited number of office employees.

Recommendation:

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

CITY OF PRINCETON

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
December 31, 2014**

SECTION II – FINANCIAL STATEMENT FINDINGS

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.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

SECTION IV – PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

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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, 2014, and the related Notes to the Financial Statements and have issued our report thereon dated June 11, 2015. 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 Political Subdivisions*, 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 Political Subdivisions*. 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.

Kern, DeWenter, Viere, Ltd.
KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
June 11, 2015

CITY OF PRINCETON

SCHEDULE OF FINDINGS AND RESPONSES ON LEGAL COMPLIANCE December 31, 2014

PRIOR YEAR LEGAL COMPLIANCE FINDINGS:

Sufficient Collateral

Minnesota Statutes 118A.03 requires all deposits with financial institutions to be collateralized in an amount equal to 110% of deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance. If irrevocable standby letters of credit from federal home loan banks are used, the collateral amount must be equal to the amount of the excess deposit plus interest at the close of the banking day

Deposits at Bremer Bank were under collateralized by \$ 169,675 at December 31, 2013.

City's Response:

Deposits in excess of FDIC insurance were properly covered by collateral at December 31, 2014.

Prompt Payment to Subcontractors

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

During the review of contracts the City held in 2013, it was noted this verbiage was missing.

City's Response:

The City's engineer reviewed contract verbiage and has added required verbiage to future contracts.