

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

AUDITED FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

CITY OF PRINCETON

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CITY OF PRINCETON
ELECTED OFFICIALS AND ADMINISTRATION
December 31, 2013

<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, 2013, and the related Notes to the Financial Statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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



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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the Public Utilities Commission and the Economic Development Authority discretely presented component units, each major fund and the aggregate remaining fund information of the City of Princeton, Minnesota, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of GASB 61 and 65

As discussed in Note 14 to the financial statements, the City has adopted the provisions of the Governmental Accounting Standards Board (GASB) Statements No. 61 and 65, *The Financial Reporting Entity: Omnibus* and *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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



Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2014, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.

St. Cloud, Minnesota

June 10, 2014

CITY OF PRINCETON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013

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, 2013.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the recent year by \$ 27,602,316 (net position) which is an increase of \$ 112,305 (0.41%) over the December 31, 2012 amount (after restatement). Of this amount, \$ 8,291,419 for 2013 and \$ 8,290,700 for 2012 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 \$ 112,305 during the year 2013 resulted from a combination of a \$ 39,242 decrease from the governmental funds and an increase of \$ 151,547 from the proprietary funds. This increase in the proprietary funds was primarily the result of net income in two of the proprietary funds; the Sewer Fund and the Liquor Fund.
- As of the close of the current year, the City's governmental funds reported combined ending fund balances of \$ 7,841,775, a decrease of \$ 630,957. This was largely due to decreases in fund balance in the debt service funds resulting primarily from use of escrow funds from bond proceeds in 2012 to pay off the balance refunded bond issues.
- At the end of the current year, all but \$ 155,382 of the General Fund balance of \$ 2,443,004 was unassigned.
- The City's total bonded debt decreased by \$ 1,817,052 (8.14%) during the current year. There were three contributing factors for this decrease. The first was the escrow established in 2012 from the issuance of refunding bonds was used to pay off some of the debt, next was the payments of current maturities during the year and the final factor was the issuance of the permanent financing for the Waste Water Treatment Plant. When the temporary financing was paid off, some of the premium and excess funds were used in the payment.

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, 2013

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 51 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 48 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report. Data for the Economic Development Authority is presented as a discretely presented component unit of the City.

CITY OF PRINCETON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013

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 nonmajor governmental funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 64-92 of this report.

CITY OF PRINCETON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a City's financial position. In the case of the City, assets exceeded liabilities (net position) by \$ 27,602,316 at the close of the most recent year.

City of Princeton's Net Position

	Governmental Activities	Business-Type Activities	Total 12/31/13	Total 12/31/12
Current and Other Assets	\$ 9,251,117	\$ 5,403,542	\$ 14,654,659	\$ 16,816,192
Capital Assets	8,901,564	25,852,831	34,754,395	34,699,448
Total Assets	<u>\$ 18,152,681</u>	<u>\$ 31,256,373</u>	<u>\$ 49,409,054</u>	<u>\$ 51,515,640</u>
Long-Term Liabilities				
Outstanding	\$ 1,962,024	\$ 18,090,563	\$ 20,052,587	\$ 21,146,450
Other Liabilities	760,425	993,726	1,754,151	2,811,016
Total Liabilities	<u>2,722,449</u>	<u>19,084,289</u>	<u>21,806,738</u>	<u>23,957,466</u>
Net Position:				
Net Investment in				
Capital Assets	7,680,233	9,067,464	15,897,028	15,896,971
Restricted	3,410,969	2,900	3,413,869	3,370,503
Unrestricted	4,339,030	3,101,720	8,291,419	8,290,700
Total Net Position	<u>\$ 15,430,232</u>	<u>\$ 12,172,084</u>	<u>\$ 27,602,316</u>	<u>\$ 27,558,174</u>

By far, the largest portion (57.59%) of the City's net position reflects its investment in capital assets (e.g., land, buildings, machinery and equipment net of depreciation) less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted the resources needed to repay this debt must be provided from other sources. Since the capital assets themselves are needed to provide services, they cannot be used to liquidate these liabilities.

An additional 12.37% 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 86.06% of the restricted net position classification. The remaining balance of unrestricted net position (\$ 8,291,419) may be used to meet the City's ongoing commitments and obligations to citizens and creditors.

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

CITY OF PRINCETON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013

City of Princeton's Change in Net Position

	Governmental Activities	Business-type Activities	Total 12/31/2013	Total 12/31/2012
Revenue:				
Program Revenues:				
Charges for Services	\$ 551,032	\$ 4,686,637	\$ 5,237,669	\$ 5,232,766
Operating Grants and Contributions	186,321	-	186,321	141,566
Capital Grants and Contributions	346,646	15,671	362,317	1,377,506
General Revenues:				
Property Taxes	2,192,867	-	2,192,867	2,215,374
Tax Increments	137,470	-	137,470	97,454
Intergovernmental	622,343	-	622,343	541,806
PUC Payment in Lieu of Taxes	52,500	-	52,500	52,500
Other Revenue	3,558	-	3,558	3,791
Gain on Sale of Asset	-	1,858	1,858	-
Investment Income	(505)	5,743	5,238	112,883
Total Revenues	<u>4,092,232</u>	<u>4,709,909</u>	<u>8,802,141</u>	<u>9,775,646</u>
Expenses:				
General Government	680,791	-	680,791	601,027
Public Safety	1,621,896	-	1,621,896	1,500,065
Cemetery	26,303	-	26,303	29,792
Public Works	981,527	-	981,527	856,976
Culture and Recreation	316,065	-	316,065	297,218
Economic Development	411,629	-	411,629	530,414
Interest on Long-Term Debt	53,018	-	53,018	122,279
Water	-	36,506	36,506	247,394
Sewer	-	1,259,479	1,259,479	1,180,848
Municipal Liquor	-	3,025,450	3,025,450	2,536,667
Airport	-	254,427	254,427	246,742
Total Expenses	<u>4,091,229</u>	<u>4,575,862</u>	<u>8,667,091</u>	<u>8,149,422</u>
Change in Net Position before Transfers	1,003	134,047	135,050	1,626,224
Transfers	(17,500)	17,500	-	-
Special Item - Forgiveness of Bad Debt	(22,745)	-	(22,745)	-
Change in Net Position	<u>(39,242)</u>	<u>151,547</u>	<u>112,305</u>	<u>1,626,224</u>
Net Position - January 1	15,451,474	12,106,700	27,558,174	25,931,950
Change in Accounting Principle	18,000	(86,163)	(68,163)	-
Net Position January 1	<u>15,469,474</u>	<u>12,020,537</u>	<u>27,490,011</u>	<u>25,931,950</u>
Net Position December 31	<u>\$ 15,430,232</u>	<u>\$ 12,172,084</u>	<u>\$ 27,602,316</u>	<u>\$ 27,558,174</u>

There was an increase of \$ 112,305 in the City's net position during the current year. The increase resulted from the business-type (enterprise) funds operations, from net income in the proprietary funds. The \$ 39,242 decrease in the net position in the governmental funds was primarily the result of using refunding escrows to pay off the refunded debt.

CITY OF PRINCETON

**MANAGEMENT’S DISCUSSION AND ANALYSIS
December 31, 2013**

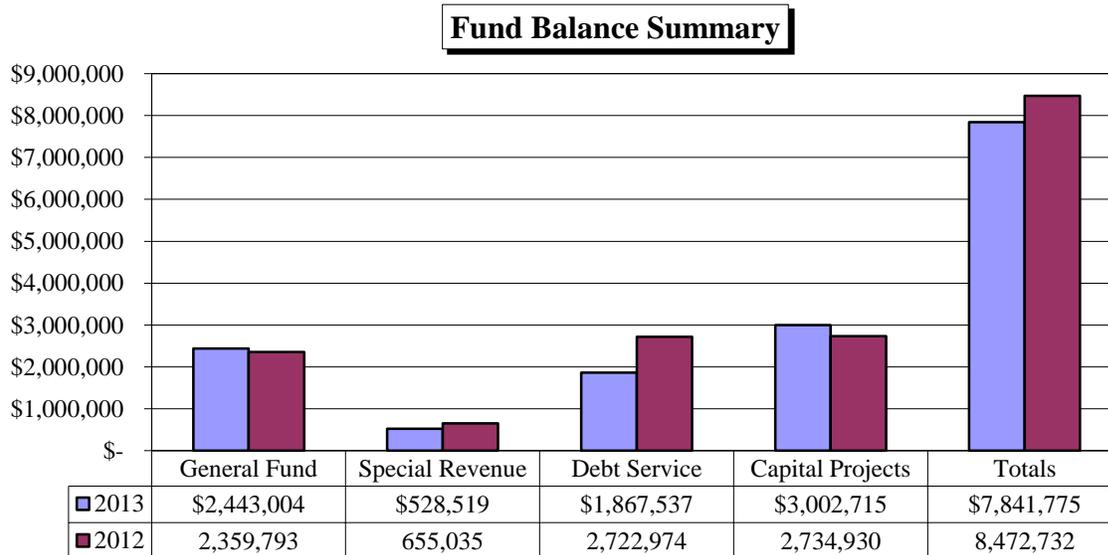
Governmental Activities. Governmental activities decreased the City’s net position by \$ 39,242. This decrease resulted from primarily from refunded debt service payments with escrows from 2012. The debt service payment effect was partially offset by higher than expected tax collections, lower insurance and legal expenses than previous years in the General Fund.

Business-Type Activities. Business-type activities resulted in a net asset increase of \$ 151,547, which accounted for 100.0% of the City’s total net position increase. This resulted primarily from net operating income in the three proprietary funds.

FINANCIAL ANALYSIS OF THE CITY’S FUNDS

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

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



As of the end of the current year, the City’s governmental funds reported combined ending fund balances of \$ 7,841,775, a decrease of \$ 630,957 from the prior year. This decrease was largely due to refunding bond issue proceeds of approximately \$ 740,000 from 2012 that were used in 2013 to pay off the refunded bonds. 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 \$ 5,297,786 at December 31, 2013, which was an increase of \$ 161,531 from the prior year.

CITY OF PRINCETON

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2013

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 \$ 2,443,004, which was 93.64% unassigned and considered available for spending; however, up to 67.46% of the unassigned balance is designated by the City Council for working capital (cash flow) purposes.

The General Fund balance increased by \$ 83,211 during the year. This operating increase was \$ 191,041 less than the prior year's increase of \$ 274,252. Key factors in this growth and the difference between the two years' fund balance increases are as follows:

- Property tax revenues of the General Fund increased by \$ 97,336 as opposed to an increase in 2012 of \$ 131,138.
- There was an increase in intergovernmental revenue of \$ 104,877 which was primarily due to a \$ 76,899 increase in Local Government Aid (LGA). There were also increases of \$ 19,492 in aid for firefighter relief and \$ 8,531 in police aid.
- Licenses and permits decreased by \$ 25,938 and investment income also decreased by \$ 28,323 due to continued low interest rates and a significant decrease in market value of fixed interest rate investments at the end of the year. There was a revenue decrease of \$ 3,275 in fines and forfeitures.
- There were revenue increases of \$ 1,752 in charges for services and \$ 1,910 in miscellaneous.
- There was a \$ 285,661 increase in total expenditures. This was 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 \$ 50,726 due in large part to reroofing of City Hall for \$ 59,139; public safety activities of \$ 66,281, of which \$ 29,286 was due to personnel cost increases and the rest was due to increases in services and supplies. Public works expenditures increased by \$ 147,392 from increases in labor allocation and costs and \$ 32,946 increase in sealcoating, along with significant increases in fuel, supplies and repairs and there was a slight increase of \$ 40 in parks and recreation. There was an increase of \$ 19,778 in capital outlay along with a minor increase of \$ 1,407 in the economic development functions.

Debt Service Funds had a total fund balance of \$ 1,867,537, all of which is restricted for the payment of debt service. There was a large decrease in fund balance during the current year in the Debt Service Funds of \$ 855,437. This decrease is principally due to proceeds from refunding bonds received in 2012 but not expended until the current year.

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

Total net position of the Liquor Fund at the end of the year amounted to \$ 3,963,884, the Sanitary Sewer Fund was \$ 6,133,712 and the Airport Fund was \$ 2,088,738. 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 \$ 2,604,906, the Sanitary Sewer Fund was \$ 520,297 and the Airport unrestricted net position was a negative \$ 9,233. The increases (decrease) in unrestricted net position for each of these Funds were \$ 193,319, (\$ 283,008) and (\$ 4,362), respectively. The increases (decrease) in these Funds result predominantly from the operations of these revenue generating funds. The decrease in the Sanitary Sewer Fund was due mostly to increased capital expenditures and a reduction in corresponding debt.

CITY OF PRINCETON

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2013

GENERAL FUND BUDGETARY HIGHLIGHTS

The change from the original budget and the final amended budget was a significant \$ 360,237 decrease in appropriations (10.25%), and included cuts of \$ 159,725 in general government activities, \$ 36,505 in parks and recreation and \$ 207,970 in capital outlay. Increases in appropriations were \$ 12,833 in public safety and \$ 31,130 in public works.

The eventual difference between the final amended budget and the actual amount of the change in fund balance was \$ 35,389. The major factors that resulted in this difference was a \$ 148,246 positive variance in general government expenditures offset by a \$ 193,997 negative variance in net transfers. Positive variances of \$ 24,211 in intergovernmental revenue, \$ 23,299 in charges for services and \$ 138,124 in capital outlay all added to the difference. However, there were negative variances of \$ 14,180 in investment income, \$ 20,594 in public safety, \$ 35,527 in public works and \$ 31,367 in economic development expenditures that did reduce 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 \$ 34,754,395 as of December 31, 2013 and \$ 34,699,448 as of December 31, 2012. 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. Planning and design work continued on a few minor projects relating to the overall project continued with construction in progress at year-end of \$ 1,402,548 (a decrease of \$ 13,318,575).
- Total depreciation expense for 2013 was \$ 1,092,265.

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

	Governmental Activities	Business-type Activities	Total 12/31/13	Total 12/31/12
Land and Easements	\$ 1,570,934	\$ 1,036,041	\$ 2,606,975	\$ 2,606,975
Buildings	1,182,737	1,664,167	2,846,904	2,907,850
Improvements other than Buildings	330,983	21,013,449	21,344,432	7,067,376
Machinery and Equipment	1,226,153	682,447	1,908,600	1,999,478
Infrastructure	4,569,480	-	4,569,480	4,799,590
Construction in Progress	21,277	1,456,727	1,478,004	15,318,179
Total	<u>\$ 8,901,564</u>	<u>\$ 25,852,831</u>	<u>\$ 34,754,395</u>	<u>\$ 34,699,448</u>

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

CITY OF PRINCETON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013

Long-Term Debt. At the end of the year, the City had total bonded debt outstanding of \$ 20,491,948. As was the case last year, none of the City debt was backed by the full faith and credit of the City, but \$ 2,072,000 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, \$ 18,419,948 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 12/31/2013	Total 12/31/2012
Special Assessment Debt with Governmental Commitment	\$ 2,072,000	\$ -	\$ 2,072,000	\$ 3,139,000
Revenue Bonds with Governmental Commitment	-	18,419,948	18,419,948	19,170,000
Total	\$ 2,072,000	\$ 18,419,948	\$ 20,491,948	\$ 22,309,000

The City's total bonded indebtedness decreased by \$ 1,817,052 (8.14%) during the year. This decrease was due to the issuance of bonds in the amount of \$ 2,275,000 in 2012 to refund previously issued bonds to capture interest savings. Some of the proceeds from this refunding bond remain in escrow until the bonds to be refunded become callable. A portion of the escrowed money was used in 2013 to pay off the callable bonds. The construction bond of \$ 15,120,000 that was issued in 2011 was repaid when the long-term financing from the Rural Development section of the United States Department of Agriculture was finalized in March of 2013.

The City has an "AA-" rating from Standard & Poor's for general obligation (G.O.) debt. The Public Utilities Commission maintains a 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 \$ 5,887,797. As of December 31, 2013, 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 46-52 of this report.

CITY OF PRINCETON
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013

ECONOMIC FACTORS AND NEW YEAR'S BUDGETS AND RATES

- The City is situated in two counties, Mille Lacs and Sherburne. The 2013 unemployment rate for Mille Lacs was at 8.7% and the Sherburne rate was 5.6% at the end of the year. This was a decrease from the 2012 rate of 9.4% for Mille Lacs County and 6.5% for Sherburne County. Compare this to the state's December 2013 unemployment rate of 4.6% and the national rate of 6.7%. The City has economic similarities to both Counties and the City utilizes this knowledge when setting its budget and tax levy.
- The inflationary trend in the region that includes the Minneapolis-St. Paul area was at an annual 1.7% compared to the national rate of 1.5% for the 2013 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 2013, LGA was increased from the 2012 level, but the amount was still \$ 128,845 less than the 2008 amount. In recognition of the partial restoration of LGA, the tax levy was decreased \$ 31,180 from 2012.

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

Other factors considered, was that a rate study for the sanitary sewer system was completed in 2011. The cost of the Wastewater Treatment Facility improvements and associated operating cost increases required that rates required an increase of 169%. This increase was implemented in two phases. The first increase occurred in November 2011 and the second increase took effect in May 2012. The sewer access charge was increased in 2007 to assist in the payment of system repairs and enhancements. A sewer trunk fee was initiated in 2005 to assure new development pays for the cost of extensions and new facilities. 2012 was the year that the final decision was made to proceed with the construction of a new Public Safety building. Construction of the building was nearly complete in 2013 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 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.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

CITY OF PRINCETON

STATEMENT OF NET POSITION
December 31, 2013

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Public Utilities Commission	Economic Development Authority
ASSETS					
Cash and Investments (Including Cash Equivalents)	\$ 6,645,769	\$ 3,049,138	\$ 9,694,907	\$ 3,525,808	\$ -
Cash with Fiscal Agent	-	-	-	239,896	-
Investments with Fiscal Agent	-	1,316,927	1,316,927	-	745,010
Property Tax Receivable	147,297	-	147,297	-	1,211
Accounts Receivable	23,307	13,754	37,061	797,333	-
Interest Receivable	18,460	585	19,045	-	-
Due from Other Governments	1,402,991	206,007	1,608,998	43,745	-
Internal Balances	20,489	(20,489)	-	-	-
Notes Receivable:					
Due Within One Year	3,556	-	3,556	-	-
Due After One Year	49,228	-	49,228	-	-
Special Assessments Receivable:					
Due Within One Year	133,774	6,415	140,189	-	-
Due After One Year	730,855	-	730,855	-	-
Inventories	-	632,897	632,897	490,277	-
Land Held for Resale	1	-	1	-	440,000
Contract for Deed	-	177,543	177,543	-	-
Prepaid Expenses	75,390	20,765	96,155	16,816	70
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	21,277	1,456,727	1,478,004	-	2,272,967
Capital Assets being Depreciated (Net of Accumulated Depreciation):					
Buildings and Systems	1,182,737	1,664,167	2,846,904	1,222,533	-
Other Improvements	330,983	-	330,983	-	-
Sewer and Water Improvements	-	21,013,449	21,013,449	-	-
Machinery and Equipment	1,226,153	682,447	1,908,600	632,415	-
Infrastructure	4,569,480	-	4,569,480	14,721,159	-
Restricted Assets:					
Reserve Fund	-	-	-	571,750	-
Debt Retirement	-	-	-	474,304	-
Improvements and Replacements	-	-	-	1,782,967	-
Total Assets	\$ 18,152,681	\$ 31,256,373	\$ 49,409,054	\$ 24,552,165	\$ 3,459,258
LIABILITIES AND NET POSITION					
Liabilities					
Accounts Payable	\$ 138,184	\$ 382,871	\$ 521,055	\$ 442,519	\$ 207,596
Due to Other Governments	33,200	58,043	91,243	103,915	1,210,156
Unearned Revenue	32,175	312	32,487	15,246	-
Salaries and Benefits Payable	43,163	8,300	51,463	24,138	1,093
Interest Payable	19,712	164,724	184,436	43,803	40,441
Customer Meter Deposits	-	-	-	227,625	-
Severance Payable	-	-	-	141,358	-
Deferred Rate Stabilization	-	-	-	1,689,338	-
Bond Principal Payable, Net:					
Payable Within One Year	289,000	350,000	639,000	959,000	45,000
Payable After One Year	1,783,000	18,069,948	19,852,948	10,050,000	2,214,821
Compensated Absences Payable:					
Payable Within One Year	135,000	16,300	151,300	-	-
Payable After One Year	179,024	20,615	199,639	-	-
Other Post Employment Benefits (OPEB) Payable	69,991	13,176	83,167	-	-
Total Liabilities	2,722,449	19,084,289	21,806,738	13,696,942	3,719,107
Net Position					
Net Investment in Capital Assets	7,680,233	9,067,464	15,897,028	5,600,269	58,146
Restricted for:					
Debt Service	2,938,041	-	2,938,041	1,285,950	-
Tax Increment	159,315	-	159,315	-	-
Capital Asset Replacement Cost	-	2,900	2,900	1,782,967	-
Other Projects	313,613	-	313,613	-	-
Unrestricted	4,339,030	3,101,720	8,291,419	2,186,037	(317,995)
Total Net Position	15,430,232	12,172,084	27,602,316	10,855,223	(259,849)
Total Liabilities and Net Position	\$ 18,152,681	\$ 31,256,373	\$ 49,409,054	\$ 24,552,165	\$ 3,459,258

CITY OF PRINCETON
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2013

Functions/Programs	Primary Government						Component Units		
	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position			Public Utilities Commission	Economic Development Authority
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total		
Governmental Activities									
General Government	\$ 680,791	\$ 111,627	\$ 20,501	\$ -	\$ (548,663)	\$ -	\$ (548,663)	\$ -	
Public Safety	1,621,896	346,225	161,020	41,928	(1,072,723)	-	(1,072,723)	16,249	
Cemetery	26,303	30,135	-	-	3,832	-	3,832	-	
Public Works	981,527	8,143	-	125,968	(847,416)	-	(847,416)	-	
Parks and Recreation	316,065	36,245	4,800	1,305	(369,279)	-	(369,279)	-	
Economic Development	411,629	18,657	-	177,445	(119,963)	-	(119,963)	(123,975)	
Interest on Long-Term Debt	53,018	-	-	-	(53,018)	-	(53,018)	(37,139)	
Total Governmental Activities	<u>4,091,229</u>	<u>551,032</u>	<u>186,321</u>	<u>346,646</u>	<u>(3,007,230)</u>	<u>-</u>	<u>(3,007,230)</u>	<u>-</u>	
Business-Type Activities									
Water	36,506	22,256	-	-	-	(14,250)	(14,250)	266,959	
Sewer	1,259,479	1,373,300	-	-	-	113,821	113,821	-	
Storm Sewer	-	-	-	-	-	-	-	-	
Municipal Liquor	3,025,450	3,197,013	-	-	-	171,563	171,563	-	
Airport	254,427	94,068	-	15,671	-	(144,688)	(144,688)	-	
Electric	-	-	-	-	-	-	-	594,909	
Total Business-Type Activities	<u>4,575,862</u>	<u>4,686,637</u>	<u>-</u>	<u>15,671</u>	<u>-</u>	<u>126,446</u>	<u>126,446</u>	<u>861,868</u>	
Total Governmental and Business-Type Activities	<u>\$ 8,667,091</u>	<u>\$ 5,237,669</u>	<u>\$ 186,321</u>	<u>\$ 362,317</u>	<u>(3,007,230)</u>	<u>126,446</u>	<u>(2,880,784)</u>	<u>861,868</u>	
General Revenues									
Property Taxes					2,192,867	-	2,192,867	-	
Tax Increments					137,470	-	137,470	-	
State Aids					622,343	-	622,343	-	
PUC Payment in Lieu of Taxes					52,500	-	52,500	(52,500)	
Investment Income					(505)	5,743	5,238	18,072	
Miscellaneous					3,558	-	3,558	160,277	
Gain on Sale of Asset					-	1,858	1,858	2,722	
Transfers					(17,500)	17,500	-	-	
Special Item - Forgiveness of Bad Debt					(22,745)	-	(22,745)	-	
Total General Revenues, Transfers and Special Item					<u>2,967,988</u>	<u>25,101</u>	<u>2,993,089</u>	<u>128,571</u>	
Change in Net Position					<u>(39,242)</u>	<u>151,547</u>	<u>112,305</u>	<u>990,439</u>	
Net Position - Beginning					<u>15,451,474</u>	<u>12,106,700</u>	<u>27,558,174</u>	<u>9,864,784</u>	
Change in Accounting Principle (See Note 14)					<u>18,000</u>	<u>(86,163)</u>	<u>(68,163)</u>	<u>-</u>	
Net Position - Beginning, Restated					<u>15,469,474</u>	<u>12,020,537</u>	<u>27,490,011</u>	<u>9,864,784</u>	
Net Position - Ending					<u>\$ 15,430,232</u>	<u>\$ 12,172,084</u>	<u>\$ 27,602,316</u>	<u>\$ 10,855,223</u>	

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

CITY OF PRINCETON

**BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2013**

	General Fund (101, 202)	Capital Projects Capital Improvements (351)	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 2,438,928	\$ 1,025,582	\$ 3,192,734	\$ 6,657,244
Taxes Receivable - Delinquent	128,141	8,939	10,217	147,297
Special Assessments Receivable:				
Delinquent	-	-	22,495	22,495
Deferred	-	-	842,134	842,134
Accounts Receivable	1,148	-	22,159	23,307
Interest Receivable	14,865	-	3,595	18,460
Due from Other Funds	1,925	1,014,383	-	1,016,308
Due from Other Governments	173,713	1,210,156	19,122	1,402,991
Notes Receivable	-	-	52,784	52,784
Land Held for Resale	-	-	1	1
Prepaid Expenses	74,305	-	1,085	75,390
Advance to Other Funds	-	-	70,150	70,150
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 2,833,025</u>	<u>\$ 3,259,060</u>	<u>\$ 4,236,476</u>	<u>\$ 10,328,561</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities				
Accounts and Contracts Payable	\$ 79,616	\$ -	\$ 58,568	\$ 138,184
Due to Other Funds	-	-	995,819	995,819
Due to Other Governments	18,272	55	40,598	58,925
Salaries and Benefits Payable	41,663	-	1,500	43,163
Unearned Revenue	18,329	-	12,263	30,592
Advance from Other Funds	-	-	70,150	70,150
Total Liabilities	<u>157,880</u>	<u>55</u>	<u>1,178,898</u>	<u>1,336,833</u>
 Deferred Inflows of Resources				
Unavailable Revenue - Long-Term Assets	104,000	-	32,444	136,444
Unavailable Revenue - Property Taxes	128,141	8,939	10,217	147,297
Unavailable Revenue - Special Assessments	-	-	866,212	866,212
Total Deferred Inflows of Resources	<u>232,141</u>	<u>8,939</u>	<u>908,873</u>	<u>1,149,953</u>
 Fund Balances				
Nonspendable	74,305	-	1,085	75,390
Restricted	-	-	2,543,989	2,543,989
Assigned	81,077	3,250,066	706,008	4,037,151
Unassigned	2,287,622	-	(1,102,377)	1,185,245
Total Fund Balances	<u>2,443,004</u>	<u>3,250,066</u>	<u>2,148,705</u>	<u>7,841,775</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 2,833,025</u>	<u>\$ 3,259,060</u>	<u>\$ 4,236,476</u>	<u>\$ 10,328,561</u>

CITY OF PRINCETON

**RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS
December 31, 2013**

Total Fund Balances - Governmental Funds \$ 7,841,775

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

Capital assets used in governmental activities are not current financial resources
and, therefore, are not reported as assets in governmental funds.

Cost of Capital Assets	17,990,634
Less Accumulated Depreciation	(9,089,070)

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	(2,072,000)
Compensated Absences Payable	(314,024)
OPEB Payable	(69,991)

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	147,297
Delinquent Special Assessments	22,495
Deferred Special Assessments	842,134

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

Notes Receivable	32,444
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.

(19,712)

Total Net Position - Governmental Activities

\$ 15,430,232

CITY OF PRINCETON

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended December 31, 2013**

	General Fund (101, 202)	Capital Projects Capital Improvements (351)	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property Taxes	\$ 2,009,679	\$ 80,388	\$ 114,511	\$ 2,204,578
Tax Increments	-	-	137,470	137,470
Special Assessments	-	-	222,906	222,906
Licenses and Permits	108,256	-	-	108,256
Intergovernmental	768,149	-	223,608	991,757
Charges for Services	254,628	-	71,128	325,756
Fine and Forfeitures	30,296	-	-	30,296
Miscellaneous:				
Investment Income	(1,780)	-	1,275	(505)
Contributions and Donations	-	-	21,706	21,706
Other	96,188	(2,704)	33,747	127,231
Total Revenues	<u>3,265,416</u>	<u>77,684</u>	<u>826,351</u>	<u>4,169,451</u>
EXPENDITURES				
Current				
General Government	590,134	-	31,056	621,190
Public Safety	1,377,997	-	96,577	1,474,574
Cemetery	541	-	23,202	23,743
Public Works	665,382	-	36,755	702,137
Parks and Recreation	219,246	16,493	16,048	251,787
Economic Development	31,367	-	256,997	288,364
Debt Service				
Principal	-	-	327,000	327,000
Interest and Other Charges	-	-	68,176	68,176
Capital Outlay				
General Government	42,129	-	-	42,129
Public Safety	38,627	-	79,980	118,607
Cemetery	-	-	31,864	31,864
Parks and Recreation	-	-	18,909	18,909
Economic Development	-	-	122,989	122,989
Total Expenditures	<u>2,965,423</u>	<u>16,493</u>	<u>1,109,553</u>	<u>4,091,469</u>
Excess of Revenues Over (Under) Expenditures	299,993	61,191	(283,202)	77,982
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Asset	-	806	-	806
Bond Refunding Payment	-	-	(740,000)	(740,000)
Payment in Lieu of Taxes - Component Unit	52,500	-	-	52,500
Transfers In	-	200,000	85,121	285,121
Transfers Out	(269,282)	(31,864)	(1,475)	(302,621)
Total Other Financing Sources (Uses)	<u>(216,782)</u>	<u>168,942</u>	<u>(656,354)</u>	<u>(704,194)</u>
SPECIAL ITEM				
Write Off Bad Debt	-	-	(22,745)	(22,745)
Net Change in Fund Balances	83,211	230,133	(962,301)	(648,957)
FUND BALANCES				
Beginning of Year	2,359,793	3,019,933	3,093,006	8,472,732
Change in Accounting Principle (See Note 14)	-	-	18,000	18,000
Beginning of Year, Restated	<u>2,359,793</u>	<u>3,019,933</u>	<u>3,111,006</u>	<u>8,490,732</u>
End of Year	<u>\$ 2,443,004</u>	<u>\$ 3,250,066</u>	<u>\$ 2,148,705</u>	<u>\$ 7,841,775</u>

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, 2013**

Net Change in Fund Balances - Total Governmental Funds \$ (648,957)

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	192,354
Depreciation Expense	(519,984)
Loss on Disposal	(98)

Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities. (38,090)

OPEB are recognized as paid in the governmental funds but recognized as expensed in the Statement of Activities. (10,708)

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. 327,000

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. 15,158

Bonds were refunded during the year. The amount paid off with the new funding is reported in the governmental funds as a use of financing. However, the payments are not expenditures in the Statement of Activities, but rather a reduction in long-term liabilities in the Statement of Net Position. 740,000

Principal payments on notes receivable will be collected, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds. (1,518)

The Water Availability Special Revenue Fund is proprietary in nature and, therefore, current year activities are reported in the business-type activities. 14,250

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	(11,711)
Delinquent Special Assessments	(6,292)
Deferred Special Assessments	(90,646)

Change in Net Position- Governmental Activities \$ (39,242)

CITY OF PRINCETON

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
Property Taxes	\$ 1,913,030	\$ 2,002,455	\$ 2,009,679	\$ 7,224
Licenses and Permits	128,180	84,045	108,256	24,211
Intergovernmental	747,960	744,850	768,149	23,299
Charges for Services	244,790	250,085	254,628	4,543
Fines and Forfeitures	37,000	33,620	30,296	(3,324)
Miscellaneous Revenues:				
Investment Income	10,400	12,400	(1,780)	(14,180)
Other	85,450	97,405	96,188	(1,217)
Total Revenues	3,166,810	3,224,860	3,265,416	40,556
EXPENDITURES				
Current				
General Government	898,105	738,380	590,134	(148,246)
Public Safety	1,344,570	1,357,403	1,377,997	20,594
Cemetery	-	-	541	541
Public Works	598,725	629,855	665,382	35,527
Parks and Recreation	246,240	209,735	219,246	9,511
Economic Development	-	-	31,367	31,367
Capital Outlay				
General Government	114,000	63,880	42,129	(21,751)
Public Safety	224,350	155,000	38,627	(116,373)
Public Works	77,500	-	-	-
Parks and Recreation	11,000	-	-	-
Total Expenditures	3,514,490	3,154,253	2,965,423	(188,830)
Excess of Revenues Over (Under) Expenditures	(347,680)	70,607	299,993	229,386
OTHER FINANCING SOURCES (USES)				
Payment in Lieu of Taxes - Component Unit	52,500	52,500	52,500	-
Transfers In	368,350	-	-	-
Transfers Out	(72,640)	(75,285)	(269,282)	(193,997)
Total Other Financing Sources (Uses)	348,210	(22,785)	(216,782)	(193,997)
Net Change in Fund Balances	\$ 530	\$ 47,822	83,211	\$ 35,389
FUND BALANCES				
Beginning of Year			2,359,793	
End of Year			\$ 2,443,004	

CITY OF PRINCETON

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
December 31, 2013

	<u>Airport (208)</u>	<u>Sanitary Sewer (702/704)</u>	<u>Municipal Liquor (703)</u>	<u>Total</u>
ASSETS				
Current Assets				
Cash and Investments	\$ -	\$ 1,089,806	\$ 1,947,857	\$ 3,037,663
Investments with Fiscal Agent	-	1,316,927	-	1,316,927
Special Assessment Receivable Deferred	-	6,415	-	6,415
Accounts Receivable	346	12,508	900	13,754
Accrued Interest	-	-	585	585
Due from Other Funds	-	-	2,825	2,825
Due from Other Governments	-	206,007	-	206,007
Inventories	16,500	-	616,397	632,897
Contract for Deed	-	-	177,543	177,543
Prepaid Expenses	645	11,400	8,720	20,765
Total Current Assets	<u>17,491</u>	<u>2,643,063</u>	<u>2,754,827</u>	<u>5,415,381</u>
Noncurrent Assets				
Capital Assets:				
Land	495,923	129,120	410,998	1,036,041
Buildings and System	76,766	947,087	999,651	2,023,504
Other Improvements	3,124,852	22,927,352	43,608	26,095,812
Machinery and Equipment	298,231	807,927	189,974	1,296,132
Construction in Progress	54,179	1,402,548	-	1,456,727
Total Capital Assets	<u>4,049,951</u>	<u>26,214,034</u>	<u>1,644,231</u>	<u>31,908,216</u>
Less Accumulated Depreciation	<u>(1,951,980)</u>	<u>(3,818,152)</u>	<u>(285,253)</u>	<u>(6,055,385)</u>
Net Capital Assets	<u>2,097,971</u>	<u>22,395,882</u>	<u>1,358,978</u>	<u>25,852,831</u>
Total Assets	<u>\$ 2,115,462</u>	<u>\$ 25,038,945</u>	<u>\$ 4,113,805</u>	<u>\$ 31,268,212</u>
LIABILITIES AND NET POSITION				
Current Liabilities				
Accounts Payable	\$ 1,951	\$ 309,704	\$ 71,216	\$ 382,871
Salaries Payable	517	2,479	5,304	8,300
Unearned Revenue	312	-	-	312
Interest Payable	-	164,724	-	164,724
Due to Other Funds	23,314	-	-	23,314
Due to Other Governmental Units	-	3,147	29,171	32,318
Compensated Absences Payable	-	-	16,300	16,300
Current Portion of Revenue Bonds	-	350,000	-	350,000
Total Current Liabilities	<u>26,094</u>	<u>830,054</u>	<u>121,991</u>	<u>978,139</u>
Noncurrent Liabilities				
Compensated Absences Payable	-	-	20,615	20,615
OPEB Payable	630	5,231	7,315	13,176
Bonds Payable	-	18,069,948	-	18,069,948
Total Noncurrent Liabilities	<u>630</u>	<u>18,075,179</u>	<u>27,930</u>	<u>18,103,739</u>
Total Liabilities	<u>26,724</u>	<u>18,905,233</u>	<u>149,921</u>	<u>19,081,878</u>
Net Position				
Net Investment in Capital Assets	2,097,971	5,610,515	1,358,978	9,067,464
Restricted	-	2,900	-	2,900
Unrestricted	<u>(9,233)</u>	<u>520,297</u>	<u>2,604,906</u>	<u>3,115,970</u>
Total Net Position	<u>2,088,738</u>	<u>6,133,712</u>	<u>3,963,884</u>	<u>12,186,334</u>
Total Liabilities and Net Position	<u>\$ 2,115,462</u>	<u>\$ 25,038,945</u>	<u>\$ 4,113,805</u>	<u>\$ 31,268,212</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>\$ 12,172,084</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, 2013**

	Airport (208)	Sanitary Sewer (702/704)	Municipal Liquor (703)	Total
SALES AND COST OF SALES				
Sales	\$ 83,238	\$ -	\$ 3,196,782	\$ 3,280,020
Cost of Sales	69,219	-	2,407,497	2,476,716
Gross Profit	<u>14,019</u>	<u>-</u>	<u>789,285</u>	<u>803,304</u>
OPERATING REVENUES				
Charges for Services	<u>10,830</u>	<u>1,295,506</u>	<u>231</u>	<u>1,306,567</u>
Total Gross Profit and Operating Revenues	<u>24,849</u>	<u>1,295,506</u>	<u>789,516</u>	<u>2,109,871</u>
OPERATING EXPENSES				
Wages and Salaries	16,563	129,446	258,334	404,343
Materials and Supplies	43,369	298,880	105,455	447,704
Professional Services	-	-	43,203	43,203
Depreciation	125,276	404,067	42,938	572,281
Miscellaneous	-	-	168,023	168,023
Total Operating Expenses	<u>185,208</u>	<u>832,393</u>	<u>617,953</u>	<u>1,635,554</u>
Operating Income (Loss)	(160,359)	463,113	171,563	474,317
NONOPERATING REVENUES (EXPENSES)				
Interest Income	-	5,123	620	5,743
Intergovernmental Revenues	15,671	-	-	15,671
Gain (Loss) on Sale of Asset	-	21,160	(19,302)	1,858
Amortization of Bond Premium	-	68,267	-	68,267
Interest Expense and Charges	-	(427,086)	-	(427,086)
Other Income	-	9,527	-	9,527
Total Nonoperating Revenues (Expenses)	<u>15,671</u>	<u>(323,009)</u>	<u>(18,682)</u>	<u>(326,020)</u>
Income (Loss) before Capital Contributions and Transfers	(144,688)	140,104	152,881	148,297
Transfers In	20,000	-	-	20,000
Transfers Out	<u>-</u>	<u>-</u>	<u>(2,500)</u>	<u>(2,500)</u>
Change in Net Position	(124,688)	140,104	150,381	165,797
NET POSITION				
Beginning of Year	2,213,426	6,079,771	3,813,503	12,106,700
Change in Accounting Principle (See Note 14)	-	(86,163)	-	(86,163)
Beginning Balance, Restated	<u>2,213,426</u>	<u>5,993,608</u>	<u>3,813,503</u>	<u>12,020,537</u>
End of Year	<u>\$ 2,088,738</u>	<u>\$ 6,133,712</u>	<u>\$ 3,963,884</u>	<u>\$ 12,186,334</u>
Adjustment to Reflect the Consolidation of the Water Availability Special Revenue Fund Related to Enterprise Funds				<u>(14,250)</u>
Change in Net Position - Business-Type Activities				<u>\$ 151,547</u>

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

CITY OF PRINCETON

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended December 31, 2013**

	Airport (208)	Sanitary Sewer (702/704)	Municipal Liquor (703)	Total
CASH FLOWS - OPERATING ACTIVITIES				
Receipts from Customers and Users	\$ 92,122	\$ 1,301,038	\$ 3,197,013	\$ 4,590,173
Payments to Suppliers	(111,142)	(297,822)	(2,681,962)	(3,090,926)
Payments to Employees	(16,180)	(127,228)	(262,088)	(405,496)
Other Income	-	9,527	-	9,527
Net Cash Flows - Operating Activities	<u>(35,200)</u>	<u>885,515</u>	<u>252,963</u>	<u>1,103,278</u>
CASH FLOWS - NONCAPITAL FINANCING ACTIVITIES				
Transfer from Other Funds	20,000	-	-	20,000
Transfer to Other Funds	-	-	(2,500)	(2,500)
Increase in Due to Other Funds	17,628	-	-	17,628
Increase in Due from Other Funds	-	-	2,861	2,861
Net Cash Flows - Noncapital Financing Activities	<u>37,628</u>	<u>-</u>	<u>361</u>	<u>37,989</u>
CASH FLOWS - CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal Paid on Debt	-	(15,460,000)	-	(15,460,000)
Interest Paid on Debt	-	(398,408)	-	(398,408)
Bond Proceeds	-	14,709,948	-	14,709,948
Proceeds from Disposal of Capital Assets	-	21,160	-	21,160
Cash Paid for Disposal of Land Held for Resale	-	-	(13,574)	(13,574)
Intergovernmental Revenues	173,598	-	-	173,598
Acquisition of Capital Assets	(176,026)	(1,232,584)	-	(1,408,610)
Net Cash Flows - Capital and Related Financing Activities	<u>(2,428)</u>	<u>(2,359,884)</u>	<u>(13,574)</u>	<u>(2,375,886)</u>
CASH FLOWS - INVESTING ACTIVITIES				
Interest and Dividends Received	-	(795)	90	(705)
Net Change in Cash and Cash Equivalents	-	(1,475,164)	239,840	(1,235,324)
CASH AND CASH EQUIVALENTS				
January 1	<u>-</u>	<u>2,564,970</u>	<u>1,708,017</u>	<u>4,272,987</u>
December 31	<u>\$ -</u>	<u>\$ 1,089,806</u>	<u>\$ 1,947,857</u>	<u>\$ 3,037,663</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS - OPERATING ACTIVITIES				
Operating Income (Loss)	\$ (160,359)	\$ 463,113	\$ 171,563	\$ 474,317
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows - Operating Activities:				
Other Income	-	9,527	-	9,527
Depreciation Expense	125,276	404,067	42,938	572,281
Accounts Receivable	(346)	(5,108)	-	(5,454)
Special Assessments Receivable	-	5,941	-	5,941
Due from Other Governments	-	4,699	-	4,699
Prepaid Items	870	(3,200)	(2,620)	(4,950)
Inventory	-	-	(21,496)	(21,496)
Accounts Payable	576	4,258	63,198	68,032
Due to Other Governmental Units	-	-	3,134	3,134
Salaries Payable	208	1,160	232	1,600
Unearned Income	(1,600)	-	-	(1,600)
Compensated Absences Payable	-	-	(5,030)	(5,030)
OPEB Payable	175	1,058	1,044	2,277
Total Adjustments	<u>125,159</u>	<u>422,402</u>	<u>81,400</u>	<u>628,961</u>
Net Cash Flows - Operating Activities	<u>\$ (35,200)</u>	<u>\$ 885,515</u>	<u>\$ 252,963</u>	<u>\$ 1,103,278</u>
NONCASH ACTIVITY				
Change in Accounting Principle - Deferred Charges Writeoff	\$ -	\$ 86,163	\$ -	\$ 86,163

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CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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, 2013

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, 2013

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, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

D. Assets, Liabilities, 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, 2013

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 accrued interest. Deposits totaling \$ 169,675 were uncollateralized at December 31, 2013.

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, 2013

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, 2013

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 only has one type of item, which arises only under the modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item is reported only in the governmental funds balance sheet as unavailable revenue. The governmental funds report unavailable revenues from three sources: property taxes, special assessments and long-term assets. 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, 2013

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, 2013 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, 2013

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 \$ 850,669 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, 2013

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, 2013

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

B. Deficit Fund Balance

The following Funds had deficit balances at December 31, 2013:

City Nonmajor Funds:

Special Revenue:

Development Grants	\$ 70,535
Development Expenses	166,777
Fire Department Grants	58,261
Stormwater Management	146,949
Neighborhood Stabilization Program	23,217
Water Availability	14,250

Debt Service:

G.O. Refunding Bonds, 2012B	124,344
1999 Street and Utilities Improvements	79,913

Capital Projects:

Heritage Village	284,747
Northland/Old 18 Improvements	53,760
District No. 3-7 Redevelopment District	5,741
2000 Street and Utility Improvements	70,145
Industrial Park Development	3,738

EDA Component Unit:

Public Safety Building	\$ 658,810
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C. Excess of Expenditures Over Appropriations

The following Funds' expenditures exceeded appropriations during the year:

Fund	Appropriations	Disbursements	Excess
Nonmajor Funds:			
Special Revenue:			
Cemetery Operation and Maintenance	\$ 53,765	\$ 55,066	\$ 1,301
Development Expenses	14,000	43,344	29,344
Fire Department Grants	44,190	48,528	4,338
Small Cities Development Program	100,000	171,605	71,605
Water Availability	20,000	36,506	16,506
Park Improvements	20,590	21,113	523
EDA Discretely Presented Component Unit	142,215	298,041	155,826

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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, 2013, the City’s bank balance was exposed to custodial credit risk because it was not fully insured through the FDIC as well as collateral pledged. The City was under collateralized by \$ 169,675 at Bremer Bank at December 31, 2013. The City’s deposits had a book balance as follows:

Checking	\$ 1,880,377
Savings	2,344,012
Nonnegotiable Certificates of Deposit	<u>1,507,609</u>
 Total Deposits	 <u><u>\$ 5,731,998</u></u>

B. Investments – City and EDA Component Unit

As of December 31, 2013, 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	\$ 537,369	\$ 537,369	\$ -	\$ -	\$ -	10.2%	N/A
GB	FNMA	19,112	-	-	-	19,112	0.4%	AA
GB	FHLB	761,725	-	-	761,725	-	14.4%	AAA
GB	FHLMC	78,673	-	-	-	78,673	1.5%	AA
SLGS	State and Local Government Securities	1,316,927	-	1,316,927	-	-	25.0%	N/R
SEC	Mortgage Securities	30,103	-	-	-	30,103	0.6%	AAA
CD	Brokered Certificates of Deposit	<u>2,532,994</u>	<u>504,496</u>	<u>1,701,436</u>	<u>327,062</u>	<u>-</u>	<u>47.9%</u>	N/A
	Total	<u>\$ 5,276,903</u>	<u>\$ 1,041,865</u>	<u>\$ 3,018,363</u>	<u>\$ 1,088,787</u>	<u>\$ 127,888</u>	<u>100.0%</u>	

As of December 31, 2013, 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>\$ 745,010</u>	<u>\$ 745,010</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	100.0%	N/R

Credit Risk: As of December 31, 2013, 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, 2013 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, 2013, the City held investments that were in noncompliance with this policy.

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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, 2013, 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, 2013 of \$ 5,978,212.

As of December 31, 2013, the component unit had the following investments:

Type	Investment	Fair Value	Credit Rating	Percentage of Total
GB	Grand Rapids, MN G.O. Taxable	\$ 239,474	A1	39.0%
GB	Grimes, IA G.O. Taxable Build America	96,980	A1	15.8%
GB	Wyoming, MN G.O. Taxable Build America	<u>277,924</u>	A1	45.2%
Total		<u><u>\$ 614,378</u></u>		

Credit Risk: As of December 31, 2013, 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.)	\$ 5,731,998
City Investments (Note 3.B.)	5,276,903
EDA Investments (Note 3.B.)	745,010
Petty Cash	<u>2,933</u>
Total Deposits and Investments - City and EDA Component Unit	<u>11,756,844</u>
Deposits - Component Unit (Note 3.C.)	5,978,212
Investments - Component Unit (Note 3.C.)	614,378
Petty Cash	<u>2,135</u>
Total Deposits and Investments - Component Unit	<u>6,594,725</u>
Total Deposits and Investments	<u><u>\$ 18,351,569</u></u>

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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	\$ 9,694,907
Investments with Fiscal Agent, Primary Government	1,316,927
Investments with Fiscal Agent, EDA Component Unit	745,010
Cash and Investments, PUC Component Unit	3,525,808
Cash Held in Escrow, PUC Component Unit	239,896
Restricted Assets, PUC Component Unit	<u>2,829,021</u>
Total	<u><u>\$ 18,351,569</u></u>

NOTE 4 – CAPITAL ASSETS

A. Primary Government

	Beginning Balance, As Restated	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	15,682	5,595	-	21,277
Total Capital Assets not being Depreciated	<u>1,586,616</u>	<u>5,595</u>	<u>-</u>	<u>1,592,211</u>
Capital Assets being Depreciated:				
Buildings and Systems	2,226,092	42,129	-	2,268,221
Other Improvements	1,495,904	12,160	-	1,508,064
Machinery and Equipment	3,413,243	150,470	16,933	3,546,780
Infrastructure	9,075,358	-	-	9,075,358
Total Capital Assets being Depreciated	<u>16,210,597</u>	<u>204,759</u>	<u>16,933</u>	<u>16,398,423</u>
Less Accumulated Depreciation for:				
Buildings and Systems	1,037,598	47,886	-	1,085,484
Other Improvements	1,126,051	51,030	-	1,177,081
Machinery and Equipment	2,146,504	190,958	16,835	2,320,627
Infrastructure	4,275,768	230,110	-	4,505,878
Total Accumulated Depreciation	<u>8,585,921</u>	<u>519,984</u>	<u>16,835</u>	<u>9,089,070</u>
Total Capital Assets being Depreciated, Net	<u>7,624,676</u>	<u>(315,225)</u>	<u>98</u>	<u>7,309,353</u>
Governmental Activities Capital Assets, Net	<u>\$ 9,211,292</u>	<u>\$ (309,630)</u>	<u>\$ 98</u>	<u>\$ 8,901,564</u>

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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	15,284,497	936,399	14,764,169	1,456,727
Total Capital Assets not being Depreciated	16,320,538	936,399	14,764,169	2,492,768
Capital Assets being Depreciated:				
Buildings and Systems	2,023,504	-	-	2,023,504
Other Improvements	11,331,644	14,764,168	-	26,095,812
Machinery and Equipment	1,277,574	18,558	-	1,296,132
Total Capital Assets being Depreciated	14,632,722	14,782,726	-	29,415,448
Less Accumulated Depreciation for:				
Buildings and Systems	304,148	55,189	-	359,337
Other Improvements	4,634,121	448,242	-	5,082,363
Machinery and Equipment	544,835	68,850	-	613,685
Total Accumulated Depreciation	5,483,104	572,281	-	6,055,385
Total Capital Assets being Depreciated, Net	9,149,618	14,210,445	-	23,360,063
Business-Type Activities Capital Assets, Net	\$ 25,470,156	\$ 15,146,844	\$ 14,764,169	\$ 25,852,831

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

Governmental Activities:	
General Government	\$ 47,591
Public Safety	101,273
Cemetery	2,718
Public Works	304,551
Parks and Recreation	63,851
Total Depreciation Expense - Governmental Activities	\$ 519,984

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

NOTE 4 – CAPITAL ASSETS

A. Primary Government (Continued)

Business-Type Activities:		
Airport		\$ 125,276
Sanitary Sewer		404,067
Municipal Liquor		<u>42,938</u>
Total Depreciation Expense - Business-Type Activities		<u><u>\$ 572,281</u></u>

B. EDA Component Unit

	<u>Beginning Balance, As Restated</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets not being Depreciated:				
Construction in Progress	<u>\$ 18,000</u>	<u>\$ 2,254,967</u>	<u>\$ -</u>	<u>\$ 2,272,967</u>

C. PUC Component Unit

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital Assets not being Depreciated:				
Land	\$ 33,162	\$ -	\$ -	\$ 33,162
Capital Assets being Depreciated:				
Buildings and Systems	1,980,628	56,597	-	2,037,225
Infrastructure	24,450,661	492,543	-	24,943,204
Machinery and Equipment	<u>2,519,053</u>	<u>216,208</u>	<u>18,955</u>	<u>2,716,306</u>
Total Capital Assets being Depreciated	<u>28,950,342</u>	<u>765,348</u>	<u>18,955</u>	<u>29,696,735</u>
Less Accumulated Depreciation for:				
Buildings and Systems	742,966	71,726	-	814,692
Infrastructure	9,452,026	770,019	-	10,222,045
Machinery and Equipment	<u>2,013,820</u>	<u>89,026</u>	<u>18,955</u>	<u>2,083,891</u>
Total Accumulated Depreciation	<u>12,208,812</u>	<u>930,771</u>	<u>18,955</u>	<u>13,120,628</u>
Total Capital Assets being Depreciated, Net	<u>16,741,530</u>	<u>(165,423)</u>	<u>-</u>	<u>16,576,107</u>
Business-Type Activities Capital Assets, Net	<u><u>\$ 16,774,692</u></u>	<u><u>\$ (165,423)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 16,609,269</u></u>

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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	\$ 599,156
Water	<u>331,615</u>

Total Depreciation Expense -

Business-Type Activities	<u>\$ 930,771</u>
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Notes receivable issued in connection with Urban Development Action Grants (UDAG) at December 31, 2013 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
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Annual payments of \$ 758, including interest at 3%, through September 2024	7,016
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Annual payments of \$ 469, including interest at 3%, through September 2024	4,342
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Vrchota:

Annual payments of \$ 275, including interest at 3%, through September 2024	2,554
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CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

NOTE 5 – NOTES/LOANS RECEIVABLE

Anderson:

Annual payments of \$ 262, including interest at 3%, through September 2024	\$ 2,244
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Annual payments of \$ 264, including interest at 3%, through September 2024	2,256
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Hy Tech:

Annual payments of \$ 2,099, including interest at 4.5%, through September 2026	<u>20,340</u>
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Total UDAG	<u><u>\$ 52,784</u></u>
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The Rum River Health note receivable of \$ 22,745 was written off during 2013 due to bankruptcy.

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, 2012	\$ 1,692,462
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Transfers	<u>90,505</u>
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Balance - December 31, 2013	<u><u>\$ 1,782,967</u></u>
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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, 2013 was \$ 134,739.

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

NOTE 6 – RESTRICTED ASSETS – PUC COMPONENT UNIT

C. Debt Retirement (Continue)

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, 2013 was \$ 339,565.

D. Restricted Cash Held in Escrow

Restricted cash held in escrow as of December 31, 2013 consisted of \$ 239,896 of cash proceeds from the Electric Revenue Note, Series 2006A.

NOTE 7 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2013 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 1,925
Capital Improvements	Other Governmental Funds	993,894
Capital Improvements	Airport	20,489
Municipal Liquor	Airport	<u>2,825</u>
Total		<u><u>\$ 1,019,133</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, 2013 to finance capital projects.

The City’s Capital Improvements Fund had a receivable from the EDA Component Unit of \$ 1,210,156 at December 31, 2013 to cover cash deficits.

CITY OF PRINCETON

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013**

NOTE 7 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

B. Interfund Transfers

The composition of interfund transfers as of December 31, 2013 was as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Description</u>	<u>Amount</u>
Capital Improvements	General Fund	Trails Project	\$ 200,000
Cemetery Operations	Capital Improvements	Operations	31,864
Cemetery Operations	Cemetary Perpetual Care	Operations	675
Airport Fund	General Fund	Operations	20,000
Solheim Field Improvements	General Fund	Field Improvements	800
Solheim Field Improvements	Park Improvements	Field Improvements	800
Civic Center	General Fund	Operations	3,000
Community Beautification	Liquor	City Contribution for Beautification	2,500
Fire Equipment Reserve	General Fund	City Contribution for Fire Equipment	<u>45,482</u>
			<u>\$ 305,121</u>

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

NOTE 8 – LONG-TERM DEBT

A. General Obligation Bonds

Primary Government

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

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

On January 13, 2009, the City accepted a United States Department of Agriculture (USDA) Rural Development loan and grant in the amounts of \$ 15,118,000 and \$ 857,000, respectively, for the construction of the Wastewater Treatment Plant. On March 1, 2011, the City issued \$ 15,120,000 in Temporary Sewer Revenue Bonds to fund the project. As of December 31, 2013, the City had finished the project adding an asset for approximately \$ 14,250,000. 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.

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

NOTE 8 – LONG-TERM DEBT

A. General Obligation Bonds (Continued)

Primary Government (Continued)

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 in the current year at the 2013 call date. The 2007B bond will be paid off in 2016.

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	\$ 172,000	\$ 14,000
G.O. Improvement						
Refunding 2009B	11/01/09	2.00%-3.50%	1,505,000	02/01/20	1,105,000	145,000
G.O. Improvement						
Refunding 2012B	06/21/12	0.35-2.75%	910,000	02/01/28	795,000	130,000
Compensated Absences					314,024	135,000
Total Governmental					2,386,024	424,000
Activities						
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	1,495,000	75,000
G.O. Sewer Revenue						
Refunding 2009A	04/01/09	0.85%-2.70%	2,040,000	08/01/16	850,000	275,000
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	14,709,948	-
Compensated Absences					36,915	16,300
Total Business-Type					18,456,863	366,300
Activities						
Total all Long-Term					\$ 20,842,887	\$ 790,300
Liabilities						

CITY OF PRINCETON
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

NOTE 8 – LONG-TERM DEBT

B. Components of Long-Term Liabilities (Continued)

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	\$ 45,000
Bond Premium					19,821	-
Total all Long-Term Liabilities					<u>\$ 2,259,821</u>	<u>\$ 45,000</u>

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	\$ 508,000	\$ 45,000
MNPFA G.O. Revenue Bond	09/08/99	3.29%	670,000	08/20/19	256,000	39,000
Electric Revenue Note, Series 2006A	04/02/06	4.05%	3,065,000	12/01/25	2,195,000	135,000
G.O. Water Revenue Bond Series 2008A	03/04/08	2.20%-4.05%	4,880,000	12/01/27	3,650,000	245,000
Public Utility System Refunding Revenue Bonds, Series 2010A	11/18/10	2.0%-3.50%	3,040,000	04/01/22	2,140,000	300,000
Public Utility System Refunding Revenue Bonds, Series 2012A	02/01/12	1.0%-2.85%	2,450,000	04/01/24	<u>2,260,000</u>	<u>195,000</u>
Total all Long-Term Liabilities					<u>\$ 11,009,000</u>	<u>\$ 959,000</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, 2013 are listed on the following page.

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

NOTE 8 – LONG-TERM DEBT

B. Components of Long-Term Liabilities (Continued)

Primary Government

Year Ending December 31,	Governmental Activities		Business-Type Activities		Total
	G.O. Special Assessment Bonds		G.O. Revenue Bonds		
	Principal	Interest	Principal	Interest	
2014	\$ 289,000	\$ 45,095	\$ 350,000	\$ 323,917	\$ 1,008,012
2015	290,000	40,400	624,000	381,395	1,335,795
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	956,000	51,452	387,000	293,200	1,687,652
2019-2023	21,000	446	2,031,000	1,361,964	3,414,410
2024-2028	-	-	2,244,000	1,156,651	3,400,651
2029-2033	-	-	1,794,000	957,465	2,751,465
2034-2038	-	-	1,972,000	782,153	2,754,153
2039-2043	-	-	2,160,000	590,198	2,750,198
2044-2048	-	-	2,369,000	380,051	2,749,051
2049-2053	-	-	2,202,948	148,868	2,351,816
Total	\$ 2,072,000	\$ 201,971	\$ 18,419,948	\$ 7,015,275	\$ 27,709,194

EDA Component Unit

Year Ending December 31,	Governmental Activities		Total
	Lease Revenue Bond		
	Principal	Interest	
2014	\$ 45,000	\$ 80,468	\$ 125,468
2015	90,000	73,783	163,783
2016	92,500	72,792	165,292
2017	95,000	71,775	166,775
2018	95,000	70,445	165,445
2019-2023	505,000	315,119	820,119
2024-2028	575,000	221,530	796,530
2029-2033	677,500	98,429	775,929
2034	65,000	2,763	67,763
Total	\$ 2,240,000	\$ 1,007,104	\$ 3,247,104

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

NOTE 8 – LONG-TERM DEBT

B. Components of Long-Term Liabilities (Continued)

PUC Component Unit

Year Ending December 31,	Business-Type Activities		Total
	G.O. Revenue Bonds		
	Principal	Interest	
2014	\$ 959,000	\$ 339,023	\$ 1,298,023
2015	937,000	315,810	1,252,810
2016	960,000	291,234	1,251,234
2017	997,000	263,732	1,260,732
2018	980,000	234,438	1,214,438
2019-2023	4,661,000	717,964	5,378,964
2024-2027	1,515,000	95,672	1,610,672
Total	<u>\$ 11,009,000</u>	<u>\$ 2,257,873</u>	<u>\$ 13,266,873</u>

C. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2013 was as follows:

Primary Government

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds Payable:					
G.O. Special Assessment Bonds	\$ 3,139,000	\$ -	\$ 1,067,000	\$ 2,072,000	\$ 289,000
Compensated Absences	275,934	170,083	131,993	314,024	135,000
Total Governmental Activities	<u>3,414,934</u>	<u>170,083</u>	<u>1,198,993</u>	<u>2,386,024</u>	<u>424,000</u>
Business-Type Activities:					
Bonds Payable:					
G.O. Sewer Revenue Bonds	19,170,000	14,709,948	15,460,000	18,419,948	350,000
Bond Premiums	68,267	-	68,267	-	-
Compensated Absences	41,945	11,299	16,329	36,915	16,300
Total Business-Type Activities	<u>19,280,212</u>	<u>14,721,247</u>	<u>15,544,596</u>	<u>18,456,863</u>	<u>366,300</u>
Total Long-Term Liabilities	<u>\$ 22,695,146</u>	<u>\$ 14,891,330</u>	<u>\$ 16,743,589</u>	<u>\$ 20,842,887</u>	<u>\$ 790,300</u>

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

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

NOTE 8 – LONG-TERM DEBT

C. Changes in Long-Term Liabilities (Continued)

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	\$ 45,000
Bond Premium	-	20,864	1,043	19,821	-
	<u>-</u>	<u>20,864</u>	<u>1,043</u>	<u>19,821</u>	<u>-</u>
Total Long-Term Liabilities	<u>\$ 11,817,212</u>	<u>\$ 2,260,864</u>	<u>\$ 1,043</u>	<u>\$ 2,259,821</u>	<u>\$ 45,000</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	\$ 11,956,000	\$ -	\$ 947,000	\$ 11,009,000	\$ 959,000
Bond Discounts and Issuance Costs	(138,788)	-	(138,788)	-	-
	<u>(138,788)</u>	<u>-</u>	<u>(138,788)</u>	<u>-</u>	<u>-</u>
Total Long-Term Liabilities	<u>\$ 11,817,212</u>	<u>\$ -</u>	<u>\$ 808,212</u>	<u>\$ 11,009,000</u>	<u>\$ 959,000</u>

D. Conduit Debt Obligations

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

As of December 31, 2013, there were several issues outstanding. The bonds are not reported as liabilities in the accompanying financial statements. The outstanding balance at December 31, 2013 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. There were no lease payments made in 2013.

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

NOTE 8 – LONG-TERM DEBT

E. Operating Lease Obligations (Continued)

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>	
2014	\$ 45,000	\$ 80,468	\$ 125,468
2015	90,000	73,783	163,783
2016	92,500	72,792	165,292
2017	95,000	71,775	166,775
2018	95,000	70,445	165,445
2019-2023	505,000	315,119	820,119
2024-2028	575,000	221,530	796,530
2029-2033	677,500	98,429	775,929
2034	65,000	2,763	67,763
Total	<u>\$ 2,240,000</u>	<u>\$ 1,007,104</u>	<u>\$ 3,247,104</u>

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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.

	<u>General</u>	<u>Capital Improvements</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Nonspendable:				
Prepaid Expenses	\$ 74,305	\$ -	\$ 1,085	\$ 75,390
Restricted:				
Debt Service	-	-	2,071,794	2,071,794
Tax Increments	-	-	158,582	158,582
Urban Development Loans	-	-	130,013	130,013
Park Improvement	-	-	85,529	85,529
Property Confiscation	-	-	91,666	91,666
Community Projects	-	-	706	706
Small Cities Development Loans	-	-	5,699	5,699
Total Restricted	<u>-</u>	<u>-</u>	<u>2,543,989</u>	<u>2,543,989</u>
Assigned:				
Capital Improvements	-	3,250,066	-	3,250,066
Insurance Deductible	81,077	-	-	81,077
Cemetery Operation and Maintenance	-	-	15,210	15,210
Public Safety	-	-	8,345	8,345
Investigations	-	-	2,311	2,311
Felony Investigations	-	-	13,055	13,055
Solheim Field Improvements	-	-	9,345	9,345
Civic Center	-	-	30,979	30,979
Community Beautification	-	-	20,896	20,896
Fire Equipment	-	-	312,205	312,205
Disaster Relocation	-	-	126,263	126,263
Cemetery Perpetual Care	-	-	155,201	155,201
Arcadian Home Utilities	-	-	12,198	12,198
Total Assigned	<u>81,077</u>	<u>3,250,066</u>	<u>706,008</u>	<u>4,037,151</u>
Unassigned	<u>2,287,622</u>	<u>-</u>	<u>(1,102,377)</u>	<u>1,185,245</u>
Total	<u>\$ 2,443,004</u>	<u>\$ 3,250,066</u>	<u>\$ 2,148,705</u>	<u>\$ 7,841,775</u>

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, 2013

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 2013 is estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2013, there were no other claims liabilities reported in the Fund based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

NOTE 11 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association

A. Plan Description

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

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

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

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

NOTE 11 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

A. Plan Description (Continued)

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

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

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

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

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

NOTE 11 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These Statutes are established and amended by the State Legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2013. PEPFF members were required to contribute 9.6% of their annual covered salary in 2013. In 2013, the City was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.25% for Coordinated Plan members and 14.4% for PEPFF members. The City's contributions to the Public Employees' Retirement Fund for the years ending December 31, 2013, 2012 and 2011 were \$ 70,923, \$ 53,371 and \$ 56,090, respectively. The City's contributions to PEPFF for the years ending December 31, 2013, 2012 and 2011 were \$ 87,961, \$ 83,719 and \$ 82,471, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 12 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

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

B. Funding Policy

Retirees and their spouses contribute to the health care plan at the same rate as City employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the City, based on the contract terms with BlueCross BlueShield and Delta Dental. The required contributions are based on projected pay-as-you-go financing requirements. For 2013, the City contributed \$ 15,826 to the plan. As of December 31, 2013, 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 on the following page shows the components of the City's annual OPEB cost of the year, the amount actually contributed to the plan and changes in the City's net OPEB obligation to the plan.

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

NOTE 12 – POST EMPLOYMENT HEALTH CARE PLAN

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

ARC	\$ 30,063
Interest on Net OPEB obligation	2,807
Adjustment to ARC	(4,059)
Annual OPEB Cost (Expense)	28,811
Contributions Made	(15,826)
Increase in Net OPEB Obligation	12,985
Net OPEB Obligation - Beginning of Year	70,182
Net OPEB Obligation - End of Year	\$ 83,167

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

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/13	\$ 28,811	\$ 15,826	55%	\$ 83,167
12/31/12	28,479	14,654	51%	70,182
12/31/11	30,331	14,883	49%	56,357

D. Funded Status and Funding Progress

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

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

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

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

NOTE 12 – POST EMPLOYMENT HEALTH CARE PLAN

E. Actuarial Methods and Assumptions

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

At the December 31, 2012 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.0 % discount rate, which includes a 3.0% 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 5.0% 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, 2013, the City has entered into the following construction contracts.

Project	Contract	Expended Through 12/31/13	Commitment
Public Safety Building	\$ 1,908,260	\$ 1,812,791	\$ 95,469
Pond Decommissioning	801,400	688,116	113,284
Total	<u>\$ 2,709,660</u>	<u>\$ 2,500,907</u>	<u>\$ 208,753</u>

NOTE 14 – CHANGE IN ACCOUNTING PRINCIPLE

For the year ended December 31, 2013, the City implemented GASB Statement No. 61. This action resulted in an adjustment to the beginning net position for the EDA Component Unit and City of \$ 18,000 to reclassify the Public Safety Building Fund.

For the year ended December 31, 2013, the City implemented GASB Statement No. 65. This action resulted in an adjustment to the beginning net position on the Statement of Activities of \$ 86,163 to remove deferred charges no longer required to be capitalized in accordance with GASB Statement No. 65.

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

NOTE 15 – NEW STANDARDS INSUED 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.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PRINCETON

**SCHEDULE OF FUNDING PROGRESS – OTHER POST EMPLOYMENT BENEFITS
December 31, 2013**

<u>Year-End Date</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Estimated Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/09	12/31/09	\$ -	\$ 224,329	\$ 224,329	0%	\$ 1,613,894	13.9%
12/31/10	12/31/09	-	224,329	224,329	0%	1,613,894	13.9%
12/31/11	12/31/09	-	224,329	224,329	0%	1,613,894	13.9%
12/31/12	12/31/12	-	230,405	230,405	0%	1,618,649	14.2%
12/31/13	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, 2013**

	Special Revenue		
	Cemetery Operation and Maintenance (205)	Property Confiscation (210)	Public Safety and Awareness (211)
ASSETS			
Cash and Investments	\$ 14,744	\$ 91,876	\$ 8,345
Taxes Receivable - Delinquent	-	-	-
Special Assessment Receivable:			
Delinquent	-	-	-
Deferred	-	-	-
Accounts Receivable	500	-	-
Interest Receivable	-	-	-
Due from Other Governments	-	-	-
Notes Receivable	-	-	-
Land Held for Resale	-	-	-
Prepaid Expenses	810	-	-
Advance to Other Funds	-	-	-
	<u>16,054</u>	<u>91,876</u>	<u>8,345</u>
Total Assets	<u>\$ 16,054</u>	<u>\$ 91,876</u>	<u>\$ 8,345</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts and Contracts Payable	\$ 34	\$ 210	\$ -
Due to Other Funds	-	-	-
Due to Other Governments	-	-	-
Salaries and Benefits Payable	-	-	-
Unearned Revenue	-	-	-
Advance from Other Funds	-	-	-
	<u>34</u>	<u>210</u>	<u>-</u>
Total Liabilities	<u>34</u>	<u>210</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	810	-	-
Restricted	-	91,666	-
Assigned	15,210	-	8,345
Unassigned	-	-	-
	<u>16,020</u>	<u>91,666</u>	<u>8,345</u>
Total Fund Balances	<u>16,020</u>	<u>91,666</u>	<u>8,345</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 16,054</u>	<u>\$ 91,876</u>	<u>\$ 8,345</u>

CITY OF PRINCETON
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2013

	Special Revenue		
	Development Grants (252)	Development Expenses (253)	Fire Equipment Reserve (260)
ASSETS			
Cash and Investments	\$ -	\$ -	\$ 293,190
Taxes Receivable - Delinquent	-	-	-
Special Assessment Receivable:			
Delinquent	-	-	-
Deferred	-	-	-
Accounts Receivable	-	1,409	20,250
Interest Receivable	-	-	215
Due from Other Governments	-	-	-
Notes Receivable	-	-	-
Land Held for Resale	-	-	-
Prepaid Expenses	-	-	-
Advance to Other Funds	-	-	-
	-	-	-
Total Assets	\$ -	\$ 1,409	\$ 313,655
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts and Contracts Payable	\$ -	\$ 16,895	\$ 1,450
Due to Other Funds	70,535	149,291	-
Due to Other Governments	-	-	-
Salaries and Benefits Payable	-	-	-
Unearned Revenue	-	2,000	-
Advance from Other Funds	-	-	-
	-	-	-
Total Liabilities	70,535	168,186	1,450
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	-	-	312,205
Unassigned	(70,535)	(166,777)	-
	-	-	-
Total Fund Balances	(70,535)	(166,777)	312,205
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ -	\$ 1,409	\$ 313,655

Special Revenue

Fire Department Grants (261)	Disaster Relocation (262)	Small Cities Development Program (603)	Stormwater Management (601)	Neighborhood Stabilization Program (602)	Water Availability (701)
\$ 7	\$ 112,854	\$ 36,323	\$ -	\$ -	\$ 11,475
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	19,122	-	-	-	-
-	-	-	-	-	-
-	-	-	-	1	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 7</u>	<u>\$ 131,976</u>	<u>\$ 36,323</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 11,475</u>
\$ 4,339	\$ 4,213	\$ 28,699	\$ -	\$ -	\$ -
53,929	-	1,925	146,949	23,218	-
-	-	-	-	-	25,725
-	1,500	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>58,268</u>	<u>5,713</u>	<u>30,624</u>	<u>146,949</u>	<u>23,218</u>	<u>25,725</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	5,699	-	-	-
-	126,263	-	-	-	-
(58,261)	-	-	(146,949)	(23,217)	(14,250)
<u>(58,261)</u>	<u>126,263</u>	<u>5,699</u>	<u>(146,949)</u>	<u>(23,217)</u>	<u>(14,250)</u>
<u>\$ 7</u>	<u>\$ 131,976</u>	<u>\$ 36,323</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 11,475</u>

CITY OF PRINCETON

**COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2013**

	Special Revenue			
	Park Improvements (802)	Cemetery Perpetual Care (803)	UDAG No. 2 Downtown Project (814)	UDAG No. 5 Crystal Cabinets (820)
ASSETS				
Cash and Investments	\$ 85,529	\$ 154,246	\$ 50,970	\$ 56,278
Taxes Receivable - Delinquent	-	-	-	-
Special Assessment Receivable:				
Delinquent	-	-	-	-
Deferred	-	-	-	-
Accounts Receivable	-	-	-	-
Interest Receivable	-	955	2,350	75
Due from Other Governments	-	-	-	-
Notes Receivable	-	-	32,444	20,340
Land Held for Resale	-	-	-	-
Prepaid Expenses	-	-	-	-
Advance to Other Funds	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$ 85,529</u>	<u>\$ 155,201</u>	<u>\$ 85,764</u>	<u>\$ 76,693</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities				
Accounts and Contracts Payable	\$ -	\$ -	\$ -	\$ -
Due to Other Funds	-	-	-	-
Due to Other Governments	-	-	-	-
Salaries and Benefits Payable	-	-	-	-
Unearned Revenue	-	-	-	-
Advance from Other Funds	-	-	-	-
Total Liabilities	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	-	-
 Deferred Inflows of Resources				
Unavailable Revenue - Long-Term Assets	-	-	32,444	-
Unavailable Revenue - Property Taxes	-	-	-	-
Unavailable Revenue - Special Assessments	-	-	-	-
Total Deferred Inflows of Resources	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	32,444	-
 Fund Balances				
Nonspendable	-	-	-	-
Restricted	85,529	-	53,320	76,693
Assigned	-	155,201	-	-
Unassigned	-	-	-	-
Total Fund Balances	<hr/>	<hr/>	<hr/>	<hr/>
	85,529	155,201	53,320	76,693
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 85,529</u>	<u>\$ 155,201</u>	<u>\$ 85,764</u>	<u>\$ 76,693</u>

Special Revenue	Debt Service				
	Downtown Redevelopment Tax Increment (490)	1994 Library Project (494)	1999 Industrial Park Improvements (500)	2002/2003 1st Street Improvements (502)	Western Area Improvements (503)
Total					
\$ 993,196	\$ 17,782	\$ 2	\$ 278,346	\$ 155,876	\$ 102,578
-	-	-	149	165	6,129
-	-	-	-	12,012	3,357
-	-	-	-	8,472	311,376
22,159	-	-	-	-	-
3,595	-	-	-	-	-
19,122	-	-	-	-	-
52,784	-	-	-	-	-
1	-	-	-	-	-
1,085	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 1,091,942</u>	<u>\$ 17,782</u>	<u>\$ 2</u>	<u>\$ 278,495</u>	<u>\$ 176,525</u>	<u>\$ 423,440</u>
\$ 55,907	\$ -	\$ -	\$ -	\$ -	\$ -
445,847	-	-	-	-	-
25,725	-	-	-	-	14,873
1,500	-	-	-	-	-
2,000	-	-	-	1	10,262
-	-	-	-	-	-
<u>530,979</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>25,135</u>
32,444	-	-	-	-	-
-	-	-	149	165	6,129
-	-	-	-	20,484	314,733
<u>32,444</u>	<u>-</u>	<u>-</u>	<u>149</u>	<u>20,649</u>	<u>320,862</u>
1,085	-	-	-	-	-
313,613	17,782	2	278,346	155,875	77,443
693,810	-	-	-	-	-
(479,989)	-	-	-	-	-
<u>528,519</u>	<u>17,782</u>	<u>2</u>	<u>278,346</u>	<u>155,875</u>	<u>77,443</u>
<u>\$ 1,091,942</u>	<u>\$ 17,782</u>	<u>\$ 2</u>	<u>\$ 278,495</u>	<u>\$ 176,525</u>	<u>\$ 423,440</u>

CITY OF PRINCETON

**COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2013**

	Debt Services		
	2nd and 7th Improvements (504)	2005 21st Avenue Improvements (506)	2007 PUC Area Improvements (507)
ASSETS			
Cash and Investments	\$ 220,588	\$ 500,405	\$ 119,890
Taxes Receivable - Delinquent	186	2,496	160
Special Assessment Receivable:			
Delinquent	108	7,018	-
Deferred	32,743	318,829	113,823
Accounts Receivable	-	-	-
Interest Receivable	-	-	-
Due from Other Governments	-	-	-
Notes Receivable	-	-	-
Land Held for Resale	-	-	-
Prepaid Expenses	-	-	-
Advance to Other Funds	-	-	-
	<u>\$ 253,625</u>	<u>\$ 828,748</u>	<u>\$ 233,873</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts and Contracts Payable	\$ -	\$ -	\$ -
Due to Other Funds	-	-	-
Due to Other Governments	-	-	-
Salaries and Benefits Payable	-	-	-
Unearned Revenue	-	-	-
Advance from Other Funds	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
 Deferred Inflows of Resources			
Unavailable Revenue - Long-Term Assets	-	-	-
Unavailable Revenue - Property Taxes	186	2,496	160
Unavailable Revenue - Special Assessments	32,851	325,847	113,823
Total Deferred Inflows of Resources	<u>33,037</u>	<u>328,343</u>	<u>113,983</u>
 Fund Balances			
Nonspendable	-	-	-
Restricted	220,588	500,405	119,890
Assigned	-	-	-
Unassigned	-	-	-
Total Fund Balances	<u>220,588</u>	<u>500,405</u>	<u>119,890</u>
	<u>\$ 253,625</u>	<u>\$ 828,748</u>	<u>\$ 233,873</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 253,625</u>	<u>\$ 828,748</u>	<u>\$ 233,873</u>

Debt Services

G.O. Refunding Bonds, 2012B (512)	2000 Street and Utilities Improvements (530)	Revolving Account Fund (552)	1992 Street and Utilities (592)	1993 Street and Utilities (593)	1999 Street and Utilities Improvements (599)
\$ -	\$ 58,831	\$ 183,962	\$ 338,608	\$ 51,885	\$ -
-	-	-	96	-	103
-	-	-	-	-	-
-	5,929	49,189	(1,583)	3,356	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	70,150	-	-	-
<u>\$ -</u>	<u>\$ 64,760</u>	<u>\$ 303,301</u>	<u>\$ 337,121</u>	<u>\$ 55,241</u>	<u>\$ 103</u>
\$ -	\$ -	\$ 390	\$ -	\$ -	\$ -
124,344	-	-	-	-	79,913
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>124,344</u>	<u>-</u>	<u>390</u>	<u>-</u>	<u>-</u>	<u>79,913</u>
-	-	-	-	-	-
-	-	-	96	-	103
-	5,929	49,189	-	3,356	-
<u>-</u>	<u>5,929</u>	<u>49,189</u>	<u>96</u>	<u>3,356</u>	<u>103</u>
-	-	-	-	-	-
-	58,831	253,722	337,025	51,885	-
-	-	-	-	-	-
(124,344)	-	-	-	-	(79,913)
<u>(124,344)</u>	<u>58,831</u>	<u>253,722</u>	<u>337,025</u>	<u>51,885</u>	<u>(79,913)</u>
<u>\$ -</u>	<u>\$ 64,760</u>	<u>\$ 303,301</u>	<u>\$ 337,121</u>	<u>\$ 55,241</u>	<u>\$ 103</u>

CITY OF PRINCETON
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2013

	Debt Services	Capital Projects	
	Total	Heritage Village (305)	Northland/Old 18 Improvements (310)
ASSETS			
Cash and Investments	\$ 2,028,753	\$ -	\$ -
Taxes Receivable - Delinquent	9,484	-	-
Special Assessment Receivable:			
Delinquent	22,495	-	-
Deferred	842,134	-	-
Accounts Receivable	-	-	-
Interest Receivable	-	-	-
Due from Other Governments	-	-	-
Notes Receivable	-	-	-
Land Held for Resale	-	-	-
Prepaid Expenses	-	-	-
Advance to Other Funds	70,150	-	-
	<u>70,150</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 2,973,016</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts and Contracts Payable	\$ 390	\$ -	\$ -
Due to Other Funds	204,257	284,747	53,760
Due to Other Governments	14,873	-	-
Salaries and Benefits Payable	-	-	-
Unearned Revenue	10,263	-	-
Advance from Other Funds	-	-	-
Total Liabilities	<u>229,783</u>	<u>284,747</u>	<u>53,760</u>
Deferred Inflows of Resources			
Unavailable Revenue - Long-Term Assets	-	-	-
Unavailable Revenue - Property Taxes	9,484	-	-
Unavailable Revenue - Special Assessments	866,212	-	-
Total Deferred Inflows of Resources	<u>875,696</u>	<u>-</u>	<u>-</u>
Fund Balances			
Nonspendable	-	-	-
Restricted	2,071,794	-	-
Assigned	-	-	-
Unassigned	(204,257)	(284,747)	(53,760)
Total Fund Balances	<u>1,867,537</u>	<u>(284,747)</u>	<u>(53,760)</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 2,973,016</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF PRINCETON
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2013

	Capital Projects		
	District No. 3-6 Redevelopment District (392)	1997 Housing District (397)	Armory Redevelopment District (398)
ASSETS			
Cash and Investments	\$ 25,693	\$ 3,159	\$ 2,672
Taxes Receivable - Delinquent	733	-	-
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>\$ 26,426</u>	<u>\$ 3,159</u>	<u>\$ 2,672</u>
Total Assets	<u>\$ 26,426</u>	<u>\$ 3,159</u>	<u>\$ 2,672</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts and Contracts Payable	\$ -	\$ -	\$ -
Due to Other Funds	-	-	-
Due to Other Governments	-	-	-
Salaries and Benefits Payable	-	-	-
Unearned Revenue	-	-	-
Advance from Other Funds	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Deferred Inflows of Resources			
Unavailable Revenue - Long-Term Assets	-	-	-
Unavailable Revenue - Property Taxes	733	-	-
Unavailable Revenue - Special Assessments	-	-	-
	<u>733</u>	<u>-</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>733</u>	<u>-</u>	<u>-</u>
Fund Balances			
Nonspendable	-	-	-
Restricted	25,693	3,159	2,672
Assigned	-	-	-
Unassigned	-	-	-
	<u>25,693</u>	<u>3,159</u>	<u>2,672</u>
Total Fund Balances	<u>25,693</u>	<u>3,159</u>	<u>2,672</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 26,426</u>	<u>\$ 3,159</u>	<u>\$ 2,672</u>

Capital Projects

Industrial Park Development (821)	Total	Total Governmental Funds
\$ -	\$ 170,785	\$ 3,192,734
-	733	10,217
-	-	22,495
-	-	842,134
-	-	22,159
-	-	3,595
-	-	19,122
-	-	52,784
-	-	1
-	-	1,085
-	-	70,150
<u>\$ -</u>	<u>\$ 171,518</u>	<u>\$ 4,236,476</u>
\$ -	\$ 2,271	\$ 58,568
3,738	345,715	995,819
-	-	40,598
-	-	1,500
-	-	12,263
-	70,150	70,150
<u>3,738</u>	<u>418,136</u>	<u>1,178,898</u>
-	-	32,444
-	733	10,217
-	-	866,212
<u>-</u>	<u>733</u>	<u>908,873</u>
-	-	1,085
-	158,582	2,543,989
-	12,198	706,008
(3,738)	(418,131)	(1,102,377)
<u>(3,738)</u>	<u>(247,351)</u>	<u>2,148,705</u>
<u>\$ -</u>	<u>\$ 171,518</u>	<u>\$ 4,236,476</u>

CITY OF PRINCETON

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2013**

	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	27,870	12,032	-
Miscellaneous:			
Investment Income	-	(92)	(6)
Contributions and Donations	-	20,501	-
Other	400	1,012	3,375
Total Revenues	<u>28,270</u>	<u>33,453</u>	<u>3,369</u>
EXPENDITURES			
Current			
General Government	-	-	-
Public Safety	-	14,956	1,209
Cemetery	23,202	-	-
Public Works	-	-	-
Parks and Recreation	-	-	-
Economic Development	-	-	-
Debt Service			
Principal	-	-	-
Interest and Other Charges	-	-	-
Capital Outlay			
Public Safety	-	60,704	-
Cemetery	31,864	-	-
Parks and Recreation	-	-	-
Economic Development	-	-	-
Total Expenditures	<u>55,066</u>	<u>75,660</u>	<u>1,209</u>
Excess of Revenues Over (Under) Expenditures	(26,796)	(42,207)	2,160
OTHER FINANCING SOURCES (USES)			
Bond Refunding Payment	-	-	-
Transfers In	32,539	-	-
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	<u>32,539</u>	<u>-</u>	<u>-</u>
SPECIAL ITEM			
Write off of Bad Debt	-	-	-
Net Change in Fund Balances	5,743	(42,207)	2,160
FUND BALANCES			
Beginning of Year	10,277	133,873	6,185
Change in Accounting Principle (See Note 14)	-	-	-
Beginning of Year, Restated	<u>10,277</u>	<u>133,873</u>	<u>6,185</u>
End of Year	<u>\$ 16,020</u>	<u>\$ 91,666</u>	<u>\$ 8,345</u>

Special Revenue

Investigation Information Buy Fund (212)	Felony Investigation (214)	Solheim Field Improvements (216)	Civic Center (240)	Community Beautification (242)	Community Projects (250)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	(12)	(8)	(28)	(16)	-
-	-	-	1,205	-	-
-	-	-	-	300	3,300
<u>-</u>	<u>(12)</u>	<u>(8)</u>	<u>1,177</u>	<u>284</u>	<u>3,300</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	1,684	3,339	226	3,000
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	5,595	-	-
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>1,684</u>	<u>8,934</u>	<u>226</u>	<u>3,000</u>
-	(12)	(1,692)	(7,757)	58	300
-	-	-	-	-	-
-	-	1,600	3,000	2,500	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>1,600</u>	<u>3,000</u>	<u>2,500</u>	<u>-</u>
-	-	-	-	-	-
-	(12)	(92)	(4,757)	2,558	300
2,311	13,067	9,437	36,011	18,338	406
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>2,311</u>	<u>13,067</u>	<u>9,437</u>	<u>36,011</u>	<u>18,338</u>	<u>406</u>
<u>\$ 2,311</u>	<u>\$ 13,055</u>	<u>\$ 9,345</u>	<u>\$ 31,254</u>	<u>\$ 20,896</u>	<u>\$ 706</u>

CITY OF PRINCETON

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2013**

	Special Revenue		
	Development Grants (252)	Development Expenses (253)	Fire Equipment Reserve (260)
REVENUES			
Property Taxes	\$ -	\$ -	\$ -
Tax Increments	-	-	-
Special Assessments	-	-	-
Intergovernmental	-	-	2,717
Charges for Services	-	-	7,105
Miscellaneous:			
Investment Income	-	-	25
Contributions and Donations	-	-	-
Other	-	-	7,600
Total Revenues	-	-	17,447
EXPENDITURES			
Current			
General Government	-	-	-
Public Safety	-	-	3,818
Cemetery	-	-	-
Public Works	-	-	-
Parks and Recreation	-	-	-
Economic Development	-	43,344	-
Debt Service			
Principal	-	-	-
Interest and Other Charges	-	-	-
Capital Outlay			
Public Safety	-	-	19,276
Cemetery	-	-	-
Parks and Recreation	-	-	-
Economic Development	-	-	-
Total Expenditures	-	43,344	23,094
Excess of Revenues Over (Under) Expenditures	-	(43,344)	(5,647)
OTHER FINANCING SOURCES (USES)			
Bond Refunding Payment	-	-	-
Transfers In	-	-	45,482
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	-	-	45,482
SPECIAL ITEM			
Write off of Bad Debt	-	-	-
Net Change in Fund Balances	-	(43,344)	39,835
FUND BALANCES			
Beginning of Year	(70,535)	(123,433)	272,370
Change in Accounting Principle (See Note 14)	-	-	-
Beginning of Year, Restated	(70,535)	(123,433)	272,370
End of Year	\$ (70,535)	\$ (166,777)	\$ 312,205

Special Revenue

Fire Department Grants (261)	Disaster Relocation (262)	Small Cities Development Program (603)	Stormwater Management (601)	Neighborhood Stabilization Program (602)	Water Availability (701)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	41,928	177,445	-	-	-
-	-	-	-	-	22,256
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	16,000	-
-	41,928	177,445	-	16,000	22,256
-	-	-	-	-	-
48,528	28,066	-	-	-	-
-	-	-	-	-	-
-	-	-	249	-	36,506
-	-	-	-	-	-
-	-	171,605	-	15,321	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	5,171	-
48,528	28,066	171,605	249	20,492	36,506
(48,528)	13,862	5,840	(249)	(4,492)	(14,250)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
(48,528)	13,862	5,840	(249)	(4,492)	(14,250)
(9,733)	112,401	(141)	(146,700)	(18,725)	-
-	-	-	-	-	-
(9,733)	112,401	(141)	(146,700)	(18,725)	-
\$ (58,261)	\$ 126,263	\$ 5,699	\$ (146,949)	\$ (23,217)	\$ (14,250)

CITY OF PRINCETON

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2013**

	Special Revenue		
	Park Improvements (802)	Cemetery Perpetual Care (803)	UDAG No. 2 Downtown Project (814)
REVENUES			
Property Taxes	\$ -	\$ -	\$ -
Tax Increments	-	-	-
Special Assessments	-	-	-
Intergovernmental	-	-	1,518
Charges for Services	-	1,865	-
Miscellaneous:			
Investment Income	(87)	678	946
Contributions and Donations	-	-	-
Other	100	-	-
Total Revenues	13	2,543	2,464
EXPENDITURES			
Current			
General Government	-	-	-
Public Safety	-	-	-
Cemetery	-	-	-
Public Works	-	-	-
Parks and Recreation	7,799	-	-
Economic Development	-	-	-
Debt Service			
Principal	-	-	-
Interest and Other Charges	-	-	-
Capital Outlay			
Public Safety	-	-	-
Cemetery	-	-	-
Parks and Recreation	13,314	-	-
Economic Development	-	-	-
Total Expenditures	21,113	-	-
Excess of Revenues Over (Under) Expenditures	(21,100)	2,543	2,464
OTHER FINANCING SOURCES (USES)			
Bond Refunding Payment	-	-	-
Transfers In	-	-	-
Transfers Out	(800)	(675)	-
Total Other Financing Sources (Uses)	(800)	(675)	-
SPECIAL ITEM			
Write off of Bad Debt	-	-	-
Net Change in Fund Balances	(21,900)	1,868	2,464
FUND BALANCES			
Beginning of Year	107,429	153,333	50,856
Change in Accounting Principle (See Note 14)	-	-	-
Beginning of Year, Restated	107,429	153,333	50,856
End of Year	\$ 85,529	\$ 155,201	\$ 53,320

Special Revenue		Debt Service				
UDAG No. 5 Crystal Cabinets (820)	Total	Downtown Redevelopment Tax Increment (490)	1994 Library Project (494)	1999 Industrial Park Improvements (500)	2002/2003 1st Street Improvements (502)	Western Area Improvements (503)
\$ -	\$ -	\$ -	\$ 2	\$ 33	\$ 80	\$ 90,880
-	-	-	-	-	-	-
-	-	-	-	-	47,541	59,100
-	223,608	-	-	-	-	-
-	71,128	-	-	-	-	-
1,430	2,830	(16)	-	(248)	(83)	(6)
-	21,706	-	-	-	-	-
-	32,087	1,660	-	-	-	-
<u>1,430</u>	<u>351,359</u>	<u>1,644</u>	<u>2</u>	<u>(215)</u>	<u>47,538</u>	<u>149,974</u>
-	-	-	-	-	-	-
-	96,577	-	-	-	-	-
-	23,202	-	-	-	-	-
-	36,755	-	-	-	-	-
-	16,048	-	-	-	-	-
-	230,270	-	-	-	-	26,727
-	-	-	-	-	60,000	140,000
-	-	-	-	-	1,335	34,158
-	79,980	-	-	-	-	-
-	31,864	-	-	-	-	-
-	18,909	-	-	-	-	-
-	5,171	-	-	-	-	-
-	<u>538,776</u>	-	-	-	<u>61,335</u>	<u>200,885</u>
1,430	(187,417)	1,644	2	(215)	(13,797)	(50,911)
-	-	-	-	-	-	-
-	85,121	-	-	-	-	-
-	<u>(1,475)</u>	-	-	-	-	-
-	83,646	-	-	-	-	-
<u>(22,745)</u>	<u>(22,745)</u>	-	-	-	-	-
(21,315)	(126,516)	1,644	2	(215)	(13,797)	(50,911)
98,008	655,035	16,138	-	278,561	169,672	128,354
-	-	-	-	-	-	-
<u>98,008</u>	<u>655,035</u>	<u>16,138</u>	<u>-</u>	<u>278,561</u>	<u>169,672</u>	<u>128,354</u>
<u>\$ 76,693</u>	<u>\$ 528,519</u>	<u>\$ 17,782</u>	<u>\$ 2</u>	<u>\$ 278,346</u>	<u>\$ 155,875</u>	<u>\$ 77,443</u>

CITY OF PRINCETON

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2013

	Debt Service		
	2nd and 7th Improvements (504)	2005 21st Avenue Improvements (506)	2007 PUC Area Improvements (507)
REVENUES			
Property Taxes	\$ 98	\$ 20,834	\$ 2,526
Tax Increments	-	-	-
Special Assessments	35,170	52,788	23,520
Intergovernmental	-	-	-
Charges for Services	-	-	-
Miscellaneous:			
Investment Income	(134)	(392)	(92)
Contributions and Donations	-	-	-
Other	-	-	-
Total Revenues	<u>35,134</u>	<u>73,230</u>	<u>25,954</u>
EXPENDITURES			
Current			
General Government	-	-	-
Public Safety	-	-	-
Cemetery	-	-	-
Public Works	-	-	-
Parks and Recreation	-	-	-
Economic Development	-	-	-
Debt Service			
Principal	-	-	12,000
Interest and Other Charges	-	14,678	7,536
Capital Outlay			
Public Safety	-	-	-
Cemetery	-	-	-
Parks and Recreation	-	-	-
Economic Development	-	-	-
Total Expenditures	<u>-</u>	<u>14,678</u>	<u>19,536</u>
Excess of Revenues Over (Under) Expenditures	35,134	58,552	6,418
OTHER FINANCING SOURCES (USES)			
Bond Refunding Payment	-	(740,000)	-
Transfers In	-	-	-
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>(740,000)</u>	<u>-</u>
SPECIAL ITEM			
Write off of Bad Debt	-	-	-
Net Change in Fund Balances	35,134	(681,448)	6,418
FUND BALANCES			
Beginning of Year	185,454	1,181,853	113,472
Change in Accounting Principle (See Note 14)	-	-	-
Beginning of Year, Restated	<u>185,454</u>	<u>1,181,853</u>	<u>113,472</u>
End of Year	<u>\$ 220,588</u>	<u>\$ 500,405</u>	<u>\$ 119,890</u>

Debt Service

G.O. Refunding Bonds, 2012B (512)	2000 Street and Utilities Improvements (530)	Revolving Account Fund (552)	1992 Street and Utilities (592)	1993 Street and Utilities (593)	1999 Street and Utilities Improvements (599)
\$ -	\$ -	\$ -	\$ 41	\$ -	\$ 17
-	-	-	-	-	-
-	3,233	-	(2,000)	3,554	-
-	-	-	-	-	-
-	-	-	-	-	-
-	(50)	(188)	(302)	(44)	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>-</u>	<u>3,183</u>	<u>(188)</u>	<u>(2,261)</u>	<u>3,510</u>	<u>17</u>
-	-	31,056	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
115,000	-	-	-	-	-
9,344	-	-	-	1,125	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>124,344</u>	<u>-</u>	<u>31,056</u>	<u>-</u>	<u>1,125</u>	<u>-</u>
(124,344)	3,183	(31,244)	(2,261)	2,385	17
-	-	-	-	-	-
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(124,344)	3,183	(31,244)	(2,261)	2,385	17
-	55,648	284,966	339,286	49,500	(79,930)
-	-	-	-	-	-
<u>-</u>	<u>55,648</u>	<u>284,966</u>	<u>339,286</u>	<u>49,500</u>	<u>(79,930)</u>
<u>\$ (124,344)</u>	<u>\$ 58,831</u>	<u>\$ 253,722</u>	<u>\$ 337,025</u>	<u>\$ 51,885</u>	<u>\$ (79,913)</u>

CITY OF PRINCETON

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2013

	Debt Service	Capital Projects	
		Heritage Village (305)	Northland/Old 18 Improvements (310)
	Total		
REVENUES			
Property Taxes	\$ 114,511	\$ -	\$ -
Tax Increments	-	-	-
Special Assessments	222,906	-	-
Intergovernmental	-	-	-
Charges for Services	-	-	-
Miscellaneous:			
Investment Income	(1,555)	-	-
Contributions and Donations	-	-	-
Other	1,660	-	-
Total Revenues	<u>337,522</u>	<u>-</u>	<u>-</u>
EXPENDITURES			
Current			
General Government	31,056	-	-
Public Safety	-	-	-
Cemetery	-	-	-
Public Works	-	-	-
Parks and Recreation	-	-	-
Economic Development	26,727	-	-
Debt Service			
Principal	327,000	-	-
Interest and Other Charges	68,176	-	-
Capital Outlay			
Public Safety	-	-	-
Cemetery	-	-	-
Parks and Recreation	-	-	-
Economic Development	-	-	-
Total Expenditures	<u>452,959</u>	<u>-</u>	<u>-</u>
Excess of Revenues Over (Under) Expenditures	(115,437)	-	-
OTHER FINANCING SOURCES (USES)			
Bond Refunding Payment	(740,000)	-	-
Transfers In	-	-	-
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	<u>(740,000)</u>	<u>-</u>	<u>-</u>
SPECIAL ITEM			
Write off of Bad Debt	-	-	-
Net Change in Fund Balances	(855,437)	-	-
FUND BALANCES			
Beginning of Year	2,722,974	(284,747)	(53,760)
Change in Accounting Principle (See Note 14)	-	-	-
Beginning of Year, Restated	<u>2,722,974</u>	<u>(284,747)</u>	<u>(53,760)</u>
End of Year	<u>\$ 1,867,537</u>	<u>\$ (284,747)</u>	<u>\$ (53,760)</u>

Capital Projects

Public Safety Building (313)	Arcadian Homes Utility Project (328)	District No. 3-7 Redevelopment District (329)	2000 Street and Utility Improvements (330)	Rum River Redevelopment District (389)	Railroad Property Redevelopment (390)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	43,319	-	17,176	15,584
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	43,319	-	17,176	15,584
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	38,986	-	17,176	-
-	-	38,986	-	17,176	-
-	-	-	-	-	-
-	-	4,333	-	-	15,584
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	4,333	-	-	15,584
(18,000)	12,198	(10,074)	(70,145)	16,247	88,168
18,000	-	-	-	-	-
-	12,198	(10,074)	(70,145)	16,247	88,168
\$ -	\$ 12,198	\$ (5,741)	\$ (70,145)	\$ 16,247	\$ 103,752

CITY OF PRINCETON

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2013**

	Capital Projects		
	District No. 3-5 Redevelopment District (391)	District No. 3-6 Redevelopment District (392)	1997 Housing District (397)
REVENUES			
Property Taxes	\$ -	\$ -	\$ -
Tax Increments	8,095	33,023	9,999
Special Assessments	-	-	-
Intergovernmental	-	-	-
Charges for Services	-	-	-
Miscellaneous:			
Investment Income	-	-	-
Contributions and Donations	-	-	-
Other	-	-	-
Total Revenues	<u>8,095</u>	<u>33,023</u>	<u>9,999</u>
EXPENDITURES			
Current			
General Government	-	-	-
Public Safety	-	-	-
Cemetery	-	-	-
Public Works	-	-	-
Parks and Recreation	-	-	-
Economic Development	-	-	-
Debt Service			
Principal	-	-	-
Interest and Other Charges	-	-	-
Capital Outlay			
Public Safety	-	-	-
Cemetery	-	-	-
Parks and Recreation	-	-	-
Economic Development	8,095	33,023	10,000
Total Expenditures	<u>8,095</u>	<u>33,023</u>	<u>10,000</u>
Excess of Revenues Over (Under) Expenditures	-	-	(1)
OTHER FINANCING SOURCES (USES)			
Bond Refunding Payment	-	-	-
Transfers In	-	-	-
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
SPECIAL ITEM			
Write off of Bad Debt	-	-	-
Net Change in Fund Balances	-	-	(1)
FUND BALANCES			
Beginning of Year	7,059	25,693	3,160
Change in Accounting Principle (See Note 14)	-	-	-
Beginning of Year, Restated	<u>7,059</u>	<u>25,693</u>	<u>3,160</u>
End of Year	<u>\$ 7,059</u>	<u>\$ 25,693</u>	<u>\$ 3,159</u>

Capital Projects

Armory Redevelopment District (398)	Industrial Park Development (821)	Total	Total Other Governmental Funds
\$ -	\$ -	\$ -	\$ 114,511
10,274	-	137,470	137,470
-	-	-	222,906
-	-	-	223,608
-	-	-	71,128
-	-	-	1,275
-	-	-	21,706
-	-	-	33,747
<u>10,274</u>	<u>-</u>	<u>137,470</u>	<u>826,351</u>
-	-	-	31,056
-	-	-	96,577
-	-	-	23,202
-	-	-	36,755
-	-	-	16,048
-	-	-	256,997
-	-	-	327,000
-	-	-	68,176
-	-	-	79,980
-	-	-	31,864
-	-	-	18,909
10,275	263	117,818	122,989
<u>10,275</u>	<u>263</u>	<u>117,818</u>	<u>1,109,553</u>
(1)	(263)	19,652	(283,202)
-	-	-	(740,000)
-	-	-	85,121
-	-	-	(1,475)
-	-	-	(656,354)
-	-	-	(22,745)
(1)	(263)	19,652	(962,301)
2,673	(3,475)	(285,003)	3,093,006
-	-	18,000	18,000
<u>2,673</u>	<u>(3,475)</u>	<u>(267,003)</u>	<u>3,111,006</u>
<u>\$ 2,672</u>	<u>\$ (3,738)</u>	<u>\$ (247,351)</u>	<u>\$ 2,148,705</u>

CITY OF PRINCETON

BALANCE SHEET - ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT

December 31, 2013

	Economic Development Authority (600)	EDA Public Safety Building (313)	Total
ASSETS			
Investments with Fiscal Agent	\$ 745,010	\$ -	\$ 745,010
Taxes Receivable - Delinquent	1,211	-	1,211
Land Held for Resale	440,000	-	440,000
Prepaid Expenses	70	-	70
	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$ 1,186,291</u>	<u>\$ -</u>	<u>\$ 1,186,291</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts and Contracts Payable	\$ 3,088	\$ 204,508	\$ 207,596
Due to Other Governments	755,854	454,302	1,210,156
Salaries and Benefits Payable	1,093	-	1,093
Interest Payable	3,302	-	3,302
	<hr/>	<hr/>	<hr/>
Total Liabilities	<u>763,337</u>	<u>658,810</u>	<u>1,422,147</u>
Deferred Inflows of Resources			
Unavailable Revenue - Property Taxes	1,211	-	1,211
	<hr/>	<hr/>	<hr/>
Fund Balances			
Unassigned	421,743	(658,810)	(237,067)
	<hr/>	<hr/>	<hr/>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 1,186,291</u>	<u>\$ -</u>	<u>\$ 1,186,291</u>
Total Fund Balance - Economic Development Authority Component Unit			\$ (237,067)
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.			
Cost of Capital Assets			2,272,967
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			(19,821)
Governmental funds do not report a liability for accrued interest due and payable.			(37,139)
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/> 1,211
Total Net Position - Economic Development Authority Component Unit			<u>\$ (259,849)</u>

CITY OF PRINCETON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT
For the Year Ended December 31, 2013

	Economic Development Authority (600)	EDA Public Safety Building (313)	Total
REVENUES			
Property Taxes	\$ 18,070	\$ -	\$ 18,070
Intergovernmental	173,023	-	173,023
Miscellaneous:			
Investment Income	68	-	68
Contributions and Donations	-	3,300	3,300
Other	439	7,852	8,291
Total Revenues	<u>191,600</u>	<u>11,152</u>	<u>202,752</u>
EXPENDITURES			
Current			
Economic Development	217,201	-	217,201
Debt Service			
Interest and Other Charges	80,840	-	80,840
Capital Outlay			
Public Safety	-	2,256,718	2,256,718
Total Expenditures	<u>298,041</u>	<u>2,256,718</u>	<u>2,554,759</u>
Excess of Revenues Over	(106,441)	(2,245,566)	(2,352,007)
OTHER FINANCING SOURCES (USES)			
Issuance on Long-Term Debt, Net	2,240,000	-	2,240,000
Bond Premium	20,864	-	20,864
Transfers In	-	1,604,756	1,604,756
Transfers Out	(1,604,756)	-	(1,604,756)
Total Other Financing Sources (Uses)	<u>656,108</u>	<u>1,604,756</u>	<u>2,260,864</u>
Net Change in Fund Balances	549,667	(640,810)	(91,143)
FUND BALANCES			
Beginning of Year	(127,924)	-	(127,924)
Change in Accounting Principle (See Note 14)	-	(18,000)	(18,000)
Beginning of Year, Restated	<u>(127,924)</u>	<u>(18,000)</u>	<u>(145,924)</u>
End of Year	<u>\$ 421,743</u>	<u>\$ (658,810)</u>	<u>\$ (237,067)</u>
Net Change in Fund Balances - Economic Development Authority Component Unit			\$ (91,143)

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

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

Capital Outlays 2,272,967

Premiums on Bonds Issued are recognized as an other financing source in the governmental
funds but are allocated over the term of the bond payable in the Statement of Activities.

(20,864)

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.

(37,139)

The issuance of long-term debt (e.g., bonds, leases) provides current
financial resources to governmental funds, while the repayment of the
principal of long-term debt consumes the current financial resources
of governmental funds. Neither transaction, however, has any effect
on net assets. This amount is the net effect of these
differences in the treatment of long-term debt and related items.

(2,240,000)

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 (76)

Change in Net Position - Economic Development Authority Component Unit

\$ (115,212)

CITY OF PRINCETON

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
Property Taxes	\$ 1,913,030	\$ 2,002,455	\$ 2,009,679	\$ 7,224
Licenses and Permits	128,180	84,045	108,256	24,211
Intergovernmental Revenue				
Local Government Aid	612,830	612,831	612,831	-
Fire Aid	41,630	48,410	62,123	13,713
Police Aid	75,000	74,999	83,382	8,383
Other Grants and Aids	18,500	8,610	9,813	1,203
Total Intergovernmental Revenue	747,960	744,850	768,149	23,299
Charges for Services				
General Government	73,395	73,955	74,076	121
Public Safety	137,245	141,095	144,054	2,959
Public Works	1,650	2,500	3,393	893
Parks and Recreation	32,500	32,535	33,105	570
Total Charges for Services	244,790	250,085	254,628	4,543
Fines or Forfeitures	37,000	33,620	30,296	(3,324)
Miscellaneous Revenues				
Investment Income	10,400	12,400	(1,780)	(14,180)
Other	85,450	97,405	96,188	(1,217)
Total Miscellaneous Revenues	95,850	109,805	94,408	(15,397)
Total Revenues	3,166,810	3,224,860	3,265,416	40,556
EXPENDITURES				
General Government				
Mayor and Council	29,180	29,010	28,029	(981)
Administrative and Finance	322,135	324,390	321,302	(3,088)
Other General Government	546,790	384,980	240,803	(144,177)
Capital Outlay	114,000	63,880	42,129	(21,751)
Total General Government	1,012,105	802,260	632,263	(169,997)

CITY OF PRINCETON

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final		
EXPENDITURES				
Public Safety				
Police:				
Current	\$ 1,056,030	\$ 1,072,918	\$ 1,064,531	\$ (8,387)
Capital Outlay	224,350	155,000	38,627	(116,373)
Total Police	<u>1,280,380</u>	<u>1,227,918</u>	<u>1,103,158</u>	<u>(124,760)</u>
Fire:				
Current	198,735	194,765	187,814	(6,951)
Other:				
Current	89,805	89,720	125,652	35,932
Total Public Safety	<u>1,568,920</u>	<u>1,512,403</u>	<u>1,416,624</u>	<u>(95,779)</u>
Public Works				
Streets and Highways:				
Street Maintenance and Storm Sewers	598,725	629,855	665,382	35,527
Street Construction Capital Outlay	27,500	-	-	-
Street - Other Capital Outlay	50,000	-	-	-
Total Public Works	<u>676,225</u>	<u>629,855</u>	<u>665,382</u>	<u>35,527</u>
Parks and Recreation				
Libraries:				
Current Expenditures	42,370	44,575	40,290	(4,285)
Other Parks and Recreation:				
Current Expenditures	203,870	165,160	178,956	13,796
Capital Outlay	11,000	-	-	-
Total Other Parks and Recreation	<u>214,870</u>	<u>165,160</u>	<u>178,956</u>	<u>13,796</u>
Total Parks and Recreation	<u>257,240</u>	<u>209,735</u>	<u>219,246</u>	<u>9,511</u>
Economic Development				
Economic Development:				
Current Expenditures	-	-	31,367	31,367
Total Expenditures	<u>3,514,490</u>	<u>3,154,253</u>	<u>2,965,423</u>	<u>(188,830)</u>
Excess of Revenues Over (Under) Expenditures	(347,680)	70,607	299,993	229,386

CITY OF PRINCETON

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget -</u>
	<u>Original</u>	<u>Final</u>		
OTHER FINANCING SOURCES (USES)				
Payment in Lieu of Taxes -				
Component Unit	\$ 52,500	\$ 52,500	\$ 52,500	\$ -
Transfers In	368,350	-	-	-
Transfers Out	<u>(72,640)</u>	<u>(75,285)</u>	<u>(269,282)</u>	<u>(193,997)</u>
Total Other Financing Sources				
(Uses)	<u>348,210</u>	<u>(22,785)</u>	<u>(216,782)</u>	<u>(193,997)</u>
Net Change in Fund Balances	<u>\$ 530</u>	<u>\$ 47,822</u>	83,211	<u>\$ 35,389</u>
FUND BALANCES				
Beginning of Year			<u>2,359,793</u>	
End of Year			<u>\$ 2,443,004</u>	

CITY OF PRINCETON

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2013**

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	\$ 177,445
U.S. Department of Homeland Security		
Through Minnesota Department of Public Safety: Disaster Grants - Public Assistance	97.036	110
U.S. Department of Agriculture		
Through Minnesota Department of Agriculture Cooperative Forestry Assistance	10.664	2,717
U.S. Department of Agriculture		
Received Directly Water and Waste Disposal Systems for Rural Communities	10.760	<u>1,003,779</u>
Total Federal Expenditures		<u><u>\$ 1,184,051</u></u>

CITY OF PRINCETON

NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2013

NOTE 1 – BASIS OF PRESENTATION

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



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**INDEPENDENT AUDITOR'S 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, 2013, 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 10, 2014. 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 06-01, which we consider to be a significant deficiency in internal control over financial reporting.

Compliance and Other Matters

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

City's Response to Findings

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

Purpose of this Report

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

Kern, DeWenter, Viere, Ltd.
KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
June 10, 2014



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

INDEPENDENT AUDITOR'S REPORT

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

Report on Compliance for Each Major Federal Program

We have audited the City of Princeton, Minnesota's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2013. 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 of Princeton'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, 2013.

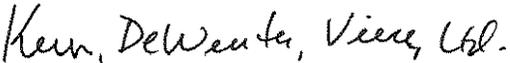
Report on Internal Control Over Compliance

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

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

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

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


KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
June 10, 2014

CITY OF PRINCETON

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
December 31, 2013**

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 06-01
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, 2013**

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 06-01

Criteria or Specific Requirement:

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

Condition:

During the year ended December 31, 2013, 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, 2013**

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 06-01 (Continued)

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

SECTION IV – PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

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REPORT ON LEGAL COMPLIANCE

INDEPENDENT AUDITOR'S REPORT

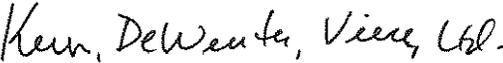
Honorable Mayor and Members
of the City Council
City of Princeton
Princeton, Minnesota

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, 2013, and the related Notes to the Financial Statements and have issued our report thereon dated June 10, 2014. 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*, except as described in the *Schedule of Findings and Responses on Legal Compliance*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

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


KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota
June 10, 2014

CITY OF PRINCETON

**SCHEDULE OF FINDINGS AND RESPONSES ON LEGAL
COMPLIANCE
December 31, 2013**

CURRENT YEAR LEGAL COMPLIANCE FINDING:

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.

We recommend the City monitor the collateral held at all banks during the year to ensure the City's deposits are adequately secured in compliance with statutes.

City's Response:

The City will ensure Bremer Bank reports the City collateral amounts quarterly to ensure adequate coverage.

CURRENT AND PRIOR YEAR LEGAL COMPLIANCE FINDING:

Prompt Payment to Subcontractors

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

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

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

City's Response:

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