

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

**AUDITED FINANCIAL STATEMENTS**

**For the Fiscal Year Ended December 31, 2010**

# CITY OF PRINCETON

## TABLE OF CONTENTS

<b>ELECTED OFFICIALS AND ADMINISTRATION</b> .....	1	
<b>INDEPENDENT AUDITOR’S REPORT</b> .....	2	
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS</b> .....	5	
<b>BASIC FINANCIAL STATEMENTS</b>		
Government-Wide Financial Statements:		
Statement of Net Assets .....	16	
Statement of Activities.....	17	
Fund Financial Statements:		
Balance Sheet – Governmental Funds .....	18	
Reconciliation of the Balance Sheet to the Statement of Net Assets – Governmental Funds.....	21	
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	22	
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities – Governmental Funds .....	24	
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund .....	25	
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Economic Development Authority Special Revenue Fund .....	26	
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Neighborhood Stabilization Program Special Revenue Fund .....	27	
Statement of Net Assets – Proprietary Funds .....	28	
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds.....	29	
Statement of Cash Flows – Proprietary Funds.....	30	
Notes to the Financial Statements.....	31	
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>		
Schedule of Funding Progress – Other Post Employment Benefits.....	60	
<b>SUPPLEMENTARY INFORMATION</b>		
Combining Balance Sheet – Nonmajor Governmental Funds .....	62	
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds.....	72	
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund.....	81	
Schedule of Expenditures of Federal Awards.....	85	
Note to the Schedule of Expenditures of Federal Awards .....	86	
<b>REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b> .....		87

**CITY OF PRINCETON**

**TABLE OF CONTENTS**

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD  
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB *CIRCULAR A-133* ..... 89**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS IN ACCORDANCE  
WITH OMB *CIRCULAR A-133* ..... 91**

**REPORT ON LEGAL COMPLIANCE ..... 95**

**SCHEDULE OF FINDINGS AND CORRECTIVE ACTION PLANS ON LEGAL  
COMPLIANCE..... 96**

**CITY OF PRINCETON**  
**ELECTED OFFICIALS AND ADMINISTRATION**  
**December 31, 2010**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Jeremy Riddle	Mayor	December 31, 2010
Lee Steinbrecher	Council Member	December 31, 2010
Paul Whitcomb	Council Member	December 31, 2010
Dick Dobson	Council Member	December 31, 2012
Victoria Hallin	Council Member	December 31, 2012
<u>Administration</u>		
Mark Karnowski	City Administrator	
Steven L. Jackson	Finance Director	
Katie Hunter	City Clerk	
Karen Hodge	Finance Clerk	



*Expert advice. When you need it.<sup>SM</sup>*

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Princeton, Minnesota, as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Princeton Public Utilities Commission, which represent 100% of the assets and revenues of the 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 U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our report and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Princeton, Minnesota, as of December 31, 2010, and the respective changes in financial position and cash flows and where applicable, thereof, and the respective budgetary comparison for the General, Economic Development Authority and Neighborhood Stabilization Program Funds for the year then ended in conformity with U.S. generally accepted accounting principles.

The City has implemented Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* for the year ended December 31, 2010.



In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2011, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis, which follows this report letter, and the Schedule of Funding Progress – Other Post Employment Benefits (OPEB) on page 60, are presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated, in all material respects in relation to the financial statements as a whole.

*Kern, DeWenter, Viere, Ltd.*

KERN, DEWENTER, VIERE, LTD.

St. Cloud, Minnesota

June 10, 2011

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**CITY OF PRINCETON**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2010**

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 fiscal year ended December 31, 2010.

**FINANCIAL HIGHLIGHTS**

- The assets of the City exceeded its liabilities at the close of the recent fiscal year by \$ 26,210,035 (net assets) which is an increase of \$ 550,804 (2.15%) over the December 31, 2009 amount. Of this amount, \$ 6,256,206 for 2010 and \$ 6,835,219 for 2009 were unrestricted net assets available to be used to meet the City's ongoing obligations to citizens and creditors.
- Of the City's total net assets increase of \$ 550,804 during the 2010 fiscal year, only \$71,617 came from the governmental funds. The remainder of the increase, \$ 479,187, came from the proprietary funds. This increase was primarily the result of operating income in the Liquor Fund along with grant funds in the Airport Fund.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$ 7,136,365, a decrease of \$ 1,360,085 from the prior year. This decrease was due to \$ 1,505,000 of a debt refunding issue that was received in 2009 but not expended for the refunding until January 2010, which in essence, resulted in the 2009 fund balance being artificially high.
- At the end of the current fiscal year, all but \$ 62,410 of the General Fund balance of \$ 1,931,052 was unreserved.
- The City's total bonded debt decreased by \$ 2,252,000 (25.78%) during the current fiscal year. This was result of the use of the \$ 1,505,000 obtained in a refunding bond issue in November 2009 to pay off the refunded debt in January 2010 and payments of current maturities during the year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may 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 assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

**CITY OF PRINCETON**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2010**

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

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 fiscal year. Such information may be useful in evaluating a city's near-term financing requirements.

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

The City maintains 56 individual governmental funds. Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund, Special Revenue Funds (Economic Development Authority and Neighborhood Stabilization Program) Debt Service Fund (Western Area Improvement and 2005 21<sup>st</sup> Avenue Improvements) and Capital Project Fund (Capital Improvements) all of which are presented as major funds. Data from the other 50 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

**CITY OF PRINCETON**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2010**

The City adopts an annual appropriated budget for its General Fund and two major Special Revenue Funds. A budgetary comparison statement has been provided for the General Fund and two major Special Revenue Funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 18-27 of this report.

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

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

The basic proprietary fund financial statements can be found on pages 28-30 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 31-58 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 60 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and Internal Service Funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 62-80 of this report.

#### **Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a City's financial position. In the case of the City, assets exceeded liabilities by \$ 26,210,035 at the close of the most recent fiscal year.

**CITY OF PRINCETON**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2010**

**City of Princeton's Net Assets**

	Governmental Activities	Business-Type Activities	Total 12/31/10	Total 12/31/09
Current and Other Assets	\$ 9,188,536	\$ 2,189,206	\$ 11,377,742	\$ 13,349,311
Capital Assets	9,871,222	12,570,817	22,442,039	21,866,135
Total Assets	<u>\$ 19,059,758</u>	<u>\$ 14,760,023</u>	<u>\$ 33,819,781</u>	<u>\$ 35,215,446</u>
Long-Term Liabilities				
Outstanding	\$ 2,893,683	\$ 3,048,475	\$ 5,942,158	\$ 6,614,698
Other Liabilities	824,149	843,439	1,667,588	2,941,517
Total Liabilities	<u>3,717,832</u>	<u>3,891,914</u>	<u>7,609,746</u>	<u>9,556,215</u>
Net Assets:				
Invested in Capital Assets, Net of Related Debt	8,031,067	9,312,980	17,344,047	14,725,158
Restricted	3,914,627	-	3,914,627	4,098,854
Unrestricted	3,396,232	1,555,129	4,951,361	6,835,219
Total Net Assets	<u>\$ 15,341,926</u>	<u>\$ 10,868,109</u>	<u>\$ 26,210,035</u>	<u>\$ 25,659,231</u>

By far, the largest portion (66.17%) of the City's net assets reflects its investment in capital assets (e.g., land, buildings, machinery and equipment) 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 14.94% of the City's net assets represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$ 4,951,361) may be used to meet the City's ongoing obligations to citizens and creditors.

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

**CITY OF PRINCETON**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2010**

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total 12/31/2010</u>	<u>Total 12/31/2009</u>
<b>Revenue:</b>				
<b>Program Revenues:</b>				
Charges for Services	\$ 842,922	\$ 3,368,542	\$ 4,211,464	\$ 3,595,393
Operating Grants and Contributions	244,383	17,993	262,376	284,424
Capital Grants and Contributions	774,807	392,095	1,166,902	460,043
<b>General Revenues:</b>				
Property Taxes	2,135,448	-	2,135,448	2,022,597
Tax Increments	141,175	-	141,175	369,277
Intergovernmental	593,142	-	593,142	815,105
PUC Payment in Lieu of Taxes	52,500	-	52,500	52,500
Other Revenue	1,459	-	1,459	11,034
Investment Income	137,859	33,362	171,221	230,387
Total revenues	<u>4,923,695</u>	<u>3,811,992</u>	<u>8,735,687</u>	<u>7,840,760</u>
<b>Expenses:</b>				
General Government	643,809	-	643,809	616,069
Public Safety	1,496,218	-	1,496,218	1,388,034
Cemetery	33,267	-	33,267	53,424
Public Works	981,758	-	981,758	945,885
Culture and Recreation	325,737	-	325,737	327,306
Economic Development	1,217,913	-	1,217,913	501,823
Interest on Long-Term Debt	115,876	-	115,876	160,566
Water	-	132,433	132,433	8,100
Sewer	-	690,128	690,128	657,065
Municipal Liquor	-	2,354,359	2,354,359	2,373,465
Airport	-	193,385	193,385	150,293
Total Expenses	<u>4,814,578</u>	<u>3,370,305</u>	<u>8,184,883</u>	<u>7,182,030</u>
<b>Change in Net Assets before</b>				
Transfers	109,117	441,687	550,804	658,730
Transfers	(37,500)	37,500	-	-
Change in Net Assets	71,617	479,187	550,804	658,730
Net Assets January 1	<u>15,270,309</u>	<u>10,388,922</u>	<u>25,659,231</u>	<u>25,000,501</u>
Net Assets December 31	<u>\$ 15,341,926</u>	<u>\$ 10,868,109</u>	<u>\$ 26,210,035</u>	<u>\$ 25,659,231</u>

There was an increase of \$ 550,804 in the City's net assets during the current fiscal year. The majority of this increase (87.0%) of this increase was resulted from the business-type (enterprise) funds operations. The remainder of the increase (13.0%) was due to the increase in the governmental funds. The primary reasons for the increase in the business-type funds were a grant for airport improvements and operating income in the Liquor Fund. There was a significant infusion of federal Department of Housing and Urban Development funds that contributed to the governmental fund increase. There was also an infusion of grant money for radiological emergency relocation preparedness along with interest revenue on investments and special assessment receivables that contributed to the increase in the governmental funds.

**CITY OF PRINCETON**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2010**

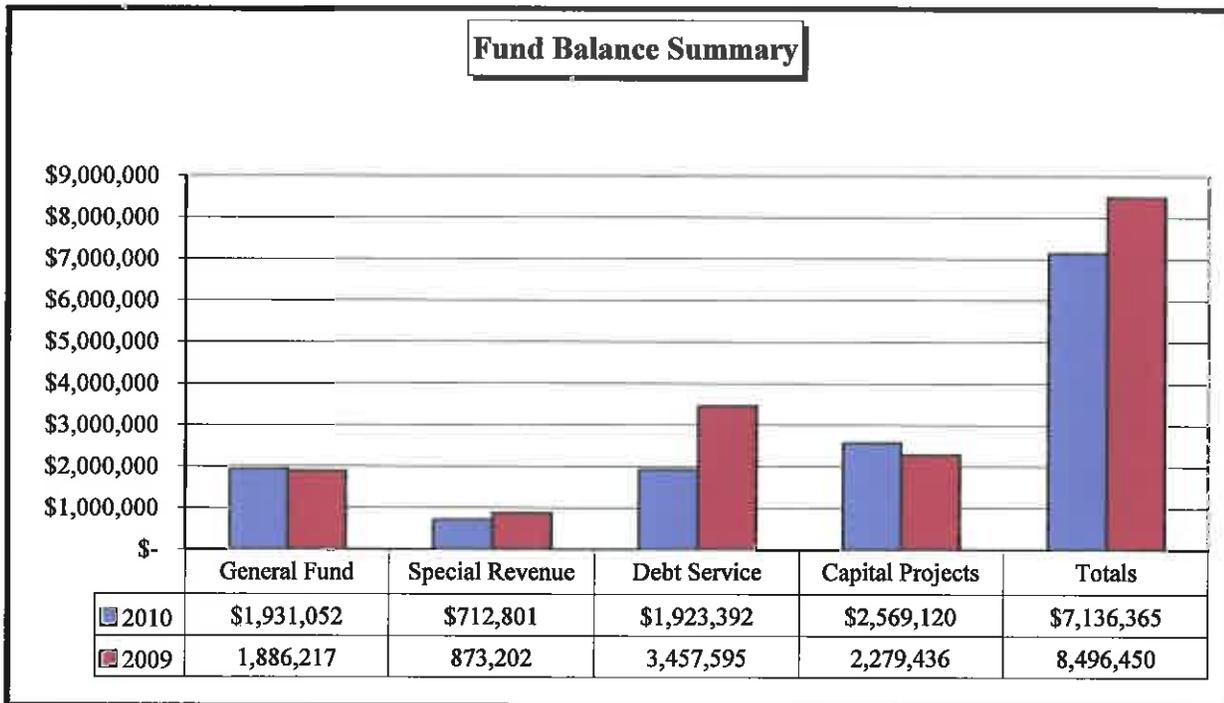
**Governmental Activities.** Governmental activities increased the City's net assets by \$ 71,617, which represented 13.0% of the total growth in the net assets of the City. This increase resulted from a combination of interest revenue, special assessment receipts, Department of Housing and Urban Development grant receipts for dealing with housing foreclosures and vacancies and grant money for radiological emergency preparedness.

**Business-Type Activities.** Business-type activities resulted in a net asset increase of \$ 479,187, which accounted for 87.0% of the City's total net asset increase. This resulted from Liquor Fund operating income and federal grant money for airport improvements.

**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, unreserved fund balance may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year.



As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$ 7,136,365, a decrease of \$ 1,360,085 from the prior year. This decrease was entirely the result of the use of the refunding bond proceeds to pay the refunded bond.

**CITY OF PRINCETON**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2010**

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the fund balance of the General Fund was \$ 1,931,052, which was 96.77% unreserved; however, 75.87% of the unreserved balance is designated for working capital (cash flow) purposes.

The General Fund balance increased by \$ 44,835 during the current fiscal year. This increase was \$ 138,541 less than the prior year's increase of \$ 183,376. 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 \$ 72,894, which was necessitated by the continuing reductions and uncertainty in state aids
- There was a significant decrease in intergovernmental revenue of \$ 189,056 due entirely to a reduction of Local Government Aid (LGA) and Market Value Credit Aid in 2010.
- Licenses and permits increased by \$ 76,052 and charges for services increased \$ 15,043.
- There were revenue decreases \$ 3,198 in fines and forfeitures, \$ 6,751 of interest income due to interest rate declines.
- There was a \$ 186,266 increase in expenditures. Increases of \$ 20,808 for public safety activities for personnel step and medical insurance increases, \$ 9,988 increases in general government, public works activities of \$ 9,129, \$ 8,250 in parks and recreation primarily from splash park maintenance increases and a \$ 6,078 increase in economic development. By far the most significant increase was for capital outlay of \$ 132,002 which was principally from the purchase of a new loader.

Debt Service Funds had a total fund balance of \$ 1,923,392, all of which is committed for the payment of debt service. The decrease in fund balance during the current year in the Debt Service Funds was \$ 1,534,203. This decrease is almost entirely due to the use of proceeds of a \$ 1,505,000 refunding issue issued in 2009 and expended in January 2010.

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

Total net assets of the Liquor Fund at the end of the year amounted to \$ 3,431,136, the Sanitary Sewer Fund was \$ 5,513,954 and the Airport Fund was \$ 1,923,019. Unrestricted net assets, which are amounts available for operating expenditures and spending at the discretion of the City, at year-end for the Liquor Fund amounted to \$ 1,942,825, the Sanitary Sewer Fund was a negative \$ 390,191 and the Airport unrestricted net assets was a \$ 2,495. The increase (decrease) in unrestricted net assets for each of these Funds was \$ 219,828, \$ (908,662) and \$ 40,106, respectively. The increases (decreases) in these Funds result predominantly from the revenue generating nature of these Funds. The use of funds for the planning and design for the Wastewater Treatment Facility expansion caused a large shift in the Sanitary Sewer Fund from "unrestricted net assets" to "invested in capital assets".

#### **GENERAL FUND BUDGETARY HIGHLIGHTS**

The change from the original budget and the final amended budget was a significant \$ 232,735 decrease in appropriations (7.17%) included cuts of \$ 157,440 in general government activities, \$ 19,770 in public safety, \$ 56,855 in public works with the only increased allocation for parks and recreation of \$ 1,330.

**CITY OF PRINCETON**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2010**

**GENERAL FUND BUDGETARY HIGHLIGHTS**

This decrease in the appropriation budget along with the increase in property tax budget of \$ 21,000 allowed the budgeted transfers in to be decreased by \$ 254,415. The increase in license and permit budget of \$ 92,820 went to offset the decrease of \$ 74,505 in Market Value Credit Aid enacted mid-year by the state.

The eventual difference between the final amended budget and the actual amount of the change in fund balance was a mere \$ 1,205. The major offsets that resulted in this difference were a \$ 232,746 decrease in general government with a \$ 179,360 decrease in net transfers in and a \$ 42,752 increase in public works.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets.** The City's investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities amounts to \$ 22,442,039 as of December 31, 2010 and \$ 21,866,135 as of December 31, 2009. This investment in capital assets includes land, buildings and improvements, machinery and equipment, park facilities, roads, sidewalks and infrastructure.

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

- Planning and design continued on the wastewater treatment facilities expansion for the Sanitary Sewer Fund with construction in progress at year-end of \$ 1,525,169.
- Development of a revised Airport Layout Plan began in 2007 and continued through 2010 with a year-end construction in progress of \$ 53,430.
- A new front-end loader was purchased for a cost of \$ 131,483.

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

	Governmental Activities	Business-type Activities	Total 12/31/10	Total 12/31/09
Land and Easements	\$ 1,411,224	\$ 1,026,824	\$ 2,438,048	\$ 2,366,455
Buildings	1,275,230	1,829,734	3,104,964	3,207,888
Improvements other than Buildings	434,235	7,283,294	7,717,529	7,661,101
Machinery and Equipment	1,473,839	851,617	2,325,456	2,313,299
Infrastructure	5,276,694	-	5,276,694	5,515,246
Construction in Progress	-	1,579,348	1,579,348	802,146
Total	<u>\$ 9,871,222</u>	<u>\$ 12,570,817</u>	<u>\$ 22,442,039</u>	<u>\$ 21,866,135</u>

Additional information on the City's capital assets can be found in Note 4 on pages 43-46 of this report.

**CITY OF PRINCETON**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2010**

**Long-Term Debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$ 6,485,000. At year end the City had no debt backed by the full faith and credit of the City and \$ 3,145,000 is special assessment debt for which the City is liable in the event of default by the property owners subject to the assessment. The remainder of the City's debt, \$ 3,340,000, represents bonds secured by specified revenue sources (i.e. revenue bonds) for which the City is liable in the event the revenue sources are insufficient to pay the debt service.

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

	Governmental Activities	Business-type Activities	Total 12/31/2010	Total 12/31/2009
General Obligation Bonds	\$ -	\$ -	\$ -	\$ -
Special Assessment Debt with Governmental Commitment	3,145,000	-	3,145,000	5,082,000
Revenue Bonds with Governmental Commitment	-	3,340,000	3,340,000	3,655,000
<b>Total</b>	<b>\$ 3,145,000</b>	<b>\$ 3,340,000</b>	<b>\$ 6,485,000</b>	<b>\$ 8,737,000</b>

The City's total indebtedness decreased by \$ 2,252,000 (25.78%) during the year. This decrease was due to the use of proceeds from a 2009 refunding issue to pay off the refunded bond in and the payment of the scheduled principal maturity amounts.

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 \$ 8,382,978. As of December 31, 2010, 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 49-53 of this report.

**CITY OF PRINCETON**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2010**

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

- The City is situated in two counties, Mille Lacs and Sherburne. The 2010 unemployment rate for Mille Lacs was at 12.1% and the Sherburne rate was 8.2% at the end of the year. This was down slightly from the 2009 rate of 12.5% for Mille Lacs County and 8.8% for Sherburne County. Compare this to the state's December 2010 unemployment rate of 6.8% and the national rate of 9.1%. 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 1.8% compared to the national rate of 1.5% for the 2010 annual rate.
- During 2008, 2009 and 2010, the City has received LGA and Market Value Credit Aid reductions of \$ 531,352. The City is awaiting the resolution of the state's budget situation to determine the amount of aid reductions for the current year. Although the City has the option of increasing the property taxes to offset this amount, tax levies were only increased \$ 170,949 for this purpose. 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 addition to the amounts of the LGA cuts discussed above, is the timing of the reductions. In all three years, the amount of the reductions was not known until after the state deadline for setting the city budget and certifying the tax levy to the county. This makes the budgeting process extremely difficult. As an example, the amount of the 2010 reduction of \$ 321,607 was not known until May 2010.

These are some of the factors considered in preparing the City's budget for the 2011 fiscal year.

Other factors considered during the budget process are that sanitary sewer rates had been maintained at a constant level since 2001. This rate was changed in early 2009 to cover increasing costs and in anticipation of higher operating costs once the phosphorus project and the expansion project are completed. A rate study for the sanitary sewer system will be completed during 2011 to determine the rate requirements for the expansion project. This study will also review access charges to determine the best rate structure. 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. This trunk fee is scheduled for annual increases to match construction cost increases.

**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 1<sup>st</sup> Street, Princeton, Minnesota 55371.

**BASIC FINANCIAL STATEMENTS**

**CITY OF PRINCETON**  
**STATEMENT OF NET ASSETS**  
**December 31, 2010**

	Governmental Activities	Business-Type Activities	Total	Component Units
<b>ASSETS</b>				
Cash and Investments (Including Cash Equivalents)	\$ 6,655,924	\$ 1,265,626	\$ 7,921,550	\$ 2,667,048
Cash with Fiscal Agent	-	-	-	239,896
Property Tax Receivable	170,693	-	170,693	-
Accounts Receivable	27,166	15,922	43,088	707,547
Interest Receivable	37,983	1,380	39,363	-
Due from Other Governments	130,238	164,372	294,610	128,177
Internal Balances	75,714	(75,714)	-	-
Notes Receivable:				
Due Within One Year	4,406	-	4,406	-
Due After One Year	42,466	-	42,466	-
Special Assessments Receivable:				
Due Within One Year	248,286	4,700	252,986	-
Due After One Year	1,219,924	20,584	1,240,508	-
Inventories	-	508,072	508,072	461,537
Land Held for Resale	512,401	-	512,401	-
Contract for Deed	-	186,761	186,761	-
Prepaid Expenses	63,335	15,340	78,675	49,859
Deferred Charge	-	82,163	82,163	-
Capital Assets not being Depreciated:				
Land	1,409,907	1,026,824	2,436,731	33,162
Easements	1,317	-	1,317	-
Construction in Progress	-	1,579,348	1,579,348	-
Capital Assets being Depreciated (Net of Accumulated Depreciation):				
Buildings and Systems	1,275,230	1,829,734	3,104,964	1,227,907
Other Improvements	434,235	-	434,235	-
Sewer and Water Improvements	-	7,283,294	7,283,294	-
Machinery and Equipment	1,473,839	851,617	2,325,456	726,803
Infrastructure	5,276,694	-	5,276,694	15,662,550
Restricted Assets:				
Reserve Fund	-	-	-	604,604
Debt Retirement	-	-	-	361,941
Improvements and Replacements	-	-	-	1,106,536
<b>Total Assets</b>	<b>\$ 19,059,758</b>	<b>\$ 14,760,023</b>	<b>\$ 33,819,781</b>	<b>\$ 23,977,567</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Liabilities</b>				
Accounts Payable	\$ 113,798	\$ 354,501	\$ 468,299	\$ 389,074
Due to Other Governments	69,793	109,438	179,231	39,951
Unearned Revenue	39,019	-	39,019	12,760
Salaries and Benefits Payable	39,786	4,539	44,325	16,824
Interest Payable	44,690	43,485	88,175	66,941
Customer Meter Deposits	-	-	-	199,557
Severance Payable	-	-	-	104,635
Deferred Rate Stabilization	-	-	-	1,459,601
Bond Principal Payable:				
Payable Within One Year	342,000	325,000	667,000	888,000
Payable After One Year	2,803,000	3,015,000	5,818,000	12,710,266
Compensated Absences Payable:				
Payable Within One Year	140,000	630	140,630	-
Payable After One Year	90,683	33,475	124,158	-
Other Post Employment Benefits (OPEB) Payable:	35,063	5,846	40,909	-
<b>Total Liabilities</b>	<b>3,717,832</b>	<b>3,891,914</b>	<b>7,609,746</b>	<b>15,887,609</b>
<b>Net Assets</b>				
Investment in Capital Assets, Net of Related Debt	8,031,067	9,312,980	17,344,047	4,052,156
Restricted for:				
Debt Service	3,469,876	-	3,469,876	1,206,441
Tax Increment	444,751	-	444,751	-
Capital Asset Acquisition	-	-	-	1,106,536
Unrestricted	3,396,232	1,555,129	4,951,361	1,724,825
<b>Total Net Assets</b>	<b>15,341,926</b>	<b>10,868,109</b>	<b>26,210,035</b>	<b>8,089,958</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 19,059,758</b>	<b>\$ 14,760,023</b>	<b>\$ 33,819,781</b>	<b>\$ 23,977,567</b>

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

CITY OF PRINCETON

STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2010

	Program Revenue			Net (Expense) Revenue and Changes in Net Assets			
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Units
<b>Governmental Activities</b>							
General Government	\$ 643,809	\$ 128,883	\$ -	\$ (532,055)	\$ -	\$ (532,055)	\$ -
Public Safety	1,496,218	383,949	153,246	(830,140)	-	(830,140)	-
Cemetery	33,267	33,430	-	163	-	163	-
Public Works	981,758	-	105,192	(865,879)	-	(865,879)	-
Parks and Recreation	325,737	81,500	-	(1,100,656)	-	(1,100,656)	-
Economic Development	1,217,913	34,000	516,369	491,977	-	491,977	-
Interest on Long-Term Debt	115,876	-	-	(115,876)	-	(115,876)	-
Total Governmental Activities	4,814,578	244,383	774,807	(2,952,466)	-	(2,952,466)	-
<b>Business-Type Activities</b>							
Water	132,433	-	-	-	-	-	267,641
Sewer	690,128	-	-	-	(41,331)	(41,331)	-
Municipal Liquor	2,354,359	-	-	-	181,948	181,948	-
Airport	193,385	17,993	392,095	-	267,708	267,708	-
Electric	-	-	-	-	-	-	325,046
Total Business-Type Activities	3,370,305	17,993	392,095	-	408,325	408,325	592,687
Total Governmental and Business-Type Activities	\$ 8,184,883	\$ 262,376	\$ 1,166,902	(2,952,466)	408,325	(2,544,141)	592,687
<b>General Revenues</b>							
Property Taxes				2,135,448	-	2,135,448	-
Tax Increments				141,175	-	141,175	-
State Aids				593,142	-	593,142	-
PUC Payment in Lieu of Taxes				52,500	-	52,500	-
Investment Income				137,859	33,362	171,221	110,568
Miscellaneous				1,459	-	1,459	44,914
Transfers				(37,500)	37,500	-	-
Total General Revenues and Transfers				3,024,083	70,862	3,094,945	155,482
Change in Net Assets				71,617	479,187	550,804	748,169
Net Assets - Beginning				15,270,309	10,388,922	25,659,231	7,341,789
Net Assets - Ending				\$ 15,341,926	\$ 10,868,109	\$ 26,210,035	\$ 8,089,958

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

**CITY OF PRINCETON**

**BALANCE SHEET - GOVERNMENTAL FUNDS**  
December 31, 2010

	General Fund (101)	Special Revenue		Debt Service
		Economic Development Authority (600)	Neighborhood Stabilization Program (602)	Western Area Improvements (503)
<b>ASSETS</b>				
Cash and Investments	\$ 1,939,195	\$ -	\$ 51,995	\$ 197,514
Taxes Receivable - Delinquent	116,224	1,212	-	6,177
Special Assessments Receivable:				
Delinquent	-	-	-	4,620
Deferred	-	-	-	487,462
Accounts Receivable	580	-	73	-
Interest Receivable	33,815	-	-	-
Due from Other Funds	79,014	-	-	-
Due from Other Governments	114,362	-	1,000	-
Notes Receivable	-	-	-	-
Land Held for Resale	-	512,400	1	-
Prepaid Expenses	62,410	-	-	-
	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>
Total Assets	<u>\$ 2,345,600</u>	<u>\$ 513,612</u>	<u>\$ 53,069</u>	<u>\$ 695,773</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts and Contracts Payable	\$ 78,057	\$ 34	\$ 12,832	\$ -
Due to Other Funds	-	459,372	-	-
Due to Other Governments	41,192	-	-	25,243
Salaries Payable	36,056	557	-	-
Deferred Revenue	259,243	1,212	-	498,259
Total Liabilities	<u>414,548</u>	<u>461,175</u>	<u>12,832</u>	<u>523,502</u>
<b>Fund Balances</b>				
Reserved for:				
Prepaid Expense	62,410	-	-	-
Land Held for Resale	-	512,400	1	-
Unreserved, Reported in:				
General Fund - Designated for Working Capital	1,417,660	-	-	-
General Fund - Undesignated	450,982	-	-	-
Special Revenue - Undesignated	-	(459,963)	40,236	-
Debt Service - Undesignated	-	-	-	172,271
Capital Projects - Undesignated	-	-	-	-
Total Fund Balances	<u>1,931,052</u>	<u>52,437</u>	<u>40,237</u>	<u>172,271</u>
	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>
Total Liabilities and Fund Balances	<u>\$ 2,345,600</u>	<u>\$ 513,612</u>	<u>\$ 53,069</u>	<u>\$ 695,773</u>

<u>Debt Service</u> 2005 21st Avenue Improvements (506)	<u>Capital Projects</u>  Capital Improvements (351)	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 306,563	\$ 605,015	\$ 3,641,793	\$ 6,742,075
6,350	11,890	28,840	170,693
2,811		29,773	37,204
477,695		465,849	1,431,006
-	-	26,513	27,166
-	-	4,168	37,983
-	1,814,778	70,150	1,963,942
-	-	14,876	130,238
-	-	46,872	46,872
-	-	-	512,401
-	-	925	63,335
<u>\$ 793,419</u>	<u>\$ 2,431,683</u>	<u>\$ 4,329,759</u>	<u>\$ 11,162,915</u>
\$ -	\$ -	\$ 22,875	\$ 113,798
-	-	1,428,856	1,888,228
-	11	89,498	155,944
-	-	3,173	39,786
486,856	11,890	571,334	1,828,794
<u>486,856</u>	<u>11,901</u>	<u>2,115,736</u>	<u>4,026,550</u>
-	-	925	63,335
-	-	-	512,401
-	-	-	1,417,660
-	-	-	450,982
-	-	619,202	199,475
306,563	-	1,444,558	1,923,392
-	2,419,782	149,338	2,569,120
<u>306,563</u>	<u>2,419,782</u>	<u>2,214,023</u>	<u>7,136,365</u>
<u>\$ 793,419</u>	<u>\$ 2,431,683</u>	<u>\$ 4,329,759</u>	<u>\$ 11,162,915</u>

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**CITY OF PRINCETON**

**RECONCILIATION OF THE BALANCE SHEET TO  
THE STATEMENT OF NET ASSETS- GOVERNMENTAL FUNDS  
December 31, 2010**

Total Fund Balances - Governmental Funds \$ 7,136,365

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

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

Cost of Capital Assets	17,513,206
Less Accumulated Depreciation	(7,641,984)

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

Long-term liabilities at year-end consist of:

Bond Principal Payable	(3,145,000)
Compensated Absences Payable	(230,683)
OPEB Payable	(35,063)

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	170,693
Delinquent Special Assessments	37,204
Deferred Special Assessments	1,431,006

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

Notes Receivable	46,872
Development Revenue Reserve	104,000

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

(44,690)

Total Net Assets - Governmental Activities

\$ 15,341,926

**CITY OF PRINCETON**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2010**

	General Fund (101)	Special Revenue		Debt Service
		Economic Development Authority (600)	Neighborhood Stabilization Program (602)	Western Area Improvements (503)
<b>REVENUES</b>				
Property Taxes	\$ 1,672,723	\$ 16,846	\$ -	\$ 84,685
Tax Increments	-	-	-	-
Special Assessments	-	-	-	106,586
Licenses and Permits	195,622	-	-	-
Intergovernmental	696,027	206	516,369	115
Charges for Services	230,882	-	-	-
Fine and Forfeitures	40,142	-	-	-
Miscellaneous:				
Investment Income	30,183	-	-	1,759
Contributions and Donations	-	-	-	-
Other	93,318	-	266,025	-
Total Revenues	<u>2,958,897</u>	<u>17,052</u>	<u>782,394</u>	<u>193,145</u>
<b>EXPENDITURES</b>				
<b>Current</b>				
General Government	578,145	-	-	-
Public Safety	1,244,157	-	-	-
Cemetery	565	-	-	-
Public Works	549,184	-	-	-
Parks and Recreation	252,237	-	-	-
Economic Development	29,242	124,435	306,711	41,716
<b>Debt Service</b>				
Principal	-	-	-	115,000
Interest and Other Charges	-	-	-	62,491
<b>Capital Outlay</b>				
General Government	37,294	-	-	-
Public Safety	33,660	-	-	-
Public Works	131,483	-	-	-
Parks and Recreation	-	-	-	-
Economic Development	-	5,000	575,732	-
Total Expenditures	<u>2,855,967</u>	<u>129,435</u>	<u>882,443</u>	<u>219,207</u>
Excess of Revenues Over (Under) Expenditures	102,930	(112,383)	(100,049)	(26,062)
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from Sale of Capital Asset	-	-	-	-
Refunded Bond Payment	-	-	-	(1,500,000)
Payment in Lieu of Taxes - Component Unit	52,500	-	-	-
Transfers In	-	5,000	-	-
Transfers Out	(110,595)	-	-	-
Total Other Financing Sources (Uses)	<u>(58,095)</u>	<u>5,000</u>	<u>-</u>	<u>(1,500,000)</u>
Net Change in Fund Balances	44,835	(107,383)	(100,049)	(1,526,062)
<b>FUND BALANCES</b>				
Beginning of Year	<u>1,886,217</u>	<u>159,820</u>	<u>140,286</u>	<u>1,698,333</u>
End of Year	<u>\$ 1,931,052</u>	<u>\$ 52,437</u>	<u>\$ 40,237</u>	<u>\$ 172,271</u>

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

<u>Debt Service</u>	<u>Capital Projects</u>		
2005 21st Avenue Improvements (506)	Capital Improvements (351)	Other Governmental Funds	Total Governmental Funds
\$ 90,304	\$ 211,661	\$ 22,815	\$ 2,099,034
-	-	141,175	141,175
108,059	-	173,385	388,030
-	-	-	195,622
1,106	2,023	179,304	1,395,150
-	-	260,425	491,307
-	-	-	40,142
3,441	45,123	57,353	137,859
-	-	1,000	1,000
-	-	8,150	367,493
<u>202,910</u>	<u>258,807</u>	<u>843,607</u>	<u>5,256,812</u>
-	-	-	578,145
-	9	129,533	1,373,699
-	-	31,148	31,713
-	-	162,178	711,362
-	-	9,896	262,133
-	-	7,462	509,566
65,000	-	257,000	437,000
35,580	-	40,119	138,190
-	-	-	37,294
-	-	63,313	96,973
-	-	64,678	196,161
-	-	52,180	52,180
-	-	127,136	707,868
<u>100,580</u>	<u>9</u>	<u>944,643</u>	<u>5,132,284</u>
102,330	258,798	(101,036)	124,528
-	162	225	387
-	-	-	(1,500,000)
-	-	-	52,500
-	-	71,922	76,922
-	-	(3,827)	(114,422)
<u>-</u>	<u>162</u>	<u>68,320</u>	<u>(1,484,613)</u>
102,330	258,960	(32,716)	(1,360,085)
<u>204,233</u>	<u>2,160,822</u>	<u>2,246,739</u>	<u>8,496,450</u>
<u>\$ 306,563</u>	<u>\$ 2,419,782</u>	<u>\$ 2,214,023</u>	<u>\$ 7,136,365</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, 2010**

Net Change in Fund Balances - Total Governmental Funds \$ (1,360,085)

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	324,893
Depreciation Expense	(541,369)
Loss on Disposal	(29,395)

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

(10,897)

OPEB are recognized as paid in the governmental funds but recognized as  
expensed in the Statement of Activities.

(17,660)

Principal payments on long-term debt are recognized as expenditures in the  
governmental funds but as an increase in the net assets in the Statement of Activities.

437,000

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.

22,314

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 Assets.

1,500,000

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.

(6,760)

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	36,414
Delinquent Special Assessments	13,344
Deferred Special Assessments	(296,182)

Change in Net Assets - Governmental Activities

\$ 71,617

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

**CITY OF PRINCETON**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL FUND  
For the Year Ended December 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Property Taxes	\$ 1,636,625	\$ 1,657,625	\$ 1,672,723	\$ 15,098
Licenses and Permits	107,285	200,105	195,622	(4,483)
Intergovernmental	740,280	680,930	696,027	15,097
Charges for Services	216,325	234,795	230,882	(3,913)
Fines and Forfeitures	34,500	34,580	40,142	5,562
Miscellaneous Revenues:				
Investment Income	25,000	27,000	30,183	3,183
Other	113,050	98,690	93,318	(5,372)
Total Revenues	<u>2,873,065</u>	<u>2,933,725</u>	<u>2,958,897</u>	<u>25,172</u>
<b>EXPENDITURES</b>				
<b>Current</b>				
General Government	860,125	797,185	578,145	(219,040)
Public Safety	1,266,850	1,252,080	1,244,157	(7,923)
Cemetery	-	-	565	565
Public Works	554,770	506,415	549,184	42,769
Parks and Recreation	210,850	218,595	252,237	33,642
Economic Development	-	-	29,242	29,242
<b>Capital Outlay</b>				
General Government	145,500	51,000	37,294	(13,706)
Public Safety	55,000	50,000	33,660	(16,340)
Public Works	140,000	131,500	131,483	(17)
Parks and Recreation	11,000	4,585	-	(4,585)
Total Expenditures	<u>3,244,095</u>	<u>3,011,360</u>	<u>2,855,967</u>	<u>(155,393)</u>
Excess of Revenues Over (Under) Expenditures	(371,030)	(77,635)	102,930	180,565
<b>OTHER FINANCING SOURCES (USES)</b>				
Payment in Lieu of Taxes - Component Unit	52,500	52,500	52,500	-
Transfers In	391,500	137,085	-	(137,085)
Transfers Out	(65,780)	(68,320)	(110,595)	(42,275)
Total Other Financing Sources (Uses)	<u>378,220</u>	<u>121,265</u>	<u>(58,095)</u>	<u>(179,360)</u>
Net Change in Fund Balances	<u>\$ 7,190</u>	<u>\$ 43,630</u>	<u>44,835</u>	<u>\$ 1,205</u>
<b>FUND BALANCES</b>				
Beginning of Year			<u>1,886,217</u>	
End of Year			<u>\$ 1,931,052</u>	

**CITY OF PRINCETON**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - ECONOMIC DEVELOPMENT AUTHORITY  
SPECIAL REVENUE FUND  
For the Year Ended December 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Property Taxes	\$ 17,000	\$ 17,000	\$ 16,846	\$ (154)
Intergovernmental	-	200	206	6
Total Revenues	<u>17,000</u>	<u>17,200</u>	<u>17,052</u>	<u>(148)</u>
<b>EXPENDITURES</b>				
<b>Current</b>				
Economic Development	131,570	126,305	124,435	(1,870)
<b>Capital Outlay</b>				
Economic Development	-	-	5,000	5,000
Total Expenditures	<u>131,570</u>	<u>126,305</u>	<u>129,435</u>	<u>3,130</u>
Excess of Revenues Over (Under) Expenditures	(114,570)	(109,105)	(112,383)	(3,278)
<b>OTHER FINANCING SOURCES</b>				
Transfers In	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>-</u>
Net Change in Fund Balances	<u>\$ (109,570)</u>	<u>\$ (104,105)</u>	<u>(107,383)</u>	<u>\$ (3,278)</u>
<b>FUND BALANCES</b>				
Beginning of Year			<u>159,820</u>	
End of Year			<u>\$ 52,437</u>	

**CITY OF PRINCETON**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - NEIGHBORHOOD STABILIZATION  
PROGRAM SPECIAL REVENUE FUND  
For the Year Ended December 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental	\$ 500,000	\$ 600,000	\$ 516,369	\$ (83,631)
Miscellaneous Revenues:				
Other	-	171,215	266,025	94,810
Total Revenues	<u>500,000</u>	<u>771,215</u>	<u>782,394</u>	<u>11,179</u>
 <b>EXPENDITURES</b>				
<b>Current</b>				
Economic Development	250,000	16,065	306,711	290,646
<b>Capital Outlay</b>				
Economic Development	<u>250,000</u>	<u>396,900</u>	<u>575,732</u>	<u>178,832</u>
Total Expenditures	<u>500,000</u>	<u>412,965</u>	<u>882,443</u>	<u>469,478</u>
 Excess of Revenues Over (Under) Expenditures	<u>\$ -</u>	<u>\$ 358,250</u>	(100,049)	<u>\$ (458,299)</u>
 <b>FUND BALANCES</b>				
<b>Beginning of Year</b>			<u>140,286</u>	
<b>End of Year</b>			<u>\$ 40,237</u>	

**CITY OF PRINCETON**

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**

December 31, 2010

	<u>Airport (208)</u>	<u>Sanitary Sewer (702/704)</u>	<u>Municipal Liquor (703)</u>	<u>Total</u>
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and Investments	\$ -	\$ -	\$ 1,179,475	\$ 1,179,475
Special Assessment Receivable				
Deferred	-	25,284	-	25,284
Accounts Receivable	1,037	13,985	900	15,922
Accrued Interest	-	-	1,380	1,380
Due from Other Funds	-	-	210,075	210,075
Due from Other Governments	85,485	78,887	-	164,372
Inventories	8,500	-	499,572	508,072
Contract for Deed	-	-	186,761	186,761
Prepaid Expenses	1,275	7,725	6,340	15,340
Unamortized Discount	-	82,163	-	82,163
Total Current Assets	<u>96,297</u>	<u>208,044</u>	<u>2,084,503</u>	<u>2,388,844</u>
<b>Noncurrent Assets</b>				
Capital Assets:				
Land	488,323	129,120	409,381	1,026,824
Buildings and System	76,766	947,087	999,651	2,023,504
Other Improvements	2,610,707	8,677,329	43,608	11,331,644
Machinery and Equipment	292,771	777,016	189,974	1,259,761
Construction in Progress	54,179	1,525,169	-	1,579,348
Total Capital Assets	<u>3,522,746</u>	<u>12,055,721</u>	<u>1,642,614</u>	<u>17,221,081</u>
Less Accumulated Depreciation	<u>(1,602,222)</u>	<u>(2,893,739)</u>	<u>(154,303)</u>	<u>(4,650,264)</u>
Net Capital Assets	<u>1,920,524</u>	<u>9,161,982</u>	<u>1,488,311</u>	<u>12,570,817</u>
Total Assets	<u>\$ 2,016,821</u>	<u>\$ 9,370,026</u>	<u>\$ 3,572,814</u>	<u>\$ 14,959,661</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Current Liabilities</b>				
Accounts Payable	\$ 4,757	\$ 272,513	\$ 77,231	\$ 354,501
Salaries Payable	226	931	3,382	4,539
Interest Payable	-	43,485	-	43,485
Due to Other Funds	88,286	197,503	-	285,789
Due to Other Governmental Units	-	7	23,280	23,287
Compensated Absences Payable	-	-	630	630
Current Portion of Revenue Bonds	-	325,000	-	325,000
Total Current Liabilities	<u>93,269</u>	<u>839,439</u>	<u>104,523</u>	<u>1,037,231</u>
<b>Noncurrent Liabilities</b>				
Compensated Absences Payable	-	-	33,475	33,475
OPEB Payable	533	1,633	3,680	5,846
Bonds Payable	-	3,015,000	-	3,015,000
Total Noncurrent Liabilities	<u>533</u>	<u>3,016,633</u>	<u>37,155</u>	<u>3,054,321</u>
Total Liabilities	<u>93,802</u>	<u>3,856,072</u>	<u>141,678</u>	<u>4,091,552</u>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	1,920,524	5,904,145	1,488,311	9,312,980
Unrestricted	2,495	(390,191)	1,942,825	1,555,129
Total Net Assets	<u>1,923,019</u>	<u>5,513,954</u>	<u>3,431,136</u>	<u>10,868,109</u>
Total Liabilities and Net Assets	<u>\$ 2,016,821</u>	<u>\$ 9,370,026</u>	<u>\$ 3,572,814</u>	<u>\$ 14,959,661</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 ASSETS - PROPRIETARY FUNDS  
For the Year Ended December 31, 2010**

	<u>Airport (208)</u>	<u>Sanitary Sewer (702/704)</u>	<u>Municipal Liquor (703)</u>	<u>Total</u>
<b>SALES AND COST OF SALES</b>				
Sales	\$ 40,354	\$ -	\$ 2,535,890	\$ 2,576,244
Cost of Sales	36,542	-	1,918,078	1,954,620
Gross Profit	<u>3,812</u>	<u>-</u>	<u>617,812</u>	<u>621,624</u>
<b>OPERATING REVENUES</b>				
Charges for Services	<u>10,651</u>	<u>642,049</u>	<u>417</u>	<u>653,117</u>
Total Gross Profit and Operating Revenues	<u>14,463</u>	<u>642,049</u>	<u>618,229</u>	<u>1,274,741</u>
<b>OPERATING EXPENSES</b>				
Wages and Salaries	25,706	86,430	248,969	361,105
Materials and Supplies	28,494	226,606	111,497	366,597
Professional Services	-	-	31,496	31,496
Depreciation	102,643	262,746	44,319	409,708
Total Operating Expenses	<u>156,843</u>	<u>575,782</u>	<u>436,281</u>	<u>1,168,906</u>
Operating Income (Loss)	(142,380)	66,267	181,948	105,835
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest Income	-	6,117	27,245	33,362
Intergovernmental Revenues	410,088	-	-	410,088
Interest Expense and Charges	-	(114,346)	-	(114,346)
Other Income	-	6,748	-	6,748
Total Nonoperating Revenue (Expenses)	<u>410,088</u>	<u>(101,481)</u>	<u>27,245</u>	<u>335,852</u>
Income (Loss) before Capital Contributions and Transfers	267,708	(35,214)	209,193	441,687
Transfers In	69,655	-	-	69,655
Transfers Out	<u>-</u>	<u>-</u>	<u>(32,155)</u>	<u>(32,155)</u>
Change in Net Assets	337,363	(35,214)	177,038	479,187
<b>NET ASSETS</b>				
Beginning of Year	<u>1,585,656</u>	<u>5,549,168</u>	<u>3,254,098</u>	<u>10,388,922</u>
End of Year	<u>\$ 1,923,019</u>	<u>\$ 5,513,954</u>	<u>\$ 3,431,136</u>	<u>\$ 10,868,109</u>

**CITY OF PRINCETON**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
For the Year Ended December 31, 2010**

	<u>Airport (208)</u>	<u>Sanitary Sewer (702/704)</u>	<u>Municipal Liquor (703)</u>	<u>Total</u>
<b>CASH FLOWS - OPERATING ACTIVITIES</b>				
Receipts from Customers and Users	\$ 49,968	\$ 643,568	\$ 2,536,307	\$ 3,229,843
Payments to Suppliers	(61,311)	(233,124)	(2,091,097)	(2,385,532)
Payments to Employees	(25,452)	(85,353)	(243,039)	(353,844)
Other Income	-	6,748	-	6,748
Net Cash Flows - Operating Activities	<u>(36,795)</u>	<u>331,839</u>	<u>202,171</u>	<u>497,215</u>
<b>CASH FLOWS - NONCAPITAL FINANCING ACTIVITIES</b>				
Transfer from Other Funds	69,655	-	-	69,655
Transfer to Other Funds	-	-	(32,155)	(32,155)
Reduction of Due to Other Funds	42,437	197,503	-	239,940
Intergovernmental Revenues	324,603	-	-	324,603
Net Cash Flows - Noncapital Financing Activities	<u>436,695</u>	<u>197,503</u>	<u>(32,155)</u>	<u>602,043</u>
<b>CASH FLOWS - CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Principal Paid on Debt	-	(315,000)	-	(315,000)
Interest Paid on Debt	-	(107,516)	-	(107,516)
Proceeds from Disposal of Land Held for Resale	-	-	239	239
Acquisition of Capital Assets	<u>(399,900)</u>	<u>(560,275)</u>	<u>(1,529)</u>	<u>(961,704)</u>
Net Cash Flows - Capital and Related Financing Activities	<u>(399,900)</u>	<u>(982,791)</u>	<u>(1,290)</u>	<u>(1,383,981)</u>
<b>CASH FLOWS - INVESTING ACTIVITIES</b>				
Interest and Dividends Received	-	6,117	27,720	33,837
<b>Net Change in Cash and Cash Equivalents</b>	-	(447,332)	196,446	(250,886)
<b>CASH AND CASH EQUIVALENTS</b>				
January 1	-	447,332	983,029	1,430,361
December 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,179,475</u>	<u>\$ 1,179,475</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS - OPERATING ACTIVITIES</b>				
Operating Income (Loss)	\$ (142,380)	\$ 66,267	\$ 181,948	\$ 105,835
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows - Operating Activities:				
Other Income	-	6,748	-	6,748
Depreciation Expense	102,643	262,746	44,319	409,708
Accounts Receivable	(1,037)	(1,166)	-	(2,203)
Special Assessments Receivable	-	2,356	-	2,356
Due from Other Governments	-	329	-	329
Prepaid Items	50	(1,295)	320	(925)
Inventory	-	-	(34,421)	(34,421)
Accounts Payable	3,675	(5,230)	4,704	3,149
Due to Other Governmental Units	-	7	(629)	(622)
Salaries Payable	(58)	423	1,199	1,564
Compensated Absences Payable	-	-	2,905	2,905
OPEB Payable	312	654	1,826	2,792
Total Adjustments	<u>105,585</u>	<u>265,572</u>	<u>20,223</u>	<u>391,380</u>
Net Cash Flows - Operating Activities	<u>\$ (36,795)</u>	<u>\$ 331,839</u>	<u>\$ 202,171</u>	<u>\$ 497,215</u>

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

## CITY OF PRINCETON

### NOTES TO THE FINANCIAL STATEMENTS December 31, 2010

#### 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

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

##### 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.

## CITY OF PRINCETON

### NOTES TO THE FINANCIAL STATEMENTS December 31, 2010

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### A. Reporting Entity (Continued)

###### 3. Related Organization

###### Princeton Firefighters' Relief Association

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

###### 4. Joint Ventures and Jointly Governed Organizations

###### Dalbo-Princeton-Wyanett Fire Districts

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

##### B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the City. The fiduciary funds are only reported in the Statement of Fiduciary Net Assets at the fund financial statement level.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly excluded 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, 2010

#### 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 fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

##### Description of Funds:

###### Major Governmental Funds:

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

**Economic Development Authority Special Revenue Fund** – This Fund accounts for the activities associated with the EDA of the City.

**Neighborhood Stabilization Program Special Revenue Fund** – This Fund accounts for the activities associated with the federally funded Neighborhood Stabilization Program.

**Western Area Improvements Debt Service Fund** – This Fund accounts for the activities associated with the related debt service.

**2005 21<sup>st</sup> Avenue Improvements Debt Service Fund** – This Fund accounts for the activities associated with the related debt service.

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

## CITY OF PRINCETON

### NOTES TO THE FINANCIAL STATEMENTS December 31, 2010

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

###### Description of Funds: (Continued)

###### Proprietary Funds:

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

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

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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

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

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

##### D. Assets, Liabilities and Net Assets or Equity

###### 1. Deposits and Investments

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

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

## CITY OF PRINCETON

### NOTES TO THE FINANCIAL STATEMENTS December 31, 2010

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

###### 1. Deposits and Investments (Continued)

*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 and on the following page. The component unit does not have an investment policy to address the following risks.

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

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

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

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

## CITY OF PRINCETON

### NOTES TO THE FINANCIAL STATEMENTS December 31, 2010

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

###### 1. Deposits and Investments (Continued)

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.

###### 2. Receivables and Payables

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

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

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

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

###### 3. Prepaid Items

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

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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.

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	5-20
Infrastructure	30-40
Vehicles	3-20
Buildings	30-50

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

5. Compensated Absences

Full-time City employees accumulate sick leave at the rate of one day for each month of employment. Upon termination or retirement, an employee with a minimum of 10 years of service can collect half of all unused sick leave. The policy for union employees is the same except only 5 years of service is necessary and there is a maximum payment for 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 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, 2010

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

###### 5. 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, 2010 is recorded in the financial statements.

###### 6. Long-Term Obligations

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

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

###### 7. Fund Equity

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

###### 8. Net Assets

Net assets represent the difference between assets and liabilities in the government-wide financial statements. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. A reclassification of \$ 1,304,845 was made between this net asset class and unrestricted net assets in the total column in the Statement of Net Assets to recognize the portion of debt attributable to capital assets donated from governmental activities to business-type activities. Net assets are reported as restricted in the government-wide financial statement when there are limitations on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

**CITY OF PRINCETON**

**NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**8. Net Assets (Continued)**

The Water Availability Fund is reported as a governmental fund in the fund statements, but is reclassified as a business-type activity for the government-wide presentation. There was no impact on net assets.

**9. Use of Estimates**

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

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

1. Budget requests are submitted by all department heads to the City Administrator. The City Administrator compiles the budget requests into an overall preliminary City budget. The City Administrator presents the proposed budget to the City Council.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution after obtaining taxpayer comments. The budget resolution adopted by the City Council sets forth the budgets at the function level for the governmental funds.
4. Budgets for the governmental funds are adopted on a basis consistent with U.S. generally accepted accounting principles.
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, 2010**

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**B. Deficit Fund Balance**

The following Funds had deficit balances at December 31, 2010:

Nonmajor Funds:

Special Revenue:

Development Grants	\$ 70,535
Development Expenses	96,137
Fire Department Grants	7,101
Stormwater Management	130,992

Debt Service:

1999 Street and Utilities Improvements	82,610
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Capital Projects:

2002/2003 First Street Improvements	135,816
2003 Utility Improvements	80,293
Heritage Village	284,342
21st Avenue Improvements - North Portion	98,163
2nd Street and 10th Avenue Street and Utility Improvements	41,863
Northland/Old 18 Improvements	44,600
District No. 3-7 Redevelopment District	7,207
2000 Street and Utility Improvements	70,145

**C. Excess of Expenditures over Appropriations**

The following Funds' expenditures exceeded appropriations during the year:

<u>Fund</u>	<u>Appropriations</u>	<u>Disbursements</u>	<u>Excess</u>
Economic Development Authority			
Special Revenue Fund	\$ 126,305	\$ 129,435	\$ 3,130
Neighborhood Stabilization Program			
Special Revenue Fund	412,965	882,443	469,478
Nonmajor Funds:			
Special Revenue:			
Property Confiscation	1,545	5,057	3,512
Civic Center	4,000	4,695	695
Fire Equipment Reserve	63,300	63,313	13
Stormwater Management	12,500	36,312	23,812

**CITY OF PRINCETON**

**NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010**

**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, 2010, the City’s bank balance was not exposed to custodial credit risk because it was fully insured through the FDIC as well as collateral pledged. The City’s deposits had a book balance as follows:

Checking	\$ 365,736
Savings	2,537,222
Nonnegotiable Certificates of Deposit	<u>1,466,990</u>
Total Deposits	<u><u>\$ 4,369,948</u></u>

**B. Investments**

As of December 31, 2010, 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		
GB	FNMA	512,725	-	-	434,712	78,013	16.4%	AAA
GB	FHLB	137,828	-	42,059	95,769	-	4.4%	AAA
GB	FHLMC	331,956	-	100,291	218,108	13,557	10.6%	AAA
SEC	Mortgage Securities	59,055	-	-	-	59,055	1.9%	AAA
CD	Brokered Certificates of Deposit	2,078,802	370,847	1,707,955	-	-	66.6%	NR
Total		<u>\$ 3,120,366</u>	<u>\$370,847</u>	<u>\$ 1,850,305</u>	<u>\$ 748,589</u>	<u>\$ 150,625</u>	<u>100.0%</u>	

Credit Risk: As of December 31, 2010, the City’s investments were rated in the table above.

Concentration of Credit Risk: The City was exposed to concentration of credit risk at December 31, 2010 as investments in FNMA (14.5%), FHLMC (9.4%), Banco Bilbao (5.6%) and GE Money Bank (5.6%) exceeded 5% of the City’s total investment portfolio.

The City’s investment policy states that under no circumstances should any investment extend beyond 15 years. At December 31, 2010, the City held investments that were in noncompliance with this policy.

**CITY OF PRINCETON**

**NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010**

**NOTE 3 – DEPOSITS AND INVESTMENTS**

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

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

**Custodial Credit Risk – Deposits:** As of December 31, 2010, the component unit’s bank balance was not exposed to custodial credit risk because it was fully insured through the FDIC as well as collateral pledged. The component unit’s deposits had a book balance at December 31, 2010 of \$ 4,133,680.

As of December 31, 2010, the component unit had the following investments:

<u>Type</u>	<u>Investment</u>	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Percentage of Total</u>
GB	Grand Rapids, MN GO Taxable	\$ 222,923	A1	36.9%
GB	Grimes, IA GO Taxable Build America	115,920	A1	19.2%
GB	Wyoming, MN GO Taxable Build America	<u>265,470</u>	A1	43.9%
Total		<u>\$ 604,313</u>		

**Credit Risk:** As of December 31, 2010, the component unit’s investments were rated in the table above.

**Concentration of Credit Risk:** The component unit was exposed to concentration of credit risk at December 31, 2010 as all individual investments above exceeded 5% of the component units total investment portfolio.

**D. Deposits and Investments**

The following is a summary of total deposits and investments:

Deposits (Note 3.A.)	\$ 4,369,948
Investments (Note 3.B.)	3,548,785
Petty Cash	<u>2,817</u>
Total Deposits and Investments - City	<u>7,921,550</u>
Deposits - Component Unit (Note 3.C.)	4,373,577
Investments - Component Unit (Note 3.C.)	604,313
Petty Cash	<u>2,135</u>
Total Deposits and Investments - Component Unit	<u>4,980,025</u>
Total Deposits and Investments	<u>\$ 12,901,575</u>

**CITY OF PRINCETON**

**NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010**

**NOTE 3 – DEPOSITS AND INVESTMENTS**

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

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

Statement of Net Assets:

Cash and Investments, Including	
Component Units	\$ 10,588,598
Cash Held in Escrow	239,896
Restricted Assets	<u>2,073,081</u>
 Total	 <u><u>\$ 12,901,575</u></u>

**NOTE 4 – CAPITAL ASSETS**

**A. Primary Government**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ 1,341,160	\$ 68,747	\$ -	\$ 1,409,907
Easements	-	1,317	-	1,317
Construction in Progress	<u>29,395</u>	<u>-</u>	<u>29,395</u>	<u>-</u>
Total Capital Assets not being Depreciated	<u>1,370,555</u>	<u>70,064</u>	<u>29,395</u>	<u>1,411,224</u>
Capital Assets being Depreciated:				
Buildings and Systems	2,216,651	-	-	2,216,651
Other Improvements	1,459,384	-	-	1,459,384
Machinery and Equipment	3,206,864	254,829	111,104	3,350,589
Infrastructure	<u>9,075,358</u>	<u>-</u>	<u>-</u>	<u>9,075,358</u>
Total Capital Assets being Depreciated	<u>15,958,257</u>	<u>254,829</u>	<u>111,104</u>	<u>16,101,982</u>
Less Accumulated Depreciation for:				
Buildings and Systems	893,686	47,735	-	941,421
Other Improvements	975,620	49,529	-	1,025,149
Machinery and Equipment	1,782,301	205,553	111,104	1,876,750
Infrastructure	<u>3,560,112</u>	<u>238,552</u>	<u>-</u>	<u>3,798,664</u>
Total Accumulated Depreciation	<u>7,211,719</u>	<u>541,369</u>	<u>111,104</u>	<u>7,641,984</u>
Total Capital Assets being Depreciated, Net	<u>8,746,538</u>	<u>(286,540)</u>	<u>-</u>	<u>8,459,998</u>
Governmental Activities Capital Assets, Net	<u>\$ 10,117,093</u>	<u>\$ (216,476)</u>	<u>\$ 29,395</u>	<u>\$ 9,871,222</u>

**CITY OF PRINCETON**

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2010**

**NOTE 4 – CAPITAL ASSETS**

**A. Primary Government (Continued)**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital Assets not being Depreciated:				
Land	\$ 1,025,295	\$ 1,529	\$ -	\$ 1,026,824
Construction in Progress	772,751	1,195,862	389,265	1,579,348
Total Capital Assets not being Depreciated	<u>1,798,046</u>	<u>1,197,391</u>	<u>389,265</u>	<u>2,606,172</u>
Capital Assets being Depreciated:				
Buildings and Systems	2,023,504	-	-	2,023,504
Other Improvements	10,942,380	389,264	-	11,331,644
Machinery and Equipment	1,227,068	34,093	1,400	1,259,761
Total Capital Assets being Depreciated	<u>14,192,952</u>	<u>423,357</u>	<u>1,400</u>	<u>14,614,909</u>
Less Accumulated Depreciation for:				
Buildings and Systems	138,581	55,189	-	193,770
Other Improvements	3,765,043	283,307	-	4,048,350
Machinery and Equipment	338,332	71,212	1,400	408,144
Total Accumulated Depreciation	<u>4,241,956</u>	<u>409,708</u>	<u>1,400</u>	<u>4,650,264</u>
Total Capital Assets being Depreciated, Net	<u>9,950,996</u>	<u>13,649</u>	<u>-</u>	<u>9,964,645</u>
Business-Type Activities Capital Assets, Net	<u>\$ 11,749,042</u>	<u>\$ 1,211,040</u>	<u>\$ 389,265</u>	<u>\$ 12,570,817</u>

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

Governmental Activities:	
General Government	\$ 50,125
Public Safety	105,693
Cemetery	1,397
Public Works	320,100
Parks and Recreation	<u>64,054</u>
 Total Depreciation Expense - Governmental Activities	 <u>\$ 541,369</u>

**CITY OF PRINCETON**

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2010**

**NOTE 4 – CAPITAL ASSETS**

**A. Primary Government (Continued)**

Business-Type Activities:

Airport	\$ 102,643
Sanitary Sewer	262,746
Municipal Liquor	<u>44,319</u>

Total Depreciation Expense - Business-Type Activities	<u><u>\$ 409,708</u></u>
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**B. 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	1,841,101	829	-	1,841,930
Infrastructure	23,282,367	395,431	-	23,677,798
Machinery and Equipment	<u>2,481,454</u>	<u>2,907</u>	-	<u>2,484,361</u>
Total Capital Assets being Depreciated	<u>27,604,922</u>	<u>399,167</u>	-	<u>28,004,089</u>
Less Accumulated Depreciation for:				
Buildings and Systems	551,713	62,310	-	614,023
Infrastructure	7,293,483	721,765	-	8,015,248
Machinery and Equipment	<u>1,614,981</u>	<u>142,577</u>	-	<u>1,757,558</u>
Total Accumulated Depreciation	<u>9,460,177</u>	<u>926,652</u>	-	<u>10,386,829</u>
Total Capital Assets being Depreciated, Net	<u>18,144,745</u>	<u>(527,485)</u>	-	<u>17,617,260</u>
Business-Type Activities Capital Assets, Net	<u><u>\$ 18,177,907</u></u>	<u><u>\$ (527,485)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 17,650,422</u></u>

CITY OF PRINCETON

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010

NOTE 4 – CAPITAL ASSETS

B. Component Unit (Continued)

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

Business-Type Activities:

Electric	\$ 588,740
Water	<u>337,912</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 926,652</u>

NOTE 5 – NOTES/LOANS RECEIVABLE

Notes receivable issued in connection with Urban Development Action Grants (UDAG) at December 31, 2010 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	4,461
Annual payments of \$ 758, including interest at 3%, through September 2024	8,566
Annual payments of \$ 469, including interest at 3%, through September 2024	5,301

Vurchota:

Annual payments of \$ 275, including interest at 3%, through September 2024	3,116
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Beattie:

Annual payments of \$ 886, including interest at 3%, through September 2024	9,444
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Anderson:

Annual payments of \$ 262, including interest at 3%, through September 2024	2,796
Annual payments of \$ 264, including interest at 3%, through September 2024	<u>2,810</u>

Total UDAG	<u>\$ 46,872</u>
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**CITY OF PRINCETON**

**NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010**

**NOTE 5 – NOTES/LOANS RECEIVABLE**

The principal balance for the notes on the previous page was financed by UDAG issued to the City.

**NOTE 6 – RESTRICTED ASSETS – COMPONENT UNIT**

**A. Improvements and Replacements**

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

Balance - December 31, 2009	\$ 965,482
Transfers	<u>141,054</u>
Balance- December 31, 2010	<u><u>\$ 1,106,536</u></u>

**B. Reserve Fund**

Bond and note covenants required a reserve account in the amount of \$ 844,500 be established. The amount of \$ 104,500 is required to be reserved in the Water Fund and \$ 740,000 in the Electric Fund, of which \$ 239,896 is being held in escrow.

**C. Debt Retirement**

The 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, 2010 was \$ 117,601.

The 2010, 2006 and 2004 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, 2010 was \$ 244,340.

**D. Restricted Cash Held in Escrow**

Restricted cash held in escrow as of December 31, 2010 consisted of \$ 239,896 of cash proceeds from the Electric Revenue Note, Series 2006A.

**CITY OF PRINCETON**

**NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010**

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

**A. Interfund Receivables and Payables**

The composition of interfund balances as of December 31, 2010 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Other Governmental Funds	\$ 79,014
Capital Improvements	Economic Development Authority	459,372
Capital Improvements	Other Governmental Funds	1,072,442
Capital Improvements	Airport	85,461
Capital Improvements	Sanitary Sewer	197,503
Other Governmental Funds	Other Governmental Funds	70,150
Municipal Liquor	Airport	2,825
Municipal Liquor	Other Governmental Funds	<u>207,250</u>
 Total		 <u>\$ 2,174,017</u>

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

**B. Interfund Transfers**

The composition of interfund transfers as of December 31, 2010 was as follows:

	<u>Transfer In</u>			<u>Total</u>
	<u>Economic Development Authority Fund</u>	<u>Other Governmental Funds</u>	<u>Airport Fund</u>	
Transfer Out:				
General	\$ 5,000	\$ 65,595	\$ 40,000	\$ 110,595
Other Governmental Funds	-	3,827	-	3,827
Municipal Liquor	-	<u>2,500</u>	<u>29,655</u>	<u>32,155</u>
 Total	 <u>\$ 5,000</u>	 <u>\$ 71,922</u>	 <u>\$ 69,655</u>	 <u>\$ 146,577</u>

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

## CITY OF PRINCETON

### NOTES TO THE FINANCIAL STATEMENTS December 31, 2010

#### 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 November 3, 2009, the City issued \$ 1,505,000 G.O. Improvement Refunding Bonds, Series 2009B, which refunded the G.O. Improvement Bonds of 2004 on February 1, 2010. The refunding will result in a cash flow savings over the life of the Bonds of \$ 77,550 and an economic gain of \$ 78,203.

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. As of December 31, 2010, the City has approximately \$ 1,525,169 in construction in progress in the Sewer Fund relating to the project; however, none of the costs have been requested for reimbursement from the USDA.

###### Component Unit

On November 18, 2010, the Public Utilities Commission issued \$ 3,040,000 Public Utility System Refunding Revenue Bonds, Series 2010A to advance refund \$ 1,860,000 of the Public Utility System Revenue Bonds, Series 2002 and \$ 1,165,000 of the Public Utility System Revenue Refunding Bonds, Series 2003. This advance refunding was undertaken to reduce the total debt service payments. Although the transaction did not result in an accounting gain or loss, it did result in an economic gain of \$ 21,632.

**CITY OF PRINCETON**

**NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010**

**NOTE 8 – LONG-TERM DEBT**

**B. Components of Long-Term Liabilities**

**Primary Government**

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>	<u>Due Within One Year</u>
<b>Long-Term Liabilities:</b>						
<b>Governmental Activities:</b>						
G.O. Bonds, Including						
Special Assessment Bonds:						
G.O. Improvement						
Refunding 2000B	11/01/00	4.80%-5.25%	\$ 535,000	02/01/13	\$ 165,000	\$ 50,000
G.O. Improvement 2002	11/01/02	2.10%-4.45%	510,000	02/01/13	175,000	55,000
G.O. Improvement 2004A	09/01/04	2.25%-3.80%	400,000	02/01/15	215,000	40,000
G.O. Improvement 2005A	09/20/05	3.00%-4.20%	1,100,000	02/01/21	875,000	65,000
G.O. Improvement 2007A	08/23/07	4.00%-4.25%	234,000	02/01/23	210,000	12,000
G.O. Improvement						
Refunding 2009B	11/01/09	2.00%-3.50%	1,505,000	02/01/20	1,505,000	120,000
Compensated Absences					<u>230,683</u>	<u>140,000</u>
Total Governmental Activities					3,375,683	482,000
<b>Business-Type Activities:</b>						
G.O. Revenue Bonds:						
G.O. Sewer Revenue 2007B	09/01/07	3.75%-4.35%	1,755,000	02/21/28	1,695,000	65,000
G.O. Sewer Revenue						
Refunding 2009A	04/01/09	0.85%-2.70%	2,040,000	08/01/16	1,645,000	260,000
Compensated Absences					<u>34,105</u>	<u>630</u>
Total Business-Type Activities					<u>3,374,105</u>	<u>325,630</u>
<b>Total all Long-Term   Liabilities</b>					<u>\$ 6,749,788</u>	<u>\$ 807,630</u>

**CITY OF PRINCETON**

**NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010**

**NOTE 8 – LONG-TERM DEBT**

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

**Component Unit**

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>	<u>Due Within One Year</u>
<b>Long-Term Liabilities:</b>						
Business-Type Activities:						
G.O. Revenue Bonds:						
MNPFA G.O. Revenue Note	06/10/04	2.53%	\$ 847,422	08/20/23	\$ 637,000	\$ 42,000
Public Utility System Revenue						
Bonds, Series 2004	02/01/04	3.00%-4.55%	670,000	04/01/24	580,000	35,000
MNPFA G.O. Revenue Bond	09/08/99	3.29%	670,000	08/20/19	367,000	36,000
Electric Revenue Note,						
Series 2006A	04/02/06	4.05%	3,065,000	12/01/25	2,565,000	120,000
Public Utility System Revenue						
Bonds, Series 2004	02/01/04	1.25%-4.70%	2,795,000	04/01/24	2,205,000	120,000
G.O. Water Revenue Bond						
Series 2008A	03/04/08	2.20%-4.05%	4,880,000	12/01/27	4,345,000	225,000
Public Utility System Refunding						
Revenue Bonds, Series 2010A	11/18/10	2.0%-3.50%	3,040,000	04/01/22	3,040,000	310,000
Bond Discount and						
Issuance Costs					(140,734)	-
Total all Long-Term					<u>\$ 13,598,266</u>	<u>\$ 888,000</u>
Liabilities						

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, 2010 are listed on the following page.

**CITY OF PRINCETON**

**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2010

**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	
2011	\$ 342,000	\$ 221,556	\$ 325,000	\$ 102,336	\$ 990,892
2012	378,000	229,482	330,000	96,307	1,033,789
2013	388,000	216,427	340,000	89,122	1,033,549
2014	279,000	210,566	350,000	80,795	920,361
2015	280,000	201,980	360,000	71,487	913,467
2016-2020	1,323,000	969,601	725,000	248,396	3,265,997
2021-2025	155,000	5,905	530,000	141,245	832,150
2026-2028	-	-	380,000	25,447	405,447
Total	<u>\$ 3,145,000</u>	<u>\$ 2,055,517</u>	<u>\$ 3,340,000</u>	<u>\$ 855,135</u>	<u>\$ 9,395,652</u>

**Component Unit**

Year Ending December 31,	Business-Type Activities		Total
	G.O. Revenue Bonds		
	Principal	Interest	
2011	\$ 888,000	\$ 473,748	\$ 888,001
2012	875,000	454,126	875,001
2013	927,000	427,516	927,001
2014	939,000	399,668	939,001
2015	917,000	371,228	917,001
2016-2020	4,792,000	1,373,474	4,792,001
2021-2025	4,086,000	468,490	4,086,001
2026-2027	315,000	19,160	315,001
Total	<u>\$ 13,739,000</u>	<u>\$ 3,987,410</u>	<u>\$ 13,739,008</u>

**CITY OF PRINCETON**

**NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010**

**NOTE 8 – LONG-TERM DEBT**

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

Long-term liability activity for the year ended December 31, 2010 was as follows:

**Primary Government**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds Payable:					
G.O. Special Assessment Bonds	\$ 5,082,000	\$ -	\$ 1,937,000	\$ 3,145,000	\$ 342,000
Compensated Absences	219,786	141,828	130,931	230,683	140,000
Total Governmental Activities	<u>5,301,786</u>	<u>141,828</u>	<u>2,067,931</u>	<u>3,375,683</u>	<u>482,000</u>
Business-Type Activities:					
Bonds Payable:					
G.O. Sewer Revenue Bonds	3,655,000	-	315,000	3,340,000	325,000
Compensated Absences	31,201	15,877	12,973	34,105	630
Total Business-Type Activities	<u>3,686,201</u>	<u>15,877</u>	<u>327,973</u>	<u>3,374,105</u>	<u>325,630</u>
Total Long-Term Liabilities	<u>\$ 8,987,987</u>	<u>\$ 157,705</u>	<u>\$ 2,395,904</u>	<u>\$ 6,749,788</u>	<u>\$ 807,630</u>

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

**Component Unit**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-Type Activities:					
Bonds Payable:					
Water Fund:					
Revenue Bonds	\$ 6,744,583	\$ 465,000	\$ 858,187	\$ 6,351,396	\$ 378,000
Electric Fund:					
Revenue Bonds	7,647,251	2,575,000	2,975,381	7,246,870	510,000
Total Long-Term Liabilities	<u>\$ 14,391,834</u>	<u>\$ 3,040,000</u>	<u>\$ 3,833,568</u>	<u>\$ 13,598,266</u>	<u>\$ 888,000</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, 2010, there were several issues outstanding. The bonds are not reported as liabilities in the accompanying financial statements. The outstanding balance at December 31, 2010 was not determinable.

**CITY OF PRINCETON**

**NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010**

**NOTE 9 – RESERVED FUND BALANCES/NET ASSETS**

**Reserved/Designated Fund Equity**

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

	<u>General</u>	<u>Economic Development Authority Fund</u>	<u>Neighborhood Stabilization Program Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Reserved for:					
Prepays	\$ 62,410	\$ -	\$ -	\$ 925	\$ 63,335
Land Held for Resale		512,400	1		512,401
Designated for:					
Working Capital	<u>1,417,660</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,417,660</u>
<b>Total</b>	<u><u>\$ 1,480,070</u></u>	<u><u>\$ 512,400</u></u>	<u><u>\$ 1</u></u>	<u><u>\$ 925</u></u>	<u><u>\$ 1,993,396</u></u>

**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 fiscal years.

The City's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment for 2010 is estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2010, there were no other claims liabilities reported in the Fund based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

## CITY OF PRINCETON

### NOTES TO THE FINANCIAL STATEMENTS December 31, 2010

#### 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.

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.

## CITY OF PRINCETON

### NOTES TO THE FINANCIAL STATEMENTS December 31, 2010

#### NOTE 11 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

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

##### A. Plan Description (Continued)

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](http://www.mnpera.org), by writing to PERA at 60 Empire Drive, #200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or (800) 652-9026.

##### B. Funding Policy

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. These Statutes are established and amended by the State Legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.0%, respectively, of their annual covered salary in 2010. PEPFF members were required to contribute 9.4% of their annual covered salary in 2010. In 2010, the City was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.0% for Coordinated Plan members and 14.1% for PEPFF members. The City's contributions to the Public Employees' Retirement Fund for the years ending December 31, 2010, 2009 and 2008 were \$ 55,577, \$ 54,725 and \$ 57,363, respectively. The City's contributions to PEPFF for the years ending December 31, 2010, 2009 and 2008 were \$ 79,405, \$ 77,026 and \$ 66,310, 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 fiscal year 2010, the City contributed \$ 9,061 to the plan. As of December 31, 2010, there was one retiree receiving health and dental benefits from the City.

**CITY OF PRINCETON**

**NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010**

**NOTE 12 – POST EMPLOYMENT HEALTH CARE PLAN**

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

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

ARC	\$ 29,878
Interest on Net OPEB obligation	818
Adjustment to ARC	(1,183)
Annual OPEB Cost (Expense)	29,513
Contributions Made	(9,061)
Increase in Net OPEB Obligation	20,452
Net OPEB Obligation - Beginning of Year	20,457
Net OPEB Obligation - End of Year	\$ 40,909

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2010 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/10	\$ 29,513	\$ 9,061	31%	\$ 40,909

**D. Funded Status and Funding Progress**

As of December 31, 2009, the most recent actuarial valuation date, the City had no assets deposited to fund the plan. The actuarial accrued liability for benefits was \$ 224,329 and the actuarial value of assets was \$ 0, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 224,329. The covered payroll (annual payroll of active employees covered by the plan) was \$ 1,613,894 and the ratio of the UAAL to the covered payroll was 13.9%.

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.

**CITY OF PRINCETON**

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2010**

**NOTE 12 – POST EMPLOYMENT HEALTH CARE PLAN**

**D. Funded Status and Funding Progress (Continued)**

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

**E. Actuarial Methods and Assumptions**

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

At the December 31, 2009 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.0 % discount rate, which is based on the investment yield expected to finance benefits depending on whether the plan is funded in a separate trust (about 7% to 8.5%, long-term, similar to a pension plan) or unfunded (3.5% to 5%, shorter-term, based on City’s general assets). The City currently does not plan to prefund for this benefit. At the actuarial valuation date, the annual health care cost trend rate was calculated to be 10% initially, reduced incrementally to an ultimate rate of 5% after 10 years. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at December 31, 2010 was 28 years.

**NOTE 13 – COMMITMENTS**

As of December 31, 2010, the City has entered into the following construction contracts.

Project	Contract	Expended Through 12/31/10	Commitment
WWTP Site Preload	\$ 807,233	\$ 54,679	\$ 752,554
WWTP Improvements	10,298,000	-	10,298,000
WWTP Engineering Costs	2,075,800	749,949	1,325,851
Total	<u>\$ 13,181,033</u>	<u>\$ 804,628</u>	<u>\$ 12,376,405</u>

**NOTE 14 – SUBSEQUENT EVENT**

On March 1, 2011, the City issued the \$ 15,120,000 G.O. Temporary Sewer Revenue Bonds, Series 2010A to provide financing for the Waste Water Treatment Plant construction. The interest rate on this Bond was 2.25% and the maturity date is March 1, 2014.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF PRINCETON**

**SCHEDULE OF FUNDING PROGRESS – OTHER POST EMPLOYMENT BENEFITS  
December 31, 2010**

<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%

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, 2010**

	Special Revenue				
	Insurance Deductible Reserve (202)	Cemetery Operation and Maintenance (205)	Property Confiscation (210)	Public Safety and Awareness (211)	Investigation Information Buy Fund (212)
<b>ASSETS</b>					
Cash and Investments	\$ 49,610	\$ 4,918	\$ 132,046	\$ 193	\$ 2,311
Taxes Receivable - Delinquent	-	-	-	-	-
Special Assessment Receivable:					
Delinquent	-	-	-	-	-
Deferred	-	-	-	-	-
Accounts Receivable	-	2,000	-	-	-
Interest Receivable	-	-	-	-	-
Due from Other Funds	-	-	-	-	-
Due from Other Governments	-	-	-	-	-
Notes Receivable	-	-	-	-	-
Prepaid Expenses	-	925	-	-	-
Total Assets	<u>\$ 49,610</u>	<u>\$ 7,843</u>	<u>\$ 132,046</u>	<u>\$ 193</u>	<u>\$ 2,311</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts and Contracts Payable	\$ -	\$ 501	\$ 11	\$ -	\$ -
Due to Other Funds	-	-	-	-	-
Due to Other Governments	-	-	3,300	-	-
Salaries Payable	-	113	-	-	-
Deferred Revenue	-	-	-	-	-
Total Liabilities	<u>-</u>	<u>614</u>	<u>3,311</u>	<u>-</u>	<u>-</u>
<b>Fund Balances</b>					
Reserved for:					
Prepaid Expense	-	925	-	-	-
Unreserved, Reported in:					
Special Revenue - Undesignated	49,610	6,304	128,735	193	2,311
Debt Service - Undesignated	-	-	-	-	-
Capital Projects - Undesignated	-	-	-	-	-
Total Fund Balances	<u>49,610</u>	<u>7,229</u>	<u>128,735</u>	<u>193</u>	<u>2,311</u>
Total Liabilities and Fund Balances	<u>\$ 49,610</u>	<u>\$ 7,843</u>	<u>\$ 132,046</u>	<u>\$ 193</u>	<u>\$ 2,311</u>

**Special Revenue**

<b>Felony Investigation (214)</b>	<b>Solheim Field Improvements (216)</b>	<b>Civic Center (240)</b>	<b>Community Beautification (242)</b>	<b>Community Projects (250)</b>	<b>Development Grants (252)</b>	<b>Development Expenses (253)</b>	<b>Fire Equipment Reserve (260)</b>
\$ 10,859	\$ 8,694	\$ 444	\$ 12,618	\$ 2,217	\$ -	\$ -	\$ 211,486
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	6,622	14,752
-	-	-	-	-	-	-	125
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 10,859</u>	<u>\$ 8,694</u>	<u>\$ 444</u>	<u>\$ 12,618</u>	<u>\$ 2,217</u>	<u>\$ -</u>	<u>\$ 6,622</u>	<u>\$ 226,363</u>
\$ -	\$ -	\$ 277	\$ -	\$ -	\$ -	\$ 619	\$ -
-	-	-	-	-	70,535	102,140	-
-	-	-	-	-	-	-	15
-	-	-	-	-	-	-	-
-	-	<u>277</u>	<u>-</u>	<u>-</u>	<u>70,535</u>	<u>102,759</u>	<u>15</u>
-	-	-	-	-	-	-	-
10,859	8,694	167	12,618	2,217	(70,535)	(96,137)	226,348
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>10,859</u>	<u>8,694</u>	<u>167</u>	<u>12,618</u>	<u>2,217</u>	<u>(70,535)</u>	<u>(96,137)</u>	<u>226,348</u>
<u>\$ 10,859</u>	<u>\$ 8,694</u>	<u>\$ 444</u>	<u>\$ 12,618</u>	<u>\$ 2,217</u>	<u>\$ -</u>	<u>\$ 6,622</u>	<u>\$ 226,363</u>

**CITY OF PRINCETON**  
**COMBINING BALANCE SHEET -**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**December 31, 2010**

	Special Revenue				
	Fire Department Grants (261)	Disaster Relocation (262)	Stormwater Management (601)	Water Availability (701)	Park Improvements (802)
<b>ASSETS</b>					
Cash and Investments	\$ -	\$ 103,874	\$ -	\$ 86,151	\$ 80,449
Taxes Receivable - Delinquent	-	-	-	-	-
Special Assessment Receivable:					
Delinquent	-	-	-	-	-
Deferred	-	-	-	-	-
Accounts Receivable	-	-	-	-	-
Interest Receivable	-	-	-	-	-
Due from Other Funds	-	-	-	-	-
Due from Other Governments	-	14,876	-	-	-
Notes Receivable	-	-	-	-	-
Prepaid Expenses	-	-	-	-	-
Total Assets	<u>\$ -</u>	<u>\$ 118,750</u>	<u>\$ -</u>	<u>\$ 86,151</u>	<u>\$ 80,449</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts and Contracts Payable	\$ -	\$ 645	\$ 4,696	\$ -	\$ -
Due to Other Funds	7,101	-	126,296	-	-
Due to Other Governments	-	32	-	86,151	-
Salaries Payable	-	3,060	-	-	-
Deferred Revenue	-	-	-	-	-
Total Liabilities	<u>7,101</u>	<u>3,737</u>	<u>130,992</u>	<u>86,151</u>	<u>-</u>
<b>Fund Balances</b>					
Reserved for:					
Prepaid Expense	-	-	-	-	-
Unreserved, Reported in:					
Special Revenue - Undesignated	(7,101)	115,013	(130,992)	-	80,449
Debt Service - Undesignated	-	-	-	-	-
Capital Projects - Undesignated	-	-	-	-	-
Total Fund Balances	<u>(7,101)</u>	<u>115,013</u>	<u>(130,992)</u>	<u>-</u>	<u>80,449</u>
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 118,750</u>	<u>\$ -</u>	<u>\$ 86,151</u>	<u>\$ 80,449</u>

Special Revenue				Debt Service		
Cemetery Perpetual Care (803)	UDAG No. 2 Downtown Project (814)	UDAG No. 5 Crystal Cabinets (820)	Total	Downtown Redevelopment Tax Increment (490)	1994 Library Project (494)	1999 Industrial Park Improvements (500)
\$ 147,604	\$ 33,451	\$ 95,351	\$ 982,276	\$ 218,268	\$ 2,588	\$ 268,979
-	-	-	-	25,101	143	481
-	-	-	-	-	-	-
-	-	-	-	-	-	-
2,455	1,588	-	23,374	-	-	-
-	-	-	4,168	-	-	-
-	-	-	14,876	-	-	-
-	46,872	-	46,872	-	-	-
-	-	-	925	-	-	-
<u>\$ 150,059</u>	<u>\$ 81,911</u>	<u>\$ 95,351</u>	<u>\$ 1,072,491</u>	<u>\$ 243,369</u>	<u>\$ 2,731</u>	<u>\$ 269,460</u>
\$ -	\$ -	\$ -	\$ 6,749	\$ -	\$ -	\$ -
-	-	-	306,072	207,250	-	-
-	-	-	89,498	-	-	-
-	-	-	3,173	-	-	-
-	46,872	-	46,872	25,101	143	481
-	46,872	-	452,364	232,351	143	481
-	-	-	925	-	-	-
150,059	35,039	95,351	619,202	-	-	-
-	-	-	-	11,018	2,588	268,979
-	-	-	-	-	-	-
<u>150,059</u>	<u>35,039</u>	<u>95,351</u>	<u>620,127</u>	<u>11,018</u>	<u>2,588</u>	<u>268,979</u>
<u>\$ 150,059</u>	<u>\$ 81,911</u>	<u>\$ 95,351</u>	<u>\$ 1,072,491</u>	<u>\$ 243,369</u>	<u>\$ 2,731</u>	<u>\$ 269,460</u>

**CITY OF PRINCETON**  
**COMBINING BALANCE SHEET -**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**December 31, 2010**

	Debt Service				
	2002/2003 1st Street Improvements (502)	2nd and 7th Improvements (504)	2007 PUC Area Improvements (507)	2000 Street and Utilities Improvements (530)	Revolving Account Fund (552)
<b>ASSETS</b>					
Cash and Investments	\$ 234,840	\$ 171,931	\$ 133,547	\$ 48,354	\$ 211,368
Taxes Receivable - Delinquent	726	807	144	-	-
Special Assessment Receivable:					
Delinquent	25,988	3,785	-	-	-
Deferred	62,242	132,839	137,408	13,618	875
Accounts Receivable	-	-	-	-	-
Interest Receivable	-	-	-	-	-
Due from Other Funds	-	-	-	-	70,150
Due from Other Governments	-	-	-	-	-
Notes Receivable	-	-	-	-	-
Prepaid Expenses	-	-	-	-	-
<b>Total Assets</b>	<b>\$ 323,796</b>	<b>\$ 309,362</b>	<b>\$ 271,099</b>	<b>\$ 61,972</b>	<b>\$ 282,393</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts and Contracts Payable	\$ -	\$ -	\$ -	\$ -	\$ -
Due to Other Funds	-	-	-	-	-
Due to Other Governments	-	-	-	-	-
Salaries Payable	-	-	-	-	-
Deferred Revenue	88,956	137,431	137,552	13,618	875
<b>Total Liabilities</b>	<b>88,956</b>	<b>137,431</b>	<b>137,552</b>	<b>13,618</b>	<b>875</b>
<b>Fund Balances</b>					
Reserved for:					
Prepaid Expense	-	-	-	-	-
Unreserved, Reported in:					
Special Revenue - Undesignated	-	-	-	-	-
Debt Service - Undesignated	234,840	171,931	133,547	48,354	281,518
Capital Projects - Undesignated	-	-	-	-	-
<b>Total Fund Balances</b>	<b>234,840</b>	<b>171,931</b>	<b>133,547</b>	<b>48,354</b>	<b>281,518</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 323,796</b>	<b>\$ 309,362</b>	<b>\$ 271,099</b>	<b>\$ 61,972</b>	<b>\$ 282,393</b>

Debt Service				Capital Projects		
1992 Street and Utilities (592)	1993 Street and Utilities (593)	1999 Street and Utilities Improvements (599)	Total	2002/2003 First Street Improvements (301)	2003 Utility Improvement (303)	2nd Street Street and Utilities Improvements (304)
\$ 333,109	\$ 41,659	\$ -	\$ 1,664,643	\$ -	\$ -	\$ 24,654
292	-	133	27,827	-	-	-
-	-	-	29,773	-	-	-
106,485	12,382	-	465,849	-	-	-
-	-	-	-	-	-	-
-	-	-	70,150	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 439,886</u>	<u>\$ 54,041</u>	<u>\$ 133</u>	<u>\$ 2,258,242</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,654</u>
\$ -	\$ 375	\$ -	\$ 375	\$ -	\$ -	\$ -
-	-	82,610	289,860	135,816	80,293	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
106,777	12,382	133	523,449	-	-	-
<u>106,777</u>	<u>12,757</u>	<u>82,743</u>	<u>813,684</u>	<u>135,816</u>	<u>80,293</u>	<u>-</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
333,109	41,284	(82,610)	1,444,558	-	-	-
-	-	-	-	(135,816)	(80,293)	24,654
<u>333,109</u>	<u>41,284</u>	<u>(82,610)</u>	<u>1,444,558</u>	<u>(135,816)</u>	<u>(80,293)</u>	<u>24,654</u>
<u>\$ 439,886</u>	<u>\$ 54,041</u>	<u>\$ 133</u>	<u>\$ 2,258,242</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,654</u>

**CITY OF PRINCETON**  
**COMBINING BALANCE SHEET -**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**December 31, 2010**

	Capital Projects			
	Heritage Village (305)	21st Avenue Improvements South Portion (306)	21st Avenue Improvements North Portion (307)	2nd Street and 10th Avenue Street and Utility Improvements (308)
<b>ASSETS</b>				
Cash and Investments	\$ -	\$ 273,553	\$ -	\$ -
Taxes Receivable - Delinquent	-	-	-	-
Special Assessment Receivable:				
Delinquent	-	-	-	-
Deferred	-	-	-	-
Accounts Receivable	-	-	-	-
Interest Receivable	-	-	-	-
Due from Other Funds	-	-	-	-
Due from Other Governments	-	-	-	-
Notes Receivable	-	-	-	-
Prepaid Expenses	-	-	-	-
Total Assets	<u>\$ -</u>	<u>\$ 273,553</u>	<u>\$ -</u>	<u>\$ -</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts and Contracts Payable	\$ 1,317	\$ -	\$ -	\$ -
Due to Other Funds	283,025	-	98,163	41,863
Due to Other Governments	-	-	-	-
Salaries Payable	-	-	-	-
Deferred Revenue	-	-	-	-
Total Liabilities	<u>284,342</u>	<u>-</u>	<u>98,163</u>	<u>41,863</u>
<b>Fund Balances</b>				
Reserved for:				
Prepaid Expense	-	-	-	-
Unreserved, Reported in:				
Special Revenue - Undesignated	-	-	-	-
Debt Service - Undesignated	-	-	-	-
Capital Projects - Undesignated	(284,342)	273,553	(98,163)	(41,863)
Total Fund Balances	<u>(284,342)</u>	<u>273,553</u>	<u>(98,163)</u>	<u>(41,863)</u>
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 273,553</u>	<u>\$ -</u>	<u>\$ -</u>

Capital Projects

Northland/Old 18 Improvements (310)	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)	District No. 3-5 Redevelopment District (391)
\$ -	\$ 12,198	\$ 4,088	\$ 5	\$ 20,980	\$ 457,794	\$ 9,517
-	-	-	-	-	-	1,013
-	-	-	-	-	-	-
-	-	3,139	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ 12,198</u>	<u>\$ 7,227</u>	<u>\$ 5</u>	<u>\$ 20,980</u>	<u>\$ 457,794</u>	<u>\$ 10,530</u>
\$ -	\$ -	\$ 14,434	\$ -	\$ -	\$ -	\$ -
44,600	-	-	70,150	-	79,014	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>44,600</u>	<u>-</u>	<u>14,434</u>	<u>70,150</u>	<u>-</u>	<u>79,014</u>	<u>1,013</u>
-	-	-	-	-	-	1,013
-	-	-	-	-	-	-
-	-	-	-	-	-	-
(44,600)	12,198	(7,207)	(70,145)	20,980	378,780	9,517
<u>(44,600)</u>	<u>12,198</u>	<u>(7,207)</u>	<u>(70,145)</u>	<u>20,980</u>	<u>378,780</u>	<u>9,517</u>
<u>\$ -</u>	<u>\$ 12,198</u>	<u>\$ 7,227</u>	<u>\$ 5</u>	<u>\$ 20,980</u>	<u>\$ 457,794</u>	<u>\$ 10,530</u>

**CITY OF PRINCETON**  
**COMBINING BALANCE SHEET -**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**December 31, 2010**

	Capital Projects			
	District No. 3-6 Redevelopment District (392)	1997 Housing District (397)	Armory Redevelopment District (398)	Industrial Park Development (821)
<b>ASSETS</b>				
Cash and Investments	\$ 29,642	\$ 3,160	\$ 2,672	\$ 156,611
Taxes Receivable - Delinquent	-	-	-	-
Special Assessment Receivable:				
Delinquent	-	-	-	-
Deferred	-	-	-	-
Accounts Receivable	-	-	-	-
Interest Receivable	-	-	-	-
Due from Other Funds	-	-	-	-
Due from Other Governments	-	-	-	-
Notes Receivable	-	-	-	-
Prepaid Expenses	-	-	-	-
	<u>\$ 29,642</u>	<u>\$ 3,160</u>	<u>\$ 2,672</u>	<u>\$ 156,611</u>
Total Assets	<u>\$ 29,642</u>	<u>\$ 3,160</u>	<u>\$ 2,672</u>	<u>\$ 156,611</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts and Contracts Payable	\$ -	\$ -	\$ -	\$ -
Due to Other Funds	-	-	-	-
Due to Other Governments	-	-	-	-
Salaries Payable	-	-	-	-
Deferred Revenue	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balances</b>				
Reserved for:				
Prepaid Expense	-	-	-	-
Unreserved, Reported in:				
Special Revenue - Undesignated	-	-	-	-
Debt Service - Undesignated	-	-	-	-
Capital Projects - Undesignated	29,642	3,160	2,672	156,611
Total Fund Balances	<u>29,642</u>	<u>3,160</u>	<u>2,672</u>	<u>156,611</u>
Total Liabilities and Fund Balances	<u>\$ 29,642</u>	<u>\$ 3,160</u>	<u>\$ 2,672</u>	<u>\$ 156,611</u>

Capital Projects

<u>Total</u>	<u>Total Governmental Funds</u>
\$ 994,874	\$ 3,641,793
1,013	28,840
-	29,773
-	465,849
3,139	26,513
-	4,168
-	70,150
-	14,876
-	46,872
-	925
<u>\$ 999,026</u>	<u>\$ 4,329,759</u>

\$ 15,751	\$ 22,875
832,924	1,428,856
-	89,498
-	3,173
1,013	571,334
<u>849,688</u>	<u>2,115,736</u>

-	925
-	619,202
-	1,444,558
149,338	149,338
<u>149,338</u>	<u>2,214,023</u>
<u>\$ 999,026</u>	<u>\$ 4,329,759</u>

CITY OF PRINCETON

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
NONMAJOR GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2010

	Special Revenue				
	Insurance Deductible Reserve (202)	Cemetery Operation and Maintenance (205)	Property Confiscation (210)	Public Safety and Awareness (211)	Investigation Information Buy Fund (212)
<b>REVENUES</b>					
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Tax Increments	-	-	-	-	-
Special Assessments	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for Services	-	28,385	6,117	-	-
Miscellaneous:					
Investment Income	1,155	94	2,572	3	-
Contributions and Donations	-	-	-	-	1,000
Other	-	100	-	-	-
Total Revenues	<u>1,155</u>	<u>28,579</u>	<u>8,689</u>	<u>3</u>	<u>1,000</u>
<b>EXPENDITURES</b>					
<b>Current</b>					
Public Safety	-	-	5,057	-	-
Cemetery	-	31,148	-	-	-
Public Works	10,000	-	-	-	-
Parks and Recreation	-	-	-	-	-
Economic Development	-	-	-	-	-
<b>Debt Service</b>					
Principal	-	-	-	-	-
Interest and Other Charges	-	-	-	-	-
<b>Capital Outlay:</b>					
Public Safety	-	-	-	-	-
Public Works	-	-	-	-	-
Parks and Recreation	-	-	-	-	-
Economic Development	-	-	-	-	-
Total Expenditures	<u>10,000</u>	<u>31,148</u>	<u>5,057</u>	<u>-</u>	<u>-</u>
Excess of Revenues Over (Under) Expenditures	(8,845)	(2,569)	3,632	3	1,000
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from Sale of Capital Asset	-	-	-	-	-
Transfers In	-	3,027	-	-	-
Transfers Out	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>3,027</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(8,845)	458	3,632	3	1,000
<b>FUND BALANCES</b>					
Beginning of Year	<u>58,455</u>	<u>6,771</u>	<u>125,103</u>	<u>190</u>	<u>1,311</u>
End of Year	<u>\$ 49,610</u>	<u>\$ 7,229</u>	<u>\$ 128,735</u>	<u>\$ 193</u>	<u>\$ 2,311</u>

Special Revenue

Felony Investigation (214)	Solheim Field Improvements (216)	Civic Center (240)	Community Beautification (242)	Community Projects (250)	Development Grants (252)	Development Expenses (253)	Fire Equipment Reserve (260)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	1,375	-	-	-	-	11,670
217	133	-	196	-	-	-	3,011
-	-	-	-	-	-	-	-
-	1,000	-	1,100	3,700	-	-	2,250
<u>217</u>	<u>1,133</u>	<u>1,375</u>	<u>1,296</u>	<u>3,700</u>	<u>-</u>	<u>-</u>	<u>16,931</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	73	4,695	206	4,700	-	-	-
-	-	-	-	-	-	1,759	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	63,313
-	-	-	-	-	-	-	-
<u>-</u>	<u>73</u>	<u>4,695</u>	<u>206</u>	<u>4,700</u>	<u>-</u>	<u>1,759</u>	<u>63,313</u>
217	1,060	(3,320)	1,090	(1,000)	-	(1,759)	(46,382)
-	-	-	-	-	-	-	225
-	1,600	3,400	2,500	-	-	-	61,395
-	-	-	-	-	-	-	-
<u>-</u>	<u>1,600</u>	<u>3,400</u>	<u>2,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>61,620</u>
217	2,660	80	3,590	(1,000)	-	(1,759)	15,238
10,642	6,034	87	9,028	3,217	(70,535)	(94,378)	211,110
<u>\$ 10,859</u>	<u>\$ 8,694</u>	<u>\$ 167</u>	<u>\$ 12,618</u>	<u>\$ 2,217</u>	<u>\$ (70,535)</u>	<u>\$ (96,137)</u>	<u>\$ 226,348</u>

CITY OF PRINCETON

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
NONMAJOR GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2010

	Special Revenue				
	Fire Department Grants (261)	Disaster Relocation (262)	Stormwater Management (601)	Water Availability (701)	Park Improvements (802)
<b>REVENUES</b>					
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Tax Increments	-	-	-	-	-
Special Assessments	-	-	-	-	-
Intergovernmental	96,110	57,136	-	-	-
Charges for Services	-	-	-	132,433	75,500
Miscellaneous:					
Investment Income	-	-	-	-	1,318
Contributions and Donations	-	-	-	-	-
Other	-	-	-	-	-
Total Revenues	<u>96,110</u>	<u>57,136</u>	<u>-</u>	<u>132,433</u>	<u>76,818</u>
<b>EXPENDITURES</b>					
<b>Current</b>					
Public Safety	103,211	21,265	-	-	-
Cemetery	-	-	-	-	-
Public Works	-	-	19,745	132,433	-
Parks and Recreation	-	-	-	-	222
Economic Development	-	-	-	-	-
<b>Debt Service</b>					
Principal	-	-	-	-	-
Interest and Other Charges	-	-	-	-	-
<b>Capital Outlay:</b>					
Public Safety	-	-	-	-	-
Public Works	-	-	16,567	-	-
Parks and Recreation	-	-	-	-	52,180
Economic Development	-	-	-	-	-
Total Expenditures	<u>103,211</u>	<u>21,265</u>	<u>36,312</u>	<u>132,433</u>	<u>52,402</u>
Excess of Revenues Over (Under) Expenditures	(7,101)	35,871	(36,312)	-	24,416
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from Sale of Capital Asset	-	-	-	-	-
Transfers In	-	-	-	-	-
Transfers Out	-	-	-	-	(800)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(800)</u>
Net Change in Fund Balances	(7,101)	35,871	(36,312)	-	23,616
<b>FUND BALANCES</b>					
Beginning of Year	<u>-</u>	<u>79,142</u>	<u>(94,680)</u>	<u>-</u>	<u>56,833</u>
End of Year	<u>\$ (7,101)</u>	<u>\$ 115,013</u>	<u>\$ (130,992)</u>	<u>\$ -</u>	<u>\$ 80,449</u>

Special Revenue				Debt Service			
Cemetery Perpetual Care (803)	UDAG No. 2 Downtown Project (814)	UDAG No. 5 Crystal Cabinets (820)	Total	Downtown Redevelopment Tax Increment (490)	1994 Library Project (494)	1999 Industrial Park Improvements (500)	2002/2003 1st Street Improvements (502)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24	\$ 502	\$ 9,415
-	-	-	-	3,268	-	-	-
-	6,760	-	160,006	-	-	-	18,996
4,945	-	-	260,425	-	-	-	115
3,028	2,075	1,902	15,704	5,724	52	5,358	4,336
-	-	-	1,000	-	-	-	-
-	-	-	8,150	-	-	-	-
<u>7,973</u>	<u>8,835</u>	<u>1,902</u>	<u>445,285</u>	<u>8,992</u>	<u>76</u>	<u>5,860</u>	<u>32,862</u>
-	-	-	129,533	-	-	-	-
-	-	-	31,148	-	-	-	-
-	-	-	162,178	-	-	-	-
-	-	-	9,896	-	-	-	-
-	-	-	1,759	5,703	-	-	-
-	-	-	-	-	-	66,667	55,000
-	-	-	-	-	(1)	1,733	8,688
-	-	-	63,313	-	-	-	-
-	-	-	16,567	-	-	-	-
-	-	-	52,180	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	<u>466,574</u>	<u>5,703</u>	<u>(1)</u>	<u>68,400</u>	<u>63,688</u>
7,973	8,835	1,902	(21,289)	3,289	77	(62,540)	(30,826)
-	-	-	225	-	-	-	-
-	-	-	71,922	-	-	-	-
(3,027)	-	-	(3,827)	-	-	-	-
<u>(3,027)</u>	<u>-</u>	<u>-</u>	<u>68,320</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4,946	8,835	1,902	47,031	3,289	77	(62,540)	(30,826)
145,113	26,204	93,449	573,096	7,729	2,511	331,519	265,666
<u>\$ 150,059</u>	<u>\$ 35,039</u>	<u>\$ 95,351</u>	<u>\$ 620,127</u>	<u>\$ 11,018</u>	<u>\$ 2,588</u>	<u>\$ 268,979</u>	<u>\$ 234,840</u>

CITY OF PRINCETON

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
NONMAJOR GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2010

	Debt Service			
	2nd and 7th Improvements (504)	2007 PUC Area Improvements (507)	2000 Street and Utilities Improvements (530)	Revolving Account Fund (552)
<b>REVENUES</b>				
Property Taxes	\$ 9,653	\$ 2,358	\$ -	\$ -
Tax Increments	-	-	-	-
Special Assessments	40,344	7,562	3,233	-
Intergovernmental	1,037	29	-	-
Charges for Services	-	-	-	-
Miscellaneous:				
Investment Income	2,777	2,568	918	4,214
Contributions and Donations	-	-	-	-
Other	-	-	-	-
Total Revenues	<u>53,811</u>	<u>12,517</u>	<u>4,151</u>	<u>4,214</u>
<b>EXPENDITURES</b>				
<b>Current</b>				
Public Safety	-	-	-	-
Cemetery	-	-	-	-
Public Works	-	-	-	-
Parks and Recreation	-	-	-	-
Economic Development	-	-	-	-
<b>Debt Service</b>				
Principal	40,000	12,000	-	-
Interest and Other Charges	8,957	9,065	-	-
<b>Capital Outlay</b>				
Public Safety	-	-	-	-
Public Works	-	-	-	-
Parks and Recreation	-	-	-	-
Economic Development	-	-	-	-
Total Expenditures	<u>48,957</u>	<u>21,065</u>	<u>-</u>	<u>-</u>
Excess of Revenues Over (Under) Expenditures	4,854	(8,548)	4,151	4,214
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from Sale of Capital Asset	-	-	-	-
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	4,854	(8,548)	4,151	4,214
<b>FUND BALANCES</b>				
Beginning of Year	<u>167,077</u>	<u>142,095</u>	<u>44,203</u>	<u>277,304</u>
End of Year	<u>\$ 171,931</u>	<u>\$ 133,547</u>	<u>\$ 48,354</u>	<u>\$ 281,518</u>

Debt Service				Capital Projects		
1992 Street and Utilities (592)	1993 Street and Utilities (593)	1999 Street and Utilities Improvements (599)	Total	2002/2003 First Street Improvements (301)	2003 Utility Improvement (303)	2nd Street Street and Utilities Improvements (304)
\$ 556	\$ -	\$ 307	\$ 22,815	\$ -	\$ -	\$ -
-	-	-	3,268	-	-	-
59,249	3,118	5	132,507	-	-	-
-	-	-	1,181	-	-	-
-	-	-	-	-	-	-
5,846	787	-	32,580	-	-	491
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>65,651</u>	<u>3,905</u>	<u>312</u>	<u>192,351</u>	<u>-</u>	<u>-</u>	<u>491</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	5,703	-	-	-
50,000	-	33,333	257,000	-	-	-
9,938	871	868	40,119	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>59,938</u>	<u>871</u>	<u>34,201</u>	<u>302,822</u>	<u>-</u>	<u>-</u>	<u>-</u>
5,713	3,034	(33,889)	(110,471)	-	-	491
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>5,713</u>	<u>3,034</u>	<u>(33,889)</u>	<u>(110,471)</u>	<u>-</u>	<u>-</u>	<u>491</u>
<u>327,396</u>	<u>38,250</u>	<u>(48,721)</u>	<u>1,555,029</u>	<u>(135,816)</u>	<u>(80,293)</u>	<u>24,163</u>
<u>\$ 333,109</u>	<u>\$ 41,284</u>	<u>\$ (82,610)</u>	<u>\$ 1,444,558</u>	<u>\$ (135,816)</u>	<u>\$ (80,293)</u>	<u>\$ 24,654</u>

CITY OF PRINCETON

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
NONMAJOR GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2010

	Capital Projects				
	Heritage Village (305)	21st Avenue Improvements South Portion (306)	21st Avenue Improvements North Portion (307)	2nd Street and 10th Avenue Street and Utility Improvements (308)	Northland/Old 18 Improvements (310)
<b>REVENUES</b>					
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Tax Increments	-	-	-	-	-
Special Assessments	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for Services	-	-	-	-	-
Miscellaneous:					
Investment Income	-	5,454	-	-	-
Contributions and Donations	-	-	-	-	-
Other	-	-	-	-	-
Total Revenues	-	5,454	-	-	-
<b>EXPENDITURES</b>					
<b>Current</b>					
Public Safety	-	-	-	-	-
Cemetery	-	-	-	-	-
Public Works	-	-	-	-	-
Parks and Recreation	-	-	-	-	-
Economic Development	-	-	-	-	-
<b>Debt Service</b>					
Principal	-	-	-	-	-
Interest and Other Charges	-	-	-	-	-
<b>Capital Outlay</b>					
Public Safety	-	-	-	-	-
Public Works	1,317	-	-	-	44,600
Parks and Recreation	-	-	-	-	-
Economic Development	-	-	-	-	-
Total Expenditures	1,317	-	-	-	44,600
Excess of Revenues Over (Under) Expenditures	(1,317)	5,454	-	-	(44,600)
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from Sale of Capital Asset	-	-	-	-	-
Transfers In	-	-	-	-	-
Transfers Out	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-	-
Net Change in Fund Balances	(1,317)	5,454	-	-	(44,600)
<b>FUND BALANCES</b>					
Beginning of Year	(283,025)	268,099	(98,163)	(41,863)	-
End of Year	\$ (284,342)	\$ 273,553	\$ (98,163)	\$ (41,863)	\$ (44,600)

Capital Projects

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)	District No. 3-5 Redevelopment District (391)	District No. 3-6 Redevelopment District (392)	1997 Housing District (397)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
40,878	-	-	29,880	28,100	12,100	49,924	8,770
-	-	-	4,732	5,054	2,458	5,873	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
40,878	-	-	34,612	33,154	14,558	55,797	8,770
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
2,194	-	-	-	-	-	-	-
-	7,207	-	34,036	-	14,504	53,326	8,770
2,194	7,207	-	34,036	-	14,504	53,326	8,770
38,684	(7,207)	-	576	33,154	54	2,471	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
38,684	(7,207)	-	576	33,154	54	2,471	-
(26,486)	-	(70,145)	20,404	345,626	9,463	27,171	3,160
\$ 12,198	\$ (7,207)	\$ (70,145)	\$ 20,980	\$ 378,780	\$ 9,517	\$ 29,642	\$ 3,160

CITY OF PRINCETON

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
NONMAJOR GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2010

	Capital Projects			Total Other Governmental Funds
	Armory Redevelopment District (398)	Industrial Park Development (821)	Total	
<b>REVENUES</b>				
Property Taxes	\$ -	\$ -	\$ -	\$ 22,815
Tax Increments	9,133	-	137,907	141,175
Special Assessments	-	-	40,878	173,385
Intergovernmental	-	-	18,117	179,304
Charges for Services	-	-	-	260,425
Miscellaneous:				
Investment Income	-	3,124	9,069	57,353
Contributions and Donations	-	-	-	1,000
Other	-	-	-	8,150
Total Revenues	<u>9,133</u>	<u>3,124</u>	<u>205,971</u>	<u>843,607</u>
<b>EXPENDITURES</b>				
<b>Current</b>				
Public Safety	-	-	-	129,533
Cemetery	-	-	-	31,148
Public Works	-	-	-	162,178
Parks and Recreation	-	-	-	9,896
Economic Development	-	-	-	7,462
<b>Debt Service</b>				
Principal	-	-	-	257,000
Interest and Other Charges	-	-	-	40,119
<b>Capital Outlay</b>				
Public Safety	-	-	-	63,313
Public Works	-	-	48,111	64,678
Parks and Recreation	-	-	-	52,180
Economic Development	9,063	230	127,136	127,136
Total Expenditures	<u>9,063</u>	<u>230</u>	<u>175,247</u>	<u>944,643</u>
Excess of Revenues Over (Under) Expenditures	70	2,894	30,724	(101,036)
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from Sale of Capital Asset	-	-	-	225
Transfers In	-	-	-	71,922
Transfers Out	-	-	-	(3,827)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>68,320</u>
Net Change in Fund Balances	70	2,894	30,724	(32,716)
<b>FUND BALANCES</b>				
Beginning of Year	<u>2,602</u>	<u>153,717</u>	<u>118,614</u>	<u>2,246,739</u>
End of Year	<u>\$ 2,672</u>	<u>\$ 156,611</u>	<u>\$ 149,338</u>	<u>\$ 2,214,023</u>

**CITY OF PRINCETON**

**SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL FUND  
For the Year Ended December 31, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final		
<b>REVENUES</b>				
<b>Property Taxes</b>	\$ 1,636,625	\$ 1,657,625	\$ 1,672,723	\$ 15,098
<b>Licenses and Permits</b>	107,285	200,105	195,622	(4,483)
<b>Intergovernmental Revenue</b>				
Local Government Aid	535,930	535,931	535,932	1
Market Value Credit	91,750	17,245	20,528	3,283
Fire Aid	35,790	36,810	36,812	2
Police Aid	67,935	76,744	76,745	1
Other Grants and Aids	8,875	14,200	26,010	11,810
Total Intergovernmental Revenue	740,280	680,930	696,027	15,097
<b>Charges for Services</b>				
General Government	72,275	73,865	74,761	896
Public Safety	118,950	127,815	121,089	(6,726)
Public Works	1,750	1,850	3,767	1,917
Park and Recreation	23,350	31,265	31,265	-
Total Charges for Services	216,325	234,795	230,882	(3,913)
<b>Fines or Forfeitures</b>	34,500	34,580	40,142	5,562
<b>Miscellaneous Revenues</b>				
Investment Income	25,000	27,000	30,183	3,183
Other	113,050	98,690	93,318	(5,372)
Total Miscellaneous	138,050	125,690	123,501	(2,189)
Total Revenues	2,873,065	2,933,725	2,958,897	25,172
<b>EXPENDITURES</b>				
<b>General Government</b>				
Mayor and Council	31,405	29,960	28,053	(1,907)
Administrative and Finance	329,100	333,940	331,161	(2,779)
Other General Government	499,620	433,285	218,931	(214,354)
Capital Outlay	145,500	51,000	37,294	(13,706)
Total General Government	1,005,625	848,185	615,439	(232,746)

**CITY OF PRINCETON**

**SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL FUND  
For the Year Ended December 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget -</u>
	<u>Original</u>	<u>Final</u>		
<b>EXPENDITURES (Continued)</b>				
<b>Public Safety</b>				
Police:				
Current	\$ 988,840	\$ 969,305	\$ 975,993	\$ 6,688
Capital Outlay	55,000	50,000	33,660	(16,340)
Total Police	<u>1,043,840</u>	<u>1,019,305</u>	<u>1,009,653</u>	<u>(9,652)</u>
Fire:				
Current	189,450	178,330	150,435	(27,895)
Other:				
Current	88,560	104,445	117,729	13,284
Total Public Safety	<u>1,321,850</u>	<u>1,302,080</u>	<u>1,277,817</u>	<u>(24,263)</u>
<b>Public Works</b>				
Streets and Highways:				
Street Maintenance and Storm Sewers	554,770	506,415	549,184	42,769
Street Construction Capital Outlay	140,000	131,500	131,483	(17)
Total Public Works	<u>694,770</u>	<u>637,915</u>	<u>680,667</u>	<u>42,752</u>
<b>Parks and Recreation</b>				
Libraries:				
Current Expenditures	37,970	39,215	36,681	(2,534)
Other Parks and Recreation:				
Current Expenditures	172,880	179,380	215,556	36,176
Capital Outlay	11,000	4,585	-	(4,585)
Total Other Parks and Recreation	<u>183,880</u>	<u>183,965</u>	<u>215,556</u>	<u>31,591</u>
Total Parks and Recreation	<u>221,850</u>	<u>223,180</u>	<u>252,237</u>	<u>29,057</u>
 Total Expenditures	 <u>3,244,095</u>	 <u>3,011,360</u>	 <u>2,855,967</u>	 <u>(155,393)</u>
 Excess of Revenues Over (Under) Expenditures	 (371,030)	 (77,635)	 102,930	 180,565

**CITY OF PRINCETON**

**SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL FUND  
For the Year Ended December 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget -</u>
	<u>Original</u>	<u>Final</u>		
<b>OTHER FINANCING SOURCES (USES)</b>				
Payment in Lieu of Taxes - Component Unit	\$ 52,500	\$ 52,500	\$ 52,500	\$ -
Transfers In	391,500	137,085	-	(137,085)
Transfers Out	(65,780)	(68,320)	(110,595)	(42,275)
Total Other Financing Sources (Uses)	<u>378,220</u>	<u>121,265</u>	<u>(58,095)</u>	<u>(179,360)</u>
Net Change in Fund Balances	<u>\$ 7,190</u>	<u>\$ 43,630</u>	44,835	<u>\$ 1,205</u>
<b>FUND BALANCES</b>				
Beginning of Year			<u>1,886,217</u>	
End of Year			<u>\$ 1,931,052</u>	

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**CITY OF PRINCETON**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2010**

<u>Federal Agency/Pass Through Agency/Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<b>U.S. Department Housing and Urban Development</b> Through Minnesota Department of Housing and Urban Development: Neighborhood Stabilization Program - ARRA	14.256	\$ 516,369
<b>U.S. Department of Transportation</b> Through Minnesota Department of Transportation: Airport Improvement Program	20.106	339,709
Safety Belt Performance Grants	20.609	4,875
<b>U.S. Department of Homeland Security</b> Received Directly: Assistance to Firefighters Grant	97.044	96,110
<b>U.S. Department of Health and Human Services</b> Through Minnesota Department of Human Services: Voting Access for Individuals with Disabilities	93.617	<u>2,183</u>
Total Federal Expenditures		<u>\$ 959,246</u>

**CITY OF PRINCETON**

**NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
December 31, 2010**

**NOTE 1 – BASIS OF PRESENTATION**

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



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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Princeton, Minnesota, as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 10, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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 misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined on the above. However, we identified 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. A significant deficiency is a deficiency, or 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.



## 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*.

We noted certain additional matters that we reported to management of the City in a separate letter dated June 10, 2011.

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*. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, management and state and federal awarding and oversight agencies and is not intended to be and should not be used by anyone other than those specified parties.

*Kern, DeWenter, Viere, Ltd.*

KERN, DEWENTER, VIERE, LTD.  
St. Cloud, Minnesota  
June 10, 2011



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**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB *CIRCULAR A-133***

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

**COMPLIANCE**

We have audited the compliance of the City of Princeton, Minnesota, with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. 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*. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; 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. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City of Princeton, Minnesota, complied, in all material respects, with the 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, 2010.



## INTERNAL CONTROL OVER COMPLIANCE

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

*Kern, DeWenter, Viere, Ltd.*

KERN, DEWENTER, VIERE, LTD.  
St. Cloud, Minnesota  
June 10, 2011

**CITY OF PRINCETON**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
IN ACCORDANCE WITH OMB *CIRCULAR A-133*  
December 31, 2010**

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes, Audit Finding 06-01

Noncompliance material to financial statements noted? No

**Federal Awards**

Type of auditor’s report issued on compliance for major programs: Unqualified

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? No

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB *Circular A-133*? No

**Identification of Major Programs**

CFDA No.: 14.256  
Name of Federal Program or Cluster: Neighborhood Stabilization Program - ARRA

CFDA No.: 20.106  
Name of Federal Program or Cluster: Airport Improvement Program

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low risk auditee? No

**CITY OF PRINCETON**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**IN ACCORDANCE WITH OMB CIRCULAR A-133**  
**December 31, 2010**

**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, 2010, 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.

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*Expert advice. When you need it.<sup>SM</sup>*

## **REPORT ON LEGAL COMPLIANCE**

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Princeton, Minnesota, as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 10, 2011.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to *Minnesota Statutes Sec. 6.65*. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions and Tax Increment Financing. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, the City complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Corrective Action Plans on Legal Compliance.

This report is intended solely for the information and use of the City Council, City administration and the Office of the State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.

*Kern, DeWenter, Viere, Ltd.*  
KERN, DEWENTER, VIERE, LTD.  
St. Cloud, Minnesota  
June 10, 2011

**CITY OF PRINCETON**

**SCHEDULE OF FINDINGS AND CORRECTIVE ACTION PLANS ON LEGAL  
COMPLIANCE  
December 31, 2010**

**CURRENT AND PRIOR YEAR LEGAL COMPLIANCE FINDINGS:**

**Park Dedication Fees Based on Fair Market Value**

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

**Corrective Action Taken:**

The City has amended its fee structure to conform to the current state statute requirements.

**Broker Acknowledgement Certification**

*Minnesota Statutes* 118A.04 Subd. 9 states that prior to completing an initial transaction with a broker, a city is required to provide a written statement of investment restrictions which shall include a provision that all future investments are to be made in accordance with *Minnesota Statutes* governing the investment of public funds. The broker must acknowledge annually receipt of the Statement of Investment Restrictions in writing and agree to handle the city's account in accordance with these restrictions. The Statute also goes on to say the city is also required to retain documentation of compliance with this Statute.

A Broker Acknowledgement Certification could not be located for one of the City's investment brokers as the broker would no longer sign the certification.

**Corrective Action Taken:**

Investments were withdrawn from this account as they matured. There were no investments held with this broker as of year-end.