

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

Financial Statements

December 31, 2019

**City of Princeton
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**City of Princeton
Elected Officials and Administration
December 31, 2019**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Bradley Schumacher	Mayor	December 31, 2020
Jenny Gerold	Council Member	December 31, 2022
Jules Zimmer	Council Member	December 31, 2022
Jack Edmonds	Council Member	December 31, 2020
Jeff Reynolds	Council Member	December 31, 2020
<u>Administration</u>		
Robert Barbian	City Administrator	
Steven L. Jackson	Finance Director	
Shawna Jenkins Tadych	City Clerk	
Karen Hodge	Accountant	

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Princeton, Minnesota, as of and for the year ended December 31, 2019, and the related notes to financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Auditor's Responsibility (Continued)

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to on the previous page present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the Public Utilities Commission discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Princeton, Minnesota, as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund and Economic Development Authority Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the financial statements. The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to, the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2020, on our consideration of the City of Princeton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Princeton's internal control over financial reporting and compliance.

Bergan KDV, Ltd.

St. Cloud, Minnesota

June 17, 2020

City of Princeton Management's Discussion and Analysis

As management of the City of Princeton (the "City"), we offer readers of the City's financial statement this narrative overview and analysis of the financial activities of the City for the year ended December 31, 2019.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities (net position) at the close of the recent year by \$30,425,639, which is an increase of \$893,501 (3.0%) compared to the December 31, 2018, amount. Of this amount, \$9,030,229 for 2019 and \$7,588,383 for 2018 were unrestricted net position amounts available to be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increase of \$893,501 during the year 2019 resulted from a combination of a \$847,447 increase from the governmental funds and an increase of \$46,054 from the proprietary funds. The increase in the governmental funds was primarily due to the operating result in the General Fund of a revenue surplus of \$112,121, the operating surplus for the year in the Capital Improvement Program (CIP) Fund 351 of \$379,297 in large part due to the redistribution of excess tax increment funds of \$142,477, the establishment of a Fire Truck fund that yielded money received from participating townships prior to a large fire truck purchase that will occur in 2020 of \$289,797 and funds received from Federal Highway grant as a reimbursement for engineering expenses on the roundabout on Highway 95 and County Road 21 of \$145,640. The increase in the proprietary funds was primarily the result of operating income in the City's Liquor Fund which is one of the three proprietary funds. This was partially offset by operating losses in the other two proprietary funds the Sanitary Sewer and the Airport Fund.
- At the end of 2019, the City's governmental funds reported combined ending fund balances of \$7,814,920, an increase of \$593,392 (8.22%). This was largely due to increases in the General Fund and CIP Fund and the Fire Truck receipts in 2019 prior to expenditures in 2020.
- At year end, the General Fund balance was \$3,192,238.
- The City's total bonded debt decreased by \$845,273 (4.60%) during the current year. This was entirely due to the payments of current maturities during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

City of Princeton Management's Discussion and Analysis

The Statement of Activities presents information showing how the City's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g., uncollected taxes and earned but unused vacation leave).

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

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

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

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

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

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

City of Princeton Management's Discussion and Analysis

The City maintains 54 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 Fund (Economic Development Authority) and Capital Project Fund (Capital Improvements) all of which are presented as major funds. Data from the other 51 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided as supplementary information in the form of combining statements elsewhere in this report.

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

The basic governmental fund financial statements can be found on pages 18-23 of this report.

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

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

The basic proprietary fund financial statements can be found on pages 24-26 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 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 financial statements can be found on pages 27-68 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required Supplementary Information can be found on pages 70-80 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 82-104 of this report.

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

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a City's financial position. In the case of the City, assets exceeded liabilities (net position) by \$30,425,639 at the close of the most recent year.

City of Princeton's Net Position

	Governmental Activities	Business-Type Activities	Total 12/31/19	Total 12/31/18
Assets				
Current and other assets	\$ 9,490,480	\$ 5,983,346	\$ 15,473,826	\$ 14,609,484
Capital assets	11,564,079	24,416,087	35,980,166	36,460,496
Total assets	\$ 21,054,559	\$ 30,399,433	\$ 51,453,992	\$ 51,069,980
Deferred Outflows of Resources				
	\$ 1,134,795	\$ 43,242	\$ 1,178,037	\$ 1,623,945
Liabilities				
Other liabilities	\$ 1,120,404	\$ 631,265	\$ 1,751,669	\$ 1,619,966
Long-term liabilities	4,543,563	14,496,097	19,039,660	19,756,087
Total liabilities	\$ 5,663,967	\$ 15,127,362	\$ 20,791,329	\$ 21,376,053
Deferred Inflows of Resources				
	\$ 1,344,804	\$ 70,257	\$ 1,415,061	\$ 1,785,734
Net Position				
Net investment in capital assets	\$ 8,759,537	\$ 10,007,940	\$ 18,627,258	\$ 18,364,322
Restricted	2,768,152	-	2,768,152	3,848,617
Unrestricted	3,652,894	5,237,116	9,030,229	7,319,199
Total net position	\$ 15,180,583	\$ 15,245,056	\$ 30,425,639	\$ 29,532,138

The largest portion (61.68%) of the City's net position reflects its investment in capital assets (e.g., land, buildings, equipment net of depreciation) less related outstanding debt used to acquire the 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 used to provide services, they cannot be used to liquidate these liabilities.

An additional 9.10% of the City's net position represents resources that are subject to external restrictions on how they are used. The predominant restriction is for debt service, which comprises 89.16% of the restricted net position classification. The remaining balance of unrestricted net position, \$8,890,010 may be used to meet the City's ongoing commitments and obligations. At the end of the current year, the City is able to report positive balances in all three categories of net position. This is true for the City as a whole, and its separate governmental and business-type activities.

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

City of Princeton's Change in Net Position

	Governmental Activities	Business-type Activities	Total 12/31/2019	Total 12/31/2018
Revenue				
Program revenues				
Charges for services	\$ 1,131,708	\$ 5,864,093	\$ 6,995,801	\$ 6,242,975
Operating grants and contributions	147,868	430	148,298	175,056
Capital grants and contributions	420,017	54,988	475,005	439,109
General revenues				
Property taxes	2,432,353	-	2,432,353	2,438,594
Franchise fees	166,323	-	166,323	-
Tax increments	85,353	-	85,353	168,548
Intergovernmental	898,421	-	898,421	894,507
PUC payment in lieu of taxes	52,500	-	52,500	52,500
Other revenue	150,860	-	150,860	8,492
Gain on sale of asset	100,000	-	100,000	3,325
Investment income	166,610	100,714	267,324	97,701
Total revenues	<u>5,752,013</u>	<u>6,020,225</u>	<u>11,772,238</u>	<u>10,520,807</u>
Expenses				
General government	739,552	-	739,552	629,401
Public safety	2,270,971	-	2,270,971	1,911,450
Cemetery	45,313	-	45,313	33,946
Public works	1,324,472	-	1,324,472	1,405,762
Parks and recreation	283,032	-	283,032	543,899
Economic development	305,735	-	305,735	442,285
Interest on long-term debt	83,561	-	83,561	92,580
Sewer	-	1,603,379	1,603,379	1,591,313
Municipal liquor	-	3,935,096	3,935,096	3,548,037
Airport	-	287,626	287,626	308,405
Total expenses	<u>5,052,636</u>	<u>5,826,101</u>	<u>10,878,737</u>	<u>10,507,078</u>
Change in net position before transfers	699,377	194,124	893,501	13,729
Transfers	148,070	(148,070)	-	-
Change in net position	<u>847,447</u>	<u>46,054</u>	<u>893,501</u>	<u>13,729</u>
Net position - January 1	14,333,136	15,199,002	29,532,138	29,442,921
Change in accounting principle (Note 14)	-	-	-	75,488
Net position - December 31	<u>\$ 15,180,583</u>	<u>\$ 15,245,056</u>	<u>\$ 30,425,639</u>	<u>\$ 29,532,138</u>

There was an increase of \$893,501 in the City's net position during the current year. The primary reason for this increase was operating results in the General Fund and the CIP Fund and reimbursement of engineering fees from Federal Highway grant funds and the operating income in the Liquor Fund.

City of Princeton Management's Discussion and Analysis

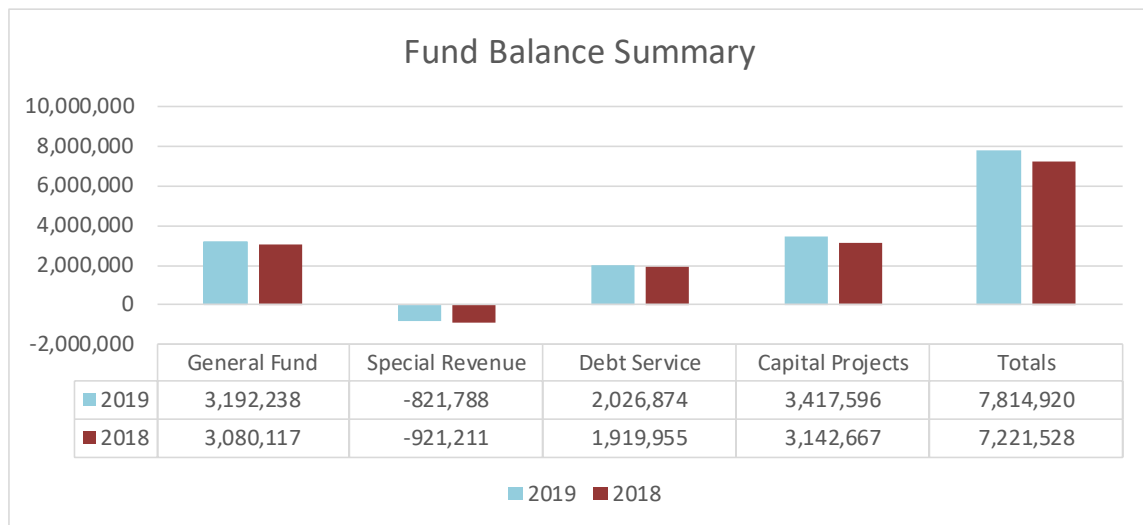
Governmental Activities. Governmental activities increased the City's net position by \$847,447. This increase resulted primarily from increases in the General and CIP Funds, grant reimbursement of expenses and timing differences in expenditures and project financing in the Fire Truck Fund funds and the Park Improvement Fund.

Business-Type Activities. Business-type activities resulted in a net position increase of \$46,054 which slightly increased the City's total net position. This resulted primarily from net operating income in one of the three proprietary funds.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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



As of the end of the current year, the City's governmental funds reported combined ending fund balances of \$7,814,920, an increase of \$593,392 (8.22%) from the prior year. This increase was primarily due to the operations of the governmental funds. There was some increase in fund balances in all four of the fund types with a significant increase in capital projects. The City reported a total unrestricted fund balance of \$5,340,145 at December 31, 2019, which was a decrease of \$1,107,357 from the prior year. A significant portion of this change was due to lower fund balance in 2018 due to capital asset expenditures made in 2018 prior to the funding being received.

The General Fund is the chief operating fund of the City providing for what is viewed as essential services. At the end of the current year, the fund balance of the General Fund was \$3,192,238 of which 95.65% was unassigned and considered available for spending; however, 64.30% of the unassigned balance is designated by the City Council for working capital (cash flow) purposes.

City of Princeton Management's Discussion and Analysis

The General Fund balance increased by \$112,121 (3.64%) during the year. This increase was \$118,499 less than the 2018 decrease of \$230,620. Key factors of the difference between the two years' fund balance changes are as follows:

- Property tax revenues of the General Fund decreased by \$15,140 as opposed to an increase in 2018 of \$129,708.
- There was an increase in intergovernmental revenue of \$17,586, which was primarily due to a \$14,213 increase in police Public Employee Retirement Association aid.
- Licenses and permits increased by \$21,225, which was due to an increase of \$4,771 in building permits, a \$7,274 increase of cable franchise fees and a \$8,975 increase in liquor licenses. Fines and forfeitures increased by \$2,895. There was a revenue increase of \$6,708 in miscellaneous.
- There was a revenue increase of \$9,472 in charges for services resulting from a \$31,430 increase in lease revenue which was offset by a \$16,025 decrease in planning fees and a \$6,836 decrease in splash park revenue. Investment income increased by \$14,276 due to the increasing interest rates and higher market value of current investments.
- There was a \$113,269 increase in total expenditures as compared to a \$372,966 decrease in 2018. There were increases in general government of \$59,177 due in large part to the 2019 salary increase in administration personnel cost of and other wage and benefit increases and a vacancy in the planning department for much of 2018 that was filled for all of 2019, in public safety of \$69,934, in public works of \$32,066. Most of these increases are due to salary and benefit increases. There were decreases of \$40,391 in parks and recreation partially due to decreases of \$11,738 in splash park expenses and \$25,454 in Library costs from a reduction in repairs, Economic development also decreased \$9,122.
- There was a slight increase in capital outlay for the year of \$1,477 comprised of increases in general government of \$33,599 and public safety of \$54,871 and decreases in public works of \$69,547, and parks and recreation of \$17,446.

Debt Service Funds had a total fund balance of \$2,026,874, all of which is restricted for the payment of debt service. This was an increase in fund balance during the current year of \$106,919, which is the result of payment of current maturities offset by payments of assessments and taxes.

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

Total net position of the Liquor Fund at the end of the year amounted to \$5,741,143, the Sanitary Sewer Fund was \$7,266,921 and the Airport Fund was \$2,236,992. Unrestricted net position, which are amounts available for operating expenditures and spending at the discretion of the City, at year-end for the Liquor Fund amounted to \$4,576,165, the Sanitary Sewer Fund was \$700,481 and the Airport unrestricted net position was \$(39,530). The increase (decrease) in unrestricted net position for each of these Funds were \$345,603, (\$170,451) and \$(129,098), respectively. The increase in the Liquor fund result predominantly from the operations of the revenue generating funds. The decreases in the Sanitary Sewer Fund and Airport Fund are largely due to interest on outstanding debt and overall Airport operations.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

The change from the original budget and the final amended budget was a significant \$431,235 decrease in appropriations (9.90%), and included cuts of \$70,540 in general government activities, \$85,795 in public safety, \$27,470 in public works, \$219,400 in capital outlay and \$28,030 in parks and recreation.

The eventual difference between the final amended budget and the actual amount of the change in fund balance was \$200,094. The major factors that resulted in this difference were favorable variances of \$195,460 in general government expenditures and \$130,321 in capital outlay, \$11,619 in property taxes received, \$14,745 in intergovernmental revenue, \$11,143 in charges for services, \$4,882 in fines and forfeitures and \$16,894 in investment income. Those favorable variances were offset by unfavorable variances of \$333,455 in net transfers, \$28,506 in licenses and permits, \$140,786 in miscellaneous revenue, \$39,371 in public safety, \$651 in cemetery, \$16,937 in public works, \$17,835 in parks and recreation, \$7,617 in economic development.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The City's investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities amounts to \$35,980,166 as of December 31, 2019, and \$36,460,496 as of December 31, 2018. Capital assets include land rights, buildings and improvements, equipment, park facilities, roads, sidewalks, and utility infrastructure and construction in progress.

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

- Design engineering was done on an airport runway restoration project in 2019, which will be constructed and completed in 2020. That brought construction in progress to a balance of \$728,703 in the business-type funds. A major portion of the Great Northern Trail was done, but not completed which left a balance of \$451,881 in governmental fund construction in progress.
- Total depreciation expense for 2019 was \$1,469,649.

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

	Governmental Activities	Business-type Activities	Total 12/31/2019	Total 12/31/2018
Land and easements	\$ 1,685,946	\$ 1,036,041	\$ 2,721,987	\$ 2,690,594
Buildings	3,454,786	1,347,914	4,802,700	4,977,247
Improvements other than buildings	664,623	20,707,055	21,371,678	21,930,165
Machinery and Infrastructure	1,581,461	596,374	2,177,835	2,130,692
	3,725,382	-	3,725,382	3,951,868
Construction in progress	451,881	728,703	1,180,584	779,930
Total	\$ 11,564,079	\$ 24,416,087	\$ 35,980,166	\$ 36,460,496

Additional information on the City's capital assets can be found in Note 4 on pages 40-42 of this report.

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

Long-Term Debt. At the end of the year, the City had total bonded debt outstanding of \$17,520,085. The City has \$1,880,000 that is legally backed solely by the full faith and credit of the City. The City intends to pay the debt service on this bond with revenue from the Liquor Fund. An additional \$1,231,938 is special assessment debt for which the City is liable in the event of default by the property owners subject to the assessment and for the difference between the amount of the debt and the special assessment amounts applied to the benefitting properties. The remainder of the City's debt, \$14,408,147 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**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total 12/31/2019</u>	<u>Total 12/31/2018</u>
Special assessment debt with governmental commitment	\$ 1,231,938	\$ -	\$ 1,231,938	\$ 1,525,000
General obligation capital improvement	1,880,000	-	1,880,000	1,995,000
Revenue bonds with governmental commitment	-	14,408,147	14,408,147	14,803,491
Total	<u>\$ 3,111,938</u>	<u>\$ 14,408,147</u>	<u>\$ 17,520,085</u>	<u>\$ 18,323,491</u>

The City's total bonded indebtedness decreased by \$803,406 (4.38%) during the year. This decrease was due to payments on current maturities.

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 \$9,397,062. As of December 31, 2019, the City had \$1,880,000 of G.O. debt.

Additional information on the City's long-term debt can be found in Note 8 of this report.

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

ECONOMIC FACTORS AND NEW YEAR'S BUDGETS AND RATES

- The City is situated in two counties, Mille Lacs and Sherburne. The 2019 average annual unemployment rate for Mille Lacs was at 5.5% and the Sherburne rate was 3.6% at the end of the year. This was an increase from the 2018 rate of 4.8% for Mille Lacs County and 3.2% for Sherburne County. Compare this to the state's annual 2019 unemployment rate of 3.2% and the national rate of 3.7%. The City has economic similarities to both Counties and the City factors in this information when setting its budget and tax levy.
- The inflationary trend in the region that includes the Minneapolis-St. Paul area was at an annual 2.1% compared to the national rate of 1.8% for the 2019 annual rate.
- During the years 2008 through 2012, the City received LGA and Market Value Credit Aid reductions of \$1,058,726. Although the City had the option of increasing the property taxes to offset this amount, tax levy increases were held to a minimum through the 2020 budget in order to reduce the impact on the taxpayers.

These are some of the factors considered by the City Council and staff in preparing the City's budget for the 2020 year.

Other factors considered, was that a rate study for the sanitary sewer system was completed in 2011. The cost of the Wastewater Treatment Facility improvements and associated operating cost increases required that rates needed an increase of 169%. This increase was implemented in two phases. The first increase occurred in November 2011 and the second increase took effect in May 2012. The sewer access charge was increased in 2007 to assist in the payment of system repairs and enhancements. A sewer trunk fee was initiated in 2005 to assure new development pays for the cost of extensions and new facilities. Construction of the public safety building was completed in 2014 addressed serious space deficiencies and modernizes the two departments, the larger facility has had and will continue to have an ongoing impact on future budgets with utility and maintenance requirements. The major portion of the Wastewater Treatment Facility was completed in 2014. This expansion also addressed capacity issues, but expansion will impact the budget for this fund with increased operating and maintenance costs. The Highway 95 and 21st Avenue roundabout was completed in 2018, but final as-built engineering and cost allocation carried over to 2019. Planning, engineering and construction was nearly completed on the Great Northern Trail project 2019 with minor finishing work to be completed in 2020.

Obviously the Covid-19 pandemic was not considered when setting the 2020 budget since it began after the budget was adopted. The full effect of this virus on the City of Princeton is unknown, but with the City's healthy General Fund cash and fund balances, the City should be in a position to weather the financial impacts in the short-term without major service disruptions.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

**City of Princeton
Statement of Net Position
December 31, 2019**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Public Utilities Commission
Assets				
Cash and investments (including cash equivalents)	\$ 8,866,248	\$ 3,574,602	\$ 12,440,850	\$ 4,106,926
Cash with fiscal agent	-	-	-	247,558
Property tax receivable	55,915	-	55,915	-
Accounts receivable	55,769	1,084	56,853	874,429
Interest receivable	38,085	1,085	39,170	-
Due from other governments	168,592	231,222	399,814	11,021
Internal balances	(1,258,147)	1,258,147	-	-
Notes receivable				
Due within one year	3,736	-	3,736	-
Due after one year	28,046	-	28,046	-
Special assessments receivable				
Due within one year	68,860	-	68,860	-
Due after one year	412,607	-	412,607	-
Inventories	-	745,095	745,095	491,780
Land held for resale	361,401	-	361,401	-
Contract for deed				
Due within one year	-	4,993	4,993	-
Due after one year	-	144,598	144,598	-
Prepaid expenses	160,695	22,520	183,215	7,939
Net pension asset - Fire Relief Association	528,673	-	528,673	-
Capital assets not being depreciated				
Land	1,683,312	1,036,041	2,719,353	33,162
Easements	2,634	-	2,634	-
Construction in progress	451,881	728,703	1,180,584	-
Capital assets being depreciated (net of accumulated depreciation)				
Buildings and systems	3,454,786	1,347,914	4,802,700	965,036
Other improvements	664,623	-	664,623	-
Sewer and water improvements	-	20,707,055	20,707,055	-
Machinery and equipment	1,581,461	596,374	2,177,835	1,146,305
Infrastructure	3,725,382	-	3,725,382	12,461,057
Restricted assets				
Reserve fund	-	-	-	564,088
Debt retirement	-	-	-	370,285
Improvements and replacements	-	-	-	1,925,124
Total assets	<u>21,054,559</u>	<u>30,399,433</u>	<u>51,453,992</u>	<u>23,204,710</u>
Deferred Outflows of Resources				
Deferred amount from bond refunding	167,177	-	167,177	-
Deferred outflows of resources related to pensions	962,690	42,043	1,004,733	86,193
Deferred outflows of resources related to OPEB	4,928	1,199	6,127	-
Total deferred outflows of resources	<u>1,134,795</u>	<u>43,242</u>	<u>1,178,037</u>	<u>86,193</u>
Total assets and deferred outflows of resources	<u>\$ 22,189,354</u>	<u>\$ 30,442,675</u>	<u>\$ 52,632,029</u>	<u>\$ 23,290,903</u>
Liabilities				
Accounts payable	\$ 161,886	\$ 104,739	\$ 266,625	\$ 421,408
Due to other governments	153,023	42,289	195,312	112,851
Unearned revenue	69,357	5,843	75,200	20,729
Salaries and benefits payable	107,239	23,124	130,363	38,594
Interest payable	31,899	10,145	42,044	20,118
Customer meter deposits	-	-	-	244,718
Severance payable	-	-	-	141,584
Bond principal payable, net				
Payable within one year	453,000	405,000	858,000	928,000
Payable after one year	2,658,938	14,003,147	16,662,085	4,306,000
Compensated absences payable				
Payable within one year	144,000	40,125	184,125	-
Payable after one year	283,764	80,445	364,209	-
Other post employment benefits (OPEB) payable	94,313	22,954	117,267	-
Net pension liability	1,506,548	389,551	1,896,099	917,778
Total liabilities	<u>5,663,967</u>	<u>15,127,362</u>	<u>20,791,329</u>	<u>7,151,780</u>
Deferred Inflows of Resources				
Deferred rate stabilization	-	-	-	1,307,198
Deferred inflows of resources related to pensions	1,344,804	70,257	1,415,061	220,445
Deferred solar subscriptions	-	-	-	11,852
Total deferred inflows of resources	<u>1,344,804</u>	<u>70,257</u>	<u>1,415,061</u>	<u>1,539,495</u>
Net Position				
Net investment in capital assets	8,759,537	10,007,940	18,627,258	9,371,560
Restricted for				
Debt service	2,468,029	-	2,468,029	1,181,931
Capital asset replacement cost	-	-	-	1,925,124
Other purposes	300,123	-	300,123	-
Unrestricted	3,652,894	5,237,116	9,030,229	2,121,013
Total net position	<u>15,180,583</u>	<u>15,245,056</u>	<u>30,425,639</u>	<u>14,599,628</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 22,189,354</u>	<u>\$ 30,442,675</u>	<u>\$ 52,632,029</u>	<u>\$ 23,290,903</u>

See notes to financial statements.

**City of Princeton
Statement of Activities
Year Ended December 31, 2019**

Functions/Programs	Primary Government						Component Unit	
	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position			Public Utilities Commission
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Governmental activities								
General government	\$ 739,552	\$ 116,599	\$ 1,372	\$ -	\$ (621,581)	\$ -	\$ (621,581)	\$ -
Public safety	2,270,971	935,312	139,828	259,027	(936,804)	-	(936,804)	-
Cemetery	45,313	21,955	-	-	(23,358)	-	(23,358)	-
Public works	1,324,472	5,731	-	160,990	(1,157,751)	-	(1,157,751)	-
Parks and recreation	283,032	48,084	6,610	-	(251,041)	-	(251,041)	-
Economic development	305,735	4,027	58	-	(278,947)	-	(278,947)	-
Interest on long-term debt	83,561	-	-	-	(83,561)	-	(83,561)	-
Total governmental activities	<u>5,052,636</u>	<u>1,131,708</u>	<u>147,868</u>	<u>420,017</u>	<u>(3,353,043)</u>	<u>-</u>	<u>(3,353,043)</u>	<u>-</u>
Business-type activities								
Water	-	-	-	-	-	-	-	250,724
Sewer	1,603,379	1,408,930	385	-	-	(194,064)	(194,064)	-
Municipal Liquor	3,935,096	4,365,868	-	-	-	430,772	430,772	-
Airport	287,626	89,295	45	54,988	-	(143,298)	(143,298)	-
Electric	-	-	-	-	-	-	-	374,736
Total business-type activities	<u>5,826,101</u>	<u>5,864,093</u>	<u>430</u>	<u>54,988</u>	<u>-</u>	<u>93,410</u>	<u>93,410</u>	<u>625,460</u>
Total governmental and business-type activities	<u>\$ 10,878,737</u>	<u>\$ 6,995,801</u>	<u>\$ 148,298</u>	<u>\$ 475,005</u>	<u>(3,353,043)</u>	<u>93,410</u>	<u>(3,259,633)</u>	<u>625,460</u>
General revenues								
Property taxes					2,432,353	-	2,432,353	-
Franchise fees					166,323	-	166,323	-
Tax increments					85,353	-	85,353	-
State aids					898,421	-	898,421	-
PUC payment in lieu of taxes					52,500	-	52,500	-
Investment income					166,610	100,714	267,324	87,344
Miscellaneous					150,860	-	150,860	26,825
Gain on sale of asset					100,000	-	100,000	-
Transfers					148,070	(148,070)	-	-
Total general revenues and transfers					<u>4,200,490</u>	<u>(47,356)</u>	<u>4,153,134</u>	<u>114,169</u>
Change in net position					847,447	46,054	893,501	739,629
Net position - beginning					14,333,136	15,199,002	29,532,138	13,859,999
Net Position - ending					<u>\$ 15,180,583</u>	<u>\$ 15,245,056</u>	<u>\$ 30,425,639</u>	<u>\$ 14,599,628</u>

City of Princeton
Balance Sheet - Governmental Funds
December 31, 2019

	<u>Special Revenue</u>		<u>Capital Projects</u>		Total Governmental Funds
	General Fund (101, 202)	Economic Development Authority (600)	Capital Improvements (351)	Other Governmental Funds	
Assets					
Cash and investments	\$ 3,273,423	\$ 23	\$ 2,480,456	\$ 3,112,346	\$ 8,866,248
Taxes receivable - delinquent	48,532	423	4,107	2,853	55,915
Special assessments receivable					
Delinquent	-	-	-	6,863	6,863
Deferred	-	-	-	474,604	474,604
Accounts receivable	10,054	-	-	45,715	55,769
Interest receivable	33,165	-	-	4,920	38,085
Due from other funds	-	-	1,914,934	-	1,914,934
Due from other governments	134,691	-	-	33,901	168,592
Notes receivable	-	-	-	31,782	31,782
Inventories	-	-	-	-	-
Land held for resale	-	361,400	-	1	361,401
Prepaid expenses	87,270	80	-	73,345	160,695
Advance to other funds	-	-	202,467	2,832	205,299
	<u>-\$ 3,587,135</u>	<u>\$ 361,926</u>	<u>\$ 4,601,964</u>	<u>\$ 3,789,162</u>	<u>\$ 12,340,187</u>
Liabilities					
Accounts and contracts payable	50,843	-	-	111,043	161,886
Due to other funds	-	1,281,514	-	1,891,567	3,173,081
Due to other governments	19,134	-	-	133,889	153,023
Salaries and benefits payable	104,694	1,826	-	719	107,239
Unearned revenue	67,694	-	-	1,663	69,357
Compensated absences	-	-	-	-	-
Interest payable	-	1,651	-	-	1,651
Advance from other funds	-	-	-	205,299	205,299
Total liabilities	<u>242,365</u>	<u>1,284,991</u>	<u>-</u>	<u>2,344,180</u>	<u>3,871,536</u>
Deferred Inflows Resources					
Unavailable revenue - long-term assets	104,000	-	-	12,349	116,349
Unavailable revenue - property taxes	48,532	423	4,107	2,853	55,915
Unavailable revenue - special assessments	-	-	-	481,467	481,467
Total deferred inflows of resources	<u>152,532</u>	<u>423</u>	<u>4,107</u>	<u>496,669</u>	<u>653,731</u>
Fund Balances					
Nonspendable	87,270	80	-	73,345	160,695
Restricted	-	-	-	2,314,080	2,314,080
Assigned	51,474	-	4,597,857	839,549	5,488,880
Unassigned	3,053,494	(923,568)	-	(2,278,661)	(148,735)
Total fund balances	<u>3,192,238</u>	<u>(923,488)</u>	<u>4,597,857</u>	<u>948,313</u>	<u>7,814,920</u>
	<u>\$ 3,587,135</u>	<u>\$ 361,926</u>	<u>\$ 4,601,964</u>	<u>\$ 3,789,162</u>	<u>\$ 12,340,187</u>
Total liabilities, deferred inflows of resources, and fund balances					

City of Princeton
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
December 31, 2019

Total fund balances - governmental funds	\$ 7,814,920
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of capital assets	23,588,642
Less accumulated depreciation	(12,024,563)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of:	
Bond principal payable, net of premiums	(3,111,938)
Compensated absences payable	(427,764)
OPEB payable	(94,313)
Net pension liability	(1,506,548)
The loss on refunding of bonds payable is deferred and amortized over the shorter of the life of the refunded bonds or the refunding bonds in the government-wide statements.	
	167,177
Net pension assets created through non-employer contributions to defined benefit plans are not recognized in the governmental funds.	
	528,673
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions and OPEB that are not recognized in the governmental funds.	
Deferred outflows of resources related to pensions	962,690
Deferred inflows of resources related to pensions	(1,344,804)
Deferred outflows of resources related to OPEB	4,928
Delinquent and deferred receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	
Delinquent property taxes	55,915
Delinquent special assessments	6,863
Deferred special assessments	474,604
Other long-term assets are not available to pay for current period Expenditures and, therefore, are deferred in the funds.	
Notes receivable	12,349
Development revenue reserve	104,000
Governmental funds do not report a liability for accrued interest due and payable.	
	<u>(30,248)</u>
Total net position - governmental activities	<u><u>\$ 15,180,583</u></u>

City of Princeton
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended December 31, 2019

	General Fund (101, 202)	Special Revenue	Capital Projects	Other Governmental Funds	Total
		Economic Development Authority (600)	Capital Improvements (351)		Governmental Funds
Revenues					
Property taxes	\$ 2,120,859	\$ 17,732	\$ 173,980	\$ 122,374	\$ 2,434,945
Tax increments	-	-	-	85,353	85,353
Special assessments	-	-	-	325,006	325,006
Licenses and permits	202,079	-	-	-	202,079
Intergovernmental	1,008,335	-	-	405,178	1,413,513
Charges for services	275,628	-	-	490,060	765,688
Fine and forfeitures	31,882	-	-	-	31,882
Miscellaneous					
Investment income	29,164	-	78,591	58,855	166,610
Contributions and donations	-	-	-	1,372	1,372
Other	132,074	1	142,477	198,930	473,482
Total revenues	<u>3,800,021</u>	<u>17,733</u>	<u>395,048</u>	<u>1,687,128</u>	<u>5,899,930</u>
Expenditures					
Current					
General government	676,510	-	-	-	676,510
Public safety	1,797,336	-	-	280,637	2,077,973
Cemetery	651	-	-	34,212	34,863
Public works	771,372	-	6,970	206,404	984,746
Parks and recreation	237,080	-	-	24,736	261,816
Economic development	7,617	95,556	-	127,732	230,905
Debt service					
Principal	-	-	-	447,000	447,000
Interest and other charges	-	-	-	78,228	78,228
Capital outlay					
General government	33,599	-	-	-	33,599
Public safety	117,563	-	-	160,918	278,481
Cemetery	-	-	-	13,981	13,981
Public works	14,120	-	-	-	14,120
Parks and recreation	25,922	-	-	394,917	420,839
Economic development	-	-	-	72,147	72,147
Total expenditures	<u>3,681,770</u>	<u>95,556</u>	<u>6,970</u>	<u>1,840,912</u>	<u>5,625,208</u>
Excess of revenues over (under) expenditures	118,251	(77,823)	388,078	(153,784)	274,722
Other Financing Sources (Uses)					
Proceeds from sale of capital asset	-	-	5,200	112,900	118,100
Payment in lieu of taxes - component unit	52,500	-	-	-	52,500
Transfers in	-	5,000	-	525,110	530,110
Transfers out	(58,630)	-	(13,981)	(309,429)	(382,040)
Total other financing sources (uses)	<u>(6,130)</u>	<u>5,000</u>	<u>(8,781)</u>	<u>328,581</u>	<u>318,670</u>
Net change in fund balances	112,121	(72,823)	379,297	174,797	593,392
Fund Balances					
Beginning of year	<u>3,080,117</u>	<u>(850,665)</u>	<u>4,218,560</u>	<u>773,516</u>	<u>7,221,528</u>
End of year	<u>\$ 3,192,238</u>	<u>\$ (923,488)</u>	<u>\$ 4,597,857</u>	<u>\$ 948,313</u>	<u>\$ 7,814,920</u>

City of Princeton
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances to
the Statement of Activities - Governmental Funds
Year Ended December 31, 2019

Net change in fund balances - total governmental funds \$ 593,392

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	848,031
Depreciation expense	(629,406)
Loss on disposal	(54,589)

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

(45,411)

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

(16,107)

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

447,000

The loss on refunding of bonds payable is deferred and amortized over the shorter of the life of the refunded bonds or the refunding bonds in the government-wide statements.

(11,941)

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

3,679

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

2,929

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.

(453)

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

Pension expense	10,287
State aid	12,284

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	(2,592)
Delinquent special assessments	1,029
Deferred special assessments	(310,685)

Change in net position - governmental activities \$ 847,447

City of Princeton
Statement of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended December 31, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Property taxes	\$ 2,110,240	\$ 2,109,240	\$ 2,120,859	\$ 11,619
Licenses and permits	181,790	230,585	202,079	(28,506)
Intergovernmental	1,065,835	993,590	1,008,335	14,745
Charges for services	262,410	264,485	275,628	11,143
Fines and forfeitures	24,000	27,000	31,882	4,882
Miscellaneous revenues				
Investment income	8,750	12,270	29,164	16,894
Other	121,050	272,860	132,074	(140,786)
Total revenues	<u>3,774,075</u>	<u>3,910,030</u>	<u>3,800,021</u>	<u>(110,009)</u>
Expenditures				
Current				
General government	942,510	871,970	676,510	(195,460)
Public safety	1,843,760	1,757,965	1,797,336	39,371
Cemetery	-	-	651	651
Public works	781,905	754,435	771,372	16,937
Parks and recreation	247,275	219,245	237,080	17,835
Economic development	-	-	7,617	7,617
Capital outlay				
General government	188,500	87,600	33,599	(54,001)
Public safety	204,425	130,925	117,563	(13,362)
Public works	5,000	14,000	14,120	120
Parks and recreation	143,000	89,000	25,922	(63,078)
Total expenditures	<u>4,356,375</u>	<u>3,925,140</u>	<u>3,681,770</u>	<u>(243,370)</u>
Excess of revenues over (under) expenditures	(582,300)	(15,110)	118,251	133,361
Other Financing Sources (Uses)				
Payment in lieu of taxes - component unit	52,500	52,500	52,500	-
Transfers in	572,925	321,525	-	(321,525)
Transfers out	(42,330)	(46,700)	(58,630)	(11,930)
Total other financing sources (uses)	<u>583,095</u>	<u>327,325</u>	<u>(6,130)</u>	<u>(333,455)</u>
Net change in fund balances	<u>\$ 795</u>	<u>\$ 312,215</u>	112,121	<u>\$ (200,094)</u>
Fund Balances				
Beginning of year			<u>3,080,117</u>	
End of year			<u>\$ 3,192,238</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, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Property taxes	\$ 18,000	\$ 18,170	\$ 17,732	\$ (438)
Other	-	-	1	1
Total revenues	<u>18,000</u>	<u>18,170</u>	<u>17,733</u>	<u>(437)</u>
Expenditures				
Current				
Economic development	223,840	97,390	95,556	(1,834)
Total expenditures	<u>223,840</u>	<u>97,390</u>	<u>95,556</u>	<u>(1,834)</u>
Excess of revenues over (under) expenditures	(205,840)	(79,220)	(77,823)	1,397
Other Financing Sources				
Transfers in	5,000	5,000	5,000	-
Total other financing sources (uses)	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>-</u>
Net change in fund balances	<u>\$ (200,840)</u>	<u>\$ (74,220)</u>	(72,823)	<u>\$ 1,397</u>
Fund Balances				
Beginning of year			(850,665)	
End of year			<u>\$ (923,488)</u>	

City of Princeton
Statement of Net Position - Proprietary Funds
December 31, 2019

	Airport (208)	Sanitary Sewer (702/704)	Municipal Liquor (703)	Total
Assets				
Current assets				
Cash and investments	\$ -	\$ 746,786	\$ 2,827,816	\$ 3,574,602
Accounts receivable	-	184	900	1,084
Accrued interest	-	-	1,085	1,085
Due from other funds	-	-	1,284,339	1,284,339
Due from other governments	8,205	223,017	-	231,222
Inventories	8,500	-	736,595	745,095
Contract for deed	-	-	4,993	4,993
Prepaid expenses	640	12,240	9,640	22,520
Total current assets	<u>17,345</u>	<u>982,227</u>	<u>4,865,368</u>	<u>5,864,940</u>
Noncurrent assets				
Contract for deed	-	-	144,598	144,598
Capital assets				
Land	495,923	129,120	410,998	1,036,041
Buildings and system	76,766	947,087	1,009,317	2,033,170
Other improvements	3,628,606	26,018,571	43,608	29,690,785
Machinery and equipment	335,112	876,424	192,856	1,404,392
Construction in progress	556,949	171,754	-	728,703
Total capital assets	<u>5,093,356</u>	<u>28,142,956</u>	<u>1,656,779</u>	<u>34,893,091</u>
Less accumulated depreciation	<u>(2,816,834)</u>	<u>(7,168,369)</u>	<u>(491,801)</u>	<u>(10,477,004)</u>
Net capital assets	<u>2,276,522</u>	<u>20,974,587</u>	<u>1,164,978</u>	<u>24,416,087</u>
Total assets	<u>2,293,867</u>	<u>21,956,814</u>	<u>6,174,944</u>	<u>30,425,625</u>
Deferred Outflows of Resources				
Deferred outflows of resources related to pensions	2,102	17,868	22,073	42,043
Deferred outflows of resources related to OPEB	59	664	476	1,199
Total deferred outflows of resources	<u>2,161</u>	<u>18,532</u>	<u>22,549</u>	<u>43,242</u>
Total assets and deferred outflows of resources	<u>\$ 2,296,028</u>	<u>\$ 21,975,346</u>	<u>\$ 6,197,493</u>	<u>\$ 30,468,867</u>
Liabilities				
Current liabilities				
Accounts payable	\$ 1,667	\$ 23,473	\$ 79,599	\$ 104,739
Salaries payable	1,211	9,274	12,639	23,124
Unearned revenue	5,843	-	-	5,843
Interest payable	-	10,145	-	10,145
Due to other funds	26,192	-	-	26,192
Due to other governmental units	-	-	42,289	42,289
Compensated absences payable	-	22,965	17,160	40,125
Current portion of revenue bonds	-	405,000	-	405,000
Total current liabilities	<u>34,913</u>	<u>470,857</u>	<u>151,687</u>	<u>657,457</u>
Noncurrent liabilities				
Compensated absences payable	-	26,290	54,155	80,445
OPEB payable	1,132	12,713	9,109	22,954
Bonds payable	-	14,003,147	-	14,003,147
Net pension liability	19,478	165,559	204,514	389,551
Total noncurrent liabilities	<u>20,610</u>	<u>14,207,709</u>	<u>267,778</u>	<u>14,496,097</u>
Total liabilities	<u>55,523</u>	<u>14,678,566</u>	<u>419,465</u>	<u>15,153,554</u>
Deferred Inflows of Resources				
Deferred inflows of resources related to pensions	3,513	29,859	36,885	70,257
Net Position				
Unrestricted	2,276,522	6,566,440	1,164,978	10,007,940
	(39,530)	700,481	4,576,165	5,237,116
Total net position	<u>2,236,992</u>	<u>7,266,921</u>	<u>5,741,143</u>	<u>15,245,056</u>
Total liabilities, deferred inflows of resources,	<u>\$ 2,296,028</u>	<u>\$ 21,975,346</u>	<u>\$ 6,197,493</u>	<u>\$ 30,468,867</u>

See notes to financial statements.

City of Princeton
Statement of Revenues, Expenses, and Changes
in Fund Net Position - Proprietary Funds
Year Ended December 31, 2019

	Airport (208)	Sanitary Sewer (702/704)	Municipal Liquor (703)	Total
Sales and cost of sales				
Sales	\$ 81,612	\$ -	\$ 4,365,117	\$ 4,446,729
Cost of sales	72,374	-	3,318,572	3,390,946
Gross profit	<u>9,238</u>	<u>-</u>	<u>1,046,545</u>	<u>1,055,783</u>
Operating revenues				
Charges for services	7,683	1,400,945	275	1,408,903
Total gross profit and operating revenues	<u>\$ 16,921</u>	<u>\$ 1,400,945</u>	<u>\$ 1,046,820</u>	<u>\$ 2,464,686</u>
Operating expenses				
Wages and salaries	35,412	310,711	352,523	698,646
Materials and supplies	20,326	366,967	147,089	534,382
Professional services	-	-	77,009	77,009
Depreciation	159,514	640,826	39,903	840,243
Total operating expenses	<u>215,252</u>	<u>1,318,504</u>	<u>616,524</u>	<u>2,150,280</u>
Operating income (loss)	(198,331)	82,441	430,296	314,406
Nonoperating revenues (expenses)				
Interest income	-	23,613	77,101	100,714
Intergovernmental revenues	52,295	385	-	52,680
Loss on sale of asset	-	(5,301)	-	(5,301)
Operating grants and contributions	2,738	-	-	2,738
Interest expense and charges	-	(279,574)	-	(279,574)
Other income	-	7,985	476	8,461
Total nonoperating revenues (expenses)	<u>55,033</u>	<u>(252,892)</u>	<u>77,577</u>	<u>(120,282)</u>
Income before capital contributions and transfers	(143,298)	(170,451)	507,873	194,124
Transfers in	14,200	-	-	14,200
Transfers out	-	-	(162,270)	(162,270)
Change in net position	(129,098)	(170,451)	345,603	46,054
Net position				
Beginning of year	<u>2,366,090</u>	<u>7,437,372</u>	<u>5,395,540</u>	<u>15,199,002</u>
End of year	<u>\$ 2,236,992</u>	<u>\$ 7,266,921</u>	<u>\$ 5,741,143</u>	<u>\$ 15,245,056</u>

City of Princeton
Statement of Cash Flows - Proprietary Funds
Year Ended December 31, 2019

	Airport (208)	Sanitary Sewer (702/704)	Municipal Liquor (703)	Total
Cash Flows - Operating Activities				
Receipts from customers and users	\$ 89,465	\$ 1,409,212	\$ 4,365,392	\$ 5,864,069
Payments to suppliers	(145,848)	(361,824)	(3,574,635)	(4,082,307)
Payments to employees	(32,214)	(309,944)	(347,475)	(689,633)
Other income	-	7,985	476	8,461
Net cash flows - operating activities	<u>(88,597)</u>	<u>745,429</u>	<u>443,758</u>	<u>1,100,590</u>
Cash Flows - Noncapital				
Financing Activities				
Transfer from other funds	14,200	-	-	14,200
Transfer to other funds	-	-	(162,270)	(162,270)
Increase in due to other funds	23,367	-	-	23,367
Increase in due from other funds	-	-	(1,281,514)	(1,281,514)
Net cash flows - noncapital financing activities	<u>37,567</u>	<u>-</u>	<u>(1,443,784)</u>	<u>(1,406,217)</u>
Cash Flows - Capital and Related				
Financing Activities				
Principal paid on debt	-	(395,344)	-	(395,344)
Interest paid on debt	-	(279,574)	-	(279,574)
Principal received on contract for deed	-	-	4,895	4,895
Intergovernmental revenues received	106,567	385	-	106,952
Acquisition of capital assets	(71,725)	(121,294)	(8,159)	(201,178)
Net cash flows - capital and related financing activities	<u>34,842</u>	<u>(795,827)</u>	<u>(3,264)</u>	<u>(764,249)</u>
Cash Flows - Investing Activities				
Interest and dividends received	-	23,613	77,996	101,609
Net change in cash and cash equivalents	(16,188)	(26,785)	(925,294)	(968,267)
Cash and Cash Equivalents				
January 1	16,188	773,571	3,753,110	4,542,869
December 31	<u>\$ -</u>	<u>\$ 746,786</u>	<u>\$ 2,827,816</u>	<u>\$ 3,574,602</u>
Reconciliation of Operating Income (Loss) to Net Cash Flows - Operating Activities				
Operating income (loss)	\$ (198,331)	\$ 82,441	\$ 430,296	\$ 314,406
Adjustments to reconcile operating income (loss) to net cash flows - operating activities				
Other income	-	7,985	476	8,461
Depreciation expense	159,514	640,826	39,903	840,243
Accounts receivable	1,008	11,636	-	12,644
Due from other governments	-	(3,369)	-	(3,369)
Prepaid items	60	(890)	(140)	(970)
Inventory	-	-	(52,999)	(52,999)
Accounts payable	(53,208)	6,033	19,301	(27,874)
Due to other governmental units	-	-	1,873	1,873
Salaries payable	228	967	2,032	3,227
Unearned income	(838)	-	-	(838)
Compensated absences payable	-	2,545	6,155	8,700
Net pension liability and related deferred outflows and inflows	3,344	(1,270)	(2,833)	(759)
Total OPEB liability and related deferred outflows	(374)	(1,475)	(306)	(2,155)
Total adjustments	<u>109,734</u>	<u>662,988</u>	<u>13,462</u>	<u>786,184</u>
Net cash flows - operating activities	<u>\$ (88,597)</u>	<u>\$ 745,429</u>	<u>\$ 443,758</u>	<u>\$ 1,100,590</u>

City of Princeton
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

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

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

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

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

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

1. Blended Component Unit

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 Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

3. Related Organization

Princeton Firefighters' Relief Association

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

4. Joint Ventures and Jointly Governed Organizations

Dalbo-Princeton-Wyanett Fire Districts

The City, the Town of Wyanett and Dalbo Fire and Rescue Department are organized to establish an agreement to provide fire protection and medical response services to the Town of Wyanett. Separate financial statements are not prepared for the Fire District.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the City. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

City of Princeton
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Description of Funds

Major Governmental Funds

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

Economic Development Authority Special Revenue Fund – This fund accounts for economic development activities of the City. Major revenue sources include property taxes.

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

Proprietary Funds

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

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

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

City of Princeton
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Deposits and Investments

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

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 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.

Certain investments for the City are reported at fair value as disclosed in Note 3. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

In accordance with GASB Statement No. 79, the Minnesota Municipal Investment Pool securities are valued at amortized cost, which approximates fair value. Investments in the 4M Plus must be deposited for a minimum of 14 calendar days. Withdrawals prior to the 14-day restriction period will be subject to a penalty equal to seven days interest on the amount withdrawn.

**City of Princeton
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

2. Receivables and Payables

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

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

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

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

3. Inventory and Prepaid Items

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

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

4. Capital Assets

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

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

**City of Princeton
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

4. Capital Assets (Continued)

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

Assets	Years
Equipment	5-40
Infrastructure	20-60
Vehicles	3-40
Buildings and building improvements	7-40
Land improvements	5-30

5. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The City presents deferred outflows of resources on the Statement of Net Position for a deferred amount on bond refunding, which will be amortized over the life of the bond. The City presents deferred outflows of resources on the Statements of Net Position for deferred outflows of resources related to pensions and OPEB for various estimate differences that will be amortized and recognized over future years and subsequent contributions to the plan.

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

**City of Princeton
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

6. Compensated Absences

Full-time City employees accumulate sick leave at the rate of one day for each month of employment. Upon termination or retirement, an employee with a minimum of ten years of service can collect half of all unused sick leave. The policy for union employees is the same except only five years of service is necessary and there is a maximum payment of 480 hours of unused sick leave.

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

The Public Utility Commission (PUC) is obligated to pay certain employees with ten years of service, severance pay upon termination of employment based on unused accumulated sick leave days up to a maximum of 60 days.

Employees are granted vacation based on years of service. The City compensates employees who resign, retire, or are terminated for all their unused vacation days. The liability for accumulated vacation and sick pay at December 31, 2019, is recorded in the financial statements.

7. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method.

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

8. Pensions

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

City of Princeton
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

9. Fund Equity

a. Classification

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

- Nonspendable Fund Balance – These are amounts that cannot be spent because they are not in spendable form.
- Restricted Fund Balance – These are amounts that are restricted to specific purposes either by a) constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through enabling legislation.
- Committed Fund Balance – These are amounts that can only be used for specific purposes pursuant to constraints imposed by the City Council (highest level of decision making authority) through resolution.
- Assigned Fund Balance – These are amounts that are constrained by the City's intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by the City Administrator based on the City Council's direction.
- Unassigned Fund Balance – These are residual amounts in the General Fund not reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted, and committed fund balances exceed the total net resources of that fund.

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

b. Minimum Fund Balance

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

**City of Princeton
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

10. Net Position

Net position represents the difference between assets and deferred outflows of resources; and liabilities, and deferred inflows of resources in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. A reclassification of \$140,219 was made between this net position class and unrestricted net position in the total column in the Statement of Net Position to recognize the portion of debt attributable to capital assets donated from governmental activities to business-type activities. Net position is reported as restricted in the government-wide financial statement when there are limitations on their use through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

E. Use of Estimates

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

F. Budgetary Information

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

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

**City of Princeton
Notes to Financial Statements**

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Deficit Fund Balance

The following funds had deficit balances at December 31, 2019:

Major Fund	
Special Revenue	
Economic Development Authority	\$ 923,488
Nonmajor Funds	
Special Revenue	
Community Projects	358
Development Grants	70,535
Development Expenses	371,615
Fire Department Grants	28,959
Stormwater Management	147,005
Park Improvements	463,903
Capital Projects	
Heritage Village	284,747
Northland/Old 18 Improvements	53,760
MN Industrial Coatings Expansion District	25,052
West Branch and 7th Avenue North	347,586
Roundabout Project	221,383
Arcadian Homes Utility Project	212,683
2000 Street and Utility Improvements	2,832
Kwik Trip Redevelopment District	6,373
Caseys Redevelopment District	7,488
Aero Business Redevelopment District	5,528
Industrial Park Redevelopment District	9,739
Industrial Park Development	3,738
TIF 8-4 Chino Development	15,151
West Branch TIF	13,143

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: 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. As of December 31, 2019, 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.

**City of Princeton
Notes to Financial Statements**

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

Checking	\$ 3,087,716
Savings	3,241,680
Nonnegotiable certificates of deposit	<u>1,550,769</u>
Total deposits	<u><u>\$ 7,880,165</u></u>

B. Investments – City

As of December 31, 2019, the City had the following investments:

Type	Investment	Amount	Investment Maturities				Percentage of Total	Credit Rating
			Less than One Year	1 - 5 Years	6 - 10 Years	Greater than 10 Years		
MM	Brokered Money Markets	\$ 113,700	\$ 113,700	\$ -	\$ -	\$ -	2.5%	N/A
MM	4M Plus	314,960	314,960	-	-	-	6.9%	N/A
GB	FNMA	2,640	-	-	-	2,640	0.1%	NR
GB	FHLMC	248,640	-	-	248,640	-	5.5%	AA+
SEC	Mortgage Securities	11,312	-	-	-	11,312	0.2%	AA+
CD	Brokered Certificates of Deposit	<u>3,866,394</u>	<u>575,289</u>	<u>3,215,759</u>	<u>75,346</u>	<u>-</u>	<u>84.8%</u>	N/A
	Total	<u><u>\$4,557,646</u></u>	<u><u>\$1,003,949</u></u>	<u><u>\$3,215,759</u></u>	<u><u>\$323,986</u></u>	<u><u>\$ 13,952</u></u>	<u><u>100.0%</u></u>	

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. The City's investment policy states that under no circumstances should any investment extend beyond 15 years. At December 31, 2019, the City was in compliance with this policy.

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. As of December 31, 2019, the City's investments were rated in the table above.

**City of Princeton
Notes to Financial Statements**

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments – City (Continued)

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

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.

The City had the following recurring fair value measurements as of December 31, 2019:

- Investments of \$4,128,986 are valued using a matrix pricing model (Level 2 inputs)

C. Deposits and Investments – PUC Component Unit

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

Custodial Credit Risk – Deposits: As of December 31, 2019, the PUC component unit's bank balance not exposed to custodial credit risk because it was fully insured through the FDIC as well as collateral pledged. The component unit's deposits had a book balance at December 31, 2019, of \$6,161,750.

As of December 31, 2019, the PUC component unit had the following investments:

Type	Investment	Fair Value	Credit Rating	Percentage of Total
CD	Brokered Certificates of Deposit	\$ 250,000	NR	23.8%
MM	Brokered Money Markets	574,570	Aaa	54.7%
GB	Grand Rapids, MN G.O. Taxable	225,526	A1	21.5%
GB	Wyoming, MN G.O. Taxable Build America	-	A1	0.0%
Total		<u>\$ 1,050,096</u>		<u>100.00%</u>

Credit Risk: As of December 31, 2019, the component unit's investments were rated in the table above.

City of Princeton
Notes to Financial Statements

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

C. Deposits and Investments – PUC Component Unit (Continued)

Concentration of Credit Risk: The PUC component unit was exposed to concentration of credit risk at December 31, 2019, as individual investments in governmental bonds exceeded 5% of the component units total investment portfolio.

D. Deposits and Investments Summary

The following is a summary of total deposits and investments:

Deposits (Note 3.A.)	\$ 7,880,165
City investments (Note 3.B.)	4,557,646
Petty cash	3,039
Total deposits and investments - City and EDA component unit	12,440,850
Deposits - component unit (Note 3.C.)	6,161,750
Investments - component unit (Note 3.C.)	1,050,096
Petty cash	2,135
Total deposits and investments - component unit	7,213,981
Total deposits and investments	\$ 19,654,831

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

Statement of Net Position	
Cash and investments, primary government	\$ 12,440,850
Cash and investments, PUC component unit	4,106,926
Cash held in escrow, PUC component unit	247,558
Restricted assets, PUC component unit	2,859,497
Total	\$ 19,654,831

City of Princeton
Notes to Financial Statements

NOTE 4 – CAPITAL ASSETS

A. Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 1,651,919	\$ 31,393	\$ -	\$ 1,683,312
Easements	2,634	-	-	2,634
Construction in progress	104,037	347,844	-	451,881
Total capital assets not being depreciated	<u>1,758,590</u>	<u>379,237</u>	<u>-</u>	<u>2,137,827</u>
Capital assets being depreciated				
Building and systems	5,131,241	-	-	5,131,241
Other improvements	2,025,975	131,606	-	2,157,581
Machinery and equipment	4,394,346	337,188	136,264	4,595,270
Infrastructure	9,566,723	-	-	9,566,723
Total capital assets being depreciated	<u>21,118,285</u>	<u>468,794</u>	<u>136,264</u>	<u>21,450,815</u>
Less accumulated depreciation for				
Building and systems	1,551,729	124,726	-	1,676,455
Other improvements	1,441,857	51,101	-	1,492,958
Machinery and equipment	2,868,391	227,093	81,675	3,013,809
Infrastructure	5,614,855	226,486	-	5,841,341
Total accumulated depreciation	<u>11,476,832</u>	<u>629,406</u>	<u>81,675</u>	<u>12,024,563</u>
Total capital assets being depreciated, net	<u>9,641,453</u>	<u>(160,612)</u>	<u>54,589</u>	<u>9,426,252</u>
Governmental activities capital assets, net	<u>\$ 11,400,043</u>	<u>\$ 218,625</u>	<u>\$ 54,589</u>	<u>\$ 11,564,079</u>

City of Princeton
Notes to Financial Statements

NOTE 4 – CAPITAL ASSETS (CONTINUED)

A. Primary Government (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Land	\$ 1,036,041	\$ -	\$ -	\$ 1,036,041
Construction in progress	675,893	52,810	-	728,703
Total capital assets not being depreciated	<u>1,711,934</u>	<u>52,810</u>	<u>-</u>	<u>1,764,744</u>
Capital assets being depreciated				
Buildings and systems	2,029,205	3,965	-	2,033,170
Other improvements	29,605,771	85,014	-	29,690,785
Machinery and equipment	1,369,021	59,389	24,018	1,404,392
Total capital assets being depreciated	<u>33,003,997</u>	<u>148,368</u>	<u>24,018</u>	<u>33,128,347</u>
Less accumulated depreciation for				
Buildings and systems	631,470	53,786	-	685,256
Other improvements	8,259,724	724,006	-	8,983,730
Machinery and equipment	764,284	62,451	18,717	808,018
Total accumulated depreciation	<u>9,655,478</u>	<u>840,243</u>	<u>18,717</u>	<u>10,477,004</u>
Total capital assets being depreciated, net	<u>23,348,519</u>	<u>(691,875)</u>	<u>5,301</u>	<u>22,651,343</u>
Business-type activities capital assets, net	<u>\$ 25,060,453</u>	<u>\$ (639,065)</u>	<u>\$ 5,301</u>	<u>\$ 24,416,087</u>

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

Governmental activities	
General government	\$ 24,644
Public safety	177,501
Cemetery	9,088
Public works	319,591
Parks and recreation	<u>98,582</u>
Total depreciation expense - governmental activities	<u>\$ 629,406</u>

City of Princeton
Notes to Financial Statements

NOTE 4 – CAPITAL ASSETS (CONTINUED)

A. Primary Government (Continued)

Business-type activities	
Airport	\$ 159,514
Sanitary sewer	640,826
Municipal liquor	<u>39,903</u>
 Total depreciation expense - business-type activities	 <u><u>\$ 840,243</u></u>

B. PUC Component Unit

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Land	\$ 33,162	\$ -	\$ -	\$ 33,162
Capital assets being depreciated				
Buildings and systems	2,171,823	-	-	2,171,823
Infrastructure	26,892,951	540,256	-	27,433,207
Machinery and equipment	<u>3,494,593</u>	<u>19,713</u>	<u>26,874</u>	<u>3,487,432</u>
Total capital assets being depreciated	<u>32,559,367</u>	<u>559,969</u>	<u>26,874</u>	<u>33,092,462</u>
Less accumulated depreciation for				
Buildings and systems	1,144,177	62,610	-	1,206,787
Infrastructure	14,113,441	858,709	-	14,972,150
Machinery and equipment	<u>2,213,236</u>	<u>154,765</u>	<u>26,874</u>	<u>2,341,127</u>
Total accumulated depreciation	<u>17,470,854</u>	<u>1,076,084</u>	<u>26,874</u>	<u>18,520,064</u>
Total capital assets being depreciated, net	<u>15,088,513</u>	<u>(516,115)</u>	<u>-</u>	<u>14,572,398</u>
Business-type activities capital assets, net	<u>\$ 15,121,675</u>	<u>\$ (516,115)</u>	<u>\$ -</u>	<u>\$ 14,605,560</u>

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

Business-type activities	
Electric	\$ 699,280
Water	<u>376,804</u>
 Total depreciation expense - business-type activities	 <u><u>\$ 1,076,084</u></u>

**City of Princeton
Notes to Financial Statements**

NOTE 5 – NOTES RECEIVABLE

At December 31, 2019, the City had a contract for deed receivable balance of \$149,591 related to the former municipal liquor store building. Monthly payments of \$662 are receivable by the City including interest of 2% through August 2023. A final balloon payment of \$131,003 is due in September 2023.

Notes receivable issued in connection with Urban Development Action Grants (UDAG) at December 31, 2019, consisted of the following:

Bellamy	Annual payments of \$786, including interest at 3%, through September 2024	\$ 10,378
Anderson	Annual payments of \$262, including interest at 3%, through September 2024	1,971
K Bob Cafe	Annual payments of \$1,544, including interest at 2%, through December 2021	18,384
Small Cities Loans Receivable		<u>1,049</u>
Total		<u><u>\$ 31,782</u></u>

NOTE 6 – RESTRICTED ASSETS – PUC COMPONENT UNIT

A. Improvements and Replacements

In 1986, the PUC resolved that any surplus monies in the Electric and Water 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, 2018	\$ 1,722,306
Additions	<u>202,818</u>
Balance - December 31, 2019	<u><u>\$ 1,925,124</u></u>

B. Reserve Fund

Bond and note covenants required a reserve account in the amount of \$811,646 be established. The amount of \$97,500 is required to be reserved in the Water Fund and \$714,146 in the Electric Fund, of which \$247,558 is being held in escrow.

**City of Princeton
Notes to Financial Statements**

NOTE 6 – RESTRICTED ASSETS – PUC COMPONENT UNIT (CONTINUED)

C. Debt Retirement

The 2012, 2010, 2008, and 2004 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, 2019, was \$105,621.

The 2012, 2010, and 2006 Electric Revenue Bond indentures require the Electric Fund to set aside an amount equal to not less than one-sixth of the interest due within the next 6 months and monthly, to set aside an amount equal to not less than one-twelfth of the principal due within the next 12 months. The total set aside at December 31, 2019, was \$264,664.

D. Restricted Cash Held in Escrow

Restricted cash held in escrow as of December 31, 2019, consisted of \$247,558 of cash proceeds from the Electric Revenue Note, Series 2006A.

NOTE 7 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

A. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2019, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Municipal Liquor	Economic Development Authority	\$ 1,281,514
Capital Improvements	Other governmental funds	1,914,934
Municipal Liquor	Airport	<u>2,825</u>
Total		<u><u>\$ 3,199,273</u></u>

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

There was also a long-term advance between other governmental funds totaling \$2,832 at December 31, 2019, to finance capital projects, and a long-term advance between the Capital Improvements Fund and other governmental funds totaling \$202,467 at December 31, 2019, to finance the West Birch townhome development.

City of Princeton
Notes to Financial Statements

NOTE 7 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (CONTINUED)

B. Interfund Transfers

The composition of interfund transfers as of December 31, 2019, was as follows:

Transfer In	Transfer Out	Description	Amount
Airport Fund	Liquor	Operations	\$ 2,700
Airport Fund	General Fund	Operations	11,500
Cemetery Operations	Cemetery Perpetual Care	Operations	1,910
Cemetery Operations	General Fund	Operations	13,350
Solheim Field Improvements	General Fund	Field improvements	800
Solheim Field Improvements	Park Improvements	Field improvements	800
Community Beautification	Liquor	City contribution for beautification	2,500
Cemetery Operations	Capital Improvements	Operations	13,981
Economic Development	General Fund	Operations	5,000
Civic Center	General Fund	Operations	3,900
Fire Equipment Reserve	General Fund	Fire Operations	24,080
West Branch & 7th Ave North	Arcadian Homes Utility Project	Project costs	7,922
West Branch Development	Arcadian Homes Utility Project	Demolition of buildings	4,276
G.O. Capital Improvements	Liquor	Debt service	157,070
Total			<u>\$ 249,789</u>

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.

City of Princeton
Notes to Financial Statements

NOTE 8 – LONG-TERM DEBT (CONTINUED)

B. Components of Long-Term Liabilities

Primary Government

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-term liabilities						
Governmental activities						
G.O. bonds, including						
special assessmetn bonds						
G.O. Improvement 2007A	08/23/07	4.00%-4.25%	\$ 234,000	02/01/23	\$ 78,000	\$ 18,000
G.O. Improvement						
refunding 2009B	11/01/09	2.00%-3.50%	1,505,000	02/01/20	175,000	175,000
G.O. Improvement						
refunding 2012B	06/21/12	0.35%-2.75%	910,000	02/01/28	180,000	90,000
G.O. Improvement 2015A	10/22/15	1.00%-3.00%	910,000	02/01/31	760,000	55,000
G.O. Capital Improvement						
2016A	06/01/16	0.75%-2.75%	2,240,000	02/01/34	1,880,000	115,000
Bond premium					38,938	-
Compensated absences					427,764	144,000
Total governmental					<u>3,539,702</u>	<u>597,000</u>
activities						
Business-type activities						
G.O. revenue bonds						
G.O. Sewer Revenue						
refunding 2012B	06/21/12	0.35%-2.75%	1,365,000	02/01/28	1,050,000	110,000
G.O. Sewer 2013A&B	03/28/13	1.88%	15,118,000	01/01/53	13,358,147	295,000
Compensated absences					120,570	40,125
Total business-type					<u>14,528,717</u>	<u>445,125</u>
activities						
Total all long-term					<u>\$18,068,419</u>	<u>\$1,042,125</u>
liabilities						

PUC Component Unit

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-term liabilities						
Business-type activities						
G.O. Revenue Bonds						
MNPFA G.O. Revenue Note	06/10/04	2.53%	\$ 847,422	08/20/23	\$ 219,000	\$ 53,000
Electric revenue note,						
Series 2006A	04/02/06	4.05%	3,065,000	12/01/25	1,265,000	185,000
G.O. Water Revenue Bond						
Series 2008A	03/04/08	2.20%-4.05%	4,880,000	12/01/27	2,070,000	300,000
Public utility system refunding						
Revenue Bonds, Series 2010A	11/18/10	2.0%-3.50%	3,040,000	04/01/22	545,000	175,000
Public utility system refunding						
Revenue Bonds, Series 2012A	02/01/12	1.0%-2.85%	2,450,000	04/01/24	1,135,000	215,000
Total all long-term					<u>\$ 5,234,000</u>	<u>\$ 928,000</u>
liabilities						

City of Princeton
Notes to Financial Statements

NOTE 8 – LONG-TERM DEBT (CONTINUED)

B. Components of Long-Term Liabilities (Continued)

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, 2019, are listed below and on the following page.

Primary Government

Year Ending December 31,	Governmental Activities		Business-Type Activities		Total
	G.O. Bonds		G.O. Revenue Bonds		
	Principal	Interest	Principal	Interest	
2020	\$ 453,000	\$ 66,776	\$ 405,000	\$ 275,016	\$ 1,199,792
2021	284,000	58,036	413,000	267,034	1,022,070
2022	195,000	52,943	421,000	259,373	928,316
2023	201,000	48,521	424,000	251,370	924,891
2024	180,000	44,625	436,000	243,718	904,343
2025-2029	950,000	166,107	2,191,000	1,080,893	4,388,000
2030-2034	810,000	49,456	1,863,000	888,936	3,611,392
2035-2039	-	-	2,045,000	707,566	2,752,566
2040-2044	-	-	2,240,000	508,680	2,748,680
2045-2049	-	-	2,465,000	290,216	2,755,216
2050-2052	-	-	1,505,147	60,252	1,565,399
Total	<u>\$3,073,000</u>	<u>\$ 486,464</u>	<u>\$14,408,147</u>	<u>\$4,833,054</u>	<u>\$22,800,665</u>

PUC Component Unit

Year Ending December 31,	Business-Type Activities		Total
	G.O. Revenue Bonds		
	Principal	Interest	
2020	\$ 928,000	\$ 175,205	\$ 1,103,205
2021	959,000	144,640	1,103,640
2022	995,000	112,089	1,107,089
2023	837,000	80,849	917,849
2024	810,000	51,326	861,326
2025-2027	705,000	44,346	749,346
Total	<u>\$5,234,000</u>	<u>\$ 608,455</u>	<u>\$ 5,842,455</u>

City of Princeton
Notes to Financial Statements

NOTE 8 – LONG-TERM DEBT (CONTINUED)

C. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2019, was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Bonds payable					
G.O. Bonds	\$ 3,520,000	\$ -	\$ 447,000	\$ 3,073,000	\$ 453,000
Bond premium	41,867	-	2,929	38,938	-
Compensated absences	382,353	206,845	161,434	427,764	144,000
Total governmental activities	<u>3,944,220</u>	<u>206,845</u>	<u>611,363</u>	<u>3,539,702</u>	<u>597,000</u>
Business-type activities					
Bonds payable					
G.O. Sewer Revenue Bonds	14,803,491	-	395,344	14,408,147	405,000
Compensated absences	111,870	40,235	31,535	120,570	40,125
Total business-type activities	<u>14,915,361</u>	<u>40,235</u>	<u>426,879</u>	<u>14,528,717</u>	<u>445,125</u>
Total long-term liabilities	<u>\$ 18,859,581</u>	<u>\$ 247,080</u>	<u>\$ 1,038,242</u>	<u>\$ 18,068,419</u>	<u>\$ 1,042,125</u>

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

PUC Component Unit

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type activities					
Bonds payable					
Revenue bonds	\$ 6,130,000	\$ -	\$ 896,000	\$ 5,234,000	\$ 928,000
Severance Payable	164,528	3,000	25,944	141,584	-
Total long-term liabilities	<u>\$ 6,294,528</u>	<u>\$ 3,000</u>	<u>\$ 921,944</u>	<u>\$ 5,375,584</u>	<u>\$ 928,000</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, 2019, there were several issues outstanding. The bonds are not reported as liabilities in the accompanying financial statements. The outstanding balance at December 31, 2019, was not determinable.

City of Princeton
Notes to Financial Statements

NOTE 9 – RESERVED FUND BALANCES/NET POSITION

Reserved/Designated Fund Equity

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

	General	Economic Development Authority	Capital Improvements	Other Governmental Funds	Total
Nonspendable					
Prepaid expenses	\$ 87,270	\$ 80	\$ -	\$ 73,345	\$ 160,695
Restricted					
Debt service	-	-	-	2,013,957	2,013,957
Tax increments	-	-	-	28,942	28,942
Urban development loans	-	-	-	123,147	123,147
Neighborhood stabilization	-	-	-	7,411	7,411
Property confiscation	-	-	-	98,891	98,891
Small cities development loans	-	-	-	41,732	41,732
Total restricted	-	-	-	2,314,080	2,314,080
Assigned					
Capital improvements	-	-	4,597,857	-	4,597,857
Insurance deductible	51,474	-	-	-	51,474
Cemetery operation and maintenance	-	-	-	16,319	16,319
Fire truck reserve	-	-	-	289,797	289,797
Public safety	-	-	-	14,096	14,096
Investigations	-	-	-	2,011	2,011
Felony investigations	-	-	-	8,681	8,681
Solheim Field improvements	-	-	-	1,404	1,404
Civic Center	-	-	-	13,495	13,495
Community beautification	-	-	-	12,620	12,620
Fire equipment	-	-	-	140,159	140,159
Disaster relocation	-	-	-	160,478	160,478
Cemetery perpetual care	-	-	-	180,489	180,489
Total assigned	51,474	-	4,597,857	839,549	5,488,880
Unassigned	3,053,494	(923,568)	-	(2,278,661)	(148,735)
Total	<u>\$3,192,238</u>	<u>\$ (923,488)</u>	<u>\$ 4,597,857</u>	<u>\$ 948,313</u>	<u>\$ 7,814,920</u>

City of Princeton
Notes to Financial Statements

NOTE 10 – RISK MANAGEMENT

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

There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three years.

The City's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment for 2019 is estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2019, there were no other claims liabilities reported in the Fund based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

NOTE 11 – PENSION PLANS

The City and PUC participate in various pension plans, total pension expense for the year ended December 31, 2019, was \$356,942. The components of pension expense are noted in the following plan summaries.

The General Fund and Water and Sewer Funds typically liquidate the Liability related to the pensions.

Public Employees' Retirement Association

A. Plan Description

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

General Employees Retirement Plan

All full-time and certain part-time employees of the City and PUC are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

**City of Princeton
Notes to Financial Statements**

NOTE 11 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

A. Plan Description (Continued)

Public Employees Police and Fire Plan

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

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. Vested, terminated employees who are entitled to benefits but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

General Employees Plan Benefits

General Employees Plan 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 Plan members. Members hired prior to July, 1 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for a Coordinated members is 1.2% of average salary for each of the first ten years of service and 1.7% of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1% and a maximum of 1.5%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

City of Princeton
Notes to Financial Statements

NOTE 11 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

B. Benefits Provided (Continued)

Police and Fire Plan Benefits

Benefits for the Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50% after ten years up to 100% after twenty years of credited service. The annuity accrual rate is 3% of average salary for each year of service. A full, unreduced pension is earned when members are age 55 and vested, or for members who were first hired prior to July 1, 1989, when age plus years of service equal at least 90.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be fixed at 1%. Recipients that have been receiving the annuity or benefit for at least 36 months as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

C. Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in calendar year 2019 and the City was required to contribute 7.5% for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2019, were \$109,000, while the PUC's contributions were \$89,748. The City's and the PUC's contributions were equal to the required contributions as set by state statute.

Police and Fire Fund Contributions

Police and Fire member's contribution rates increased from 10.8% of pay to 11.3% and employer rates increased from 16.2% to 16.95% on January 1, 2019. The City's contributions to the Police and Fire Fund for the year ended December 31, 2019, were \$145,000. The City's contributions were equal to the required contributions as set by state statute.

**City of Princeton
Notes to Financial Statements**

NOTE 11 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2019, the City reported a liability of \$1,061,525 and the PUC reported liability of \$917,778 for its proportionate share of the General Employees Fund's net pension liability. The City and PUC's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2019. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$32,999 and associated with the PUC totaled \$28,499. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the City's proportionate share was 0.0192%, which was an increase of 0.0005% from its proportion measured as of June 30, 2018. At June 30, 2019, the PUC's proportionate share was 0.0166%, which was an increase of 0.0003% from its proportion measured as of June 30, 2018.

City's proportionate share of the net pension liability	\$ 1,061,525
State of Minnesota's proportionate share of the net pension liability associated with the City	32,999
Total	\$ 1,094,524
PUC's proportionate share of the net pension liability	\$ 917,778
State of Minnesota's proportionate share of the net pension liability associated with the PUC	28,499
Total	\$ 946,277

For the year ended December 31, 2109, the City recognized pension expense of \$140,960 and the PUC recognized pension expense of \$81,073 for its proportionate share of General Employees Plan's pension expense. Included in the amount, the City recognized \$2,471 and the PUC recognized \$2,134 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

**City of Princeton
Notes to Financial Statements**

NOTE 11 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

General Employees Fund Pension Costs (Continued)

At December 31, 2019, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources, related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 29,117	\$ -
Changes in actuarial assumptions	-	81,927
Difference between projected and actual investment earnings	-	106,331
Changes in proportion	30,951	3,192
Contributions paid to PERA subsequent to the measurement date	54,500	-
Total	\$ 114,568	\$ 191,450

\$54,500 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense Amount
2020	\$ (41,228)
2021	(78,128)
2022	(13,737)
2023	1,711
Total	\$ (131,382)

**City of Princeton
Notes to Financial Statements**

NOTE 11 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

At December 31, 2019, the PUC reported its proportionate share of GERS's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 26,194	\$ -
Changes in actuarial assumptions	-	74,091
Difference between projected and actual investment earnings	-	93,548
Changes in proportion	12,482	52,806
Contributions paid to PERA subsequent to the measurement date	47,517	-
Total	\$ 86,193	\$ 220,445

\$47,517 reported as deferred outflows of resources related to pensions resulting from PUC contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense Amount
2020	\$ (74,882)
2021	(94,502)
2022	(13,865)
2023	1,480
Total	\$ (181,769)

**City of Princeton
Notes to Financial Statements**

NOTE 11 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

Police and Fire Fund Pension Costs

At December 31, 2019, the City reported a liability of \$834,574 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the City's proportionate share was 0.0794%, which was an increase of 0.0071% from its proportion measured as of June 30, 2018. The City also recognized \$10,719 for the year ended December 31, 2019 as revenue and an offsetting reduction of the net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year until the plan is 90 percent funded or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90 percent funded, whichever occurs later. In addition, the state will pay \$4.5 million on October 1, 2018 and October 1, 2019 in direct state aid. Thereafter, by October 1 of each year, the state will pay \$9 million until full funding is reached or July 1, 2048, whichever is earlier.

For the year ended December 31, 2019, the City recognized pension expense of \$134,909 for its proportionate share of the Police and Fire Plan's pension expense.

At December 31, 2019, the City reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the sources below and on the following page.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 32,738	\$ 112,178
Changes in actuarial assumptions	609,580	815,868
Difference between projected and actual investment earnings	-	153,928
Changes in proportion	101,769	23,855
Contributions paid to PERA subsequent to the measurement date	<u>72,500</u>	<u>-</u>
Total	<u><u>\$ 816,587</u></u>	<u><u>\$ 1,105,829</u></u>

**City of Princeton
Notes to Financial Statements**

NOTE 11 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

Police and Fire Fund Pension Costs (Continued)

The \$72,500 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense Amount
2020	\$ (33,372)
2021	(87,607)
2022	(274,481)
2023	21,821
2024	11,897
Total	\$ (361,742)

E. Actuarial Assumptions

The total pension liability in the June 30, 2019, actuarial valuation was determined using an individual entry age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.50 % Per year
Active member payroll growth	3.25 % Per year
Investment rate of return	7.50 %

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year for the General Employees Plan, 1.0% per year for the Police and Fire Plan, and 2.0% per year for the Correctional Plan.

Actuarial assumptions used in the June 30, 2019 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. The most recent four-year experience study for Police and Fire Plan was completed in 2016. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

**City of Princeton
Notes to Financial Statements**

NOTE 11 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions occurred in 2019:

General Employees Fund

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions:

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

Police and Fire Fund

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions:

- There have been no changes since the prior valuation.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	35.5%	5.10 %
Private markets	25.0%	5.90
Fixed income	20.0%	0.75
International equity	17.5%	5.90
Cash equivalents	2.0%	0.00
	<u>100%</u>	
Total	<u>100%</u>	

**City of Princeton
Notes to Financial Statements**

NOTE 11 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

F. Discount Rate

The discount rate used to measure the total pension liability in 2019 was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from Plan members and employers will be made at rates set in *Minnesota Statutes*. Based on these assumptions, the fiduciary net positions of the General Employees Fund and the Police and Fire Fund were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate <u>(6.5%)</u>	Discount Rate <u>(7.5%)</u>	1% Increase in Discount Rate <u>(8.5%)</u>
City's proportionate share of the General Employees Fund net pension liability	\$ 1,745,090	\$ 1,061,525	\$ 497,106
PUC's proportionate share of the General Employees Fund net pension liability	1,508,776	917,778	429,790
	1% Decrease in Discount Rate <u>(6.5%)</u>	Discount Rate <u>(7.5%)</u>	1% Increase in Discount Rate <u>(8.5%)</u>
City's proportionate share of the Police and Fire Fund net pension liability	\$ 1,836,935	\$ 834,574	\$ (10,703)

H. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

City of Princeton
Notes to Financial Statements

NOTE 11 – PENSION PLANS (CONTINUED)

Defined Benefit Pension Plan – Volunteer Firefighter's Relief Association

A. Plan Description

The Princeton Firefighters' Relief Association participates in the Statewide Volunteer Firefighter Retirement Plan (SVF), an agent multiple-employer lump-sum defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The SVF plan covers volunteer firefighters of municipal fire departments or independent nonprofit firefighting corporations that have elected to join the plan. As of December 31, 2019, the plan covered 37 active firefighters and 3 vested terminated firefighters whose pension benefits are deferred. The plan is established and administered in accordance with *Minnesota Statutes*, Chapter 353G.

B. Benefits Provided

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

C. Contributions

The Volunteer Firefighter Plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in *Minnesota Statutes*, and voluntary City contributions. The State of Minnesota contributed \$77,578 in fire state aid to the fund for the year ended December 31, 2019. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contributions to the Volunteer Firefighter Fund for the year ended December 31, 2019, were \$20,910.

D. Pension Costs

At December 31, 2019, the City reported a net pension asset of \$528,673 for the Volunteer Firefighter Fund. The net pension asset was measured as of December 31, 2019. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the fire department. The table on the following page presents the changes in net pension liability during the year.

**City of Princeton
Notes to Financial Statements**

NOTE 11 – PENSION PLANS (CONTINUED)

Defined Benefit Pension Plan – Volunteer Firefighter's Relief Association (Continued)

D. Pension Costs (Continued)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at January 1, 2019	<u>\$ 1,000,167</u>	<u>\$ 1,348,623</u>	<u>\$ (348,456)</u>
Changes for the year			
Service cost	56,225	-	56,225
Interest cost	63,384	-	63,384
Differences between expected and actual experience	(4,651)	-	(4,651)
Projected investment earnings	-	80,917	(80,917)
Changes of benefit terms	56,180	-	56,180
State and municipal contributions	-	98,488	(98,488)
Net investment income	-	173,116	(173,116)
Administrative expense	-	(1,166)	1,166
Net charges	<u>171,138</u>	<u>351,355</u>	<u>(180,217)</u>
Balances at December 31, 2019	<u><u>\$ 1,171,305</u></u>	<u><u>\$ 1,699,978</u></u>	<u><u>\$ (528,673)</u></u>

For the year ended December 31, 2019, the City recognized pension expense of (\$32,009).

At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actuarial assumptions and actual experience	\$ -	\$ 66,577
Difference between projected and actual investment earnings	-	51,205
Contributions paid subsequent to measurement date	<u>73,578</u>	<u> </u>
Total	<u><u>\$ 73,578</u></u>	<u><u>\$ 117,782</u></u>

**City of Princeton
Notes to Financial Statements**

NOTE 11 – PENSION PLANS (CONTINUED)

Defined Benefit Pension Plan – Volunteer Firefighter's Relief Association (Continued)

D. Pension Costs (Continued)

\$73,578 reported as deferred outflows of resources related to pensions resulting from City and State contributions (both statutorily-required and voluntary, as applicable) subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

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

Year Ending December 31,		
2020	\$	(27,409)
2021		(27,409)
2022		(27,409)
2023		<u>(35,555)</u>
Total	<u>\$</u>	<u>(117,782)</u>

E. Actuarial Assumptions

The total pension liability at December 31, 2019, was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Retirement eligibility at the later of age 50 or 20 years of service	
Inflation	3.0 %
Investment rate of return	6.0 %

F. Discount Rate

The discount rate used to measure the total pension liability was 6.0%. The projection of cash flows used to determine the discount rate assumed that contributions to the Volunteer Firefighter Fund will be made as specified in statute. Based on that assumption and considering the funding ratio of the plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**City of Princeton
Notes to Financial Statements**

NOTE 11 – PENSION PLANS (CONTINUED)

Defined Benefit Pension Plan – Volunteer Firefighter's Relief Association (Continued)

G. Pension Liability Sensitivity

The following presents the City's net pension asset for the Volunteer Firefighter Fund, calculated using the assumed discount rate as well as what the City's net pension asset would be if it were calculated using a discount rate one percent lower or one percent higher than the current discount rate:

	1% Decrease (5.0%)	Current Discount Rate (6.0%)	1% Increase (7.0%)
Net pension asset	\$ 495,234	\$ 528,672	\$ 560,719

H. Plan Investments

Investment Policy

The Minnesota State Board of Investment (SBI) is established by Article XI of the Minnesota Constitution to invest all state funds. Its membership as specified in the Constitution is comprised of the governor (who is designated as chair of the board), state auditor, secretary of state and state attorney general.

All investments undertaken by the SBI are governed by the prudent person rule and other standards codified in *Minnesota Statutes*, Chapter 11A and Chapter 353G.

Within the requirements defined by state law, the SBI, with assistance of the SBI staff and the Investment Advisory Council, establishes investment policy for all funds under its control. These investments policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure, and specific performance standards. Studies guide the on-going management of the funds and are updated periodically.

Asset Allocation

To match the long-term nature of the pension obligations, the SBI maintains a strategic asset allocation for the Volunteer Firefighter Plan that includes allocations to domestic equity, international equity, bonds and cash equivalents. The long-term target asset allocation and long-term expected real rate of return is on the following page.

**City of Princeton
Notes to Financial Statements**

NOTE 11 – PENSION PLANS (CONTINUED)

Defined Benefit Pension Plan – Volunteer Firefighter's Relief Association (Continued)

H. Plan Investments (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	35 %	5.10 %
International stocks	15	5.30
Bonds	45	0.75
Cash	5	0.00
	<hr/>	
Total	<u><u>100 %</u></u>	

The six percent long-term expected rate of return on pension plan investments was determined using a building-block method. Best estimates for expected future real rates of return (expected returns, net of inflation) were developed for each asset class using both long-term historical returns and long-term capital market expectations from a number of investment management and consulting organizations. The asset class estimates and the target allocations were then combined to produce a geometric, long-term expected real rate of return for the portfolio. Inflation expectations were applied to derive the nominal rate of return for the portfolio.

The SBI made no significant changes to their investment policy during the year for the Volunteer Firefighter Fund.

I. Pension Plan Fiduciary Net Position

Detailed information about the Volunteer Firefighter Fund's fiduciary net position as of June 30, 2019, is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained at www.mnpera.org.

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. It is the City's policy to periodically review its medical coverage and to obtain requests for proposals in order to provide the most favorable benefits and premiums for City employees and retirees.

**City of Princeton
Notes to Financial Statements**

NOTE 12 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

B. Benefits Provided

Employees who apply for early retirement shall remain eligible to receive certain health and dental insurance benefits until the end of the year in which the employee becomes Medicare eligible. Full vesting of such amounts occurs upon attaining 56 years of age.

C. Contributions

Retirees 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. The required contributions are based on projected pay-as-you-go financing requirements. For the year 2019, the City contributed \$6,127 to the plan.

D. Members

As of the December 31, 2017, valuation date, the following were covered by the benefit terms:

Total employees without coverage	10
Employees with coverage	29
	39
Total	39

E. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of December 31, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Key Methods and Assumptions Used in Valuation of Total OPEB Liability

Investment rate of return	3.71%, index rate for 20-year, tax-exempt municipal bonds used in discount rate determination
Salary increases including inflation	3.00%
Inflation	2.75%
Healthcare cost trend increases	6.9% for FY2019, gradually decreasing over several decades to an ultimate rate of 4.4% in FY2075 and later years.
Mortality assumption	Mortality rates were based on RP-2014 mortality tables with projected mortality improvements based on scale MP-2017, and other adjustments

**City of Princeton
Notes to Financial Statements**

NOTE 12 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

E. Actuarial Assumptions (Continued)

The actuarial assumptions used in the December 31, 2017, valuation were based on the results of an actuarial experience study for the period January 1, 2017 – December 31, 2017, with a measurement date period of January 1, 2018 – December 31, 2018.

The discount rate used to measure the total OPEB liability was 3.71%.

F. Total OPEB Liability

The City's total OPEB liability of \$117,267 was measured as of December 31, 2018, and was determined by an actuarial valuation as of December 31, 2017.

Changes in the total OPEB liability are as follows:

	<u>Total OPEB Liability</u>
Balances at January 1, 2018	<u>\$ 104,285</u>
Changes for the year	
Service cost	12,598
Interest	3,869
Changes of assumptions	(3,485)
Benefit payments	<u>-</u>
Net changes	<u>12,982</u>
Balances at December 31, 2018	<u><u>\$ 117,267</u></u>

Changes of assumptions and other inputs reflect a change in the discount rate from 3.31% to 3.71%.

G. OPEB Liability Sensitivity

The following presents the City's total OPEB liability calculated using the discount rate of 3.71% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

Total OPEB Liability/(Asset)		
1% decrease (2.71%)	Current (3.71%)	1% increase (4.71%)
\$ 126,161	\$ 117,267	\$ 108,984

**City of Princeton
Notes to Financial Statements**

NOTE 12 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

G. OPEB Liability Sensitivity (Continued)

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower and 1% higher than the current healthcare cost trend rates.

Total OPEB Liability/(Asset)		
1% decrease (5.9% decreasing to 3.4%)	Current (6.9% decreasing to 4.4%)	1% increase (7.9% decreasing to 5.4%)
\$ 104,158	\$ 117,267	\$ 132,784

H. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2019, the City recognized OPEB expense of \$13,952. At December 31, 2019, the City reported deferred outflows of resources of \$6,127 related to contributions paid subsequent to the measurement date will be recognizes as a reduction of the net pension liability in the year ended December 31, 2019.

NOTE 13 – TAX INCREMENT FINANCING

The City has entered into eleven Tax Increment Financing agreements which meet the criteria for disclosure under *Governmental Accounting Standards Board Statement No. 77 Tax Abatement Disclosures*. The City's authority to enter into these agreements comes from *Minnesota Statute 469*.

Under each agreement, the City and developer agree on an amount of development costs to be reimbursed to the developer by the City through tax revenues from the additional taxable value of the property generated by the development (tax increment). A "pay-as-you-go" note is established for this amount, on which the City makes payments for a fixed period of time with available tax increment revenue after deducting for certain administrative costs. During the year ended December 31, 2019, the City generated \$85,353 in tax increment revenue and made \$92,111 in payments to developers.

NOTE 14 – SUBSEQUENT EVENTS

On March 13, 2020, a national emergency was declared for the COVID-19 outbreak in the United States of America. This event affects the economy and financial markets. The extent of the impact on the City may be both direct and indirect and will vary based on the duration of the outbreak and various other factors. An estimate of the financial effect on the City's financial statements at December 31, 2019, cannot be determined at this time.

On April 14, 2020, the City entered into a purchase agreement for a piece of land. The total purchase price was \$525,000.

City of Princeton
Notes to Financial Statements

NOTE 14 – SUBSEQUENT EVENTS (CONTINUED)

On June 10, 2020, the City issued the \$1,350,000 General Obligation Bonds, Series 2020A. The proceeds are to be used for the trail improvements project and for fire truck acquisition.

On June 10, 2020, the City issued the \$552,000 Taxable General Obligation Tax Abatement Bonds, Series 2020B. The proceeds are to be used for the industrial park project.

NOTE 15 – NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 87, Leases establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This statement will be effective for the year ending December 31, 2022.

GASB Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements improves the information that is disclosed in the notes to the financial statements. It also clarifies which liabilities governments should include when disclosing information related to debt. This statement will be effective for the year ending December 31, 2021.

REQUIRED SUPPLEMENTARY INFORMATION

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City of Princeton
Schedule of Changes in Total OPEB Liability
and Related Ratios

	<u>December 31, 2018</u>	<u>December 31, 2019</u>
Total OPEB Liability		
Service cost	\$ 11,095	\$ 12,598
Interest	3,846	3,869
Changes of assumptions	4,007	(3,485)
Benefit payments	<u>(9,022)</u>	<u>-</u>
Net change in total OPEB liability	<u>9,926</u>	<u>12,982</u>
Beginning of year	<u>94,359</u>	<u>104,285</u>
End of Year	<u>\$ 104,285</u>	<u>\$ 117,267</u>
Covered-employee payroll	\$ 1,661,497	\$ 1,471,500
Total OPEB liability as a percentage of covered-employee payroll	6.28%	7.97%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**City of Princeton
Schedule of City's Proportionate Share
of Net Pension Liability
General Employees Retirement Fund
Last Ten Years**

For Fiscal Year Ended June 30,	City's Proportionate Share (Percentage) of the Net Pension Liability (Asset)	City's Proportionate Share (Amount) of the Net Pension Liability (Asset)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with the City	City's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the City	City's Covered Payroll	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0185%	\$ 958,766	\$ -	\$ 958,766	\$ 1,071,267	89.50%	78.19%
2016	0.0183%	1,485,869	19,470	1,505,339	1,137,040	130.68%	68.91%
2017	0.0188%	1,200,180	15,105	1,215,285	1,212,267	99.00%	75.90%
2018	0.0187%	1,037,399	34,005	1,071,404	1,258,200	82.45%	79.53%
2019	0.0192%	1,061,525	32,999	1,094,524	1,361,947	77.94%	80.23%

**Schedule of PUC's Proportionate Share
of Net Pension Liability
General Employees Retirement Fund
Last Ten Years**

For Fiscal Year Ended June 30,	PUC's Proportionate Share (Percentage) of the Net Pension Liability (Asset)	PUC's Proportionate Share (Amount) of the Net Pension Liability (Asset)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with the PUC	PUC's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the PUC	PUC's Covered Payroll	PUC's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0170%	\$ 881,028	\$ -	\$ 881,028	\$ 995,180	88.53%	78.19%
2016	0.0181%	1,469,632	19,156	1,488,788	1,122,267	132.66%	68.91%
2017	0.0177%	1,129,956	14,210	1,144,166	1,140,253	100.34%	75.90%
2018	0.0163%	904,257	29,600	933,857	1,093,133	85.43%	79.53%
2019	0.0166%	917,778	28,499	946,277	1,176,240	80.45%	80.23%

**Schedule of City's Proportionate Share
of Net Pension Liability
Public Employees Police and Fire Retirement Fund
Last Ten Years**

For Fiscal Year Ended June 30,	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset)	City's Covered Payroll	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0700%	\$ 795,364	\$ 625,630	127.13%	86.61%
2016	0.0690%	2,769,090	662,235	418.14%	63.88%
2017	0.0680%	918,081	693,981	132.29%	85.43%
2018	0.0723%	764,137	762,383	100.23%	88.84%
2019	0.0794%	834,574	837,116	99.70%	89.26%

Note: Schedules are intended to show ten year trend. Additional years will be reported as they become available.

City of Princeton
Schedule of City Contributions
General Employees Retirement Fund
Last Ten Years

Fiscal Year Ending December 31,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll
2015	\$ 82,822	\$ 82,822	\$ -	\$ 1,104,293	7.50%
2016	87,500	87,500	-	1,166,667	7.50%
2017	96,310	96,310	-	1,284,133	7.50%
2018	93,981	93,981	-	1,253,080	7.50%
2019	109,000	109,000	-	1,453,333	7.50%

Schedule of PUC Contributions
General Employees Retirement Fund
Last Ten Years

Fiscal Year Ending December 31,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required	Contribution Deficiency (Excess)	PUC's Covered Payroll	Contributions as a Percentage of Covered Payroll
2015	\$ 78,398	\$ 78,398	\$ -	\$ 1,045,308	7.50%
2016	85,248	85,248	-	1,136,646	7.50%
2017	82,805	82,805	-	1,104,062	7.50%
2018	86,249	86,249	-	1,149,985	7.50%
2019	89,748	89,748	-	1,196,640	7.50%

Schedule of City Contributions
Public Employees Police and Fire Retirement Fund
Last Ten Years

Fiscal Year Ending December 31,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll
2015	\$ 106,192	\$ 106,192	\$ -	\$ 655,506	16.20%
2016	109,500	109,500	-	675,926	16.20%
2017	113,729	113,729	-	702,031	16.20%
2018	130,621	130,621	-	806,302	16.20%
2019	145,000	145,000	-	855,457	16.95%

Note: Schedules are intended to show ten year trend. Additional years will be reported as they become available.

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

	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019
Total Pension Liability (TPL)					
Service cost	\$ 41,503	\$ 51,822	\$ 46,901	\$ 48,472	\$ 56,225
Interest costs	63,235	53,945	67,839	67,118	63,384
Differenced between expected and actual experience	-	-	(63,320)	(104,759)	(4,651)
Changes of assumptions	29,103	(21,012)	(2,354)	-	-
Changes of benefit terms	-	47,458	19,799	73,807	56,180
Benefit payments	(82,250)	(71,815)	(79,250)	(309,266)	-
Net change in total pension liability	<u>51,591</u>	<u>60,398</u>	<u>(10,385)</u>	<u>(224,628)</u>	<u>171,138</u>
Beginning of year*	<u>1,011,386</u>	<u>1,062,977</u>	<u>1,123,375</u>	<u>1,224,795</u>	<u>1,000,167</u>
End of year	<u>\$ 1,062,977</u>	<u>\$ 1,123,375</u>	<u>\$ 1,112,990</u>	<u>\$ 1,000,167</u>	<u>\$ 1,171,305</u>
Plan Fiduciary Net Pension (FNP)					
State and municipal contributions	\$ 88,726	\$ 92,538	\$ 90,546	\$ 72,426	\$ 98,488
Net investment income	(70,586)	103,412	198,322	(51,838)	254,033
Asset transfer/other	-	-	-	92,887	-
Benefit payments	(82,250)	(71,815)	(79,250)	(309,266)	-
Administrative expense	(9,825)	(10,325)	(5,441)	(16,296)	(1,166)
Net change in plan fiduciary net position	<u>(73,935)</u>	<u>113,810</u>	<u>204,177</u>	<u>(212,087)</u>	<u>351,355</u>
Beginning of year*	<u>1,410,403</u>	<u>1,336,468</u>	<u>1,450,278</u>	<u>1,560,710</u>	<u>1,348,623</u>
End of year	<u>\$ 1,336,468</u>	<u>\$ 1,450,278</u>	<u>\$ 1,654,455</u>	<u>\$ 1,348,623</u>	<u>\$ 1,699,978</u>
Net Pension Liability (NPL)	<u>\$ (273,491)</u>	<u>\$ (326,903)</u>	<u>\$ (541,465)</u>	<u>\$ (348,456)</u>	<u>\$ (528,673)</u>
FNP as a percentage of the TPL	125.73%	129.10%	148.65%	134.84%	145.14%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

* Investments for the Princeton Fire Relief Association were transferred to PERA as of January 1, 2018, resulting in a restatement of the beginning balances.

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

	<u>12/31/2015</u>	<u>12/31/2016</u>	<u>12/31/2017</u>	<u>12/31/2018</u>	<u>12/31/2019</u>
Statutorily determined contribution (SDC)	\$ -	\$ -	\$ -	\$ -	\$ -
Actual contribution	<u>19,135</u>	<u>19,710</u>	<u>20,300</u>	<u>-</u>	<u>20,910</u>
Contribution deficiency (excess)	<u>\$ (19,135)</u>	<u>\$ (19,710)</u>	<u>\$ (20,300)</u>	<u>\$ -</u>	<u>\$ (20,910)</u>
State pass-through contribution	<u>\$ 69,591</u>	<u>\$ 69,828</u>	<u>\$ 70,246</u>	<u>\$ 71,426</u>	<u>\$ 77,578</u>

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

City of Princeton
Notes to Required Supplementary Information

GENERAL EMPLOYEES FUND

2019 Changes

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

2018 Changes

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

Changes in Plan Provisions

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00% to 3.00%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Postretirement benefit increases were changed from 1.00% per year with a provision to increase to 2.50% upon attainment of 90.00% funding ratio to 50.00% of the Social Security Cost of Living Adjustment, not less than 1.00% and not more than 1.50%, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes

Changes in Actuarial Assumptions

- The CSA loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15% for vested deferred member liability and 3% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

Changes in Plan Provisions

- The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter.

City of Princeton
Notes to Required Supplementary Information

GENERAL EMPLOYEES FUND (CONTINUED)

2017 Changes (Continued)

Changes in Plan Provisions (Continued)

- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The State's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

2016 Changes

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, the inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2015 Changes

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of \$6.0 million, which meets the special funding situation definition, was due September 2015.

City of Princeton
Notes to Required Supplementary Information

POLICE AND FIRE FUND

2019 Changes

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2017 to MP-2018.

2018 Changes

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2016 to MP-2017.
- Changes in Plan Provisions
- Postretirement benefit increases were changed to 1.00% for all years, with no trigger.
 - An end date of July 1, 2048 was added to the existing \$9.0 million state contribution.
 - New annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter until the plan reaches 100% funding, or July 1, 2048, if earlier.
 - Member contributions were changed from 10.80% to 11.30% of pay, effective January 1, 2019 and 11.80% of pay, effective January 1, 2020.
 - Employer contributions were changed from 16.20% to 16.95% of pay, effective January 1, 2019 and 17.70% of pay, effective January 1, 2020.
 - Interest credited on member contributions decreased from 4.00% to 3.00%, beginning July 1, 2018.
 - Deferred augmentation was changed to 0.00%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
 - Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes

Changes in Actuarial Assumptions

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34% lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The CSA load was 30% for vested and non-vested deferred members. The CSA has been changed to 33% for vested members and 2% for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3% for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65% to 60%.

City of Princeton
Notes to Required Supplementary Information

POLICE AND FIRE FUND (CONTINUED)

2017 Changes (Continued)

Changes in Actuarial Assumptions (Continued)

- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1% for all years to 1% per year through 2064 and 2.5% thereafter.
- The single discount rate was changed from 5.6% per annum to 7.5% per annum.

2016 Changes

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2037 and 2.5% thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate changed from 7.9% to 5.6%.
- The single discount rate changed from 7.90% to 5.60%.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2015 Changes

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2037 and 2.5% per year thereafter.

Changes in Plan Provisions

- The post-retirement benefit increase to be paid after attainment of the 90% funding threshold was changed, from inflation up to 2.5%, to a fixed rate of 2.5%.

City of Princeton
Notes to Required Supplementary Information

VOLUNTEER FIREFIGHTER'S RELIEF ASSOCIATION

2019 Changes

Changes in Plan Provisions

- The benefit level increased to \$3,600.

POST EMPLOYMENT HEALTH CARE PLAN

2019 Changes

Changes in Actuarial Assumptions

- The discount rate was increased from 3.31% to 3.71%.

2018 Changes

Changes in Actuarial Assumptions

- The discount rate was reduced from 3.81% to 3.31%.

SUPPLEMENTARY INFORMATION

**Combining Balance Sheet -
Nonmajor Governmental Funds
December 31, 2019**

	Special Revenue			
	Fire Truck Reserve (263)	Cemetery Operation and Maintenance (205)	Property Confiscation (210)	Public Safety and Awareness (211)
Assets				
Cash and investments	\$ 290,149	\$ 16,908	\$ 98,849	\$ 14,991
Taxes receivable - delinquent	-	-	-	-
Special assessment receivable				
Delinquent	-	-	-	-
Deferred	-	-	-	-
Accounts receivable	-	-	75	5
Interest receivable	-	-	-	-
Due from other governments	-	-	-	-
Notes receivable	-	-	-	-
Land held for resale	-	-	-	-
Prepaid expenses	-	1,030	-	-
Advance to other funds	-	-	-	-
	<u>-\$ 290,149</u>	<u>\$ 17,938</u>	<u>\$ 98,924</u>	<u>\$ 14,996</u>
Liabilities				
Accounts and contracts payable	352	32	33	900
Contracts payable	-	-	-	-
Due to other funds	-	-	-	-
Due to other governments	-	557	-	-
Salaries and benefits payable	-	-	-	-
Advance from other funds	-	-	-	-
Total liabilities	<u>352</u>	<u>589</u>	<u>33</u>	<u>900</u>
Deferred Inflows of Resources				
Unavailable revenue - long-term assets	-	-	-	-
Unavailable revenue - property taxes	-	-	-	-
Unavailable revenue - special assessments	-	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances				
Nonspendable	-	1,030	-	-
Restricted	-	-	98,891	-
Assigned	289,797	16,319	-	14,096
Unassigned	-	-	-	-
Total fund balances	<u>289,797</u>	<u>17,349</u>	<u>98,891</u>	<u>14,096</u>
	<u>\$ 290,149</u>	<u>\$ 17,938</u>	<u>\$ 98,924</u>	<u>\$ 14,996</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 290,149</u>	<u>\$ 17,938</u>	<u>\$ 98,924</u>	<u>\$ 14,996</u>

Special Revenue

Investigation Information Buy Fund (212)	Felony Investigation (214)	Solheim Field Improvements (216)	Civic Center (240)	Community Beautification (242)	Community Projects (250)
\$ 2,011	\$ 8,681	\$ 1,404	\$ 15,718	\$ 12,620	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	25	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	315	-	-
-	-	-	-	-	-
<u>\$ 2,011</u>	<u>\$ 8,681</u>	<u>\$ 1,404</u>	<u>\$ 16,058</u>	<u>\$ 12,620</u>	<u>\$ -</u>
-	-	-	476	-	-
-	-	-	-	-	358
-	-	-	109	-	-
-	-	-	-	-	-
-	-	-	1,663	-	-
-	-	-	-	-	-
-	-	-	<u>2,248</u>	<u>-</u>	<u>358</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	315	-	-
-	-	-	-	-	-
2,011	8,681	1,404	13,495	12,620	-
-	-	-	-	-	(358)
<u>2,011</u>	<u>8,681</u>	<u>1,404</u>	<u>13,810</u>	<u>12,620</u>	<u>(358)</u>
<u>\$ 2,011</u>	<u>\$ 8,681</u>	<u>\$ 1,404</u>	<u>\$ 16,058</u>	<u>\$ 12,620</u>	<u>\$ -</u>

**City of Princeton
Combining Balance Sheet -
Nonmajor Governmental Funds
December 31, 2019**

	Special Revenue			
	Development Grants (252)	Development Expenses (253)	Fire Equipment Reserve (260)	Fire Department Grants (261)
Assets				
Cash and investments	\$ -	\$ -	\$ 140,106	\$ -
Taxes receivable - delinquent	-	-	-	-
Special assessment receivable				
Delinquent	-	-	-	-
Deferred	-	-	-	-
Accounts receivable	-	-	-	-
Interest receivable	-	-	230	-
Due from other governments	-	-	-	-
Notes receivable	-	-	-	-
Land held for resale	-	-	-	-
Prepaid expenses	-	-	72,000	-
Advance to other funds	-	-	-	-
	\$ -	\$ -	\$ 212,336	\$ -
Liabilities				
Accounts and contracts payable	-	52,317	-	-
Contracts payable	70,535	319,298	-	28,959
Due to other funds	-	-	177	-
Due to other governments	-	-	-	-
Salaries and benefits payable	-	-	-	-
Advance from other funds	-	-	-	-
Total liabilities	70,535	371,615	177	28,959
Deferred Inflows of Resources				
Unavailable revenue - long-term assets	-	-	-	-
Unavailable revenue - property taxes	-	-	-	-
Unavailable revenue - special assessments	-	-	-	-
Total deferred inflows of resources	-	-	-	-
Fund Balances				
Nonspendable	-	-	72,000	-
Restricted	-	-	-	-
Assigned	-	-	140,159	-
Unassigned	(70,535)	(371,615)	-	(28,959)
Total fund balances	(70,535)	(371,615)	212,159	(28,959)
	\$ -	\$ -	\$ 212,336	\$ -
Total liabilities, deferred inflows of resources, and fund balances				

City of Princeton
Combining Balance Sheet -
Nonmajor Governmental Funds
December 31, 2019

	Special Revenue		Debt Service	
	UDAG No. 2 Downtown Project (814)	UDAG No. 5 Crystal Cabinets (820)	Downtown Redevelopment Tax Increment (490)	1999 Industrial Park Improvements (500)
Assets				
Cash and investments	\$ 60,277	\$ 41,176	\$ 30,258	\$ -
Taxes receivable - delinquent	-	-	-	-
Special assessment receivable				
Delinquent	-	-	-	-
Deferred	-	-	-	-
Accounts receivable	-	-	-	-
Interest receivable	3,310	-	-	-
Due from other governments	-	-	-	-
Notes receivable	12,349	18,384	-	-
Land held for resale	-	-	-	-
Prepaid expenses	-	-	-	-
Advance to other funds	-	-	-	-
	<u>\$ 75,936</u>	<u>\$ 59,560</u>	<u>\$ 30,258</u>	<u>\$ -</u>
Liabilities				
Accounts and contracts payable	-	-	-	-
Contracts payable	-	-	-	-
Due to other funds	-	-	-	-
Due to other governments	-	-	-	-
Salaries and benefits payable	-	-	-	-
Advance from other funds	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deferred Inflows of Resources				
Unavailable revenue - long-term assets	12,349	-	-	-
Unavailable revenue - property taxes	-	-	-	-
Unavailable revenue - special assessments	-	-	-	-
Total deferred inflows of resources	<u>12,349</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances				
Nonspendable	-	-	-	-
Restricted	63,587	59,560	30,258	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total fund balances	<u>63,587</u>	<u>59,560</u>	<u>30,258</u>	<u>-</u>
	<u>\$ 75,936</u>	<u>\$ 59,560</u>	<u>\$ 30,258</u>	<u>\$ -</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 75,936</u>	<u>\$ 59,560</u>	<u>\$ 30,258</u>	<u>\$ -</u>

**City of Princeton
Combining Balance Sheet -
Nonmajor Governmental Funds
December 31, 2019**

	Debt Service			
	Revolving Account Fund (552)	1992 Street and Utilities (592)	1993 Street and Utilities (593)	1999 Street and Utilities Improvements (599)
Assets				
Cash and investments	\$ 266,011	\$ 358,296	\$ 58,612	\$ -
Taxes receivable - delinquent	-	-	-	-
Special assessment receivable				
Delinquent	-	-	-	-
Deferred	70,134	-	-	-
Accounts receivable	-	-	-	-
Interest receivable	-	-	-	-
Due from other governments	-	-	-	-
Notes receivable	-	-	-	-
Land held for resale	-	-	-	-
Prepaid expenses	-	-	-	-
Advance to other funds	2,832	-	-	-
	<u>2,832</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 338,977</u>	<u>\$ 358,296</u>	<u>\$ 58,612</u>	<u>\$ -</u>
Liabilities				
Accounts and contracts payable	-	-	-	-
Contracts payable	-	-	-	-
Due to other funds	-	-	-	-
Due to other governments	-	-	-	-
Salaries and benefits payable	-	-	-	-
Advance from other funds	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deferred Inflows of Resources				
Unavailable revenue - long-term assets	-	-	-	-
Unavailable revenue - property taxes	-	-	-	-
Unavailable revenue - special assessments	70,134	-	-	-
Total deferred inflows of resources	<u>70,134</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances				
Nonspendable	-	-	-	-
Restricted	268,843	358,296	58,612	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total fund balances	<u>268,843</u>	<u>358,296</u>	<u>58,612</u>	<u>-</u>
	<u>\$ 338,977</u>	<u>\$ 358,296</u>	<u>\$ 58,612</u>	<u>\$ -</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 338,977</u>	<u>\$ 358,296</u>	<u>\$ 58,612</u>	<u>\$ -</u>

**City of Princeton
Combining Balance Sheet -
Nonmajor Governmental Funds
December 31, 2019**

	Capital Projects			
	2000 Street and Utility Improvements (330)	Kwik Trip Redevelopment District (347)	Caseys Redevelopment District (348)	AERO Business Redevelopment District (349)
Assets				
Cash and investments	\$ -	\$ -	\$ -	\$ -
Taxes receivable - delinquent	-	-	-	-
Special assessment receivable				
Delinquent	-	-	-	-
Deferred	-	-	-	-
Accounts receivable	-	-	-	-
Interest receivable	-	-	-	-
Due from other governments	-	-	-	-
Notes receivable	-	-	-	-
Land held for resale	-	-	-	-
Prepaid expenses	-	-	-	-
Advance to other funds	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities				
Accounts and contracts payable	-	-	-	-
Contracts payable	-	6,373	7,488	5,528
Due to other funds	-	-	-	-
Due to other governments	-	-	-	-
Salaries and benefits payable	-	-	-	-
Advance from other funds	2,832	-	-	-
Total liabilities	<u>2,832</u>	<u>6,373</u>	<u>7,488</u>	<u>5,528</u>
Deferred Inflows of Resources				
Unavailable revenue - long-term assets	-	-	-	-
Unavailable revenue - property taxes	-	-	-	-
Unavailable revenue - special assessments	-	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances				
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Assigned	-	-	-	-
Unassigned	(2,832)	(6,373)	(7,488)	(5,528)
Total fund balances	<u>(2,832)</u>	<u>(6,373)</u>	<u>(7,488)</u>	<u>(5,528)</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Capital Projects

Industrial Park Redevelopment District (350)	District No. 3-5 Redevelopment District (391)	Armory Redevelopment District (398)	Industrial Park Development (821)	TIF 8-4 Chino Development (319)	West Branch TIF (327)	Total Governmental Funds
\$ -	\$ 8,012	\$ 2,648	\$ -	\$ -	\$ -	\$ 3,112,346
-	-	-	-	-	-	2,853
-	-	-	-	-	-	6,863
-	-	-	-	-	-	474,604
-	-	-	-	-	-	45,715
-	-	-	-	-	-	4,920
-	-	-	-	-	-	33,901
-	-	-	-	-	-	31,782
-	-	-	-	-	-	1
-	-	-	-	-	-	73,345
-	-	-	-	-	-	2,832
<u>\$ -</u>	<u>\$ 8,012</u>	<u>\$ 2,648</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,789,162</u>
-	-	-	-	3,486	-	111,043
9,739	-	-	3,738	11,665	13,143	1,891,567
-	-	-	-	-	-	133,889
-	-	-	-	-	-	719
-	-	-	-	-	-	1,663
-	-	-	-	-	-	205,299
<u>9,739</u>	<u>-</u>	<u>-</u>	<u>3,738</u>	<u>15,151</u>	<u>13,143</u>	<u>2,344,180</u>
-	-	-	-	-	-	12,349
-	-	-	-	-	-	2,853
-	-	-	-	-	-	481,467
-	-	-	-	-	-	496,669
-	-	-	-	-	-	73,345
-	8,012	2,648	-	-	-	2,314,080
-	-	-	-	-	-	839,549
<u>(9,739)</u>	<u>-</u>	<u>-</u>	<u>(3,738)</u>	<u>(15,151)</u>	<u>(13,143)</u>	<u>(2,278,661)</u>
<u>(9,739)</u>	<u>8,012</u>	<u>2,648</u>	<u>(3,738)</u>	<u>(15,151)</u>	<u>(13,143)</u>	<u>948,313</u>
<u>\$ -</u>	<u>\$ 8,012</u>	<u>\$ 2,648</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,789,162</u>

City of Princeton
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances -Nonmajor Governmental Funds
Year Ended December 31, 2019

	Special Revenue			
	Fire Truck Reserve (263)	Cemetery Operation and Maintenance (205)	Property Confiscation (210)	Public Safety and Awareness (211)
Revenues				
Property taxes	\$ -	\$ -	\$ -	\$ -
Tax increments	-	-	-	-
Special assessments	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	447,055	18,080	8,870	-
Miscellaneous				
Investment income	1,260	78	1,837	251
Contributions and donations	-	-	1,372	-
Other	-	820	-	8,805
Total revenues	<u>448,315</u>	<u>18,978</u>	<u>12,079</u>	<u>9,056</u>
Expenditures				
Current				
Public safety	-	-	1,842	3,055
Cemetery	-	34,212	-	-
Public works	-	-	-	-
Parks and recreation	-	-	-	-
Economic development	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital outlay				
Public safety	160,918	-	-	-
Cemetery	-	13,981	-	-
Parks and recreation	-	-	-	-
Economic development	-	-	-	-
Total expenditures	<u>160,918</u>	<u>48,193</u>	<u>1,842</u>	<u>3,055</u>
Excess of revenues over (under) expenditures	287,397	(29,215)	10,237	6,001
Other Financing Sources (Uses)				
Proceeds from sale of capital asset	2,400	-	-	-
Transfers in	-	29,241	-	-
Transfers out	-	-	-	-
Total other financing sources	<u>2,400</u>	<u>29,241</u>	<u>-</u>	<u>-</u>
Net change in fund balances	289,797	26	10,237	6,001
Fund Balances				
Beginning of year	<u>-</u>	<u>17,323</u>	<u>88,654</u>	<u>8,095</u>
End of year	<u>\$ 289,797</u>	<u>\$ 17,349</u>	<u>\$ 98,891</u>	<u>\$ 14,096</u>

Special Revenue

Investigation Information Buy Fund (212)	Felony Investigation (214)	Solheim Field Improvements (216)	Civic Center (240)	Community Beautification (242)	Community Projects (250)	Development Grants (252)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	10,000	-	-	-
-	157	33	256	167	-	-
-	-	-	-	-	-	-
-	-	-	-	3,300	3,310	-
-	157	33	10,256	3,467	3,310	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	3,494	14,135	3,047	4,060	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	3,494	14,135	3,047	4,060	-
-	157	(3,461)	(3,879)	420	(750)	-
-	-	-	-	-	-	-
-	-	1,600	3,900	2,500	-	-
-	-	-	-	-	-	-
-	-	1,600	3,900	2,500	-	-
-	157	(1,861)	21	2,920	(750)	-
2,011	8,524	3,265	13,789	9,700	392	(70,535)
\$ 2,011	\$ 8,681	\$ 1,404	\$ 13,810	\$ 12,620	\$ (358)	\$ (70,535)

City of Princeton
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances -Nonmajor Governmental Funds
Year Ended December 31, 2019

	Special Revenue			
	Development Expenses (253)	Fire Equipment Reserve (260)	Fire Department Grants (261)	Disaster Relocation (262)
Revenues				
Property taxes	\$ -	\$ -	\$ -	\$ -
Tax increments	-	-	-	-
Special assessments	-	-	-	-
Intergovernmental	-	-	157,886	101,141
Charges for services	-	3,000	-	-
Miscellaneous				
Investment income	-	1,743	-	-
Contributions and donations	-	-	-	-
Other	-	9,390	-	5,000
Total revenues	<u>-</u>	<u>14,133</u>	<u>157,886</u>	<u>106,141</u>
Expenditures				
Current				
Public safety	-	8,366	165,970	101,404
Cemetery	-	-	-	-
Public works	-	-	-	-
Parks and recreation	-	-	-	-
Economic development	28,130	-	-	-
Debt service				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital outlay				
Public safety	-	-	-	-
Cemetery	-	-	-	-
Parks and recreation	-	-	-	-
Economic development	-	-	-	-
Total expenditures	<u>28,130</u>	<u>8,366</u>	<u>165,970</u>	<u>101,404</u>
Excess of revenues over (under) expenditures	(28,130)	5,767	(8,084)	4,737
Other Financing Sources (Uses)				
Proceeds from sale of capital asset	-	10,500	-	-
Transfers in	-	24,080	-	-
Transfers out	-	-	-	-
Total other financing sources	<u>-</u>	<u>34,580</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(28,130)	40,347	(8,084)	4,737
Fund Balances				
Beginning of year	<u>(343,485)</u>	<u>171,812</u>	<u>(20,875)</u>	<u>155,741</u>
End of year	<u>\$ (371,615)</u>	<u>\$ 212,159</u>	<u>\$ (28,959)</u>	<u>\$ 160,478</u>

Special Revenue

Small Cities Development Program (603)	Stormwater Management (601)	Neighborhood Stabilization Program (602)	Park Improvements (802)	Cemetery Perpetual Care (803)	UDAG No. 2 Downtown Project (814)	UDAG No. 5 Crystal Cabinets (820)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	511	-
-	-	-	-	3,055	-	-
-	-	-	-	1,910	1,414	736
-	-	-	-	-	-	-
-	-	-	166,323	-	-	-
-	-	-	<u>166,323</u>	<u>4,965</u>	<u>1,925</u>	<u>736</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
150	-	19,344	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	394,917	-	-	-
-	-	-	-	-	-	-
<u>150</u>	<u>-</u>	<u>19,344</u>	<u>394,917</u>	<u>-</u>	<u>-</u>	<u>-</u>
(150)	-	(19,344)	(228,594)	4,965	1,925	736
-	-	100,000	-	-	-	-
-	-	-	-	-	-	-
-	-	-	(800)	(1,910)	-	-
-	-	<u>100,000</u>	<u>(800)</u>	<u>(1,910)</u>	<u>-</u>	<u>-</u>
(150)	-	80,656	(229,394)	3,055	1,925	736
<u>41,882</u>	<u>(147,005)</u>	<u>(73,245)</u>	<u>(234,509)</u>	<u>177,434</u>	<u>61,662</u>	<u>58,824</u>
<u>\$ 41,732</u>	<u>\$ (147,005)</u>	<u>\$ 7,411</u>	<u>\$ (463,903)</u>	<u>\$ 180,489</u>	<u>\$ 63,587</u>	<u>\$ 59,560</u>

City of Princeton
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances -Nonmajor Governmental Funds
Year Ended December 31, 2019

	Special Revenue	Debt Service		
	G.O. Capital Improvement Bonds, 2016A (416)	Downtown Redevelopment Tax Increment (490)	1999 Industrial Park Improvements (500)	2002/2003 1st Street Improvements (502)
Revenues				
Property taxes	\$ -	\$ -	\$ -	\$ -
Tax increments	-	-	-	-
Special assessments	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Miscellaneous				
Investment income	-	547	5,359	3,439
Contributions and donations	-	-	-	-
Other	-	1,982	-	-
Total revenues	<u>-</u>	<u>2,529</u>	<u>5,359</u>	<u>3,439</u>
Expenditures				
Current				
Public safety	-	-	-	-
Cemetery	-	-	-	-
Public works	-	-	-	-
Parks and recreation	-	-	-	-
Economic development	-	-	-	-
Debt service				
Principal	115,000	-	-	-
Interest and other charges	42,926	-	-	-
Capital outlay				
Public safety	-	-	-	-
Cemetery	-	-	-	-
Parks and recreation	-	-	-	-
Economic development	-	-	-	-
Total expenditures	<u>157,926</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over (under) expenditures	(157,926)	2,529	5,359	3,439
Other Financing Sources (Uses)				
Proceeds from sale of capital asset	-	-	-	-
Transfers in	157,070	-	-	-
Transfers out	-	-	(294,521)	-
Total other financing sources	<u>157,070</u>	<u>-</u>	<u>(294,521)</u>	<u>-</u>
Net change in fund balances	(856)	2,529	(289,162)	3,439
Fund Balances				
Beginning of year	<u>856</u>	<u>27,729</u>	<u>289,162</u>	<u>185,574</u>
End of year	<u>\$ -</u>	<u>\$ 30,258</u>	<u>\$ -</u>	<u>\$ 189,013</u>

Debt Service

Western Area Improvements (503)	2nd and 7th Improvements (504)	2007 PUC Area Improvements (507)	G.O. Refunding Bonds, 2012B (512 & 506)	G.O. Improvement Bonds, 2015A (515)	Revolving Account Fund (552)	1992 Street and Utilities (592)
\$ 89,175	\$ -	\$ 2	\$ 22	\$ 33,175	\$ -	\$ -
-	-	-	-	-	-	-
51,756	-	10,553	52,698	199,317	10,682	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	4,049	1,206	13,382	8,731	4,717	6,518
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>140,931</u>	<u>4,049</u>	<u>11,761</u>	<u>66,102</u>	<u>241,223</u>	<u>15,399</u>	<u>6,518</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
23,298	-	-	-	-	-	-
170,000	-	17,000	90,000	55,000	-	-
8,888	-	3,676	3,693	19,045	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>202,186</u>	<u>-</u>	<u>20,676</u>	<u>93,693</u>	<u>74,045</u>	<u>-</u>	<u>-</u>
(61,255)	4,049	(8,915)	(27,591)	167,178	15,399	6,518
-	-	-	-	-	-	-
214,666	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>214,666</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
153,411	4,049	(8,915)	(27,591)	167,178	15,399	6,518
(140,494)	218,425	80,495	209,167	466,127	253,444	351,778
<u>\$ 12,917</u>	<u>\$ 222,474</u>	<u>\$ 71,580</u>	<u>\$ 181,576</u>	<u>\$ 633,305</u>	<u>\$ 268,843</u>	<u>\$ 358,296</u>

City of Princeton
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances -Nonmajor Governmental Funds
Year Ended December 31, 2019

	Debt Service		Capital Projects	
	1993 Street and Utilities (593)	1999 Street and Utilities Improvements (599)	Heritage Village (305)	Northland/Old 18 Improvements (310)
Revenues				
Property taxes	\$ -	\$ -	\$ -	\$ -
Tax increments	-	-	-	-
Special assessments	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Miscellaneous				
Investment income	1,065	-	-	-
Contributions and donations	-	-	-	-
Other	-	-	-	-
Total revenues	1,065	-	-	-
Expenditures				
Current				
Public safety	-	-	-	-
Cemetery	-	-	-	-
Public works	-	-	-	-
Parks and recreation	-	-	-	-
Economic development	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital outlay				
Public safety	-	-	-	-
Cemetery	-	-	-	-
Parks and recreation	-	-	-	-
Economic development	-	-	-	-
Total expenditures	-	-	-	-
Excess of revenues over (under) expenditures	1,065	-	-	-
Other Financing Sources (Uses)				
Proceeds from sale of capital asset	-	-	-	-
Transfers in	-	79,855	-	-
Transfers out	-	-	-	-
Total other financing sources	-	79,855	-	-
Net change in fund balances	1,065	79,855	-	-
Fund Balances				
Beginning of year	57,547	(79,855)	(284,747)	(53,760)
End of year	\$ 58,612	\$ -	\$ (284,747)	\$ (53,760)

Capital Projects

MN Industrial Coatings Expansion District (314)	West Branch and 7th Avenue North Projects (315)	West Branch Development (316)	Roundabout Project (317)	Arcadian Homes Utility Project (328)	District No. 3-7 Redevelopment District (329)	2000 Street and Utility Improvements (330)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
15,535	-	-	-	-	45,533	-
-	-	-	-	-	-	-
-	-	-	145,640	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>15,535</u>	<u>-</u>	<u>-</u>	<u>145,640</u>	<u>-</u>	<u>45,533</u>	<u>-</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	3,938	202,466	-	-
-	-	-	-	-	-	-
27,992	-	-	-	-	28	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	40,979	-
<u>27,992</u>	<u>-</u>	<u>-</u>	<u>3,938</u>	<u>202,466</u>	<u>41,007</u>	<u>-</u>
(12,457)	-	-	141,702	(202,466)	4,526	-
-	-	-	-	-	-	-
-	7,922	4,276	-	-	-	-
-	-	-	-	(12,198)	-	-
-	<u>7,922</u>	<u>4,276</u>	<u>-</u>	<u>(12,198)</u>	<u>-</u>	<u>-</u>
(12,457)	7,922	4,276	141,702	(214,664)	4,526	-
<u>(12,595)</u>	<u>(355,508)</u>	<u>(4,276)</u>	<u>(363,085)</u>	<u>1,981</u>	<u>13,756</u>	<u>(2,832)</u>
<u>\$ (25,052)</u>	<u>\$ (347,586)</u>	<u>\$ -</u>	<u>\$ (221,383)</u>	<u>\$ (212,683)</u>	<u>\$ 18,282</u>	<u>\$ (2,832)</u>

City of Princeton
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances -Nonmajor Governmental Funds
Year Ended December 31, 2019

	Capital Projects			
	Kwik Trip Redevelopment District (347)	Caseys Redevelopment District (348)	AERO Business Redevelopment District (349)	Industrial Park Redevelopment District (350)
Revenues				
Property taxes	\$ -	\$ -	\$ -	\$ -
Tax increments	1,115	-	-	-
Special assessments	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Miscellaneous				
Investment income	-	-	-	-
Contributions and donations	-	-	-	-
Other	-	-	-	-
Total revenues	1,115	-	-	-
Expenditures				
Current				
Public safety	-	-	-	-
Cemetery	-	-	-	-
Public works	-	-	-	-
Parks and recreation	-	-	-	-
Economic development	1,988	1,988	28	4,436
Debt service				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital outlay				
Public safety	-	-	-	-
Cemetery	-	-	-	-
Parks and recreation	-	-	-	-
Economic development	-	-	-	-
Total expenditures	1,988	1,988	28	4,436
Excess of revenues over (under) expenditures	(873)	(1,988)	(28)	(4,436)
Other Financing Sources (Uses)				
Proceeds from sale of capital asset	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources	-	-	-	-
Net change in fund balances	(873)	(1,988)	(28)	(4,436)
Fund Balances				
Beginning of year	(5,500)	(5,500)	(5,500)	(5,303)
End of year	\$ (6,373)	\$ (7,488)	\$ (5,528)	\$ (9,739)

Capital Projects

District No. 3-5 Redevelopment District (391)	Armory Redevelopment District (398)	Industrial Park Development (821)	TIF 8-4 Chino Development (319)	West Branch TIF (327)	Total Other Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 122,374
16,600	6,570	-	-	-	85,353
-	-	-	-	-	325,006
-	-	-	-	-	405,178
-	-	-	-	-	490,060
-	-	-	-	-	58,855
-	-	-	-	-	1,372
-	-	-	-	-	198,930
<u>16,600</u>	<u>6,570</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,687,128</u>
-	-	-	-	-	280,637
-	-	-	-	-	34,212
-	-	-	-	-	206,404
-	-	-	-	-	24,736
28	28	-	15,151	5,143	127,732
-	-	-	-	-	447,000
-	-	-	-	-	78,228
-	-	-	-	-	160,918
-	-	-	-	-	13,981
-	-	-	-	-	394,917
16,600	6,568	-	-	8,000	72,147
<u>16,628</u>	<u>6,596</u>	<u>-</u>	<u>15,151</u>	<u>13,143</u>	<u>1,840,912</u>
(28)	(26)	-	(15,151)	(13,143)	(153,784)
-	-	-	-	-	112,900
-	-	-	-	-	525,110
-	-	-	-	-	(309,429)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>328,581</u>
(28)	(26)	-	(15,151)	(13,143)	174,797
<u>8,040</u>	<u>2,674</u>	<u>(3,738)</u>	<u>-</u>	<u>-</u>	<u>773,516</u>
<u>\$ 8,012</u>	<u>\$ 2,648</u>	<u>\$ (3,738)</u>	<u>\$ (15,151)</u>	<u>\$ (13,143)</u>	<u>\$ 948,313</u>

City of Princeton
Schedule of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended December 31, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Property taxes	\$ 2,110,240	\$ 2,109,240	\$ 2,120,859	\$ 11,619
Licenses and permits	181,790	230,585	202,079	(28,506)
Intergovernmental revenue				
Local government aid	891,890	891,890	891,888	(2)
Fire aid	69,245	-	-	-
Police aid	95,700	95,700	109,914	14,214
Other grants and aids	9,000	6,000	6,533	533
Total intergovernmental revenue	<u>1,065,835</u>	<u>993,590</u>	<u>1,008,335</u>	<u>14,745</u>
Charges for services				
General government	39,385	39,810	50,330	10,520
Public safety	186,545	191,975	188,986	(2,989)
Public works	3,800	3,700	4,931	1,231
Parks and recreation	32,680	29,000	31,381	2,381
Total charges for services	<u>262,410</u>	<u>264,485</u>	<u>275,628</u>	<u>11,143</u>
Fines or forfeitures	<u>24,000</u>	<u>27,000</u>	<u>31,882</u>	<u>4,882</u>
Miscellaneous revenues				
Investment income	8,750	12,270	29,164	16,894
Other	121,050	272,860	132,074	(140,786)
Total miscellaneous revenues	<u>129,800</u>	<u>285,130</u>	<u>161,238</u>	<u>(123,892)</u>
Total revenues	<u>3,774,075</u>	<u>3,910,030</u>	<u>3,800,021</u>	<u>(110,009)</u>
Expenditures				
General government				
Mayor and council	32,110	31,830	31,015	(815)
Administrative and finance	426,320	420,970	428,248	7,278
Other general government	484,080	419,170	217,247	(201,923)
Capital outlay	188,500	87,600	33,599	(54,001)
Total general government	<u>1,131,010</u>	<u>959,570</u>	<u>710,109</u>	<u>(249,461)</u>

City of Princeton
Schedule of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - General Fund
For the Year Ended December 31, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Expenditures				
Public safety				
Police				
Current	\$ 1,439,555	\$ 1,421,430	\$ 1,430,391	\$ 8,961
Capital outlay	144,425	130,925	117,563	(13,362)
Total police	<u>1,583,980</u>	<u>1,552,355</u>	<u>1,547,954</u>	<u>(4,401)</u>
Fire				
Current	<u>279,945</u>	<u>277,415</u>	<u>284,898</u>	<u>7,483</u>
Other:				
Current	124,260	59,120	82,047	22,927
Capital outlay	60,000	-	-	-
Total other	<u>184,260</u>	<u>59,120</u>	<u>82,047</u>	<u>22,927</u>
Total public safety	<u>2,048,185</u>	<u>1,888,890</u>	<u>1,914,899</u>	<u>26,009</u>
Cemetery				
Current	<u>-</u>	<u>-</u>	<u>651</u>	<u>651</u>
Public works				
Streets and highways				
Street maintenance and storm sewers	781,905	754,435	771,372	16,937
Street - capital outlay	5,000	14,000	14,120	120
Total public works	<u>786,905</u>	<u>768,435</u>	<u>785,492</u>	<u>17,057</u>
Parks and recreation				
Libraries				
Current expenditures	<u>43,320</u>	<u>40,600</u>	<u>35,744</u>	<u>(4,856)</u>
Other parks and recreation				
Current expenditures	203,955	178,645	201,336	22,691
Capital outlay	143,000	89,000	25,922	(63,078)
Total other parks and recreation	<u>346,955</u>	<u>267,645</u>	<u>227,258</u>	<u>(40,387)</u>
Total parks and recreation	<u>390,275</u>	<u>308,245</u>	<u>263,002</u>	<u>(45,243)</u>
Economic development				
Economic development				
Current expenditures	<u>-</u>	<u>-</u>	<u>7,617</u>	<u>7,617</u>
Total expenditures	<u>4,356,375</u>	<u>3,925,140</u>	<u>3,681,770</u>	<u>(243,370)</u>
Excess of revenues over (under) expenditures	(582,300)	(15,110)	118,251	133,361

City of Princeton
Schedule of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended December 31, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Other Financing Sources (Uses)				
Payment in lieu of taxes - component unit	\$ 52,500	\$ 52,500	\$ 52,500	\$ -
Transfers in	572,925	321,525	-	(321,525)
Transfers out	(42,330)	(46,700)	(58,630)	(11,930)
Total other financing sources (uses)	583,095	327,325	(6,130)	(333,455)
Net change in fund balances	\$ 795	\$ 312,215	112,121	\$ (200,094)
Fund Balances				
Beginning of year			3,080,117	
End of year			\$ 3,192,238	

**Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
*Government Auditing Standards***

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Princeton, Minnesota, as of and for the year ended December 31, 2019, and the related notes to financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 17, 2020. Our report includes a reference to other auditors who audited the financial statements of Princeton Public Utilities Commission, as described in our report on the City's financial statements. This report does not include the results of the other auditors testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

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

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

Internal Control over Financial Reporting (Continued)

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses on Legal Compliance and Internal Control as Audit Finding 2019-001, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

Compliance and Other Matters

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

City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses on Legal Compliance and Internal Control. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Bergan KDV, Ltd.

St. Cloud, Minnesota
June 17, 2020

Minnesota Legal Compliance**Independent Auditor's Report**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Princeton, Minnesota, as of and for the year ended December 31, 2019, and the related notes to financial statements and have issued our report thereon dated June 17, 2020. Our report includes a reference to other auditors who audited the financial statements of Princeton Public Utilities Commission, as described in our report on the City's financial statements. This report does not include the results of the other auditors testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to *Minnesota Statutes* § 6.65, except as described in the following Schedule of Findings and Responses on Legal Compliance and Internal Control. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

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

Bergan KDV, Ltd.

St. Cloud, Minnesota
June 17, 2020

City of Princeton
Schedule of Findings and Responses on Legal
Compliance and Internal Control
December 31, 2019

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDINGS

Audit Finding 2019-001

Criteria or Specific Requirement

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

Condition

During the year ended December 31, 2019, the City had a lack of segregation of accounting duties due to a limited number of office employees.

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

Questioned Costs

None

Context

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

Effect

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

Cause

There are a limited number of office employees.

Recommendation

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

City of Princeton
Schedule of Findings and Responses on Legal
Compliance and Internal Control
December 31, 2019

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDING (CONTINUED)

Audit Finding 2019-001 (Continued)

Management's Response:

CORRECTIVE ACTION PLAN (CAP)

1. Explanation of Disagreement with Audit Finding

There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding

The City agrees with the auditor's analysis of the situation. It seems impossible to correct the current situation without additional personnel. Even having cursory review by someone outside of the Finance Department would not seem beneficial without significant training and exposure to the financial transactions. The City has taken measures to help reduce the exposure by requiring three different people at all times to sign or stamp every check. Also, review of this point on what will be an annual basis during the audit presentation, should remind both management and the City Council of the weakness and possible problems that could result.

3. Official Responsible for Ensuring CAP

Steven L. Jackson, Finance Director, is the official responsible for ensuring corrective action of the deficiency.

4. Planned Completion Date for CAP

The planned completion date for the CAP is ongoing.

5. Plan to Monitor Completion of CAP

The City Council will be monitoring this CAP.

City of Princeton
Schedule of Findings and Responses on Legal
Compliance and Internal Control
December 31, 2019

CURRENT YEAR LEGAL COMPLIANCE FINDING

Closed Meetings

Minnesota Statute 13D.01 requires that all meetings be open to the public, unless the meeting is closed for an allowable exception. If a meeting is closed, the public body shall state on the record the specific grounds permitting the meeting to be closed and describe the subject to be discussed.

During 2019, the City held several closed meetings, which were recorded with nonfunctioning equipment.

We recommend the City follow *Minnesota Statutes* in regard to closed meetings.

City's Response:

The City purchased new recording equipment and future closed meetings will be recorded as required by Statute.