bergankdv

City of Princeton
Mille Lacs County and
Sherburne County, Minnesota

Communications Letter

December 31, 2021

City of Princeton
Table of Contents

Report on Matters Identified as a Result of the Audit of the Basic Financial Statements	1
Material Weaknesses	3
Significant Deficiency	4
Other Deficiencies	5
Required Communication	7
Financial Analysis	12
Emerging Issue	28

Report on Matters Identified as a Result of the Audit of the Basic Financial Statements

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

In planning and performing our audit of the basic financial statements of the governmental activities, business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Princeton, Minnesota, as of and for the year ended December 31, 2021, 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, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 have not been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error, or fraud may occur and not be detected by such controls. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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 over financial reporting, such that there is a reasonable possibility that a material misstatement of the City's basic financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible*. The chance of the future event or events occurring is more than remote but less than likely.
- *Probable*. The future event or events are likely to occur.

The material weakness identified is stated within this letter.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The significant deficiency identified is stated within this letter.

During our audit, we also became aware of deficiencies in internal control other than significant deficiencies or material weaknesses, and other matters that is an opportunity for strengthening internal controls and operating efficiency. They are described in the accompanying letter under Other Deficiencies.

The City's written responses to the audit findings have not been subjected to audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

The accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated July 14, 2022, on such statements.

This communication, which is an integral part of our audit, is intended solely for the information and use of management, the City Council, others within the City and state oversight agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

BerganKDV, Ltd.

Minneapolis, Minnesota
July 14, 2022

City of Princeton
Material Weaknesses

Material Audit Adjustments
During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the City's existing internal controls and, therefore, could have resulted in the City's financial statements being materially misstated.

In order to ensure financial statements were free from material misstatement, material audit adjustments were required in the following areas:

- Book additional receivables and revenues
- Book additional payables and expenditures
- Adjust inventory balance from sales price to cost

City's Response
The City will ensure all adjusting entries are made prior to audit work commencing.

City of Princeton
Significant Deficiency

Lack of Segregation of Accounting Duties

During the year ended December 31, 2021, the City had a lack of segregation of accounting duties due to a limited number of office employees. The lack of adequate segregation of accounting duties could adversely affect the Company's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Although this meets the definition of a significant deficiency, it may not be practical to correct since the costs of obtaining desirable segregation of accounting duties may exceed benefits that could be derived. This lack of segregation of accounting duties can be demonstrated in the following areas, which is not intended to be all-inclusive:

- The Finance Clerk inputs payroll information, such as employee hours worked, creates checks, and has custody of checks until distribution to department heads.
- The Finance Director receives the investment statements, records maturities, and issuances of new investments and posts entries into the accounting system for interest receivable, revenue, and market value changes in investments.
- Bank reconciliations are completed by the Finance Director and not reviewed.
- The Finance Clerk generates and mails invoices, records payments in the City's accounting system, writes up deposits, and brings the deposits to the bank.

In addition to having responsibilities in the cycles listed above, the City's Finance Director has full general ledger access and the ability to write and post journal entries. While we believe this access is necessary to efficiently perform the financial duties required, this access has the ability to override many of the controls and segregation the City has in place.

Management is aware of this condition and will take 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.

We recommend management, along with the City Council remain aware of this situation, and continually monitor the accounting system including changes that occur.

City's Response

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.

City of Princeton
Other Deficiencies

Develop a Plan for Negative Fund Balances and Close Funds with Limited Activity
At December 31, 2021, 21 of the City's funds had a deficit fund balance: Economic Development Authority, Community Beautification, Community Projects, Development Grants, Development Expenses, Fire Department Grants, Stormwater Management, G.O. Capital Improvement Bonds 2016A, Western Area Improvements, Heritage Village, Northland/Old 18 Improvements, MN Industrial Coatings Expansion District, West Branch and 7th Avenue North, Roundabout Project, Arcadian Homes Utility Project, 2000 Street and Utility Improvements, Casey's Redevelopment District, AERO Business Redevelopment District, TIF 8-4 Chino Development, West Branch TIF, and TIF 9-2 Housing Rum River Residential/West Rivertown Apartments.

We also noted 22 of the City's funds had limited or no activity during 2021: Investigation Information Buy Fund, Felony Investigation, Community Projects, Development Grants, Fire Department Grants, Stormwater Management, Neighborhood Stabilization Program, UDAG No. 5 Crystal Cabinets, 2002/2003 1st Street Improvements, 2nd and 7th Improvements, 1992 Street and Utilities, 1993 Street and Utilities, Fire Truck Reserve, Heritage Village, Northland/Old 18 Improvements, West Branch and 7th Avenue North Projects, Roundabout Project, Arcadian Homes Utility Project, 2000 Street and Utility Improvements, AERO Business Redevelopment District, TIF 8-4 Chino Development, and TIF 9-2 Housing Rum River Residential/West Rivertown Apartments.

We recommend the City Council develop a plan to eliminate negative fund balances in these funds. In addition, the City should review the process of incurring project development costs for capital projects that may not come to fruition and develop a policy for funding start-up costs. We also recommend the City close funds that have fulfilled its purpose.

City's Response
Some of the funds with deficit balances are a timing issue and will correct themselves once all revenue and adjustments are made. In addition, in 2022, the City will work on developing a plan to eliminate fund deficits in other funds.

Monitor Liquor Store Inventory
During our audit, we tested a sample of inventory at the City's liquor store. The amounts listed on the liquor store's inventory reports differed from the amounts actually on hand at the store. Of the 30 items tested, 10 items differed from the inventory reports to the amount on hand; some items were understated while others were overstated, resulting in a minor projected difference to the overall inventory balance.

We recommend the City and the Liquor Store Manager continue to monitor the inventory at the store, reconcile any variances on a regular basis and document adjustments to the inventory system.

City's Response
Spot checks will continue to be performed every other month by Finance Department personnel.

Even though the impact of the misstated inventory is not material or significant, it indicates that there is room for improvement in the recording of inventory purchases and sales. The City installed a new Point of Sale (POS) system to help improve accuracy in both purchases and sales of inventory product. Along with that system improvement, the City purchased a handheld scanner that will make inventory counting easier and more accurate that will integrate into the new POS system.

City of Princeton
Other Deficiencies

Electronic or Wire Transfers Approval Procedures
The City uses electronic or wire transfers to make certain monthly payroll and vendor payments. We recommend a listing of all payments made via electronic or wire transfer be included with the claims listing submitted to City Council for approval.

City's Response
The City will include a listing of all payments made via electronic or wire transfer with the claims listing submitted to City Council for approval.

City of Princeton
Required Communication

We have audited the basic financial statements of the governmental activities, business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2021. Professional standards require that we advise you of the following matters related to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter, our responsibility, as described by professional standards, is to form and express opinions about whether the basic financial statements prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the basic financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the basic financial statements are free of material misstatement. An audit of the basic financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgement, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Generally accepted accounting principles provide for certain Required Supplementary Information (RSI) to supplement the basic financial statements. Our responsibility with respect to the RSI, which supplements the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

Our responsibility for the supplementary information accompanying the basic financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the basic financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Our Responsibility in Relation to *Government Auditing Standards*

As communicated in our engagement letter, part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we performed tests of the City's 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 basic financial statement amounts. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

City of Princeton
Required Communication

Our Responsibility in Relation to Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*

As communicated in our engagement letter, in accordance with the Uniform Guidance, we examined on a test basis, evidence about the City's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provided a reasonable basis for our opinion, it did not provide a legal determination on the City's compliance with those requirements.

In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Significant Risks Identified

We have identified the following significant risks of material misstatement:

- Management override of internal control is considered a risk in substantially all engagements as management may be incentivized to produce better results. Management override of control through the journal entry process was identified as a risk.
- When there is significant staff turnover, there is a risk of City activity not being reflected timely or accurately in the financial statements. Risks related to timely unrecorded liabilities, unrecorded receivables, and unrecorded capital assets were identified.
- Revenue recognition is considered a fraud risk on substantially all engagements as it is generally one of the largest line items impacting a city's operating results. Improper revenue recognition specifically related to property taxes and assessments was identified as a risk.
- If duties cannot be appropriately segregated within the accounting and finance department, there is a risk of unauthorized transactions. In addition, generally this results in less review taking place as transactions are recorded in the financial statements. The City's lack of segregation of accounting duties was considered when completing all audit work. Testing of electronic fund transfers (EFTs) was also completed to address the risk of management override of controls due to the lack of segregation of accounting duties.
- Inventory balances are generally material to the Statement of Net Position. As inventory turnover slows, it may be difficult to sell inventory at a margin or the inventory may be replaced and become obsolete. Improper recording of liquor store inventory was identified as a risk.

Qualitative Aspects of the City's Significant Accounting Practices

Significant Accounting Policies
Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in the notes to the basic financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during the year ended 2021. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates
Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's current judgements. Those judgements are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgements. The most sensitive estimates affecting the basic financial statements relate to:

> Depreciation – The City is currently depreciating its capital assets over their estimated useful lives, as determined by management, using the straight-line method.
>
> Total Other Post Employment Benefits (OPEB) Liability, Deferred Outflows of Resources Related to OPEB and Deferred Inflows of Resources Related to OPEB – These balances are based on an actuarial study using the estimates of future obligations of the City for post employment benefits.
>
> Net Pension Liability, Deferred Outflows of Resources Relating to Pensions, and Deferred Inflows of Resources relating to Pensions – These balances are based on an allocation by the pension plans using estimates based on contributions.

We evaluated the key factors and assumptions used to develop the accounting estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures
Certain basic financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The basic financial statement disclosures are neutral, consistent, and clear.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

City of Princeton
Required Communication

Uncorrected and Corrected Misstatements
For the purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effects of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the basic financial statements taken as a whole and each applicable opinion unit.

We identified the following uncorrected misstatement of the financial statements. Management has determined its effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

- Liquor inventory was understated based on test count projections

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The following material misstatements that we identified as a result of our audit procedures were brought to the attention of and corrected by management.

- Book additional receivables and revenues
- Book additional payables and expenditures
- Adjust inventory balance from sales price to cost

Disagreements with Management
For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the City's basic financial statements or the auditor's report. No such disagreements arose during the course of our audit.

Representations Requested from Management
We have requested certain written representations from management, which are included in the management representation letter.

Management's Consultations with Other Accountants
In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management has informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues
In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating and regulatory conditions affecting the City, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City's auditor.

City of Princeton
Required Communication

Other Information Included in Annual Reports

Pursuant to professional standards, our responsibility as auditors for other information, whether financial or nonfinancial, included in the City's annual reports, does not extend beyond the information identified in the audit report, and we are not required to perform any procedures to corroborate such other information.

We applied certain limited procedures to the RSI that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the basic financial statements or to the basic financial statements themselves.

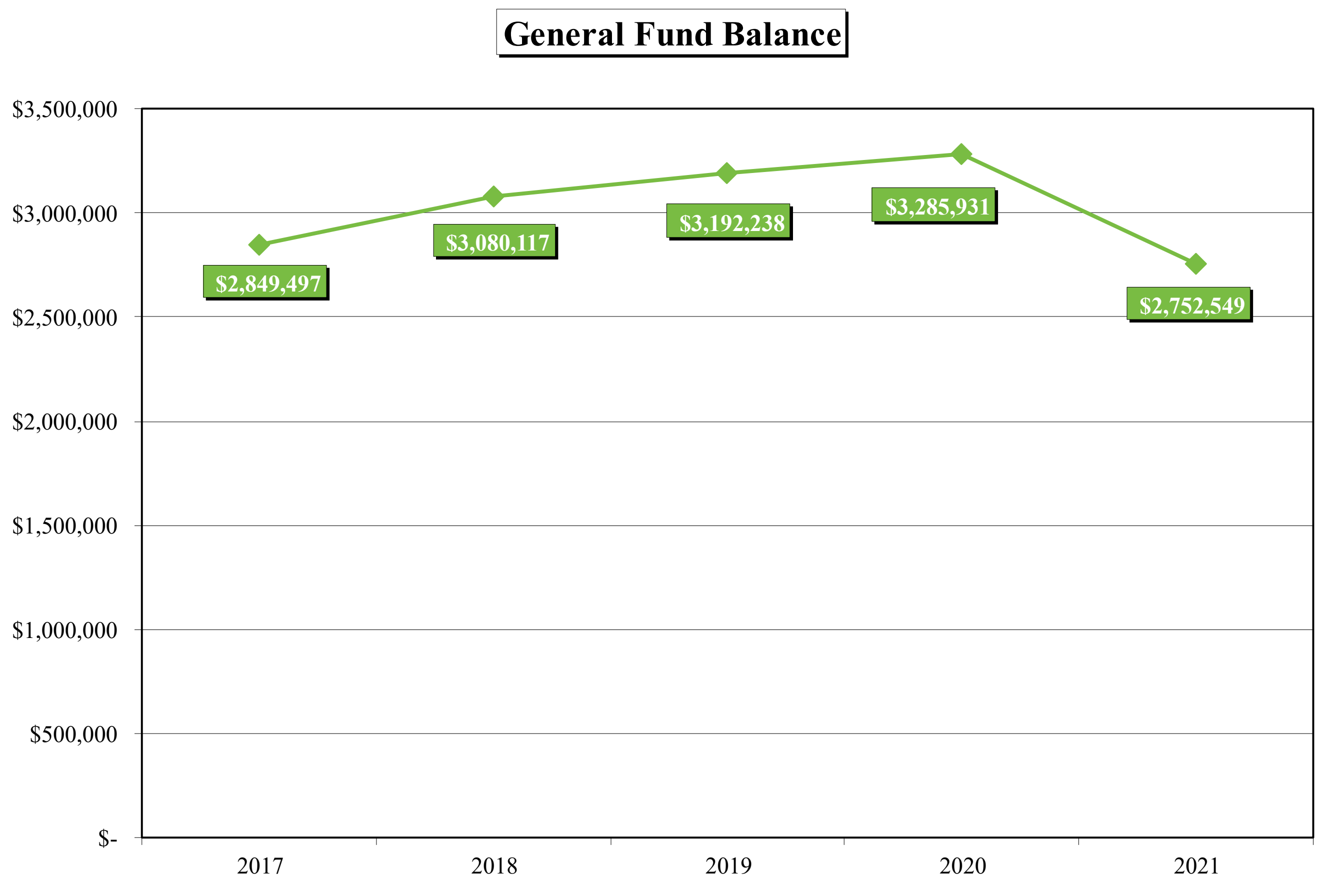
Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the basic financial statements.

City of Princeton
Financial Analysis

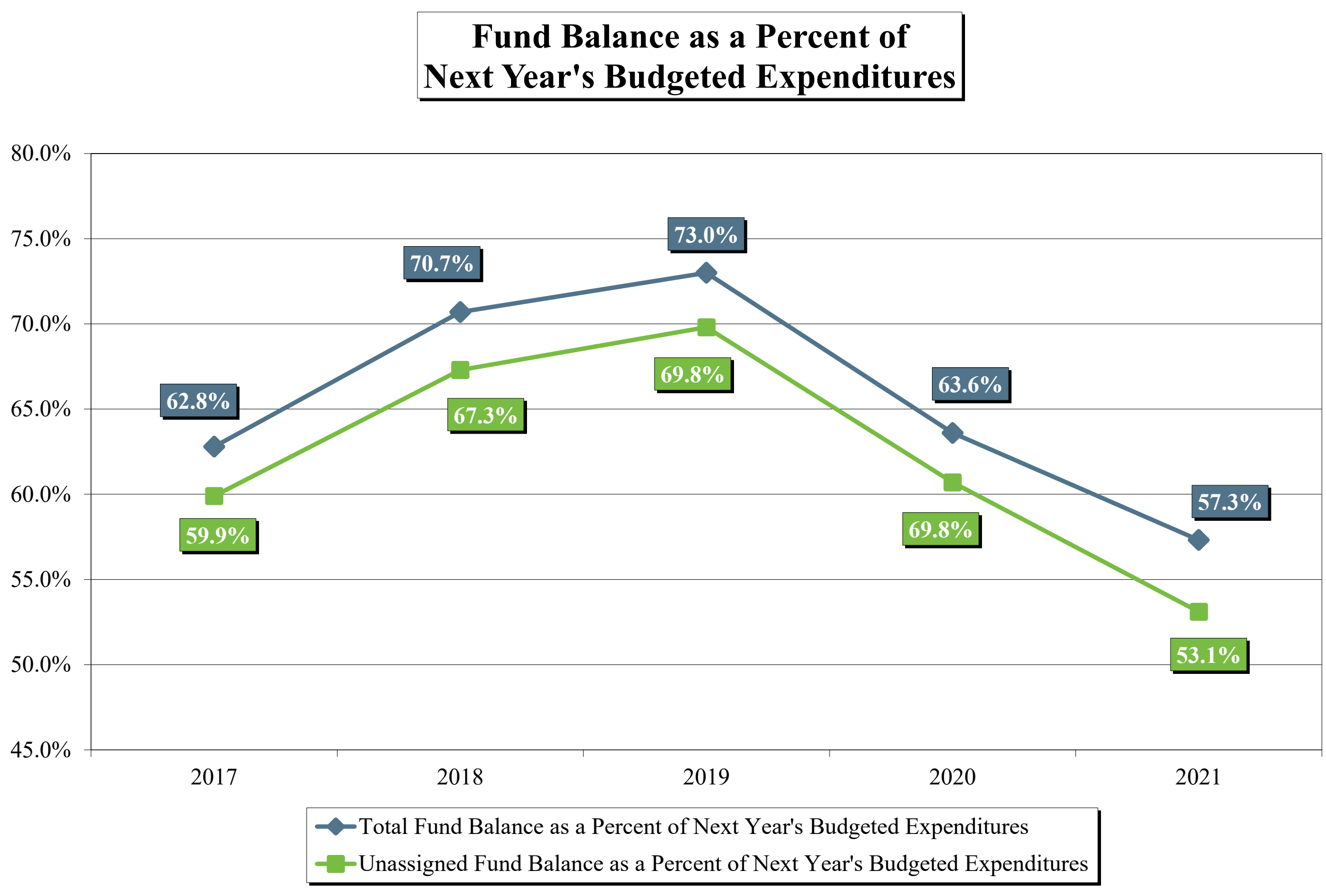
The following pages provide graphic representation of select data pertaining to the financial position and operations of the City for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performance and how implementing certain changes may enhance future performance. We suggest you view each graph and document if our analysis is consistent with yours. A subsequent discussion of this information should be useful for planning purposes.

General Fund

As seen in the following graph, the General Fund balance increased from 2017 to 2020, then decreased as a result of 2021 activity. Fund balance decreased in 2021 by $533,382 This decrease will be reviewed on the following pages.



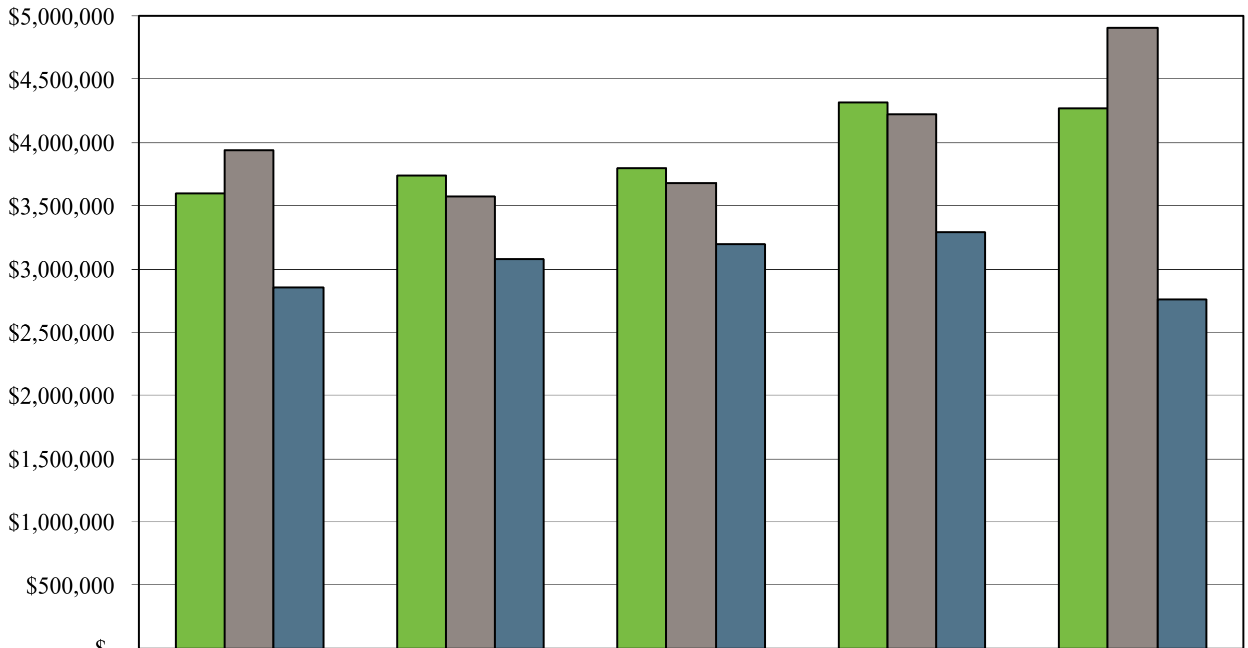
General Fund (Continued)
The following graph shows the General Fund's total fund balance and unassigned fund balance as a percent of the following year's budgeted expenditures in the General Fund. Fluctuations in the percentage over the past five years are a result of fund operations. The decrease in percentages for 2021 is due to the decrease in fund balance as seen on the previous page. The current policy of the City is to have 30%-50% of the subsequent year's budgeted expenditures as unassigned fund balance; the City exceeds its policy range at December 31, 2021, by having $2,550,025 in unassigned fund balance at year-end, which is 53.1% of 2022 budgeted expenditures of $4,801,640. This amount is not considered excessive as future intergovernmental funding is uncertain. As General Fund expenditures increase, the fund balance will also need to increase to maintain current or targeted percentage levels.



General Fund (Continued)
The following graph summarizes the past five years of General Fund revenues, expenditures, and fund balance. Revenues, expenditures, and fund balance have increased overall over the last five years.

Revenue and expenditure detail is reviewed on the following pages.

General Fund Revenues, Expenditures and Fund Balance



	2017	2018	2019	2020	2021
Total Revenues	$3,597,917	$3,742,999	$3,800,021	$4,317,172	$4,272,622
Total Expenditures	3,941,467	3,568,501	3,681,770	4,224,399	4,906,896
Fund Balance	2,849,497	3,080,117	3,192,238	3,285,931	2,752,549

General Fund (Continued)

Total revenues decreased $44,550 or 1.0%, from 2020 to 2021, which was due to a decrease in intergovernmental revenue of $200,630 netted with increases in property taxes, licenses and permits, and charges for services revenues. Intergovernmental revenues decreased due to the receipt one-time federal Coronavirus Relief Funds in 2020. Property tax revenue increased due to the City properly accruing January 2022 receipts in 2021 revenue as well as a decrease in delinquent taxes outstanding. Licenses and permits decreased due to increased building activity. Charges for services increased primarily due to the splash pad closure in 2020.

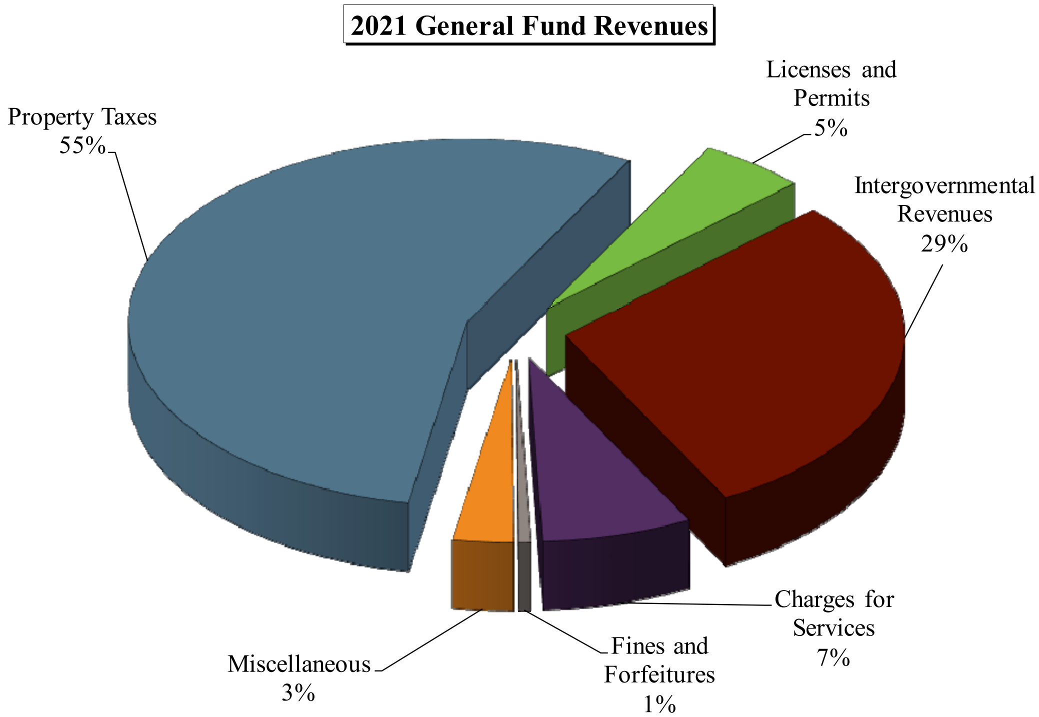
	2017	2018	2019	2020	2021
Revenues					
Property taxes	$ 2,006,291	$ 2,135,999	$ 2,120,859	$ 2,283,446	$ 2,356,290
Licenses and permits	174,525	180,854	202,079	149,541	217,794
Intergovernmental revenues					
Local government aid	845,730	888,633	891,888	973,987	1,022,826
Other than local government aid	183,179	102,116	116,447	472,154	222,685
Charges for services	230,937	266,156	275,628	236,045	306,525
Fines and forfeitures	22,205	28,987	31,882	21,515	23,456
Miscellaneous	135,050	140,254	161,238	180,484	123,046
Total revenues	$ 3,597,917	$ 3,742,999	$ 3,800,021	$ 4,317,172	$ 4,272,622

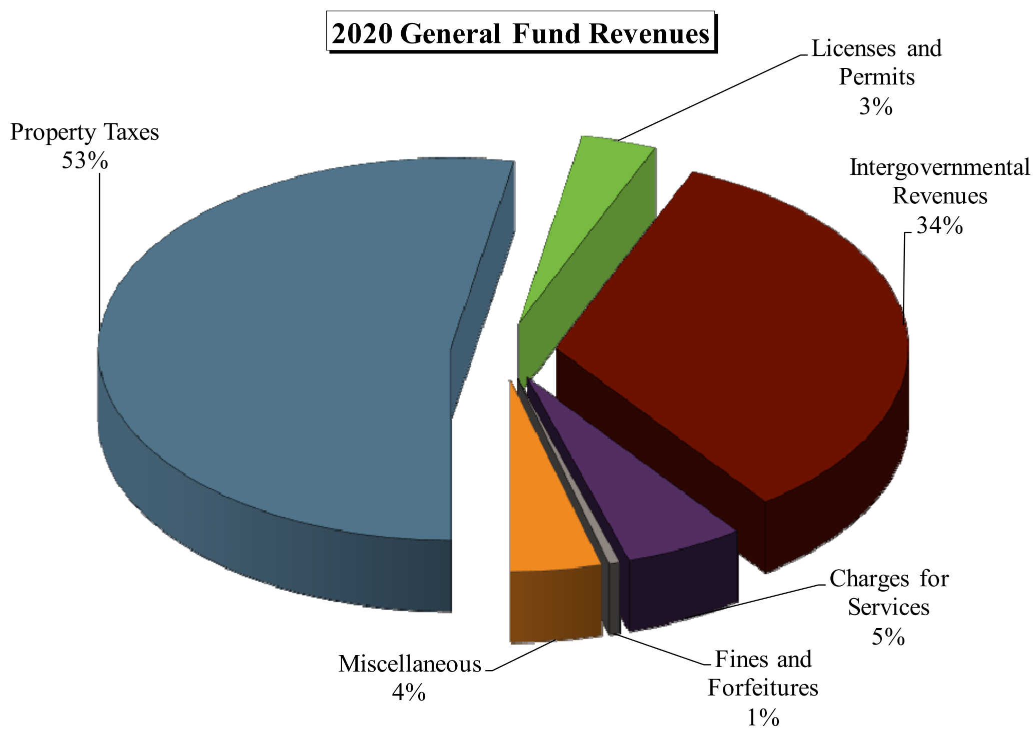
Total expenditures increased $682,497, or 16.2%, from 2020. The most significant increase was in capital outlay expenditures, which increased $707,326 due to the purchase of playground equipment, a lawn mower, a rescue boat, a motor grader, and a squad car in 2021 among other smaller pieces of equipment. Economic development expenditures decreased by $136,938 due to spending of the federal Coronavirus Relief Funds in 2020. General government expenditures increased $58,771 due to a retirement payout. Parks and recreation expenditures increased by $45,816 due to increased personnel costs due to more hours being spent on parks projects as well as the splash pad reopening in 2021 after being closing during 2020.

	2017	2018	2019	2020	2021
Expenditures					
General government	$ 691,689	$ 617,333	$ 676,510	$ 773,875	$ 832,646
Public safety	1,699,731	1,727,402	1,797,336	1,977,706	2,017,024
Cemetery	527	523	651	802	520
Public works	760,921	739,306	771,372	762,904	731,390
Parks and recreation	261,025	277,471	237,080	301,479	347,295
Economic development	37,143	16,739	7,617	153,562	16,624
Capital outlay	490,431	189,727	191,204	254,071	961,397
Total expenditures	$ 3,941,467	$ 3,568,501	$ 3,681,770	$ 4,224,399	$ 4,906,896

General Fund (Continued)

The greatest sources of revenue are from property taxes and intergovernmental revenues for both years presented. General Fund revenues for 2021 were proportionately similar to those of 2020.

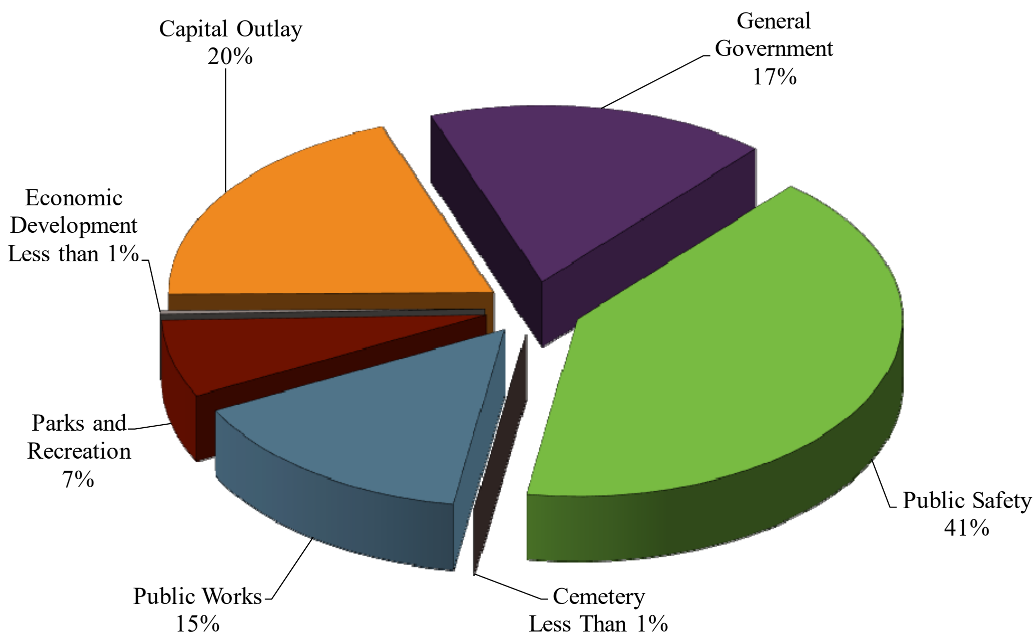




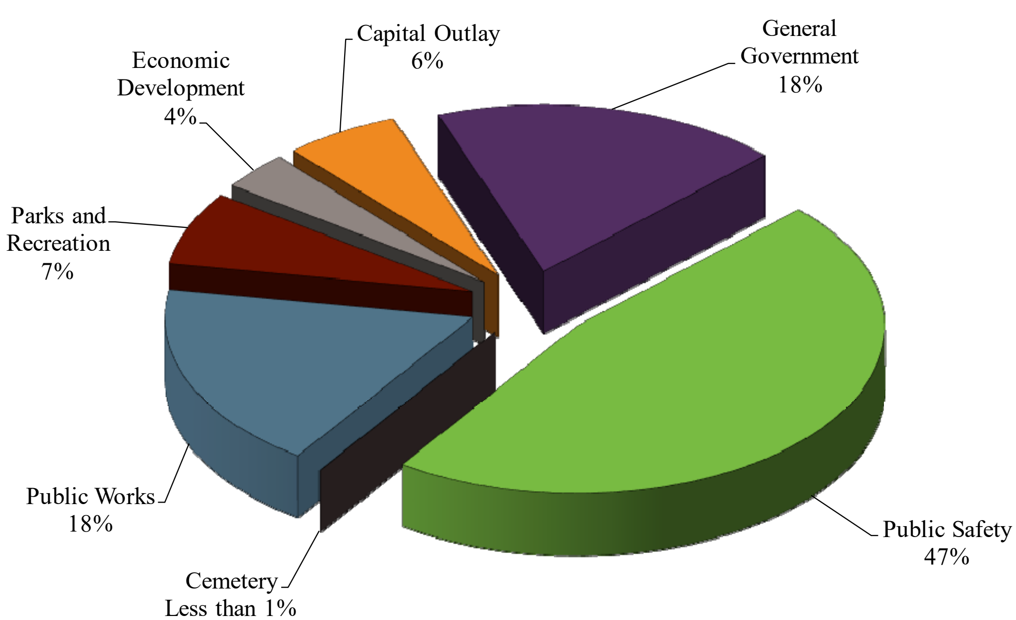
City of Princeton
Financial Analysis

General Fund (Continued)
Public safety, general government, and public works expenditures continue to make up the largest portion of General Fund expenditures. The increase in capital outlay is due to the purchase of several pieces of equipment as noted previously.

2021 General Fund Expenditures

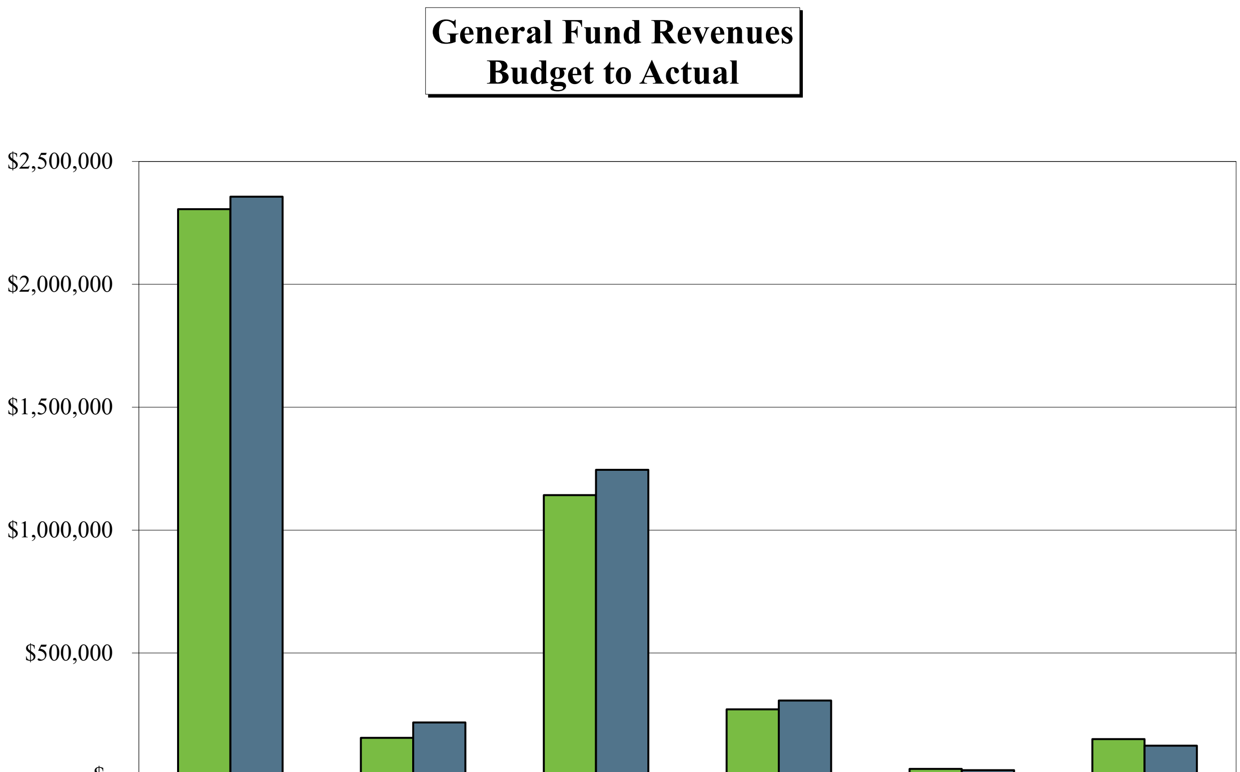


2020 General Fund Expenditures



General Fund Budget to Actual

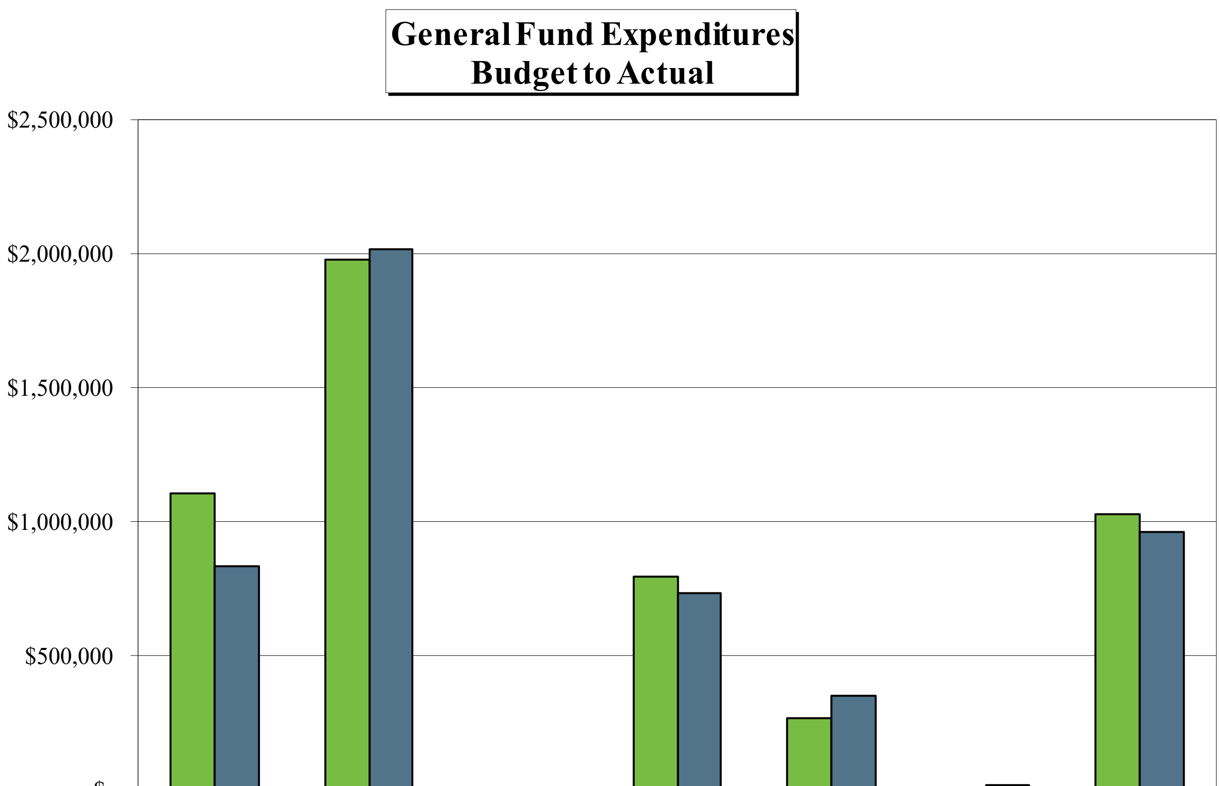
The chart below compares actual revenues to amounts budgeted in the General Fund for 2021. Actual General Fund revenues were over budget by $220,517, or 5.4%, due to conservative budgeting for intergovernmental revenues including fire aid and small cities aid, property taxes, and building permit and liquor license revenue.



	Property Taxes	Licenses and Permits	Intergovernmental Revenues	Charges for Services	Fines and Forfeitures	Miscellaneous
Budgeted Revenues	$2,305,455	$154,770	$1,142,235	$270,945	$28,500	$150,200
Actual Revenues	2,356,290	217,794	1,245,511	306,525	23,456	123,046

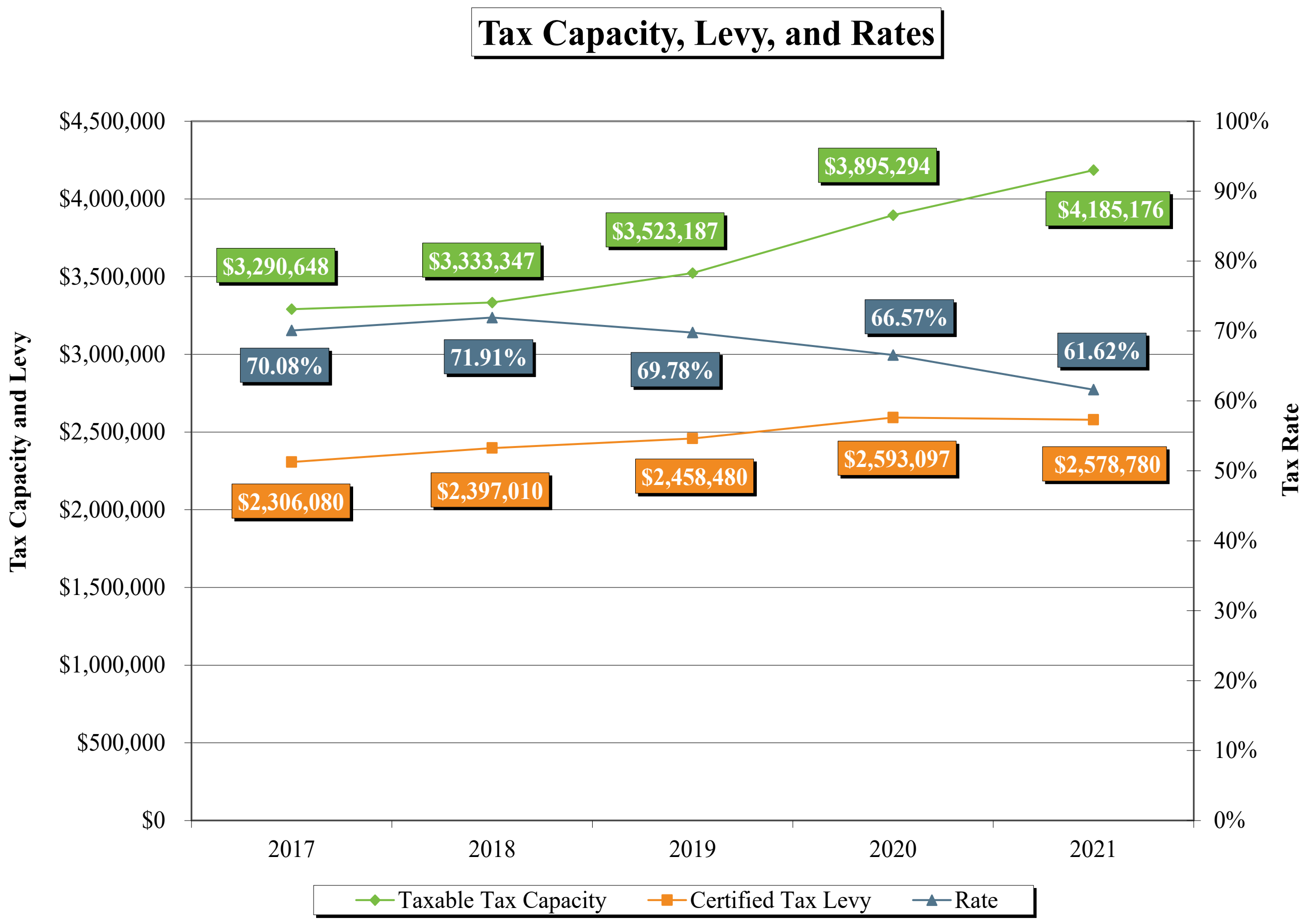
General Fund Budget to Actual (Continued)

The chart below compares General Fund budgeted and actual expenditures for 2021. Actual General Fund expenditures were under budget by $260,479, or 5.0%. General government expenditures were under budget by $272,369 due primarily to the City budgeting for insurance and other general expenditures in general government; however, these expenditures are allocated across the various functions. Capital outlay expenditures were $65,603 under budget due to the City budgeting conservatively for capital purchases and carrying over purchases to subsequent years. Public works expenditures were under budget $62,840 due to personnel costs coming in under budget as staff spent more time working on parks related activities as well as the City's sealcoating quotes being less than budgeted. Partially offsetting these variances, parks and recreation were over budget by $81,685 due to personnel costs exceeding the budgeted amount due to more hours being spent on parks projects than anticipated.



	General Government	Public Safety	Cemetery	Public Works	Parks and Recreation	Economic Development	Capital Outlay
Budgeted Expenditures	$1,105,015	$1,975,520	$-	$794,230	$265,610	$-	$1,027,000
Actual Expenditures	832,646	2,017,024	520	731,390	347,295	16,624	961,397

Tax Capacity, Levy, and Rates



The chart above graphs the tax capacity, certified tax levy, and City tax rate for 2017 through 2021.

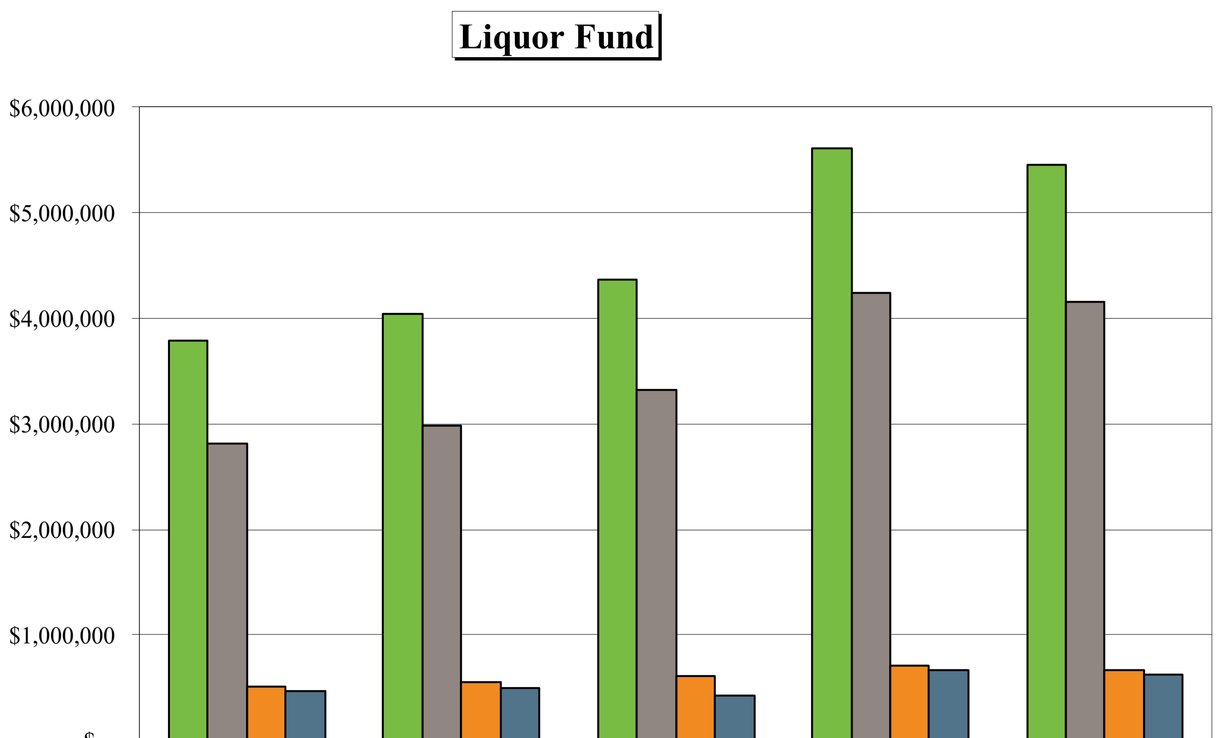
Comparing 2017 through 2021, the City's taxable tax capacity has increased approximately 27.2% in five years. This overall increase is common for Minnesota cities due to the increasing market values over the last several years. The City's certified levy over this same five-year time frame has increased at a lower rate, 11.8%, resulting in a decrease in the tax capacity rate.

Liquor Fund

The graphs below and on the following page summarize liquor store operations over the past five years. Sales have increased overall over the past five years. In 2021, sales decreased $158,848, or 2.8%, while cost of sales also decreased from 2020, decreasing $82,227, or 1.9% after the record-breaking year in 2020.

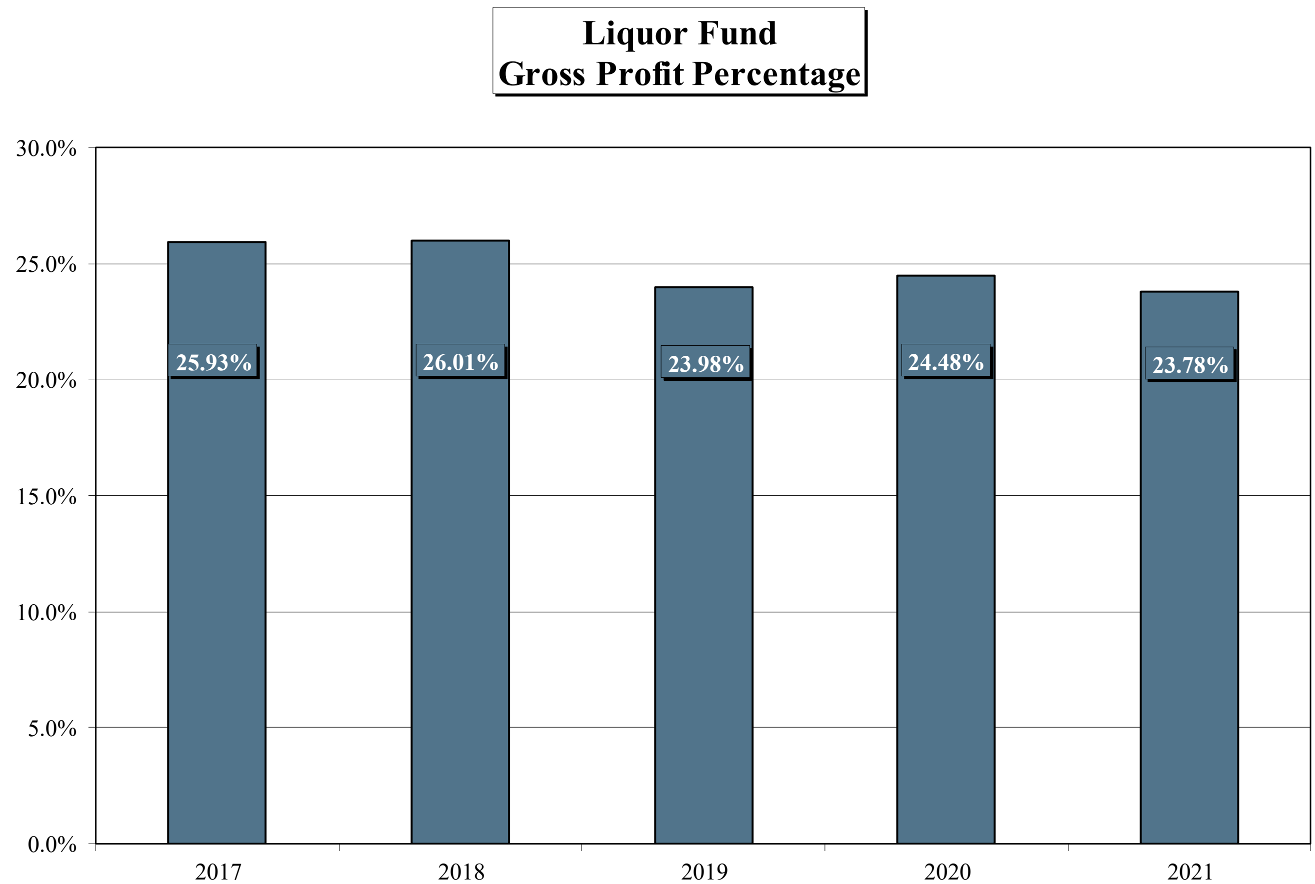
The gross profit percentage decreased in 2021 as a result of the sales decreasing at a larger rate than cost of sales. The graph on the following page shows the gross profit percentage over the last five years including the 2021 percentage of approximately 23.8%.

In 2021, operating expenses decreased $43,324 primarily due to decreases in benefits expenses as the City's share of PERA's net pension liability decreased. The net position balance has continually increased in the five years presented due to the positive operations of the Fund.



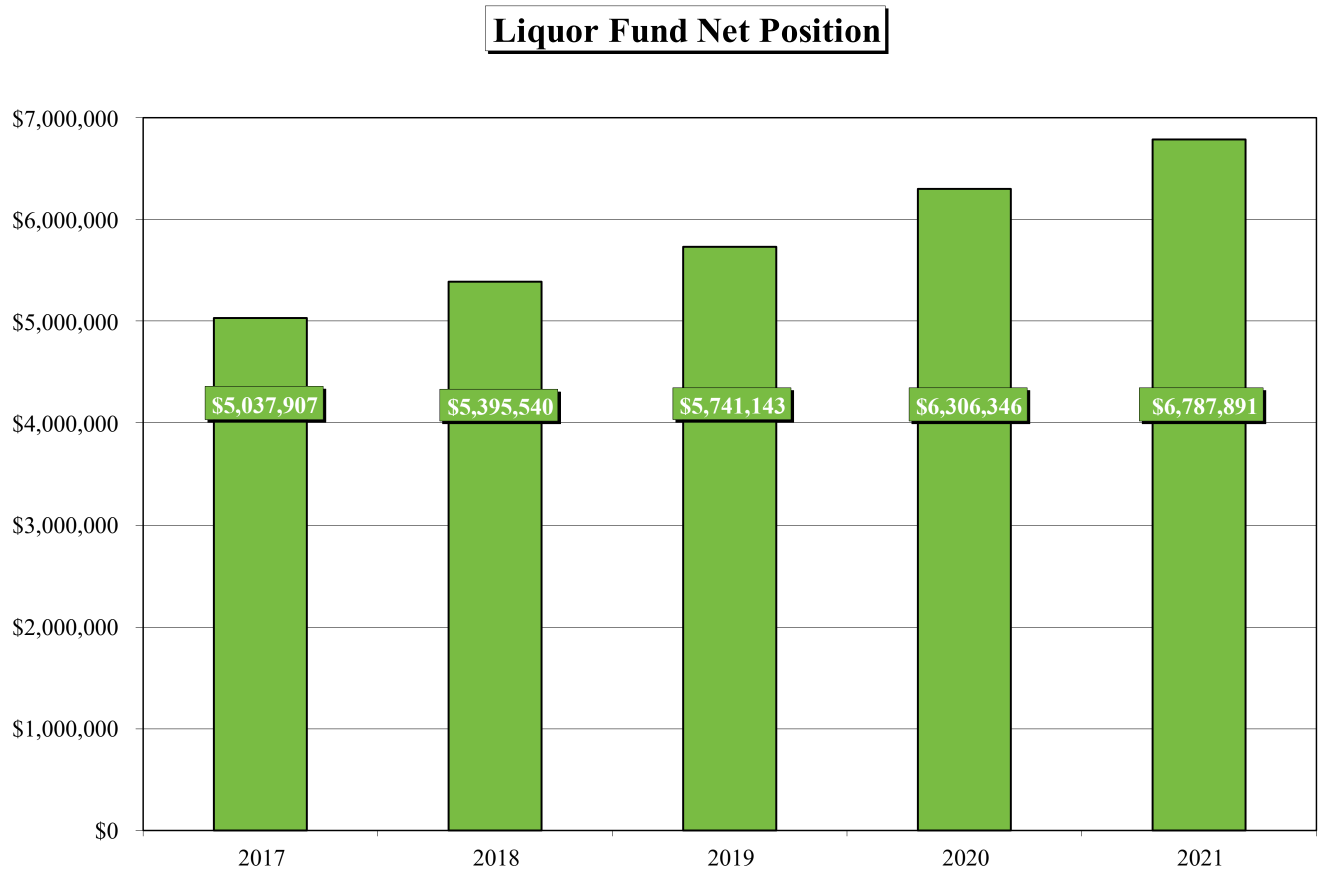
	2017	2018	2019	2020	2021
Sales	$3,792,103	$4,042,580	$4,365,117	$5,615,635	$5,456,787
Cost of Sales	2,808,954	2,990,980	3,318,572	4,241,204	4,158,977
Operating Expenses	513,661	557,057	616,524	710,614	667,290
Operating Income	469,523	494,553	430,296	663,817	630,520

Liquor Fund (Continued)



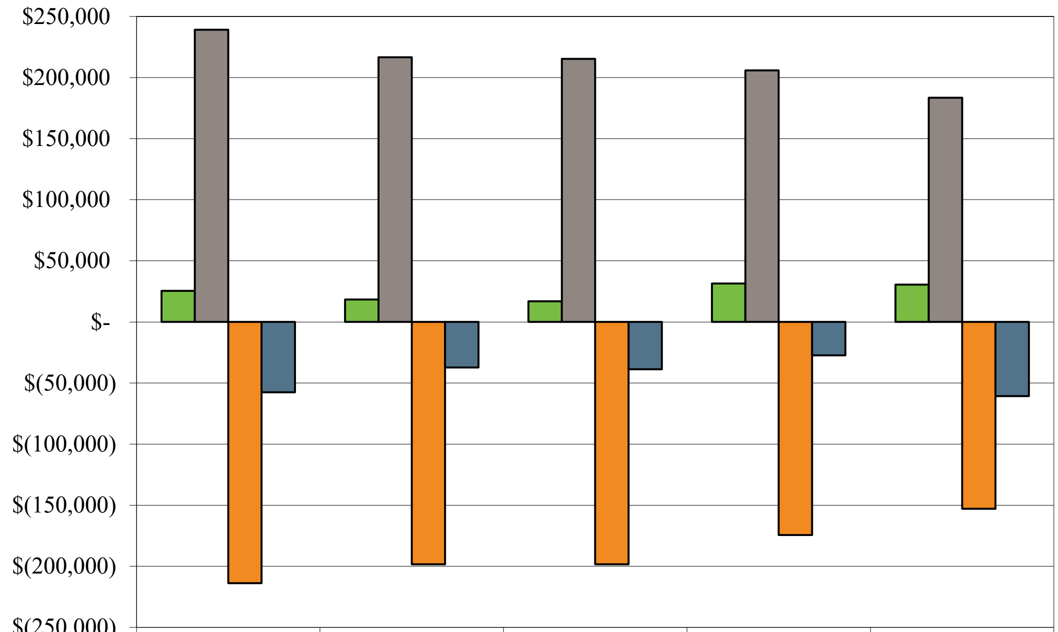
City of Princeton
Financial Analysis

Liquor Fund (Continued)



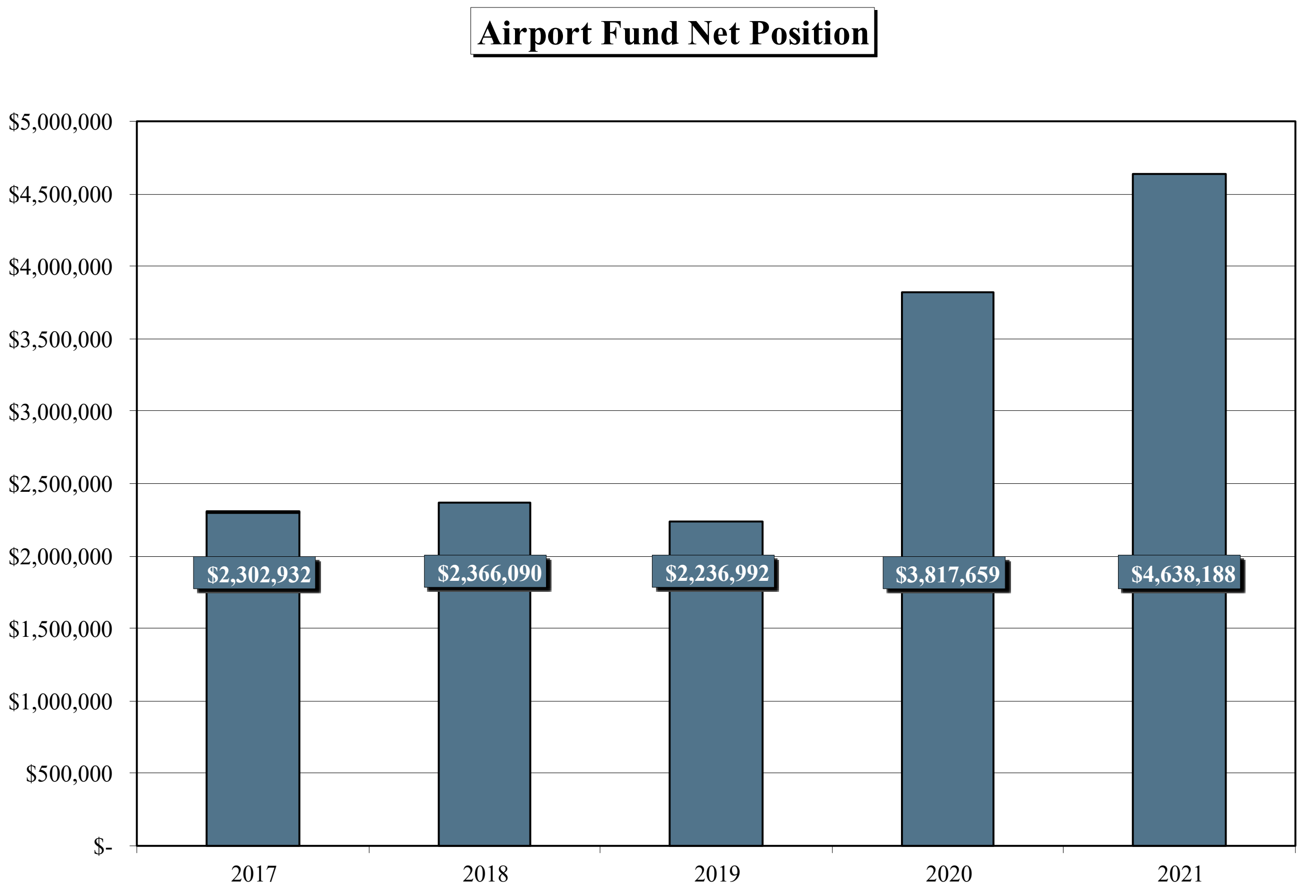
Airport Fund
In 2021, gross profit and operating revenues were consistent with the prior year, while operating expenses decreased $22,312. After an operating loss of $152,980 and grant revenues of $970,709, the Airport Fund net position experienced an increase in 2021 as shown on the following page.

Airport Fund Operations



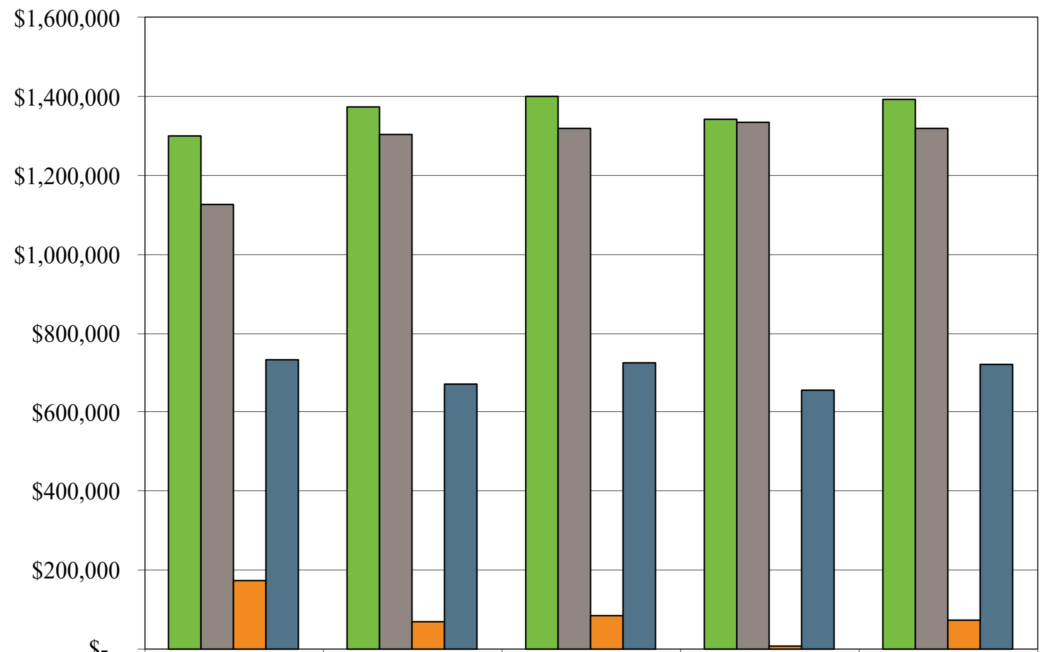
	2017	2018	2019	2020	2021
Gross Profit and Operating Revenues	$25,395	$18,350	$16,921	$31,430	$30,510
Operating Expenses	239,197	216,641	215,252	205,802	183,490
Operating Loss with Depreciation	(213,802)	(198,291)	(198,331)	(174,372)	(152,980)
Operating Loss without Depreciation	(57,564)	(37,250)	(38,817)	(27,362)	(60,687)

Airport Fund (Continued)



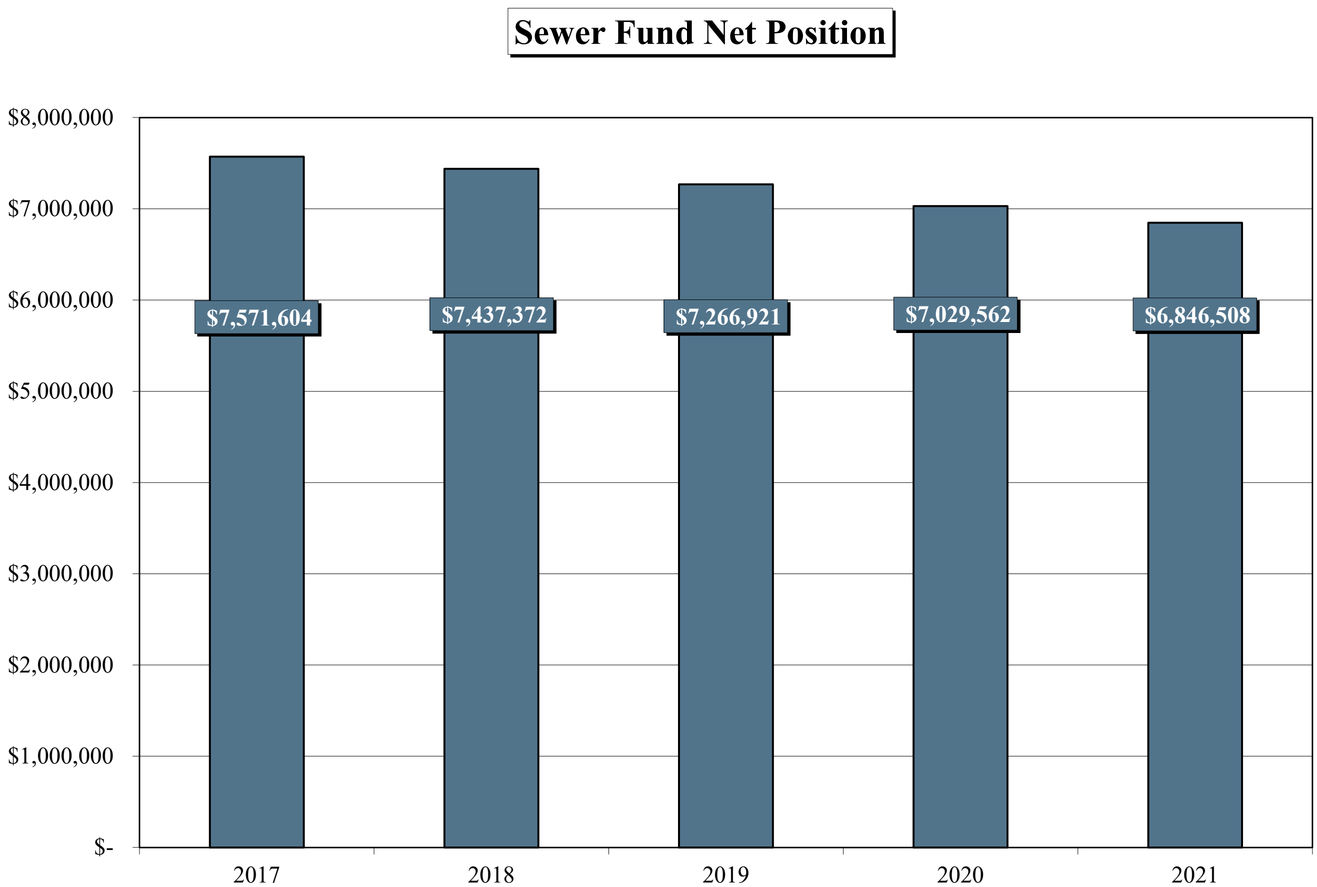
Sanitary Sewer Fund
The Sanitary Sewer Fund reported operating income again in 2021. Operating revenues increased $52,303 due to the receipt of trunk fees related to development. Operating expenses decreased $14,611, or 1.1%, from the prior year. As shown on the following page, net position in the sewer fund decreased, which is mainly due to the fund's operations as noted below, with the addition of interest payments made on long-term debt.

Sewer Fund



	2017	2018	2019	2020	2021
Operating Revenues	$1,299,237	$1,374,025	$1,400,945	$1,341,177	$1,393,480
Operating Expenses	1,125,314	1,305,135	1,318,504	1,335,837	1,321,226
Operating Income with Depreciation	173,923	68,890	82,441	5,340	72,254
Operating Income without Depreciation	731,049	670,642	723,267	653,239	722,467

Sanitary Sewer Fund (Continued)



City of Princeton
Emerging Issue

Executive Summary
The following is an executive summary of financial and business related updates to assist you in staying current on emerging issues in accounting and finance. This summary will give you a preview of the new standards that have been recently issued and what is on the horizon for the near future. The most recent and significant update includes:

- **Accounting Standard Update – GASB Statement No. 87 – Leases** – GASB has issued GASB Statement No. 87 relating to accounting and financial reporting for leases. This new statement establishes a single model for lease accounting based on the principle that leases are financing of the right to use an underlying asset.

The following is an extensive summary of the current update. As your continued business partner, we are committed to keeping you informed of new and emerging issues. We are happy to discuss this issue with you further and its applicability to your City.

Accounting Standard Update – GASB Statement No. 87 – *Leases*
The objective of this statement is to better meet the information needs of financial statement users by improving accounting and basic financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It 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.

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this statement.

A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract.

Accounting Standard Update – GASB Statement No. 87 – *Leases* (Continued)
A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods. A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. The notes to basic financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

GASB Statement No. 87 is effective for reporting periods beginning after June 15, 2021.

Information provided above was obtained from www.gasb.org.