

PRINCETON PUBLIC UTILITIES COMMISSION

FINANCIAL STATEMENTS

DECEMBER 31, 2021



PRINCETON PUBLIC UTILITIES COMMISSION

**FINANCIAL STATEMENTS
For the Year Ended December 31, 2021**

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY SECTION	
List of Elected and Appointed Officials	i
INDEPENDENT AUDITOR'S REPORT	1-3
REQUIRED SUPPLEMENTARY INFORMATION	
Management's Discussion and Analysis (MD&A)	4-8
BASIC FINANCIAL STATEMENTS	
Balance Sheets	9-10
Statements of Revenues, Expenses, and Changes in Net Position	11
Statements of Cash Flows	12-13
Notes to the Financial Statements	14-31
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Commission Pension Contributions	32
Schedule of Commission and Non-Employer Proportionate Share of Net Pension Liability	33
SUPPLEMENTARY INFORMATION	
Schedules of Operating Revenues	34
Schedules of Operating Expenses	35
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS	36-37

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PRINCETON PUBLIC UTILITIES COMMISSION

INTRODUCTORY SECTION

DECEMBER 31, 2021

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PRINCETON PUBLIC UTILITIES COMMISSION
LIST OF ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2021

Public Utilities Commission

Gregory Hanson
Daniel Erickson
Richard Schwartz

Chair
Commissioner
Commissioner

Keith R. Butcher

General Manager

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Princeton Public Utilities Commission

Opinion

We have audited the financial statements of each major fund of Princeton Public Utilities Commission, a department of the City of Princeton, Minnesota, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise Princeton Public Utilities Commission's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of each major fund of Princeton Public Utilities Commission, a department of the City of Princeton, Minnesota, as of December 31, 2021, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Princeton Public Utilities Commission and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

As discussed in Note 1, the financial statements of Princeton Public Utilities Commission, a department of the City of Princeton, Minnesota, are intended to present the financial position, changes in net position and cash flows that are attributable to transactions of the department. They do not purport to, and do not, present fairly the financial position of the City of Princeton, Minnesota, as of December 31, 2021 and 2020, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Responsibilities of Management for the Financial Statements

Princeton Public Utilities Commission's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Princeton Public Utilities Commission's ability to continue as a going concern for one year after the date that the financial statements are issued.

Other Matter

The financial statements of Princeton Public Utilities Commission for the year ended December 31, 2020, were audited by another auditor, who expressed an unmodified opinion on those statements on June 7, 2021.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Princeton Public Utilities Commission's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Princeton Public Utilities Commission's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 and the required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Princeton Public Utilities Commission's basic financial statements. The introductory section and supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare basic the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2022 on our consideration of Princeton Public Utilities Commission, Minnesota's internal control over financial reporting and on 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 Princeton Public Utilities Commission's internal control over financial reporting and compliance.

Smith, Schafu and Associates, Ltd.

Minneapolis, Minnesota
June 14, 2022

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PRINCETON PUBLIC UTILITIES COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
DECEMBER 31, 2021

PRINCETON PUBLIC UTILITIES COMMISSION MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Princeton Public Utilities Commission we offer readers of the Commission's financial statements this narrative overview and analysis of the financial activities of the Commission for the fiscal year ended December 31, 2021.

FINANCIAL STATEMENTS

The financial statements are prepared using proprietary fund (enterprise fund) accounting that uses the same basis of accounting as private-sector business enterprises. Under this method of accounting the economic resources measurement focus and the accrual basis of accounting is used.

Revenue is recorded when earned and expenses are recorded when incurred. The financial statements include balance sheets, statements of revenues, expenses and changes in net position, and statements of cash flows. These statements are followed by the notes to the financial statements.

Following is a summary of the information included in the various financial statements:

- The balance sheet presents information on the Commission's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.
- The statement of revenues, expenses, and changes in net position reports the operating and non-operating revenues and expenses of the Commission's for the fiscal year. The net income or loss for the year combined with the previous year-end net position reconciles to the net position at the end of the year.
- The statement of cash flows reports cash and cash equivalents activity for the year resulting from operating activities, non-capital financial activities, capital and related financing activities, and investing activities. The net result of these activities added to the beginning of the year cash and cash equivalents balance reconciles to the cash and cash equivalents balance at the end of the year.
- The notes to the financial statements include all required disclosures under applicable accounting standards.

**PRINCETON PUBLIC UTILITIES COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

CONDENSED FINANCIAL INFORMATION

Condensed financial information from the Electric Fund's balance sheets and statements of revenues, expenses and changes in net position is presented below.

<u>Electric Fund</u>	<u>2021</u>	<u>2020</u>
Assets		
Current assets	\$ 6,101,016	\$ 5,397,950
Capital assets, net	7,579,288	8,005,088
Noncurrent assets (restricted)	998,505	988,767
Total Assets	<u>14,678,809</u>	<u>14,391,805</u>
Deferred Outflows of Resources		
Deferred outflows from pension activity	<u>360,534</u>	72,379
Total Assets and Deferred Outflows of Resources	<u>\$ 15,039,343</u>	<u>\$ 14,464,184</u>
Liabilities		
Current liabilities	\$ 1,480,670	\$ 1,404,494
Net pension liability	564,875	781,645
Noncurrent liabilities	1,055,000	1,610,000
Total Liabilities	<u>3,100,545</u>	<u>3,796,139</u>
Deferred Inflows of Resources		
Deferred credits rate stabilization	1,334,123	1,211,898
Deferred inflows from pension activity	489,964	56,954
Deferred solar subscriptions	8,464	10,159
Total deferred inflows of resources	<u>1,832,551</u>	<u>1,279,011</u>
Net Position		
Net investment in capital assets	5,969,288	5,865,088
Restricted for debt service	998,505	988,767
Unrestricted	3,138,454	2,535,179
Total Net Position	<u>10,106,247</u>	<u>9,389,034</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 15,039,343</u>	<u>\$ 14,464,184</u>
Operating revenues	\$ 7,657,163	\$ 7,124,211
Operating expenses, excluding depreciation	6,241,806	6,051,191
Depreciation expense	685,235	683,591
Operating income	<u>730,122</u>	<u>389,429</u>
Nonoperating revenue (expenses) including transfers	<u>(12,909)</u>	<u>(2,371)</u>
Change in net position	<u>717,213</u>	<u>387,058</u>
Net Position, Beginning	<u>9,389,034</u>	<u>9,001,976</u>
Net Position, Ending	<u>\$ 10,106,247</u>	<u>\$ 9,389,034</u>

PRINCETON PUBLIC UTILITIES COMMISSION MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS - ELECTRIC FUND

- The electric fund's net position totaled \$10,106,247 at December 31, 2021. Net position increased by \$717,213 in fiscal year 2021.
- The electric fund's total operating revenues were \$7,657,163. The total cost of operating the electrical system, including purchased power and depreciation was \$6,927,041.
- For the year, the electric fund reported an operating income of \$730,122, an increase of \$340,693 from the previous year.
- Operating expenses increased by 3%.

CAPITAL ASSETS AND DEBT ADMINISTRATION - ELECTRIC FUND

Capital Assets

At the end of fiscal year 2021, the electric fund had \$7,579,288 invested in various capital assets, including land, buildings and improvements, generation and distribution systems, transportation equipment, and other equipment, net of accumulated depreciation.

Capital asset additions totaled \$259,435 including system upgrades and new AMI Metering.

Debt

At December 31, 2021, Electric Revenue Note, 2006A totaling \$885,000 was outstanding. This note is repayable at an interest rate of 4.05% through 2025 and was used to finance improvements to the electrical distribution system.

At December 31, 2021, Electric Revenue Refunding Bonds, 2010A totaling \$170,000 were outstanding. These bonds are repayable at interest rates of 3.5% through 2022 and were used to refund previously issued bonds.

At December 31, 2021, Electric Revenue Refunding Bonds, 2012A totaling \$555,000 were outstanding. These bonds are repayable at interest rates ranging from 2.5% to 2.85% through 2024 and were used to refund previously issued bonds.

Deferred Inflows/Deferred Outflows – Electric Fund

Deferred outflows of resources reported by the electric fund are pension plan deferments for PERA, which increased \$288,155. The electric fund's balance is a result of differences between expected and actual economic experience, changes of actuarial assumptions, changes in proportion, and from contributions to the plan subsequent to the measurement date and before the end of the reporting period.

Deferred inflows of resources reported by the electric fund increased by \$533,540. Deferred credits (revenue), which represent rate stabilization, increased. Rate stabilization is a result of deposits made to the Commission's rate stabilization account, which may be used to meet unanticipated increases in revenue requirements in subsequent periods. In 2021, \$122,225 was transferred to the rate stabilization account to minimize rate impacts on customers. Another type of deferred inflow of resources reported by the electric fund are pension plan deferments for PERA, which increased by \$433,010. The last type of deferred inflow of resources reported by the electric fund are deferred solar subscriptions, which decreased by \$1,695.

**PRINCETON PUBLIC UTILITIES COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

CONDENSED FINANCIAL INFORMATION

Condensed financial information from the Water Fund's balance sheets and statements of revenues, expenses and changes in fund net position is presented below.

<u>Water Fund</u>	<u>2021</u>	<u>2020</u>
Assets		
Current assets	\$ 2,154,900	\$ 2,008,287
Capital assets, net	5,920,193	6,089,945
Noncurrent assets (restricted)	<u>198,082</u>	<u>198,753</u>
Total Assets	<u>8,273,175</u>	<u>8,296,985</u>
Deferred Outflows of Resources		
Deferred outflows from pension activity	<u>119,148</u>	<u>13,001</u>
Total Assets and Deferred Outflows of Resources		
	<u>\$ 8,392,323</u>	<u>\$ 8,309,986</u>
Liabilities		
Current liabilities	\$ 480,254	\$ 487,162
Net pension liability	139,749	219,598
Noncurrent liabilities	<u>1,297,000</u>	<u>1,737,000</u>
Total Liabilities	<u>1,917,003</u>	<u>2,443,760</u>
Deferred Inflows of Resources		
Deferred inflows from pension activity	<u>165,481</u>	<u>5,975</u>
Net Position		
Net investment in capital assets	4,183,193	3,923,945
Restricted for debt service	198,082	198,753
Unrestricted	<u>1,928,564</u>	<u>1,737,553</u>
Total Net Position	<u>6,309,839</u>	<u>5,860,251</u>
Total Liabilities, Deferred Inflows of Resources and Net Position		
	<u>\$ 8,392,323</u>	<u>\$ 8,309,986</u>
Operating revenues		
Operating revenues	\$ 1,432,626	\$ 1,301,638
Operating expenses, excluding depreciation	528,907	578,874
Depreciation expense	<u>388,181</u>	<u>385,517</u>
Operating income (loss)	515,538	337,247
Nonoperating revenue (expenses) including transfers	<u>(65,950)</u>	<u>(74,648)</u>
Change in net position	449,588	262,599
Net Position, Beginning	<u>5,860,251</u>	<u>5,597,652</u>
Net Position, Ending	<u>\$ 6,309,839</u>	<u>\$ 5,860,251</u>

**PRINCETON PUBLIC UTILITIES COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FINANCIAL HIGHLIGHTS - WATER FUND

- The water fund's net position totaled \$6,309,839 at December 31, 2021. Total net position increased by \$449,588 in fiscal year 2021.
- The water fund's total operating revenues were \$1,432,626. The total cost of operating the water system was \$917,088.
- For the year, the water fund reported an operating income of \$515,538, an increase of \$178,291 from the previous year.
- Operating expenses decreased 5%.

CAPITAL ASSETS AND DEBT ADMINISTRATION - WATER FUND

Capital Assets

At the end of fiscal year 2021, the water fund had \$5,920,193 invested in various capital assets, including land, buildings and improvements, wells, towers, generation and distributions systems, transportation equipment and other equipment, net of accumulated depreciation.

Total capital asset additions were \$218,429, primarily related to new AMI meters and a new Skid Loader.

Debt

At December 31, 2021, Water General Obligation Revenue, 2004 totaling \$112,000 were outstanding. These bonds are repayable at interest rates of 2.53% through 2023 and were used to finance improvements to the municipal water system.

At December 31, 2021, Water General Obligation Revenue Bonds, 2008A totaling \$1,460,000 were outstanding. These bonds are repayable at interest rates ranging from 3.80% to 4.05% through 2027 and were used to refund previously issued bonds.

At December 31, 2021, Water Revenue Refunding Bonds, 2010A totaling \$20,000 were outstanding. These bonds are repayable at interest rates of 3.5% through 2022 and were used to refund previously issued bonds.

At December 31, 2021, Water Revenue Refunding Bonds, 2012A totaling \$145,000 were outstanding. These bonds are repayable at interest rates ranging from 2.5% to 2.85% through 2024 and were used to refund previously issued bonds.

Deferred Inflows/Deferred Outflows – Water Fund

Deferred outflows of resources reported by the water fund are pension plan deferments for PERA, which increased \$106,147. The water fund's balance is a result of differences between expected and actual economic experience, changes of actuarial assumptions, changes in proportion, and from contributions to the plan subsequent to the measurement date and before the end of the reporting period.

Deferred inflows of resources reported by the water fund increased by \$159,506. Deferred inflow of resources reported by the water fund are pension plan deferments for PERA.

PRINCETON PUBLIC UTILITIES COMMISSION

FINANCIAL STATEMENTS

DECEMBER 31, 2021

PRINCETON PUBLIC UTILITIES COMMISSION

BALANCE SHEETS

December 31, 2021 and 2020

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	Electric Fund		Water Fund	
	2021	2020	2021	2020
Current Assets				
Cash and cash equivalents	\$ 3,243,950	\$ 2,537,903	\$ 667,596	\$ 607,905
Cash and cash equivalents - capital improvements	988,712	933,474	1,191,212	1,097,465
Investments	653,389	644,176	163,347	161,044
Customer accounts receivable	664,019	730,980	86,477	91,826
Other accounts receivable	58,137	64,418	2,856	3,504
Inventories	429,160	404,914	43,412	46,543
Prepaid insurance	63,649	82,085		
Total Current Assets	<u>6,101,016</u>	<u>5,397,950</u>	<u>2,154,900</u>	<u>2,008,287</u>
Capital Assets				
Non-depreciable	25,000	25,000	8,162	8,162
Depreciable	21,713,235	21,472,783	12,348,936	12,130,507
Less: Accumulated depreciation	<u>14,158,947</u>	<u>13,492,695</u>	<u>6,436,905</u>	<u>6,048,724</u>
Capital Assets, net	<u>7,579,288</u>	<u>8,005,088</u>	<u>5,920,193</u>	<u>6,089,945</u>
Restricted Assets				
Cash and cash equivalents:				
Reserve fund	465,832	465,847	97,500	97,500
Debt retirement	284,359	274,621	100,582	101,253
Restricted cash held in escrow	<u>248,314</u>	<u>248,299</u>		
Total Restricted Assets	<u>998,505</u>	<u>988,767</u>	<u>198,082</u>	<u>198,753</u>
Deferred Outflows of Resources				
Deferred outflows from pension activity	<u>360,534</u>	<u>72,379</u>	<u>119,148</u>	<u>13,001</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 15,039,343</u>	<u>\$ 14,464,184</u>	<u>\$ 8,392,323</u>	<u>\$ 8,309,986</u>

See Notes to the Financial Statements

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	Electric Fund		Water Fund	
	2021	2020	2021	2020
Current Liabilities				
Due to City	\$ 128,216	\$ 129,195	\$	\$
Accounts payable	434,224	393,538	7,811	1,404
Accrued payroll	12,076	11,306	3,573	3,681
Accrued compensated absences	78,758	84,379		23,678
Customer meter deposits	267,204	248,538		
Unearned revenue			22,038	20,729
Total Current Liabilities	920,478	866,956	33,422	49,492
Current Liabilities Payable from Restricted Assets:				
Accrued interest	5,192	7,538	6,832	8,670
Current maturities of bonds, loans and capital lease	555,000	530,000	440,000	429,000
Total Current Liabilities Payable from Restricted Assets:	560,192	537,538	446,832	437,670
Other Liabilities				
Net pension liability	564,875	781,645	139,749	219,598
Bonds, notes, and loan payable	1,055,000	1,610,000	1,297,000	1,737,000
Total Other Liabilities	1,619,875	2,391,645	1,436,749	1,956,598
Deferred Inflows of Resources				
Deferred credits rate stabilization	1,334,123	1,211,898		
Deferred inflows from pension activity	489,964	56,954	165,481	5,975
Deferred solar subscriptions	8,464	10,159		
Total Deferred Inflows of Resources	1,832,551	1,279,011	165,481	5,975
Total Liabilities and Deferred Inflows of Resources	4,933,096	5,075,150	2,082,484	2,449,735
Net Position				
Net investment in capital assets	5,969,288	5,865,088	4,183,193	3,923,945
Restricted for debt service	998,505	988,767	198,082	198,753
Unrestricted	3,138,454	2,535,179	1,928,564	1,737,553
Total Net Position	10,106,247	9,389,034	6,309,839	5,860,251
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 15,039,343	\$ 14,464,184	\$ 8,392,323	\$ 8,309,986

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PRINCETON PUBLIC UTILITIES COMMISSION

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Years Ended December 31, 2021 and 2020

	Electric Fund		Water Fund	
	2021	2020	2021	2020
Operating Revenues	\$ 7,657,163	\$ 7,124,211	\$ 1,432,626	\$ 1,301,638
Operating Expenses				
Production, plant and purchased power	4,879,308	4,503,950	156,357	152,162
Distribution system	528,767	651,686	132,803	159,637
Customer service	142,468	143,546	63,356	60,937
General and administrative	691,263	752,009	176,391	206,138
Depreciation	685,235	683,591	388,181	385,517
Total Operating Expenses	6,927,041	6,734,782	917,088	964,391
Operating Income	730,122	389,429	515,538	337,247
Nonoperating Revenues (Expenses)				
Interest income	30,569	46,003	9,442	16,269
Change in fair value of investments	122	108	31	27
Gain on sale of assets		8,500		
Payments to City in lieu of taxes		(5,250)		(3,500)
Other income	20,977	33,149	762	2,787
Interest expense	(64,577)	(84,881)	(76,185)	(90,231)
Total Nonoperating Revenues (Expenses)	(12,909)	(2,371)	(65,950)	(74,648)
Change in Net Position	717,213	387,058	449,588	262,599
NET POSITION, BEGINNING	9,389,034	9,001,976	5,860,251	5,597,652
NET POSITION, ENDING	\$ 10,106,247	\$ 9,389,034	\$ 6,309,839	\$ 5,860,251

See Notes to the Financial Statements

PRINCETON PUBLIC UTILITIES COMMISSION

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2021 and 2020

	Electric Fund		Water Fund	
	2021	2020	2021	2020
Cash Flows From Operating Activities				
Receipts from customers	\$ 7,869,601	\$ 7,015,643	\$ 1,438,623	\$ 1,311,755
Cash paid to suppliers	(5,084,146)	(5,183,035)	(152,038)	(267,395)
Cash paid to employees	(1,200,529)	(1,016,888)	(416,298)	(337,064)
Net Cash Provided By Operating Activities	<u>1,584,926</u>	<u>815,720</u>	<u>870,287</u>	<u>707,296</u>
Cash Flows From Noncapital Financing Activities				
Other income	20,977	33,149	762	2,787
Payments to City in lieu of taxes		(5,250)		(3,500)
Net Cash Provided By (Used In) Noncapital Financing Activities	<u>20,977</u>	<u>27,899</u>	<u>762</u>	<u>(713)</u>
Cash Flows From Capital and Related Financing Activities				
Acquisition of capital assets	(259,435)	(286,405)	(218,429)	(272,176)
Interest paid	(66,923)	(87,007)	(78,023)	(92,015)
Principal paid on bonds	(530,000)	(505,000)	(429,000)	(423,000)
Proceeds from sale of equipment		8,500		
Net Cash (Used In) Capital and Related Financing Activities	<u>(856,358)</u>	<u>(869,912)</u>	<u>(725,452)</u>	<u>(787,191)</u>
Cash Flows From Investing Activities				
Net sales (purchases) of investments	(9,091)	196,009	(2,272)	49,002
Investment income received	30,569	46,003	9,442	16,269
(Increase) of restricted cash held in escrow	(15)	(741)		
Net Cash Provided By Investing Activities	<u>21,463</u>	<u>241,271</u>	<u>7,170</u>	<u>65,271</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>771,008</u>	<u>214,978</u>	<u>152,767</u>	<u>(15,337)</u>
Cash and Cash Equivalents, Beginning of Year	<u>4,211,845</u>	<u>3,996,867</u>	<u>1,904,123</u>	<u>1,919,460</u>
Cash and Cash Equivalents, End of Year	<u>\$ 4,982,853</u>	<u>\$ 4,211,845</u>	<u>\$ 2,056,890</u>	<u>\$ 1,904,123</u>
Cash and cash equivalents	\$ 3,243,950	\$ 2,537,903	\$ 667,596	\$ 607,905
Cash and cash equivalents - capital improvements	988,712	933,474	1,191,212	1,097,465
Cash and cash equivalents - reserve fund	465,832	465,847	97,500	97,500
Cash and cash equivalents - debt retirement	284,359	274,621	100,582	101,253
Total Cash and Cash Equivalents on Balance Sheets	<u>\$ 4,982,853</u>	<u>\$ 4,211,845</u>	<u>\$ 2,056,890</u>	<u>\$ 1,904,123</u>

See Notes to the Financial Statements

	Electric Fund		Water Fund	
	2021	2020	2021	2020
Reconciliation of Operating Income to Net Cash Provided By Operating Activities				
Operating Income	\$ 730,122	\$ 389,429	\$ 515,538	\$ 337,247
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	685,235	683,591	388,181	385,517
Pension related activity	144,855	(114,363)	53,359	(42,340)
(Increase) Decrease In:				
Customer accounts receivable	66,961	(32,226)	5,349	250
Other accounts receivable	6,281	16,831	648	(1,154)
Inventories	(24,246)	38,571	3,131	1,752
Prepaid insurance	18,436	(74,146)		
Due from City				11,021
Increase (Decrease) In:				
Due to City	(979)	(2,573)		
Accounts payable	40,686	(338)	6,407	(7,211)
Accrued payroll	770	(21,980)	(108)	(1,627)
Customer meter deposits	18,666	3,820		
Unearned revenue			1,309	
Accrued compensated absences	(5,621)	(34,213)	(23,678)	686
Net pension liability	(216,770)	60,310	(79,849)	23,155
Deferred rate stabilization	122,225	(95,300)		
Deferred solar subscriptions	(1,695)	(1,693)		
Net Cash Provided By Operating Activities	\$ 1,584,926	\$ 815,720	\$ 870,287	\$ 707,296

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PRINCETON PUBLIC UTILITIES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Organization and Accounting Method

The Princeton Public Utilities Commission (the Commission) is a municipal utility engaged in the generation, transmission and distribution of electric power and the supply, purification, and distribution of water.

The accounting policies of Princeton Public Utilities Commission conform to generally accepted accounting principles applicable to governmental units.

This report includes only the Electric and Water Funds which are under the jurisdiction of the Princeton Public Utilities Commission, organized under the City of Princeton, Minnesota.

The financial statements of the Princeton Public Utilities Commission, organized under the City of Princeton, Minnesota are intended to present the financial position, results of operations and cash flows, of only that portion of the City that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the City of Princeton, Minnesota, and its results of operations and its cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America.

The Commission applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Depreciation and interest expenses can be specifically identified by function and are included in the direct expenses of each function.

Government-wide and Fund Financial Statements

The Government-wide financial statements (i.e., the statement of net position and the statement of activities) required under Statement of Governmental Accounting Standards (GASB) No. 34 and the fund basis financial statements for the Electric and Water Funds of the Commission are identical and therefore the accompanying financial statements include just one set of financial statements and no reconciliation is required.

Measurement Focus and Basis of Accounting

The Commission is comprised of proprietary funds, the Electric Enterprise and Water Enterprise Funds of the City of Princeton, Minnesota. The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Cash and Cash Equivalents

For the purpose of reporting cash flows, the Commission considers all demand accounts, savings accounts, money market funds and certificates of deposit to be cash and cash equivalents.

PRINCETON PUBLIC UTILITIES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Investments

Investments consist primarily of money market accounts, negotiable certificates of deposit and municipal bonds. Investments with an original maturity of less than one year are recorded at amortized cost, which approximates fair value. Investments with an original maturity of more than one year are recorded at fair value based on quoted market prices.

Accounts Receivable

Accounts receivable are recorded at the original invoice amount. Management determines bad debts by regularly evaluating individual customer accounts receivable and considering a customer's financial condition, credit history, and current economic conditions. Accounts receivable are written off when deemed uncollectible. It is the Commission's policy to charge uncollectibles directly to operations as accounts become worthless. No material losses are anticipated from present receivable balances; therefore, no allowance for uncollectibles is reflected in the accompanying financial statements.

Inventory

Inventories, which consist of supplies and replacement parts for the electrical and water systems, are stated at lower of average cost or market and are reported on the consumption method.

Interfund Transactions

Interfund transactions, including sales and transfers between funds (if any), are not eliminated for financial statement purposes.

Capital Assets

Capital assets include property, plant and equipment, and are recorded at cost. Capital assets are defined by the Commission as assets with an initial, individual cost of more than \$1,500 and an estimated useful life greater than one year.

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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is expensed as incurred.

PRINCETON PUBLIC UTILITIES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Capital Assets (continued)

Property, plant, and equipment are capitalized when acquired, and depreciation is provided using the straight-line method applied over the following estimated useful lives of the assets.

	<u>Useful Life in Years</u>
Buildings and building improvements	5 - 40
Generation and distribution system	30 - 33
Wells and related equipment	5 - 20
Transportation equipment	6 - 8
Software and other equipment	3 - 15
Water tower and tank	10 - 33

Compensated Absences

Sick leave is earned up to twelve days per year with unlimited accumulation. Employees are not compensated for unused sick leave upon termination of employment other than to pay certain employees with ten years of service, up to a maximum of 60 days. The liability for compensated absences for the five employees eligible at December 31, 2021 totaled \$78,758. The liability for compensated absences for the seven employees eligible at December 31, 2020 totaled \$108,057.

Employees earn vacation days based upon the number of completed years of service. The Commission does not compensate for unused vacations upon termination of employment, other than for the current year's unused portion.

Revenue Recognition

Revenue is recognized when electricity or water is used by the customer. Usage is billed on a monthly basis.

Payment in Lieu of Taxes

Payment in Lieu of Taxes is paid by the Commission to the City's general fund and is reported as nonoperating expense in the Statement of Revenues, Expenses, and Changes in Net Position.

PRINCETON PUBLIC UTILITIES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Taxes

In accordance with certain provisions of the United States Internal Revenue Code and related federal and state governing laws and regulations, the Commission is exempt from federal and state income taxes, and local property taxes.

Net Position

In the financial statements, net position is classified in the following categories:

Net Investment in Capital Assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction or improvement of the assets.

Restricted for Debt Service– This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted Net Position – This amount is all net position that does not meet the definition of "net investment in capital assets" or "restricted net position".

Deferred Outflows of Resources

In addition to assets, the financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses) until that time. The Commission has one item that qualifies for reporting in this category. The Commission presents deferred outflows of resources on the Statement of Net Position for deferred outflows of resources in relation to the activity of the pension funds in which Commission employees participate.

Deferred Inflows of Resources

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, 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 Commission has three items that qualify for reporting in this category. The Commission presents deferred inflows of resources for deferred inflows of resources related to pensions which result from actuarial calculations. The Commission also presents deferred credits (revenue), which represent rate stabilization as a deferred inflow of resources. Rate stabilization is a result of deposits made to the Commission's rate stabilization account, which may be used to meet unanticipated increases in revenue requirements in subsequent periods. The last type of deferred inflow of resources reported by the Commission are deferred solar subscriptions. The Commission gives customers an option to purchase solar panel subscriptions for 5, 10 or 20 years for which they pay the entire subscription in the first year.

PRINCETON PUBLIC UTILITIES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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 additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. 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.

Concentration of Credit Risk

Financial instruments which expose the Commission to a concentration of credit risk consist primarily of cash, investments, and accounts receivable. Accounts receivable are concentrated geographically as amounts are due from individuals residing in and businesses located in the City of Princeton.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

Subsequent Events

In preparing these financial statements, the Commission has evaluated events and transactions for potential recognition or disclosure through June 14, 2022, the date the financial statements were available to be issued.

2. Cash and Investments

The Commission follows State statutes requiring that all deposits be protected by insurance, surety bonds or collateral. The market value of collateral pledged must equal or exceed 110% of the deposits not covered by insurance. Authorized collateral includes U.S. government treasury bills, notes or bonds; issues of U.S. government agencies; certain rated general and revenue obligations of state and local governments; certain types of stand-by letters of credit and insured certificates of deposit. State statutes require that securities pledged as collateral be held in safekeeping by the Commission or in a financial institution other than the institution furnishing the collateral.

Custodial credit risk is the risk that in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

PRINCETON PUBLIC UTILITIES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Cash and Investments (Continued)

Investments

The Commission does not have an investment policy and is permitted to invest its idle funds as authorized by Minnesota Statutes as follows:

- Direct obligations or obligations guaranteed by the United States or its agencies.
- General obligations rated "A" or better.
- Revenue obligations rated "AA" or better.
- General obligations of the Minnesota Housing Finance Agency rated "A" or better.
- Any security which is an obligation of a school district with an original maturity not exceeding 13 months, and rated in the highest category by a national bond rating service or enrolled in the credit enhancement program.
- Commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
- Time deposits that are fully insured by the Federal Deposit Insurance Corporation or bankers' acceptances of United States banks.
- General obligation temporary bonds of the same governmental entity issued under section 429.091, subdivision 7; 469.178, subdivision 5; or 475.61, subdivision 6.
- Funds held in a debt service fund may be used to purchase any obligation, whether general or special, of an issue which is payable from the fund, at such price, which may include a premium, as shall be agreed to by the holder, or may be used to redeem any obligation of such an issue prior to maturity in accordance with its terms.
- Repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" of public funds by the government entity, with banks that are members of the Federal Reserve System with certain capitalization requirements, with a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or with a securities broker-dealer properly licensed, regulated by the SEC and with certain capitalization requirements.
- Shares of Minnesota joint powers investment trusts whose investments are restricted to securities described in A-J above or negotiable certificates of deposit; or units of a short-term investment fund established and administered pursuant to regulation 9 of the Office of the Comptroller of the Currency in which investments are restricted to securities described in A-J above; or shares of investment companies registered under the Federal Investment Company Act of 1940 which hold themselves out as money market funds meeting the conditions of rule 2a-7 of the SEC and rated in one of the two highest rating categories for money market funds by at least one nationally recognized statistical rating organization; or shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less.
- Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, or their Canadian subsidiaries, or the domestic affiliates of any of the foregoing and with a credit quality in one of the top two highest categories by a nationally recognized rating agency.

PRINCETON PUBLIC UTILITIES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Cash and Investments (Continued)

Investments (continued)

The Princeton Public Utilities Commission's investments are potentially subject to various risks including the following:

- Custodial credit risk - The risk that in the event of a failure of the counterparty to an investment transaction (typically a brokerage firm or financial institution) the government would not be able to recover the value of its investments or collateral securities. Although the Commission's investment policies do not directly address custodial credit risks, it typically limits its exposure by purchasing insured or registered investments or by the control of who holds the securities.
- Credit risk - The risk that an issuer or other counterparty to an investment will not fulfill its obligations.
- Concentration risk - This is the risk associated with investing a significant portion of the Commission's investments (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds.
- Interest rate risk - The risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The Commission's investment policies do not limit the maturities of investments; however, the Commission considers such things as interest rates and cash flow needs when purchasing investments.

The following table presents the Commission's cash and investment balances at December 31, 2021, and information relating to potential investment risks:

<u>Cash/Investments</u>	<u>Maturity Date</u>	<u>Over 5% of Portfolio</u>	<u>Rating</u>	<u>Carrying Value</u>		
				<u>Electric</u>	<u>Water</u>	<u>Total</u>
Cash on hand	N/A	N/A	N/A	\$ 2,135	\$	\$ 2,135
Deposits	N/A	N/A	N/A	5,229,032	2,056,890	7,285,922
Money Market	N/A	72%	N/A	472,739	118,185	590,924
Municipal bonds:						
Grand Rapids MN GO Taxable Bonds 09	2/1/2022	28%	A1	180,650	45,162	225,812
Total cash and investments				<u>\$5,884,556</u>	<u>\$2,220,237</u>	<u>\$8,104,793</u>

N/A - Not applicable

Capital Improvements

In 1986 the Commission 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 for 2021 was as follows:

Beginning Balance	\$ 2,030,939
Additions	148,985
Ending Balance	<u>\$ 2,179,924</u>

PRINCETON PUBLIC UTILITIES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Cash and Investments (Continued)

Fair Value Measurement

Fair value measurements are determined utilizing the framework established by the Governmental Accounting Standards Board. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Commission has the ability to access.
- Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data. Inputs to the valuation methodology include:
 - Quoted prices for similar assets or liabilities in active markets
 - Quoted prices for identical assets or liabilities in inactive markets
 - Inputs other than quoted prices that are observable for the asset or liability
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means

If the asset or liability has a specific (contractual) term, Level 2 input must be observable for substantially the full term of the asset or liability
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Commission's investments within the fair value hierarchy at December 31, 2021 and 2020 were as follows:

	Assets Measured at	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Municipal bonds	\$ 225,812	\$ 225,812	\$	

	Assets Measured at	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Municipal bonds	\$ 225,659	\$ 225,659	\$	

PRINCETON PUBLIC UTILITIES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Capital Assets

Capital asset activity for the year ended December 31, 2021 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Electric Fund				
Capital assets, not being depreciated:				
Land	\$ 25,000	\$	\$	\$ 25,000
Total capital assets, not being depreciated	25,000			25,000
Capital assets, being depreciated:				
Buildings and improvements	2,142,058			2,142,058
Generation and distribution system	17,962,146	259,435		18,221,581
Transportation equipment	710,071			710,071
Other equipment	658,508		18,983	639,525
Total capital assets, being depreciated	21,472,783	259,435	18,983	21,713,235
Less: accumulated depreciation	13,492,695	685,235	18,983	14,158,947
Total capital assets, being depreciated, net	7,980,088	(425,800)		7,554,288
Capital assets, net	<u>\$ 8,005,088</u>	<u>\$ (425,800)</u>	<u>\$</u>	<u>\$ 7,579,288</u>
	Beginning Balance	Increases	Decreases	Ending Balance
Water Fund				
Capital assets, not being depreciated:				
Land	\$ 8,162	\$	\$	\$ 8,162
Total capital assets, not being depreciated	8,162			8,162
Capital assets, being depreciated:				
Buildings and improvements	29,765			29,765
Generation and distribution system	9,421,934	183,979		9,605,913
Wells	558,324			558,324
Transportation equipment	74,124			74,124
Other equipment	190,340	34,450		224,790
Water tower and tank	1,856,020			1,856,020
Total capital assets, being depreciated	12,130,507	218,429		12,348,936
Less: accumulated depreciation	6,048,724	388,181		6,436,905
Total capital assets, being depreciated, net	6,081,783	(169,752)		5,912,031
Capital assets, net	<u>\$ 6,089,945</u>	<u>\$ (169,752)</u>	<u>\$</u>	<u>\$ 5,920,193</u>

PRINCETON PUBLIC UTILITIES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Long-Term Debt

Following is a summary of debt outstanding at December 31, 2021:

<u>Revenue Bonds</u>	<u>Range of Interest Rates</u>	<u>Final Maturity</u>	<u>Balance December 31, 2021</u>
Water Revenue Refunding Bonds, 2012A - interest due semiannually in April and October and principal due annually in April	2.50-2.85%	2024	\$ 145,000
Electric Revenue Refunding Bonds, 2012A - interest due semiannually in April and October and principal due annually in April	2.50-2.85%	2024	555,000
Water Revenue Refunding Bonds, 2010A - interest due semiannually in April and October and principal due annually in April	3.50%	2022	20,000
Electric Revenue Refunding Bonds, 2010A - interest due semiannually in April and October and principal due annually in April	3.50%	2022	170,000
Water General Obligation Bonds, 2008A - interest due semiannually in June and December and principal due annually in December	3.80-4.05%	2027	1,460,000
Electric Revenue Note, 2006A - interest due monthly and principal due semiannually in June and December	4.05%	2025	885,000
Water General Obligation Bonds, 2004 - interest due semiannually in February and August and principal due annually in August	2.53%	2023	<u>112,000</u>
Total Debt Outstanding			<u>\$ 3,347,000</u>

PRINCETON PUBLIC UTILITIES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Long-Term Debt (Continued)

Following is a summary of debt outstanding at December 31, 2021:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
BUSINESS-TYPE ACTIVITIES					
Electric					
Electric Revenue Note, 2006A	\$ 1,080,000	\$	\$ 195,000	\$ 885,000	\$ 205,000
Electric Revenue Refunding Bonds, 2010A	330,000		160,000	170,000	170,000
Electric Revenue Refunding Bonds, 2012A	730,000		175,000	555,000	180,000
Compensated Absences	84,379	6,096	11,717	78,758	78,758
Electric Total	2,224,379	6,096	541,717	1,688,758	633,758
Water					
General Obligation Water Revenue, 2004	166,000		54,000	112,000	55,000
General Obligation Water Revenue, 2008A	1,770,000		310,000	1,460,000	320,000
Water Revenue Refunding Bonds, 2010A	40,000		20,000	20,000	20,000
Water Revenue Refunding Bonds, 2012A	190,000		45,000	145,000	45,000
Compensated Absences	23,678		23,678		
Water Total	2,189,678		452,678	1,737,000	440,000
Combined Total	\$ 4,414,057	\$ 6,096	\$ 994,395	\$ 3,425,758	\$ 1,073,758

The annual requirements to amortize all long-term debt outstanding as of December 31, 2021 were as follows:

Years	Revenue Bonds		Total
	Principal	Interest and Fees	
2022	\$ 995,000	\$ 120,536	\$ 1,115,536
2023	837,000	85,029	922,029
2024	810,000	56,112	866,112
2025	390,000	27,889	417,889
2026	155,000	12,680	167,680
2027	160,000	6,480	166,480
Totals	\$ 3,347,000	\$ 308,726	\$ 3,655,726

PRINCETON PUBLIC UTILITIES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. Long-Term Debt (Continued)

The following restrictions on assets have been established to comply with agreements related to the outstanding revenue bonds:

Reserve fund

Bond and note covenants require a reserve account in the amount of \$811,646 be established, \$97,500 in the water fund and \$714,146 in the electric fund of which \$248,314 is being held in escrow.

Debt retirement

The 2012, 2010, 2008 and 2004 water revenue bond and note indentures require the water fund to set aside an amount equal to not less than one-sixth of the interest due within the next six months and monthly to set aside an amount equal to not less than one-twelfth of the principal due within the next twelve months. The total set aside as of December 31, 2021 and 2020 was \$100,582 and \$101,253, respectively.

The 2012, 2010 and 2006 electric revenue bond and note indenture requires the electric fund to set aside an amount equal to not less than one-sixth of the interest due within the next six months and monthly to set aside an amount equal to not less than one-twelfth of the principal due within the next twelve months. The total set aside at December 31, 2021 and 2020 was \$284,359 and \$274,621, respectively.

Restricted cash held in escrow

Restricted cash held in escrow as of December 31, 2021 and 2020 consisted of \$248,314 and \$248,299, respectively, of cash proceeds from the Electric Revenue note, series 2006A.

6. Commitments

SMMPA Capacity and Purchase Agreement

The Commission purchases power from Southern Minnesota Municipal Power Agency (SMMPA) under a power sales contract, which runs through April 2050 and thereafter unless terminated by either party upon one years' notice. Under the terms of the contract, the Commission is obligated to purchase from SMMPA all the electrical power and energy needed to operate the electric utilities through the term of the contract, unless the Commission elects to exercise an option under the contract to establish a fixed Contract Rate of Delivery upon seven years notice.

In addition, on January 2, 2001, the Commission entered into an Amended and Restated Capacity Purchase Agreement (amending the original 1995 Capacity Purchase Agreement) with SMMPA, whereby SMMPA is entitled to the exclusive use of the net electric generating capability, and associated energy, of the Diesel Generating Facilities. Under the terms of this agreement, SMMPA is responsible for all costs of operations and maintenance, including certain costs associated with generating plant personnel and renewal and replacement costs. This agreement is cancelable by either party upon a five-year notice, or by SMMPA with a one-year notice if renewal and replacement costs are deemed to make continued operation of the generation uneconomic.

PRINCETON PUBLIC UTILITIES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Commitments (Continued)

SMMPA Quick-Start Capacity and Energy Purchase Agreement

On December 20, 2001, the Commission entered into a Quick-Start Capacity and Energy Purchase Agreement with SMMPA. Under the terms of this 20-year agreement, SMMPA pays to the Commission a monthly payment for the exclusive right to all capacity and associated energy from the quick-start generating plant (specified generation facilities that do not include the Diesel Generating Facilities referred to above) and is responsible for the cost of fuel when the plant is operated. The Commission is responsible for all operating, maintenance, renewal and replacement costs associated with quick-start generation.

7. Due to City

Due to City represents amounts owing to the City of Princeton and consisted of the following at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Sewer collections	\$ 108,308	\$ 110,052
Franchise fee	19,908	19,143
Total	<u>\$ 128,216</u>	<u>\$ 129,195</u>

8. Risk Management

The Commission is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees or others; and natural disasters. In order to protect against these risks of loss, the Commission purchases commercial insurance through the League of Minnesota Cities Insurance Trust, a public entity risk pool. This pool currently operates common risk management and insurance programs for municipal entities. The Commission pays an annual premium to the League for its insurance coverage. The League of Minnesota Cities Insurance Trust is self-sustaining through commercial companies for excess claims. The Commission is covered through the pool for any claims incurred but unreported, however, retains risk for the deductible portion of its insurance policies. The amounts of these deductibles are considered immaterial to the financial statements.

During the years ended December 31, 2021 and 2020, there were no significant reductions in insurance coverage from the prior year. Settled claims have not exceeded the Commission's commercial coverage in any of the past three years.

PRINCETON PUBLIC UTILITIES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Rate Stabilization Provision

The Princeton Public Utilities Commission designs its electric service rates to recover costs of providing power supply services. In order to minimize possible future rate increases, each year the Commission determines a rate stabilization amount to be charged or credited to revenues. For the year ended December 31, 2021, \$122,225 was charged as an expense and added to the rate stabilization account. For the year ended December 31, 2020, \$95,300 was used and recognized as revenue from the rate stabilization account.

10. Defined Benefit Pension Plans

Plan Description

The Princeton Public Utilities Commission participates in the following cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (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 Princeton Public Utilities Commission are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

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 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 Coordinated members is 1.2 percent for each of the first 10 years of service and 1.7 percent for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent 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.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. 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.

PRINCETON PUBLIC UTILITIES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. Defined Benefit Pension Plans (Continued)

Contributions

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

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2021 and the Commission was required to contribute 7.50 percent for Coordinated Plan members. The Commission's contributions to the General Employees Fund for the year ended December 31, 2021, were \$79,680. The Commission's contributions were equal to the required contributions as set by state statute.

Pension Costs

At December 31, 2021, the Commission reported a liability of \$704,624 for its proportionate share of the General Employees Fund's net pension liability. The Commission's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. 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 Commission totaled \$21,513.

The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commission's proportion of the net pension liability was based on the Commission's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2020, through June 30, 2021, relative to the total employer contributions received from all of PERA's participating employers. The Commission's proportionate share was 0.0165 percent at the end of the measurement period and 0.0167 percent for the beginning of the period.

Commission's proportionate share of net pension liability	\$	704,624
State of Minnesota's proportionate share of the net pension liability associated with the Utilities	\$	21,513

PRINCETON PUBLIC UTILITIES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. Defined Benefit Pension Plans (Continued)

Pension Costs (Continued)

For the year ended December 31, 2021, the Commission recognized pension expense (benefit) of (\$98,405) for its proportionate share of the General Employees Plan's pension expense. In addition, the Commission recognized an additional \$1,736 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.

At December 31, 2021, the Commission 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 4,356	\$ 21,593
Changes in actuarial assumptions	430,229	15,745
Difference between projected and actual investment earnings		609,114
Changes in proportion	6,925	8,993
Contributions paid to PERA subsequent to the measurement date	<u>38,172</u>	
Total	<u>\$ 479,682</u>	<u>\$ 655,445</u>

Reported in the financial statements as:

Electric Fund	\$ 360,534	\$ 489,964
Water Fund	<u>119,148</u>	<u>165,481</u>
Total	<u>\$ 479,682</u>	<u>\$ 655,445</u>

The \$38,172 reported as deferred outflows of resources related to pensions resulting from the Commission's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability during the year ending December 31, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending December 31:</u>	<u>Pension Expense Amount</u>
2022	\$ (27,320)
2023	(11,977)
2024	(8,196)
2025	(166,442)

PRINCETON PUBLIC UTILITIES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. Defined Benefit Pension Plans (Continued)

Long-Term Expected Return on Investment

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return 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	33.5%	5.10%
International equity	16.5%	5.30%
Fixed income	25.0%	0.75%
Private markets	<u>25.0%</u>	5.90%
Total	100%	

Actuarial Assumptions

The total pension liability in the June 30, 2021, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.5 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.5 percent was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25 percent for the General Employees Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 29 years of service and 6.0 percent per year thereafter.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. The tables are adjusted slightly to fit PERA's experience.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020 actuarial valuation.

Actuarial assumptions used in the June 30, 2021 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 assumption changes were adopted by the Board and became effective with the July 1, 2020 actuarial valuation.

PRINCETON PUBLIC UTILITIES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. Defined Benefit Pension Plans (Continued)

Actuarial Assumptions (continued)

There following changes in actuarial assumptions and plan provisions occurred in 2021:

Changes in Actuarial Assumptions:

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

Changes in Plan Provisions

- There were no changes in plan provisions since the previous valuation.

Discount Rate

The discount rate used to measure the total pension liability in 2021 was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of 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.

Pension Liability Sensitivity

The following presents the Commission'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 Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

Sensitivity Analysis		
<i>Net Pension Liability at Different Discount Rates</i>		
	General Employees Fund	
1% Lower	5.50%	\$ 1,437,073
Current Discount Rate	6.50%	704,624
1% Higher	7.50%	103,605

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.

**PRINCETON PUBLIC UTILITIES COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION**

December 31, 2021

PRINCETON PUBLIC UTILITIES COMMISSION
Schedule of Commission Pension Contributions
PERA General Employees Retirement Fund
Last Ten Years (presented prospectively)

Year Ended December 31	Statutorily Required Contribution (a)	Contributions in Relation to Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
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%
2020	90,121	90,121		1,201,613	7.50%
2021	79,680	79,680		1,062,402	7.50%
2022					
2023					
2024					

Note: This schedule is intended to provide information for ten years. The Commission will include that information as it becomes available.

PRINCETON PUBLIC UTILITIES COMMISSION
Schedule of Commission and Non-Employer Proportionate Share of Net Pension Liability
PERA General Employees Retirement Fund
Last Ten Years (presented prospectively)

Fiscal Year Ended June 30	Employer's Proportionate Share (Percentage) of Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with the Utilities (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the Utilities (a+b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a+b)/c	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0170%	\$ 881,028	\$	\$ 881,028	\$ 995,180	88.53%	78.20%
2016	0.0181%	1,469,630	19,156	1,488,786	1,122,267	132.66%	68.91%
2017	0.0177%	1,129,957	14,210	1,144,167	1,140,253	100.34%	75.90%
2018	0.0163%	904,258	29,600	933,858	1,092,933	85.45%	79.53%
2019	0.0166%	917,778	28,499	946,277	1,176,240	80.45%	80.23%
2020	0.0167%	1,001,243	31,027	1,032,270	1,190,453	86.71%	79.06%
2021	0.0165%	704,624	21,513	726,137	1,184,691	61.29%	87.00%
2022							
2023							
2024							

Note: This schedule is intended to provide information for ten years. The Commission will include that information as it becomes available.

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PRINCETON PUBLIC UTILITIES COMMISSION

SUPPLEMENTARY INFORMATION

December 31, 2021

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PRINCETON PUBLIC UTILITIES COMMISSION

SCHEDULES OF OPERATING REVENUES

For the Years Ended December 31, 2021 and 2020

	<u>Electric Fund</u>		<u>Water Fund</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Operating Revenues				
Residential services	\$ 2,501,984	\$ 2,444,228	\$ 774,281	\$ 735,190
Commercial and industrial sales	705,785	666,659	487,340	473,171
Power and lighting	3,538,099	3,228,558		
Security lights	20,016	20,059		
Life-of-unit diesel	366,867	351,687		
Quick start	174,240	174,240		
Penalties and connection charges	142,453	75,207	94,409	27,743
Rate stabilization	(122,225)	95,300		
Other operating revenues	329,944	68,273	76,596	65,534
Total Operating Revenues	<u>\$ 7,657,163</u>	<u>\$ 7,124,211</u>	<u>\$ 1,432,626</u>	<u>\$ 1,301,638</u>

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PRINCETON PUBLIC UTILITIES COMMISSION

SCHEDULES OF OPERATING EXPENSES

For the Years Ended December 31, 2021 and 2020

	Electric Fund		Water Fund	
	2021	2020	2021	2020
Operating Expenses				
Production Plant				
Salaries and wages	\$ 203,972	\$ 216,347	\$ 84,032	\$ 84,576
Repairs and maintenance	191,734	176,928	33,010	29,527
Natural gas	12,477	10,464	5,914	5,314
Purchased power and for pumping	4,471,125	4,100,211	33,401	32,745
Total Production Plant	4,879,308	4,503,950	156,357	152,162
Distribution System				
Salaries and wages	360,631	465,242	97,889	121,356
Supplies and maintenance	168,136	186,444	34,914	38,281
Total Distribution System	528,767	651,686	132,803	159,637
Customer Service				
Salaries and wages	115,968	117,574	57,813	55,390
Supplies and maintenance	24,582	23,974	5,392	5,152
Bad debts	1,918	1,998	151	395
Total Customer Service	142,468	143,546	63,356	60,937
General and Administrative				
Salaries and wages	109,537	107,479	57,834	55,616
Employee pensions and benefits	333,655	403,178	68,454	79,975
Outside services	83,540	104,475	31,637	32,125
Office supplies and expense	33,443	56,514	7,209	9,897
Dues and subscriptions	11,110	10,680	2,052	1,958
Insurance	14,358	20,325	5,308	7,722
Telephone	4,245	4,555	790	831
Miscellaneous administrative	101,375	44,803	3,107	18,014
Total General and Administrative	691,263	752,009	176,391	206,138
Depreciation expense	685,235	683,591	388,181	385,517
Total Operating Expenses	\$ 6,927,041	\$ 6,734,782	\$ 917,088	\$ 964,391

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

To the Commissioners
Princeton Public Utilities Commission

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 each major fund of Princeton Public Utilities Commission, as of and for the year ended December 31, 2021, and the related notes to financial statements, which collectively comprise the Princeton Public Utilities Commission's basic financial statements and have issued our report thereon dated June 14, 2022.

Internal Control Over Financial Reporting

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

A deficiency in internal control over financial reporting 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 entity'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 over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Princeton Public Utilities Commission's financial statements are free from 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 financial statements. 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*.

Commissioners
Princeton Public Utilities Commission

Minnesota Legal Compliance

In connection with our audit, we noted that Princeton Public Utilities Commission failed to comply with provisions of the depositories of public funds and public investments section of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. §6.65, insofar as they relate to accounting matters as described below. Also, in connection with our audit, nothing came to our attention that caused us to believe that Princeton Public Utilities Commission failed to comply with the provisions of the contracting – bid laws, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, insofar as they relate to accounting matters. 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 Commission’s noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

As of December 31, 2021, the Commission’s deposits at one financial institution were not fully collateralized.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the Commission’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 Commission’s internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

Smith, Schafn and Associates, Ltd.

Minneapolis, Minnesota
June 14, 2022