

PRINCETON PUBLIC UTILITIES COMMISSION

FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023



PRINCETON PUBLIC UTILITIES COMMISSION

**FINANCIAL STATEMENTS
For the Year Ended December 31, 2024**

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PRINCETON PUBLIC UTILITIES COMMISSION

INTRODUCTORY SECTION

DECEMBER 31, 2024 AND 2023

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PRINCETON PUBLIC UTILITIES COMMISSION
LIST OF ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2024

Public Utilities Commission

Daniel Erickson
Jack Edmonds
Vacant

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 the business-type activities and each major fund of Princeton Public Utilities Commission, a component unit of the City of Princeton, Minnesota, as of and for the years ended December 31, 2024 and 2023, 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 the business-type activities and each major fund of Princeton Public Utilities Commission, a component unit of the City of Princeton, Minnesota, as of December 31, 2024 and 2023, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits 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 component unit 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 Commission. They do not purport to, and do not, present fairly the financial position of the City of Princeton, Minnesota, as of December 31, 2024 and 2023, 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 twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 and *Government Auditing Standards* 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 25, 2025 on our consideration of Princeton Public Utilities Commission'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, Schepke and Associates, Ltd.

Minneapolis, Minnesota
June 25, 2025

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PRINCETON PUBLIC UTILITIES COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
DECEMBER 31, 2024

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, 2024.

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 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>2024</u>	<u>2023</u>
Assets		
Current assets	\$ 9,998,725	\$ 11,752,277
Capital assets, net	9,937,642	8,222,160
Noncurrent assets (restricted)	<u>693,000</u>	<u>535,625</u>
Total Assets	<u>20,629,367</u>	<u>20,510,062</u>
Deferred Outflows of Resources		
Deferred outflows from pension activity	<u>93,828</u>	<u>201,743</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 20,723,195</u>	<u>\$ 20,711,805</u>
Liabilities		
Current liabilities	\$ 1,449,347	\$ 1,316,626
Net pension liability	360,093	634,773
Noncurrent liabilities	<u>6,303,902</u>	<u>6,479,625</u>
Total Liabilities	<u>8,113,342</u>	<u>8,431,024</u>
Deferred Inflows of Resources		
Deferred credits rate stabilization	1,334,123	1,334,123
Deferred inflows from pension activity	334,024	282,000
Deferred solar subscriptions	<u>4,232</u>	<u>5,558</u>
Total deferred inflows of resources	<u>1,672,379</u>	<u>1,621,681</u>
Net Position		
Net investment in capital assets	4,813,695	4,961,448
Restricted for debt service	693,000	535,625
Unrestricted	<u>5,430,779</u>	<u>5,162,027</u>
Total Net Position	<u>10,937,474</u>	<u>10,659,100</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 20,723,195</u>	<u>\$ 20,711,805</u>
Operating revenues	\$ 7,927,962	\$ 7,819,785
Operating expenses, excluding depreciation	7,008,530	7,138,515
Depreciation expense	<u>707,206</u>	<u>672,713</u>
Operating income	212,226	8,557
Nonoperating revenue (expenses) including transfers	<u>66,148</u>	<u>32,085</u>
Change in net position	278,374	40,642
Net Position, Beginning	<u>10,659,100</u>	<u>10,618,458</u>
Net Position, Ending	<u>\$ 10,937,474</u>	<u>\$ 10,659,100</u>

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

FINANCIAL HIGHLIGHTS - ELECTRIC FUND

- The electric fund's net position totaled \$10,937,474 at December 31, 2024. Net position increased by \$278,374 in fiscal year 2024.
- The electric fund's total operating revenues were \$7,927,962. The total cost of operating the electrical system, including purchased power and depreciation was \$7,715,736.
- For the year, the electric fund reported operating income of \$212,226, an increase of \$203,669 from the previous year.
- Operating expenses decreased by 1% from 2023 to 2024.

CAPITAL ASSETS AND DEBT ADMINISTRATION - ELECTRIC FUND

Capital Assets

At the end of fiscal year 2024, the electric fund had \$9,937,642 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 \$2,422,688 mainly due to electric capital improvement planned expenditures.

Debt

As of December 31, 2024, Electric Revenue Note, 2023A totaling \$6,425,000 was outstanding. This note is repayable at interest rates ranging from 4.00% to 5.00% through 2043 and the proceeds are being used to finance improvements to the electrical distribution system

Deferred Inflows/Deferred Outflows – Electric Fund

Deferred outflows of resources reported by the electric fund are pension plan deferments for PERA, which decreased \$107,915 during 2024. 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 \$50,698 during 2024. Deferred credits (revenue), which represent rate stabilization, did not change from the prior year. 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. Another type of deferred inflow of resources reported by the electric fund are pension plan deferments for PERA, which increased by \$52,024. The last type of deferred inflow of resources reported by the electric fund are deferred solar subscriptions, which decreased by \$1,326.

**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>2024</u>	<u>2023</u>
Assets		
Current assets	\$ 2,691,243	\$ 2,588,459
Capital assets, net	5,682,838	5,390,343
Noncurrent assets (leases)	39,314	58,545
Noncurrent assets (restricted)	14,050	31,422
Total Assets	<u>8,427,445</u>	<u>8,068,769</u>
Deferred Outflows of Resources		
Deferred outflows from pension activity	<u>31,751</u>	63,657
Total Assets and Deferred Outflows of Resources		
	<u>\$ 8,459,196</u>	<u>\$ 8,132,426</u>
Liabilities		
Current liabilities	\$ 240,804	\$ 414,594
Net pension liability	121,841	153,682
Noncurrent liabilities	315,000	465,000
Total Liabilities	<u>677,645</u>	<u>1,033,276</u>
Deferred Inflows of Resources		
Deferred inflows from pension activity	113,019	103,117
Deferred inflows from leasing activity	<u>57,001</u>	<u>96,427</u>
Total Deferred Inflows of Resources	<u>170,020</u>	<u>199,544</u>
Net Position		
Net investment in capital assets	5,257,152	4,638,888
Restricted for debt service	14,050	31,422
Unrestricted	<u>2,340,329</u>	<u>2,229,296</u>
Total Net Position	<u>7,611,531</u>	<u>6,899,606</u>
Total Liabilities, Deferred Inflows of Resources and Net Position		
	<u>\$ 8,459,196</u>	<u>\$ 8,132,426</u>
Operating revenues	\$ 1,225,407	\$ 1,319,858
Operating expenses, excluding depreciation	639,873	648,370
Depreciation expense	426,893	418,229
Operating income (loss)	158,641	253,259
Nonoperating revenue (expenses) including transfers	<u>553,284</u>	<u>35,224</u>
Change in net position	711,925	288,483
Net Position, Beginning	<u>6,899,606</u>	<u>6,611,123</u>
Net Position, Ending	<u>\$ 7,611,531</u>	<u>\$ 6,899,606</u>

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

FINANCIAL HIGHLIGHTS - WATER FUND

- The water fund's net position totaled \$7,611,531 at December 31, 2024. Total net position increased by \$711,925 in fiscal year 2024.
- The water fund's total operating revenues were \$1,225,407. The total cost of operating the water system was \$1,066,766.
- For the year, the water fund reported an operating income of \$158,641, a decrease of \$94,618 from the previous year.
- Operating expenses were nearly flat from 2023 to 2024.

CAPITAL ASSETS AND DEBT ADMINISTRATION - WATER FUND

Capital Assets

At the end of fiscal year 2024, the water fund had \$5,682,838 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 \$719,388, related mainly to the LSL replacement.

Debt

At December 31, 2024, Water General Obligation Revenue Bonds, 2008A totaling \$465,000 were outstanding. These bonds are repayable at interest rates ranging from 3.95% to 4.05% through 2027 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 decreased \$31,906 during 2024. 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 from pension activity reported by the water fund increased by \$9,902 during 2024. Deferred inflow of resources from pension activity reported by the water fund are pension plan deferments for PERA. Deferred inflows of resources from lease activity reported by the water fund decreased by \$39,426 during 2024 due to lease payments during the year. Deferred inflows of resources from lease activity reported by the water fund are equal to present value of water tower lease revenues.

PRINCETON PUBLIC UTILITIES COMMISSION

FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

PRINCETON PUBLIC UTILITIES COMMISSION

BALANCE SHEETS

December 31, 2024 and 2023

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>Electric Fund</u>		<u>Water Fund</u>	
	2024	2023	2024	2023
Current Assets				
Cash and cash equivalents	\$ 3,188,277	\$ 6,752,749	\$ 447,494	\$ 756,865
Cash and cash equivalents - capital improvements	1,496,869	1,181,618	1,425,787	1,302,049
Investments	3,220,848	1,379,170	636,755	344,792
Customer accounts receivable	722,398	772,793	84,413	88,938
Other accounts receivable	83,006	50,105	960	4,191
Inventories	1,277,456	1,588,139	76,603	51,684
Lease receivable			19,231	39,940
Prepaid insurance	9,871	27,703		
Total Current Assets	9,998,725	11,752,277	2,691,243	2,588,459
Noncurrent Assets				
Lease receivable, noncurrent			39,314	58,545
Capital Assets				
Non-depreciable	25,000	25,000	8,162	8,162
Depreciable	25,799,385	23,409,211	13,012,645	12,324,407
Less: Accumulated depreciation	15,886,743	15,212,051	7,337,969	6,942,226
Total Noncurrent Assets	9,937,642	8,222,160	5,722,152	5,448,888
Restricted Assets				
Cash and cash equivalents:				
Reserve fund	493,125	493,125		
Debt retirement	199,875	42,500	14,050	31,422
Total Restricted Assets	693,000	535,625	14,050	31,422
Deferred Outflows of Resources				
Deferred outflows from pension activity	93,828	201,743	31,751	63,657
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 20,723,195	\$ 20,711,805	\$ 8,459,196	\$ 8,132,426

See Notes to the Financial Statements

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	Electric Fund		Water Fund	
	2024	2023	2024	2023
Current Liabilities				
Due to City	\$ 156,698	\$ 156,923	\$	\$
Accounts payable	705,105	609,261	55,954	33,533
Accrued payroll	24,712	24,018	10,062	9,818
Accrued compensated absences	77,213	73,958		
Customer meter deposits	241,994	243,082		
Unearned revenue			23,238	23,238
Total Current Liabilities	1,205,722	1,107,242	89,254	66,589
Current Liabilities Payable from Restricted Assets:				
Accrued interest	68,625	124,384	1,550	3,005
Current maturities of bonds, loans and capital lease	175,000	85,000	150,000	345,000
Total Current Liabilities Payable from Restricted Assets	243,625	209,384	151,550	348,005
Other Liabilities				
Net pension liability	360,093	634,773	121,841	153,682
Bonds, notes, and loan payable, net of current maturities and premiums	6,303,902	6,479,625	315,000	465,000
Total Other Liabilities	6,663,995	7,114,398	436,841	618,682
Deferred Inflows of Resources				
Deferred credits rate stabilization	1,334,123	1,334,123		
Deferred inflows from pension activity	334,024	282,000	113,019	103,117
Deferred inflows from leasing activity			57,001	96,427
Deferred solar subscriptions	4,232	5,558		
Total Deferred Inflows of Resources	1,672,379	1,621,681	170,020	199,544
Total Liabilities and Deferred Inflows of Resources	9,785,721	10,052,705	847,665	1,232,820
Net Position				
Net investment in capital assets	4,813,695	4,961,448	5,257,152	4,638,888
Restricted for debt service	693,000	535,625	14,050	31,422
Unrestricted	5,430,779	5,162,027	2,340,329	2,229,296
Total Net Position	10,937,474	10,659,100	7,611,531	6,899,606
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 20,723,195	\$ 20,711,805	\$ 8,459,196	\$ 8,132,426

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PRINCETON PUBLIC UTILITIES COMMISSION

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Years Ended December 31, 2024 and 2023

	Electric Fund		Water Fund	
	2024	2023	2024	2023
Operating Revenues	\$ 7,927,962	\$ 7,819,785	\$ 1,225,407	\$ 1,319,858
Operating Expenses				
Production, plant and purchased power	5,589,822	5,526,002	141,324	147,513
Distribution system	522,309	511,093	156,104	192,196
Customer service	165,006	159,230	90,971	85,635
General and administrative	731,393	942,190	251,474	223,026
Depreciation	707,206	672,713	426,893	418,229
Total Operating Expenses	7,715,736	7,811,228	1,066,766	1,066,599
Operating Income	212,226	8,557	158,641	253,259
Nonoperating Revenues (Expenses)				
Interest income	310,525	138,768	52,197	38,032
Change in fair value of investments	12,741	6,935	4,386	1,567
Gain on sale of assets		7,671	5,491	
Lease revenue			41,462	40,262
Other income	31,874	28,478	480,354	364
Interest expense	(288,992)	(149,767)	(30,606)	(45,001)
Total Nonoperating Revenues (Expenses)	66,148	32,085	553,284	35,224
Change in Net Position	278,374	40,642	711,925	288,483
NET POSITION, BEGINNING	10,659,100	10,618,458	6,899,606	6,611,123
NET POSITION, ENDING	\$ 10,937,474	\$ 10,659,100	\$ 7,611,531	\$ 6,899,606

See Notes to the Financial Statements

PRINCETON PUBLIC UTILITIES COMMISSION

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2024 and 2023

	Electric Fund		Water Fund	
	2024	2023	2024	2023
Cash Flows From Operating Activities				
Receipts from customers	\$ 7,943,042	\$ 7,654,409	\$ 1,275,139	\$ 1,360,103
Cash paid to suppliers	(5,505,851)	(6,926,361)	(225,845)	(243,257)
Cash paid to employees	(1,189,337)	(1,235,213)	(406,315)	(387,758)
Net Cash Provided By (Used In) Operating Activities	<u>1,247,854</u>	<u>(507,165)</u>	<u>642,979</u>	<u>729,088</u>
Cash Flows From Noncapital Financing Activities				
Other income	<u>31,874</u>	<u>28,478</u>	<u>480,354</u>	<u>364</u>
Cash Flows From Capital and Related Financing Activities				
Proceeds from sale of capital assets		7,671	5,491	
Net proceeds from issuance of bonds		6,564,625		
Acquisition of capital assets	(2,422,688)	(1,800,303)	(719,388)	(115,752)
Interest paid	(345,474)	(25,383)	(32,061)	(46,207)
Principal paid on bonds	(85,000)	(680,000)	(345,000)	(387,000)
Net Cash Provided By (Used In) Capital and Related Financing Activities	<u>(2,853,162)</u>	<u>4,066,610</u>	<u>(1,090,958)</u>	<u>(548,959)</u>
Cash Flows From Investing Activities				
Net (purchases) of investments	(1,828,937)	(1,101,180)	(287,577)	(275,461)
Investment income received	310,525	138,768	52,197	38,032
Decrease in restricted cash held in escrow		250,623		
Net Cash (Used In) Investing Activities	<u>(1,518,412)</u>	<u>(711,789)</u>	<u>(235,380)</u>	<u>(237,429)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(3,091,846)</u>	<u>2,876,134</u>	<u>(203,005)</u>	<u>(56,936)</u>
Cash and Cash Equivalents, Beginning of Year	<u>8,469,992</u>	<u>5,593,858</u>	<u>2,090,336</u>	<u>2,147,272</u>
Cash and Cash Equivalents, End of Year	<u>\$ 5,378,146</u>	<u>\$ 8,469,992</u>	<u>\$ 1,887,331</u>	<u>\$ 2,090,336</u>
Cash and cash equivalents	\$ 3,188,277	\$ 6,752,749	\$ 447,494	\$ 756,865
Cash and cash equivalents - capital improvements	1,496,869	1,181,618	1,425,787	1,302,049
Cash and cash equivalents - reserve fund	493,125	493,125		
Cash and cash equivalents - debt retirement	199,875	42,500	14,050	31,422
Total Cash and Cash Equivalents on Balance Sheets	<u>\$ 5,378,146</u>	<u>\$ 8,469,992</u>	<u>\$ 1,887,331</u>	<u>\$ 2,090,336</u>

See Notes to the Financial Statements

Continued	Electric Fund		Water Fund	
	2024	2023	2024	2023
Reconciliation of Operating Income to Net Cash Provided By Operating Activities				
Operating Income	\$ 212,226	\$ 8,557	\$ 158,641	\$ 253,259
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	707,206	672,713	426,893	418,229
Pension related activity	(114,741)	3,946	9,967	1,497
Change in lease receivable and deferred inflows			514	514
Lease revenue - included in nonoperating revenues			41,462	40,262
(Increase) Decrease In:				
Customer accounts receivable	50,395	(146,857)	4,525	(9,101)
Other accounts receivable	(32,901)	(6,734)	3,231	7,370
Inventories	310,683	(1,140,523)	(24,919)	2,405
Prepaid insurance	17,832	17,661		
Increase (Decrease) In:				
Due to City	(225)	17,292		
Accounts payable	95,844	105,484	22,421	12,146
Accrued payroll	694	(17,979)	244	1,307
Customer meter deposits	(1,088)	(10,460)		
Unearned revenue				1,200
Accrued compensated absences	3,255	(8,940)		
Deferred solar subscriptions	(1,326)	(1,325)		
Net Cash Provided By (Used In) Operating Activities	\$ 1,247,854	\$ (507,165)	\$ 642,979	\$ 729,088

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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 Commission. 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.

Implementation of New Accounting Principles

During the year, the Commission implemented GASB Statement No. 101, *Compensated Absences*. This Statement provides guidance on accounting and financial reporting for reporting a liability for certain types of leave (compensated absences). Under this Statement, government organizations are required to recognize a liability for employee's compensated absences if the leave is attributable to employee's services already rendered, if the leave accumulates, or if it is more likely than not to be used for time off or paid in cash upon separation. The liability is measured using an employee's rate of pay at the date of the financial statements. The liability and associated expense are reported in the government-wide statements. The Statement has been implemented and a liability has been reported on the government-wide financial statements.

PRINCETON PUBLIC UTILITIES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

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

Investments

Investments consist primarily of 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

Leases

For leases with a term exceeding 12 months, the Commission recognizes a lease liability and a right to use lease asset in the government-wide financial statements.

The right to use lease asset is calculated at the initial amount of the lease liability plus any lease payments made to the lessor before the lease commencement date, plus certain initial direct costs incurred, minus any lease incentives received. Subsequently, the right to use lease asset is amortized on a straight-line basis over its useful life. The Commission initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of the lease payments made. Remeasurement of the right to use lease asset and lease liability occurs when certain changes occur that are likely to have a significant impact on the lease liability.

Right to use lease assets, if any, are reported with capital assets and lease liabilities, if any, are reported with long-term debt on the statement of net position.

The Commission leases cell tower space to external parties. Lease receivables and deferred inflows of resources are recorded based on the present value of expected receipts over the term of the respective leases. The expected payments and receipts are discounted using the interest rate charged on the lease, if available, and are otherwise discounted using the risk free rate. Variable payments are excluded from the valuations unless they are fixed in substance. For leases featuring payments tied to an index or market rate, the valuation is based on the initial index or market rate. The Commission does not have any leases subject to a residual value guarantee.

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 four employees eligible at December 31, 2024 totaled \$77,213. The liability for compensated absences for the five employees eligible at December 31, 2023 totaled \$73,958.

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.

PRINCETON PUBLIC UTILITIES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Revenue Recognition

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

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 Balance Sheets 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 four 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 Commission presents deferred inflows of resources related to water tower lease revenues. 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 25, 2025, 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, 2024 and 2023, and information relating to potential investment risks:

December 31, 2024

<u>Cash/Investments</u>	<u>Maturity Date</u>	<u>Over 5% of Portfolio</u>	<u>Carrying Value</u>		
			<u>Electric</u>	<u>Water</u>	<u>Total</u>
Cash on hand	N/A	N/A	\$ 2,135	\$	\$ 2,135
Deposits	N/A	N/A	4,581,168	1,688,620	6,269,788
Money Market	N/A	N/A	794,843	198,711	993,554
Certificate of deposits	5/25-8/29	100%	3,220,848	636,755	3,857,603
Total cash and investments			<u>\$ 8,598,994</u>	<u>\$ 2,524,086</u>	<u>\$ 11,123,080</u>

December 31, 2023

<u>Cash/Investments</u>	<u>Maturity Date</u>	<u>Over 5% of Portfolio</u>	<u>Carrying Value</u>		
			<u>Electric</u>	<u>Water</u>	<u>Total</u>
Cash on hand	N/A	N/A	\$ 2,135	\$	\$ 2,135
Deposits	N/A	N/A	8,458,859	2,088,086	10,546,945
Money Market	N/A	N/A	8,998	2,250	11,248
Certificate of deposits	3/24-5/28	100%	1,379,170	344,792	1,723,962
Total cash and investments			<u>\$ 9,849,162</u>	<u>\$ 2,435,128</u>	<u>\$ 12,284,290</u>

N/A – Not applicable

PRINCETON PUBLIC UTILITIES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Cash and Investments (Continued)

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 2024 and 2023 was as follows:

	<u>2024</u>	<u>2023</u>
Beginning Balance	\$ 2,483,667	\$ 2,291,567
Additions	438,989	192,100
Ending Balance	<u>\$ 2,922,656</u>	<u>\$ 2,483,667</u>

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, 2024 were as follows:

Assets	<u>December 31, 2024</u>			
	<u>Fair Value Hierarchy Level</u>			
	<u>Measured at</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Certificate of Deposits	<u>\$ 3,857,603</u>	<u>\$</u>	<u>\$ 3,857,603</u>	<u>\$</u>

PRINCETON PUBLIC UTILITIES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Cash and Investments (Continued)

Fair Value Measurement (continued)

The Commission's investments within the fair value hierarchy at December 31, 2023 were as follows:

Assets Measured at	December 31, 2023		
	Fair Value Hierarchy Level		
	Level 1	Level 2	Level 3
Certificate of Deposits	\$ 1,723,962	\$ 1,723,962	\$

3. Capital Assets

Capital asset activity for the year ended December 31, 2024 was as follows:

Electric Fund	Beginning Balance	Increases	Decreases	Ending Balance
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	\$ 51,054		2,193,112
Generation and distribution system	19,850,261	2,367,732		22,217,993
Transportation equipment	741,305			741,305
Other equipment	675,587	3,902	32,513	646,976
Total capital assets, being depreciated	23,409,211	2,422,688	32,513	25,799,386
Less: accumulated depreciation	15,212,051	707,206	32,513	15,886,744
Total capital assets, being depreciated, net	8,197,160	1,715,482		9,912,642
Capital assets, net	\$ 8,222,160	\$ 1,715,482	\$	\$ 9,937,642

PRINCETON PUBLIC UTILITIES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Capital Assets (Continued)

Water Fund	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 8,162	\$	\$	\$ 8,162
Total capital assets, not being depreciated	<u>8,162</u>			<u>8,162</u>
Capital assets, being depreciated:				
Buildings and improvements	29,765			29,765
Generation and distribution system	9,472,818	616,895	4,860	10,084,853
Wells	558,324			558,324
Transportation equipment	74,124	69,864	25,089	118,899
Other equipment	333,356	4,100	1,200	336,256
Water tower and tank	1,856,020	28,529		1,884,549
Total capital assets, being depreciated	<u>12,324,407</u>	<u>719,388</u>	<u>31,149</u>	<u>13,012,646</u>
Less: accumulated depreciation	<u>6,942,226</u>	<u>426,893</u>	<u>31,149</u>	<u>7,337,970</u>
Total capital assets, being depreciated, net	<u>5,382,181</u>	<u>292,495</u>		<u>5,674,676</u>
Capital assets, net	<u>\$ 5,390,343</u>	<u>\$ 292,495</u>	<u>\$</u>	<u>\$ 5,682,838</u>

4. Long-Term Debt

Following is a summary of debt outstanding at December 31, 2024:

Revenue Bonds	Range of Interest Rates	Final Maturity	December 31, 2024
Water General Obligation Bonds, 2008A - interest due semiannually in June and December and principal due annually in December	3.95-4.05%	2027	\$ 465,000
Electric Revenue Bonds, 2023A - interest due semiannually in April and October and principal due annually in April	4.00-5.00%	2043	<u>\$ 6,425,000</u>
Total Debt Outstanding			<u>\$ 6,890,000</u>

PRINCETON PUBLIC UTILITIES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Long-Term Debt (Continued)

Following is a summary of the activity in the Commission's debt during December 31, 2024:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
BUSINESS-TYPE ACTIVITIES					
Electric					
Electric Revenue Note, 2023A	\$ 6,510,000	\$	\$ 85,000	\$ 6,425,000	\$ 175,000
Compensated Absences	73,958	3,255		77,213	77,213
Unamortized premium	168,550		2,231	166,319	
Less: unamortized (discount)	(113,925)		(1,508)	(112,417)	
Electric Total	6,638,583	3,255	85,723	6,556,115	252,213
Water					
General Obligation Water Revenue, 2008A	810,000		345,000	465,000	150,000
Combined Total	\$ 7,448,583	\$ 3,255	\$ 430,723	\$ 7,021,115	\$ 402,213

The annual requirements to amortize all long-term debt outstanding as of December 31, 2024 were as follows:

Years	Water Revenue Bonds		
	Principal	Interest and Fees	Total
2025	\$ 150,000	\$ 18,605	\$ 168,605
2026	155,000	12,680	167,680
2027	160,000	6,480	166,480
Totals	\$ 465,000	\$ 37,765	\$ 502,765
Years	Electric Revenue Bonds		
	Principal	Interest and Fees	Total
2025	\$ 175,000	\$ 270,125	\$ 445,125
2026	230,000	260,000	490,000
2027	245,000	248,125	493,125
2028	255,000	235,625	490,625
2029	270,000	222,500	492,500
2030-2034	1,545,000	906,925	2,451,925
2035-2039	1,900,000	557,000	2,457,000
2040-2043	1,805,000	148,100	1,953,100
Totals	\$ 6,425,000	\$ 2,848,400	\$ 9,273,400

PRINCETON PUBLIC UTILITIES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. 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 \$493,125 be established in the electric fund.

Debt retirement

The 2008 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, 2024 and 2023 was \$14,050 and \$31,422, respectively.

The 2023 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, 2024 and 2023 was \$199,875 and \$42,500, respectively.

5. 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 year's 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)

5. 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. SMMPA exercised their right under the contract to extend the terms of the contract an additional five years in 2019 and again in 2023. The Commission is responsible for all operating, maintenance, renewal and replacement costs associated with quick-start generation.

6. Leases

The Commission has entered into several lease agreements with cell phone providers. Under the agreements, the cell phone providers pay the Commission annual payments of \$40,788 in exchange for providing cell services to the City residents with antennas on top of the water towers. The receivable for these leases has been recorded in the water fund and is measured as the present value of the future rent payments expected to be received during the lease terms. The discount rate used in calculation of the receivable is 1.47%, which is the risk free rate.

7. Due to City

Due to City represents amounts owing to the City of Princeton and consisted of the following at December 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Sewer collections	\$ 135,179	\$ 135,648
Franchise fee	21,519	21,275
Total	<u>\$ 156,698</u>	<u>\$ 156,923</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, 2024 and 2023, 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 designed 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 years ended December 31, 2024 and 2023 there were no adjustments for rate stabilization.

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, 353D, 353E, 353G, and 356. Minnesota Statutes chapter 356 defines each plan's financial reporting requirements. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

General Employees Retirement Plan

Membership in the General Plan includes employees of counties, cities, townships, schools in non-certified positions, and other governmental entities whose revenues are derived from taxation, fees, or assessments. Plan membership is required for any employee who is expected to earn more than \$425 in a month, unless the employee meets exclusion criteria.

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. When a member is "vested," they have earned enough service credit to receive a lifetime monthly benefit after leaving public service and reaching an eligible retirement age. Members who retire at or over their Social Security full retirement age with at least one year of service qualify for a retirement benefit.

General Employees Plan requires three years of service to vest. 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 General Plan members. Members hired prior to July 1, 1989, receive the higher of the Step or Level formulas. Only the Level formula is used for members hired after June 30, 1989. Under the Step formula, General Plan members receive 1.2 percent of the highest average salary for each of the first 10 years of service and 1.7 percent for each additional year. Under the Level formula, General Plan members receive 1.7 percent of highest average salary for all years of service. For members hired prior to July 1, 1989 a full retirement benefit is available when age plus years of service equal 90 and normal retirement age is 65. Members can receive a reduced requirement benefit as early as age 55 if they have three or more years of service. Early retirement benefits are reduced by .25 percent for each month under age 65. Members with 30 or more years of service can retire at any age with a reduction of .25 percent for each month the member is younger than age 62. The Level formula allows General Plan members to receive a full retirement benefit at age 65 if they were first hired before July 1, 1989 or at age 66 if they were hired on or after July 1, 1989. Early retirement begins at age 55 with an actuarial reduction applied to the benefit.

PRINCETON PUBLIC UTILITIES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. Defined Benefit Pension Plans (Continued)

Benefits Provided (Continued)

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. The 2024 annual increase was 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. 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 prorated increase.

Contributions

Minnesota Statutes Chapter 353, 353E, 353G, and 356 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

General Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2024 and the Commission was required to contribute 7.50 percent for General Plan members. The Commission’s contributions to the General Employees Fund for the year ended December 31, 2024, were \$83,454. The Commission’s contributions were equal to the required contributions as set by state statute.

Pension Costs

At December 31, 2024, the Commission reported a liability of \$481,934 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 \$12,462.

Commission's proportionate share of net pension liability	\$	481,934
State of Minnesota's proportionate share of the net pension liability associated with the Commission		12,462
Total	\$	<u>494,396</u>

The net pension liability was measured as of June 30, 2024, 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, 2023, through June 30, 2024, relative to the total employer contributions received from all of PERA’s participating employers. The Commission’s proportionate share was 0.0130 percent at the end of the measurement period and 0.0141 percent for the beginning of the period.

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, 2024, the Commission recognized pension expense (benefit) of \$(104,774) for its proportionate share of the General Employees Plan's pension expense. In addition, the Commission recognized an additional \$334 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.

During the plan year ended June 30, 2024, the State of Minnesota contributed \$170.1 million to the General Employees Fund. The State of Minnesota is not included as a non-employer contributing entity in the General Employees Plan pension allocation schedules for the \$170.1 million in direct state aid because this contribution was not considered to meet the definition of a special funding situation. The Commission recognized \$22,173 for the year ended December 31, 2024 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the General Employees Fund.

At December 31, 2024, 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 46,362	\$
Changes in actuarial assumptions	2,400	193,276
Net difference between projected and actual earnings on pension plan investments		174,981
Changes in proportion	31,680	78,786
Contributions paid to PERA subsequent to the measurement date	45,137	
Total	<u>\$ 125,579</u>	<u>\$ 447,043</u>

Reported in the financial statements as:

Electric Fund	\$ 93,828	\$ 334,024
Water Fund	31,751	113,019
Total	<u>\$ 125,579</u>	<u>\$ 447,043</u>

The \$45,137 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, 2025. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending December 31:	Pension Expense Amount
2025	\$ (224,862)
2026	(29,588)
2027	(75,211)
2028	(36,940)

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	25.0%	5.90%
Total	100%	

Actuarial Methods and Assumptions

The total pension liability for each of the cost-sharing defined benefit plans was determined by an actuarial valuation as of June 30, 2024, using the entry age normal actuarial cost method. The long-term rate of return on pension plan investments used to determine the total liability is 7%. The 7% assumption is based on a review of inflation and investment return assumptions from a number of national investment consulting firms. The review provided a range of investment return rates considered reasonable by the actuary. An investment return of 7% is within that range.

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

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25% after one year of service to 3% after 27 years of service.

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 General Employees Plan was last reviewed in 2022. The assumption changes were adopted by the Board and became effective with the July 1, 2023 actuarial valuation. PERA anticipates the experience study will be approved by the Legislative Commission on Pensions and Retirement and become effective with the July 1, 2025 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 2024:

Changes in Actuarial Assumptions:

- Rates of merit and seniority were adjusted, resulting in slightly higher rates.
- Assumed rates of retirement were adjusted as follows: increase the rate of assumed unreduced retirements, slight adjustments to Rule of 90 retirement rates, and slight adjustments to early retirement rates for Tier 1 and Tier 2 members.
- Minor increase in assumed withdrawals for males and females.
- Lower rates of disability.
- Continued use of Pub-2010 general mortality table with slight rate adjustments as recommended in the most recent experience study.
- Minor changes to form of payment assumptions for male and female retirees.
- Minor changes to assumptions made with respect to missing participant data.

Changes in Plan Provisions

- The workers' compensation offset for disability benefits was eliminated. The actuarial equivalent factors updated to reflect the changes in assumptions.

Discount Rate

The discount rate used to measure the total pension liability in 2024 was 7.0 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 current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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>		
	<u>General Employees Fund</u>	
1% Lower	6.00%	\$ 1,052,621
Current Discount Rate	7.00%	481,934
1% Higher	8.00%	12,492

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, 2024

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	79,263	79,263		1,056,837	7.50%
2023	84,446	84,446		1,125,950	7.50%
2024	83,454	83,454		1,112,723	7.50%

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	0.0133%	1,053,363	30,904	1,084,267	996,522	108.81%	76.70%
2023	0.0141%	788,455	21,752	810,207	1,118,792	72.42%	83.10%
2024	0.0130%	481,934	12,462	494,396	1,113,848	44.39%	89.10%

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PRINCETON PUBLIC UTILITIES COMMISSION

SUPPLEMENTARY INFORMATION

December 31, 2024

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PRINCETON PUBLIC UTILITIES COMMISSION

SCHEDULES OF OPERATING REVENUES

For the Years Ended December 31, 2024 and 2023

	Electric Fund		Water Fund	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Operating Revenues				
Residential services	\$ 2,510,856	\$ 2,566,731	\$ 624,650	\$ 736,794
Commercial and industrial sales	642,331	676,518	455,334	498,556
Power and lighting	2,666,718	2,945,814		
Security lights	19,977	20,035		
Life-of-unit diesel	432,729	394,066		
Quick start	174,240	174,240		
Penalties and connection charges	160,507	186,521	82,570	32,484
Intermediate power service	967,606	681,174		
Other operating revenues	352,998	174,686	62,853	52,024
Total Operating Revenues	<u>\$ 7,927,962</u>	<u>\$ 7,819,785</u>	<u>\$ 1,225,407</u>	<u>\$ 1,319,858</u>

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PRINCETON PUBLIC UTILITIES COMMISSION

SCHEDULES OF OPERATING EXPENSES

For the Years Ended December 31, 2024 and 2023

	Electric Fund		Water Fund	
	2024	2023	2024	2023
Operating Expenses				
Production Plant				
Salaries and wages	\$ 177,871	\$ 180,354	\$ 57,120	\$ 58,373
Repairs and maintenance	215,736	209,304	45,991	47,851
Natural gas	14,301	17,632	7,965	8,387
Purchased power and for pumping	5,181,914	5,118,712	30,248	32,902
Total Production Plant	<u>5,589,822</u>	<u>5,526,002</u>	<u>141,324</u>	<u>147,513</u>
Distribution System				
Salaries and wages	386,499	374,381	116,730	110,166
Supplies and maintenance	135,810	136,712	39,374	82,030
Total Distribution System	<u>522,309</u>	<u>511,093</u>	<u>156,104</u>	<u>192,196</u>
Customer Service				
Salaries and wages	139,011	131,434	79,561	74,602
Supplies and maintenance	23,490	25,397	11,179	10,659
Bad debts	2,505	2,399	231	374
Total Customer Service	<u>165,006</u>	<u>159,230</u>	<u>90,971</u>	<u>85,635</u>
General and Administrative				
Salaries and wages	113,128	124,968	59,290	63,570
Employee pensions and benefits	262,036	401,103	103,825	83,851
Outside services	81,206	156,030	40,292	33,865
Office supplies and expense	36,006	34,812	13,677	10,773
Dues and subscriptions	11,723	10,962	2,070	2,134
Insurance	28,177	30,480	15,757	12,929
Telephone	3,975	3,812	1,432	1,200
Miscellaneous administrative	195,142	180,023	15,131	14,704
Total General and Administrative	<u>731,393</u>	<u>942,190</u>	<u>251,474</u>	<u>223,026</u>
Depreciation expense	<u>707,206</u>	<u>672,713</u>	<u>426,893</u>	<u>418,229</u>
Total Operating Expenses	<u>\$ 7,715,736</u>	<u>\$ 7,811,228</u>	<u>\$ 1,066,766</u>	<u>\$ 1,066,599</u>

**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, 2024, 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 25, 2025.

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 as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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, nothing came to our attention that caused us to believe that Princeton Public Utilities Commission failed to comply with provisions of the contracting – bid laws, depositories of public funds and public investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. Sec. 6.65, 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.

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, Schafu and Associates, Ltd.

Minneapolis, Minnesota
June 25, 2025