

CITY OF WINDOM, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2015

**CITY OF WINDOM, MINNESOTA
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INTRODUCTORY SECTION

**CITY OF WINDOM, MINNESOTA
OFFICIAL DIRECTORY
DECEMBER 31, 2015**

Elected Officials

Term Expires

Mayor	Corey Maricle	December 31, 2016
Council Member	Brian Cooley	December 31, 2016
Council Member	JoAnn Ray	December 31, 2016
Council Member	Dominic Jones	December 31, 2018
Council Member	Paul Johnson	December 31, 2018
Council Member	Bryan Joyce	December 31, 2018

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Windom (the City), Minnesota as of and for the year ended December 31, 2015, and the related notes to the financial statements which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Windom as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows, and budgetary comparison for the General Fund, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter Regarding Change in Accounting Principle

As discussed in Note 13 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 68, *Accounting and Financial Reporting for Pensions* and the related GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. Our opinions were not modified with respect to this matter.

Emphasis of a Matter Regarding the Correction of an Error

As discussed in Note 13 to the financial statements, the City has restated its January 1, 2015 net position to include the balances and activity for the hospital and hospital foundation component units. Our opinions were not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of the City's proportionate share of the net pension liability, schedule of the City's contributions, and fire relief association – schedule of changes in the net pension asset and related ratios, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board 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.

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

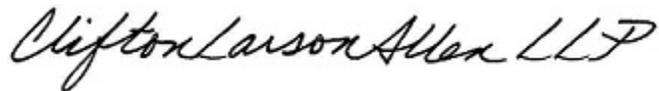
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Windom's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2016, on our consideration of the City of Windom'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 to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Windom's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Austin, Minnesota
June 28, 2016

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REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

As management of the City of Windom (the City), Minnesota, we offer readers of the City of Windom's financial statements this narrative overview and analysis of the financial activities of the City of Windom for the fiscal year ended December 31, 2015.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the City of Windom exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$50,202,159 (net position). The unrestricted portion of net position, the portion used to meet the City's ongoing obligations to citizens and creditors, is \$21,321,147.
- The City's total net position increased by \$1,872,326 from 2014.
- As of the close of the current fiscal year, the City of Windom's governmental funds reported a combined ending fund balance of \$6,452,167, a decrease of (\$880,239) in comparison with the prior year. The overall *unassigned fund balance* is \$1,825,516.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,309,208 or 63% of total 2015 general fund expenditures. This is below the City policy of 75% of next years' budgeted general fund expenditures but there is a plan in place to replenish this fund balance within three years.
- The City of Windom's total long-term debt increased by \$2,844,656 or 11.1% during the current fiscal period. This increase is attributed to issuance of \$5,546,800 Gross Revenue Hospital Bonds Series 2014A.
- The City of Windom continues to market developed lots in the NWIP and sold lots to Ryan Company for a warehouse building that is to be used by The Toro Company. This warehouse is estimated to be valued at \$7-8 million. The EDA is also pursuing funding for NWIP Phase II project and is pursuing a large manufacturing project.
- The City and utility staff are working on a conversion of the City's utility billing system. This new system will assist with efficiencies, more accurate billings and provide on-line features for customers. The planned implementation date is June 2016.
- The Water, Wastewater, and Electric Departments completed the installation of new electric and water meters for every residential and commercial customer during 2015. The new radio read meters will save time and provide for more accurate readings. The new meters replace many meters that were 20-30 years old.

This discussion and analysis are intended to serve as an introduction to the City of Windom's basic financial statements. The City of Windom's basic financial statements consist of three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the financial statements

This report also contains other supplementary information in addition to the basic financial statements themselves.

**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-Wide Financial Statements

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

The *statement of net position* presents information on all of the City of Windom's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Windom is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the City of Windom that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their cost through user fees and charges (*business-type activities*). The governmental activities of the City of Windom include general government, public safety, public works, culture and recreation, and community development. The business-type activities of the City of Windom include an electric, water, and wastewater utility, municipal liquor store, telecom operation, arena facility, multi-purpose center, hospital operation, and River Bluff townhomes.

The government-wide financial statements can be found on pages 18-20 of this report.

Fund Financial Statements

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

Governmental Funds

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

**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (Continued)

Governmental Funds (Continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the city's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental functions* and *governmental activities*.

The City of Windom maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and economic development fund which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregate presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The basic governmental fund financial statements can be found on pages 21-25 of this report.

Proprietary Funds

The City of Windom maintains nine proprietary funds. *Proprietary Funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Windom uses proprietary funds to account for its water, wastewater, and electric utilities, liquor store operation, telecom operation, arena operation, multi-purpose center operation, hospital operation, and River Bluff Townhomes.

The proprietary fund statements provide the same type of information as business-type activities in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, wastewater and electric utilities, municipal liquor store operation, telecom operation, and hospital operation, all of which are considered to be major funds of the City of Windom. The basic proprietary fund financial statements can be found on pages 26-33 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 34-70 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Other Information

The combining statements referred to earlier in conjunction with nonmajor governmental and proprietary funds are presented immediately following the financial statement footnotes. Combining and individual fund statements can be found on pages 74-80.

**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Other Information

As noted earlier, net position may serve over time as a useful indicator of a city's financial position. In the case of the City of Windom, total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$50,202,159 at the close of the most recent fiscal year compared to \$50,553,140 at the end of 2014.

Approximately 40% of the City of Windom's net position reflects its net investment in capital assets (e.g. land, buildings, machinery, equipment, and infrastructure), less any related debt outstanding used to acquire those assets. The City of Windom uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Windom's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. At the end of 2015, \$9,446,057 of assets were restricted for debt service payments leaving the remaining balance of \$21,321,147 as unrestricted net position that may be used to meet the City's ongoing obligations.

CITY OF WINDOM'S NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	As Restated 2014	2015	2014
ASSETS						
Current and Other Assets	\$ 8,060,320	\$ 8,782,177	\$ 30,721,794	\$ 27,092,468	\$ 38,782,114	\$ 35,874,645
Capital Assets	16,212,503	15,863,955	31,357,541	28,239,328	47,570,044	44,103,283
Total Assets	24,272,823	24,646,132	62,079,335	55,331,796	86,352,158	79,977,928
DEFERRED OUTFLOWS OF RESOURCES	246,720	-	201,434	-	448,154	-
LIABILITIES						
Noncurrent Liabilities Outstanding	6,605,352	6,899,341	23,136,892	17,672,951	29,742,244	24,572,292
Other Liabilities	1,268,089	973,632	5,353,602	3,878,864	6,621,691	4,852,496
Total Liabilities	7,873,441	7,872,973	28,490,494	21,551,815	36,363,935	29,424,788
DEFERRED INFLOWS OF RESOURCES	83,967	-	150,251	-	234,218	-
Net Position:						
Net Investment in Capital Assets	10,493,304	10,416,740	8,941,651	10,533,480	19,434,955	20,950,220
Restricted	1,027,028	1,629,874	8,419,029	-	9,446,057	1,629,874
Unrestricted	4,959,683	4,726,545	15,878,666	23,246,501	20,838,349	27,973,046
Total Net Position	\$ 16,480,015	\$ 16,773,159	\$ 33,239,346	\$ 33,779,981	\$ 49,719,361	\$ 50,553,140

2014 information has not been restated for GASBS No. 68 and 71.

**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Governmental Activities

Governmental activities decreased the City of Windom's net position by (\$211,024). This decrease is related to a prior period adjustment of (876,921) to recognize net pension liability attributed to prior year expense. Without the prior period adjustment, the net position would have increased by \$665,897 during 2015. The most significant change in governmental net position is due to the effect of accounting for net position under the full accrual basis. Under full accrual accounting, the property taxes collected in debt service funds were used to reduce debt obligations. These debt obligations were accrued as expenses in prior years. Also contributing to the net position increase was the use of property taxes collected for capital expenditures that were capitalized as long term assets instead of current expenditures.

Business-Type Activities

Business-type activities decreased the City of Windom's net position by (\$139,957). This decrease includes a prior period adjustment of (\$1,346,386) related to the recognition of net pension liability attributed to prior year expense. Without the prior period adjustment, net position for business activities would have increased by \$1,206,429 during 2015. Electric and water utilities, municipal liquor store operation, and hospital operation all recorded positive contributions to net position.

City of Windom's Changes in Net Position

Condensed statements of revenues, expenses, and changes in net position highlights are as follows for the year ended December 31:

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	As Restated 2015	As Restated 2014	2015	2014
REVENUES						
Program Revenues:						
Fees, Charges, Fines and Other	\$ 1,162,213	\$ 1,110,870	\$ 29,076,568	\$ 27,913,808	\$ 30,238,781	\$ 29,024,678
Operating Grants and Contributions	518,354	203,232	-	-	518,354	203,232
Capital Grants and Contributions	73,554	445,457	48,653	72,759	122,207	518,216
General Revenues:						
Property Taxes	1,377,779	1,335,474	362,860	414,990	1,740,639	1,750,464
Tax Increments	254,905	160,621	-	-	254,905	160,621
Other Taxes	27,236	25,952	-	-	27,236	25,952
Grants and Contributions, Not Restricted	1,442,062	1,418,008	70,075	14,374	1,512,137	1,432,382
Unrestricted Interest Income	32,190	25,445	99,837	86,089	132,027	111,534
Unrestricted Investment Earnings (Loss)	(5,089)	(9,046)	(16,905)	(16,706)	(21,994)	(25,752)
Gain(Loss) on Disposal of Capital Assets	102,585	53,334	(22,793)	(16,277)	79,882	37,057
Total Revenues	<u>4,985,789</u>	<u>4,769,347</u>	<u>29,618,385</u>	<u>28,469,037</u>	<u>34,604,174</u>	<u>33,238,384</u>
EXPENSES						
General Government	730,351	463,253	-	-	730,351	463,253
Public Safety	1,632,108	1,495,438	-	-	1,632,108	1,495,438
Public Works	1,018,331	1,210,082	-	-	1,018,331	1,210,082
Culture and Recreation	494,523	440,906	-	-	494,523	440,906
Economic Development	576,272	557,399	-	-	576,272	557,399
Interest on Long-Term Debt	136,168	204,595	-	-	136,168	204,595
Electric	-	-	5,661,539	5,480,508	5,661,539	5,480,508
Water	-	-	963,641	937,322	963,641	937,322
Wastewater	-	-	1,248,946	1,234,060	1,248,946	1,234,060
Liquor Store	-	-	1,615,796	1,462,605	1,615,796	1,462,605
Telecom	-	-	2,984,822	2,868,895	2,984,822	2,868,895
Arena	-	-	332,502	311,397	332,502	311,397
Multi-Purpose	-	-	324,461	314,912	324,461	314,912
River Bluff Townhomes	-	-	76,338	85,641	76,338	85,641
Windom Area Hospital	-	-	14,936,050	14,360,996	14,936,050	14,360,996
Total Expenses	<u>4,587,753</u>	<u>4,371,673</u>	<u>28,144,095</u>	<u>27,056,336</u>	<u>32,731,848</u>	<u>31,428,009</u>
Increase in Net Position Before Transfers	398,036	397,674	1,474,290	1,412,701	1,872,326	1,810,375
Transfers	267,861	282,898	(267,861)	(282,898)	-	-
CHANGE IN NET POSITION	<u>665,897</u>	<u>680,572</u>	<u>1,206,429</u>	<u>1,129,803</u>	<u>1,872,326</u>	<u>1,810,375</u>
Net Position - Beginning of Year, As Previously Stated	16,773,159	16,092,587	33,779,981	12,020,383	50,553,140	28,112,970
Change in Accounting Principle	(876,921)	-	(1,346,386)	-	(2,223,307)	-
Correction of an Error	-	-	-	20,629,795	-	20,629,795
Net Position - Beginning of Year, As Restated	<u>15,896,238</u>	<u>16,092,587</u>	<u>32,433,595</u>	<u>32,650,178</u>	<u>48,329,833</u>	<u>48,742,765</u>
NET POSITION - END OF YEAR	<u>\$ 16,562,135</u>	<u>\$ 16,773,159</u>	<u>\$ 33,640,024</u>	<u>\$ 33,779,981</u>	<u>\$ 52,425,466</u>	<u>\$ 50,553,140</u>

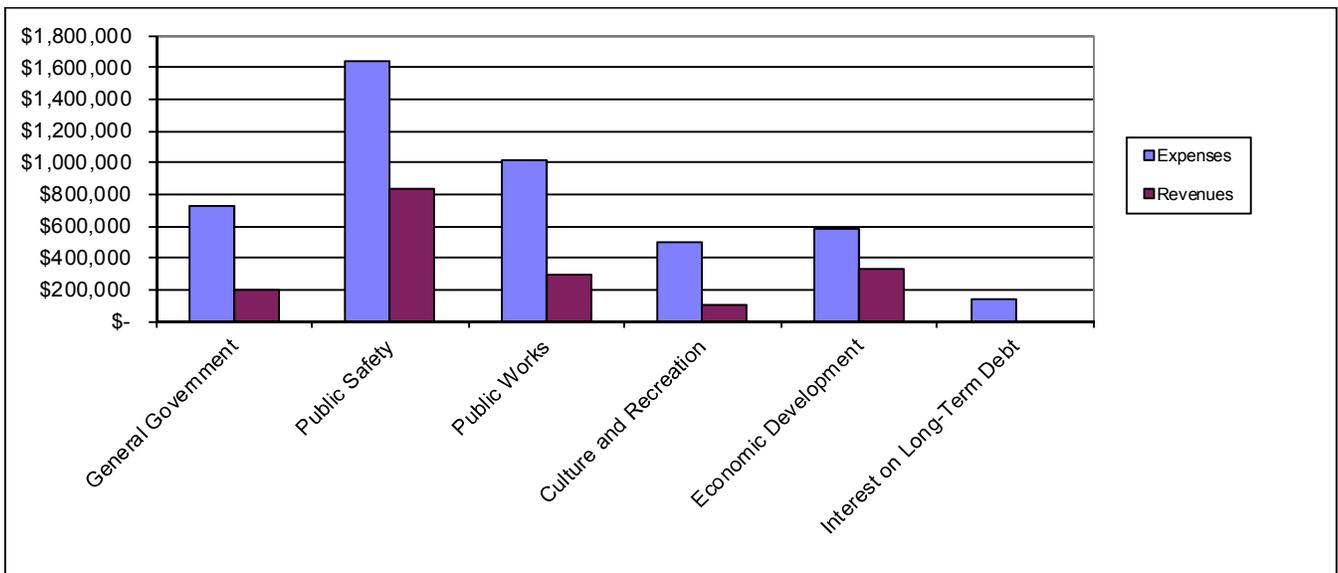
**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

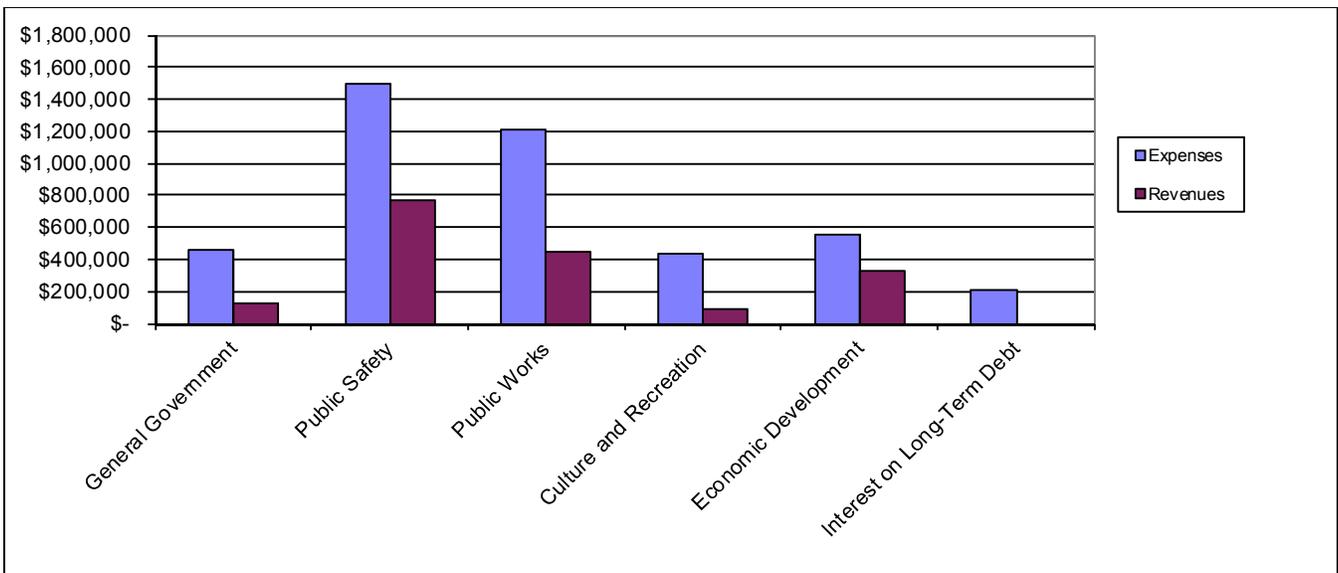
City of Windom's Changes in Net Position (Continued)

Below are specific graphs that provide comparisons of the governmental activities' direct program revenues with their expenditures. Any shortfalls in direct revenues are primarily supported by property tax levy or general state aid.

**2015
Expenses and Program Revenues-Governmental Activities**



**2014
Expenses and Program Revenues-Governmental Activities**



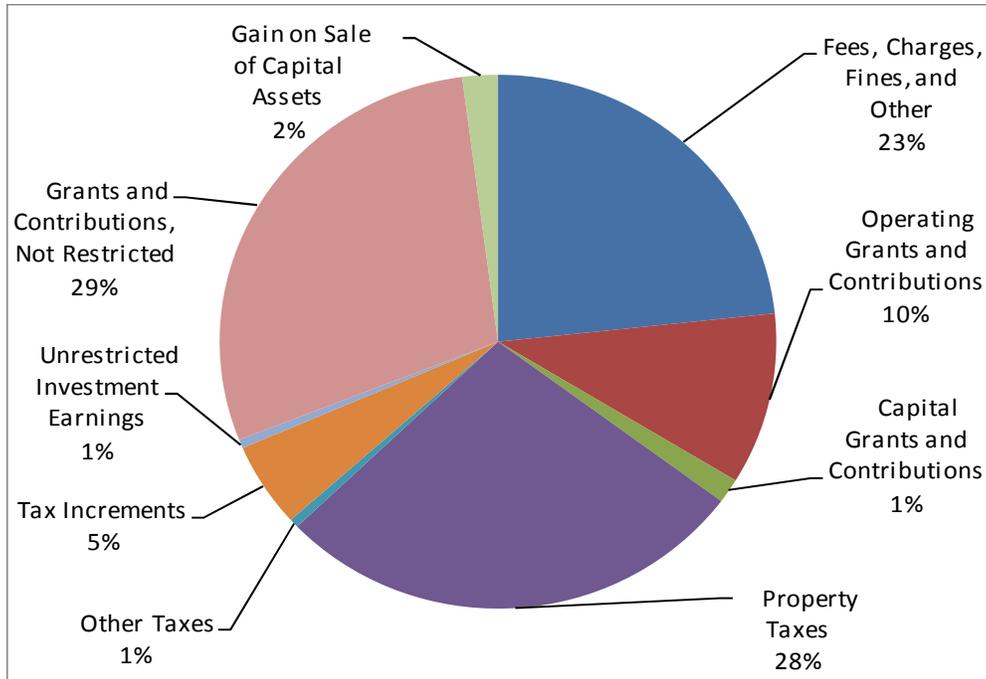
**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

City of Windom's Changes in Net Position (Continued)

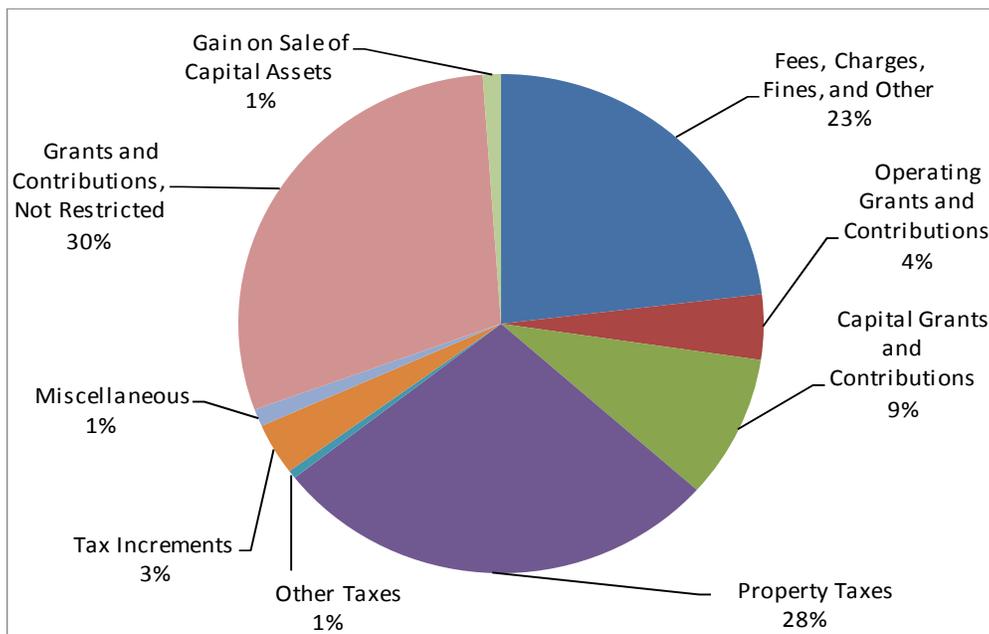
2015

Revenues by Source-Governmental Activities



2014

Revenues by Source-Governmental Activities



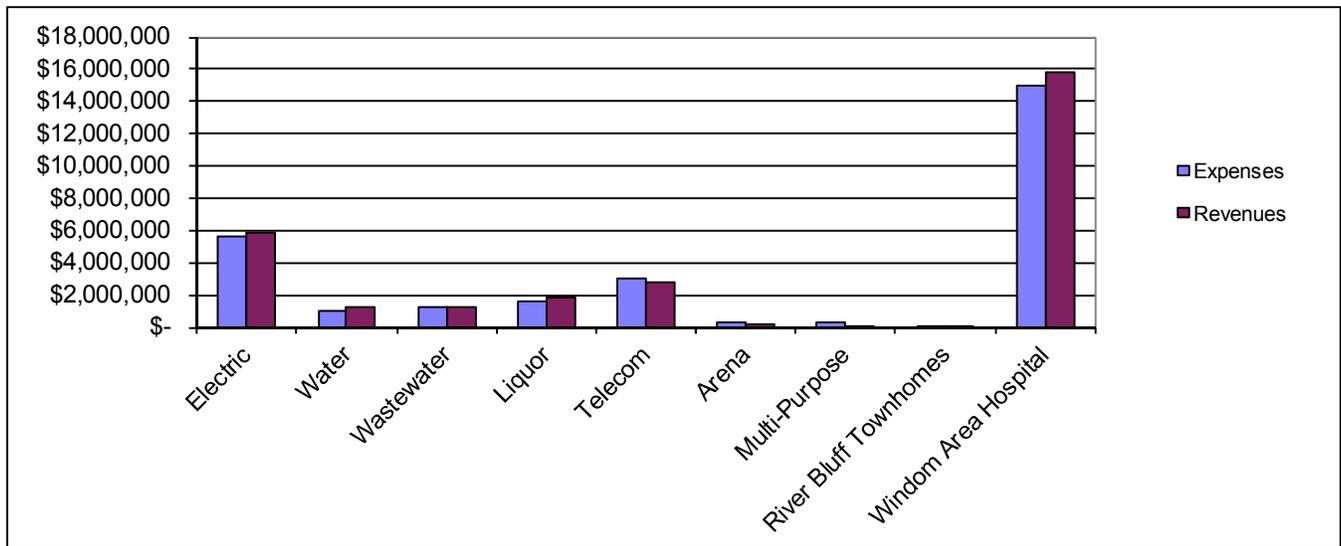
**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

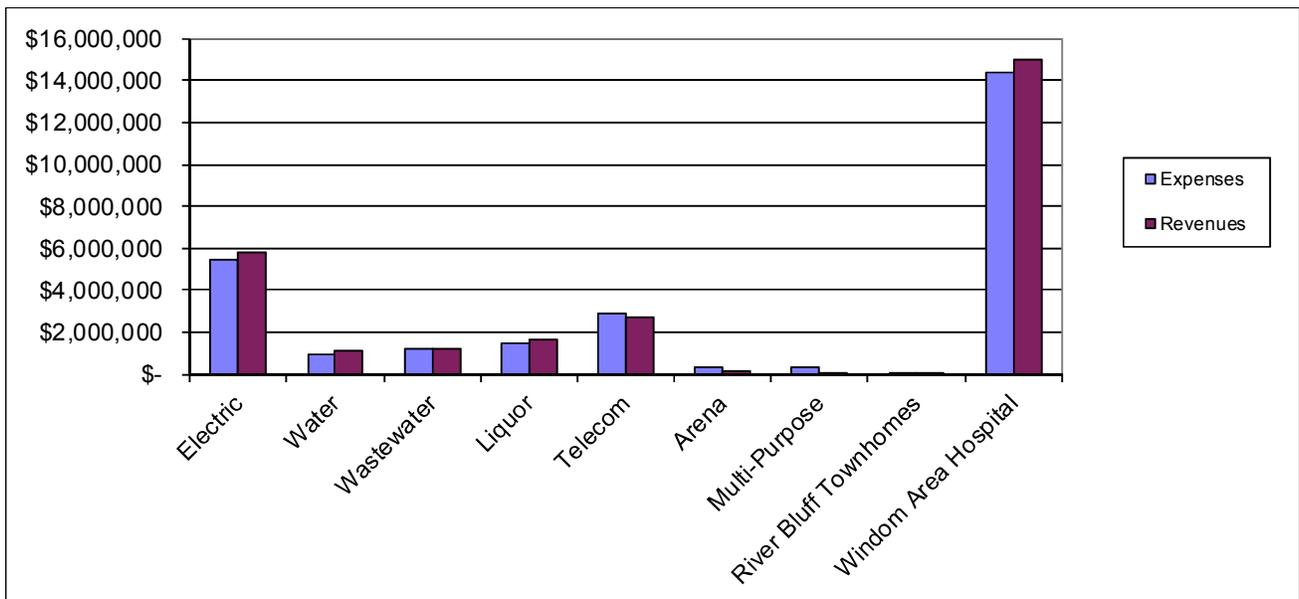
City of Windom's Changes in Net Position (Continued)

Below are specific graphs that provide comparisons of the business-type activities' direct program revenues with their expenditures. Excess revenues are retained within each fund until such time that capital replacement is needed.

**2015
Expenses and Program Revenues – Business-Type Activities**



**2014
Expenses and Program Revenues – Business-Type Activities**

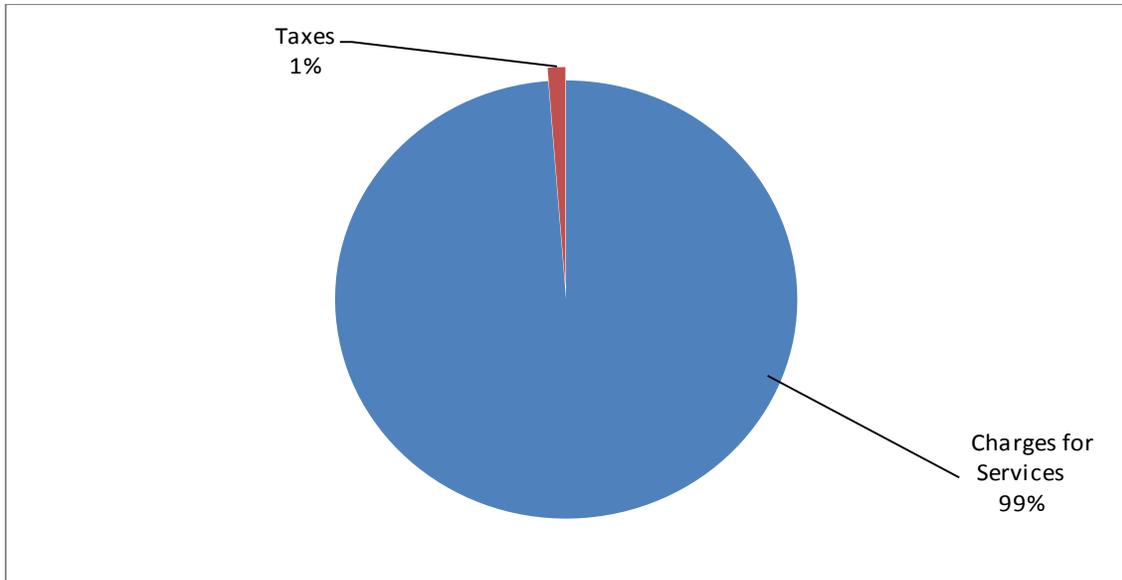


**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

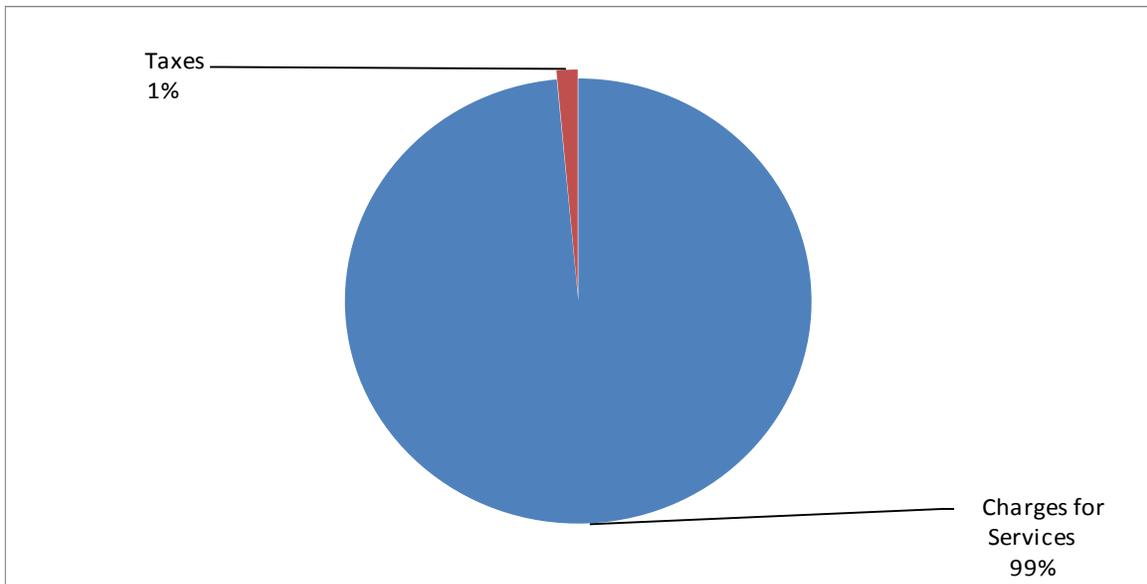
GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

City of Windom's Changes in Net Position (Continued)

**2015
Revenues by Source – Business-Type Activities**



**2014
Revenues by Source – Business-Type Activities**



Note: Other income amounts for developer installed utilities and contributed capital from other funds are not included in revenues in the above charts.

**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds

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

As of the end of the current fiscal year, the City of Windom's governmental funds reported combined ending fund balances of \$7,486,104 a decrease of (\$880,239) in comparison with 2014. The City reported an unassigned fund balance in the amount of \$1,825,516. Fund balance of \$33,306 is nonspendable and \$2,371,027 restricted to indicate that it is not available for new spending. At December 31, 2015 fund balances were as follows:

	Balance	Increase (Decrease) From 2014
General Fund	\$ 2,598,018	\$ (232,660)
Economic Development Fund	1,372,769	(134,420)
Other Governmental Funds	2,481,380	(513,159)
Total	\$ 6,452,167	\$ (880,239)

The general fund is the chief operating fund of the City of Windom. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,309,208.

During the current fiscal year, the City of Windom's general fund balance decreased by (\$232,660). The decrease was a result of using reserve funds to self-finance a large equipment purchase as well as forward funding engineering costs related to Emergency Services Facility project. The City plans to reimburse the general fund for these cash outlays in future years.

The decrease in the economic development fund balance was related to use of funds on the extension of Commerce Boulevard in the North Windom Industrial Park as well as use of remaining balances in decertified TIF districts for qualified projects.

The decrease in fund balance in the other governmental funds was due to use of bond refunding funds received in prior years to payoff remaining principal on the 2007B bond that was refunded with 2012A bonds issued during 2012.

**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

FINANCIAL ANALYSIS OF THE CITY'S FUNDS (CONTINUED)

Proprietary Funds

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

Total net position in the electric fund at the end of 2015 was \$9,585,957, of which \$5,828,189 is unrestricted. Net position decreased (\$263,467) during the current year primarily due to the prior period adjustment of (\$352,079) to recognize net pension liability attributed to prior years expenses.

The water fund has total net position of \$3,771,483, of which \$596,734 is unrestricted. The increase in net position of \$423,330 was related to a 2015 rate increase to meet future debt service payments and increased commercial water revenue from a large industrial customer.

The wastewater fund has total net position of \$4,436,628, of which \$526,407 is unrestricted. The net position of the wastewater fund decreased by (\$426,402) during 2015. This decrease is mostly related to reduction in revenue as a result of closing of the PM Windom facility. Also contributing to the decrease was a transfer of funds from the wastewater fund to the water fund of \$275,514 for ½ of water meter replacement costs incurred during 2015.

The liquor fund has total net position of \$1,082,574. It has unrestricted net position of \$929,221. The prior period adjustment for net pension liability of (\$127,738) almost completely offset the contribution to net position from daily operations of \$128,631.

The telecom fund reported a deficit net position of (\$8,535,839), a decrease from 2014 by \$491,781. The prior period adjustment for net pension liability of (\$308,244) is the majority of the decrease. Also contributing to the decrease were increased expenses for data and video services. The telecom fund increased their service rates in the middle of 2015 to cover cost increases and recapture margin on their services. Rates will be reviewed annually or more frequently as needed to retain margin on services in the telecom fund.

The hospital fund has total net position of \$22,146,785. The net position for the hospital fund increased \$863,218 during 2015.

GENERAL FUND BUDGETARY HIGHLIGHTS

Revenues were over budget due mainly to one time street assistance funds received from the state as well as receipt of supplemental state aid payments for fire and police that were not planned. Expenditures came in over budget due to self-funding of a large equipment purchase as well as forward funding of engineering costs related to Emergency Services Facility project.

**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City of Windom's investment in capital assets for its governmental and business-type activities as of December 31, 2015, amounts to \$47,570,044 (net of accumulated depreciation). This investment in capital assets includes land, buildings, infrastructure, machinery and equipment, office equipment and furniture, and construction in progress. The total increase in the City of Windom's investment in capital assets (net of accumulated depreciation) was \$3,466,761 when compared to 2014. Detailed information about the City's capital assets is presented in the notes to the financial statements.

**CITY OF WINDOM'S CAPITAL ASSETS
(Net of Accumulated Depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 232,961	\$ 232,961	\$ 519,018	\$ 519,018	\$ 751,979	\$ 751,979
Buildings and Building Improvements	7,060,062	7,268,435	21,452,624	22,420,596	28,512,686	29,689,031
Infrastructure	7,282,117	7,240,288	-	-	7,282,117	7,240,288
Machinery and Equipment	1,575,597	1,047,425	5,075,630	4,989,062	6,651,227	6,036,487
Office Equipment and Furniture	61,766	74,846	159,815	139,146	221,581	213,992
Construction in Progress	-	-	4,150,454	171,506	4,150,454	171,506
Total	<u>\$ 16,212,503</u>	<u>\$ 15,863,955</u>	<u>\$ 31,357,541</u>	<u>\$ 28,239,328</u>	<u>\$ 47,570,044</u>	<u>\$ 44,103,283</u>

Long-Term Debt

At the end of the current fiscal year, the City of Windom had total long-term debt outstanding of \$28,516,535. The City of Windom's total long-term debt increased by \$2,844,656 or 11.1% during the current fiscal period. Detailed information about the City's debt and other long-term liabilities is presented in the notes to the financial statements.

The City of Windom maintained an A+ rating from Standard & Poor's for general obligation debt.

**CITY OF WINDOM'S OUTSTANDING DEBT
(General Obligation)**

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
G.O. Bonds	\$ 5,625,000	\$ 6,801,000	\$ 2,320,000	\$ 2,759,000	\$ 7,945,000	\$ 9,560,000
Revenue Bonds	-	-	19,176,782	14,572,400	19,176,782	14,572,400
Notes Payable	388,079	464,503	1,006,674	1,074,976	1,394,753	1,539,479
Total	<u>\$ 6,013,079</u>	<u>\$ 7,265,503</u>	<u>\$ 22,503,456</u>	<u>\$ 18,406,376</u>	<u>\$ 28,516,535</u>	<u>\$ 25,671,879</u>

**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The electric utility completed a retail electric rate study in 2015 sponsored by CMMPA. The study evaluated the costs of serving each customer class and proposed rates for all classes. This study will also compare Windom's rates to other utilities and provide benchmarking information in several areas such as cash reserves, transfers, line loss and rate design. The Electric rates were increased 3.5% in 2015 and rate classes adjusted according to the recommendations presented in the rate study.
- In December 2015, PM Windom closed its facility. PM Windom was a significant user of utility services and as a result electric, water, and wastewater will sustain significant reductions in revenue in the future. In response the City's Utility Commission passed an increase to the wastewater rates to insure fund stability and also incorporated the PM Windom closure into the electric rate study completed during 2015.
- Increased programming expenses for video and bandwidth transport costs in the telecom fund resulted in higher costs for the system. New packages were formed and implemented in mid-2015 with the intent to have the telecom fund break-even for video services. Continued system improvements and cost-benefit analysis along with annual pricing changes are planned to make the fund self-supporting for the long-term.
- Interest rates have remained low and the City's investment earnings have decreased accordingly.
- Previously the EDA contracted the completion of a hotel feasibility study for the City of Windom. The EDA has a signed purchase agreement with a hotel developer and two more developers in the queue if the first proposed project fails to get started. The EDA will continue to work with these prospective developers on a potential project.
- The EDA partnered with HRA and Minnesota Housing Finance Agency to complete 2014 Windom Housing Study. The EDA has provided the report to several potential housing developers and has maintained contact with the potential developers through the present time. In addition, the City has a partnership with the Windom Area School District to develop single-family lots on excess property owned by the school. The Prairie Meadow subdivision is planned to have the first 10 lots available in Spring 2016.
- The City of Windom continues to move ahead with a possible facility construction project for Emergency Services (Fire and Ambulance). The City is working to secure state bonding funds for the proposed \$4.5 million project.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Windom's finances for all of those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Administrator, City of Windom, 444 9th Street, P.O. Box 38, Windom, Minnesota, 56101.

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BASIC FINANCIAL STATEMENTS

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**CITY OF WINDOM, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2015**

	2015			April 30, 2015
	Governmental Activities	Business-Type Activities	Total	Windom Area Hospital Foundation
ASSETS				
Cash and Investments	\$ 5,093,164	\$ 16,554,575	\$ 21,647,739	\$ 199,677
Cash and Investments with Fiscal Agent	-	8,819,707	8,819,707	-
Restricted Cash and Investments	-	405,933	405,933	106,675
Taxes Receivable	56,354	-	56,354	-
Special Assessments Receivable	1,064,144	256,740	1,320,884	-
Accounts Receivable	433,679	3,572,613	4,006,292	-
Due from Other Governments	42,896	-	42,896	-
Internal Balances	(11,200)	11,200	-	-
Inventory	22,306	916,078	938,384	-
Prepaid Items	11,000	173,471	184,471	-
Loans Receivable	63,191	-	63,191	-
Land Held for Resale	970,746	-	970,746	-
Net Pension Asset	314,040	-	314,040	-
Capital Assets:				
Land and Construction in Progress	232,961	4,669,472	4,902,433	-
Other Capital Assets, Net of Depreciation	15,979,542	26,688,069	42,667,611	-
Total Assets	24,272,823	62,079,335	86,352,158	306,352
DEFERRED OUTFLOWS OF RESOURCES				
Pension Related	246,720	201,434	448,154	-
LIABILITIES				
Accounts and Contracts Payable	91,995	2,716,826	2,808,821	-
Other Accrued Liabilities	109,122	912,530	1,021,652	-
Accrued Interest Payable	58,691	58,689	117,380	-
Unearned Revenue	202	462,010	462,212	-
Long-Term Liabilities:				
Due within One Year	1,008,079	1,203,547	2,211,626	-
Due in More than One Year	5,324,406	21,693,989	27,018,395	-
Net Pension Liability	1,280,946	1,442,903	2,723,849	-
Total Liabilities	7,873,441	28,490,494	36,363,935	-
DEFERRED INFLOWS OF RESOURCES				
Pension Related	83,967	150,251	234,218	-
NET POSITION				
Net Investment in Capital Assets	10,493,304	8,941,651	19,434,955	-
Restricted for:				
Specific Donor Restriction	82,120	-	82,120	106,675
Debt Service	1,027,028	400,678	1,427,706	-
Construction	-	8,419,029	8,419,029	-
Unrestricted	4,959,683	15,878,666	20,838,349	199,677
Total Net Position	\$ 16,562,135	\$ 33,640,024	\$ 50,202,159	\$ 306,352

See accompanying Notes to Financial Statements.

**CITY OF WINDOM, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015**

Functions/Programs	2015			
	Expenses	Program Revenues Fees, Charges, Fines and Other	Operating Grants and Contributions	Capital Grants
Governmental Activities:				
General Government	\$ 730,351	\$ 89,926	\$ 76,773	\$ 25,617
Public Safety	1,632,108	701,178	130,039	-
Public Works	1,018,331	178,326	95,044	22,300
Culture and Recreation	494,523	88,039	16,998	-
Economic Development	576,272	104,744	199,500	25,637
Interest on Long-Term Debt	136,168	-	-	-
Total Governmental Activities	<u>4,587,753</u>	<u>1,162,213</u>	<u>518,354</u>	<u>73,554</u>
Business-Type Activities:				
Electric	5,661,539	5,905,526	-	-
Water	963,641	1,279,949	-	25,569
Wastewater	1,248,946	1,192,113	-	20,584
Liquor	1,615,796	1,810,485	-	-
Telecom	2,984,822	2,801,140	-	-
Arena	332,502	142,975	-	-
Multi-Purpose Center	324,461	84,228	-	-
River Bluff Townhomes	76,338	91,884	-	-
Windom Area Hospital	14,936,050	15,768,268	-	2,500
Total Business-Type Activities	<u>28,144,095</u>	<u>29,076,568</u>	<u>-</u>	<u>48,653</u>
 Total Primary Government	 <u>\$ 32,731,848</u>	 <u>\$ 30,238,781</u>	 <u>\$ 518,354</u>	 <u>\$ 122,207</u>
 Component Unit				
Windom Area Hospital Foundation	<u>\$ 28,522</u>	<u>\$ -</u>	<u>\$ 63,623</u>	<u>\$ -</u>

General Revenues:

Taxes:

Property Taxes, Levied for General Purpose
Tax Increments
Other Taxes

Grants and Contributions not Restricted to Specific Programs

Unrestricted Interest Income

Unrestricted Investment Earnings (Loss)

Loss on Sale of Capital Assets

Gain on Sale of Land Held for Resale

Miscellaneous

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning of Year, As Previously Stated

Change in Accounting Principle

Correction of Error

Net Position - Beginning of Year, As Restated

NET POSITION - END OF YEAR

See accompanying Notes to Financial Statements.

2015			
Net (Expense) Revenue and Changes in Net Position			
Governmental Activities	Business-Type Activities	Total	April 30, 2015 Windom Area
\$ (538,035)	\$ -	\$ (538,035)	\$ -
(800,891)	-	(800,891)	-
(722,661)	-	(722,661)	-
(389,486)	-	(389,486)	-
(246,391)	-	(246,391)	-
(136,168)	-	(136,168)	-
<u>(2,833,632)</u>	<u>-</u>	<u>(2,833,632)</u>	<u>-</u>
-	243,987	243,987	-
-	341,877	341,877	-
-	(36,249)	(36,249)	-
-	194,689	194,689	-
-	(183,682)	(183,682)	-
-	(189,527)	(189,527)	-
-	(240,233)	(240,233)	-
-	15,546	15,546	-
-	834,718	834,718	-
<u>-</u>	<u>981,126</u>	<u>981,126</u>	<u>-</u>
(2,833,632)	981,126	(1,852,506)	-
-	-	-	35,101
1,377,779	362,860	1,740,639	-
254,905	-	254,905	-
27,236	-	27,236	-
1,442,062	70,075	1,512,137	-
32,190	99,837	132,027	-
(5,089)	(16,905)	(21,994)	-
-	(22,703)	(22,703)	-
102,585	-	102,585	-
-	-	-	1,674
267,861	(267,861)	-	-
<u>3,499,529</u>	<u>225,303</u>	<u>3,724,832</u>	<u>1,674</u>
665,897	1,206,429	1,872,326	36,775
16,773,159	12,496,414	29,269,573	269,577
(876,921)	(1,346,386)	(2,223,307)	-
-	21,283,567	21,283,567	-
<u>15,896,238</u>	<u>32,433,595</u>	<u>48,329,833</u>	<u>269,577</u>
<u>\$ 16,562,135</u>	<u>\$ 33,640,024</u>	<u>\$ 50,202,159</u>	<u>\$ 306,352</u>

**CITY OF WINDOM, MINNESOTA
GOVERNMENTAL FUNDS
BALANCE SHEET
DECEMBER 31, 2015**

	General Fund	Economic Development Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 2,140,280	\$ 174,617	\$ 2,752,261	\$ 5,067,158
Property Taxes Receivable	56,354	-	-	56,354
Special Assessments Receivable:	-	46,823	1,017,321	1,064,144
Accounts Receivable	60,897	199,500	216,178	476,575
Due from Other Funds	483,692	-	-	483,692
Inventory	22,306	-	-	22,306
Prepaid Expenses	1,000	10,000	-	11,000
Loans Receivable, Net of Allowance	-	63,191	-	63,191
Land Held for Resale	-	970,746	-	970,746
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 2,764,529</u>	<u>\$ 1,464,877</u>	<u>\$ 3,985,760</u>	<u>\$ 8,215,166</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICITS)				
LIABILITIES				
Accounts and Contracts Payable	\$ 88,439	\$ 3,986	\$ 2,874	\$ 95,299
Other Accrued Liabilities	44,829	30,099	4,884	79,812
Due to Other Funds	-	-	483,692	483,692
Interfund Advance Payable	-	11,200	-	11,200
Unearned Revenue	202	-	-	202
Total Liabilities	<u>133,470</u>	<u>45,285</u>	<u>491,450</u>	<u>670,205</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	33,041	46,823	1,012,930	1,092,794
FUND BALANCES (DEFICITS)				
Nonspendable	23,306	10,000	-	33,306
Restricted	82,120	328,832	926,138	1,337,090
Committed	-	1,033,937	1,658,518	2,692,455
Assigned	183,384	-	380,416	563,800
Unassigned	2,309,208	-	(483,692)	1,825,516
Total Fund Balances (Deficits)	<u>2,598,018</u>	<u>1,372,769</u>	<u>2,481,380</u>	<u>6,452,167</u>
Total Liabilities and Fund Balances	<u>\$ 2,764,529</u>	<u>\$ 1,464,877</u>	<u>\$ 3,985,760</u>	<u>\$ 8,215,166</u>

See accompanying Notes to Financial Statements.

**CITY OF WINDOM, MINNESOTA
GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2015**

	2015
Total Fund Balance for Governmental Funds	\$ 6,452,167
Total net position reported for governmental activities in the statement of net position is different because:	
Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:	
Land	232,961
Buildings and Building Improvements	9,108,427
Machinery and Equipment	7,817,654
Infrastructure	15,748,466
Office Equipment and Furniture	95,918
Less: Accumulated Depreciation	(16,790,923)
Some of the City's property taxes, special assessments, and other receivables will be collected after year-end, but are not available soon enough to pay for the current-period's expenditures and, therefore, are reported as unavailable revenue in the governmental funds.	1,092,794
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Accrued interest for general obligation bonds is included in the statement of net position.	(58,691)
The City's net pension asset is recorded only on the statement of net position.	314,040
Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Balances at year-end are:	
Bonds Payable	(5,625,000)
Unamortized Discounts and Premium	(69,870)
Note Payable	(388,079)
Deferred Outflows of Resources - Pensions	246,720
Deferred Inflows of Resources - Pensions	(83,967)
Net Pension Liability	(1,280,946)
Compensated Absences Payable	(249,536)
Total Net Position of Governmental Activities	\$ 16,562,135

See accompanying Notes to Financial Statements.

**CITY OF WINDOM, MINNESOTA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED DECEMBER 31, 2015**

	General Fund	Economic Development Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
General Property Taxes	\$ 834,713	\$ 162,965	\$ 367,569	\$ 1,365,247
Tax Increments	-	254,905	-	254,905
Other Taxes	27,236	-	-	27,236
Licenses and Permits	82,161	-	-	82,161
Intergovernmental	1,755,982	223,074	153,121	2,132,177
Special Assessments	-	10,256	-	10,256
Charges for Services	348,857	400	537,857	887,114
Fines and Forfeits	31,862	-	-	31,862
Interest Income	17,941	1,510	12,739	32,190
Investment Earnings (Loss)	(2,371)	(141)	(2,577)	(5,089)
Refunds and Reimbursements	50,185	-	3,900	54,085
Grants and Contributions	20,906	-	4,590	25,496
Miscellaneous	7,702	104,344	-	112,046
Total Revenues	<u>3,175,174</u>	<u>757,313</u>	<u>1,077,199</u>	<u>5,009,686</u>
EXPENDITURES				
Current:				
General Government	390,919	-	-	390,919
Public Safety	1,230,069	-	320,570	1,550,639
Public Works	665,441	-	12,232	677,673
Sanitation	18,867	-	-	18,867
Culture and Recreation	469,288	-	-	469,288
Economic Development	-	481,806	-	481,806
Capital Outlay:				
General Government	32,049	-	-	32,049
Public Safety	489,388	-	-	489,388
Public Works	300,553	-	19,387	319,940
Culture and Recreation	15,671	-	-	15,671
Economic Development	-	389,212	-	389,212
Debt Service:				
Principal	51,455	44,969	1,156,000	1,252,424
Interest and Fiscal Charges	3,134	18,579	150,782	172,495
Total Expenditures	<u>3,666,834</u>	<u>934,566</u>	<u>1,658,971</u>	<u>6,260,371</u>
Revenue Over (Under) Expenditures	(491,660)	(177,253)	(581,772)	(1,250,685)
OTHER FINANCING SOURCES (USES)				
Transfer In	245,000	22,776	68,613	336,389
Transfer Out	-	(68,528)	-	(68,528)
Sale of Land Held for Resale	-	88,585	-	88,585
Proceeds from Sale of Fixed Assets	14,000	-	-	14,000
Total Other Financing Sources (Uses)	<u>259,000</u>	<u>42,833</u>	<u>68,613</u>	<u>370,446</u>
NET CHANGE IN FUND BALANCE	(232,660)	(134,420)	(513,159)	(880,239)
Fund Balance - Beginning of Year	<u>2,830,678</u>	<u>1,507,189</u>	<u>2,994,539</u>	<u>7,332,406</u>
FUND BALANCE - END OF YEAR	<u>\$ 2,598,018</u>	<u>\$ 1,372,769</u>	<u>\$ 2,481,380</u>	<u>\$ 6,452,167</u>

See accompanying Notes to Financial Statements.

**CITY OF WINDOM, MINNESOTA
RECONCILIATION OF GOVERNMENTAL STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
TO STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015**

	2015
Net Change in Fund Balances-Total Governmental Funds	\$ (880,239)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	
Capital Outlays	1,189,722
Depreciation Expense	(841,174)
Pension expenses on the governmental funds are measured by current year employee contributions. Pension expenditures on the statement of activities are measured by the change in net pension liability and the related deferred inflows and outflows of resources.	
	202,376
The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:	
Repayment of Bond Principal and Note Payable	1,252,424
Change in Accrued Interest Expense for General Obligation Bonds	33,261
Amortization of Bond Discount/Premium	5,085
Change in delinquent and deferred property taxes, special assessments receivable, and other receivables will be collected subsequent to year-end, but are not available soon enough to pay for the current-period's expenditures and, therefore, are deferred in the governmental funds.	
	(272,339)
In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).	
	(23,219)
Change in Net Position of Governmental Activities	\$ 665,897

See accompanying Notes to Financial Statements.

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CITY OF WINDOM, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2015

	2015			
	Original Budget	Final Budget	Actual	Variance from Final Budget
REVENUES				
General Property Taxes	\$ 819,553	\$ 819,553	\$ 834,713	\$ 15,160
Other Taxes	19,500	19,500	27,236	7,736
Licenses and Permits	47,420	47,420	82,161	34,741
Intergovernmental	1,579,947	1,579,947	1,755,982	176,035
Charges for Services	279,600	279,600	348,857	69,257
Fines and Forfeits	26,500	26,500	31,862	5,362
Investment Earnings	400	400	15,570	15,170
Refunds/Reimbursements	37,000	37,000	50,185	13,185
Grants and Contributions	2,000	2,000	20,906	18,906
Miscellaneous	6,000	6,000	7,702	1,702
Total Revenues	<u>2,817,920</u>	<u>2,817,920</u>	<u>3,175,174</u>	<u>357,254</u>
EXPENDITURES				
General Government:				
Mayor and Council:	100,270	100,270	104,048	(3,778)
Financial Administration	168,365	168,365	174,546	(6,181)
Elections	-	-	26	(26)
Building & Zoning	134,775	134,775	130,475	4,300
City Hall	34,040	34,040	33,272	768
Total General Government	<u>437,450</u>	<u>437,450</u>	<u>442,367</u>	<u>(4,917)</u>
Public Safety:				
Police Protection:	1,001,480	1,001,480	927,860	73,620
Fire Protection	141,175	141,175	295,737	(154,562)
Civil Defense	6,425	6,425	4,666	1,759
Animal Control	2,700	2,700	1,806	894
Total Public Safety	<u>1,151,780</u>	<u>1,151,780</u>	<u>1,230,069</u>	<u>(78,289)</u>
Public Works:				
Street Department	559,210	559,210	533,735	25,475
Sanitation	22,000	22,000	18,867	3,133
Airport	94,480	94,480	134,839	(40,359)
Total Public Works	<u>675,690</u>	<u>675,690</u>	<u>687,441</u>	<u>(11,751)</u>
Culture and Recreation:				
Parks	231,045	231,045	202,422	28,623
Library	178,990	178,990	156,819	22,171
Pool	102,695	102,695	110,055	(7,360)
Total Culture and Recreation	<u>512,730</u>	<u>512,730</u>	<u>469,296</u>	<u>43,434</u>
Capital Outlay	279,550	279,550	837,661	(558,111)
Total Expenditures	<u>3,057,200</u>	<u>3,057,200</u>	<u>3,666,834</u>	<u>(609,634)</u>
REVENUES OVER (UNDER) EXPENDITURES	(239,280)	(239,280)	(491,660)	(252,380)
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Assets	-	-	14,000	14,000
Transfer In	245,000	245,000	245,000	-
Total Other Financing Sources (Uses)	<u>245,000</u>	<u>245,000</u>	<u>259,000</u>	<u>14,000</u>
NET CHANGE IN FUND BALANCE	\$ 5,720	\$ 5,720	(232,660)	\$ (238,380)
Fund Balance - Beginning of Year			2,830,678	
FUND BALANCE - END OF YEAR			<u>\$ 2,598,018</u>	

See accompanying Notes to Financial Statements.

**CITY OF WINDOM, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 YEAR ENDED DECEMBER 31, 2015**

ASSETS	<u>Electric</u>	<u>Water</u>	<u>Liquor</u>
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 4,244,995	\$ 583,762	\$ 958,018
Cash and Investments with Fiscal Agent	-	-	-
Restricted Cash and Investments	-	-	-
Accounts Receivable, Net of Allowance	425,009	96,626	15,888
Accrued Interest Receivable	-	-	-
Special Assessments Receivable:	-	176,665	-
Due from Other Funds	1,543,351	-	-
Interfund Advance	11,200	-	-
Inventory	456,129	28,045	177,115
Prepaid Items	66,667	16,667	-
Total Current Assets	<u>6,747,351</u>	<u>901,765</u>	<u>1,151,021</u>
LONG-TERM ASSETS			
Capital Assets:			
Land, Buildings, Infrastructure and Improvements	8,514,635	7,656,753	362,274
Equipment	2,600,247	3,372,553	92,861
Total Capital Assets	<u>11,114,882</u>	<u>11,029,306</u>	<u>455,135</u>
Less: Allowance for Depreciation	(7,357,554)	(5,518,295)	(301,782)
Total Net Capital Assets	<u>3,757,328</u>	<u>5,511,011</u>	<u>153,353</u>
Total Long-Term Assets	<u>3,757,328</u>	<u>5,511,011</u>	<u>153,353</u>
Total Assets	10,504,679	6,412,776	1,304,374
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related	52,675	24,664	19,111
LIABILITIES			
CURRENT LIABILITIES			
Accounts and Contracts Payable	352,251	8,768	69,988
Accrued Expenses	18,528	6,261	5,335
Due to Other Funds	-	-	-
Accrued Interest	-	20,235	-
Unearned Revenue	90,301	-	-
Bonds Payable - Current Portion	-	391,240	-
Total Current Liabilities	<u>461,080</u>	<u>426,504</u>	<u>75,323</u>
LONG-TERM LIABILITIES			
Compensated Absences - Long-Term	94,149	45,383	14,438
Net Pension Liability	377,318	176,671	136,895
Bonds Payable - Long-Term	-	1,999,002	-
Total Long-Term Liabilities	<u>471,467</u>	<u>2,221,056</u>	<u>151,333</u>
Total Liabilities	932,547	2,647,560	226,656
DEFERRED INFLOWS OF RESOURCES			
Pension Related	39,290	18,397	14,255
NET POSITION			
Net Investment in Capital Assets	3,757,328	3,174,749	153,353
Restricted for Construction	-	-	-
Restricted for Debt Service	-	-	-
Unrestricted	5,828,189	596,734	929,221
Total Net Position	<u>\$ 9,585,517</u>	<u>\$ 3,771,483</u>	<u>\$ 1,082,574</u>

<u>Wastewater</u>	<u>Telecom</u>	<u>Windom Area Hospital 4/30/2015</u>	<u>Other Proprietary Funds</u>	<u>Total</u>
\$ 655,169	\$ -	\$ 9,765,676	\$ 346,955	\$ 16,554,575
-	-	8,819,707	-	8,819,707
-	405,933	-	-	405,933
160,647	490,988	2,378,331	5,124	3,572,613
-	-	11,477	-	11,477
80,075	-	-	-	256,740
-	-	-	-	1,543,351
-	-	-	-	11,200
-	68,029	186,760	-	916,078
16,667	-	73,470	-	173,471
<u>912,558</u>	<u>964,950</u>	<u>21,235,421</u>	<u>352,079</u>	<u>32,265,145</u>
11,164,549	4,992,796	12,502,828	4,001,922	49,195,757
1,522,216	5,623,450	6,584,932	661,829	20,458,088
<u>12,686,765</u>	<u>10,616,246</u>	<u>19,087,760</u>	<u>4,663,751</u>	<u>69,653,845</u>
<u>(5,144,743)</u>	<u>(7,674,013)</u>	<u>(9,589,301)</u>	<u>(2,710,616)</u>	<u>(38,296,304)</u>
<u>7,542,022</u>	<u>2,942,233</u>	<u>9,498,459</u>	<u>1,953,135</u>	<u>31,357,541</u>
<u>7,542,022</u>	<u>2,942,233</u>	<u>9,498,459</u>	<u>1,953,135</u>	<u>31,357,541</u>
8,454,580	3,907,183	30,733,880	2,305,214	63,622,686
29,603	46,116	-	29,265	201,434
9,596	172,151	2,082,580	21,492	2,716,826
18,279	46,338	802,715	15,074	912,530
-	1,543,351	-	-	1,543,351
38,137	-	-	317	58,689
-	209,909	155,000	6,800	462,010
117,200	460,000	215,000	20,107	1,203,547
<u>183,212</u>	<u>2,431,749</u>	<u>3,255,295</u>	<u>63,790</u>	<u>6,896,953</u>
61,929	81,963	-	75,782	373,644
212,049	330,341	-	209,629	1,442,903
3,568,284	9,610,686	5,331,800	810,573	21,320,345
<u>3,842,262</u>	<u>10,022,990</u>	<u>5,331,800</u>	<u>1,095,984</u>	<u>23,136,892</u>
4,025,474	12,454,739	8,587,095	1,159,774	30,033,845
22,081	34,399	-	21,829	150,251
3,910,221	(7,128,453)	3,951,659	1,122,794	8,941,651
-	-	8,419,029	-	8,419,029
-	-	400,678	-	400,678
526,407	(1,407,386)	9,375,419	30,082	15,878,666
<u>\$ 4,436,628</u>	<u>\$ (8,535,839)</u>	<u>\$ 22,146,785</u>	<u>\$ 1,152,876</u>	<u>\$ 33,640,024</u>

**CITY OF WINDOM, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 YEAR ENDED DECEMBER 31, 2015**

	Electric	Water	Liquor
OPERATING REVENUES			
Sales	\$ -	\$ -	\$ 1,810,485
Costs of Goods Sold	-	-	(1,290,241)
Charges for Services	5,905,526	1,277,793	-
Charges for Materials and Labor	-	2,156	-
Facility Use/Other Revenue	-	-	-
Total Gross Profit and Operating Revenues	<u>5,905,526</u>	<u>1,279,949</u>	<u>520,244</u>
OPERATING EXPENSES			
Cost of Power	4,185,571	-	-
Personal Services	482,008	284,360	202,069
Other Professional Services	-	-	-
Administrative and General	531,368	257,384	105,691
Depreciation and Amortization	462,592	353,934	17,795
Other Operating Expense	-	12,909	-
Total Operating Expenses	<u>5,661,539</u>	<u>908,587</u>	<u>325,555</u>
OPERATING INCOME (LOSS)	243,987	371,362	194,689
OTHER INCOME (EXPENSES)			
Interest Income	56,036	3,617	5,098
Investment Earnings (Loss)	(13,509)	(760)	(1,154)
Interest Expense	-	(55,054)	-
Gain on Sale of Fixed Assets	(22,902)	-	-
Taxes and Special Assessments	-	25,569	-
Contributions and Reimbursements	-	-	-
Total Other Income (Expense)	<u>19,625</u>	<u>(26,628)</u>	<u>3,944</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	263,612	344,734	198,633
CONTRIBUTIONS AND TRANSFERS			
Transfers In	-	275,514	-
Transfers Out	(175,000)	(32,065)	(70,000)
Capital Contributions (Distributions)	-	-	-
Total Contributions and Transfers	<u>(175,000)</u>	<u>243,449</u>	<u>(70,000)</u>
CHANGE IN NET POSITION	88,612	588,183	128,633
Net Position - Beginning of Year, As Previously Stated	9,848,984	3,348,153	1,081,679
Change in Accounting Principle	(352,079)	(164,853)	(127,738)
Net Position - Beginning of Year, As Restated	<u>9,496,905</u>	<u>3,183,300</u>	<u>953,941</u>
NET POSITION - END OF YEAR	<u>\$ 9,585,517</u>	<u>\$ 3,771,483</u>	<u>\$ 1,082,574</u>

See accompanying Notes to Financial Statements.

Wastewater	Telecom	Windom Area Hospital April 30, 2015	Other Proprietary Funds	Total
\$ -	\$ -	\$ -	\$ -	\$ 1,810,485
-	-	-	-	(1,290,241)
1,192,113	2,801,140	16,125,776	-	27,302,348
-	-	-	-	2,156
-	-	(357,508)	319,087	(38,421)
<u>1,192,113</u>	<u>2,801,140</u>	<u>15,768,268</u>	<u>319,087</u>	<u>27,786,327</u>
-	-	-	-	4,185,571
328,415	489,161	4,202,717	352,113	6,340,843
-	-	4,593,550	-	4,593,550
468,964	1,472,501	5,397,298	259,799	8,493,005
356,686	667,316	742,485	111,349	2,712,157
-	16,223	-	-	29,132
<u>1,154,065</u>	<u>2,645,201</u>	<u>14,936,050</u>	<u>723,261</u>	<u>26,354,258</u>
38,048	155,939	832,218	(404,174)	1,432,069
5,126	70	28,301	1,589	99,837
(1,104)	-	-	(378)	(16,905)
(94,881)	(339,621)	-	(10,040)	(499,596)
-	-	199	-	(22,703)
20,584	-	-	362,860	409,013
70,000	75	-	-	70,075
<u>(275)</u>	<u>(339,476)</u>	<u>28,500</u>	<u>354,031</u>	<u>39,721</u>
37,773	(183,537)	860,718	(50,143)	1,471,790
38,563	-	-	-	314,077
(304,873)	-	-	-	(581,938)
-	-	2,500	-	2,500
<u>(266,310)</u>	<u>-</u>	<u>2,500</u>	<u>-</u>	<u>(265,361)</u>
(228,537)	(183,537)	863,218	(50,143)	1,206,429
4,863,030	(8,044,058)	21,283,567	1,398,626	33,779,981
(197,865)	(308,244)	-	(195,607)	(1,346,386)
<u>4,665,165</u>	<u>(8,352,302)</u>	<u>21,283,567</u>	<u>1,203,019</u>	<u>32,433,595</u>
<u>\$ 4,436,628</u>	<u>\$ (8,535,839)</u>	<u>\$ 22,146,785</u>	<u>\$ 1,152,876</u>	<u>\$ 33,640,024</u>

**CITY OF WINDOM, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 YEAR ENDED DECEMBER 31, 2015**

	Electric	Water	Liquor
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers and Service Users	\$ 6,124,521	\$ 1,299,130	\$ 1,821,616
Cash Paid to Suppliers	(4,744,739)	(314,808)	(1,410,201)
Cash Paid to Employees	(490,500)	(276,334)	(214,110)
Net Cash Provided (Used) by Operating Activities	<u>889,282</u>	<u>707,988</u>	<u>197,305</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers (In) Out	(175,000)	243,449	(70,000)
Interfund Advance	10,508	-	-
Due to Other Funds	(26,023)	-	-
Property Tax Revenues	-	25,569	-
Payments from Escrow Account	-	127,535	-
Intergovernmental Revenues	-	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(190,515)</u>	<u>396,553</u>	<u>(70,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from Bonds	-	-	-
Capital Grants and Contributions	-	-	-
Acquisition and Construction of Capital Assets	(622,834)	(669,693)	(10,768)
Interest Paid on Revenue Bonds	-	(61,055)	-
Principal Payments on Bonds and Notes	-	(577,099)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(622,834)</u>	<u>(1,307,847)</u>	<u>(10,768)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Investments	-	-	-
Sale of Investments	-	-	-
Expenses Paid on Behalf of Related Party	-	-	-
Transfer from (to) Related Party	-	-	-
Investment Income (Loss)	42,527	2,857	3,944
Net Cash Provided (Used) by Investing Activities	<u>42,527</u>	<u>2,857</u>	<u>3,944</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	118,460	(200,449)	120,481
Cash and Cash Equivalents - Beginning of Year	<u>4,126,535</u>	<u>784,211</u>	<u>837,537</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 4,244,995</u>	<u>\$ 583,762</u>	<u>\$ 958,018</u>
NONCASH TRANSACTIONS			
Capitalized Accrued Interest	\$ -	\$ -	\$ -
Capital Asset Additions in Construction Payable	-	-	-
Amortized Bond Issue Costs, Premiums and Discounts	-	(2,177)	-
Total Noncash Investing, Capital and Financing Activities	<u>\$ -</u>	<u>\$ (2,177)</u>	<u>\$ -</u>

See accompanying Notes to Financial Statements.

Wastewater	Telecom	Windom Area Hospital April 30, 2015	Other Proprietary Funds	Total
\$ 1,199,766	\$ 2,783,364	\$ 16,597,133	\$ 318,952	\$ 30,144,482
(478,828)	(1,469,751)	(7,661,020)	(242,983)	(16,322,330)
(358,063)	(505,413)	(6,345,804)	(343,663)	(8,533,887)
<u>362,875</u>	<u>808,200</u>	<u>2,590,309</u>	<u>(267,694)</u>	<u>5,288,265</u>
(266,310)	-	-	-	(267,861)
-	-	-	-	10,508
-	26,023	-	-	-
29,536	-	-	362,860	417,965
121,110	(70)	-	-	248,575
70,000	75	-	-	70,075
<u>(45,664)</u>	<u>26,028</u>	<u>-</u>	<u>362,860</u>	<u>479,262</u>
-	-	5,546,800	-	5,546,800
-	-	2,500	-	2,500
(87,568)	(49,677)	(3,550,609)	(61,182)	(5,052,331)
(99,923)	(339,621)	(31,631)	(7,339)	(539,569)
(435,859)	(445,000)	-	(47,570)	(1,505,528)
<u>(623,350)</u>	<u>(834,298)</u>	<u>1,967,060</u>	<u>(116,091)</u>	<u>(1,548,128)</u>
-	-	(17,122,065)	-	(17,122,065)
-	-	8,302,358	-	8,302,358
-	-	(15,697)	-	(15,697)
-	-	15,697	-	15,697
4,022	70	28,301	1,210	82,931
<u>4,022</u>	<u>70</u>	<u>(8,791,406)</u>	<u>1,210</u>	<u>(8,736,776)</u>
(302,117)	-	(4,234,037)	(19,715)	(4,517,377)
<u>957,286</u>	<u>-</u>	<u>13,999,713</u>	<u>366,670</u>	<u>21,071,952</u>
<u>\$ 655,169</u>	<u>\$ -</u>	<u>\$ 9,765,676</u>	<u>\$ 346,955</u>	<u>\$ 16,554,575</u>
\$ -	\$ -	\$ 30,437	\$ -	\$ 30,437
-	-	744,046	-	744,046
(5,285)	2,090	-	-	(5,372)
<u>\$ (5,285)</u>	<u>\$ 2,090</u>	<u>\$ 774,483</u>	<u>\$ -</u>	<u>\$ 769,111</u>

**CITY OF WINDOM, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS (CONTINUED)
 YEAR ENDED DECEMBER 31, 2015**

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>Electric</u>	<u>Water</u>	<u>Liquor</u>
Operating Income (Loss)	\$ 243,987	\$ 371,362	\$ 194,689
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Provision for Bad Debts	-	-	-
Depreciation and Amortization	462,592	353,934	17,795
Pension Adjustments	11,854	5,551	4,301
Changes in Assets and Liabilities:			
(Increase) Decrease in Accounts Receivable	219,650	19,181	11,131
(Increase) Decrease in Accrued Interest Receivable	-	-	-
(Increase) Decrease in Prepaid Items	(66,667)	(16,667)	-
(Increase) Decrease in Inventory	67,005	1,273	(19,282)
Increase (Decrease) in Accounts and Contracts Payable	(39,992)	4,256	712
Increase (Decrease) in Accrued Expenses	3,119	(38,928)	788
Increase (Decrease) in Due to Other Governments	-	-	-
Increase in Unearned Revenue	(655)	-	-
Increase (Decrease) in Accrued Compensated Absences	(11,611)	8,026	(12,829)
Net Cash Provided (Used) by Operating Activities	<u>\$ 889,282</u>	<u>\$ 707,988</u>	<u>\$ 197,305</u>

See accompanying Notes to Financial Statements.

Wastewater	Telecom	Windom Area Hospital April 30,2015	Other Proprietary Funds	Total
\$ 38,048	\$ 155,939	\$ 832,218	\$ (404,174)	\$ 1,432,069
-	-	232,605	-	232,605
356,686	667,316	742,485	111,349	2,712,157
6,662	10,380	-	6,586	45,334
7,653	(51,758)	(409,754)	(591)	(204,488)
-	-	5,506	-	5,506
(16,667)	-	-	-	(100,001)
-	-	(35,838)	-	13,158
141	(29,811)	568,339	10,230	513,875
(24,969)	38,404	11,748	6,430	(3,408)
-	4,291	643,000	-	647,291
-	33,982	-	456	33,783
(4,679)	(20,543)	-	2,020	(39,616)
<u>\$ 362,875</u>	<u>\$ 808,200</u>	<u>\$ 2,590,309</u>	<u>\$ (267,694)</u>	<u>\$ 5,288,265</u>

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NOTES TO FINANCIAL STATEMENTS

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**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Windom, located in Cottonwood County in Minnesota, conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of its significant policies.

A. Financial Reporting Entity

As required by GAAP, the financial statements of the reporting entity include those of the City of Windom and its component unit. A component unit is a legally separate entity for which the primary government is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component include whether or not the primary government appoints the voting majority of the potential component unit's board, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally dependent upon by the potential component unit.

The Economic Development Authority (EDA) of Windom is an entity legally separate from the City. However, for financial reporting purposes, the EDA is reported as if it were part of the City's operations (blended component unit) because the EDA provides services primarily to the City of Windom and the City Council appoints the EDA's board members.

The Housing and Redevelopment Authority of Windom, Minnesota (HRA) is an entity legally separate from the City. The HRA is responsible for administering affordable housing programs for eligible individuals and families in Windom. The City's officials are responsible for appointing members to the HRA's board of commissioners, but the City's accountability for the HRA does not extend beyond making the appointments. The HRA is therefore not considered to be a part of the City's financial reporting entity.

Component Units

In conformity with U.S. generally accepted accounting principles, the financial statements of component units have been included in the financial reporting entity either as blended component units or as discretely presented component units.

Blended Component Unit

The Windom Area Hospital (WAH) is a 25-bed acute care hospital and is an entity legally separate from the City. The purpose of the WAH is to provide hospital services. The WAH is comprised of the primary hospital enterprise and the Windom Area Hospital Foundation, which is a component unit of the hospital.

For financial reporting purposes, due to the different reporting focuses, the Hospital is reported separately from the Windom Area Hospital Foundation (the Foundation). The Foundation is a 501(c)(3) organization whose sole purpose is to support the Hospital. Windom Area Hospital Foundation conducts fundraising campaigns on behalf of the Hospital.

For financial reporting purposes, the WAH is reported as if it were part of the City's operations because the City Council is the governing board for the WAH. Separately issued financials statements are available by contacting WAH.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Continued)

Other Organizations

The Windom Fire Relief Association (the Association) is organized as a nonprofit organization, legally separate from the City, to provide pension and other benefits to its members in accordance with *Minnesota Statutes*. Its board of directors is appointed by the membership of the Association and not by the City Council and the Association issues its own set of financial statements. All funding is conducted in accordance with applicable *Minnesota Statutes*, whereby state aids flow to the Association, tax levies are determined by the Association, and are only reviewed by the City and the Association pays benefits directly to its members. The Association may certify tax levies to the county directly if the City does not carry out this function. Because the Association is fiscally independent of the City, the financial statements of the Association have not been included within the City's reporting entity. The City's portion of the costs of the Association's pension benefits is included in the general fund under public safety.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) display information about the primary government and its component unit. These statements include the financial activities of the overall City government. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

In the government-wide statement of net position, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) are reported on a full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the City's governmental activities and different business-type activities are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

The fund financial statements provide information about the City's funds, including its blended component unit. Separate statements for each fund category, governmental and proprietary, are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as separate columns in the fund financial statements. All remaining funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

The City reports the following major governmental funds:

General Fund

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

Economic Development Fund

The Economic Development Fund accounts for financial resources to be used for the growth and development of commercial, residential, industrial concerns, and tax increment financing activity in the City. Revenues for the Economic Development Fund are generated primarily from bond proceeds, local property taxes, state aid and grants, and rental income.

The City reports the following major proprietary funds:

Electric Fund

The Electric Fund accounts for customer electric service charges that are used to finance electric operating expenses.

Water Fund

The Water Fund accounts for customer water service charges that are used to finance water operating expenses.

Liquor Fund

The Liquor Fund accounts for customer sales that are used to finance liquor store operating expenses and provide funds for general operations of the City.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

2. Fund Financial Statements (Continued)

Wastewater Fund

The Wastewater Fund accounts for customer sewer service charges that are used to finance sewer operating expenses.

Windom Area Hospital Fund

The Hospital Fund (Hospital) is used to account for customer charges that are used to finance the hospital's operating expenses.

Telecom Fund

The Telecom Fund accounts for the operation of a broadband communications system.

Fiduciary Fund

Private-Purpose Trust Funds

The private-purpose trust funds account for contributions received, invested and expended for various specified purposes.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund 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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The City considers all revenues to be available if they are collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

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

All proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's proprietary funds are charges to customers for sales and services. Operating expenses for these funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Windom Area Hospital Fund reports in accordance with the *Audit and Accounting Guide for Health Care Organizations* published by the American Institute of Certified Public Accountants which prescribes accounting and reporting policies, some of which are unique to providers of health care services.

D. Budgets

Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. Annual appropriation budgets are adopted in the General Fund. Budgeted amounts are reported as originally adopted, or as amended by the City Council. Budgeted expenditure appropriations lapse at year-end.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to September 1, the City Administrator submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments, and the final tax levy and budget are adopted.
3. The City Administrator is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that increase the total expenditures of any fund must be approved by the City Council.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Budgets (Continued)

4. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds and some enterprise funds. Formal budgetary integration is not employed for the capital projects and debt service funds.
- 5 Budgets are adopted on a basis consistent with GAAP. Budgeted amounts presented are as originally adopted, and final as amended.

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balances

1. Cash and Investments

Cash and investment balances from all funds are combined and invested to the extent available in certificates of deposits and other allowable investments. Earnings from investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

The City provides temporary advances to funds that have insufficient cash balances by means of an advance from another fund shown as interfund receivables in the advancing fund in the governmental fund financial statements, and an interfund payable in the fund with the deficit, until adequate resources are received. These interfund payables are eliminated for statement of net position presentation.

For purposes of the statement of cash flows, all highly liquid investments with a maturity of three months or less are considered to be cash equivalents.

Short-term highly liquid debt instruments (including commercial paper, bankers' acceptances and U.S. Treasury and Agency obligations) purchased with a remaining maturity of one year or less are reported at amortized cost. Other investments are reported at fair value.

2. Cash and Investments with Fiscal Agent

At December 31, 2015, cash and investments with a fiscal agent consisted of commercial paper held by US Bank for the purpose of the project and reserve fund for the Revenue Hospital Bonds, Series 2014A.

3. Restricted Cash and Investments

At December 31, 2015, restricted cash and investments consisted of Minnesota Municipal Money Market held by 4M Plus Fund. These assets are for a debt service reserve fund required under a bond agreement.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balances (Continued)

4. Property Tax Revenue Recognition

Property tax levies are set by the City Council in December of each year, and are certified to the County Auditor for collection in the following year. In Minnesota, counties act as collection agents for all property taxes. Such taxes become a lien on property on January 1 and are recorded as receivables by the City at that date. Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to cities and other taxing entities three times a year.

Within the governmental fund financial statements, the City recognizes property tax revenue when it becomes both measurable and available to finance expenditures of the current period. Taxes which remain unpaid at December 31 are classified as delinquent and are not recognized as revenue in the governmental fund financial statements because they are not known to be available to finance current expenditures. The portion of delinquent taxes not collected by the City in January is fully offset by unavailable revenue in the governmental funds because it is not available to finance current expenditures. No allowances for uncollectible taxes have been provided because such amounts are not expected to be material. Property tax revenue in governmental activities is susceptible to full accrual on the government-wide statements.

5. Special Assessment Revenue Recognition

Special assessments are levied against benefited properties for the cost or a portion of the cost of special assessment improvement projects in accordance with state statutes. These assessments are collectible by the City over a term of years usually consistent with the term of the related bond issue. Collection of annual installments (including interest) is handled by the County Auditor in the same manner as property taxes. Property owners are allowed to (and often do) prepay future installments without interest or prepayment penalties.

Within the fund financial statements, the revenue from special assessments is recognized by the City when it becomes measurable and available to finance expenditures of the current fiscal period. In practice, current and delinquent special assessments received by the City are recognized as revenue for the current year.

Special assessments are collected by the County and remitted by December 31 (remitted to the City the following January) and are also recognized as revenue for the current year. All remaining delinquent, deferred and special deferred assessments receivable in governmental funds are completely offset by unavailable revenues. Special assessment revenue in governmental activities is susceptible to full accrual on the government-wide statements.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balances (Continued)

5. Special Assessment Revenue Recognition (Continued)

Once a special assessment roll is adopted, the amount attributed to each parcel is a lien upon that property until full payment is made or the amount is determined to be excessive by the City Council or court action. If special assessments are allowed to go delinquent, the property is subject to tax forfeit sale and the first proceeds of that sale (after costs, penalties and expenses of sale) are remitted to the City in payment of delinquent special assessments. Generally, the City will collect the full amount of its special assessments not adjusted by City Council or court action. Pursuant to State Statutes, a property shall be subject to a tax forfeit sale after three years unless it is homesteaded, agricultural or seasonal recreational land in which event the property is subject to such sale after five years.

6. Accounts Receivable and Allowance for Uncollectible Accounts

Allowance for uncollectible accounts receivable are established when City management believes that some portion of the receivable will not be collected. Management's estimate of the required allowance is based upon historical experience and analysis of receivables on a specific identification basis.

The Hospital provides an allowance for uncollectible self-pay and miscellaneous commercial insurance accounts. Patients are not required to provide collateral for services rendered. Payment for services is required upon receipt of an invoice, after payment by insurance, if any. Self-pay accounts are analyzed for collectibility based on the months past due and payment history. An allowance is estimated for these accounts based on the historical experience of the Hospital. Accounts that are determined to be uncollectible are sent to a collection agency and written off at that time. At April 30, 2015, the allowance for uncollectible accounts was approximately \$392,000.

7. Utility Billing

The City bills customers monthly for the following utility services: electric, sewer, and water. The City bills and recognizes the electric, sewer, and water services revenue when the meters are read. Telecommunications are also billed monthly.

8. Inventories

Inventories are valued at cost, which approximates fair value, using the first-in/first out method.

9. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments. The prepaid expenditure balances included in the financial statements represent down payments on equipment purchases to be completed in subsequent years.

CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balances (Continued)

10. Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables are classified as interfund receivables and payables on the governmental fund balance sheets.

11. Land Held for Resale

These assets are recorded at the lower of original cost or current net realizable value in the governmental fund, which purchased them.

12. Capital Assets

Capital assets are capitalized at historical cost, estimated historical cost, or in the case of contributions, at their estimated fair value at the time received. In the case of the initial capitalization of infrastructure, the City retroactively implemented the reporting of this item when GASB 34 was implemented. The City and the Hospital use a capitalization threshold of \$5,000. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are expensed as incurred. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets related to general governmental activities are recorded in the government-wide statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are normally sold for an immaterial amount when declared as no longer needed for City purposes, no salvage value is taken into consideration for depreciation purposes. Useful lives for the City vary from 3 years for Computer Equipment; 5 to 15 years for Office Furnishings, Machinery, and Equipment; 20 to 50 years for Buildings and Other Improvements and Infrastructure.

Useful lives for the Hospital vary from 8 to 20 years for land improvements, 10 to 40 years for buildings, 5 to 20 years for fixed equipment, and 3 to 20 years for moveable equipment. Capital assets not being depreciated include land and construction in progress.

Property, plant and equipment used by proprietary funds are stated at cost or estimated historical cost. Contributed capital assets are recorded at estimated fair value at the time received.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balances (Continued)

13. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. The portion of vacation pay and sick pay allowable as severance pay is accrued as incurred in the government-wide and proprietary fund financial statements. The current portion is calculated based on historical trends.

14. 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.

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense associated with the City's requirement to contribute to the Windom Fire Department Relief Association Plan, information about the Plan's fiduciary net position and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments and (including refunds of contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

15. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bond issue costs are expensed in the year of issuance.

In the governmental fund financial statements, bond premiums and discounts, as well as bond issue costs are recognized during the current period. The face amount of the debt issue is reported as another financing source. Premiums and discounts received on debt issuances are reported as other financing sources and uses, respectively. Bond issuance costs are reported as debt service expenditures.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balances (Continued)

16. Deferred Outflows of Resources

The Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period. The City will not recognize the related outflow until a future event occurs. More detailed information about pension related deferred outflows of resources can be found in Notes 6 and 10 to the financial statements.

17. Deferred Inflows of Resources

The City's governmental fund and government-wide financial statements report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in fund balance that applies to a future period. The City will not recognize the related revenue until a future event occurs. The first type of deferred inflow of resources occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the City's year) under the modified accrual basis of accounting. The city does not have deferred inflows of resources to report in its proprietary fund financial statements in the current year. The second type of deferred inflow of resources relates to pension activity as described in Notes 6 and 10.

18. Interfund Transactions

Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses made on behalf of another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures or expenses in the fund that is reimbursed.

All interfund transactions are eliminated except for activity between governmental activities and business-type activities for presentation in the government-wide statements of net position and statements of activities.

19. Net Position

In the government-wide financial statements and in the proprietary fund level statements, net position is reported in three categories: net investment in capital assets; restricted net position; and unrestricted net position. Net investment in capital assets is separately reported because the City reports all capital assets which make up a significant portion of total net position. Restricted net position accounts for the portion of net position restricted by parties outside the City. Unrestricted net position is the remaining net position not included in the previous two categories.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balances (Continued)

20. Fund Balance

Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable and spendable fund balances. Spendable fund balances include restricted, committed, assigned and unassigned fund balance classifications.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form such as inventories and prepaid expenditures, or are legally or contractually required to be maintained intact.

Restricted fund balances are those that have externally imposed restrictions on their usage by creditors (such as through debt covenants), grantors, contributors, or laws and regulations.

The committed fund balances are self-imposed limitations approved by the City Council, which is the highest level of decision-making authority within the City. Only the City Council can remove or change the constraints placed on committed fund balances.

Assigned fund balances are resources constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The City Council has authorized the City Administrator and the Assistant City Administrator to make assignments of resources for a specific purpose.

The unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not reported in the other classifications. Also, deficits in fund balances of the other governmental funds are reported as unassigned.

When an expenditure is incurred that can be paid from either restricted or unrestricted fund balances, it's the City's policy to use restricted fund balance first. For the disbursement of unrestricted fund balances, it is the City's policy to use committed amounts first, followed by assigned amounts, and lastly unassigned amounts.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 2 DEPOSITS AND INVESTMENTS

The cash balances of substantially all funds are pooled by the City for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2015, based on market prices. Investment earnings on cash and pooled investments are credited to all funds based on their cash balances each month. In addition, some funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants.

A. Deposits

In accordance with applicable Minnesota State Statutes, the City maintains deposits at financial institutions authorized by the City Council. All such depositories are members of the Federal Reserve System. *Minnesota Statutes* require that all deposits be protected by insurance, surety bond, or collateral. The fair value of collateral pledge must equal 110% of the deposits not covered by insurance or corporate surety bonds.

Authorized collateral includes: U.S. government treasury bills, notes, and or bonds; securities issued by a U.S. government agency; general obligations of local governments rated "A" or better; revenue obligations of a state or local governments rated "AA" or better; irrevocable standby letters of credit issue by a Federal Home Loan Bank; and time deposits insured by a federal agency. *Minnesota Statutes* require securities pledged as collateral to be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository.

Custodial Credit Risk – Deposits – In the case of deposits, custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City's deposit policy does not provide additional restrictions beyond Minnesota State Statutes. At year-end, the carrying amount of the City's deposits was entirely covered by federal depository insurance or by surety bonds and collateral in accordance with *Minnesota Statutes*.

B. Investments

The City and Hospital may also invest idle funds as authorized by *Minnesota Statutes* as follows:

- Direct obligations or obligations guaranteed by the United States or its agencies;
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and receives the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less;
- General obligations rated "A" or better; revenue obligations rated "AA" or better;
- General obligations of the Minnesota Housing Finance Agency rated "A" or better;
- Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System;

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

- Commercial paper issued by United States corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing 270 days or less;
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks, or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in one of the top two rating categories;
- Repurchase or reverse purchase agreements and security lending agreements with financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

As of December 31, 2015, the City and the Hospital had the following investments:

External Investment Pools –

	Amortized Cost
Minnesota Municipal Money Market Fund	\$ 623,689

The Minnesota Municipal Money Market Fund (4M) is an external investment pool not registered with the Securities and Exchange Commission (SEC) that follows the same regulatory rules of the SEC under Rule 2a-7. The fair value of the presentation in the pool is the same as the value of the pool shares.

Other Investments –

Type	Fair Value
Federal National Mortgage Association	\$ 14,710
Federal Home Loan Mortgage Corporation	490,588
Total	\$ 505,298

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Type	Total	12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Federal National Mortgage Association	\$ 14,710	\$ -	\$ -	\$ -	\$ 14,710
Federal Home Loan Mortgage Corporation	490,588	-	-	490,588	-
Total	\$ 505,298	\$ -	\$ -	\$ 490,588	\$ 14,710

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Other Investments – (Continued)

Credit Risk – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The 4M Fund is not rated.

Investment	Credit Rating
Federal National Mortgage Association	Aaa
Federal Home Loan Mortgage Corporation	Aaa

Concentration of Credit Risk – The City’s investment policy places no limit on the amount that may be invested with any one issuer or depository. The following is a list of investments which individually comprise more than 5% of the City’s total investments:

Investment	Amount	Percent
Federal Home Loan Mortgage Corporation	\$ 14,710	2.91%
Federal Home Loan Mortgage Corporation	490,588	97.09%

Custodial Credit Risk – Investments – For an investment, this is that risk that, in the event of a failure by the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City’s investment policy requires that all balances are insured or collateralized with each investment account.

The deposits and investments are presented in the financial statements as follows:

Cash On Hand	\$ 829
Deposits	15,290,400
Money Market Accounts	3,748,697
Certificates of Deposits	11,328,155
Investments	505,298
Total Cash and Investments	\$ 30,873,379
Cash and Investments	\$ 21,647,739
Cash and Investments with Fiscal Agent	8,819,707
Restricted Cash and Investments	405,933
Total Cash and Investments	\$ 30,873,379

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 232,961	\$ -	\$ -	\$ 232,961
Total Capital Assets, Not Being Depreciated	232,961	-	-	232,961
Capital Assets, Being Depreciated:				
Buildings and Building Improvements	9,070,944	37,483	-	9,108,427
Office Equipment and Furniture	95,918	-	-	95,918
Machinery and Equipment	7,107,637	710,017	-	7,817,654
Infrastructure	15,306,244	442,222	-	15,748,466
Total Capital Assets, Being Depreciated	31,580,743	1,189,722	-	32,770,465
Accumulated Depreciation for:				
Buildings and Building Improvements	(1,802,509)	(245,856)	-	(2,048,365)
Office Equipment and Furniture	(21,072)	(13,080)	-	(34,152)
Machinery and Equipment	(6,060,212)	(181,845)	-	(6,242,057)
Infrastructure	(8,065,956)	(400,393)	-	(8,466,349)
Total Accumulated Depreciation	(15,949,749)	(841,174)	-	(16,790,923)
Total Capital Assets, Being Depreciated, Net	15,630,994	348,548	-	15,979,542
Governmental Activities Capital Assets, Net	<u>\$ 15,863,955</u>	<u>\$ 348,548</u>	<u>\$ -</u>	<u>\$ 16,212,503</u>

Depreciation expense was charged to Governmental Functions as follows:

Governmental Activities:	
General Government	\$ 331,600
Public Safety	159,027
Public Works	268,059
Parks, Culture and Recreation	13,573
Community Development	68,915
Total Depreciation Expense, Governmental Activities	<u>\$ 841,174</u>

CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 3 CAPITAL ASSETS (CONTINUED)

	Beginning Balance <u>As Restated</u>	<u>Increases</u>	<u>Decreases</u>	Ending Balance
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 519,018	\$ -	\$ -	\$ 519,018
Construction in Progress	171,506	3,978,948	-	4,150,454
Total Capital Assets, Not Being Depreciated	<u>690,524</u>	<u>3,978,948</u>	<u>-</u>	<u>4,669,472</u>
Capital Assets, Being Depreciated:				
Buildings and Building Improvements	44,663,363	630,957	(768,197)	44,526,123
Office Equipment and Furniture	508,777	37,590	-	546,367
Machinery and Shop Equipment	19,408,270	1,211,149	(707,697)	19,911,722
Total Capital Assets, Being Depreciated	<u>64,580,410</u>	<u>1,879,696</u>	<u>(1,475,894)</u>	<u>64,984,212</u>
Accumulated Depreciation for:				
Buildings and Building Improvements	(22,242,767)	(1,598,529)	767,797	(23,073,499)
Office Equipment and Furniture	(369,631)	(16,921)	-	(386,552)
Machinery and Shop Equipment	(14,419,208)	(1,102,082)	685,198	(14,836,092)
Total Accumulated Depreciation	<u>(37,031,606)</u>	<u>(2,717,532)</u>	<u>1,452,995</u>	<u>(38,296,143)</u>
Total Capital Assets, Being Depreciated, Net	<u>27,548,804</u>	<u>(837,836)</u>	<u>(22,899)</u>	<u>26,688,069</u>
Business-Type Activities Capital Assets, Net	<u>\$ 28,239,328</u>	<u>\$ 3,141,112</u>	<u>\$ (22,899)</u>	<u>\$ 31,357,541</u>

Depreciation expense was charged to Business-Type Activities as follows:

Business-Type Activities:	
Electric Fund	\$ 462,592
Water Fund	353,934
Liquor Fund	17,795
Wastewater Fund	362,061
Telecom Fund	667,316
Windom Area Hospital	742,485
Arena Fund	30,268
Multi-Purpose Fund	52,999
River Bluff Townhomes	28,082
Total Depreciation Expense, Business-Type Activities	<u>\$ 2,717,532</u>

CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 4 CITY INDEBTEDNESS

City indebtedness at December 31, 2015 is composed of the following:

Description	Initial Amount Issued	Maturity Date	Interest Rate	Outstanding Principal
General Obligation Bonds:				
Governmental Activities:				
GO Improvement Refunding Bonds, Series 2006A	\$ 713,000	2018	3.70-4.15%	\$ 180,000
GO Improvement Bonds, Series 2009A	1,510,000	2025	2.00-4.25%	1,090,000
GO Improvement Refunding Bonds, Series 2011B	795,000	2019	0.50-1.85%	470,000
GO Refunding Bonds, Series 2012A	980,000	2023	0.55-2.20%	870,000
GO Improvement Bonds, Series 2013A	2,590,000	2034	2.00-3.50%	2,465,000
GO Equipment Bonds, Series 2013B	615,000	2023	0.70-1.90%	550,000
Total Governmental Activities - G.O. Bonds	8,173,000			5,625,000
Business-Type Activities:				
GO Improvement & Refunding Bonds, Series 2006A	227,000	2016	3.75-4.05%	35,000
GO Refunding Bonds, Series 2012A	660,000	2023	0.55-2.20%	550,000
GO Improvement Bonds, Series 2013A	1,810,000	2034	2.00-3.50%	1,735,000
Total Business-Type Activities - G.O. Bonds	3,107,000			2,320,000
Total General Obligation Bonds	\$ 11,280,000			\$ 7,945,000
Description	Initial Amount Issued	Maturity Date	Net Interest Rate	Outstanding Principal
Note Payable:				
Governmental Activities:				
Street Shop - League of Minnesota Cities	\$ 250,000	2016	3.00%	\$ 53,010
Economic Development - Fulda Area Credit Union	442,098	2016	4.40%	335,069
Total Notes Payable	692,098			388,079
Business-Type Activities:				
River Bluff Townhomes - Bank of the West	488,847	2031	2.01%	344,736
River Bluff Townhomes - MHFA	353,305	2031	0.00%	353,305
River Bluff Townhomes - GMHF	180,000	2031	0.00%	132,300
River Bluff Townhomes - PM Windom	15,000	2015	0.00%	-
River Bluff Townhomes - Toro Foundation	15,000	2015	0.00%	-
Water Purchase - Red Rock Rural Water System	230,000	2023	0.00%	176,333
Total Note Payable	1,282,152			1,006,674
Total Note Payable	\$ 1,974,250			\$ 1,394,753
General Obligation Revenue Bonds:				
Business-Type Activities:				
Communication System Refunding Bonds, Series 2012B	\$ 11,205,000	2032	3.00-3.63%	\$ 10,105,000
GO Water & Sewer Revenue Bonds, 2011A - Water	3,090,000	2029	1.00-4.00%	3,020,000
GO Revenue Bonds, 1999	3,151,838	2018	2.57%	126,782
GO Water Revenue Bonds, 1999	1,319,714	2019	2.29%	325,000
GO Revenue Hospital Bonds, Series 2014A	5,600,000	2034	1.00-4.15%	5,600,000
Total Business-Type Activities Revenue Bonds	\$ 28,253,522			\$ 19,176,782

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

The following is a schedule of changes in City indebtedness for the year ended December 31, 2015:

	Beginning of Year As Restated	Additions	Retirements	End of Year	Due within One Year
Governmental Activities:					
General Obligation Bonds	\$ 6,801,000	\$ -	\$ 1,176,000	\$ 5,625,000	\$ 620,000
Bond Subtotal	6,801,000	-	1,176,000	5,625,000	620,000
Bond Premium	74,955	-	5,085	69,870	-
Net Bond Subtotal	6,875,955	-	1,181,085	5,694,870	620,000
Note Payable	464,503	-	76,424	388,079	388,079
Net Pension Liability	1,235,628	45,318	-	1,280,946	-
Compensated Absences	226,317	121,002	97,783	249,536	-
Total Governmental Activities	8,802,403	166,320	1,355,292	7,613,431	1,008,079
Business-Type Activities:					
General Obligation Bonds	2,759,000	-	439,000	2,320,000	200,000
General Obligation Revenue Bonds	14,572,400	5,600,000	995,618	19,176,782	960,440
Bond Subtotal	17,331,400	5,600,000	1,434,618	21,496,782	1,160,440
Bond Premium	115,413	-	7,463	107,950	-
Bond Discount	(36,404)	(53,200)	(2,090)	(87,514)	-
Net Bond Subtotal	17,410,409	5,546,800	1,439,991	21,517,218	1,160,440
Notes Payable	1,074,976	-	68,302	1,006,674	43,107
Net Pension Liability	1,411,202	31,701	-	1,442,903	-
Compensated Absences	413,260	124,127	163,743	373,644	-
Total Business-Type Activities	20,309,847	5,702,628	1,672,036	24,340,439	1,203,547
Total Debt	<u>\$ 29,112,250</u>	<u>\$ 5,868,948</u>	<u>\$ 3,027,328</u>	<u>\$ 31,953,870</u>	<u>\$ 2,211,626</u>

Minimum annual principal and interest payments required to retire long-term debt, not including compensated absences payable are as follows:

Year Ending December 31,	Governmental Activities Long-Term Debt		
	Principal	Interest	Totals
2016	\$ 1,008,079	\$ 136,387	\$ 1,144,466
2017	575,000	117,378	692,378
2018	570,000	105,968	675,968
2019	535,000	94,474	629,474
2020	430,000	83,983	513,983
2021-2025	1,830,000	267,691	2,097,691
2026-2030	725,000	100,725	825,725
2031-2034	340,000	23,275	363,275
Totals	<u>\$ 6,013,079</u>	<u>\$ 929,881</u>	<u>\$ 6,942,960</u>

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

<u>Year Ending December 31.</u>	Business-Type Activities Long-Term Debt		
	Principal	Interest	Totals
2016	\$ 1,203,547	\$ 659,190	\$ 1,862,737
2017	1,191,461	632,498	1,823,959
2018	1,188,836	607,391	1,796,227
2019	1,211,218	580,639	1,791,857
2020	1,157,608	553,149	1,710,757
2021-2025	9,210,501	3,007,143	12,217,644
2026-2030	4,885,171	767,556	5,652,727
2030-2034	2,455,114	85,141	2,540,255
Totals	<u>\$ 22,503,456</u>	<u>\$ 6,892,707</u>	<u>\$ 29,396,163</u>

The annual requirements to amortize all long-term debt outstanding as of December 31, 2015, including interest of \$7,822,588 are as follows:

<u>Year Ending December 31.</u>	<u>Amount</u>
2016	\$ 3,007,203
2017	2,516,337
2018	2,472,195
2019	2,421,331
2020	2,224,740
2021-2025	14,315,335
2026-2030	6,478,452
2031-2034	2,903,530
Total	<u>\$ 36,339,123</u>

In 2012, the City issued \$1,640,000 in General Obligation Refunding Bonds (Series 2012A) for a crossover refunding of the Series 2005A General Obligation Bonds maturing in 2014 through 2021 and of the Series 2007B General Obligation Improvement Bonds maturing in 2016 through 2023. Refunding bond proceeds for the crossover refunding of Series 2005A were placed in an escrow account to be liquidated on the crossover refunding date of February 1, 2013. Refunding bond proceeds for the crossover refunding of Series 2007B were placed in an escrow account to be liquidated on the crossover refunding date of February 1, 2015. The total cash flow savings to the City attributable to the refunding of these bonds is \$42,190 with a net present value of approximately \$35,323.

In 2014, the Hospital issued \$5,600,000 in Gross Revenue Hospital Bonds (Series 2014A) for partial financing of a hospital expansion and renovation project. Principal payments are due annually commencing September 2015 to September 2034 with interest paid semi-annually. The bonds can be optionally redeemed beginning September 1, 2021, with a 1% premium through August 31, 2022, and thereafter no redemption premium. The bonds are payable from the gross revenues of the Hospital.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5 DEFINED BENEFIT PENSION PLANS

A. Plan Description

The City participates in the following defined benefit pension plans administered by the Public Employees Retirement Association (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.

1. General Employees Retirement Plan (GERF)

All full-time and certain part-time employees of the City are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. Public Employees Police and Fire Fund (PEPFF)

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

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given 1 percent increases.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. 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.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

1. GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year 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. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

2. PEPFF Benefits

Benefits for the PEPFF members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. Benefits for PEPFF members first hired after June 30, 2014, vest on a prorated basis from 50% after ten years up to 100% after twenty years of credited service. The annuity accrual rate is 3% of average salary for each year of service. For PEPFF who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

C. Contributions

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

1. GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The City contributions to the GERF for the year ended December 31, 2015, were \$174,770. The contributions were equal to the required contributions as set by state statute.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. Contributions (Contributions)

2. PEPFF Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2015. The City was required to contribute 16.20% of pay for PEPFF members in calendar year 2015. The City's contributions to the PEPFF for the year ended December 31, 2015, were \$82,258. The City's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

1. GERS Pension Costs

At December 31, 2015, the City reported a liability of \$2,098,920 for its proportionate share of the GERS's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion share was 0.0405% which was a decrease of .0437% from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the City recognized pension expense of \$242,201 for its proportionate share of GERS's pension expense.

At December 31, 2015, the City reported its proportionate share of GERS's deferred outflows of resources and deferred inflows of resources from the following sources:

GERS Pension Costs

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	\$ -	\$ 105,821
Changes in Actuarial Assumptions	-	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	198,695	-
Changes in Proportion Contributions Paid to PERA Subsequent to the Measurement Date	-	112,740
	94,320	-
Total	<u>\$ 293,015</u>	<u>\$ 218,561</u>

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. GERF Pension Costs (Continued)

\$94,320 reported as deferred outflows of resources related to pensions resulting from City contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

Year Ended December 31,	City Pension Expense Amount
2016	\$ (23,180)
2017	(23,180)
2018	(23,180)
2019	49,674

2. PEPFF Pension Costs

At December 31, 2015, the City reported a liability of \$624,929 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion was 0.055% which was no change from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the City recognized pension expense of \$107,690 for its proportionate share of the PEPFF's pension expense. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the PEPFF each year, starting in fiscal year 2014.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. PEPFF Pension Costs (Continued)

At December 31, 2015, the City reported its proportionate share of the PEPFF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PEPFF Pension Costs

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	\$ -	\$ 101,343
Changes in Actuarial Assumptions	-	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	108,884	-
Changes in Proportion	-	-
Contributions Paid to PERA		
Subsequent to the Measurement Date	46,255	-
Total	<u>\$ 155,139</u>	<u>\$ 101,343</u>

\$46,255 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31,</u>	<u>City Pension Expense Amount</u>
2016	\$ 6,952
2017	6,952
2018	6,952
2019	6,952
2020	(20,267)

E. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Salary Increases	3.50%, Average, Including Inflation
Investment Rate of Return	7.90%, Net of Pension Plan Investment Expense

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E Actuarial Assumptions (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Benefit increases for retirees are assumed to be 1% effective every January 1st through 2026 and 2.5% thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERP was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

The following changes in actuarial assumptions occurred in 2015: the discount rate was changed from 8.0% through June 30, 2017 and 8.5% thereafter to 8.0% for all years, the inflation assumption was changed from 3.0% to 2.75%, the payroll growth assumption was changed from 3.75% to 3.5%, assumed increases in member salaries were decreased by 0.25% at all ages and the assumed postretirement benefit increase rate was changed from 1.0% per year through 2026 and 2.5% thereafter to 1.0% per year through 2034 and 2.5% per year thereafter.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic 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	45%	5.50%
International Equity	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%
Totals	<u>100%</u>	

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

F. Discount Rate

The discount rate used to measure the total pension liability was 7.9 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

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

Description	1% Decrease (6.9%)	Current Discount Rate (7.9%)	1% Increase (8.9%)
City's Proportionate Share of the GERP Net Pension Liability	\$ 3,300,249	\$ 2,098,920	\$ 1,106,807
City's Proportionate Share of the PEPFF Net Pension Liability	1,217,993	624,929	134,955

H. Pension Plan Fiduciary Net Position

Detailed information about each defined benefit pension plan's fiduciary net position is available in a separately-issued PERA financial report. That report may be obtained on the Internet at www.mnpera.org; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

NOTE 6 DEFINED CONTRIBUTION PENSION PLAN

1. Plan Description

Ambulance service personnel of the City of Windom are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by the Public Employees Retirement Association of Minnesota (PERA). The PEDCP is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 6 DEFINED CONTRIBUTION PENSION PLAN (CONTINUED)

1. Plan Description (Continued)

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2 percent of employer contributions and twenty-five hundredths of one percent of the assets in each member's account annually. Total contributions made by the City of Windom during fiscal year 2015 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rates
\$ 7,632	\$ 7,632	0.051	0.051	0.051

NOTE 7 STEWARDSHIP AND ACCOUNTABILITY

A. Excess of Expenditures Over Budget

Expenditures exceeded budgeted amounts in the following funds:

	Budget	Actual
General Fund	\$ 3,057,200	\$ 3,666,834
Special Revenue Funds:		
Economic Development Fund	504,623	934,566

These additional expenditures were paid for with available fund balance.

B. Deficit Fund Balances/Net Position

The City has deficit fund balances/net position at December 31, 2015 as follows:

Governmental Funds:	
4th Ave Improvement Bond Fund	\$ (58,517)
2006A Refunding Bond Fund	(254,778)
2007 Street Improvement Bond Fund	(170,397)
Proprietary Funds:	
Telecom	(8,535,839)
River Bluff Townhomes	(105,581)

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 7 STEWARDSHIP AND ACCOUNTABILITY (CONTINUED)

B Deficit Fund Balances/Net Position (Continued)

The City intends to fund these deficits through future tax levies, special assessment levies, tax increments, charges for services, transfers from other funds, and various other sources.

NOTE 8 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A. Due To/From Other Funds

Individual fund receivable and payable balances at December 31, 2015 are as follows:

Fund	Interfund Receivables Due from Other Funds	Interfund Payables Due to Other Funds	Description
General Fund	\$ 483,692	\$ -	Eliminate Deficit Cash
Other Governmental Funds	-	483,692	Eliminate Deficit Cash
Proprietary Funds:			
Electric Fund	1,554,551	-	Eliminate Deficit Cash
Telecom Fund	-	1,554,551	Eliminate Deficit Cash
Total Due To/From	<u>\$ 2,038,243</u>	<u>\$ 2,038,243</u>	

All of the Due From/Due to Other Funds balances are expected to be repaid in future years.

B. Advances To/From Other Funds

Fund	Advances To Other Funds	Advances From Other Funds
Economic Development Fund	\$ -	\$ 11,200
Proprietary Funds:		
Electric Fund	11,200	-
Total Advances	<u>\$ 11,200</u>	<u>\$ 11,200</u>

The advance in the amount of \$11,200 represents expenses to make improvements to the spec building incurred by the Economic Development Fund payable to the Electric Fund.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 8 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (CONTINUED)

C. Transfers

Transfers between funds during 2015 are as follows:

	Transfer In	Transfer Out	Description
Major Governmental Funds			
General Fund	\$ 245,000	\$ -	Annual Contribution
Economic Development Fund	22,776	-	BDPI matching requirement
Economic Development Fund	-	38,563	Funding for Sewer Line Improvement
Economic Development Fund	-	29,965	Transfer of Debt Payment
Nonmajor Governmental Funds			
Debt Service Funds:			
2006A Refunding Bond Fund	29,965	-	Transfer of Debt Payment
2009 Street Improvement Bond Fund	38,648	-	Transfer of Debt Payment
Major Enterprise Funds			
Water Utility	275,514	-	Funding for Meter Replacement Costs
Water Utility	-	13,900	BDPI matching requirement
Water Utility	-	18,165	Transfer of Debt Payment
Wastewater Utility	38,563	-	Funding for Sewer Line Improvement
Wastewater Utility	-	275,514	Funding for Meter Replacement Costs
Wastewater Utility	-	8,875	BDPI matching requirement
Wastewater Utility	-	20,484	Transfer of Debt Payment
Electric Utility	-	175,000	Annual Contribution
Liquor	-	70,000	Annual Contribution
Total	<u>\$ 650,466</u>	<u>\$ 650,466</u>	

NOTE 9 RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Workers compensation coverage is provided through a pooled self-insurance program through the League of Minnesota Cities Insurance Trust (LMCIT). The City pays an annual premium to LMCIT. The City is subject to supplemental assessments if deemed necessary by the LMCIT. The LMCIT reinsures through Workers Compensation Reinsurance Association (WCRA) as required by law. For workers compensation, the City is not subject to a deductible. The City's workers compensation coverage is a premium option. With this type of coverage, final premiums are based on an experience modification factor that is adjusted annually based on three years of historically data.

Property and casualty insurance is provided through a pooled self-insurance program through the LMCIT. The City pays an annual premium to the LMCIT. The City is subject to supplemental assessments if deemed necessary by the LMCIT. The LMCIT reinsures through commercial companies for claims in excess of various amounts. The City retains risk for the deductible portion of the insurance policies and for any exclusion from the insurance policies. These amounts are considered immaterial to the financial statements.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 9 RISK MANAGEMENT (CONTINUED)

The City continues to carry commercial insurance for all other risks of loss, including disability and employee health insurance. There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

NOTE 10 VOLUNTEER RELIEF ASSOCIATION

A. Plan Description

Firefighters of the City of Windom are members of the Windom Firefighters Relief Association. The Association is the administrator of the single-employer defined benefit pension plan available to firefighters. The plan is administered pursuant to Minnesota Statutes Chapter 69, Chapter 424A, and the Association's by-laws. As of December 31, 2014, membership includes 28 active participants and one terminated employee entitled to benefit but not yet receiving them. The plan issues a stand-alone financial statement.

B. Benefits Provided

Authority for payment of pension benefits is established in *Minnesota Statutes* §69.77 and may be amended only by the Minnesota State Legislature. Each member who is at least 50 years of age, has retired from the Fire Department, has served at least 10 years of active service with such department before retirement shall be entitled to a lump sum service pension in the amount of \$2,400 for each year of active Fire Department service (including each year over 20) but not exceeding the maximum amount per year of service allowed by law for the minimum average amount of available financing per firefighter as prescribed by law.

Pursuant to *Minnesota Statutes* §424A.02, Subds. 2 and 4, members who retire with 10 years of service and have reached the age of 50 years are eligible for a retirement benefit. Members who retire before full retirement age and years of service requirements are eligible for a reduced benefit, based on the vesting schedule as set forth in *Minnesota Statutes* §424A.02, Subd. 2(c). During the time a member is on early vested pension, they will not be eligible for disability benefits.

If a member of the Association shall become permanently or totally disabled, the Association shall pay the sum \$2,400 for each year the member was an active member of the City of Windom Fire Department. If a member who received a disability pension subsequently recovers and returns to active duty, the disability pension is deducted from the service pension. A death benefit is also available, which is payable to a survivor.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 10 VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION (CONTINUED)

B Benefits Provided (Continued)

Minnesota Statutes Section 424A.10 provides for the payment of a supplemental benefit equal to 10% of a regular lump sum distribution up to a maximum of \$1,000. The supplemental benefit is in lieu of state income tax exclusion for lump sum distributions and will no longer be available if state tax law is modified to exclude lump sum distributions from state income tax. The Association qualifies for these benefits.

C. Contributions

Minnesota Statutes Chapter 69.772 specifies minimum support rates required on an annual basis. The minimum support rates from the municipality and from state aid are determined as the amount required to meet the normal cost plus amortizing any existing prior service costs over a 10-year period. The significant actuarial assumptions used to compute the municipal support are the same as those used to compute the accrued pension liability. The association is comprised of volunteers; therefore, there are no payroll expenditures (i.e. there are no covered payroll percentage calculations). The minimum contribution from the City of Windom and state aid is determined as follows:

	Normal Cost
+	Amortization Payment on Unfunded Accrued Liability Prior to Any Change
+	Amortization Contribution on Unfunded Accrued Liability Attributed to Any Change
+	Administrative Expenses
-	Anticipated State Aid
-	Projected Investment Earnings
=	<u>Total Contribution Required</u>

The Plan is funded in part by fire state aid and, if necessary, City contributions. The State of Minnesota distributed to the City \$42,000 in fire state aid paid by the City to the Relief Association for the year ended December 31, 2015. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contribution to the plan for the year ended December 31, 2015 was \$0.

D. Pension Costs

At December 31, 2015, the City reported an asset of \$314,040 for the Association's net pension asset/liability. The net pension asset/liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 10 VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION (CONTINUED)

D. Pension Costs (Continued)

As a result of its requirement to contribute to the Relief Association, the City recognized expense of \$113,398 for the year ended December 31, 2015. At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ -	\$ -
Changes in Actuarial Assumptions	-	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	85,687	-
Changes in Proportion	-	-
Contributions Paid to PERA Subsequent to the Measurement Date	-	-
Total	<u>\$ 85,687</u>	<u>\$ -</u>

The City contributions to the Association subsequent to the measurement date, \$0 reported as deferred outflows of resources will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to the Association's pension will be recognized in pension expense as follows:

Year Ended December 31,	Pension Expense Amount
2016	\$ 21,422
2017	21,422
2018	21,422
2019	21,421

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 10 VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION (CONTINUED)

E. Actuarial Assumptions

The actuarial total pension liability was determined as of December 31, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

ASSUMPTIONS FROM ACTUARIAL REPORT

Valuation Date	12/31/15
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar Closed
Actuarial Assumptions:	
Discount Rate	6.50%
Investment Rate of Return	6.50%
20-Year Municipal Bond Yield	3.57%
Age of Service Retirement	50

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These asset class estimates are combined to produce the portfolio long-term expected rate of return by weighting the expected future real rates of return by weighting the expected future real rates of return by the current asset allocation percentage (or target allocation, if available) and by adding expected inflation.

Best estimates of geometric real and nominal rates of return for each major asset class included in the pension plan's asset allocation as of December 31, 2015 are summarized in the following table:

Asset Class	Allocation at December 31, 2015	Long-Term Expected Real Rate of Return
Cash	13.71%	25.00%
Fixed Income	12.31%	1.75%
Equities	73.98%	5.25%
Real Estate	0%	3.75%
Total Portfolio	100%	6.50%

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 10 VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION (CONTINUED)

F. Discount Rate

The discount rate used to measure the total pension liability was 6.25%. Assets were projected using expected benefit payments and expected asset returns. Expected benefit payments were discounted by year using expected assets return assumption for years in which the assets were sufficient to pay all benefit payments. Any remaining benefit payments after the trust fund is exhausted are discounted at the municipal bond rate of return. The equivalent single rate is the discount rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

G Pension Liability Sensitivity

The following presents the City of Windom's proportionate share of the net pension liability of the Association, calculated using the discount rate of 6.25%, as well as what the Association's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.25%) or one percentage point higher (7.25%) than the current rate:

	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
Net Pension Liability	\$ (298,380)	\$ (314,040)	\$ (329,158)
Discount Rate	5.50%	6.50%	7.50%

H. Plan's Fiduciary Net Position Pension Liability Sensitivity

Detailed information about the pension plan's fiduciary net position is available in a separately-issued financial report that includes financial statements and required supplementary information.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 11 FUND BALANCE

At December 31, 2015, the City had various fund balances restricted, or assigned through legal restriction and City Council authorization. Major fund balance appropriations at December 31, 2015 are shown on the various balance sheets as segregations of fund balance. The fund balances are as follows:

	General Fund	Economic Development Fund	Other Governmental Funds	Governmental Funds Total
Nonspendable				
Inventory	\$ 22,306	\$ -	\$ -	\$ 22,306
Prepaid Expenses	1,000	10,000	-	11,000
Total Nonspendable	<u>23,306</u>	<u>10,000</u>	<u>-</u>	<u>33,306</u>
Restricted				
Debt Service	-	-	816,388	816,388
Donations for Fire, Well and Park	82,120	-	-	82,120
Tax Increment Funding	-	328,832	-	328,832
Capital Projects	-	-	109,750	109,750
Total Restricted	<u>82,120</u>	<u>328,832</u>	<u>926,138</u>	<u>1,337,090</u>
Committed				
Economic Development	-	1,033,937	-	1,033,937
Assigned				
Ambulance	-	-	1,658,518	1,658,518
Economic Development	-	-	-	-
Airport	52,062	-	-	52,062
Library	95,360	-	-	95,360
Pool	35,962	-	-	35,962
Capital Projects	-	-	380,416	380,416
Total Assigned	<u>183,384</u>	<u>-</u>	<u>2,038,934</u>	<u>2,222,318</u>
Unassigned	<u>2,309,208</u>	<u>-</u>	<u>(483,692)</u>	<u>1,825,516</u>
Total Fund Balance	<u><u>\$ 2,598,018</u></u>	<u><u>\$ 1,372,769</u></u>	<u><u>\$ 2,481,380</u></u>	<u><u>\$ 6,452,167</u></u>

NOTE 12 COMMITMENTS AND CONTINGENCIES

A. Federal and State Funds

The City receives financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with the terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the applicable fund. Management is not aware of any disallowed claims at this time.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 12 COMMITMENTS AND CONTINGENCIES (CONTINUED)

B. Electric Power Purchase Agreement

Under its wholesale power agreement with Western Area Power Administration (WAPA), the city is committed to purchase a portion of its electric power and energysubject to Exhibit A, Contracted Rate of Delivery (CROD) effective through December 31, 2050, unless otherwise terminated.

Under its wholesale power agreement with the Central Minnesota Municipal Power Agency (CMMP A), its Market Participant Agreement and Agreement for Additional Services, the city is committed to purchase the remaining portion of its electric power and energy through CMMP A unless otherwise terminated.

NOTE 13 RESTATEMENT

During the year ended December 31, 2015, the City adopted GASB Statement No. 68 *Accounting and Financial Reporting for Pensions* and the related GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. These pronouncements require the restatement of the December 31, 2014, net position of the governmental activities, business-type activities and enterprise funds as shown below. The Windom Area Hospital has an April 30th fiscal year end and will adopt GASB Statements No. 68 and 71 for its fiscal year ending April 30, 2016.

The following restatements were necessary to correct errors in the previously issued financial statements.

- Business-type activities net position was restated by \$21,283,567 to include the Windom Area Hospital in the City's financial statements.
- Component unit information was restated by \$269,577 to include the Windom Area Hospital Foundation as a discretely-presented component unit in the City's financial statements.

	Net Position as Previously Stated	Cumulative Affect of Application of GASB 68 Net Pension (Liability) Asset	Cumulative Affect of Application of GASB 71 Deferred Outflow of Resources for Contributions Made After Measurement Period	Correction of an Error	Net Position As Restated
Governmental Activities	\$ 16,773,159	\$ (906,390)	\$ 29,469	\$ -	\$ 15,896,238
Business Type Activities	12,496,414	(1,411,202)	64,816	21,283,567	32,433,595
Electric	9,848,984	(369,028)	16,949	-	9,496,905
Water	3,348,153	(172,789)	7,936	-	3,183,300
Liquor	1,081,679	(133,887)	6,149	-	953,941
Wastewater	4,863,030	(207,390)	9,525	-	4,665,165
Telecom	(8,044,058)	(323,084)	14,839	-	(8,352,303)
Windom Area Hospital	-	-	-	21,283,567	21,283,567
Nonmajor Proprietary Funds	1,398,626	(205,024)	9,417	-	1,203,019
Component Unit -- Windom Area Hospital Foundation	-	-	-	269,577	269,577

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REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF WINDOM, MINNESOTA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 YEAR ENDED DECEMBER 31, 2015**

	Measurement Date June 30, 2015
City - GERF	
City's Proportion of the Net Pension Liability (Asset)	0.0405%
City's Proportionate Share of the Net Pension Liability (Asset)	2,098,920
City's Covered-Employee Payroll	2,378,626
City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	88.24%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.20%

PEPFF	
City's Proportion of the Net Pension Liability (Asset)	0.0550%
City's Proportionate Share of the Net Pension Liability (Asset)	624,929
City's Covered-Employee Payroll	506,666
City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	123.34%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.60%

	Measurement Date December 31, 2015
Fire Relief Association	
City's Proportion of the Net Pension Liability (Asset)	100%
City's Proportionate Share of the Net Pension Liability (Asset)	\$ (182,216)
City's Covered-Employee Payroll	N/A
City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	N/A
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	138.33%

**CITY OF WINDOM, MINNESOTA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS
 LAST TWO YEARS**

Schedule of Contributions

	<u>2015</u>	<u>2014</u>
City - GERF		
Contractually Required Contribution	\$ 174,770	\$ 170,298
Contributions in Relation to the Contractually Required Contribution	(174,770)	(170,298)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
 City's Covered-Employee Payroll	 2,330,263	 2,348,947
 Contributions as a Percentage of Covered Employee Payroll	 7.50%	 7.25%
	<u>2015</u>	<u>2014</u>
PEPFF		
Contractually Required Contribution	\$ 82,258	\$ 77,187
Contributions in Relation to the Contractually Required Contribution	(82,258)	(77,187)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
 City's Covered-Employee Payroll	 507,766	 504,493
 Contributions as a Percentage of Covered Employee Payroll	 16.20%	 15.30%

**CITY OF WINDOM, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
WINDOM FIRE RELIEF ASSOCIATION
SCHEDULE OF CHANGES IN THE NET PENSION ASSET AND RELATED RATIOS**

	<u>December 31, 2015 Measurement Date</u>
Total Pension Liability	
Service Cost	\$ 28,015
Interest	50,008
Net Change in Total Pension Liability	<u>78,023</u>
Total Pension Liability - Beginning	741,333
Total Pension Liability - Ending (a)	<u>819,356</u>
Plan Fiduciary Net Position	
Municipal Contributions	5,000
State Contributions	49,942
Net Investment Income	(34,324)
Benefit Payments	(1,051)
Net Change in Fiduciary Net Position	<u>19,567</u>
Fiduciary Net Position - Beginning	1,113,829
Fiduciary Net Position - Ending (b)	<u>1,133,396</u>
Association's Net Pension Liability/(Asset) - Ending (a) - (b)	<u>\$ (314,040)</u>
Fiduciary Net Position as a Percentage of the Total Pension Liability	138.33%
Covered-Employee Payroll	N/A
Net Pension Liability/(Asset) as a Percentage of Covered-Employee Payroll	N/A

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SUPPLEMENTARY INFORMATION

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**COMBINING AND INDIVIDUAL NONMAJOR FUND
FINANCIAL STATEMENTS**

**CITY OF WINDOM, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2015**

	Special Revenue Fund	Capital Projects Fund	Debt Service Funds	
	Ambulance Fund	2013 Street Capital Project Fund	4th Ave Improvement Bond Fund	2006A Refunding Bond Fund
ASSETS				
Cash and Investments	\$ 1,450,098	\$ 490,165	\$ -	\$ -
Accounts Receivable	216,178	-	-	-
Special Assessments Receivable	-	743,600	-	20,387
Total Assets	\$ 1,666,276	\$ 1,233,765	\$ -	\$ 20,387
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICITS)				
LIABILITIES				
Accounts and Contracts Payable	\$ 2,874	\$ -	\$ -	\$ -
Other Accrued Liabilities	4,884	-	-	-
Due to Other Funds	-	-	58,517	254,778
Total Liabilities	7,758	-	58,517	254,778
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	-	743,599	-	20,387
FUND BALANCE (DEFICIT)				
Restricted	-	109,750	-	-
Committed	1,658,518	-	-	-
Assigned	-	380,416	-	-
Unassigned	-	-	(58,517)	(254,778)
Total Fund Balance (Deficit)	1,658,518	490,166	(58,517)	(254,778)
Total Liabilities and Fund Balance (Deficit)	\$ 1,666,276	\$ 1,233,765	\$ -	\$ 20,387

Debt Service Funds

2007 Street Improvement Bond Fund	2009 Street Improvement Bond Fund	GO Special Assessment Bond Fund	2003 Improvement Bond Fund	2015 Total
\$ -	\$ 154,367	\$ 630,944	\$ 26,687	\$ 2,752,261
-	-	-	-	216,178
<u>69,898</u>	<u>145,532</u>	<u>37,904</u>	<u>-</u>	<u>1,017,321</u>
<u><u>\$ 69,898</u></u>	<u><u>\$ 299,899</u></u>	<u><u>\$ 668,848</u></u>	<u><u>\$ 26,687</u></u>	<u><u>\$ 3,985,760</u></u>
\$ -	\$ -	\$ -	\$ -	\$ 2,874
-	-	-	-	4,884
<u>170,397</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>483,692</u>
<u>170,397</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>491,450</u>
69,898	145,532	33,514	-	1,012,930
-	154,367	635,334	26,687	926,138
-	-	-	-	1,658,518
-	-	-	-	380,416
<u>(170,397)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(483,692)</u>
<u>(170,397)</u>	<u>154,367</u>	<u>635,334</u>	<u>26,687</u>	<u>2,481,380</u>
<u><u>\$ 69,898</u></u>	<u><u>\$ 299,899</u></u>	<u><u>\$ 668,848</u></u>	<u><u>\$ 26,687</u></u>	<u><u>\$ 3,985,760</u></u>

**CITY OF WINDOM, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
YEAR ENDED DECEMBER 31, 2015**

	Special Revenue Fund	Capital Projects Fund	Debt Service Funds	
	Ambulance Fund	2013 Street Capital Project Fund	4th Ave Improvement Bond Fund	2006A Refunding Bond Fund
REVENUE				
General Property Taxes	\$ -	\$ 98,378	\$ 55,900	\$ 17,648
Intergovernmental				
Special Assessments	-	80,185	3,425	28,571
Charges for Services	537,857	-	-	-
Interest Income	10,275	648	-	-
Investment Earnings (Loss)	(2,325)	(252)	-	-
Grants and Contributions	4,590	-	-	-
Total Revenue	<u>554,297</u>	<u>178,959</u>	<u>59,325</u>	<u>46,219</u>
EXPENDITURES				
Current:				
Public Safety	320,570	-	-	-
Public Works	-	7,683	925	970
Capital Outlay:				
Public Works	-	19,387	-	-
Debt Service:				
Principal	-	125,000	42,350	86,000
Interest and Fiscal Charges	-	59,663	2,592	9,075
Total Expenditures	<u>320,570</u>	<u>211,733</u>	<u>45,867</u>	<u>96,045</u>
EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	233,727	(32,774)	13,458	(49,826)
OTHER FINANCING SOURCES (USES)				
Transfer In	-	-	-	29,965
NET CHANGE IN FUND BALANCE	233,727	(32,774)	13,458	(19,861)
Fund Balance (Deficit) - Beginning of Year	<u>1,424,791</u>	<u>522,940</u>	<u>(71,975)</u>	<u>(234,917)</u>
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ 1,658,518</u>	<u>\$ 490,166</u>	<u>\$ (58,517)</u>	<u>\$ (254,778)</u>

Debt Service Funds

2007 Street Improvement Bond Fund	2009 Street Improvement Bond Fund	GO Special Assessment Bond Fund	2003 Improvement Bond Fund	2015 Total
\$ 27,525	\$ 53,771	\$ 34,313	\$ 80,034	\$ 367,569
23,404	20,142	(2,606)	-	153,121
-	-	-	-	537,857
1,303	-	513	-	12,739
-	-	-	-	(2,577)
-	-	-	-	4,590
<u>52,232</u>	<u>73,913</u>	<u>32,220</u>	<u>80,034</u>	<u>1,077,199</u>
-	-	-	-	320,570
-	925	804	925	12,232
-	-	-	-	19,387
645,000	90,000	57,650	110,000	1,156,000
22,745	43,270	5,952	7,485	150,782
<u>667,745</u>	<u>134,195</u>	<u>64,406</u>	<u>118,410</u>	<u>1,658,971</u>
(615,513)	(60,282)	(32,186)	(38,376)	(581,772)
-	38,648	-	-	68,613
<u>(615,513)</u>	<u>(21,634)</u>	<u>(32,186)</u>	<u>(38,376)</u>	<u>(513,159)</u>
<u>445,116</u>	<u>176,001</u>	<u>667,520</u>	<u>65,063</u>	<u>2,994,539</u>
<u>\$ (170,397)</u>	<u>\$ 154,367</u>	<u>\$ 635,334</u>	<u>\$ 26,687</u>	<u>\$ 2,481,380</u>

**CITY OF WINDOM, MINNESOTA
NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF NET POSITION
DECEMBER 31, 2015**

ASSETS	Arena Fund	Multi-Purpose Center Fund	River Bluff Townhomes	Totals 2015
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 98,346	\$ 184,897	\$ 63,712	\$ 346,955
Accounts Receivable	350	4,774	-	5,124
Total Current Assets	<u>98,696</u>	<u>189,671</u>	<u>63,712</u>	<u>352,079</u>
Capital Assets:				
Buildings and Improvements	940,208	1,938,426	1,123,288	4,001,922
Machinery and Equipment	387,203	274,626	-	661,829
Total Capital Assets	<u>1,327,411</u>	<u>2,213,052</u>	<u>1,123,288</u>	<u>4,663,751</u>
Less: Accumulated Depreciation	<u>(1,199,972)</u>	<u>(1,056,830)</u>	<u>(453,814)</u>	<u>(2,710,616)</u>
Net Capital Assets	<u>127,439</u>	<u>1,156,222</u>	<u>669,474</u>	<u>1,953,135</u>
Total Assets	<u>226,135</u>	<u>1,345,893</u>	<u>733,186</u>	<u>2,305,214</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension Related	13,680	15,585	-	29,265
LIABILITIES				
CURRENT LIABILITIES				
Accounts Payable	7,887	11,035	2,570	21,492
Accrued Salaries and Fringes	4,132	4,402	-	8,534
Accrued Interest Payable	-	-	317	317
Other Accrued Liabilities	6,540	-	-	6,540
Unearned Revenue	-	1,600	5,200	6,800
Current Portion of Bonds Payable	-	-	20,107	20,107
Total Current Liabilities	<u>18,559</u>	<u>17,037</u>	<u>28,194</u>	<u>63,790</u>
NONCURRENT LIABILITIES				
Compensated Absences	38,129	37,653	-	75,782
Net Pension Liability	97,991	111,638	-	209,629
Bonds Payable - Long-Term	-	-	810,573	810,573
Total Noncurrent Liabilities	<u>136,120</u>	<u>149,291</u>	<u>810,573</u>	<u>1,095,984</u>
Total Liabilities	<u>154,679</u>	<u>166,328</u>	<u>838,767</u>	<u>1,159,774</u>
DEFERRED INFLOWS OF RESOURCES				
Pension Related	10,204	11,625	-	21,829
NET POSITION				
Net Investment in Capital Assets	127,439	1,156,222	(160,867)	1,122,794
Unrestricted	<u>(52,507)</u>	<u>27,303</u>	<u>55,286</u>	<u>30,082</u>
Total Net Position	<u>\$ 74,932</u>	<u>\$ 1,183,525</u>	<u>\$ (105,581)</u>	<u>\$ 1,152,876</u>

**CITY OF WINDOM, MINNESOTA
NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2015**

	Arena Fund	Multi-Purpose Center Fund	River Bluff Townhomes	Totals 2015
OPERATING REVENUE				
Facility Use/Other Revenue	\$ 142,975	\$ 84,228	\$ 91,884	\$ 319,087
OPERATING EXPENSES				
Personal Services	158,134	193,979	-	352,113
Supplies, Repairs, Services and Rents	144,100	77,483	38,216	259,799
Depreciation and Amortization	30,268	52,999	28,082	111,349
Total Operating Expenses	<u>332,502</u>	<u>324,461</u>	<u>66,298</u>	<u>723,261</u>
OPERATING INCOME (LOSS)	(189,527)	(240,233)	25,586	(404,174)
OTHER INCOME (EXPENSE)				
Taxes and Special Assessments	162,470	200,390	-	362,860
Interest Income	521	1,068	-	1,589
Investment Earnings	(118)	(260)	-	(378)
Interest Expense	-	-	(10,040)	(10,040)
Total Other Income (Expense)	<u>162,873</u>	<u>201,198</u>	<u>(10,040)</u>	<u>354,031</u>
CHANGE IN NET POSITION	(26,654)	(39,035)	15,546	(50,143)
Net Position - Beginning of Year	193,023	1,326,730	(121,127)	1,398,626
Change in Accounting Principle	(91,437)	(104,170)	-	(195,607)
Net Position - Beginning of Year, As Restated	<u>101,586</u>	<u>1,222,560</u>	<u>(121,127)</u>	<u>1,203,019</u>
NET POSITION - END OF YEAR	<u>\$ 74,932</u>	<u>\$ 1,183,525</u>	<u>\$ (105,581)</u>	<u>\$ 1,152,876</u>

**CITY OF WINDOM, MINNESOTA
NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2015**

	Arena Fund	Multi-Purpose Fund	River Bluff Townhomes	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Customers and Service Users	\$ 143,614	\$ 83,148	\$ 92,190	\$ 318,952
Cash Paid to Suppliers	(138,595)	(66,172)	(38,216)	(242,983)
Cash Paid to Employees	(152,391)	(191,272)	-	(343,663)
Net Cash Provided (Used) by Operating Activities	<u>(147,372)</u>	<u>(174,296)</u>	<u>53,974</u>	<u>(267,694)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Property Tax Revenues	162,470	200,390	-	362,860
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and Construction of Capital Assets	(55,838)	(5,344)	-	(61,182)
Interest Paid on Long-Term Debt	-	-	(7,339)	(7,339)
Principal Payments on Long-Term Debt	-	-	(47,570)	(47,570)
Net Cash Used by Capital and Related Financing Activities	<u>(55,838)</u>	<u>(5,344)</u>	<u>(54,909)</u>	<u>(116,091)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment Income (Loss)	<u>403</u>	<u>807</u>	<u>-</u>	<u>1,210</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(40,337)	21,557	(935)	(19,715)
Cash and Cash Equivalents - Beginning of Year	<u>138,683</u>	<u>163,340</u>	<u>64,647</u>	<u>366,670</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 98,346	\$ 184,897	\$ 63,712	\$ 346,955
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ (189,527)	\$ (240,233)	\$ 25,586	\$ (404,174)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	30,268	52,999	28,082	111,349
Pension Adjustment	3,078	3,508	-	6,586
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	639	(1,230)	-	(591)
Increase (Decrease) in Accounts and Contracts Payable	2,427	7,803	-	10,230
Increase (Decrease) in Accrued Expenses	6,042	388	-	6,430
Increase (Decrease) in Unearned Revenue	-	150	306	456
Increase (Decrease) in Accrued Compensated Absences	(299)	2,319	-	2,020
Net Cash Provided (Used) by Operating Activities	<u>\$ (147,372)</u>	<u>\$ (174,296)</u>	<u>\$ 53,974</u>	<u>\$ (267,694)</u>

OTHER REPORT SECTION

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INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Windom (the City), Minnesota, as of December 31, 2015 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued our report thereon dated June 28, 2016.

The City's basic financial statements include the operations of Windom Area Hospital. Our audit, described below, did not include the operations of the Windom Area Hospital because the component unit engaged for its own separate audit that included the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*.

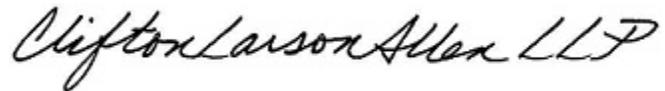
The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, tax increment financing, and city and county miscellaneous provisions.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Windom, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to *Minnesota Statutes* §6.65, except as described in the schedule of findings and responses as item 2015-002. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Windom, Minnesota's noncompliance with the above-referenced provisions.

The City of Windom's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

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

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Austin, Minnesota
June 28, 2016

**CITY OF WINDOM, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2015**

2015-002 Broker Acknowledgement Certifications

Condition: Minnesota statute 118A.04, subd. 9, requires that a government entity annually, prior to completing an initial investment transaction with each broker, provide to that broker a written statement of investment restrictions and obtain acknowledgement from the broker agreeing to handle the City's account in accordance with these restrictions and for the City to retain this documentation. Written investment restrictions were not provided to the broker for 2015 and as a result, no broker certification was received.

Recommendation: We recommend the City provide each broker with the City's written investment policy and request acknowledgment that they are handling the City's account in accordance with these restrictions at the beginning of every calendar year.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The City will implement the recommendation above.

Official Responsible for Ensuring CAP:

The governing board is responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

The planned completion date was January 2016.

Plan to Monitor Completion of CAP:

The governing board will monitor this corrective action plan.

