

CITY OF WINDOM, MINNESOTA
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2017

**CITY OF WINDOM, MINNESOTA
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YEAR ENDED DECEMBER 31, 2017**

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INTRODUCTORY SECTION

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**CITY OF WINDOM, MINNESOTA
OFFICIAL DIRECTORY
DECEMBER 31, 2017**

Elected Officials

Term Expires

| | | |
|----------------|-----------------|----------------------------|
| Mayor | Dominic Jones | December 31, 2020 |
| Council Member | Paul Johnson | Left council February 2018 |
| Council Member | Bryan Joyce | December 31, 2018 |
| Council Member | Jayesun Sherman | December 31, 2018 |
| Council Member | Marv Grunig | December 31, 2020 |
| Council Member | Rodney Byam | December 31, 2020 |

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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, 2017, 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

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

Opinion

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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Windom as of December 31, 2017, 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.

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.

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.

Honorable Mayor and
Members of the City Council
City of Windom

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2018, 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 solely 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 the effectiveness of the City of Windom's 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, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

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, 2017.

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 \$50,143,890 (net position). The unrestricted portion of net position, the portion used to meet the City's ongoing obligations to citizens and creditors, is \$15,630,382.
- The City's total net position increased by \$3,142,246 from 2016.
- As of the close of the current fiscal year, the City of Windom's governmental funds reported a combined ending fund balance of \$7,987,946 which is an increase of \$289,041 in comparison with the prior year. The overall *unassigned fund balance* is \$1,534,833.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,170,771 or 74% of total 2017 general fund expenditures. The City's Fund Balance policy is to maintain an unrestricted fund balance in the General Fund of an amount that is not less than 35% or more than 60% of the next year's budgeted expenditures of the General Fund.
- The City of Windom continues to market developed lots in the NWIP for industrial development. The EDA has an option on an additional 80 acres of land for expansion of the NWIP and is pursuing funding for NWIP Phase II as opportunities arise.
- In 2016 the City approved the bid for a \$3.9 million Emergency Services Facility to house the Fire Department and Ambulance Department. This facility was completed in August 2017 on budget.
- New labor agreements with IBEW and LELS were completed in 2017 (covering 2018-2020). In 2017 the implementation of a compensation and classification study was approved by the City Council for all Supervisory positions.
- A \$2.96 million Street Project was completed in 2017. In addition a Water Plant Upgrade (filter replacement) and a sewer main along Highway 60 were completed.
- Temporary Significant Industrial User Agreements were executed by the City with two industrial users. This information will be the basis for upgrades at the WWTP which is being completed by Bolton & Menk Engineering to insure the City meets new wastewater standards.
- Bonds for \$855,000 were sold to fund a Core System Upgrade for the Telecommunications System. This project is scheduled to be completed in 2018.
- The Electric Department received the new transformer and started construction on the new Substation building in 2017. This \$1.5 million project is scheduled for completion in 2018.
- The Windom Youth Hockey Association substantially completed a new locker room project estimated at \$400,000 at the Windom Arena, which will be donated to the City. The City will also be undertaking an ice system replacement project in 2018.

**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

FINANCIAL HIGHLIGHTS (CONTINUED)

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.

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.

**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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.

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 twelve 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.

**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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 34-71 of this report.

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 75-81.

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 \$50,143,890 at the close of the most recent fiscal year compared to \$47,001,644 at the end of 2016.

Approximately 63% 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 2017, \$2,637,763 of assets were restricted as to use leaving the remaining balance of \$15,630,382 as unrestricted net position that may be used to meet the City's ongoing obligations.

CITY OF WINDOM'S NET POSITION

| | Governmental Activities | | Used 2015 | Business-Type Activities | | Total | |
|---------------------------------------|-------------------------|---------------|------------------|--------------------------|---------------|---------------|---------------|
| | 2017 | 2016 | | 2017 | 2016 | 2017 | 2016 |
| ASSETS | | | | | | | |
| Current and Other Assets | \$ 10,193,008 | \$ 10,881,425 | \$ 13,193,875.00 | \$ 24,576,040 | \$ 22,460,465 | \$ 34,769,048 | \$ 33,341,890 |
| Capital Assets | 21,565,131 | 17,644,242 | 55,844,192 | 40,444,825 | 38,714,071 | 62,009,956 | 56,358,313 |
| Total Assets | 31,758,139 | 28,525,667 | 69,038,067.00 | 65,020,865 | 61,174,536 | 96,779,004 | 89,700,203 |
| DEFERRED OUTFLOWS OF RESOURCES | 1,306,854 | 2,042,519 | | 3,341,204 | 1,704,163 | 4,648,058 | 3,746,682 |
| LIABILITIES | | | | | | | |
| Noncurrent Liabilities Outstanding | 11,801,345 | 10,160,195 | 23,550,357 | 30,862,050 | 27,867,587 | 42,663,395 | 38,027,782 |
| Other Liabilities | 1,277,789 | 2,473,781 | 8,366,890 | 4,416,265 | 4,108,508 | 5,694,054 | 6,582,289 |
| Total Liabilities | 13,079,134 | 12,633,976 | 31,917,247 | 35,278,315 | 31,976,095 | 48,357,449 | 44,610,071 |
| DEFERRED INFLOWS OF RESOURCES | 1,438,540 | 404,069 | | 1,487,183 | 1,431,101 | 2,925,723 | 1,835,170 |
| Net Position: | | | | | | | |
| Net Investment in Capital Assets | 13,244,807 | 12,471,031 | 30,450,655 | 18,630,938 | 17,391,263 | 31,875,745 | 29,862,294 |
| Restricted | 2,239,432 | 755,359 | 3,867,349 | 398,331 | 1,465,525 | 2,637,763 | 2,220,884 |
| Unrestricted | 3,063,080 | 4,303,751 | 2,802,816 | 12,567,302 | 10,614,715 | 15,630,382 | 14,918,466 |
| Total Net Position | \$ 18,547,319 | \$ 17,530,141 | \$ 37,120,820 | \$ 31,596,571 | \$ 29,471,503 | \$ 50,143,890 | \$ 47,001,644 |

**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Governmental Activities

Governmental activities increased the City of Windom's net position by \$1,017,178. 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 reported as liabilities in prior years. Also contributing to the net position increase was the use of bond proceeds and property taxes collected for capital expenditures that were capitalized as long-term assets instead of current expenditures.

Business-Type Activities

Business-type activities increased the City of Windom's net position by \$2,125,068. All major funds (electric, water, sewer, municipal liquor store, telecom, and Windom Hospital) 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 | |
|---|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| REVENUES | | | | | | |
| Program Revenues: | | | | | | |
| Fees, Charges, Fines, and Other | \$ 1,279,665 | \$ 1,232,020 | \$ 32,430,655 | \$ 29,288,621 | \$ 33,710,320 | \$ 30,520,641 |
| Operating Grants and Contributions | 328,153 | 160,174 | - | - | 328,153 | 160,174 |
| Capital Grants and Contributions | 1,111,134 | 1,580,536 | 158,267 | 90,957 | 1,269,401 | 1,671,493 |
| General Revenues: | | | | | | |
| Property Taxes | 1,378,961 | 1,401,534 | 437,895 | 412,655 | 1,816,856 | 1,814,189 |
| Tax Increments | 622,332 | 377,545 | - | - | 622,332 | 377,545 |
| Other Taxes | 22,484 | 25,258 | - | - | 22,484 | 25,258 |
| Grants and Contributions, Not Restricted | 1,449,470 | 1,447,271 | 6,270 | 104,939 | 1,455,740 | 1,552,210 |
| Unrestricted Interest Income | 48,933 | 37,758 | 100,405 | 118,392 | 149,338 | 156,150 |
| Unrestricted Investment Earnings (Loss) | (5,633) | (5,089) | (2,061) | (2,140) | (7,694) | (7,229) |
| Gain (Loss) on Disposal of Capital Assets | 20,361 | 33,213 | 25,399 | 46,451 | 45,760 | 79,664 |
| Gain on Sale of Land Held for Resale | - | - | - | - | - | - |
| Total Revenues | <u>6,255,860</u> | <u>6,290,220</u> | <u>33,156,830</u> | <u>30,059,875</u> | <u>39,412,690</u> | <u>36,350,095</u> |
| EXPENSES | | | | | | |
| General Government | 690,785 | 641,502 | - | - | 690,785 | 641,502 |
| Public Safety | 1,941,008 | 1,836,398 | - | - | 1,941,008 | 1,836,398 |
| Public Works | 1,059,327 | 948,418 | - | - | 1,059,327 | 948,418 |
| Culture and Recreation | 498,962 | 521,364 | - | - | 498,962 | 521,364 |
| Airport | - | - | - | - | - | - |
| Economic Development | 887,386 | 1,926,044 | - | - | 887,386 | 1,926,044 |
| Interest on Long-Term Debt | 420,639 | 243,574 | - | - | 420,639 | 243,574 |
| Electric | - | - | 5,439,347 | 4,827,265 | 5,439,347 | 4,827,265 |
| Water | - | - | 998,277 | 986,265 | 998,277 | 986,265 |
| Wastewater | - | - | 1,345,138 | 1,365,530 | 1,345,138 | 1,365,530 |
| Liquor Store | - | - | 1,796,219 | 1,712,332 | 1,796,219 | 1,712,332 |
| Telecom | - | - | 2,744,103 | 2,596,537 | 2,744,103 | 2,596,537 |
| Arena | - | - | 341,898 | 336,203 | 341,898 | 336,203 |
| Multi-Purpose | - | - | 361,109 | 363,743 | 361,109 | 363,743 |
| River Bluff Townhomes | - | - | 89,432 | 76,234 | 89,432 | 76,234 |
| Windom Area Hospital | - | - | 17,656,814 | 15,591,287 | 17,656,814 | 15,591,287 |
| Total Expenses | <u>5,498,107</u> | <u>6,117,300</u> | <u>30,772,337</u> | <u>27,855,396</u> | <u>36,270,444</u> | <u>33,972,696</u> |
| Increase in Net Position Before Transfers | 757,753 | 172,920 | 2,384,493 | 2,204,479 | 3,142,246 | 2,377,399 |
| Transfers | 259,425 | 795,086 | (259,425) | (795,086) | - | - |
| CHANGE IN NET POSITION | <u>1,017,178</u> | <u>968,006</u> | <u>2,125,068</u> | <u>1,409,393</u> | <u>3,142,246</u> | <u>2,377,399</u> |
| Net Position - Beginning of Year | 17,530,141 | 16,562,135 | 29,471,503 | 28,062,110 | 47,001,644 | 44,624,245 |
| NET POSITION - END OF YEAR | <u>\$ 18,547,319</u> | <u>\$ 17,530,141</u> | <u>\$ 31,596,571</u> | <u>\$ 29,471,503</u> | <u>\$ 50,143,890</u> | <u>\$ 47,001,644</u> |

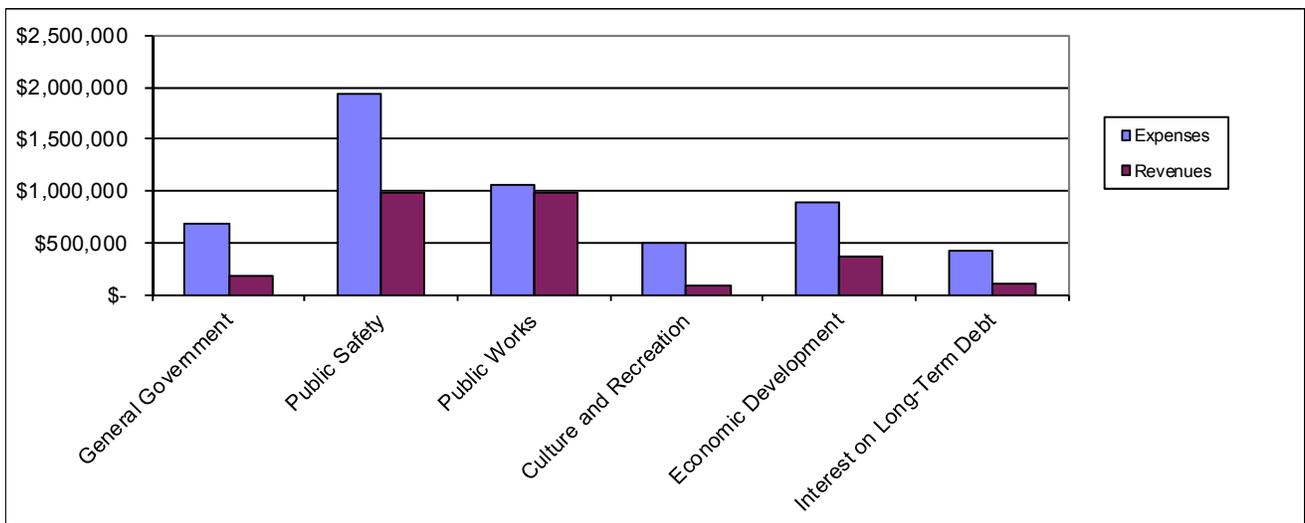
**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

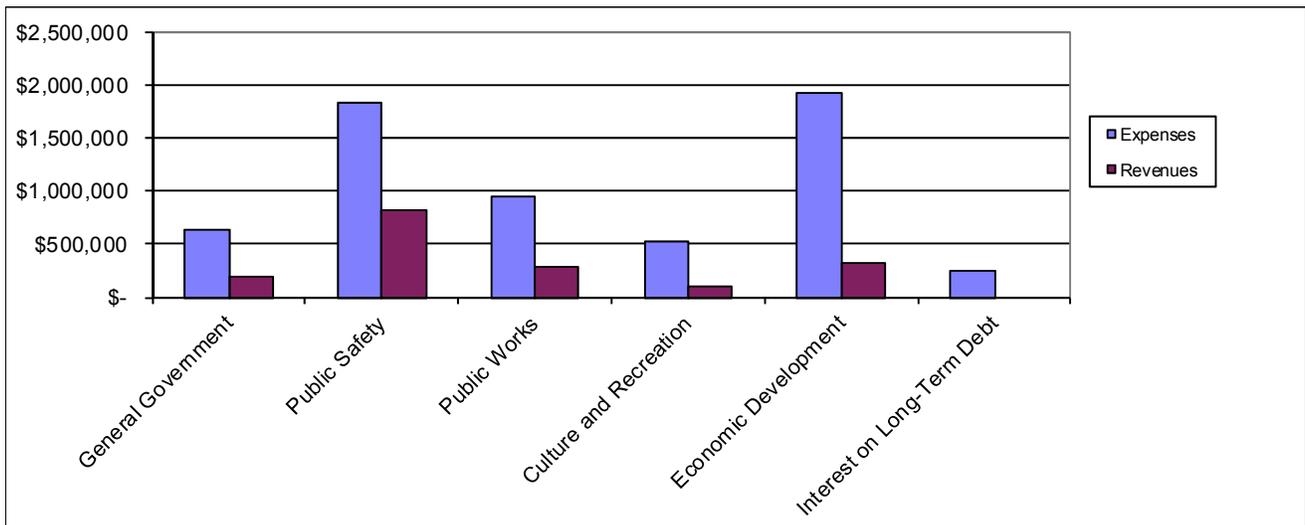
City of Windom's Changes in Net Position (Continued)

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.

**2017
Expenses and Program Revenues – Governmental Activities**



**2016
Expenses and Program Revenues – Governmental Activities**



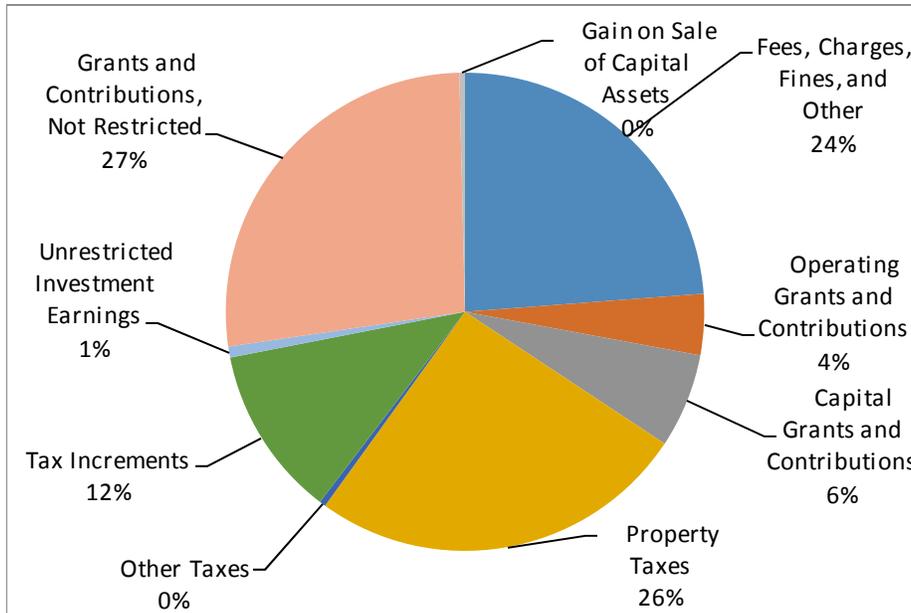
**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

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

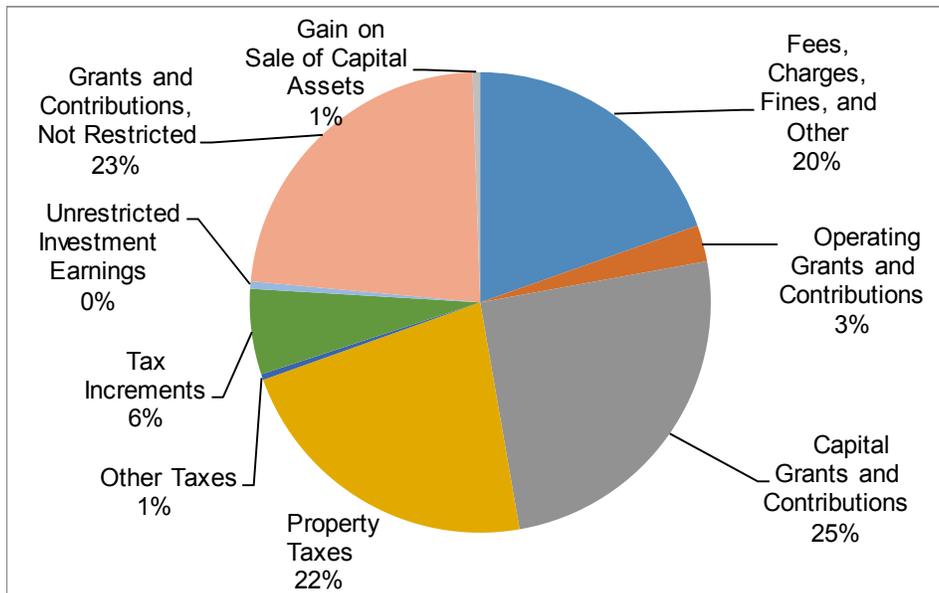
2017

Revenues by Source - Governmental Activities



2016

Revenues by Source - Governmental Activities



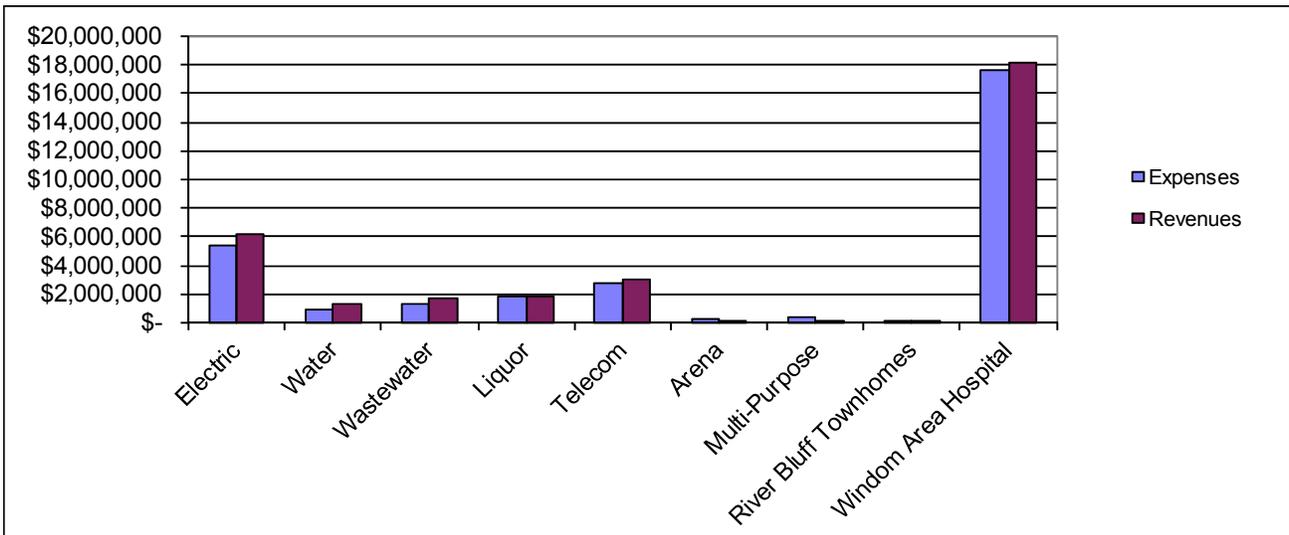
**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

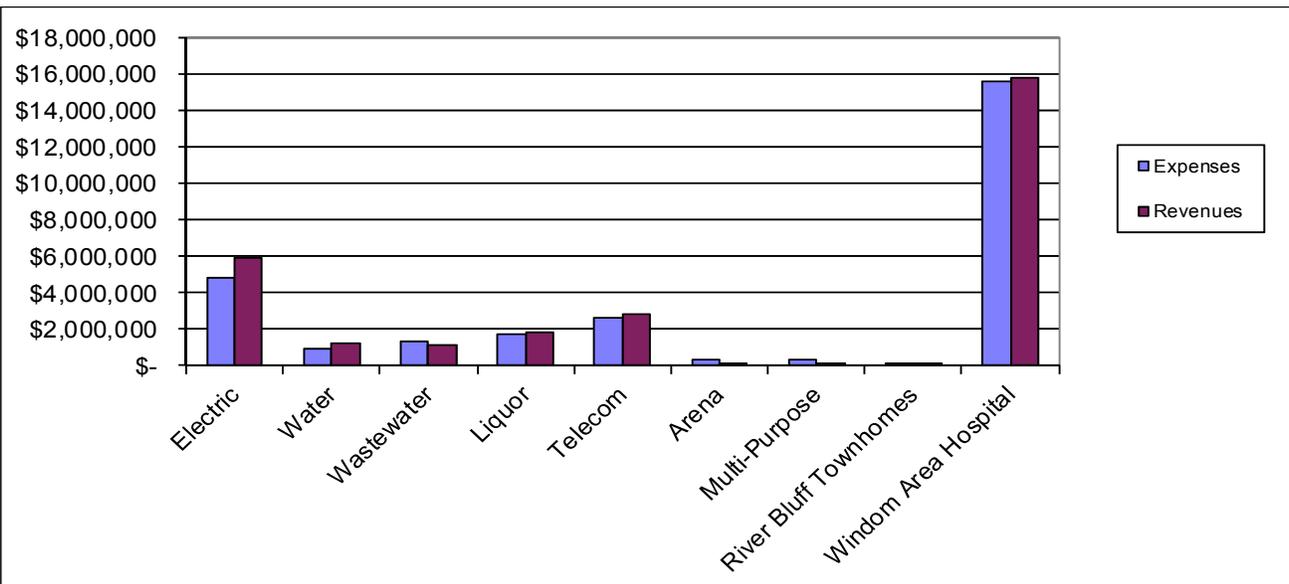
City of Windom's Changes in Net Position (Continued)

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.

**2017
Expenses and Program Revenues – Business-Type Activities**



**2016
Expenses and Program Revenues – Business-Type Activities**



**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

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 \$7,987,946 an increase of \$289,041 in comparison with 2016. The City reported an unassigned fund balance in the amount of \$1,534,833. Fund balance of \$270,624 is nonspendable and \$3,122,865 restricted to indicate that it is not available for new spending. At December 31, 2017 fund balances were as follows:

| | Balance | Increase (Decrease) From 2016 |
|--|--------------|-------------------------------------|
| General Fund | \$ 3,069,076 | \$ 341,752 |
| Capital Project Fund - Emergency Services Facility | 265,347 | (1,951,729) |
| Economic Development Fund | 2,006,581 | 530,136 |
| 2017 Street Capital Project Fund | 557,174 | 676,924 |
| Other Governmental Funds | 2,089,768 | 691,958 |
| Total | \$ 7,987,946 | \$ 289,041 |

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 \$2,170,771.

During the current fiscal year, the City of Windom's general fund balance increased by \$341,752. The increase was primarily due to revenue being allocated to reserve funds for capital spending to be completed in future years.

The increase in the economic development fund balance of \$530,136 was due to tax increments received as a result of development of North Windom Industrial Park, and an increase in inventory related to future capital projects.

The increase in fund balance in the other governmental funds was due to receipt of bond proceeds of \$3,700,000.

During 2016, the City approved a capital project for an Emergency Services Facility. Construction was started during 2016 and was completed during 2017. The City also completed a \$2.96 million street project in 2017.

**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

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 2017 was \$10,762,229, of which \$4,723,120 is unrestricted. Net position increased \$590,432 during the current year primarily due favorable power cost purchases as well as increased usage by large industrial user.

The water fund has total net position of \$4,416,067, of which \$306,992 is unrestricted. The increase in net position of \$226,397 was related to a 2017 rate increase as well as increased commercial water revenue from a large industrial customer.

The wastewater fund has total net position of \$4,657,713, of which \$544,964 is unrestricted. The net position of the wastewater fund increased by \$453,857 during 2017. This increase is mostly related to an increase in sewer rates and the additional usage of two large industrial customers.

The liquor fund has total net position of \$673,931. It has unrestricted net position of \$459,851. The net position of the liquor fund increased by \$41,868 during 2017

The telecom fund reported a deficit net position of (\$7,931,259), a decrease of the deficit from 2016 by \$246,195. The telecom fund increased their data service rates in 2017 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 \$17,823,688. The net position for the hospital fund increased \$531,678 during 2017.

GENERAL FUND BUDGETARY HIGHLIGHTS

Revenues were over budget due mainly to higher than expected building permit and plan review fees, additional government supplemental aid, a small cities grant, and higher than planned airport fuel sales. Expenditures came in under budget due to funding for capital expenditures that will be incurred in 2018 or future years.

**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

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, 2017, amounts to \$62,009,956 (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 \$5,651,643 when compared to 2016. 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 | |
|-------------------------------------|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2017 | 2016 | 2017 | As Restated 2016 | 2017 | 2016 |
| Land | \$ 232,961 | \$ 232,961 | \$ 519,018 | \$ 519,018 | \$ 751,979 | \$ 751,979 |
| Buildings and Building Improvements | 10,235,074 | 6,820,754 | 26,517,949 | 27,009,287 | 36,753,023 | 33,830,041 |
| Infrastructure | 9,037,602 | 6,891,985 | - | - | 9,037,602 | 6,891,985 |
| Machinery and Equipment | 1,818,090 | 1,705,139 | 10,172,151 | 10,340,083 | 11,990,241 | 12,045,222 |
| Office Equipment and Furniture | 124,914 | 114,372 | 186,111 | 153,113 | 311,025 | 267,485 |
| Construction in Progress | 116,490 | 1,879,031 | 3,049,596 | 692,570 | 3,166,086 | 2,571,601 |
| Total | <u>\$ 21,565,131</u> | <u>\$ 17,644,242</u> | <u>\$ 40,444,825</u> | <u>\$ 38,714,071</u> | <u>\$ 62,009,956</u> | <u>\$ 56,358,313</u> |

Long-Term Debt

At the end of the current fiscal year, the City of Windom had total long-term debt outstanding of \$32,748,111. The City of Windom's total long-term debt increased by \$4,094,539 or 14.29% 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 with stable outlook from Standard & Poor's for general obligation debt.

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

| | Governmental Activities | | Business-Type Activities | | Total | |
|--------------------------|-------------------------|---------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| G.O. Bonds | \$ 8,090,000 | \$ 5,005,000 | \$ 3,950,000 | \$ 2,120,000 | \$ 12,040,000 | \$ 7,125,000 |
| Revenue Bonds | - | - | 17,241,000 | 18,216,000 | 17,241,000 | 18,216,000 |
| Capital Lease Obligation | 2,034,000 | 2,034,000 | - | - | 2,034,000 | 2,034,000 |
| Notes Payable | 506,549 | 310,431 | 926,562 | 968,141 | 1,433,111 | 1,278,572 |
| Total | <u>\$ 10,630,549</u> | <u>\$ 7,349,431</u> | <u>\$ 22,117,562</u> | <u>\$ 21,304,141</u> | <u>\$ 32,748,111</u> | <u>\$ 28,653,572</u> |

**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- In December 2015, PM Windom closed its facility with the loss of 252 jobs. PM Windom was also a significant user of municipal utility services and as a result electric, water, and wastewater sustained significant reductions in revenue. In February 2016 the facility was purchased by Prime Pork for a pork processing facility. The conversion and reconstruction of this plant was approximately \$80 million. Prime Pork started operations in early 2017 and started utilizing City wastewater and electric which will greatly contribute to the revenues for these operations. At the end of 2017 the facility had over 325 jobs and will add more in the future.
- An Electric rate study called for a 3.5% increase in rates for 2017. The Utility Commission approved this rate increase as part of the rate study plan.
- Interest rates have risen slightly but remain low (compared to historical averages) and the City's investment earnings have remained low (approximately 1 – 1.5% interest rates).
- The Toro Company, Fast Global and other major employers are maintaining employment levels for their Windom operations.
- A new \$5 million AmericInn hotel started construction in 2017 with plans to be completed in July 2018. This hotel will enhance the attractiveness of the community for events such as weddings, sporting tournaments and horse/livestock shows. The hotel will also create about 10 new jobs.
- The Prairie Meadow subdivision is on-hold due to a new school referendum that will be held in 2018. Depending on the outcome of the referendum and location of the new facility, should the referendum pass, the Prairie Meadow subdivision may cease or be relocated on the school site.
- Discussions with housing developers are progressing towards the construction of new housing in the community to help address the needs identified by the housing study. New housing units are expected in 2018. A multi-family project is anticipated for 2019.

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.

BASIC FINANCIAL STATEMENTS

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**CITY OF WINDOM, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2017**

| | 2017 | | | April 30, 2017 |
|---|----------------------------|-----------------------------|---------------|------------------------------------|
| | Governmental Activities | Business-Type Activities | Total | Windom Area Hospital Foundation |
| ASSETS | | | | |
| Cash and Investments | \$ 5,877,364 | \$ 10,169,660 | \$ 16,047,024 | \$ 228,987 |
| Short-Term Investments | | 2,917,500 | 2,917,500 | |
| Cash and Investments with Fiscal Agent | - | 398,331 | 398,331 | - |
| Restricted Cash and Investments | 803,138 | 5,458,828 | 6,261,966 | 122,243 |
| Taxes Receivable | 48,242 | - | 48,242 | - |
| Special Assessments Receivable | 1,277,121 | 238,995 | 1,516,116 | - |
| Accounts Receivable | 390,350 | 3,735,583 | 4,125,933 | - |
| Accrued Interest Receivable | - | 20,747 | 20,747 | - |
| Internal Balances | (125,040) | 125,040 | - | - |
| Estimated Third-Party Payor Settlements | - | 310,790 | 310,790 | - |
| Inventory | 258,124 | 1,148,895 | 1,407,019 | - |
| Prepaid Items | 12,500 | 51,671 | 64,171 | - |
| Loans Receivable | 149,969 | - | 149,969 | - |
| Land Held for Resale | 1,141,160 | - | 1,141,160 | - |
| Net Pension Asset | 360,080 | - | 360,080 | - |
| Capital Assets: | | | | |
| Land and Construction in Progress | 349,451 | 3,568,614 | 3,918,065 | - |
| Other Capital Assets, Net of Depreciation | 21,215,680 | 36,876,211 | 58,091,891 | - |
| Total Assets | 31,758,139 | 65,020,865 | 96,779,004 | 351,230 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Pension Related | 1,306,854 | 3,341,204 | 4,648,058 | - |
| LIABILITIES | | | | |
| Accounts and Contracts Payable | 418,235 | 1,646,972 | 2,065,207 | - |
| Other Accrued Liabilities | 114,772 | 1,161,992 | 1,276,764 | - |
| Accrued Interest Payable | 116,813 | 109,828 | 226,641 | - |
| Unearned Revenue | - | 311,735 | 311,735 | - |
| Long-Term Liabilities: | | | | |
| Due within One Year | 627,969 | 1,185,738 | 1,813,707 | - |
| Due in More than One Year | 10,377,920 | 21,455,001 | 31,832,921 | - |
| Net Pension Liability | 1,423,425 | 9,407,049 | 10,830,474 | - |
| Total Liabilities | 13,079,134 | 35,278,315 | 48,357,449 | - |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Pension Related | 1,438,540 | 1,487,183 | 2,925,723 | - |
| NET POSITION | | | | |
| Net Investment in Capital Assets | 13,244,807 | 18,630,938 | 31,875,745 | - |
| Restricted for: | | | | |
| Specific Donor Restriction | 66,996 | - | 66,996 | 122,243 |
| Fire Relief Pension | 360,080 | - | 360,080 | - |
| Debt Service | 1,812,356 | 398,331 | 2,210,687 | - |
| Unrestricted | 3,063,080 | 12,567,302 | 15,630,382 | 228,987 |
| Total Net Position | \$ 18,547,319 | \$ 31,596,571 | \$ 50,143,890 | \$ 351,230 |

See accompanying Notes to Financial Statements.

**CITY OF WINDOM, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017**

| | 2017 | | | |
|----------------------------------|---------------|--|---------------------------------------|-------------------------------------|
| Functions/Programs | Expenses | Program Revenues Fees, Charges, Fines, and Other | Operating Grants and Contributions | Capital Grants and Contributions |
| Governmental Activities: | | | | |
| General Government | \$ 690,785 | \$ 108,207 | \$ 42,161 | \$ 34,279 |
| Public Safety | 1,941,008 | 850,955 | 130,286 | 10,000 |
| Public Works | 1,059,327 | 142,393 | 31,037 | 802,571 |
| Culture and Recreation | 498,962 | 78,750 | 18,078 | - |
| Economic Development | 887,386 | 99,360 | - | 264,284 |
| Interest on Long-Term Debt | 420,639 | - | 106,591 | - |
| Total Governmental Activities | 5,498,107 | 1,279,665 | 328,153 | 1,111,134 |
| Business-Type Activities: | | | | |
| Electric | 5,439,347 | 6,135,974 | - | - |
| Water | 998,277 | 1,316,220 | - | 11,538 |
| Wastewater | 1,345,138 | 1,736,770 | - | 7,617 |
| Liquor | 1,796,219 | 1,904,997 | - | - |
| Telecom | 2,744,103 | 2,997,525 | - | - |
| Arena | 341,898 | 135,126 | - | - |
| Multi-Purpose Center | 361,109 | 90,169 | - | - |
| River Bluff Townhomes | 89,432 | 94,397 | - | - |
| Windom Area Hospital | 17,656,814 | 18,019,477 | - | 139,112 |
| Total Business-Type Activities | 30,772,337 | 32,430,655 | - | 158,267 |
| Total Primary Government | \$ 36,270,444 | \$ 33,710,320 | \$ 328,153 | \$ 1,269,401 |
| Component Unit: | | | | |
| Windom Area Hospital Foundation | \$ 25 | \$ 32,014 | \$ 34,257 | \$ - |

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)

Gain 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

NET POSITION - END OF YEAR

See accompanying Notes to Financial Statements.

| 2017 | | | | April 30, 2017 |
|---|--------------------------|----------------------|---------------------------------|----------------|
| Net (Expense) Revenue and Changes in Net Position | | | Windom Area Hospital Foundation | |
| Governmental Activities | Business-Type Activities | Total | | |
| \$ (506,138) | \$ - | \$ (506,138) | \$ - | - |
| (949,767) | - | (949,767) | - | - |
| (83,326) | - | (83,326) | - | - |
| (402,134) | - | (402,134) | - | - |
| (523,742) | - | (523,742) | - | - |
| (314,048) | - | (314,048) | - | - |
| <u>(2,779,155)</u> | <u>-</u> | <u>(2,779,155)</u> | <u>-</u> | <u>-</u> |
| - | 696,627 | 696,627 | - | - |
| - | 329,481 | 329,481 | - | - |
| - | 399,249 | 399,249 | - | - |
| - | 108,778 | 108,778 | - | - |
| - | 253,422 | 253,422 | - | - |
| - | (206,772) | (206,772) | - | - |
| - | (270,940) | (270,940) | - | - |
| - | 4,965 | 4,965 | - | - |
| - | 501,775 | 501,775 | - | - |
| <u>-</u> | <u>1,816,585</u> | <u>1,816,585</u> | <u>-</u> | <u>-</u> |
| (2,779,155) | 1,816,585 | (962,570) | - | - |
| - | - | - | 66,246 | - |
| 1,378,961 | 437,895 | 1,816,856 | - | - |
| 622,332 | - | 622,332 | - | - |
| 22,484 | - | 22,484 | - | - |
| 1,449,470 | 6,270 | 1,455,740 | - | - |
| 48,933 | 100,405 | 149,338 | - | - |
| (5,633) | (2,061) | (7,694) | - | - |
| - | 25,399 | 25,399 | - | - |
| 20,361 | - | 20,361 | - | - |
| - | - | - | - | - |
| 259,425 | (259,425) | - | (66,014) | - |
| <u>3,796,333</u> | <u>308,483</u> | <u>4,104,816</u> | <u>(66,014)</u> | <u>-</u> |
| 1,017,178 | 2,125,068 | 3,142,246 | 232 | - |
| <u>17,530,141</u> | <u>29,471,503</u> | <u>47,001,644</u> | <u>350,998</u> | <u>-</u> |
| <u>\$ 18,547,319</u> | <u>\$ 31,596,571</u> | <u>\$ 50,143,890</u> | <u>\$ 351,230</u> | <u>-</u> |

**CITY OF WINDOM, MINNESOTA
GOVERNMENTAL FUNDS
BALANCE SHEET
DECEMBER 31, 2017**

| | General Fund | Economic Development Fund | Capital Project Fund | 2017 Street Capital Project Fund | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|---------------------------------|----------------------------|--|--------------------------------|--------------------------------|
| ASSETS | | | | | | |
| Cash and Investments | \$ 2,623,943 | \$ 679,456 | \$ 265,347 | \$ 666,168 | \$ 2,416,745 | \$ 6,651,659 |
| Property Taxes Receivable | 48,242 | - | - | - | - | 48,242 |
| Special Assessments Receivable | - | 37,037 | - | 478,070 | 762,014 | 1,277,121 |
| Accounts Receivable | 62,620 | 217 | - | - | 327,513 | 390,350 |
| Due from Other Funds | 635,938 | - | - | - | - | 635,938 |
| Inventory | 52,424 | 205,700 | - | - | - | 258,124 |
| Prepaid Expenses | - | 12,500 | - | - | - | 12,500 |
| Loans Receivable, Net of Allowance | - | 149,969 | - | - | - | 149,969 |
| Land Held for Resale | - | 1,141,160 | - | - | - | 1,141,160 |
| Total Assets | \$ 3,423,167 | \$ 2,226,039 | \$ 265,347 | \$ 1,144,238 | \$ 3,506,272 | \$ 10,565,063 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES (DEFICITS) | | | | | | |
| LIABILITIES | | | | | | |
| Accounts and Contracts Payable | \$ 121,066 | \$ 179,343 | \$ - | \$ 108,246 | \$ 9,580 | \$ 418,235 |
| Other Accrued Liabilities | 73,132 | 3,078 | - | 748 | 8,971 | 85,929 |
| Due to Other Funds | - | - | - | - | 635,938 | 635,938 |
| Interfund Advance Payable | 125,040 | - | - | - | - | 125,040 |
| Total Liabilities | 319,238 | 182,421 | - | 108,994 | 654,489 | 1,265,142 |
| DEFERRED INFLOWS OF RESOURCES | | | | | | |
| Unavailable Revenue | 34,853 | 37,037 | - | 478,070 | 762,015 | 1,311,975 |
| FUND BALANCES (DEFICITS) | | | | | | |
| Nonspendable | 52,424 | 218,200 | - | - | - | 270,624 |
| Restricted | - | 497,252 | 265,347 | 557,174 | 1,803,092 | 3,122,865 |
| Committed | 66,996 | - | - | - | - | 66,996 |
| Assigned | 778,885 | 1,291,129 | - | - | 922,614 | 2,992,628 |
| Unassigned | 2,170,771 | - | - | - | (635,938) | 1,534,833 |
| Total Fund Balances (Deficits) | 3,069,076 | 2,006,581 | 265,347 | 557,174 | 2,089,768 | 7,987,946 |
| Total Liabilities and Fund Balances | \$ 3,423,167 | \$ 2,226,039 | \$ 265,347 | \$ 1,144,238 | \$ 3,506,272 | \$ 10,565,063 |

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, 2017**

Total Fund Balance for Governmental Funds \$ 7,987,946

Total net position reported for governmental activities in the statement of net position is different

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 |
| Construction in Progress | 116,490 |
| Buildings and Building Improvements | 12,805,396 |
| Machinery and Equipment | 8,457,889 |
| Infrastructure | 18,304,737 |
| Office Equipment and Furniture | 205,164 |
| Less: Accumulated Depreciation | (18,557,506) |

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. 1,311,975

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. (116,813)

The City's net pension asset is recorded only on the statement of net position. 360,080

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 | (8,090,000) |
| Unamortized Discounts and Premium | (163,764) |
| Note Payable | (506,549) |
| Capital Lease Obligation | (2,034,000) |
| Deferred Outflows of Resources - Pensions | 1,306,854 |
| Deferred Inflows of Resources - Pensions | (1,438,540) |
| Net Pension Liability | (1,423,425) |
| Compensated Absences Payable | (211,576) |
| | (211,576) |

Total Net Position of Governmental Activities **\$ 18,547,319**

**CITY OF WINDOM, MINNESOTA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
YEAR ENDED DECEMBER 31, 2017**

| | General Fund | Economic Development Fund | Capital Project Fund | 2017 Street Capital Project Fund | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|---------------------------------|----------------------------|--|--------------------------------|--------------------------------|
| REVENUES | | | | | | |
| General Property Taxes | \$ 916,867 | \$ 123,930 | \$ - | \$ - | \$ 353,675 | \$ 1,394,472 |
| Tax Increments | - | 622,332 | - | - | - | 622,332 |
| Other Taxes | 22,484 | - | - | - | - | 22,484 |
| Licenses and Permits | 97,006 | - | - | - | - | 97,006 |
| Intergovernmental | 1,731,890 | 52,628 | - | - | 139,428 | 1,923,946 |
| Special Assessments | 2,016 | 6,628 | - | 289,897 | - | 298,541 |
| Charges for Services | 311,089 | - | - | - | 682,385 | 993,474 |
| Fines and Forfeits | 22,315 | - | - | - | - | 22,315 |
| Interest Income | 22,611 | 2,468 | 13,219 | 3,767 | 6,868 | 48,933 |
| Investment Earnings (Loss) | - | - | - | - | (4,969) | (4,969) |
| Refunds and Reimbursements | 61,909 | - | - | - | 7,231 | 69,140 |
| Grants and Contributions | 7,467 | 211,654 | 3,750 | - | 1,834 | 224,705 |
| Miscellaneous | 8,920 | 98,696 | - | - | - | 107,616 |
| Total Revenues | 3,204,574 | 1,118,336 | 16,969 | 293,664 | 1,186,452 | 5,819,995 |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| General Government | 389,352 | - | - | - | - | 389,352 |
| Public Safety | 1,255,725 | - | - | - | 357,301 | 1,613,026 |
| Public Works | 605,758 | - | - | 94,161 | 9,890 | 709,809 |
| Sanitation | 20,253 | - | - | - | - | 20,253 |
| Culture and Recreation | 477,584 | - | - | - | - | 477,584 |
| Economic Development | - | 788,499 | - | - | - | 788,499 |
| Capital Outlay: | | | | | | |
| General Government | 42,367 | - | - | - | - | 42,367 |
| Public Safety | 51,923 | - | 1,968,699 | - | 365,806 | 2,386,428 |
| Public Works | 54,411 | - | - | 2,427,085 | - | 2,481,496 |
| Culture and Recreation | 22,163 | - | - | - | - | 22,163 |
| Debt Service: | | | | | | |
| Principal | - | 45,682 | - | - | 595,000 | 640,682 |
| Interest and Fiscal Charges | 3,040 | 17,362 | 35,625 | 72,085 | 139,360 | 267,472 |
| Total Expenditures | 2,922,576 | 851,543 | 2,004,324 | 2,593,331 | 1,467,357 | 9,839,131 |
| REVENUE OVER (UNDER) EXPENDITURES | 281,998 | 266,793 | (1,987,355) | (2,299,667) | (280,905) | (4,019,136) |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfer In | 279,997 | 100,000 | 35,626 | - | 122,863 | 538,486 |
| Transfer Out | (220,604) | (58,457) | - | - | - | (279,061) |
| Bond Proceeds | - | - | - | 2,870,000 | 830,000 | 3,700,000 |
| Loan Proceeds | - | 221,800 | - | - | - | 221,800 |
| Sale of Land Held for Resale | - | - | - | - | 20,000 | 20,000 |
| Proceeds from Sale of Fixed Assets | 361 | - | - | - | - | 361 |
| Bond Premium | - | - | - | 106,591 | - | 106,591 |
| Total Other Financing Sources (Uses) | 59,754 | 263,343 | 35,626 | 2,976,591 | 972,863 | 4,308,177 |
| NET CHANGE IN FUND BALANCE | 341,752 | 530,136 | (1,951,729) | 676,924 | 691,958 | 289,041 |
| Fund Balance - Beginning of Year | 2,727,324 | 1,476,445 | 2,217,076 | (119,750) | 1,397,810 | 7,698,905 |
| FUND BALANCE - END OF YEAR | \$ 3,069,076 | \$ 2,006,581 | \$ 265,347 | \$ 557,174 | \$ 2,089,768 | \$ 7,987,946 |

See accompanying Notes to Financial Statements.

**CITY OF WINDOM, MINNESOTA
RECONCILIATION OF GOVERNMENTAL STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017**

Net Change in Fund Balances-Total Governmental Funds \$ 289,041

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 | 4,894,578 |
| Loss on Disposal of Capital Assets | (40,296) |
| Depreciation Expense | (933,393) |

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. (63,202)

The governmental funds report bond and capital lease proceeds as financing sources, while repayment of 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:

| | |
|---|-------------|
| General Obligation Bond Proceeds | (3,700,000) |
| Capital Lease Proceeds | - |
| Notes Payable | (221,800) |
| Payment of Refunded Bonds | - |
| Bond Discount/Premium | (106,591) |
| Repayment of Bond Principal and Note Payable | 640,682 |
| Change in Accrued Interest Expense for General Obligation Bonds | (63,092) |
| Amortization of Bond Discount/Premium | 7,612 |

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. 308,913

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). 4,726

Change in Net Position of Governmental Activities \$ 1,017,178

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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, 2017

| | Original Budget | Final Budget | Actual | Variance from Final Budget |
|---|--------------------|---------------------|---------------------|-------------------------------|
| REVENUES | | | | |
| General Property Taxes | \$ 913,943 | \$ 913,943 | \$ 916,867 | \$ 2,924 |
| Other Taxes | 22,000 | 22,000 | 22,484 | 484 |
| Licenses and Permits | 54,420 | 54,420 | 97,006 | 42,586 |
| Intergovernmental | 1,751,639 | 1,661,639 | 1,731,890 | 70,251 |
| Special Assessments | - | - | 2,016 | 2,016 |
| Charges for Services | 279,650 | 279,650 | 311,089 | 31,439 |
| Fines and Forfeits | 26,500 | 26,500 | 22,315 | (4,185) |
| Investment Earnings | 400 | 400 | 22,611 | 22,211 |
| Refunds/Reimbursements | 40,000 | 40,000 | 61,909 | 21,909 |
| Grants and Contributions | 2,000 | 2,000 | 7,467 | 5,467 |
| Miscellaneous | 6,000 | 6,000 | 8,920 | 2,920 |
| Total Revenues | <u>3,096,552</u> | <u>3,006,552</u> | <u>3,204,574</u> | <u>198,022</u> |
| EXPENDITURES | | | | |
| General Government: | | | | |
| Mayor and Council: | | | | |
| Financial Administration | 105,070 | 105,070 | 107,013 | (1,943) |
| Elections | 126,115 | 126,115 | 120,854 | 5,261 |
| Building and Zoning | - | - | 2,982 | (2,982) |
| City Hall | 139,720 | 139,720 | 131,940 | 7,780 |
| Total General Government | <u>35,470</u> | <u>35,470</u> | <u>26,563</u> | <u>8,907</u> |
| Public Safety: | | | | |
| Police Protection | 406,375 | 406,375 | 389,352 | 17,023 |
| Fire Protection | 1,095,640 | 1,112,633 | 1,092,476 | 20,157 |
| Civil Defense | 157,231 | 157,231 | 158,772 | (1,541) |
| Animal Control | 6,425 | 6,425 | 3,323 | 3,102 |
| Total Public Safety | <u>2,700</u> | <u>2,700</u> | <u>1,154</u> | <u>1,546</u> |
| Public Works: | | | | |
| Street Department | 1,261,996 | 1,278,989 | 1,255,725 | 23,264 |
| Sanitation | 590,820 | 590,820 | 496,642 | 94,178 |
| Airport | 22,000 | 22,000 | 20,253 | 1,747 |
| Total Public Works | <u>95,160</u> | <u>95,160</u> | <u>112,156</u> | <u>(16,996)</u> |
| Culture and Recreation: | | | | |
| Parks | 240,620 | 240,620 | 191,805 | 48,815 |
| Library | 197,330 | 197,330 | 175,185 | 22,145 |
| Pool | 122,435 | 122,435 | 110,594 | 11,841 |
| Total Culture and Recreation | <u>560,385</u> | <u>560,385</u> | <u>477,584</u> | <u>82,801</u> |
| Capital Outlay | 335,100 | 245,100 | 170,864 | 74,236 |
| Total Expenditures | <u>3,271,836</u> | <u>3,198,829</u> | <u>2,922,576</u> | <u>276,253</u> |
| REVENUES OVER (UNDER) EXPENDITURES | (175,284) | (192,277) | 281,998 | 474,275 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from Sale of Capital Assets | - | - | 361 | 361 |
| Transfer In | 274,000 | 274,000 | 279,997 | 5,997 |
| Transfer Out | (94,626) | (194,626) | (220,604) | (25,978) |
| Total Other Financing Sources (Uses) | <u>179,374</u> | <u>79,374</u> | <u>59,754</u> | <u>(19,620)</u> |
| NET CHANGE IN FUND BALANCE | <u>\$ 4,090</u> | <u>\$ (112,903)</u> | <u>341,752</u> | <u>\$ 454,655</u> |
| Fund Balance - Beginning of Year | | | <u>2,727,324</u> | |
| FUND BALANCE - END OF YEAR | | | <u>\$ 3,069,076</u> | |

See accompanying Notes to Financial Statements.

**CITY OF WINDOM, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 DECEMBER 31, 2017**

| ASSETS | Electric | Water | Liquor |
|---|---------------|--------------|------------|
| CURRENT ASSETS | | | |
| Cash and Cash Equivalents | \$ 3,611,350 | \$ 361,524 | \$ 455,830 |
| Short-Term Investments | - | - | - |
| Cash and Investments with Fiscal Agent | - | - | - |
| Restricted Cash and Investments | - | - | - |
| Accounts Receivable, Net of Allowance | 609,320 | 119,098 | 24,464 |
| Accrued Interest Receivable | - | - | - |
| Special Assessments Receivable: | - | 155,340 | - |
| Due from Other Funds | 1,285,019 | - | - |
| Interfund Advance | 125,040 | - | - |
| Estimated Third-Party Payor Settlements | - | - | - |
| Inventory | 628,292 | 40,503 | 266,971 |
| Prepaid Items | - | - | - |
| Total Current Assets | 6,259,021 | 676,465 | 747,265 |
| LONG-TERM ASSETS | | | |
| Capital Assets: | | | |
| Land, Buildings, Infrastructure, and Improvements | 9,282,012 | 7,713,384 | 402,336 |
| Equipment | 2,510,242 | 4,369,146 | 126,461 |
| Construction in Progress | 1,980,833 | 690,608 | - |
| Total Capital Assets | 13,773,087 | 12,773,138 | 528,797 |
| Less: Allowance for Depreciation | (7,733,978) | (6,290,653) | (313,988) |
| Total Net Capital Assets | 6,039,109 | 6,482,485 | 214,809 |
| Total Long-Term Assets | 6,039,109 | 6,482,485 | 214,809 |
| Total Assets | 12,298,130 | 7,158,950 | 962,074 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Pension Related | 106,714 | 42,718 | 43,162 |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Accounts and Contracts Payable | 874,665 | 13,803 | 69,725 |
| Accrued Expenses | 40,908 | 106,204 | 25,562 |
| Due to Other Funds | - | - | - |
| Accrued Interest | - | 25,584 | - |
| Unearned Revenue | 90,240 | - | - |
| Bonds Payable - Current Portion | - | 219,900 | - |
| Total Current Liabilities | 1,005,813 | 365,491 | 95,287 |
| LONG-TERM LIABILITIES | | | |
| Compensated Absences - Long-Term | 100,414 | 51,316 | 19,070 |
| Net Pension Liability | 437,862 | 175,276 | 177,098 |
| Bonds Payable - Long-Term | - | 2,154,078 | - |
| Total Long-Term Liabilities | 538,276 | 2,380,670 | 196,168 |
| Total Liabilities | 1,544,089 | 2,746,161 | 291,455 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Pension Related | 98,526 | 39,440 | 39,850 |
| Total Deferred Inflows of Resources | 98,526 | 39,440 | 39,850 |
| NET POSITION | | | |
| Net Investment in Capital Assets | 6,039,109 | 4,109,075 | 214,809 |
| Restricted for Construction | - | - | - |
| Restricted for Debt Service | - | - | - |
| Unrestricted | 4,723,120 | 306,992 | 459,122 |
| Total Net Position | \$ 10,762,229 | \$ 4,416,067 | \$ 673,931 |

See accompanying Notes to Financial Statements.

| Wastewater | Telecom | Windom Area Hospital April 30, 2017 | Other Proprietary Funds | Total |
|---------------------|-----------------------|---|-------------------------------|----------------------|
| \$ 672,410 | \$ 15,164 | \$ 4,586,217 | \$ 467,165 | \$ 10,169,660 |
| - | - | 2,917,500 | - | 2,917,500 |
| - | - | 398,331 | - | 398,331 |
| - | 1,052,731 | 4,406,097 | - | 5,458,828 |
| 197,614 | 533,553 | 2,248,239 | 3,295 | 3,735,583 |
| - | - | 20,747 | - | 20,747 |
| 83,655 | - | - | - | 238,995 |
| - | - | - | - | 1,285,019 |
| - | - | - | - | 125,040 |
| - | - | 310,790 | - | 310,790 |
| - | 45,684 | 167,445 | - | 1,148,895 |
| - | - | 51,671 | - | 51,671 |
| <u>953,679</u> | <u>1,647,132</u> | <u>15,107,037</u> | <u>470,460</u> | <u>25,861,059</u> |
| 12,056,845 | 4,994,796 | 15,266,220 | 4,020,671 | 53,736,264 |
| 1,572,954 | 5,790,721 | 11,149,829 | 679,695 | 26,199,048 |
| <u>262,500</u> | <u>52,060</u> | <u>-</u> | <u>59,048</u> | <u>3,045,049</u> |
| 13,892,299 | 10,837,577 | 26,416,049 | 4,759,414 | 82,980,361 |
| <u>(5,893,234)</u> | <u>(8,197,037)</u> | <u>(11,199,647)</u> | <u>(2,906,999)</u> | <u>(42,535,536)</u> |
| <u>7,999,065</u> | <u>2,640,540</u> | <u>15,216,402</u> | <u>1,852,415</u> | <u>40,444,825</u> |
| <u>7,999,065</u> | <u>2,640,540</u> | <u>15,216,402</u> | <u>1,852,415</u> | <u>40,444,825</u> |
| 8,952,744 | 4,287,672 | 30,323,439 | 2,322,875 | 66,305,884 |
| 67,244 | 88,729 | 2,934,401 | 58,236 | 3,341,204 |
| 3,985 | 148,838 | 528,868 | 7,088 | 1,646,972 |
| 12,426 | 30,411 | 932,796 | 13,685 | 1,161,992 |
| - | 1,285,019 | - | - | 1,285,019 |
| 45,338 | 38,536 | - | 370 | 109,828 |
| - | 215,678 | - | 5,817 | 311,735 |
| <u>240,100</u> | <u>490,000</u> | <u>220,000</u> | <u>15,738</u> | <u>1,185,738</u> |
| <u>301,849</u> | <u>2,208,482</u> | <u>1,681,664</u> | <u>42,698</u> | <u>5,701,284</u> |
| 76,780 | 99,026 | - | 71,004 | 417,610 |
| 275,910 | 364,067 | 7,737,887 | 238,949 | 9,407,049 |
| <u>3,645,652</u> | <u>9,554,164</u> | <u>4,903,007</u> | <u>780,490</u> | <u>21,037,391</u> |
| <u>3,998,342</u> | <u>10,017,257</u> | <u>12,640,894</u> | <u>1,090,443</u> | <u>30,862,050</u> |
| 4,300,191 | 12,225,739 | 14,322,558 | 1,133,141 | 36,563,334 |
| 62,084 | 81,921 | 1,111,594 | 53,768 | 1,487,183 |
| 4,112,749 | (6,994,386) | 10,093,395 | 1,056,187 | 18,630,938 |
| - | - | - | - | - |
| - | - | 398,331 | - | 398,331 |
| <u>544,964</u> | <u>(936,873)</u> | <u>7,331,962</u> | <u>138,015</u> | <u>12,567,302</u> |
| <u>\$ 4,657,713</u> | <u>\$ (7,931,259)</u> | <u>\$ 17,823,688</u> | <u>\$ 1,194,202</u> | <u>\$ 31,596,571</u> |

**CITY OF WINDOM, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 YEAR ENDED DECEMBER 31, 2017**

| | Electric | Water | Liquor |
|---|----------------------|---------------------|-------------------|
| OPERATING REVENUES | | | |
| Sales | \$ - | \$ - | \$ 1,904,997 |
| Costs of Goods Sold | - | - | (1,392,406) |
| Charges for Services | 6,135,974 | 1,316,181 | - |
| Charges for Materials and Labor | - | 39 | - |
| Facility Use/Other Revenue | - | - | - |
| Total Gross Profit and Operating Revenues | <u>6,135,974</u> | <u>1,316,220</u> | <u>512,591</u> |
| OPERATING EXPENSES | | | |
| Cost of Power | 3,952,262 | - | - |
| Personal Services | 452,834 | 265,744 | 268,468 |
| Other Professional Services | - | - | - |
| Administrative and General | 513,940 | 257,162 | 110,004 |
| Depreciation and Amortization | 520,311 | 400,271 | 25,341 |
| Other Operating Expense | - | 13,235 | - |
| Total Operating Expenses | <u>5,439,347</u> | <u>936,412</u> | <u>403,813</u> |
| OPERATING INCOME (LOSS) | 696,627 | 379,808 | 108,778 |
| OTHER INCOME (EXPENSES) | | | |
| Interest Income | 37,399 | - | 3,777 |
| Investment Earnings (Loss) | (1,906) | - | (155) |
| Interest Expense | - | (61,865) | - |
| Gain (Loss) on Sale of Fixed Assets | 43,309 | - | 2,000 |
| Taxes and Special Assessments | - | 11,538 | - |
| Contributions and Reimbursements | - | - | - |
| Total Other Income (Expense) | <u>78,802</u> | <u>(50,327)</u> | <u>5,622</u> |
| INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS | 775,429 | 329,481 | 114,400 |
| CONTRIBUTIONS AND TRANSFERS | | | |
| Transfers In | - | - | - |
| Transfers Out | (184,997) | (103,084) | (72,532) |
| Capital Contributions (Distributions) | - | - | - |
| Total Contributions and Transfers | <u>(184,997)</u> | <u>(103,084)</u> | <u>(72,532)</u> |
| CHANGE IN NET POSITION | 590,432 | 226,397 | 41,868 |
| Net Position - Beginning of Year | <u>10,171,797</u> | <u>4,189,670</u> | <u>632,063</u> |
| NET POSITION - END OF YEAR | <u>\$ 10,762,229</u> | <u>\$ 4,416,067</u> | <u>\$ 673,931</u> |

See accompanying Notes to Financial Statements.

| Wastewater | Telecom | Windom Area Hospital April 30, 2017 | Other Proprietary Funds | Total |
|---------------------|-----------------------|---|-------------------------------|----------------------|
| \$ - | \$ - | \$ - | \$ - | \$ 1,904,997 |
| - | - | - | - | (1,392,406) |
| 1,736,770 | 2,997,525 | 17,797,084 | - | 29,983,534 |
| - | - | - | - | 39 |
| - | - | 222,393 | 319,692 | 542,085 |
| <u>1,736,770</u> | <u>2,997,525</u> | <u>18,019,477</u> | <u>319,692</u> | <u>31,038,249</u> |
| - | - | - | - | 3,952,262 |
| 429,035 | 557,684 | 4,922,485 | 382,842 | 7,279,092 |
| - | - | 4,994,713 | - | 4,994,713 |
| 429,765 | 1,482,421 | 6,152,610 | 305,036 | 9,250,938 |
| 381,736 | 334,705 | 1,401,765 | 97,866 | 3,161,995 |
| - | 17,652 | 185,241 | - | 216,128 |
| <u>1,240,536</u> | <u>2,392,462</u> | <u>17,656,814</u> | <u>785,744</u> | <u>28,855,128</u> |
| 496,234 | 605,063 | 362,663 | (466,052) | 2,183,121 |
| - | 5,547 | 52,039 | 1,643 | 100,405 |
| - | - | - | - | (2,061) |
| (104,602) | (351,641) | - | (6,695) | (524,803) |
| - | 2,226 | (22,136) | - | 25,399 |
| 7,617 | - | - | 437,895 | 457,050 |
| - | - | - | 6,270 | 6,270 |
| <u>(96,985)</u> | <u>(343,868)</u> | <u>29,903</u> | <u>439,113</u> | <u>62,260</u> |
| 399,249 | 261,195 | 392,566 | (26,939) | 2,245,381 |
| 80,000 | - | - | 61,580 | 141,580 |
| (25,392) | (15,000) | - | - | (401,005) |
| - | - | 139,112 | - | 139,112 |
| <u>54,608</u> | <u>(15,000)</u> | <u>139,112</u> | <u>61,580</u> | <u>(120,313)</u> |
| 453,857 | 246,195 | 531,678 | 34,641 | 2,125,068 |
| <u>4,203,856</u> | <u>(8,177,454)</u> | <u>17,292,010</u> | <u>1,159,561</u> | <u>29,471,503</u> |
| <u>\$ 4,657,713</u> | <u>\$ (7,931,259)</u> | <u>\$ 17,823,688</u> | <u>\$ 1,194,202</u> | <u>\$ 31,596,571</u> |

**CITY OF WINDOM, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 YEAR ENDED DECEMBER 31, 2017**

| | Electric | Water | Liquor |
|---|---------------------|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash Received from Customers and Service Users | \$ 6,063,461 | \$ 1,352,300 | \$ 1,900,721 |
| Cash Paid to Suppliers | (4,116,866) | (229,137) | (1,539,525) |
| Cash Paid to Employees | (708,022) | (264,160) | (266,111) |
| Net Cash Provided (Used) by Operating Activities | <u>1,238,573</u> | <u>859,003</u> | <u>95,085</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Transfers (In) Out | (184,997) | (103,084) | (72,532) |
| Advance to Other Funds | 27,115 | - | - |
| Due to Other Funds | 176,380 | - | - |
| Property Tax Revenues | - | 11,538 | - |
| Miscellaneous Revenues | - | - | - |
| Payments from Escrow Account | - | - | - |
| Net Cash Provided (Used) by Noncapital Financing Activities | <u>18,498</u> | <u>(91,546)</u> | <u>(72,532)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Proceeds from Bonds | - | 616,179 | - |
| Capital Grants and Contributions | - | - | - |
| Acquisition and Construction of Capital Assets | (2,116,633) | (740,596) | (67,938) |
| Interest Paid on Revenue Bonds | - | (56,016) | - |
| Principal Payments on Bonds and Notes | - | (236,500) | - |
| Net Cash Used by Capital and Related Financing Activities | <u>(2,116,633)</u> | <u>(416,933)</u> | <u>(67,938)</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) | 35,493 | - | 3,622 |
| Proceeds from Sale of Capital Assets | 43,310 | - | 2,000 |
| Net Cash Provided by Investing Activities | <u>78,803</u> | <u>-</u> | <u>5,622</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (780,759) | 350,524 | (39,763) |
| Cash and Cash Equivalents - Beginning of Year | <u>4,392,109</u> | <u>11,000</u> | <u>495,593</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u>\$ 3,611,350</u> | <u>\$ 361,524</u> | <u>\$ 455,830</u> |
| NONCASH TRANSACTIONS | | | |
| Capital Asset Additions in Construction Payable | \$ 398,890 | \$ - | \$ - |
| Amortized Bond Premiums and Discounts | - | (2,583) | - |
| Total Noncash Investing, Capital, and Financing Activities | <u>\$ 398,890</u> | <u>\$ (2,583)</u> | <u>\$ -</u> |

See accompanying Notes to Financial Statements.

| Wastewater | Telecom | Windom Area Hospital April 30, 2017 | Other Proprietary Funds | Total |
|-------------------|------------------|---|----------------------------|----------------------|
| \$ 1,646,473 | \$ 2,972,981 | \$ 17,357,186 | \$ 341,301 | \$ 31,634,423 |
| (469,420) | (1,395,431) | (9,497,798) | (283,643) | (17,531,820) |
| <u>(423,758)</u> | <u>(582,310)</u> | <u>(6,019,030)</u> | <u>(388,681)</u> | <u>(8,652,072)</u> |
| 753,295 | 995,240 | 1,840,358 | (331,023) | 5,450,531 |
| 54,608 | (15,000) | - | 61,580 | (259,425) |
| - | - | - | - | 27,115 |
| - | (176,380) | - | - | - |
| 19,210 | - | - | 437,895 | 468,643 |
| - | - | - | 6,270 | 6,270 |
| - | (646,210) | - | - | (646,210) |
| <u>73,818</u> | <u>(837,590)</u> | <u>-</u> | <u>505,745</u> | <u>(403,607)</u> |
| 575,002 | 907,010 | - | - | 2,098,191 |
| - | - | 139,112 | - | 139,112 |
| (514,616) | (242,423) | (865,849) | (86,112) | (4,634,167) |
| (102,541) | (339,846) | (185,241) | (3,997) | (687,641) |
| <u>(246,500)</u> | <u>(475,000)</u> | <u>(215,000)</u> | <u>(21,292)</u> | <u>(1,194,292)</u> |
| (288,655) | (150,259) | (1,126,978) | (111,401) | (4,278,797) |
| - | - | (7,323,597) | - | (7,323,597) |
| - | - | 7,830,289 | - | 7,830,289 |
| - | - | (33,873) | - | (33,873) |
| - | - | 33,873 | - | 33,873 |
| - | 5,547 | 52,039 | 1,643 | 98,344 |
| - | 2,226 | - | - | 47,536 |
| <u>-</u> | <u>7,773</u> | <u>558,731</u> | <u>1,643</u> | <u>652,572</u> |
| 538,458 | 15,164 | 1,272,111 | 64,964 | 1,420,699 |
| <u>133,952</u> | <u>-</u> | <u>3,314,106</u> | <u>402,201</u> | <u>8,748,961</u> |
| <u>\$ 672,410</u> | <u>\$ 15,164</u> | <u>\$ 4,586,217</u> | <u>\$ 467,165</u> | <u>\$ 10,169,660</u> |
| \$ - | \$ 3,882 | \$ - | \$ - | \$ 402,772 |
| <u>(5,749)</u> | <u>(623)</u> | <u>-</u> | <u>-</u> | <u>(8,955)</u> |
| <u>\$ (5,749)</u> | <u>\$ 3,259</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 393,817</u> |

**CITY OF WINDOM, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS (CONTINUED)
 YEAR ENDED DECEMBER 31, 2017**

| 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) | \$ 696,627 | \$ 379,808 | \$ 108,778 |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | |
| Provision for Bad Debts | - | - | - |
| Depreciation and Amortization | 520,311 | 400,271 | 25,341 |
| Pension Adjustments | 12,705 | 6,356 | 15,500 |
| Changes in Assets and Liabilities: | | | |
| (Increase) Decrease in Accounts Receivable | (78,193) | 36,080 | (4,276) |
| (Increase) Decrease in Deferred Outflows of Resources | | | |
| (Increase) Decrease in Accrued Interest Receivable | - | - | - |
| (Increase) Decrease in Prepaid Items | - | - | - |
| (Increase) Decrease in Inventory | (114,527) | (11,006) | (44,159) |
| Increase (Decrease) in Accounts and Contracts Payable | 451,158 | (7,645) | (8,456) |
| Increase (Decrease) in Net Pension Liability | - | - | - |
| Increase (Decrease) in Deferred Inflows of Resources | | | |
| Increase (Decrease) in Accrued Expenses | (247,373) | 53,555 | (561) |
| Increase (Decrease) in Due to Other Governments | - | - | - |
| Increase in Unearned Revenue | 5,680 | - | - |
| Increase (Decrease) in Accrued Compensated Absences | (7,815) | 1,584 | 2,918 |
| | <u>\$ 1,238,573</u> | <u>\$ 859,003</u> | <u>\$ 95,085</u> |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 1,238,573</u> | <u>\$ 859,003</u> | <u>\$ 95,085</u> |

See accompanying Notes to Financial Statements.

| Wastewater | Telecom | Windom Area Hospital April 30, 2017 | Other Proprietary Funds | Total |
|-------------------|-------------------|---|----------------------------|---------------------|
| \$ 496,234 | \$ 605,063 | \$ 362,663 | \$ (466,052) | \$ 2,183,121 |
| - | - | 200,436 | - | 200,436 |
| 381,736 | 334,705 | 1,401,765 | 97,866 | 3,161,995 |
| 14,454 | 38,985 | - | 20,910 | 108,910 |
| (90,297) | (34,229) | (210,919) | 22,617 | (359,217) |
| - | - | (2,093,496) | - | (2,093,496) |
| - | - | (1,625) | - | (1,625) |
| - | - | 25,687 | - | 25,687 |
| - | - | - | - | (169,692) |
| (54,109) | 21,133 | 24,478 | 483 | 427,042 |
| - | - | 2,498,361 | - | 2,498,361 |
| - | - | (8,314) | - | (8,314) |
| 1,539 | 44,524 | 69,112 | 217 | (78,987) |
| - | (31,822) | (427,790) | - | (459,612) |
| - | 9,685 | - | (1,008) | 14,357 |
| 3,738 | 7,196 | - | (6,056) | 1,565 |
| <u>\$ 753,295</u> | <u>\$ 995,240</u> | <u>\$ 1,840,358</u> | <u>\$ (331,023)</u> | <u>\$ 5,450,531</u> |

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NOTES TO FINANCIAL STATEMENTS

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**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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 as applicable to governmental units. The following is a summary of its significant policies.

A. Financial Reporting Entity

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City of Windom and its component units. 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 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

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.

Windom Area Hospital and Foundation

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 (blended component unit) because the City Council is the governing board for the WAH. The Foundation is reported as a discretely presented component unit in the City's financial statements. Separately issued financials statements are available for WAH and its Foundation by contacting WAH.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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, 2017**

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 units. 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.

Capital Projects Fund

The Capital Projects Fund accounts for the financial resources to be used for the acquisition or construction of major capital assets. This includes street improvement projects as well as capital asset purchases.

2017 Street Capital Projects Fund

This Capital Projects Fund accounts for the financial resources to be used for the construction of major street improvement projects as well as capital asset purchases.

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.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

2. Fund Financial Statements (Continued)

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.

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.

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, 2017**

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, 2017**

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, 2017, 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, 2017, 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, 2017**

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, 2017**

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, 2017, the allowance for uncollectible accounts was approximately \$436,000.

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, 2017**

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.

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 three 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, 2017**

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, 2017**

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 5 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 5 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, 2017**

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. The City's policy is to maintain an unrestricted fund balance in the General Fund an amount not less than 35% or more than 60% of the next year's budgeted expenditures of the General Fund.

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, 2017**

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, 2017, 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, 2017**

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, 2017, the City and the Hospital had the following investments:

External Investment Pools –

| | Fair Value |
|---|---------------|
| Minnesota Municipal Money Market Fund- Liquid Asset Fund | \$ 887,212 |
| Minnesota Municipal Money Market Fund Plus- Liquid Asset Fund | 937,302 |
| Minnesota Municipal Money Market Term Series | 501,301 |
| Total | \$ 2,325,815 |

The Minnesota Municipal Money Market Fund Liquid Asset Fund (4M) is an external investment pool not registered with the Securities and Exchange Commission (SEC). There are no restrictions on withdrawals from the 4M Liquid Asset Fund, and withdrawals may be effected on a same day basis. All investments in the 4M Plus Fund must be deposited for a minimum of 14 calendar days. Withdrawals prior to the 14-day restriction period will be subject to a penalty equal to 7 days’ interest on the amount withdrawn (calculated using the dividend rates in effect for the 7-day period immediately preceding the withdrawal date). The penalty will be payable even if the amount withdrawn had not been invested in the 4M Plus Fund for the full 7-day period preceding the withdrawal. Term Series investments are designed to be held to maturity. If an investment made in a Term Series is withdrawn prior to the maturity date of that series, a 7-days’ notice of redemption is required and a penalty may be assessed. The fair value of the presentation in the pool is the same as the value of the pool shares.

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.

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.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

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:

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 statement as follows:

| | |
|--|----------------------|
| Cash on Hand | \$ 2,265 |
| Deposits | 15,519,063 |
| External Investment Pool | 2,325,815 |
| Certificates of Deposits | 7,767,389 |
| Investments - Mutual Funds | 10,289 |
| Total Cash and Investments | <u>\$ 25,624,821</u> |
| | |
| Cash and Investments | \$ 16,047,024 |
| Short-Term Investments | 2,917,500 |
| Cash and Investments with Fiscal Agent | 398,331 |
| Restricted Cash and Investments | 6,261,966 |
| Total Cash and Investments | <u>\$ 25,624,821</u> |

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017 was as follows:

| | Beginning Balance | Increases | Decreases | Transfers | Ending Balance |
|--|----------------------|---------------------|--------------------|--------------------|----------------------|
| Governmental Activities: | | | | | |
| Capital Assets, Not Being Depreciated: | | | | | |
| Land | \$ 232,961 | \$ - | \$ - | \$ - | \$ 232,961 |
| Construction in Progress | 1,879,031 | 44,416 | - | (1,806,957) | 116,490 |
| Total Capital Assets, Not Being Depreciated | <u>2,111,992</u> | <u>44,416</u> | <u>-</u> | <u>(1,806,957)</u> | <u>349,451</u> |
| Capital Assets, Being Depreciated: | | | | | |
| Buildings and Building Improvements | 9,130,909 | 1,986,455 | - | 1,688,032 | 12,805,396 |
| Office Equipment and Furniture | 169,594 | 38,854 | (3,284) | - | 205,164 |
| Machinery and Equipment | 8,167,148 | 397,768 | (107,027) | - | 8,457,889 |
| Infrastructure | 15,758,727 | 2,427,085 | - | 118,925 | 18,304,737 |
| Total Capital Assets, Being Depreciated | <u>33,226,378</u> | <u>4,850,162</u> | <u>(110,311)</u> | <u>1,806,957</u> | <u>39,773,186</u> |
| Accumulated Depreciation for: | | | | | |
| Buildings and Building Improvements | (2,310,155) | (260,167) | - | - | (2,570,322) |
| Office Equipment and Furniture | (55,222) | (28,312) | 3,284 | - | (80,250) |
| Machinery and Equipment | (6,462,009) | (244,521) | 66,731 | - | (6,639,799) |
| Infrastructure | (8,866,742) | (400,393) | - | - | (9,267,135) |
| Total Accumulated Depreciation | <u>(17,694,128)</u> | <u>(933,393)</u> | <u>70,015</u> | <u>-</u> | <u>(18,557,506)</u> |
| Total Capital Assets, Being Depreciated, Net | <u>15,532,250</u> | <u>3,916,769</u> | <u>(40,296)</u> | <u>1,806,957</u> | <u>21,215,680</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 17,644,242</u> | <u>\$ 3,961,185</u> | <u>\$ (40,296)</u> | <u>\$ -</u> | <u>\$ 21,565,131</u> |

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 3 CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to governmental functions as follows:

| | |
|--|-------------------|
| Governmental Activities: | |
| General Government | \$ 342,846 |
| Public Safety | 180,789 |
| Public Works | 303,553 |
| Parks, Culture and Recreation | 21,714 |
| Community Development | 84,491 |
| Interest on Long-Term Debt | - |
| Total Depreciation Expense, Governmental Activities | <u>\$ 933,393</u> |

| | Beginning Balance | Increases | Decreases | Transfers | Ending Balance |
|--|----------------------|---------------------|--------------------|------------------|----------------------|
| Business-Type Activities: | | | | | |
| Capital Assets, not Being Depreciated: | | | | | |
| Land | \$ 519,018 | \$ - | \$ - | \$ - | \$ 519,018 |
| Construction in Progress | 692,570 | 3,012,464 | - | (655,438) | 3,049,596 |
| Total Capital Assets, not Being Depreciated | <u>1,211,588</u> | <u>3,012,464</u> | <u>-</u> | <u>(655,438)</u> | <u>3,568,614</u> |
| Capital Assets, Being Depreciated: | | | | | |
| Buildings and Building Improvements | 51,811,171 | 792,574 | (42,062) | 655,438 | 53,217,121 |
| Office Equipment and Furniture | 557,384 | 53,396 | (1,170) | - | 609,610 |
| Machinery and Shop Equipment | 25,277,948 | 1,061,953 | (754,885) | - | 25,585,016 |
| Total Capital Assets, Being Depreciated | <u>77,646,503</u> | <u>1,907,923</u> | <u>(798,117)</u> | <u>655,438</u> | <u>79,411,747</u> |
| Accumulated Depreciation for: | | | | | |
| Buildings and Building Improvements | (24,801,884) | (1,939,350) | 42,062 | - | (26,699,172) |
| Office Equipment and Furniture | (404,271) | (20,398) | 1,170 | - | (423,499) |
| Machinery and Shop Equipment | (14,937,865) | (1,202,247) | 727,247 | - | (15,412,865) |
| Total Accumulated Depreciation | <u>(40,144,020)</u> | <u>(3,161,995)</u> | <u>770,479</u> | <u>-</u> | <u>(42,535,536)</u> |
| Total Capital Assets, Being Depreciated, Net | <u>37,502,483</u> | <u>(1,254,072)</u> | <u>(27,638)</u> | <u>655,438</u> | <u>36,876,211</u> |
| Business-Type Activities Capital Assets, Net | <u>\$ 38,714,071</u> | <u>\$ 1,758,392</u> | <u>\$ (27,638)</u> | <u>\$ -</u> | <u>\$ 40,444,825</u> |

Depreciation expense was charged to business-type activities as follows:

| | |
|---|---------------------|
| Business-Type Activities: | |
| Electric Fund | \$ 520,311 |
| Water Fund | 400,271 |
| Liquor Fund | 25,341 |
| Wastewater Fund | 381,736 |
| Telecom Fund | 334,705 |
| Windom Area Hospital | 1,401,765 |
| Arena Fund | 15,905 |
| Multi-Purpose Fund | 53,879 |
| River Bluff Townhomes | 28,082 |
| Total Depreciation Expense, Business-Type Activities | <u>\$ 3,161,995</u> |

CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4 CITY INDEBTEDNESS

City indebtedness at December 31, 2017 is composed of the following:

| Description | Initial Amount Issued | Maturity Date | Interest Rate | Outstanding Principal |
|--|-----------------------------|------------------|------------------|--------------------------|
| General Obligation Bonds: | | | | |
| Governmental Activities: | | | | |
| GO Improvement Bonds, Series 2009A | \$ 1,510,000 | 2025 | 2.00-4.25% | \$ 905,000 |
| GO Improvement Refunding Bonds, Series 2011B | 795,000 | 2019 | 0.50-1.85% | 240,000 |
| GO Refunding Bonds, Series 2012A | 980,000 | 2023 | 0.55-2.20% | 620,000 |
| GO Improvement Bonds, Series 2013A | 2,590,000 | 2034 | 2.00-3.50% | 2,205,000 |
| GO Equipment Bonds, Series 2013B | 615,000 | 2023 | 0.70-1.90% | 420,000 |
| GO Improvement Bonds, Series 2017C (2009A Ref) | 830,000 | 2025 | 2.00% | 830,000 |
| GO Improvement Bonds, Series 2017A | <u>2,870,000</u> | 2039 | 3.00-3.25% | <u>2,870,000</u> |
| Total Governmental Activities - G.O. Bonds | 10,190,000 | | | 8,090,000 |
| Business-Type Activities: | | | | |
| GO Refunding Bonds, Series 2012A | 660,000 | 2023 | 0.55-2.20% | 360,000 |
| GO Improvement Bonds, Series 2013A | 1,810,000 | 2034 | 2.00-3.50% | 1,585,000 |
| GO Improvement Bonds, Series 2017A | 1,150,000 | 2039 | 3.00-3.25% | 1,150,000 |
| GO Equipment - Telecom Upgrade | <u>855,000</u> | 2027 | 3.00% | <u>855,000</u> |
| Total Business-Type Activities - G.O. Bonds | <u>4,475,000</u> | | | <u>3,950,000</u> |
| Total General Obligation Bonds | <u>\$ 14,665,000</u> | | | <u>\$ 12,040,000</u> |
| Capital Lease Obligations: | | | | |
| Governmental Activities: | | | | |
| Lease Purchase- Emergency Services Facility | <u>\$ 2,034,000</u> | 2037 | 2.79% | <u>\$ 2,034,000</u> |
| Lease Purchase Obligations | <u>\$ 2,034,000</u> | | | <u>\$ 2,034,000</u> |
| Note Payable: | | | | |
| Governmental Activities: | | | | |
| Economic Development - Fulda Area Credit Union | \$ 442,098 | 2016 | 4.40% | \$ 284,749 |
| Economic Development - Vendor Loans | 96,800 | 2019 | 0.00% | 96,800 |
| Housing and Redevelopment Authority | <u>125,000</u> | 2020 | 0.00% | <u>125,000</u> |
| Total Governmental Activities | 663,898 | | | 506,549 |
| Business-Type Activities: | | | | |
| River Bluff Townhomes - Bank of the West | 488,847 | 2031 | 2.01% | 305,252 |
| River Bluff Townhomes - MHFA | 353,305 | 2031 | 0.00% | 353,305 |
| River Bluff Townhomes - GMHF | 180,000 | 2031 | 0.00% | 137,672 |
| Water Purchase - Red Rock Rural Water System | <u>230,000</u> | 2023 | 0.00% | <u>130,333</u> |
| Total Business-Type Activities | <u>1,252,152</u> | | | <u>926,562</u> |
| Total Note Payable | <u>\$ 1,916,050</u> | | | <u>\$ 1,433,111</u> |
| General Obligation Revenue Bonds: | | | | |
| Business-Type Activities: | | | | |
| Communication System Refunding Bonds, Series 2012B | \$ 11,205,000 | 2032 | 3.00-3.63% | \$ 9,170,000 |
| GO Water and Sewer Revenue Bonds, 2011A - Water | 3,090,000 | 2029 | 1.00-4.00% | 2,735,000 |
| GO Water Revenue Bonds, 1999 | 1,319,714 | 2019 | 2.29% | 166,000 |
| GO Revenue Hospital Bonds, Series 2014A | <u>5,600,000</u> | 2034 | 1.00-4.15% | <u>5,170,000</u> |
| Total Business-Type Activities Revenue Bonds | <u>\$ 21,214,714</u> | | | <u>\$ 17,241,000</u> |

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

The following is a schedule of changes in City indebtedness for the year ended December 31, 2017:

| | Beginning of Year | Additions | Retirements | End of Year | Due Within One Year |
|----------------------------------|----------------------|---------------------|---------------------|----------------------|------------------------|
| Governmental Activities: | | | | | |
| General Obligation Bonds | \$ 5,005,000 | \$ 3,700,000 | \$ 615,000 | \$ 8,090,000 | \$ 530,000 |
| Bond Subtotal | 5,005,000 | 3,700,000 | 615,000 | 8,090,000 | 530,000 |
| Bond Premium | 64,785 | 106,591 | 7,612 | 163,764 | - |
| Net Bond Subtotal | 5,069,785 | 3,806,591 | 622,612 | 8,253,764 | 530,000 |
| Capital Lease Obligations | 2,034,000 | - | - | 2,034,000 | 71,000 |
| Note Payable | 310,431 | 221,800 | 25,682 | 506,549 | 26,969 |
| Compensated Absences | 216,302 | 125,857 | 130,583 | 211,576 | - |
| Total Governmental Activities | 7,630,518 | 4,154,248 | 778,877 | 11,005,889 | 627,969 |
| Business-Type Activities: | | | | | |
| General Obligation Bonds | 2,120,000 | 2,005,000 | 175,000 | 3,950,000 | 145,000 |
| General Obligation Revenue Bonds | 18,216,000 | - | 975,000 | 17,241,000 | 1,002,000 |
| Bond Subtotal | 20,336,000 | 2,005,000 | 1,150,000 | 21,191,000 | 1,147,000 |
| Bond Premium | 100,547 | 93,191 | 11,045 | 182,693 | - |
| Bond Discount | (81,876) | - | (4,750) | (77,126) | - |
| Net Bond Subtotal | 20,354,671 | 2,098,191 | 1,156,295 | 21,296,567 | 1,147,000 |
| Notes Payable | 968,141 | - | 41,579 | 926,562 | 38,738 |
| Compensated Absences | 416,045 | 196,610 | 195,045 | 417,610 | - |
| Total Business-Type Activities | 21,738,857 | 2,294,801 | 1,392,919 | 22,640,739 | 1,185,738 |
| Total Debt | \$ 29,369,375 | \$ 6,449,049 | \$ 2,171,796 | \$ 33,646,628 | \$ 1,813,707 |

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 |
| 2018 | \$ 627,969 | \$ 284,179 | \$ 912,148 |
| 2019 | 855,120 | 263,770 | 1,118,890 |
| 2020 | 901,708 | 245,531 | 1,147,239 |
| 2021 | 963,752 | 220,430 | 1,184,182 |
| 2022 | 742,000 | 197,601 | 939,601 |
| 2023-2027 | 2,851,000 | 722,397 | 3,573,397 |
| 2028-2032 | 1,965,000 | 408,818 | 2,373,818 |
| 2033-2037 | 1,439,000 | 148,714 | 1,587,714 |
| 2038-2039 | 285,000 | 9,019 | 294,019 |
| Totals | \$ 10,630,549 | \$ 2,500,459 | \$ 13,131,008 |

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

| <u>Year Ending December 31,</u> | Business-Type Activities | | |
|---------------------------------|--------------------------|--------------|---------------|
| | Long-Term Debt | | |
| | Principal | Interest | Totals |
| 2018 | \$ 1,185,738 | \$ 676,309 | \$ 1,862,047 |
| 2019 | 1,336,218 | 639,874 | 1,976,092 |
| 2020 | 1,287,608 | 608,559 | 1,896,167 |
| 2021 | 1,318,005 | 576,761 | 1,894,766 |
| 2022 | 1,313,411 | 541,708 | 1,855,119 |
| 2023-2027 | 6,898,770 | 2,096,204 | 8,994,974 |
| 2028-2032 | 7,007,812 | 923,937 | 7,931,749 |
| 2033-2037 | 1,695,000 | 120,342 | 1,815,342 |
| 2038 | 75,000 | 1,219 | 76,219 |
| Totals | \$ 22,117,562 | \$ 6,184,913 | \$ 28,302,475 |

The annual requirements to amortize all long-term debt outstanding as of December 31, 2017, including interest of \$8,685,372 are as follows:

| <u>Year Ending December 31,</u> | Amount |
|---------------------------------|---------------|
| 2018 | \$ 2,774,195 |
| 2019 | 3,094,982 |
| 2020 | 3,043,406 |
| 2021 | 3,078,948 |
| 2022 | 2,794,720 |
| 2023-2027 | 12,568,371 |
| 2028-2032 | 10,305,567 |
| 2033-2037 | 3,403,056 |
| 2038-2039 | 370,238 |
| Total | \$ 41,433,483 |

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 and 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 and liquidated on the crossover refunding date of February 1, 2015.

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 2016 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.

In 2016 the City issued \$2,034,000 Lease Purchase Agreement for partial funding of the Emergency Services Facility. Principal payments are due annually commencing February 2018 to February 2037 with interest at 2.79 % to be paid semi-annually.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

In 2017, the City issued \$4,020,000 in GO Improvement and Utility Revenue Bonds, Series 2017A maturing in 2019 through 2039 with interest ranging from 3.00 % to 3.25 % to be paid semi-annually.

In 2017, the City issued \$855,000 in GO Equipment Certificates, Series 2017B for Telecom Core Upgrade maturing in 2019 through 2027 with interest at 3.00 % to be paid semi-annually.

In 2017, the City issued \$830,000 in General Obligation Improvement Refunding Bonds (Series 2017C) for a current refunding of the Series 2009A General Obligation Bonds maturing in 2019 through 2025. The total cash flow savings to the City attributable to the refunding of these bonds is \$43,759 with a net present value of approximately \$40,706.

In 2017, the City obtained financing from the HRA and from a vendor related to fill and land held for resale, both recorded as assets in the EDA fund. The amount of financing obtained from the HRA was \$125,000 and the amount obtained from the vendor was \$96,800, respectively.

NOTE 5 DEFINED BENEFIT PENSION PLANS

A. Plan Description

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

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

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

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% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% 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.

1. General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated 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% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% 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.

2. Police and Fire Plan Benefits

Benefits for Police and Fire Plan members first hired after June 30, 2010 but before July 1, 2014 vest on a prorated basis from 50% after 5 years up to 100% after 10 years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014 vest on a prorated basis from 50% after 10 years up to 100% after 20 years of credited service. The annuity accrual rate is 3% of average salary for each year of service. For Police and Fire Plan members who were first hired prior to July 1, 1989 a full annuity is available when age plus years of service equal at least 90.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

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. General Employees Fund 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 2017. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2017. The City contributions to the General Employees Fund for the year ended December 31, 2017 were \$176,975. The City contributions were equal to the required contributions as set by state statute.

2. Police and Fire Fund Contributions

Plan members were required to contribute 10.80% of their annual covered salary in calendar year 2017. The City was required to contribute 16.20% of pay for members in calendar year 2017. The City's contributions to the Police and Fire Fund for the year ended December 31, 2017 were \$92,401. The City's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2017, the City reported a liability of \$10,074,407 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the state of Minnesota's contribution of \$6 million to the fund in 2017. The state of Minnesota is considered a nonemployer contributing entity and the state's contribution meets the definition of a special funding situation. The state of Minnesota's proportionate share of the net pension liability associated with the City totaled \$59,522. The net pension liability was measured as of June 30, 2017 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, 2016 through June 30, 2017 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportionate share was 0.0366% which was a decrease of 0.0004% from its proportion measured as of June 30, 2016.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. General Employees Fund Pension Costs (Continued)

For the year ended December 31, 2017, the City recognized pension expense of \$1,113,863 for its proportionate share of General Employees Plan's pension expense. In addition, the City recognized an additional \$849 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2017, the City reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| <u>Description</u> | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences Between Expected and Actual Economic Experience | \$ 112,725 | \$ 791,723 |
| Changes in Actuarial Assumptions | 2,056,790 | 234,236 |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | 878,974 | - |
| Changes in Proportion | - | 624,211 |
| Contributions Paid to PERA Subsequent to the Measurement Date | 468,182 | - |
| Total | <u>\$ 3,516,671</u> | <u>\$ 1,650,170</u> |

\$468,182 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, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ending December 31,</u> | <u>Amount</u> |
|---------------------------------|---------------|
| 2018 | \$ 360,392 |
| 2019 | 253,158 |
| 2020 | 604,444 |
| 2021 | 180,325 |

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs

At December 31, 2017 the City reported a liability of \$756,067 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2017 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, 2016 through June 30, 2017 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017 the City's proportion was 0.0560% which was an increase of 0.0010% from its proportion measured as of June 30, 2016. The City also recognized \$5,040 for the year ended December 31, 2017 as revenue and an offsetting reduction of net pension liability for its proportionate share of the state of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the state of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

For the year ended December 31, 2017 the City recognized pension expense of \$189,908 for its proportionate share of the Police and Fire Plan's pension expense.

At December 31, 2017, the City reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| <u>Description</u> | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences Between Expected and Actual Economic Experience | \$ 17,403 | \$ 202,126 |
| Changes in Actuarial Assumptions | 989,464 | 1,073,427 |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | 10,384 | - |
| Changes in Proportion | 13,771 | - |
| Contributions Paid to PERA Subsequent to the Measurement Date | 47,029 | - |
| Total | <u>\$ 1,078,051</u> | <u>\$ 1,275,553</u> |

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs (Continued)

\$47,029 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, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ending December 31.</u> | <u>Pension Expense Amount</u> |
|---------------------------------|-----------------------------------|
| 2018 | \$ 15,917 |
| 2019 | 15,917 |
| 2020 | (11,799) |
| 2021 | (56,116) |
| 2022 | (208,450) |

E. Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions:

| | |
|---------------------------|---|
| Inflation | 2.50% per year |
| Salary Increases | 3.25%, Average, Including Inflation |
| Investment Rate of Return | 7.50%, Net of Pension Plan Investment Expense |

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabled members were based on RP 2014 tables for all plans for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be 1.0% per year for the General Employees Plan through 2044 and Police and Fire Plan through 2064 and then 2.5% thereafter for both plans, and 2.5% for all years for the Correctional Plan.

Actuarial assumptions used in the June 30, 2017 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The most recent five-year experience study for Police and Fire Plan was completed in 2016.

The following changes in actuarial assumptions occurred in 2017:

General Employees Fund

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and nonvested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability, and 3.0% for nonvested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

Police and Fire Fund

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34% lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30% for vested and nonvested deferred members. The CSA has been changed to 33% for vested members and 2% for nonvested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.0% for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65% to 60%.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.00% for all years to 1.00% per year through 2064 and 2.50% thereafter.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

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

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|----------------------|-------------------|--|
| Domestic Equity | 39% | 5.10% |
| International Equity | 19% | 5.30% |
| Bonds | 20% | 0.75% |
| Alternative Assets | 20% | 5.90% |
| Cash | 2% | 0.00% |
| Total | <u>100%</u> | |

F. Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund and the Police and Fire Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

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 one percentage point lower or one percentage point higher than the current discount rate:

| Description | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|---|-----------------------|------------------------------------|-----------------------|
| City's Proportionate Share of the General Employee's Plan Net Pension Liability | \$ 14,614,209 | \$ 10,074,407 | \$ 6,341,344 |

| Description | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|--|-----------------------|------------------------------------|-----------------------|
| City's Proportionate Share of the Police and Fire Plan Net Pension Liability | \$ 1,423,894 | \$ 756,067 | \$ 204,738 |

H. Aggregate Pension Costs

At December 31, 2017, the City reported the following aggregate amounts related to pensions for all plans to which it contributes:

| | General Employees Retirement Plan | Public Employees Police and Fire Fund | Fire Relief Association | Total |
|--------------------------------|---|--|----------------------------|---------------|
| Net Pension Liability | \$ 10,074,407 | \$ 756,067 | \$ - | \$ 10,830,474 |
| Net Pension Asset | - | - | (360,080) | (360,080) |
| Deferred Outflows of Resources | 3,516,671 | 1,078,051 | 53,336 | 4,648,058 |
| Deferred Inflows of Resources | 1,650,170 | 1,275,553 | - | 2,925,723 |
| Pension Expense | 1,113,863 | 189,908 | 1,201 | 1,304,972 |

I. Pension Plan Fiduciary Net Position

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

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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 IRC and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

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% of employer contributions and twenty-five hundredths of 1% of the assets in each member's account annually.

Total contributions made by the City of Windom during fiscal year 2017 were:

| Ambulance | | | | | | |
|---------------------|----------|-------------------------------|----------|--|--|----------|
| Contribution Amount | | Percentage of Covered Payroll | | | | Required |
| Employee | Employer | Employee | Employer | | | Rates |
| \$ 8,949 | \$ 8,949 | 0.051 | 0.051 | | | 0.051 |

NOTE 7 STEWARDSHIP AND ACCOUNTABILITY

A. Deficit Fund Balances/Net Position

The City has deficit fund balances/net position at December 31, 2017 as follows:

| | |
|-----------------------------------|-------------|
| Other Governmental Funds: | |
| 4th Ave Improvement Bond Fund | \$ (75,207) |
| 2006A Refunding Bond Fund | (333,223) |
| 2007 Street Improvement Bond Fund | (172,015) |
| 2003 Improvement Bond Fund | (55,493) |
| Proprietary Funds: | |
| Telecom | (7,931,259) |
| River Bluff Townhomes | (82,615) |

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.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 8 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

A. Due to/from Other Funds

Individual fund receivable and payable balances at December 31, 2017 are as follows:

| Fund | Interfund Receivables Due from Other Funds | Interfund Payables Due to Other Funds | Description |
|--------------------------|---|--|------------------------|
| General Fund | \$ 635,938 | \$ - | Eliminate Deficit Cash |
| Other Governmental Funds | - | 635,938 | Eliminate Deficit Cash |
| Proprietary Funds: | | | |
| Electric Fund | 1,285,019 | - | Eliminate Deficit Cash |
| Telecom Fund | - | 1,285,019 | Eliminate Deficit Cash |
| Total Due To/From | <u>\$ 1,920,957</u> | <u>\$ 1,920,957</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 |
|--------------------|----------------------------|------------------------------|
| General Fund | \$ - | \$ 125,040 |
| Proprietary Funds: | | |
| Electric Fund | 125,040 | - |
| Total Advances | <u>\$ 125,040</u> | <u>\$ 125,040</u> |

The advance in the amount of \$125,040 represents loan to purchase a motor grader by the Electric Fund to the Street Department.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 8 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (CONTINUED)

C. Transfers

Transfers between funds during 2017 are as follows:

| | Transfer In | Transfer Out | Description |
|--------------------------------------|-------------------|-------------------|---|
| Major Governmental Funds: | | | |
| General Fund | \$ 245,000 | \$ - | Annual Contribution |
| General Fund | - | 35,626 | Transfer of Debt Payment |
| General Fund | - | 59,048 | Funding for Arena Project - Engineering |
| General Fund | - | 100,000 | Transfer for Cemstone Project |
| General Fund | 30,000 | - | Transfer for City Wide Network |
| General Fund | 4,997 | - | Transfer for 1/2 Air Compressor Cost |
| General Fund | - | 25,930 | Transfer of Debt Payment |
| Capital Projects- Emergency Services | 35,626 | - | Transfer of Debt Payment |
| Economic Development Fund | 100,000 | - | Transfer for Cemstone Project |
| Economic Development Fund | - | 58,457 | Transfer of Debt Payment |
| Nonmajor Governmental Funds: | | | |
| Debt Service Funds: | | | |
| 2006A Refunding Bond Fund | 58,457 | - | Transfer of Debt Payment |
| 2009 Street Improvement Bond Fund | 38,476 | - | Transfer of Debt Payment |
| GO Special Assessment Bond | 25,930 | - | Transfer of Debt Payment |
| Major Enterprise Funds: | | | |
| Water Utility | - | 80,000 | Return 2016 Transfer that covered Cash Deficit until Bonding |
| Water Utility | - | 5,000 | Transfer for City Wide Network |
| Water Utility | - | 18,084 | Transfer of Debt Payment |
| Wastewater Utility | 80,000 | - | Return of 2016 Transfer that covered Cash Deficit until Bonding |
| Wastewater Utility | - | 5,000 | Transfer for City Wide Network |
| Wastewater Utility | - | 20,392 | Transfer of Debt Payment |
| Electric Utility | - | 5,000 | Transfer for City Wide Network |
| Electric Utility | - | 175,000 | Annual Contribution |
| Electric Utility | - | 4,997 | Transfer for 1/2 Air Compressor Cost |
| Liquor | - | 70,000 | Annual Contribution |
| Liquor | - | 2,532 | Transfer for Spirit of Park Event |
| Telecom Fund | - | 15,000 | Transfer for City Wide Network |
| Nonmajor Enterprise Funds: | | | |
| Arena | 59,048 | - | Funding for Arena Project - Engineering |
| Multi-purpose Center | 2,532 | - | Transfer for Spirit of Park Event |
| Total | <u>\$ 680,066</u> | <u>\$ 680,066</u> | |

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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.

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 FIREFIGHTERS 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, 2017, membership includes 29 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 20 years of active service with such department before retirement shall be entitled to a lump sum service pension in the amount of \$2,500 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.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 10 VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION (CONTINUED)

B Benefits Provided (Continued)

Pursuant to *Minnesota Statutes* §424A.02, Subds. 2 and 4, members who retire with 20 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 \$2,500 for each year the member was an active member of the City of Windom Fire Department. A death benefit is also available, which is payable to a survivor.

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 specified in *Minnesota Statutes*. 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 |
| = | Total Contribution Required |

The plan is funded in part by fire state aid and, if necessary, City contributions. The state of Minnesota distributed to the City \$48,576 in fire state aid paid by the City to the Relief Association for the year ended December 31, 2017. 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, 2017 was \$-0-.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 10 VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION (CONTINUED)

D. Pension Costs

At December 31, 2017, the City reported an asset of \$360,080 for the Association's net pension asset/liability. The net pension asset/liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

As a result of its requirement to contribute to the Relief Association, the City recognized expense of \$1,201 for the year ended December 31, 2017. At December 31, 2017, 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 | 1,891 | - |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | 51,445 | - |
| Changes in Proportion | - | - |
| Contributions Paid to PERA Subsequent to the Measurement Date | - | - |
| Total | <u>\$ 53,336</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, 2017. 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 Ending December 31, | Pension Expense Amount |
|--------------------------|---------------------------|
| 2017 | \$ 18,508 |
| 2018 | 18,508 |
| 2019 | 18,508 |
| 2020 | (2,914) |
| 2021 | 291 |
| 2022 | 291 |
| 2023 | 144 |

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 10 VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION (CONTINUED)

E. Actuarial Assumptions

The actuarial total pension liability was determined as of December 31, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

ASSUMPTIONS FROM ACTUARIAL REPORT

| | |
|------------------------------|------------------------|
| Valuation Date | December 31, 2016 |
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level Dollar Closed |
| Actuarial Assumptions: | |
| Discount Rate | 6.75% |
| Investment Rate of Return | 6.75% |
| 20-Year Municipal Bond Yield | 3.78% |
| 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, 2017 are summarized in the following table:

| Asset Class | Allocation at December 31, 2016 | Long-Term Expected Real Rate of Return |
|--|---------------------------------------|--|
| Cash and Equivalents | 24.12% | 0.84% |
| Fixed Income | 11.55% | 2.27% |
| Domestic Equity | 47.84% | 5.58% |
| International Equity | 15.67% | 5.70% |
| Real Estate and Alternatives | 0.82% | 4.44% |
| Total Portfolio | 100.00% | |
| Total Portfolio Expected Real Rate of Return | | 6.75% |

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 10 VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION (CONTINUED)

F. Discount Rate

The discount rate used to measure the total pension liability was 6.75%. 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 6.75%, 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 (5.75%) or one percentage point higher (7.75%) than the current rate:

| | <u>1% Decrease</u> | <u>Discount Rate</u> | <u>1% Increase</u> |
|-----------------------|--------------------|----------------------|--------------------|
| Net Pension Liability | \$ (346,710) | \$ (360,080) | \$ (372,901) |
| Discount Rate | 5.75% | 6.75% | 7.75% |

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 10 VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION (CONTINUED)

H. Plan's Fiduciary Net Position

Information about the change in the Plan's net pension liability is as follows:

| | <u>December 31, 2016 Measurement Date</u> |
|--|---|
| Total Pension Liability | |
| Service Cost | \$ 30,656 |
| Interest | 53,502 |
| Change in Assumptions | 2,182 |
| Benefit Payments | <u>(53,800)</u> |
| Net Change in Total Pension Liability | 32,540 |
| | |
| Total Pension Liability - Beginning | <u>819,356</u> |
| Total Pension Liability - Ending (a) | 851,896 |
| | |
| Plan Fiduciary Net Position | |
| Municipal Contributions | - |
| State Contributions | 49,132 |
| Net Investment Income | 87,136 |
| Benefit Payments | <u>(57,688)</u> |
| Net Change in Fiduciary Net Position | 78,580 |
| | |
| Fiduciary Net Position - Beginning | <u>1,133,396</u> |
| Fiduciary Net Position - Ending (b) | <u>1,211,976</u> |
| | |
| Association's Net Pension Liability/(Asset) - Ending (a) - (b) | <u>\$ (360,080)</u> |

I. 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.

NOTE 11 TAX ABATEMENTS

The City has several pay-as-you-go tax increment financing districts with local businesses to promote economic development within the City as authorized under Minnesota Statute §469.174. The City reaches agreements with the businesses related to land acquisition, public infrastructure and building improvements. The businesses complete their improvements which increase the tax base. These districts stop collections at various times with the last ones being December 31, 2024. For the year ended December 31, 2017, the City paid excess tax increment in the amount of \$298,883. No other commitments were made by the City as part of these agreements.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 11 TAX ABATEMENTS (CONTINUED)

The City entered into a property tax abatement agreement with a local business to promote economic development/redevelopment and to increase the tax base as authorized under Minnesota Statutes §469. The City entered into the agreement during 2012 to abate property taxes. To be eligible for abated property taxes, the Developer needed to renovate an existing building, retaining and increasing jobs, and increasing the tax base of the City, County, and State. For the year ended December 31, 2017, the City abated taxes totaling \$12,505 on this agreement. No other commitments were made by the City as part of this agreement.

NOTE 12 FUND BALANCE

At December 31, 2017, the City had various fund balances restricted, or assigned through legal restriction and City Council authorization. Major fund balance appropriations at December 31, 2017 are shown on the various balance sheets as segregations of fund balance. The fund balances are as follows:

| | General Fund | Economic Development Fund | Capital Project Fund | 2017 Street Capital Project Fund | Other Governmental Funds | Governmental Funds Total |
|---------------------------------------|---------------------|---------------------------------|----------------------------|--|--------------------------------|--------------------------------|
| Nonspendable: | | | | | | |
| Inventory | \$ 52,424 | \$ 205,700 | \$ - | \$ - | \$ - | \$ 258,124 |
| Prepaid Expenses | - | 12,500 | - | - | - | 12,500 |
| Total Nonspendable | 52,424 | 218,200 | - | - | - | 270,624 |
| Restricted: | | | | | | |
| Debt Service | - | - | - | - | 1,320,054 | 1,320,054 |
| Donations for Fire, Well, and Park | 66,996 | - | - | - | - | 66,996 |
| Tax Increment Funding | - | 497,252 | - | - | - | 497,252 |
| Capital Projects | - | - | 265,347 | 557,174 | 483,038 | 1,305,559 |
| Total Restricted | 66,996 | 497,252 | 265,347 | 557,174 | 1,803,092 | 3,189,861 |
| Assigned: | | | | | | |
| Ambulance | - | - | - | - | 922,614 | 922,614 |
| Economic Development | - | 1,291,129 | - | - | - | 1,291,129 |
| Airport | 149,765 | - | - | - | - | 149,765 |
| Library | 198,835 | - | - | - | - | 198,835 |
| Pool | 57,309 | - | - | - | - | 57,309 |
| 2018 Budgeted Deficit | 167,695 | - | - | - | - | 167,695 |
| Capital Projects | 205,281 | - | - | - | - | 205,281 |
| Total Assigned | 778,885 | 1,291,129 | - | - | 922,614 | 2,992,628 |
| Unassigned | | | | | | |
| | 2,170,771 | - | - | - | (635,938) | 1,534,833 |
| Total Fund Balance | <u>\$ 3,069,076</u> | <u>\$ 2,006,581</u> | <u>\$ 265,347</u> | <u>\$ 557,174</u> | <u>\$ 2,089,768</u> | <u>\$ 7,987,946</u> |

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 13 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.

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 energy subject 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.

C. Construction Contract Commitments

The City had several commitments under construction contracts still in process at the end of the year. The combined total of remaining commitments was \$1,549,354 at December 31, 2017.

NOTE 14 NEW ACCOUNTING PRONOUNCEMENTS

In June 2018, the Governmental Accounting Standards Board (GASB) issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The City early-adopted GASB Statement No. 89 effective January 1, 2017. The adoption of GASB Statement No. 89 did not have a material effect on the City's financial statements.

NOTE 15 SUBSEQUENT EVENTS

In March 2018, the City approved the sale of \$2,110,000 General Obligation Bonds, Series 2018A.

In February 2018, the City approved a contract bid of \$943,972 for the Windom Arena Ice System Project.

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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, 2017**

| | Measurement Date <u>June 30, 2017</u> | Measurement Date <u>June 30, 2016</u> | Measurement Date <u>June 30, 2015</u> |
|---|---|---|---|
| City - GERP | | | |
| City's Proportion of the Net Pension Liability (Asset) | 0.0366% | 0.0370% | 0.0450% |
| City's Proportionate Share of the Net Pension Liability (Asset) | \$ 10,074,407 | \$ 8,243,742 | \$ 2,098,920 |
| State's Proportionate Share of the Net Pension Liability Associated with the City of Windom | \$ 29,380 | \$ 39,236 | N/A |
| City's Covered Payroll | \$ 8,685,475 | \$ 8,309,488 | \$ 2,378,626 |
| City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll | 115.99% | 99.21% | 88.24% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 68.90% | 68.90% | 78.20% |

| | | | |
|---|------------|--------------|------------|
| PEPFF | | | |
| City's Proportion of the Net Pension Liability (Asset) | 0.0560% | 0.0547% | 5.5000% |
| City's Proportionate Share of the Net Pension Liability (Asset) | \$ 756,067 | \$ 2,207,246 | \$ 624,929 |
| City's Covered-Employee Payroll | \$ 570,375 | \$ 526,951 | \$ 506,666 |
| City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll | 132.56% | 418.87% | 138.33% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 63.90% | 63.90% | 63.90% |

| | Measurement Date <u>June 30, 2016</u> | Measurement Date <u>June 30, 2016</u> | Measurement Date <u>June 30, 2015</u> |
|---|---|---|---|
| Fire Relief Association | | | |
| City's Proportion of the Net Pension Liability (Asset) | 100% | 100% | 100% |
| City's Proportionate Share of the Net Pension Liability (Asset) | \$ (360,080) | \$ (360,080) | \$ (182,216) |
| City's Covered Payroll | N/A | N/A | N/A |
| City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered Payroll | N/A | N/A | N/A |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 142.27% | 142.27% | 138.33% |

Additional information will be added as it becomes available.

**CITY OF WINDOM, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE CITY'S CONTRIBUTIONS
LAST THREE YEARS**

Schedule of Contributions

| | 2017 | 2016 | 2015 |
|--|-------------|-------------|-------------|
| City - GERP | | | |
| Contractually Required Contribution | \$ 629,920 | \$ 603,670 | \$ 597,569 |
| Contributions in Relation to the Contractually Required Contribution | (629,920) | (603,670) | (597,569) |
| Contribution Deficiency (Excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City's Covered Payroll | 8,685,475 | 8,309,488 | 8,330,307 |
| Contributions as a Percentage of Covered Employee Payroll | 7.25% | 7.26% | 7.17% |
| PEPFF | | | |
| Contractually Required Contribution | \$ 92,401 | \$ 85,366 | \$ 82,258 |
| Contributions in Relation to the Contractually Required Contribution | (92,401) | (85,366) | (82,258) |
| Contribution Deficiency (Excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City's Covered Payroll | 570,375 | 526,951 | 507,766 |
| Contributions as a Percentage of Covered Employee Payroll | 16.20% | 16.20% | 16.20% |
| Fire Relief Association | | | |
| Statutorily Required Contribution | \$ - | \$ - | \$ - |
| Contributions in Relation to the Statutorily Required Contribution | - | - | - |
| Contribution Deficiency (Excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City's Covered Payroll | - | - | - |
| Contributions as a Percentage of Covered Employee Payroll | N/A | N/A | N/A |

Additional information will be added as it becomes available.

**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, 2016</u> <u>Measurement Date</u> | <u>December 31, 2015</u> <u>Measurement Date</u> |
|---|---|---|
| Total Pension Liability | | |
| Service Cost | \$ 30,656 | \$ 28,015 |
| Interest | 53,502 | 50,008 |
| Change in Assumptions | 2,182 | - |
| Benefit Payments | <u>(53,800)</u> | <u>-</u> |
| Net Change in Total Pension Liability | 32,540 | 78,023 |
| Total Pension Liability - Beginning | <u>819,356</u> | <u>741,333</u> |
| Total Pension Liability - Ending (a) | 851,896 | 819,356 |
| Plan Fiduciary Net Position | | |
| Municipal Contributions | - | 5,000 |
| State Contributions | 49,132 | 49,942 |
| Net Investment Income | 87,136 | (34,324) |
| Benefit Payments | <u>(57,688)</u> | <u>(1,051)</u> |
| Net Change in Fiduciary Net Position | 78,580 | 19,567 |
| Fiduciary Net Position - Beginning | <u>1,133,396</u> | <u>1,113,829</u> |
| Fiduciary Net Position - Ending (b) | <u>1,211,976</u> | <u>1,133,396</u> |
| Association's Net Pension Liability/(Asset) - Ending (a) - (b) | <u>\$ (360,080)</u> | <u>\$ (314,040)</u> |
| Fiduciary Net Position as a Percentage of the Total Pension Liability | 142.27% | 138.33% |
| Covered Payroll | N/A | N/A |
| Net Pension Liability/(Asset) as a Percentage of Covered Payroll | N/A | N/A |

Additional information will be added as it becomes available.

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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, 2017**

| | Special Revenue Fund | Debt Service Funds | | |
|---|-------------------------|-------------------------------------|---------------------|---------------------------------|
| | Ambulance Fund | 4th Ave Improvement Bond Fund | 2013 Street Fund | 2006A Refunding Bond Fund |
| ASSETS | | | | |
| Cash and Investments | \$ 615,694 | \$ - | \$ 483,038 | \$ - |
| Accounts Receivable | 325,429 | - | - | - |
| Special Assessments Receivable | - | - | 623,479 | - |
| Total Assets | \$ 941,123 | \$ - | \$ 1,106,517 | \$ - |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES (DEFICITS) | | | | |
| LIABILITIES | | | | |
| Accounts and Contracts Payable | \$ 9,538 | \$ - | \$ - | \$ - |
| Other Accrued Liabilities | 8,971 | - | - | - |
| Due to Other Funds | - | 75,207 | - | 333,223 |
| Total Liabilities | 18,509 | 75,207 | - | 333,223 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unavailable Revenue | - | - | 623,479 | - |
| FUND BALANCE (DEFICIT) | | | | |
| Restricted | - | - | 483,038 | - |
| Assigned | 922,614 | - | - | - |
| Unassigned | - | (75,207) | - | (333,223) |
| Total Fund Balance (Deficit) | 922,614 | (75,207) | 483,038 | (333,223) |
| Total Liabilities and Fund Balance (Deficit) | \$ 941,123 | \$ - | \$ 1,106,517 | \$ - |

Debt Service Funds

| 2007 Street Improvement Bond Fund | 2009 Street Improvement Bond Fund | GO Special Assessment Bond Fund | 2003 Improvement Bond Fund | 2017 Total |
|---|---|---------------------------------------|----------------------------------|---------------------|
| \$ - | \$ 929,333 | \$ 388,680 | \$ - | \$ 2,416,745 |
| - | - | 2,084 | - | 327,513 |
| - | 101,796 | 36,739 | - | 762,014 |
| <u>\$ -</u> | <u>\$ 1,031,129</u> | <u>\$ 427,503</u> | <u>\$ -</u> | <u>\$ 3,506,272</u> |

| | | | | |
|----------------|-----------|----------|---------------|----------------|
| \$ - | \$ 42 | \$ - | \$ - | \$ 9,580 |
| - | - | - | - | 8,971 |
| 172,015 | - | - | 55,493 | 635,938 |
| <u>172,015</u> | <u>42</u> | <u>-</u> | <u>55,493</u> | <u>654,489</u> |

| | | | | |
|------------------|---------------------|-------------------|-----------------|---------------------|
| - | 101,796 | 36,740 | - | 762,015 |
| - | 929,291 | 390,763 | - | 1,803,092 |
| - | - | - | - | 922,614 |
| (172,015) | - | - | (55,493) | (635,938) |
| <u>(172,015)</u> | <u>929,291</u> | <u>390,763</u> | <u>(55,493)</u> | <u>2,089,768</u> |
| <u>\$ -</u> | <u>\$ 1,031,129</u> | <u>\$ 427,503</u> | <u>\$ -</u> | <u>\$ 3,506,272</u> |

**CITY OF WINDOM, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
YEAR ENDED DECEMBER 31, 2017**

| | Special | Debt Service Funds | | |
|---|-------------------|--------------------|-------------------|---------------------|
| | Revenue Fund | 4th Ave | 2013 Street | 2006A |
| | Ambulance | Improvement | 2013 Street | 2006A |
| | Fund | Bond Fund | Fund | Refunding |
| | | Bond Fund | Fund | Bond Fund |
| REVENUE | | | | |
| General Property Taxes | \$ - | \$ 33,801 | \$ 95,859 | \$ - |
| Intergovernmental Special Assessments | - | 191 | 89,680 | - |
| Charges for Services | 682,385 | - | - | - |
| Interest Income | 6,616 | - | 252 | - |
| Investment Earnings (Loss) | (2,325) | - | (252) | - |
| Refunds and Reimbursements | 7,231 | - | - | - |
| Grants and Contributions | 1,834 | - | - | - |
| Total Revenue | 695,741 | 33,992 | 185,539 | - |
| EXPENDITURES | | | | |
| Current: | | | | |
| Public Safety | 357,301 | - | - | - |
| Public Works | - | 925 | 5,400 | 1,220 |
| Capital Outlay: | | | | |
| Public Safety | 365,806 | - | - | - |
| Debt Service: | | | | |
| Principal | - | 34,650 | 130,000 | 90,000 |
| Interest and Fiscal Charges | - | 1,920 | 54,513 | 2,243 |
| Total Expenditures | 723,107 | 37,495 | 189,913 | 93,463 |
| EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES | (27,366) | (3,503) | (4,374) | (93,463) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfer In | - | - | - | 58,457 |
| Bond Proceeds | - | - | - | - |
| Proceeds from Sale of Capital Assets | 20,000 | - | - | - |
| Bond Premium | - | - | - | - |
| Total Other Financing Sources (Uses) | 20,000 | - | - | 58,457 |
| NET CHANGE IN FUND BALANCE | (7,366) | (3,503) | (4,374) | (35,006) |
| Fund Balance (Deficit) - Beginning of Year | 929,980 | (71,704) | 487,412 | (298,217) |
| FUND BALANCE (DEFICIT) - END OF YEAR | \$ 922,614 | \$ (75,207) | \$ 483,038 | \$ (333,223) |

| Debt Service Funds | | | | | |
|---------------------------------|---|---|---------------------------------------|----------------------------------|---------------|
| 2006A Refunding Bond Fund | 2007 Street Improvement Bond Fund | 2009 Street Improvement Bond Fund | GO Special Assessment Bond Fund | 2003 Improvement Bond Fund | 2017 Total |
| \$ - | \$ 57,555 | \$ 58,195 | \$ 25,939 | \$ 82,326 | \$ 353,675 |
| - | 19,001 | 27,160 | 3,396 | - | 139,428 |
| - | - | - | - | - | 682,385 |
| - | - | - | - | - | 6,868 |
| - | - | (2,392) | - | - | (4,969) |
| - | - | - | - | - | 7,231 |
| - | - | - | - | - | 1,834 |
| - | 76,556 | 82,963 | 29,335 | 82,326 | 1,186,452 |
| - | - | - | - | - | 357,301 |
| 1,220 | - | 967 | 452 | 926 | 9,890 |
| - | - | - | - | - | 365,806 |
| 90,000 | 75,000 | 95,000 | 55,350 | 115,000 | 595,000 |
| 2,243 | 8,425 | 62,162 | 5,121 | 4,976 | 139,360 |
| 93,463 | 83,425 | 158,129 | 60,923 | 120,902 | 1,467,357 |
| (93,463) | (6,869) | (75,166) | (31,588) | (38,576) | (280,905) |
| 58,457 | - | 38,476 | 25,930 | - | 122,863 |
| - | - | 830,000 | - | - | 830,000 |
| - | - | - | - | - | 20,000 |
| - | - | - | - | - | - |
| 58,457 | - | 868,476 | 25,930 | - | 972,863 |
| (35,006) | (6,869) | 793,310 | (5,658) | (38,576) | 691,958 |
| (298,217) | (165,146) | 135,981 | 396,421 | (16,917) | 1,397,810 |
| \$ (333,223) | \$ (172,015) | \$ 929,291 | \$ 390,763 | \$ (55,493) | \$ 2,089,768 |

**CITY OF WINDOM, MINNESOTA
NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF NET POSITION
DECEMBER 31, 2017**

| ASSETS | Arena Fund | Multi-Purpose Center Fund | River Bluff Townhomes | Totals 2017 |
|---------------------------------------|-----------------------|---------------------------------|-----------------------------|-------------------------|
| CURRENT ASSETS | | | | |
| Cash and Cash Equivalents | \$ 94,569 | \$ 266,611 | \$ 105,985 | \$ 467,165 |
| Accounts Receivable | - | 2,470 | 825 | 3,295 |
| Total Current Assets | <u>94,569</u> | <u>269,081</u> | <u>106,810</u> | <u>470,460</u> |
| Capital Assets: | | | | |
| Construction in Progress | 59,048 | - | - | 59,048 |
| Buildings and Improvements | 949,758 | 1,947,625 | 1,123,288 | 4,020,671 |
| Machinery and Equipment | 398,827 | 280,868 | - | 679,695 |
| Total Capital Assets | <u>1,407,633</u> | <u>2,228,493</u> | <u>1,123,288</u> | <u>4,759,414</u> |
| Less: Accumulated Depreciation | <u>(1,233,161)</u> | <u>(1,163,860)</u> | <u>(509,978)</u> | <u>(2,906,999)</u> |
| Net Capital Assets | <u>174,472</u> | <u>1,064,633</u> | <u>613,310</u> | <u>1,852,415</u> |
| Total Assets | 269,041 | 1,333,714 | 720,120 | 2,322,875 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Pension Related | 25,723 | 32,513 | - | 58,236 |
| LIABILITIES | | | | |
| CURRENT LIABILITIES | | | | |
| Accounts Payable | 2,257 | 3,611 | 1,220 | 7,088 |
| Accrued Salaries and Fringes | 4,345 | 5,978 | - | 10,323 |
| Accrued Interest Payable | - | - | 370 | 370 |
| Other Accrued Liabilities | 2,224 | 1,138 | - | 3,362 |
| Unearned Revenue | - | 900 | 4,917 | 5,817 |
| Current Portion of Bonds Payable | - | - | 15,738 | 15,738 |
| Total Current Liabilities | <u>8,826</u> | <u>11,627</u> | <u>22,245</u> | <u>42,698</u> |
| NONCURRENT LIABILITIES | | | | |
| Compensated Absences | 36,740 | 34,264 | - | 71,004 |
| Net Pension Liability | 105,543 | 133,406 | - | 238,949 |
| Bonds Payable - Long-Term | - | - | 780,490 | 780,490 |
| Total Noncurrent Liabilities | <u>142,283</u> | <u>167,670</u> | <u>780,490</u> | <u>1,090,443</u> |
| Total Liabilities | 151,109 | 179,297 | 802,735 | 1,133,141 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Pension Related | 23,749 | 30,019 | - | 53,768 |
| NET POSITION | | | | |
| Net Investment in Capital Assets | 174,472 | 1,064,633 | (182,918) | 1,056,187 |
| Unrestricted | <u>(54,566)</u> | <u>92,278</u> | <u>100,303</u> | <u>138,015</u> |
| Total Net Position | <u>\$ 119,906</u> | <u>\$ 1,156,911</u> | <u>\$ (82,615)</u> | <u>\$ 1,194,202</u> |

**CITY OF WINDOM, MINNESOTA
NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2017**

| | Arena Fund | Multi-Purpose Center Fund | River Bluff Townhomes | Totals 2017 |
|--|-------------------|---------------------------------|-----------------------------|---------------------|
| OPERATING REVENUE | | | | |
| Facility Use/Other Revenue | \$ 135,126 | \$ 90,169 | \$ 94,397 | \$ 319,692 |
| OPERATING EXPENSES | | | | |
| Personal Services | 167,019 | 215,823 | - | 382,842 |
| Supplies, Repairs, Services, and Rents | 158,974 | 91,407 | 54,655 | 305,036 |
| Depreciation and Amortization | 15,905 | 53,879 | 28,082 | 97,866 |
| Total Operating Expenses | <u>341,898</u> | <u>361,109</u> | <u>82,737</u> | <u>785,744</u> |
| OPERATING INCOME (LOSS) | (206,772) | (270,940) | 11,660 | (466,052) |
| OTHER INCOME (EXPENSE) | | | | |
| Taxes and Special Assessments | 193,975 | 243,920 | - | 437,895 |
| Contributions and Reimbursements | - | 6,270 | - | 6,270 |
| Interest Income | 542 | 1,101 | - | 1,643 |
| Interest Expense | - | - | (6,695) | (6,695) |
| Total Other Income (Expense) | <u>194,517</u> | <u>251,291</u> | <u>(6,695)</u> | <u>439,113</u> |
| INCOME BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS | (12,255) | (19,649) | 4,965 | (26,939) |
| TRANSFERS AND CAPITAL CONTRIBUTIONS | | | | |
| Transfers in | <u>59,048</u> | <u>2,532</u> | <u>-</u> | <u>61,580</u> |
| CHANGE IN NET POSITION | 46,793 | (17,117) | 4,965 | 34,641 |
| Net Position - Beginning of Year | <u>73,113</u> | <u>1,174,028</u> | <u>(87,580)</u> | <u>1,159,561</u> |
| NET POSITION - END OF YEAR | <u>\$ 119,906</u> | <u>\$ 1,156,911</u> | <u>\$ (82,615)</u> | <u>\$ 1,194,202</u> |

**CITY OF WINDOM, MINNESOTA
NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017**

| | Arena Fund | Multi-Purpose Fund | River Bluff Townhomes | Total |
|---|---------------------|-----------------------|--------------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Cash Received from Customers and Service Users | \$ 149,688 | \$ 96,834 | \$ 94,779 | \$ 341,301 |
| Cash Paid to Suppliers | (149,087) | (79,523) | (55,033) | (283,643) |
| Cash Paid to Employees | (166,857) | (221,824) | - | (388,681) |
| Net Cash Provided (Used) by Operating Activities | <u>(166,256)</u> | <u>(204,513)</u> | <u>39,746</u> | <u>(331,023)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | |
| Transfers In | 59,048 | 2,532 | - | 61,580 |
| Property Tax Revenues | 193,975 | 243,920 | - | 437,895 |
| Miscellaneous Revenues | - | 6,270 | - | 6,270 |
| Net Cash Provided by Noncapital Financing Activities | <u>253,023</u> | <u>252,722</u> | <u>-</u> | <u>505,745</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Acquisition and Construction of Capital Assets | (70,672) | (15,440) | - | (86,112) |
| Interest Paid on Long-Term Debt | - | - | (3,997) | (3,997) |
| Principal Payments on Long-Term Debt | - | - | (21,292) | (21,292) |
| Net Cash Used by Capital and Related Financing Activities | <u>(70,672)</u> | <u>(15,440)</u> | <u>(25,289)</u> | <u>(111,401)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Investment Income | <u>542</u> | <u>1,101</u> | <u>-</u> | <u>1,643</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 16,637 | 33,870 | 14,457 | 64,964 |
| Cash and Cash Equivalents - Beginning of Year | <u>77,932</u> | <u>232,741</u> | <u>91,528</u> | <u>402,201</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u>\$ 94,569</u> | <u>\$ 266,611</u> | <u>\$ 105,985</u> | <u>\$ 467,165</u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | | | |
| Operating Income (Loss) | \$ (206,772) | \$ (270,940) | \$ 11,660 | \$ (466,052) |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | | |
| Depreciation | 15,905 | 53,879 | 28,082 | 97,866 |
| Pension Adjustment | 11,066 | 9,844 | - | 20,910 |
| Changes in Assets and Liabilities: | | | | |
| (Increase) Decrease in Accounts Receivable | 14,562 | 7,215 | 840 | 22,617 |
| Increase (Decrease) in Accounts and Contracts Payable | (1,179) | 2,040 | (378) | 483 |
| Increase (Decrease) in Accrued Expenses | (106) | 323 | - | 217 |
| Increase (Decrease) in Unearned Revenue | - | (550) | (458) | (1,008) |
| Increase (Decrease) in Accrued Compensated Absences | 268 | (6,324) | - | (6,056) |
| Net Cash Provided (Used) by Operating Activities | <u>\$ (166,256)</u> | <u>\$ (204,513)</u> | <u>\$ 39,746</u> | <u>\$ (331,023)</u> |

OTHER REPORT SECTION

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, 2017 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, 2018.

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*. 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.

Honorable Mayor and
Members of the City Council
City of Windom

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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Austin, Minnesota
June 28, 2018