

**CITY OF WINDOM, MINNESOTA**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2016**



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## **INTRODUCTORY SECTION**





**CITY OF WINDOM, MINNESOTA  
OFFICIAL DIRECTORY  
DECEMBER 31, 2016**

Elected Officials

Term Expires

Mayor	Corey Maricle	December 31, 2016
Council Member	Marv Grunig	December 31, 2020
Council Member	JoAnn Ray	December 31, 2016
Council Member	Dominic Jones	December 31, 2018
Council Member	Paul Johnson	December 31, 2018
Council Member	Bryan Joyce	December 31, 2018

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## **FINANCIAL SECTION**

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## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Windom (the City), Minnesota as of and for the year ended December 31, 2016, 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, 2016, and the respective changes in financial position and, where applicable, cash flows, and budgetary comparison for the General Fund, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

During fiscal year ended December 31, 2016, Windom Area Hospital adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the related GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB No. 68*. As a result of the implementation of these standards Windom Area Hospital reported a restatement for the change in accounting principle (see Note 14). Our auditors' opinion was not modified with respect to the restatement.

### ***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***

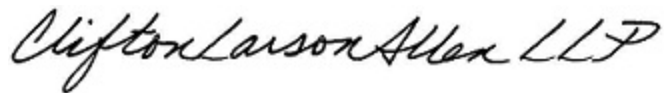
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Windom's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required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

Honorable Mayor and  
Members of the City Council  
City of Windom

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2017, on our consideration of the City of Windom's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Windom's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Austin, Minnesota  
June 28, 2017

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## **REQUIRED SUPPLEMENTARY INFORMATION**

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**CITY OF WINDOM, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2016**

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, 2016.

**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 \$47,001,644 (net position). The unrestricted portion of net position, the portion used to meet the City's ongoing obligations to citizens and creditors, is \$14,918,466.
- The City's total net position increased by \$2,377,399 from 2015 after including the restatement of net position of the Windom Area Hospital for adopting GASB 68 *Accounting and Financial Reporting for Pensions*.
- As of the close of the current fiscal year, the City of Windom's governmental funds reported a combined ending fund balance of \$7,698,905 which is an increase of \$1,246,738 in comparison with the prior year. The overall *unassigned fund balance* is \$1,595,554.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,267,288 or 69% of total 2016 general fund expenditures. The City Council adopted a revised Fund Balance Policy in November 2016 due to the inclusion of GASB 54 and the one-time capital expense for the Emergency Services Facility. The City's 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 and at Prairie Meadows for residential construction. 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.
- An Electric rate study called for a 3.5% increase in rates for 2016 which was implemented by the Utility Commission.
- The City upgraded their antiquated billing system for Electric, Water, Sewer, and Telecom services. This system upgrade provided efficiencies in the billing process as well as additional conveniences to City of Windom customers for receiving and paying bills such as e-payments.
- The City approved the bid for a \$3.9 million Emergency Services Facility to house the Fire Department and Ambulance Department. This facility was funded with \$1.9 million of cash from the Ambulance Fund, Liquor Fund and General Fund. A debt of \$2.034 million was incurred via a 20-year lease-purchase agreement with Bremer Bank.
- Water tower painting was completed for both towers at a cost of approximately \$1 million and a wastewater main along E. Highway 60 was replaced at a cost of approximately \$560,000.
- Large capital equipment purchases included a new fire truck, ambulance unit, and motor grader.

**CITY OF WINDOM, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2016**

**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.

**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.

**CITY OF WINDOM, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2016**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

**Fund Financial Statements (Continued)**

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

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

***Proprietary Funds***

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

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

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 34-71 of this report.

**CITY OF WINDOM, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2016**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Other Information**

The combining statements referred to earlier in conjunction with nonmajor governmental and proprietary funds are presented immediately following the financial statement footnotes. Combining and individual fund statements can be found on pages 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 \$47,001,644 at the close of the most recent fiscal year compared to \$50,202,159 at the end of 2015.

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 2016, \$2,220,884 of assets were restricted as to use leaving the remaining balance of \$14,918,466 as unrestricted net position that may be used to meet the City's ongoing obligations.

**CITY OF WINDOM'S NET POSITION**

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
<b>ASSETS</b>						
Current and Other Assets	\$ 10,881,425	\$ 8,060,320	\$ 22,460,465	\$ 30,721,794	\$ 33,341,890	\$ 38,782,114
Capital Assets	17,644,242	16,212,503	38,714,071	31,357,541	56,358,313	47,570,044
Total Assets	28,525,667	24,272,823	61,174,536	62,079,335	89,700,203	86,352,158
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	2,042,519	246,720	1,704,163	201,434	3,746,682	448,154
<b>LIABILITIES</b>						
Noncurrent Liabilities Outstanding	10,160,195	6,605,352	27,867,587	23,136,892	38,027,782	29,742,244
Other Liabilities	2,473,781	1,268,089	4,108,508	5,353,602	6,582,289	6,621,691
Total Liabilities	12,633,976	7,873,441	31,976,095	28,490,494	44,610,071	36,363,935
<b>DEFERRED INFLOWS OF RESOURCES</b>	404,069	83,967	1,431,101	150,251	1,835,170	234,218
<b>Net Position:</b>						
Net Investment in Capital Assets	12,471,031	10,493,304	17,391,263	8,941,651	29,862,294	19,434,955
Restricted	755,359	1,109,148	1,465,525	8,819,707	2,220,884	9,928,855
Unrestricted	4,303,751	4,959,683	10,614,715	15,878,666	14,918,466	20,838,349
Total Net Position	\$ 17,530,141	\$ 16,562,135	\$ 29,471,503	\$ 33,640,024	\$ 47,001,644	\$ 50,202,159

**CITY OF WINDOM, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2016**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

**Governmental Activities**

Governmental activities increased the City of Windom's net position by \$968,006. The most significant change in governmental net position is due to the effect of accounting for net position under the full accrual basis. Under full accrual accounting, the property taxes collected in debt service funds were used to reduce debt obligations. These debt obligations were accrued as expenses in prior years. Also contributing to the net position increase was the use of property taxes collected for capital expenditures that were capitalized as long term assets instead of current expenditures.

**Business-Type Activities**

Business-type activities increased the City of Windom's net position by \$1,409,393. Electric and water utilities, municipal liquor store operation, Telecom, and hospital operation all recorded positive contributions to net position.

**City of Windom's Changes in Net Position**

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

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
<b>REVENUES</b>						
Program Revenues:						
Fees, Charges, Fines and Other	\$ 1,232,020	\$ 1,162,213	\$ 29,288,621	\$ 29,076,568	\$ 30,520,641	\$ 30,238,781
Operating Grants and Contributions	160,174	518,354	-	-	160,174	518,354
Capital Grants and Contributions	1,580,536	73,554	90,957	48,653	1,671,493	122,207
General Revenues:						
Property Taxes	1,401,534	1,377,779	412,655	362,860	1,814,189	1,740,639
Tax Increments	377,545	254,905	-	-	377,545	254,905
Other Taxes	25,258	27,236	-	-	25,258	27,236
Grants and Contributions, Not Restricted	1,447,271	1,442,062	104,939	70,075	1,552,210	1,512,137
Unrestricted Interest Income	37,758	32,190	118,392	99,837	156,150	132,027
Unrestricted Investment Earnings (Loss)	(5,089)	(5,089)	(2,140)	(16,905)	(7,229)	(21,994)
Gain(Loss) on Disposal of Capital Assets	33,213	102,585	46,451	(22,703)	79,664	79,882
Total Revenues	6,290,220	4,985,789	30,059,875	29,618,385	36,350,095	34,604,174
<b>EXPENSES</b>						
General Government	641,502	730,351	-	-	641,502	730,351
Public Safety	1,836,398	1,632,108	-	-	1,836,398	1,632,108
Public Works	948,418	1,018,331	-	-	948,418	1,018,331
Culture and Recreation	521,364	494,523	-	-	521,364	494,523
Airport	-	-	-	-	-	-
Economic Development	1,926,044	576,272	-	-	1,926,044	576,272
Interest on Long-Term Debt	243,574	136,168	-	-	243,574	136,168
Electric	-	-	4,827,265	5,661,539	4,827,265	5,661,539
Water	-	-	986,265	963,641	986,265	963,641
Wastewater	-	-	1,365,530	1,248,946	1,365,530	1,248,946
Liquor Store	-	-	1,712,332	1,615,796	1,712,332	1,615,796
Telecom	-	-	2,596,537	2,984,822	2,596,537	2,984,822
Arena	-	-	336,203	332,502	336,203	332,502
Multi-Purpose	-	-	363,743	324,461	363,743	324,461
River Bluff Townhomes	-	-	76,234	76,338	76,234	76,338
Windom Area Hospital	-	-	15,591,287	14,936,050	15,591,287	14,936,050
Total Expenses	6,117,300	4,587,753	27,855,396	28,144,095	33,972,696	32,731,848
Increase in Net Position Before Transfers	172,920	398,036	2,204,479	1,474,290	2,377,399	1,872,326
Transfers	795,086	267,861	(795,086)	(267,861)	-	-
<b>CHANGE IN NET POSITION</b>	968,006	665,897	1,409,393	1,206,429	2,377,399	1,872,326
Net Position - Beginning of Year	16,562,135	15,896,238	28,062,110	32,433,595	44,624,245	48,329,833
<b>NET POSITION - END OF YEAR</b>	<b>\$ 17,530,141</b>	<b>\$ 16,562,135</b>	<b>\$ 29,471,503</b>	<b>\$ 33,640,024</b>	<b>\$ 47,001,644</b>	<b>\$ 50,202,159</b>

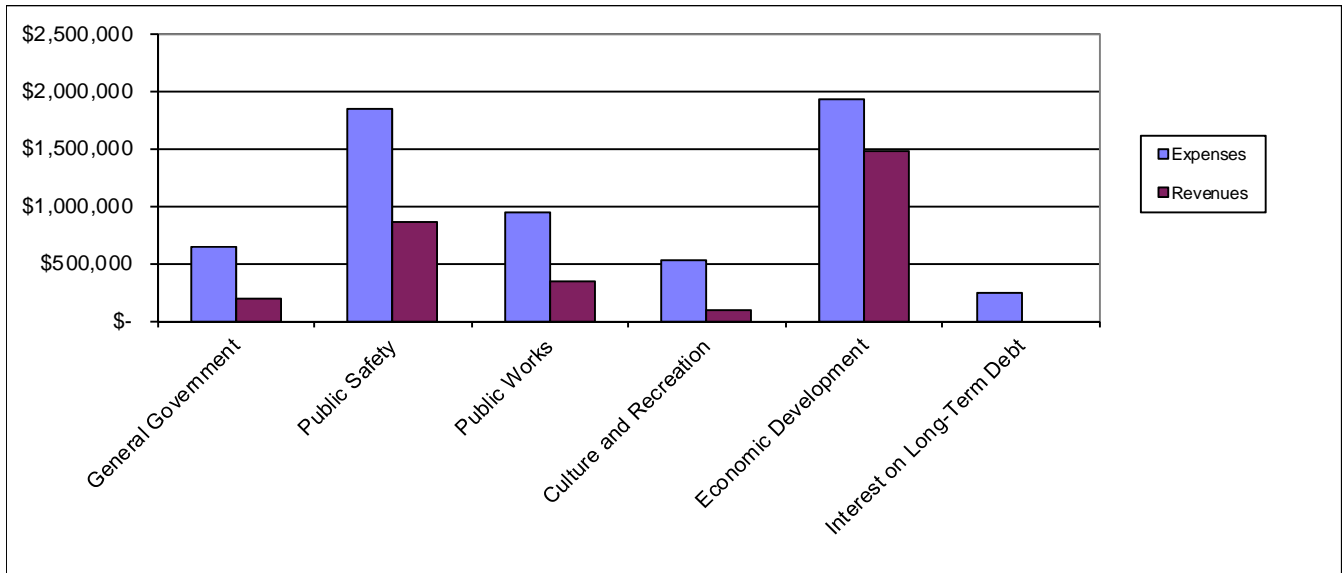
**CITY OF WINDOM, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2016**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

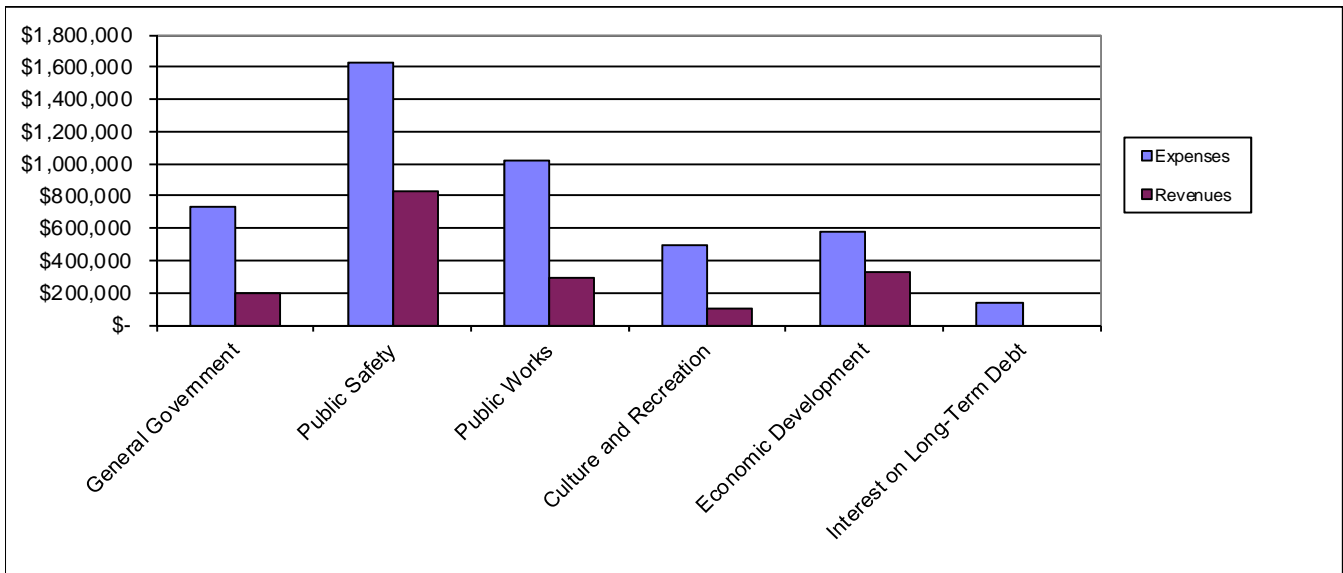
**City of Windom's Changes in Net Position (Continued)**

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.

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



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



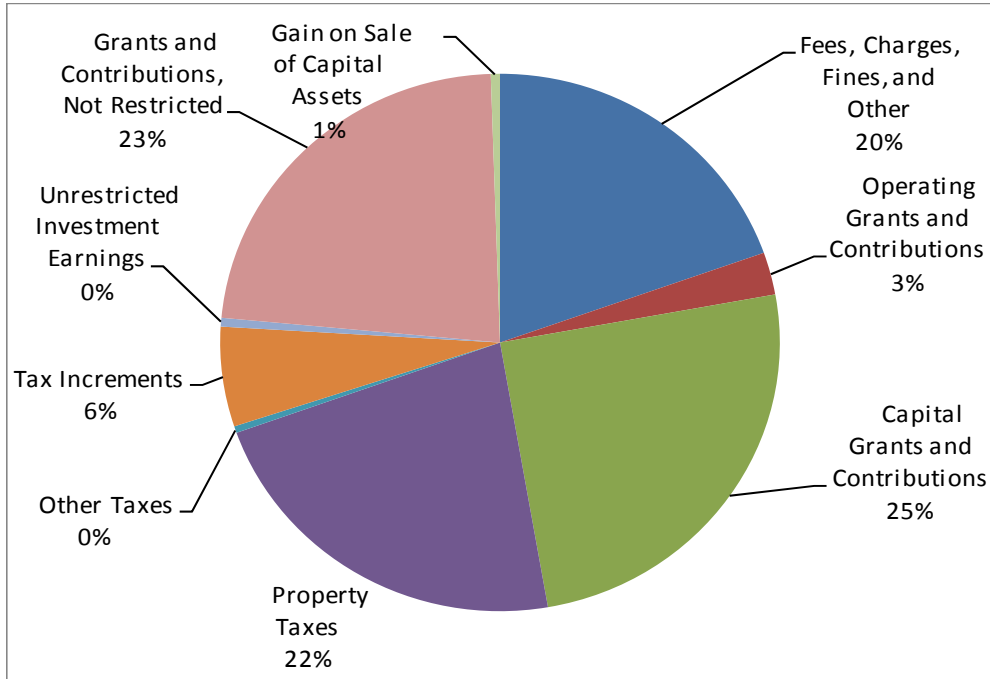


**CITY OF WINDOM, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2016**

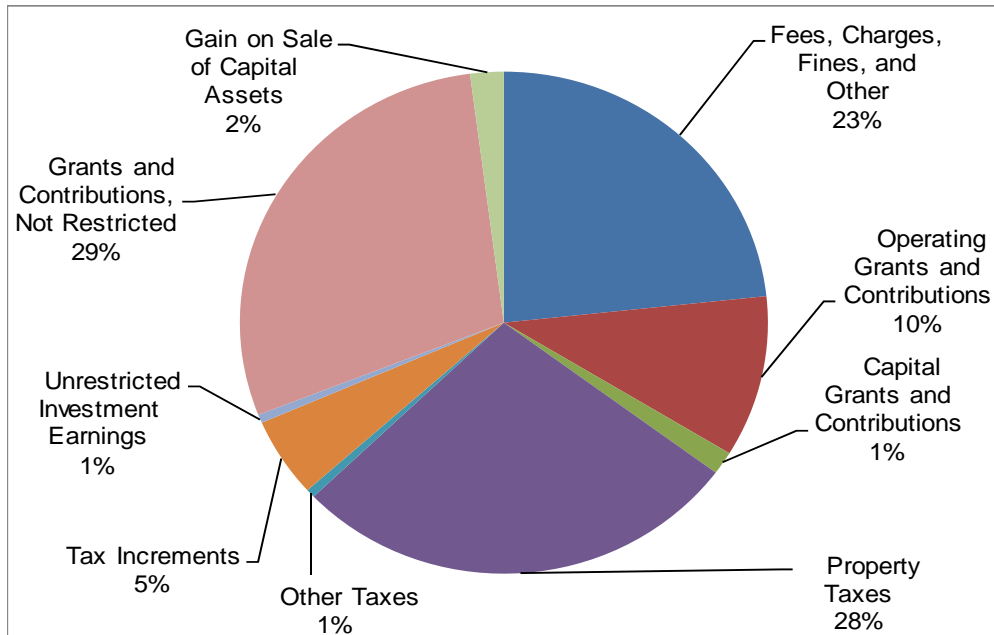
**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

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

**2016  
Revenues by Source - Governmental Activities**



**2015  
Revenues by Source - Governmental Activities**



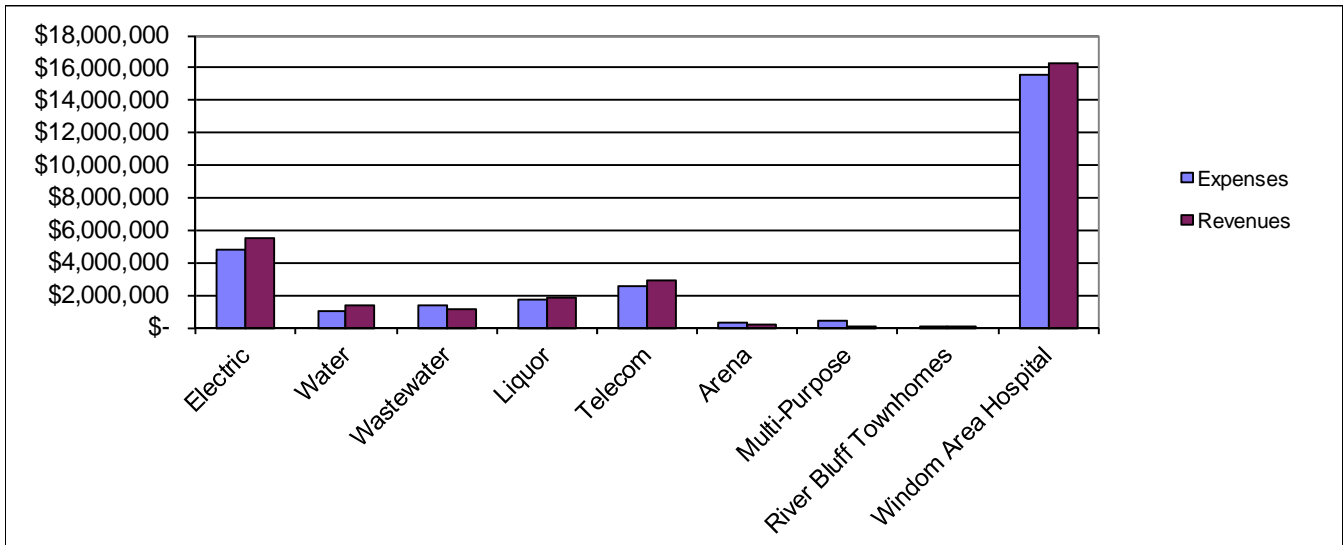
**CITY OF WINDOM, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2016**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

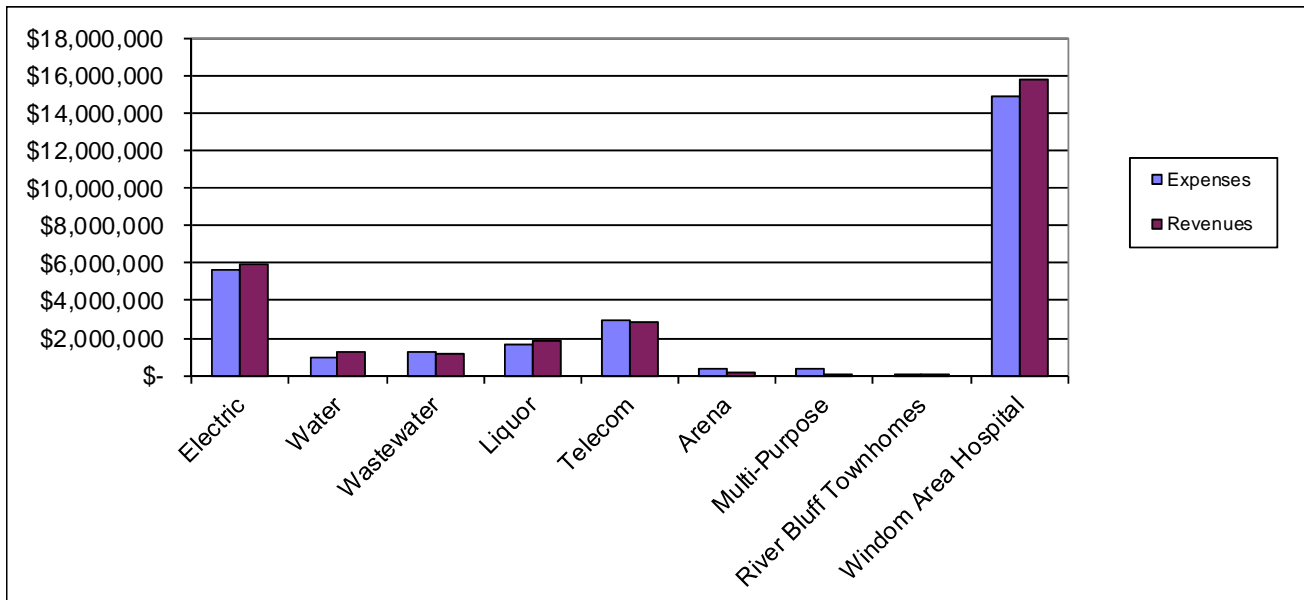
**City of Windom's Changes in Net Position (Continued)**

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.

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



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

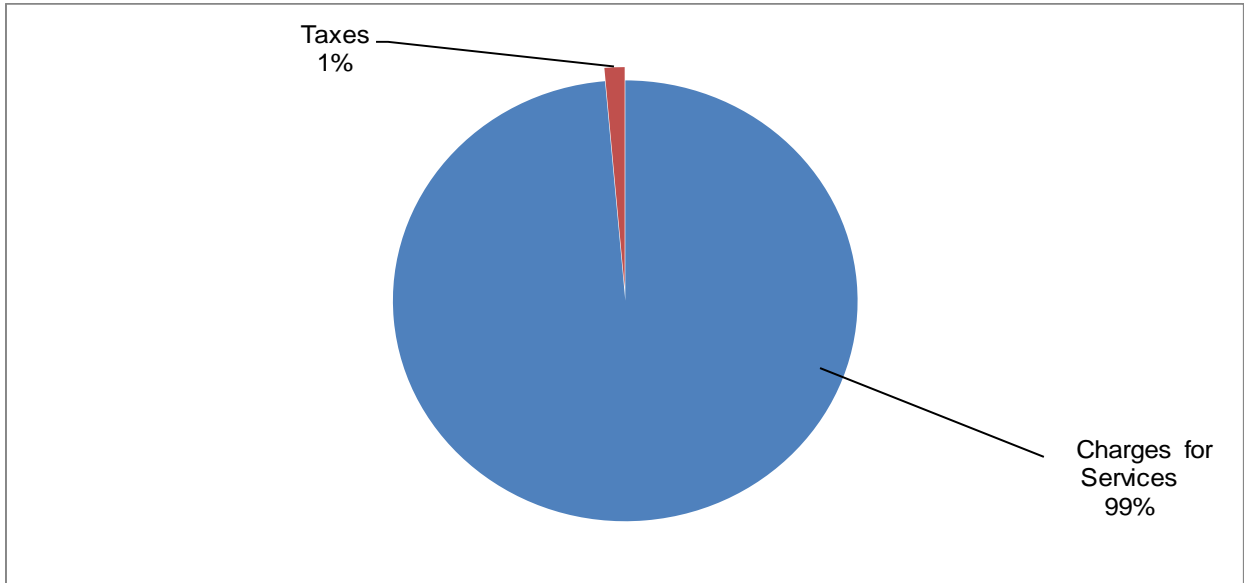


**CITY OF WINDOM, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2016**

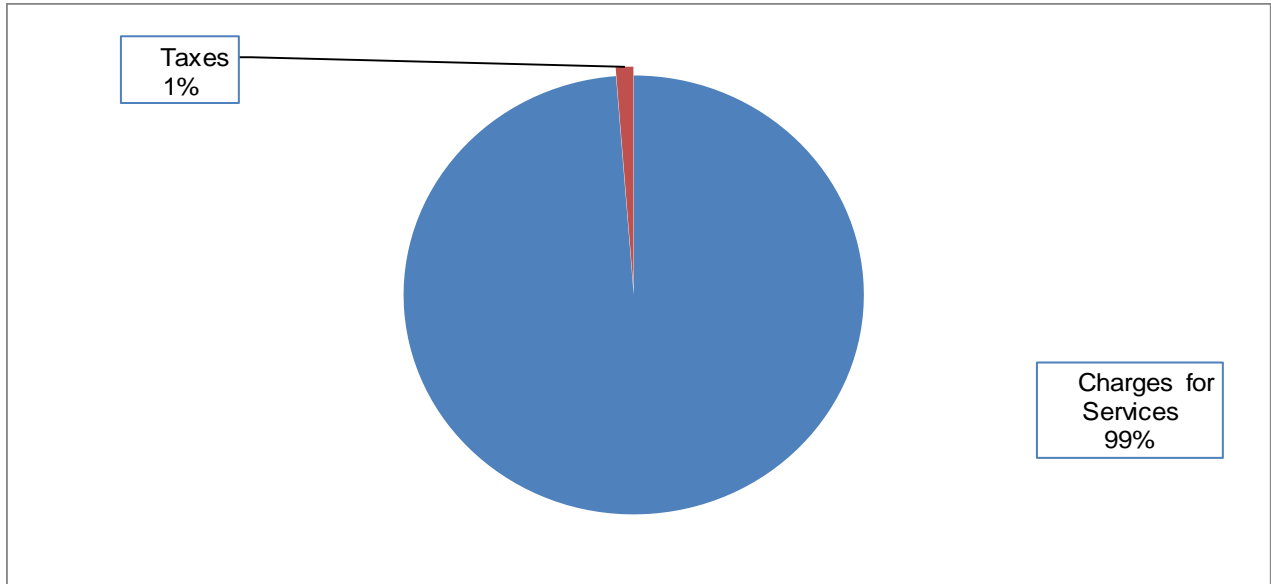
**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

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

**2016  
Revenues by Source – Business-Type Activities**



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



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

**CITY OF WINDOM, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2016**

**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 \$7,698,905 an increase of \$1,246,738 in comparison with 2015. The City reported an unassigned fund balance in the amount of \$1,595,554. Fund balance of \$134,988 is nonspendable and \$3,269,723 restricted to indicate that it is not available for new spending. At December 31, 2016 fund balances were as follows:

	Balance	Increase (Decrease) From 2015
General Fund	\$ 2,727,324	\$ 129,306
Capital Project Fund - Emergency Services Facility	2,217,076	2,217,076
Economic Development Fund	1,476,445	103,676
Other Governmental Funds	1,278,060	(1,203,320)
Total	\$ 7,698,905	\$ 1,246,738

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 \$2,267,288.

During the current fiscal year, the City of Windom's general fund balance increased by \$129,306. The increase was due to funding for capital expenditures that will be incurred in 2018 or future years.

The increase in the economic development fund balance of \$103,676 was due to tax increments received as a result of development of North Windom Industrial Park. The City plans to use these funds for future expansion of North Windom Industrial Park.

The decrease in fund balance in the other governmental funds was due to a one time contribution of \$1,000,000 by the Ambulance fund to the Emergency Services Facility project fund.

During 2016, the City approved a capital project for an Emergency Services Facility. Construction was started during 2016 and will be completed during 2017. At the close of 2016, the fund for this capital project had a balance of \$2,217,076 which will be used to pay for construction costs to complete the facility during 2017.

**CITY OF WINDOM, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2016**

**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 2016 was \$10,171,797, of which \$6,127,900 is unrestricted. Net position increased \$586,280 during the current year primarily due to increased profit on KWH sold generated by a 2016 rate increase and favorable power cost purchases. Operating expenses for 2016 were also down, further contributing to the increase in net position.

The water fund has total net position of \$4,189,670, of which \$44,388 is unrestricted. The increase in net position of \$418,187 was related to a 2016 rate increase to meet future debt service payments and increased commercial water revenue from a large industrial customer.

The wastewater fund has total net position of \$4,203,856, of which (\$99,331) is unrestricted. The net position of the wastewater fund decreased by (\$232,772) during 2016. This decrease is mostly related to reduction in revenue as a result of closing of the PM Windom facility. Also contributing to the decrease was increased operating expenses related to startup of new industrial users.

The liquor fund has total net position of \$632,063. It has unrestricted net position of \$459,851. The net position of the liquor fund decreased by (\$450,511) during 2016. This is due to a one-time transfer of \$500,000 to fund Emergency Services Facility.

The telecom fund reported a deficit net position of (\$8,177,454), a decrease of the deficit from 2015 by \$358,385. The telecom fund increased their service rates in 2016 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 \$17,292,010. The net position for the hospital fund increased \$723,139 during 2016.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Revenues were over budget due mainly to higher than expected building permit and plan review fees related to development of Windom Wash, LLC and Prime Pork, LLC facilities during 2017. 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, 2016**

**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, 2016, amounts to \$56,358,313 (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 \$8,788,269 when compared to 2015. 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	
	2016	2015	2016	2015	2016	2015
Land	\$ 232,961	\$ 232,961	\$ 519,018	\$ 519,018	\$ 751,979	\$ 751,979
Buildings and Building Improvements	6,820,754	7,060,062	27,009,287	21,452,624	33,830,041	28,512,686
Infrastructure	6,891,985	7,282,117	-	-	6,891,985	7,282,117
Machinery and Equipment	1,705,139	1,575,597	10,340,083	5,075,630	12,045,222	6,651,227
Office Equipment and Furniture	114,372	61,766	153,113	159,815	267,485	221,581
Construction in Progress	1,879,031	-	692,570	4,150,454	2,571,601	4,150,454
Total	\$ 17,644,242	\$ 16,212,503	\$ 38,714,071	\$ 31,357,541	\$ 56,358,313	\$ 47,570,044

**Long-Term Debt**

At the end of the current fiscal year, the City of Windom had total long-term debt outstanding of \$28,653,572. The City of Windom's total long-term debt increased by \$137,037 or .48% 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	
	2016	2015	2016	2015	2016	2015
G.O. Bonds	\$ 5,005,000	\$ 5,625,000	\$ 2,120,000	\$ 2,320,000	\$ 7,125,000	\$ 7,945,000
Revenue Bonds	-	-	18,216,000	19,176,782	18,216,000	19,176,782
Capital Lease Obligation	2,034,000	-	-	-	2,034,000	-
Notes Payable	310,431	388,079	968,141	1,006,674	1,278,572	1,394,753
Total	\$ 7,349,431	\$ 6,013,079	\$ 21,304,141	\$ 22,503,456	\$ 28,653,572	\$ 28,516,535

**CITY OF WINDOM, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2016**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

- The Street Superintendent position was combined with the Electric Utility Manger positon due to a retirement. This arrangement will be evaluated for six months, which could be a savings.
- 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 is estimated to be \$65 million and will bring about 300 jobs to the community. Planned opening is in early 2017. When Prime Pork comes on-line it will utilize City wastewater and electric which will greatly contribute to the revenues for these operations.
- The Telecom Department has researched the viability and cost-efficiency of methods to deliver cable television programming. Telecom will also be drafting a plan to replace the core system (as the current hardware is 10+ years old), but this will be a 2017 project.
- Interest rates have remained low and the City's investment earnings have been stable over the last few years.
- The Toro Company is hiring new employees for their Windom operations, which may add 40 new long-term positions at the plant.
- New Vision Coop completed an expansion of their storage facilities.
- Duffy's, a new sit-down restaurant, opened in Windom.
- The Prairie Meadow subdivision has 10 lots that were available in spring 2016. No lots have sold to date, so the EDA and School District are looking at price reductions.

**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 9<sup>th</sup> Street, P.O. Box 38, Windom, Minnesota, 56101.

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## **BASIC FINANCIAL STATEMENTS**

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**CITY OF WINDOM, MINNESOTA  
STATEMENT OF NET POSITION  
DECEMBER 31, 2016**

	2016			April 30, 2016
	Governmental Activities	Business-Type Activities	Total	Windom Area Hospital Foundation
<b>ASSETS</b>				
Cash and Investments	\$ 7,021,543	\$ 8,748,961	\$ 15,770,504	\$ 226,385
Short-Term Investments		2,900,586	2,900,586	
Cash and Investments with Fiscal Agent	-	1,465,525	1,465,525	-
Restricted Cash and Investments	-	4,269,030	4,269,030	124,613
Taxes Receivable	42,504	-	42,504	-
Special Assessments Receivable	952,698	272,473	1,225,171	-
Accounts Receivable	1,424,113	3,554,919	4,979,032	-
Due from Other Governments	68,470	-	68,470	-
Accrued Interest Receivable	-	19,122	19,122	-
Internal Balances	(152,155)	152,155	-	-
Inventory	69,006	1,025,860	1,094,866	-
Prepaid Items	65,982	51,834	117,816	-
Loans Receivable	64,124	-	64,124	-
Land Held for Resale	965,060	-	965,060	-
Net Pension Asset	360,080	-	360,080	-
Capital Assets:				
Land and Construction in Progress	2,111,992	1,211,588	3,323,580	-
Other Capital Assets, Net of Depreciation	15,532,250	37,502,483	53,034,733	-
Total Assets	<u>28,525,667</u>	<u>61,174,536</u>	<u>89,700,203</u>	<u>350,998</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension Related	2,042,519	1,704,163	3,746,682	-
<b>LIABILITIES</b>				
Accounts and Contracts Payable	484,675	1,103,723	1,588,398	-
Other Accrued Liabilities	1,334,501	1,317,325	2,651,826	-
Accrued Interest Payable	53,721	81,183	134,904	-
Unearned Revenue	202	414,378	414,580	-
Long-Term Liabilities:				
Due within One Year	600,682	1,191,899	1,792,581	-
Due in More than One Year	7,029,836	20,546,958	27,576,794	-
Net Pension Liability	3,130,359	7,320,629	10,450,988	-
Total Liabilities	<u>12,633,976</u>	<u>31,976,095</u>	<u>44,610,071</u>	<u>-</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pension Related	404,069	1,431,101	1,835,170	-
<b>NET POSITION</b>				
Net Investment in Capital Assets	12,471,031	17,391,263	29,862,294	-
Restricted for:				
Specific Donor Restriction	82,984	-	82,984	124,613
Debt Service	672,375	400,678	1,073,053	-
Construction	-	1,064,847	1,064,847	-
Unrestricted	<u>4,303,751</u>	<u>10,614,715</u>	<u>14,918,466</u>	<u>226,385</u>
Total Net Position	<u>\$ 17,530,141</u>	<u>\$ 29,471,503</u>	<u>\$ 47,001,644</u>	<u>\$ 350,998</u>

See accompanying Notes to Financial Statements.

**CITY OF WINDOM, MINNESOTA  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2016**

Functions/Programs	2016			
	Expenses	Program Revenues Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants
Governmental Activities:				
General Government	\$ 641,502	\$ 173,239	\$ 2,140	\$ 24,621
Public Safety	1,836,398	735,661	120,495	-
Public Works	948,418	181,579	17,567	143,202
Culture and Recreation	521,364	81,001	17,372	-
Economic Development	1,926,044	60,540	2,600	1,412,713
Interest on Long-Term Debt	243,574	-	-	-
Total Governmental Activities	<u>6,117,300</u>	<u>1,232,020</u>	<u>160,174</u>	<u>1,580,536</u>
Business-Type Activities:				
Electric	4,827,265	5,486,270	-	-
Water	986,265	1,307,104	-	35,423
Wastewater	1,365,530	1,118,498	-	38,691
Liquor	1,712,332	1,835,544	-	-
Telecom	2,596,537	2,948,491	-	843
Arena	336,203	133,462	-	-
Multi-Purpose Center	363,743	107,985	-	-
River Bluff Townhomes	76,234	94,235	-	-
Windom Area Hospital	15,591,287	16,257,032	-	16,000
Total Business-Type Activities	<u>27,855,396</u>	<u>29,288,621</u>	<u>-</u>	<u>90,957</u>
 Total Primary Government	 <u>\$ 33,972,696</u>	 <u>\$ 30,520,641</u>	 <u>\$ 160,174</u>	 <u>\$ 1,671,493</u>
 Component Unit:				
Windom Area Hospital Foundation	<u>\$ 805</u>	<u>\$ 30,076</u>	<u>\$ 57,397</u>	<u>\$ -</u>

**GENERAL REVENUES**

Taxes:

  Property Taxes, Levied for General Purpose  
  Tax Increments  
  Other Taxes

Grants and Contributions not Restricted to Specific Programs  
Unrestricted Interest Income  
Unrestricted Investment Earnings (Loss)  
Loss on Sale of Capital Assets  
Gain on Sale of Land Held for Resale  
Miscellaneous  
Transfers

Total General Revenues and Transfers

**CHANGE IN NET POSITION**

Net Position - Beginning of Year

**NET POSITION - END OF YEAR**

See accompanying Notes to Financial Statements.

2016			April 30, 2016
Net (Expense) Revenue and Changes in Net Position			Windom Area
Governmental Activities	Business-Type Activities	Total	Hospital Foundation
\$ (441,502)	\$ -	\$ (441,502)	\$ -
(980,242)	-	(980,242)	-
(606,070)	-	(606,070)	-
(422,991)	-	(422,991)	-
(450,191)	-	(450,191)	-
(243,574)	-	(243,574)	-
<u>(3,144,570)</u>	<u>-</u>	<u>(3,144,570)</u>	<u>-</u>
-	659,005	659,005	-
-	356,262	356,262	-
-	(208,341)	(208,341)	-
-	123,212	123,212	-
-	352,797	352,797	-
-	(202,741)	(202,741)	-
-	(255,758)	(255,758)	-
-	18,001	18,001	-
-	681,745	681,745	-
<u>-</u>	<u>1,524,182</u>	<u>1,524,182</u>	<u>-</u>
(3,144,570)	1,524,182	(1,620,388)	-
-	-	-	86,668
1,401,534	412,655	1,814,189	-
377,545	-	377,545	-
25,258	-	25,258	-
1,447,271	104,939	1,552,210	-
37,758	118,392	156,150	-
(5,089)	(2,140)	(7,229)	-
-	46,451	46,451	-
33,213	-	33,213	-
-	-	-	-
795,086	(795,086)	-	(42,022)
<u>4,112,576</u>	<u>(114,789)</u>	<u>3,997,787</u>	<u>(42,022)</u>
968,006	1,409,393	2,377,399	44,646
16,562,135	28,062,110	44,624,245	306,352
<u>\$ 17,530,141</u>	<u>\$ 29,471,503</u>	<u>\$ 47,001,644</u>	<u>\$ 350,998</u>

**CITY OF WINDOM, MINNESOTA  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
DECEMBER 31, 2016**

	General Fund	Economic Development Fund	Capital Project Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and Investments	\$ 2,244,792	\$ 549,979	\$ 2,508,935	\$ 1,638,178	\$ 6,941,884
Property Taxes Receivable	42,504	-	-	-	42,504
Special Assessments Receivable	-	43,663	-	909,035	952,698
Accounts Receivable	118,321	1,098,044	-	276,218	1,492,583
Due from Other Funds	635,730	-	-	-	635,730
Inventory	69,006	-	-	-	69,006
Prepaid Expenses	-	10,000	-	55,982	65,982
Loans Receivable, Net of Allowance	-	64,124	-	-	64,124
Land Held for Resale	-	965,060	-	-	965,060
	<u>\$ 3,110,353</u>	<u>\$ 2,730,870</u>	<u>\$ 2,508,935</u>	<u>\$ 2,879,413</u>	<u>\$ 11,229,571</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES (DEFICITS)</b>					
<b>LIABILITIES</b>					
Accounts and Contracts Payable	\$ 120,476	\$ 9,272	\$ 291,859	\$ 12,571	\$ 434,178
Other Accrued Liabilities	81,942	1,179,380	-	44,017	1,305,339
Due to Other Funds	-	-	-	635,730	635,730
Interfund Advance Payable	152,000	155	-	-	152,155
Unearned Revenue	202	-	-	-	202
Total Liabilities	<u>354,620</u>	<u>1,188,807</u>	<u>291,859</u>	<u>692,318</u>	<u>2,527,604</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Revenue	28,409	65,618	-	909,035	1,003,062
<b>FUND BALANCES (DEFICITS)</b>					
Nonspendable	69,006	10,000	-	55,982	134,988
Restricted	82,984	437,261	2,217,076	532,402	3,269,723
Assigned	308,046	1,029,184	-	1,361,410	2,698,640
Unassigned	2,267,288	-	-	(671,734)	1,595,554
Total Fund Balances (Deficits)	<u>2,727,324</u>	<u>1,476,445</u>	<u>2,217,076</u>	<u>1,278,060</u>	<u>7,698,905</u>
Total Liabilities and Fund Balances	<u>\$ 3,110,353</u>	<u>\$ 2,730,870</u>	<u>\$ 2,508,935</u>	<u>\$ 2,879,413</u>	<u>\$ 11,229,571</u>

See accompanying Notes to Financial Statements.

**CITY OF WINDOM, MINNESOTA  
GOVERNMENTAL FUNDS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION -  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2016**

**Total Fund Balance for Governmental Funds** \$ 7,698,905

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

Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:

Land	232,961
Construction in Progress	1,879,031
Buildings and Building Improvements	9,130,909
Machinery and Equipment	8,167,148
Infrastructure	15,758,727
Office Equipment and Furniture	169,594
Less: Accumulated Depreciation	(17,694,128)

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. 1,003,062

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. (53,721)

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	(5,005,000)
Unamortized Discounts and Premium	(64,785)
Note Payable	(310,431)
Capital Lease Obligation	(2,034,000)
Deferred Outflows of Resources - Pensions	2,042,519
Deferred Inflows of Resources - Pensions	(404,069)
Net Pension Liability	(3,130,359)
Compensated Absences Payable	(216,302)

**Total Net Position of Governmental Activities** \$ 17,530,141

**CITY OF WINDOM, MINNESOTA  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
YEAR ENDED DECEMBER 31, 2016**

	General Fund	Economic Development Fund	Capital Project Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
General Property Taxes	\$ 846,298	\$ 175,735	\$ -	\$ 362,178	\$ 1,384,211
Tax Increments	-	377,545	-	-	377,545
Other Taxes	25,258	-	-	-	25,258
Licenses and Permits	143,137	-	-	-	143,137
Intergovernmental	1,691,656	7,315	-	158,627	1,857,598
Special Assessments	2,519	6,762	-	-	9,281
Charges for Services	336,478	160	-	565,895	902,533
Fines and Forfeits	29,681	-	-	-	29,681
Interest Income	20,226	2,768	(875)	15,639	37,758
Investment Earnings (Loss)	(2,371)	(141)	-	(2,577)	(5,089)
Refunds and Reimbursements	62,793	-	-	2,575	65,368
Grants and Contributions	23,061	1,404,396	600	100	1,428,157
Miscellaneous	10,921	60,380	-	-	71,301
Total Revenues	<u>3,189,657</u>	<u>2,034,920</u>	<u>(275)</u>	<u>1,102,437</u>	<u>6,326,739</u>
<b>EXPENDITURES</b>					
Current:					
General Government	404,616	-	-	-	404,616
Public Safety	1,150,412	-	10,000	309,855	1,470,267
Public Works	673,460	-	-	6,622	680,082
Sanitation	20,472	-	-	-	20,472
Culture and Recreation	489,342	-	-	-	489,342
Economic Development	-	1,828,588	-	-	1,828,588
Capital Outlay:					
General Government	53,154	-	-	-	53,154
Public Safety	27,107	-	1,538,094	-	1,565,201
Public Works	339,284	-	-	118,926	458,210
Culture and Recreation	93,130	-	-	-	93,130
Economic Development	-	31,629	-	-	31,629
Debt Service:					
Principal	53,010	44,638	-	600,000	697,648
Interest and Fiscal Charges	1,579	18,230	23,617	126,535	169,961
Total Expenditures	<u>3,305,566</u>	<u>1,923,085</u>	<u>1,571,711</u>	<u>1,161,938</u>	<u>7,962,300</u>
Revenue Over (Under) Expenditures	(115,909)	111,835	(1,571,986)	(59,501)	(1,635,561)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfer In	626,316	-	1,905,000	67,763	2,599,079
Transfer Out	(410,000)	(32,473)	(149,938)	(1,211,582)	(1,803,993)
Capital Lease Proceeds	-	-	2,034,000	-	2,034,000
Sale of Land Held for Resale	20,000	24,314	-	-	44,314
Proceeds from Sale of Fixed Assets	8,899	-	-	-	8,899
Total Other Financing Sources (Uses)	<u>245,215</u>	<u>(8,159)</u>	<u>3,789,062</u>	<u>(1,143,819)</u>	<u>2,882,299</u>
<b>NET CHANGE IN FUND BALANCE</b>	129,306	103,676	2,217,076	(1,203,320)	1,246,738
Fund Balance - Beginning of Year	<u>2,598,018</u>	<u>1,372,769</u>	<u>-</u>	<u>2,481,380</u>	<u>6,452,167</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 2,727,324</u>	<u>\$ 1,476,445</u>	<u>\$ 2,217,076</u>	<u>\$ 1,278,060</u>	<u>\$ 7,698,905</u>

See accompanying Notes to Financial Statements.



**CITY OF WINDOM, MINNESOTA  
RECONCILIATION OF GOVERNMENTAL STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE  
TO STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2016**

**Net Change in Fund Balances-Total Governmental Funds** \$ 1,246,738

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	2,334,944
Depreciation Expense	(903,205)

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. (327,676)

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:

Capital Lease Proceeds	(2,034,000)
Repayment of Bond Principal and Note Payable	697,648
Change in Accrued Interest Expense for General Obligation Bonds	4,970
Amortization of Bond Discount/Premium	5,085

Change in delinquent and deferred property taxes, special assessments receivable, and other receivables will be collected subsequent to year-end, but are not available soon enough to pay for the current-period's expenditures and, therefore, are deferred in the governmental funds. (89,732)

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). 33,234

<b>Change in Net Position of Governmental Activities</b>	<b>\$ 968,006</b>
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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, 2016**

	Original Budget	Final Budget	Actual	Variance from Final Budget
<b>REVENUES</b>				
General Property Taxes	\$ 829,164	\$ 829,164	\$ 846,298	\$ 17,134
Other Taxes	22,000	22,000	25,258	3,258
Licenses and Permits	54,420	54,420	143,137	88,717
Intergovernmental	1,766,240	1,766,240	1,691,656	(74,584)
Special Assessments	-	-	2,519	2,519
Charges for Services	269,400	269,400	336,478	67,078
Fines and Forfeits	26,500	26,500	29,681	3,181
Investment Earnings	400	400	17,855	17,455
Refunds/Reimbursements	40,000	40,000	62,793	22,793
Grants and Contributions	2,000	2,000	23,061	21,061
Miscellaneous	6,000	6,000	10,921	4,921
Total Revenues	<u>3,016,124</u>	<u>3,016,124</u>	<u>3,189,657</u>	<u>173,533</u>
<b>EXPENDITURES</b>				
General Government:				
Mayor and Council:	98,570	98,570	106,686	(8,116)
Financial Administration	174,335	174,335	167,908	6,427
Elections	6,800	6,800	6,334	466
Building and Zoning	139,165	139,165	148,435	(9,270)
City Hall	31,830	31,830	28,272	3,558
Total General Government	<u>450,700</u>	<u>450,700</u>	<u>457,635</u>	<u>(6,935)</u>
Public Safety:				
Police Protection:	997,250	997,250	995,594	1,656
Fire Protection	149,815	149,815	147,758	2,057
Civil Defense	6,425	6,425	4,758	1,667
Animal Control	2,700	2,700	2,302	398
Total Public Safety	<u>1,156,190</u>	<u>1,156,190</u>	<u>1,150,412</u>	<u>5,778</u>
Public Works:				
Street Department	586,674	586,674	543,680	42,994
Sanitation	19,000	19,000	20,472	(1,472)
Airport	93,000	93,000	131,357	(38,357)
Total Public Works	<u>698,674</u>	<u>698,674</u>	<u>695,509</u>	<u>3,165</u>
Culture and Recreation:				
Parks	238,190	238,190	222,924	15,266
Library	194,150	194,150	166,766	27,384
Pool	111,225	111,225	99,645	11,580
Total Culture and Recreation	<u>543,565</u>	<u>543,565</u>	<u>489,335</u>	<u>54,230</u>
Capital Outlay	383,145	603,145	512,675	90,470
Total Expenditures	<u>3,232,274</u>	<u>3,452,274</u>	<u>3,305,566</u>	<u>146,708</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(216,150)	(436,150)	(115,909)	320,241
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from Sale of Capital Assets	-	-	8,899	8,899
Transfer In	245,000	245,000	606,520	361,520
Transfer Out	(29,000)	(29,000)	(410,000)	(381,000)
Total Other Financing Sources (Uses)	<u>216,000</u>	<u>216,000</u>	<u>205,419</u>	<u>(10,581)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (150)</u>	<u>\$ (220,150)</u>	89,510	<u>\$ 309,660</u>
Fund Balance - Beginning of Year			<u>2,830,678</u>	
<b>FUND BALANCE - END OF YEAR</b>			<u>\$ 2,920,188</u>	

See accompanying Notes to Financial Statements.

**CITY OF WINDOM, MINNESOTA  
 PROPRIETARY FUNDS  
 STATEMENT OF NET POSITION  
 YEAR ENDED DECEMBER 31, 2016**

<b>ASSETS</b>	<u>Electric</u>	<u>Water</u>	<u>Liquor</u>
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$ 4,392,109	\$ 11,000	\$ 495,593
Short-Term Investments	-	-	-
Cash and Investments with Fiscal Agent	-	-	-
Restricted Cash and Investments	-	-	-
Accounts Receivable, Net of Allowance	531,128	133,293	20,188
Accrued Interest Receivable	-	-	-
Special Assessments Receivable:	-	177,225	-
Due from Other Funds	1,461,399	-	-
Interfund Advance	152,155	-	-
Inventory	513,765	29,497	222,812
Prepaid Items	-	-	-
Total Current Assets	<u>7,050,556</u>	<u>351,015</u>	<u>738,593</u>
<b>LONG-TERM ASSETS</b>			
Capital Assets:			
Land, Buildings, Infrastructure, and Improvements	8,796,055	7,670,880	387,359
Equipment	2,886,902	4,361,662	95,125
Construction in Progress	32,585	-	-
Total Capital Assets	<u>11,715,542</u>	<u>12,032,542</u>	<u>482,484</u>
Less: Allowance for Depreciation	<u>(7,671,645)</u>	<u>(5,890,382)</u>	<u>(310,272)</u>
Total Net Capital Assets	<u>4,043,897</u>	<u>6,142,160</u>	<u>172,212</u>
Total Long-Term Assets	<u>4,043,897</u>	<u>6,142,160</u>	<u>172,212</u>
Total Assets	11,094,453	6,493,175	910,805
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension Related	235,410	93,518	89,365
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts and Contracts Payable	24,617	21,448	78,181
Accrued Expenses	288,281	52,649	26,123
Due to Other Funds	-	-	-
Accrued Interest	-	17,152	-
Unearned Revenue	84,560	-	-
Bonds Payable - Current Portion	-	238,000	-
Total Current Liabilities	<u>397,458</u>	<u>329,249</u>	<u>104,304</u>
<b>LONG-TERM LIABILITIES</b>			
Compensated Absences - Long-Term	108,229	49,732	16,152
Net Pension Liability	567,518	225,448	215,436
Bonds Payable - Long-Term	-	1,758,882	-
Total Long-Term Liabilities	<u>675,747</u>	<u>2,034,062</u>	<u>231,588</u>
Total Liabilities	1,073,205	2,363,311	335,892
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension Related	84,861	33,712	32,215
<b>NET POSITION</b>			
Net Investment in Capital Assets	4,043,897	4,145,282	172,212
Restricted for Construction	-	-	-
Restricted for Debt Service	-	-	-
Unrestricted	<u>6,127,900</u>	<u>44,388</u>	<u>459,851</u>
Total Net Position	<u>\$ 10,171,797</u>	<u>\$ 4,189,670</u>	<u>\$ 632,063</u>

<u>Wastewater</u>	<u>Telecom</u>	<u>Windom Area Hospital April 30, 2016</u>	<u>Other Proprietary Funds</u>	<u>Total</u>
\$ 133,952	\$ -	\$ 3,314,106	\$ 402,201	\$ 8,748,961
-	-	2,900,586	-	2,900,586
-	-	1,465,525	-	1,465,525
-	406,521	3,862,509	-	4,269,030
107,317	499,325	2,237,756	25,912	3,554,919
-	-	19,122	-	19,122
95,248	-	-	-	272,473
-	-	-	-	1,461,399
-	-	-	-	152,155
-	66,817	192,969	-	1,025,860
-	-	51,834	-	51,834
<u>336,517</u>	<u>972,663</u>	<u>14,044,407</u>	<u>428,113</u>	<u>23,921,864</u>
11,174,287	4,994,796	15,300,051	4,011,472	52,334,900
1,547,958	5,723,838	10,557,854	661,829	25,835,168
655,438	-	-	-	688,023
<u>13,377,683</u>	<u>10,718,634</u>	<u>25,857,905</u>	<u>4,673,301</u>	<u>78,858,091</u>
<u>(5,511,498)</u>	<u>(7,989,695)</u>	<u>(9,961,396)</u>	<u>(2,809,132)</u>	<u>(40,144,020)</u>
<u>7,866,185</u>	<u>2,728,939</u>	<u>15,896,509</u>	<u>1,864,169</u>	<u>38,714,071</u>
<u>7,866,185</u>	<u>2,728,939</u>	<u>15,896,509</u>	<u>1,864,169</u>	<u>38,714,071</u>
8,202,702	3,701,602	29,940,916	2,292,282	62,635,935
144,699	179,690	840,905	120,576	1,704,163
58,094	100,432	814,346	6,605	1,103,723
10,887	62,233	863,684	13,468	1,317,325
-	1,461,399	-	-	1,461,399
37,528	26,118	-	385	81,183
-	205,993	117,000	6,825	414,378
245,000	475,000	215,000	18,899	1,191,899
<u>351,509</u>	<u>2,331,175</u>	<u>2,010,030</u>	<u>46,182</u>	<u>5,569,907</u>
73,042	91,830	-	77,060	416,045
348,833	433,188	5,239,526	290,680	7,320,629
3,317,999	9,137,777	5,120,347	795,908	20,130,913
<u>3,739,874</u>	<u>9,662,795</u>	<u>10,359,873</u>	<u>1,163,648</u>	<u>27,867,587</u>
4,091,383	11,993,970	12,369,903	1,209,830	33,437,494
52,162	64,776	1,119,908	43,467	1,431,101
4,303,187	(6,883,838)	10,561,162	1,049,361	17,391,263
-	-	1,064,847	-	1,064,847
-	-	400,678	-	400,678
<u>(99,331)</u>	<u>(1,293,616)</u>	<u>5,265,323</u>	<u>110,200</u>	<u>10,614,715</u>
<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>

**CITY OF WINDOM, MINNESOTA  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
 YEAR ENDED DECEMBER 31, 2016**

	<u>Electric</u>	<u>Water</u>	<u>Liquor</u>
<b>OPERATING REVENUES</b>			
Sales	\$ -	\$ -	\$ 1,835,544
Costs of Goods Sold	-	-	(1,333,627)
Charges for Services	5,486,270	1,306,710	-
Charges for Materials and Labor	-	394	-
Facility Use/Other Revenue	-	-	-
Total Gross Profit and Operating Revenues	<u>5,486,270</u>	<u>1,307,104</u>	<u>501,917</u>
<b>OPERATING EXPENSES</b>			
Cost of Power	3,369,849	-	-
Personal Services	558,459	245,506	247,866
Other Professional Services	-	-	-
Administrative and General	393,183	312,170	110,207
Depreciation and Amortization	505,774	369,967	20,632
Other Operating Expense	-	13,146	-
Total Operating Expenses	<u>4,827,265</u>	<u>940,789</u>	<u>378,705</u>
<b>OPERATING INCOME (LOSS)</b>	659,005	366,315	123,212
<b>OTHER INCOME (EXPENSES)</b>			
Interest Income	68,227	2,297	7,644
Investment Earnings (Loss)	(1,906)	-	(155)
Interest Expense	-	(45,476)	-
Gain on Sale of Fixed Assets	37,671	-	-
Taxes and Special Assessments	-	35,423	-
Contributions and Reimbursements	-	-	-
Total Other Income (Expense)	<u>103,992</u>	<u>(7,756)</u>	<u>7,489</u>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS</b>	762,997	358,559	130,701
<b>CONTRIBUTIONS AND TRANSFERS</b>			
Transfers In	-	80,000	-
Transfers Out	(176,717)	(20,372)	(581,212)
Capital Contributions (Distributions)	-	-	-
Total Contributions and Transfers	<u>(176,717)</u>	<u>59,628</u>	<u>(581,212)</u>
<b>CHANGE IN NET POSITION</b>	586,280	418,187	(450,511)
Net Position - Beginning of Year	<u>9,585,517</u>	<u>3,771,483</u>	<u>1,082,574</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 10,171,797</u>	<u>\$ 4,189,670</u>	<u>\$ 632,063</u>

See accompanying Notes to Financial Statements.

Wastewater	Telecom	Windom Area Hospital April 30, 2016	Other Proprietary Funds	Total
\$ -	\$ -	\$ -	\$ -	\$ 1,835,544
-	-	-	-	(1,333,627)
1,118,498	2,948,491	16,071,034	-	26,931,003
-	-	-	-	394
-	-	185,998	335,682	521,680
<u>1,118,498</u>	<u>2,948,491</u>	<u>16,257,032</u>	<u>335,682</u>	<u>27,954,994</u>
-	-	-	-	3,369,849
448,391	461,554	4,537,522	362,574	6,861,872
-	-	4,677,645	-	4,677,645
465,282	1,443,024	5,274,067	306,372	8,304,305
361,470	345,098	1,021,638	98,516	2,723,095
-	20,557	80,415	-	114,118
<u>1,275,143</u>	<u>2,270,233</u>	<u>15,591,287</u>	<u>767,462</u>	<u>26,050,884</u>
(156,645)	678,258	665,745	(431,780)	1,904,110
5,065	588	32,614	1,957	118,392
-	-	-	(79)	(2,140)
(90,387)	(326,304)	-	(8,718)	(470,885)
-	-	8,780	-	46,451
38,691	843	-	412,655	487,612
72,289	-	-	32,650	104,939
<u>25,658</u>	<u>(324,873)</u>	<u>41,394</u>	<u>438,465</u>	<u>284,369</u>
(130,987)	353,385	707,139	6,685	2,188,479
-	5,000	-	-	85,000
(101,785)	-	-	-	(880,086)
-	-	16,000	-	16,000
<u>(101,785)</u>	<u>5,000</u>	<u>16,000</u>	<u>-</u>	<u>(779,086)</u>
(232,772)	358,385	723,139	6,685	1,409,393
4,436,628	(8,535,839)	16,568,871	1,152,876	28,062,110
<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>

**CITY OF WINDOM, MINNESOTA  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 YEAR ENDED DECEMBER 31, 2016**

	Electric	Water	Liquor
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash Received from Customers and Service Users	\$ 5,374,409	\$ 1,269,877	\$ 1,831,244
Cash Paid to Suppliers	(4,028,599)	(255,795)	(1,455,091)
Cash Paid to Employees	(274,626)	(241,157)	(225,364)
Net Cash Provided (Used) by Operating Activities	<u>1,071,184</u>	<u>772,925</u>	<u>150,789</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers (In) Out	(176,717)	59,628	(581,212)
Interfund Advance	(140,955)	-	-
Due to Other Funds	81,952	-	-
Property Tax Revenues	-	35,423	-
Miscellaneous Revenues	-	-	-
Payments from Escrow Account	-	-	-
Intergovernmental Revenues	-	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(235,720)</u>	<u>95,051</u>	<u>(581,212)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Capital Grants and Contributions	-	-	-
Acquisition and Construction of Capital Assets	(792,342)	(1,003,236)	(39,491)
Interest Paid on Revenue Bonds	-	(47,669)	-
Principal Payments on Bonds and Notes	-	(392,130)	-
Net Cash Used by Capital and Related Financing Activities	<u>(792,342)</u>	<u>(1,443,035)</u>	<u>(39,491)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of Investments	-	-	-
Sale of Investments	-	-	-
Expenses Paid on Behalf of Related Party	-	-	-
Transfer from (to) Related Party	-	-	-
Investment Income (Loss)	66,321	2,297	7,489
Proceeds from Sale of Capital Assets	37,671	-	-
Net Cash Provided by Investing Activities	<u>103,992</u>	<u>2,297</u>	<u>7,489</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	147,114	(572,762)	(462,425)
Cash and Cash Equivalents - Beginning of Year	<u>4,244,995</u>	<u>583,762</u>	<u>958,018</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 4,392,109</u>	<u>\$ 11,000</u>	<u>\$ 495,593</u>
<b>NONCASH TRANSACTIONS</b>			
Capital Asset Additions in Construction Payable	\$ -	\$ 890	\$ -
Amortized Bond Issue Costs, Premiums, and Discounts	-	(2,122)	-
Total Noncash Investing, Capital, and Financing Activities	<u>\$ -</u>	<u>\$ (1,232)</u>	<u>\$ -</u>

See accompanying Notes to Financial Statements.



Wastewater	Telecom	Windom Area Hospital April 30, 2016	Other Proprietary Funds	Total
\$ 1,171,828	\$ 2,936,239	\$ 16,165,964	\$ 314,919	\$ 29,064,480
(348,348)	(1,534,438)	(9,576,745)	(309,881)	(17,508,897)
(444,670)	(435,792)	(5,624,039)	(362,902)	(7,608,550)
<u>378,810</u>	<u>966,009</u>	<u>965,180</u>	<u>(357,864)</u>	<u>3,947,033</u>
(101,785)	5,000	-	-	(795,086)
-	-	-	-	(140,955)
-	(81,952)	-	-	-
23,518	843	-	412,655	472,439
-	-	-	32,650	32,650
-	(588)	-	-	(588)
72,289	-	-	-	72,289
<u>(5,978)</u>	<u>(76,697)</u>	<u>-</u>	<u>445,305</u>	<u>(359,251)</u>
-	-	16,000	-	16,000
(690,918)	(129,714)	(7,659,395)	(9,550)	(10,324,646)
(90,996)	(300,186)	(185,603)	(5,991)	(630,445)
(117,200)	(460,000)	(211,453)	(18,532)	(1,199,315)
<u>(899,114)</u>	<u>(889,900)</u>	<u>(8,040,451)</u>	<u>(34,073)</u>	<u>(12,138,406)</u>
-	-	(6,763,095)	-	(6,763,095)
-	-	14,106,467	-	14,106,467
-	-	(18,679)	-	(18,679)
-	-	18,679	-	18,679
5,065	588	32,614	1,878	116,252
-	-	-	-	37,671
<u>5,065</u>	<u>588</u>	<u>7,375,986</u>	<u>1,878</u>	<u>7,497,295</u>
(521,217)	-	300,715	55,246	(1,053,329)
<u>655,169</u>	<u>-</u>	<u>3,013,391</u>	<u>346,955</u>	<u>9,802,290</u>
<u>\$ 133,952</u>	<u>\$ -</u>	<u>\$ 3,314,106</u>	<u>\$ 402,201</u>	<u>\$ 8,748,961</u>
\$ -	\$ -	\$ 309,956	\$ -	\$ 310,846
(5,285)	2,091	-	-	(5,316)
<u>\$ (5,285)</u>	<u>\$ 2,091</u>	<u>\$ 309,956</u>	<u>\$ -</u>	<u>\$ 305,530</u>

**CITY OF WINDOM, MINNESOTA  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS (CONTINUED)  
 YEAR ENDED DECEMBER 31, 2016**

<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	Electric	Water	Liquor
Operating Income (Loss)	\$ 659,005	\$ 366,315	\$ 123,212
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Provision for Bad Debts	-	-	-
Depreciation and Amortization	505,774	369,967	20,632
Pension Adjustments	53,036	(4,762)	26,247
Changes in Assets and Liabilities:			
(Increase) Decrease in Accounts Receivable	(106,120)	(37,227)	(4,300)
(Increase) Decrease in Deferred Outflows of Resources			
(Increase) Decrease in Accrued Interest Receivable	-	-	-
(Increase) Decrease in Prepaid Items	66,667	16,667	-
(Increase) Decrease in Inventory	(57,636)	(1,452)	(45,697)
Increase (Decrease) in Accounts and Contracts Payable	(327,634)	12,680	8,193
Increase (Decrease) in Net Pension Liability	-	-	-
Increase (Decrease) in Deferred Inflows of Resources			
Increase (Decrease) in Accrued Expenses	269,753	46,388	20,788
Increase (Decrease) in Due to Other Governments	-	-	-
Increase in Unearned Revenue	(5,741)	-	-
Increase (Decrease) in Accrued Compensated Absences	14,080	4,349	1,714
	<u>\$ 1,071,184</u>	<u>\$ 772,925</u>	<u>\$ 150,789</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,071,184</u>	<u>\$ 772,925</u>	<u>\$ 150,789</u>

See accompanying Notes to Financial Statements.

Wastewater	Telecom	Windom Area Hospital April 30, 2016	Other Proprietary Funds	Total
\$ (156,645)	\$ 678,258	\$ 665,745	\$ (431,780)	\$ 1,904,110
-	-	289,756	-	289,756
361,470	345,098	1,021,638	98,516	2,723,095
51,769	(350)	-	11,378	137,318
53,330	(8,336)	(149,181)	(20,788)	(272,622)
-	-	132,681	-	132,681
-	-	(7,645)	-	(7,645)
16,667	-	15,427	-	115,428
-	-	-	-	(104,785)
48,498	1,212	(834,144)	(14,887)	(1,106,082)
-	-	81,673	-	81,673
-	-	(273,739)	-	(273,739)
(7,392)	(71,719)	60,969	(1,606)	317,181
-	15,895	(38,000)	-	(22,105)
-	(3,916)	-	25	(9,632)
11,113	9,867	-	1,278	42,401
<u>\$ 378,810</u>	<u>\$ 966,009</u>	<u>\$ 965,180</u>	<u>\$ (357,864)</u>	<u>\$ 3,947,033</u>

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## **NOTES TO FINANCIAL STATEMENTS**

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**CITY OF WINDOM, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

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

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

Component Units

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, 2016**

**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, 2016**

**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.

The City reports the following major proprietary funds:

Electric Fund

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

Water Fund

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

**CITY OF WINDOM, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

B. Basic Financial Statements (Continued)

**2. Fund Financial Statements (Continued)**

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, 2016**

**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, 2016**

**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, 2016, 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, 2016, 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, 2016**

**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, 2016**

**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, 2016, the allowance for uncollectible accounts was approximately \$421,000.

**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, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**10. Interfund Receivables/Payables**

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

**11. Land Held for Resale**

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

**12. Capital Assets**

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

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

Capital assets related to general governmental activities are recorded in the government-wide statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are normally sold for an immaterial amount when declared as no longer needed for City purposes, no salvage value is taken into consideration for depreciation purposes. Useful lives for the City vary from 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, 2016**

**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, 2016**

**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, 2016**

**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, 2016**

**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, 2016, 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, 2016**

**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, 2016, the City and the Hospital had the following investments:

**External Investment Pools –**

	Fair Value
Minnesota Municipal Money Market Fund- Liquid Asset Fund	<u>\$1,656,647</u>

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. 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.

**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.

**CITY OF WINDOM, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Custodial Credit Risk (Continued)**

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

Cash on Hand	\$ 2,265
Deposits	14,969,055
External Investment Pool	1,656,647
Certificates of Deposits	7,767,389
Investments - Mutual Funds	10,289
Total Cash and Investments	<u>\$ 24,405,645</u>
Cash and Investments	\$ 15,770,504
Short-Term Investments	2,900,586
Cash and Investments with Fiscal Agent	1,465,525
Restricted Cash and Investments	4,269,030
Total Cash and Investments	<u>\$ 24,405,645</u>

**NOTE 3 CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 232,961	\$ -	\$ -	\$ 232,961
Construction in Progress	-	1,879,031	-	1,879,031
Total Capital Assets, Not Being Depreciated	<u>232,961</u>	<u>1,879,031</u>	<u>-</u>	<u>2,111,992</u>
Capital Assets, Being Depreciated:				
Buildings and Building Improvements	9,108,427	22,482	-	9,130,909
Office Equipment and Furniture	95,918	73,676	-	169,594
Machinery and Equipment	7,817,654	349,494	-	8,167,148
Infrastructure	15,748,466	10,261	-	15,758,727
Total Capital Assets, Being Depreciated	<u>32,770,465</u>	<u>455,913</u>	<u>-</u>	<u>33,226,378</u>
Accumulated Depreciation for:				
Buildings and Building Improvements	(2,048,365)	(261,790)	-	(2,310,155)
Office Equipment and Furniture	(34,152)	(21,070)	-	(55,222)
Machinery and Equipment	(6,242,057)	(219,952)	-	(6,462,009)
Infrastructure	(8,466,349)	(400,393)	-	(8,866,742)
Total Accumulated Depreciation	<u>(16,790,923)</u>	<u>(903,205)</u>	<u>-</u>	<u>(17,694,128)</u>
Total Capital Assets, Being Depreciated, Net	<u>15,979,542</u>	<u>(447,292)</u>	<u>-</u>	<u>15,532,250</u>
Governmental Activities Capital Assets, Net	<u>\$ 16,212,503</u>	<u>\$ 1,431,739</u>	<u>\$ -</u>	<u>\$ 17,644,242</u>

**CITY OF WINDOM, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 3 CAPITAL ASSETS (CONTINUED)**

Depreciation expense was charged to Governmental Functions as follows:

Governmental Activities:	
General Government	\$ 340,345
Public Safety	167,010
Public Works	291,762
Parks, Culture and Recreation	20,456
Community Development	83,632
Total Depreciation Expense, Governmental Activities	<u>\$ 903,205</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital Assets, not Being Depreciated:				
Land	\$ 519,018	\$ -	\$ -	\$ 519,018
Construction in Progress	4,150,454	688,023	(4,145,907)	692,570
Total Capital Assets, not Being Depreciated	<u>4,669,472</u>	<u>688,023</u>	<u>(4,145,907)</u>	<u>1,211,588</u>
Capital Assets, Being Depreciated:				
Buildings and Building Improvements	44,526,123	7,288,180	(3,132)	51,811,171
Office Equipment and Furniture	546,367	11,274	(257)	557,384
Machinery and Shop Equipment	19,911,722	6,256,051	(889,825)	25,277,948
Total Capital Assets, Being Depreciated	<u>64,984,212</u>	<u>13,555,505</u>	<u>(893,214)</u>	<u>77,646,503</u>
Accumulated Depreciation for:				
Buildings and Building Improvements	(23,073,499)	(1,731,517)	3,132	(24,801,884)
Office Equipment and Furniture	(386,552)	(17,976)	257	(404,271)
Machinery and Shop Equipment	(14,836,092)	(978,917)	877,144	(14,937,865)
Total Accumulated Depreciation	<u>(38,296,143)</u>	<u>(2,728,410)</u>	<u>880,533</u>	<u>(40,144,020)</u>
Total Capital Assets, Being Depreciated, Net	<u>26,688,069</u>	<u>10,827,095</u>	<u>(12,681)</u>	<u>37,502,483</u>
Business-Type Activities Capital Assets, Net	<u>\$ 31,357,541</u>	<u>\$ 11,515,118</u>	<u>\$ (4,158,588)</u>	<u>\$ 38,714,071</u>

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

Business-Type Activities:	
Electric Fund	\$ 505,774
Water Fund	372,087
Liquor Fund	20,632
Wastewater Fund	366,755
Telecom Fund	343,008
Windom Area Hospital	1,021,638
Arena Fund	17,284
Multi-Purpose Fund	53,150
River Bluff Townhomes	28,082
Total Depreciation Expense, Business-Type Activities	<u>\$ 2,728,410</u>

**CITY OF WINDOM, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 4 CITY INDEBTEDNESS**

City indebtedness at December 31, 2016 is composed of the following:

Description	Initial Amount Issued	Maturity Date	Interest Rate	Outstanding Principal
<b>General Obligation Bonds:</b>				
<b>Governmental Activities:</b>				
GO Improvement Refunding Bonds, Series 2006A	\$ 713,000	2018	3.70-4.15%	\$ 90,000
GO Improvement Bonds, Series 2007B	970,000	2023	3.75-4.30%	-
GO Improvement Bonds, Series 2009A	1,510,000	2025	2.00-4.25%	1,000,000
GO Improvement Refunding Bonds, Series 2011B	795,000	2019	0.50-1.85%	355,000
GO Refunding Bonds, Series 2012A	980,000	2023	0.55-2.20%	740,000
GO Improvement Bonds, Series 2013A	2,590,000	2034	2.00-3.50%	2,335,000
GO Equipment Bonds, Series 2013B	615,000	2023	0.70-1.90%	485,000
Total Governmental Activities - G.O. Bonds	<u>8,173,000</u>			<u>5,005,000</u>
<b>Business-Type Activities:</b>				
GO Improvement & Refunding Bonds, Series 2006A	227,000	2016	3.75-4.05%	-
GO Temporary Equipment Certificates, Series 2007B	410,000	2023	3.75-4.30%	-
GO Refunding Bonds, Series 2012A	660,000	2023	0.55-2.20%	460,000
GO Improvement Bonds, Series 2013A	1,810,000	2034	2.00-3.50%	1,660,000
Total Business-Type Activities - G.O. Bonds	<u>3,107,000</u>			<u>2,120,000</u>
Total General Obligation Bonds	<u>\$ 11,280,000</u>			<u>\$ 7,125,000</u>
<b>Capital Lease Obligations:</b>				
<b>Governmental Activities:</b>				
Lease Purchase- Emergency Services Facility	\$ 2,034,000	2037	2.79%	\$ 2,034,000
Lease Purchase Obligations	<u>\$ 2,034,000</u>			<u>\$ 2,034,000</u>
<b>Note Payable:</b>				
<b>Governmental Activities:</b>				
Street Shop - League of Minnesota Cities	\$ 250,000	2016	3.00%	\$ -
Economic Development - Fulda Area Credit Union	442,098	2016	4.40%	310,431
Total Notes Payable	<u>692,098</u>			<u>310,431</u>
<b>Business-Type Activities:</b>				
River Bluff Townhomes - Bank of the West	488,847	2031	2.01%	326,543
River Bluff Townhomes - MHFA	353,305	2031	0.00%	353,305
River Bluff Townhomes - GMHF	180,000	2031	0.00%	134,960
River Bluff Townhomes - PM Windom	15,000	2015	0.00%	-
River Bluff Townhomes - Toro Foundation	15,000	2015	0.00%	-
Water Purchase - Red Rock Rural Water System	230,000	2023	0.00%	153,333
Total Business-Type Activities	<u>1,282,152</u>			<u>968,141</u>
Total Note Payable	<u>\$ 1,974,250</u>			<u>\$ 1,278,572</u>
<b>General Obligation Revenue Bonds:</b>				
<b>Business-Type Activities:</b>				
Communication System Refunding Bonds, Series 2012B	\$ 11,205,000	2032	3.00-3.63%	\$ 9,645,000
GO Water and Sewer Revenue Bonds, 2011A - Water	3,090,000	2029	1.00-4.00%	2,940,000
GO Sewer Revenue Bonds, 1994	3,886,970	2015	2.71%	-
GO Revenue Bonds, 1999	3,151,838	2018	2.57%	-
GO Water Revenue Bonds, 1999	1,319,714	2019	2.29%	246,000
GO Revenue Hospital Bonds, Series 2014A	5,600,000	2034	1.00-4.15%	5,385,000
Total Business-Type Activities Revenue Bonds	<u>\$ 28,253,522</u>			<u>\$ 18,216,000</u>

**CITY OF WINDOM, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 4 CITY INDEBTEDNESS (CONTINUED)**

The following is a schedule of changes in City indebtedness for the year ended December 31, 2016:

	Beginning of Year	Additions	Retirements	End of Year	Due Within One Year
<b>Governmental Activities:</b>					
General Obligation Bonds	\$ 5,625,000	\$ -	\$ 620,000	\$ 5,005,000	\$ 575,000
Bond Subtotal	5,625,000	-	620,000	5,005,000	575,000
Bond Premium	69,870	-	5,085	64,785	-
Net Bond Subtotal	5,694,870	-	625,085	5,069,785	575,000
Capital Lease Obligations	-	2,034,000	-	2,034,000	-
Note Payable	388,079	-	77,648	310,431	25,682
Compensated Absences	249,536	128,312	161,546	216,302	-
Total Governmental Activities	6,332,485	2,162,312	864,279	7,630,518	600,682
<b>Business-Type Activities:</b>					
General Obligation Bonds	2,320,000	-	200,000	2,120,000	175,000
General Obligation Revenue Bonds	19,176,782	-	960,782	18,216,000	895,000
Bond Subtotal	21,496,782	-	1,160,782	20,336,000	1,070,000
Bond Premium	107,950	-	7,403	100,547	-
Bond Discount	(87,514)	-	(5,638)	(81,876)	-
Net Bond Subtotal	21,517,218	-	1,162,547	20,354,671	1,070,000
Notes Payable	1,006,674	-	38,533	968,141	121,899
Compensated Absences	373,644	185,932	143,531	416,045	-
Total Business-Type Activities	22,897,536	185,932	1,344,611	21,738,857	1,191,899
<b>Total Debt</b>	<b>\$ 29,230,021</b>	<b>\$ 2,348,244</b>	<b>\$ 2,208,890</b>	<b>\$ 29,369,375</b>	<b>\$ 1,792,581</b>

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
2017	\$ 600,682	\$ 167,641	\$ 768,323
2018	667,969	175,077	843,046
2019	643,320	160,125	803,445
2020	541,708	145,986	687,694
2021	723,752	126,860	850,612
2022-2026	2,004,000	430,242	2,434,242
2027-2031	1,175,000	222,125	1,397,125
2032-2036	862,000	74,585	936,585
2037	131,000	1,827	132,827
Totals	<u>\$ 7,349,431</u>	<u>\$ 1,504,468</u>	<u>\$ 8,853,899</u>



**CITY OF WINDOM, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 4 CITY INDEBTEDNESS (CONTINUED)**

<u>Year Ending December 31,</u>	Business-Type Activities		
	Long-Term Debt		
	Principal	Interest	Totals
2017	\$ 1,191,899	\$ 632,498	\$ 1,824,397
2018	1,188,836	607,391	1,796,227
2019	1,211,218	580,639	1,791,857
2020	1,157,608	553,149	1,710,757
2021	1,183,005	525,326	1,708,331
2022-2026	6,004,614	2,116,473	8,121,087
2027-2031	6,795,772	1,061,901	7,857,673
2032-2034	2,571,189	156,142	2,727,331
Totals	<u>\$ 21,304,141</u>	<u>\$ 6,233,519</u>	<u>\$ 27,537,660</u>

The annual requirements to amortize all long-term debt outstanding as of December 31, 2016, including interest of \$32,727,643 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2017	\$ 2,592,720
2018	2,639,273
2019	2,595,302
2020	2,398,451
2021	2,558,943
2022-2026	10,555,329
2027-2031	9,254,798
2032-2036	3,663,916
2037	132,827
Total	<u>\$ 36,391,559</u>

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

In 2014, the Hospital issued \$5,600,000 in Gross Revenue Hospital Bonds (Series 2014A) for partial financing of a hospital expansion and renovation project. Principal payments are due annually commencing September 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, 2016**

**NOTE 5 DEFINED BENEFIT PENSION PLANS**

**A. Plan Description**

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

1. General Employees Retirement Plan (GERF)

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

2. Public Employees Police and Fire Fund (PEPFF)

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

**B. Benefits Provided**

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

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% 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.

**CITY OF WINDOM, MINNESOTA  
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**NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**B. Benefits Provided (Continued)**

1. GERS Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first 10 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 10 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. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

2. PEPFF Benefits

Benefits for the PEPFF members first hired after June 30, 2010, but before July 1, 2015, vest on a prorated basis from 50% after five years up to 100% after 10 years of credited service. Benefits for PEPFF members first hired after June 30, 2015, 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 PEPFF who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

**C. Contributions**

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature. Contribution rates can only be modified by the state legislature. Governmental Activities and Business-type Activities recognized pension expense of \$490,596 and \$ 701,319, respectively, for all plans for the year ended December 31, 2016.

1. GERS 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 2016. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. The City contributions to the GERS for the year ended December 31, 2016, were \$172,076. The contributions were equal to the required contributions as set by state statute.

**CITY OF WINDOM, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**C. Contributions (Continued)**

2. PEPFF Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2016. The City was required to contribute 16.20% of pay for PEPFF members in calendar year 2016. The City's contributions to the PEPFF for the year ended December 31, 2016, were \$85,366. The City's contributions were equal to the required contributions as set by state statute.

**D. Pension Costs**

1. GERS Pension Costs

At December 31, 2016, the City reported a liability of \$8,243,742 for its proportionate share of the GERS'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 2016. 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 \$39,236. The net pension liability was measured as of June 30, 2016 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, 2015 through June 30, 2016 relative to the total employer contributions received from all of PERA's participating employers. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion share was 0.0370% which was a decrease of .0035% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$808,443 for its proportionate share of GERS's pension expense. In addition, the City recognized an additional \$11,704 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota's contribution of \$6 million to the General Employees Fund.

**CITY OF WINDOM, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**D. Pension Costs (Continued)**

1. GERF Pension Costs (Continued)

At December 31, 2016, the City reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources 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	\$ 52,772	\$ 508,209
Changes in Actuarial Assumptions	942,607	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	570,213	549,234
Changes in Proportion	-	511,695
Contributions Paid to PERA Subsequent to the Measurement Date	521,485	-
Total	<u>\$ 2,087,077</u>	<u>\$1,569,138</u>

\$521,485 reported as deferred outflows of resources related to pensions resulting from City contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>City Pension Expense Amount</u>
2017	\$ (34,098)
2018	(34,098)
2019	(167,867)
2020	232,517

2. PEPFF Pension Costs

At December 31, 2016, the City reported a liability of \$2,207,246 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion was 0.055% which was no change from its proportion measured as of June 30, 2015.

**CITY OF WINDOM, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**D. Pension Costs (Continued)**

2. PEPFF Pension Costs (Continued)

For the year ended December 31, 2016, the City recognized pension expense of \$382,271 for its proportionate share of the PEPFF's pension expense. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the PEPFF each year, starting in fiscal year 2015.

At December 31, 2016, the City reported its proportionate share of the PEPFF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	\$ -	\$ 253,212
Changes in Actuarial Assumptions	1,214,744	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	336,841	-
Changes in Proportion	-	-
Contributions Paid to PERA	-	-
Subsequent to the Measurement Date	43,755	-
Total	<u>\$ 1,595,340</u>	<u>\$ 253,212</u>

\$43,755 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>City Pension Expense Amount</u>
2017	\$ 279,268
2018	279,268
2019	279,268
2020	252,047
2021	208,522

**E. Actuarial Assumptions**

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Salary Increases	3.25%, Average, Including Inflation
Investment Rate of Return	7.50%, Net of Pension Plan Investment Expense

**CITY OF WINDOM, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**E Actuarial Assumptions (Continued)**

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for the General Employees Plan and RP-2000 tables for the Police and Fire Plan and Correctional Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1% per year for all future years for the General Employees Plan and Police and Fire Plan.

Actuarial assumptions used in the June 30, 2016 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 experience study for Police and Fire Plan was for the period July 1, 2004 through June 30, 2009.

The following changes in actuarial assumptions occurred in 2016 for the General Employees Fund:

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

The following changes in actuarial assumptions occurred in 2016 for the Police and Fire Fund:

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2037 and 2.5% thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate changed from 7.9% to 5.6%.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

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:

**CITY OF WINDOM, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**E Actuarial Assumptions (Continued)**

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	45%	5.50%
International Equity	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%
Total	<u>100%</u>	

**F. Discount Rate**

The discount rate used to measure the total pension liability in 2016 was 7.50%, a reduction from the 7.9% used in 2015. 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 position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

In the Police and Fire Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056 and June 30, 2058 respectively. Beginning in fiscal years ended June 30, 2057 for the Police and Fire Fund, when projected benefit payments exceed the funds' projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85% based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60% for the Police and Fire Fund was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50% applied to all years of projected benefits through the point of asset depletion and 2.85% after.

**G. Pension Liability Sensitivity**

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



**CITY OF WINDOM, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**G. Pension Liability Sensitivity (Continued)**

Description	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
City's Proportionate Share of the GERF Net Pension Liability	\$ 12,505,276	\$ 8,243,742	\$ 4,727,046

Description	1% Decrease (4.6%)	Current Discount Rate (5.6%)	1% Increase (6.6%)
City's Proportionate Share of the PEPFF Net Pension Liability	\$ 3,089,851	\$ 2,207,246	\$ 1,486,090

**H. Pension Plan Fiduciary Net Position**

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

**NOTE 6 DEFINED CONTRIBUTION PENSION PLAN**

1. Plan Description

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

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.

**CITY OF WINDOM, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 6 DEFINED CONTRIBUTION PENSION PLAN (CONTINUED)**

1. Plan Description (Continued)

Total contributions made by the City of Windom during fiscal year 2016 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rates
\$ 7,687	\$ 7,687	0.051	0.051	0.051

**NOTE 7 STEWARDSHIP AND ACCOUNTABILITY**

**A. Excess of Expenditures Over Budget**

Expenditures exceeded budgeted amounts in the following funds:

	Budget	Actual
Special Revenue Funds:		
Economic Development Fund	\$ 1,066,612	\$ 1,923,085

These additional expenditures were paid for with additional grant proceeds.

**B. Deficit Fund Balances/Net Position**

The City has deficit fund balances/net position at December 31, 2016 as follows:

Other Governmental Funds:	
4th Ave Improvement Bond Fund	\$ (71,704)
2006A Refunding Bond Fund	(298,217)
2007 Street Improvement Bond Fund	(165,146)
2003 Improvement Bond Fund	(16,917)
2017 Street Capital Projects Fund	(119,750)
Proprietary Funds:	
Telecom	(8,177,454)
River Bluff Townhomes	(87,580)

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, 2016**

**NOTE 8 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

**A. Due To/From Other Funds**

Individual fund receivable and payable balances at December 31, 2016 are as follows:

Fund	Interfund Receivables Due from Other Funds	Interfund Payables Due to Other Funds	Description
General Fund	\$ 635,730	\$ -	Eliminate Deficit Cash
Other Governmental Funds	-	635,730	Eliminate Deficit Cash
Proprietary Funds:			
Electric Fund	1,461,399	-	Eliminate Deficit Cash
Telecom Fund	-	1,461,399	Eliminate Deficit Cash
Total Due To/From	<u>\$ 2,097,129</u>	<u>\$ 2,097,129</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	\$ -	\$ 152,000
Economic Development Fund		155
Proprietary Funds:		
Electric Fund	152,155	-
Total Advances	<u>\$ 152,155</u>	<u>\$ 152,155</u>

The advance in the amount of \$155 represents interest on loan to make improvements to the spec building incurred by the Economic Development Fund payable to the Electric Fund.

The advance in the amount of \$152,000 represents loan to purchase a motor grader by the Electric Fund to the Street Department.

**CITY OF WINDOM, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 8 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (CONTINUED)**

**C. Transfers**

Transfers between funds during 2016 are as follows:

	Transfer In	Transfer Out	Description
Major Governmental Funds:			
General Fund	\$ 245,000	\$ -	Annual Contribution
General Fund	-	405,000	Funding for Emergency Services Facility
General Fund	-	5,000	Funding for Scoreboard
General Fund	19,796	-	Transfer for Video Surveillance Project
General Fund	211,582	-	Transfer for Proceeds for Fire Truck
General Fund	149,938	-	Cover 2015 expenses for ESF
Capital Projects- Emergency Services	1,905,000	-	Funding for Emergency Services Facility
Capital Projects- ESF	-	149,938	Cover 2015 expenses for ESF
Economic Development Fund	-	29,898	Transfer of Debt Payment
Economic Development Fund	-	2,575	Transfer for Video Surveillance Project
Nonmajor Governmental Funds:			
Special Revenue Funds:			
Ambulance Fund	-	1,000,000	Funding for Emergency Services Facility
Debt Service Funds:			
2006A Refunding Bond Fund	29,898	-	Transfer of Debt Payment
2009 Street Improvement Bond Fund	37,865	-	Transfer of Debt Payment
GO Special Assessment Bond	-	211,582	Transfer for Proceeds for Fire Truck
Major Enterprise Funds:			
Water Utility	80,000	-	Cover Cash Deficit until Bonding
Water Utility	-	2,575	Transfer for Video Surveillance Project
Water Utility	-	17,797	Transfer of Debt Payment
Wastewater Utility	-	1,716	Transfer for Video Surveillance Project
Wastewater Utility	-	80,000	Cover Cash Deficit until Bonding
Wastewater Utility	-	20,069	Transfer of Debt Payment
Electric Utility	-	1,717	Transfer for Video Surveillance Project
Electric Utility	-	175,000	Annual Contribution
Telecom Fund	5,000	-	Funding for Scoreboard
Liquor	-	500,000	Funding for Emergency Services Facility
Liquor	-	11,212	Transfer for Video Surveillance Project
Liquor	-	70,000	Annual Contribution
Total	<u>\$ 2,684,079</u>	<u>\$ 2,684,079</u>	

**NOTE 9 RISK MANAGEMENT**

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

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

**CITY OF WINDOM, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 9 RISK MANAGEMENT (CONTINUED)**

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, 2016, 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 10 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.

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

If a member of the Association shall become permanently or totally disabled, the Association shall pay the sum \$2,500 for each year the member was an active member of the City of Windom Fire Department. If a member who received a disability pension subsequently recovers and returns to active duty, the disability pension is deducted from the service pension. A death benefit is also available, which is payable to a survivor.

**CITY OF WINDOM, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 10 VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION (CONTINUED)**

**B Benefits Provided (Continued)**

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

**C. Contributions**

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

	Normal Cost	
+	Amortization Payment on Unfunded Accrued Liability Prior to Any Change	
+	Amortization Contribution on Unfunded Accrued Liability Attributed to Any Change	
+	Administrative Expenses	
-	Anticipated State Aid	
-	Projected Investment Earnings	
=	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 \$48,132 in fire state aid paid by the City to the Relief Association for the year ended December 31, 2016. 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, 2016 was \$-0-.

**D. Pension Costs**

At December 31, 2016, 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.

**CITY OF WINDOM, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 10 VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION (CONTINUED)**

**D. Pension Costs (Continued)**

As a result of its requirement to contribute to the Relief Association, the City recognized expense of \$1,201 for the year ended December 31, 2016. At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ -	\$ -
Changes in Actuarial Assumptions	-	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	64,265	12,820
Changes in Proportion	-	-
Contributions Paid to PERA Subsequent to the Measurement Date	-	-
Total	<u>\$ 64,265</u>	<u>\$ 12,820</u>

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

Year Ending December 31,	Pension Expense Amount
2017	\$ 18,217
2018	18,217
2019	18,217
2020	(3,206)

**CITY OF WINDOM, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 10 VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION (CONTINUED)**

**E. Actuarial Assumptions**

The actuarial total pension liability was determined as of December 31, 2016, 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%

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, 2016 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%	3.59%
Fixed Income	11.55%	5.02%
Equities	63.51%	16.79%
Real Estate	0.82%	7.19%
Total Portfolio	100%	
Total Portfolio Expected Real Rate of Return		6.75%

**F. Discount Rate**

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



**CITY OF WINDOM, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 10 VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION (CONTINUED)**

**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:

	1% Decrease	Discount Rate	1% Increase
Net Pension Liability	\$ (346,710)	\$ (360,080)	\$ (372,901)
Discount Rate	5.75%	6.75%	7.75%

**H. Plan's Fiduciary Net Position Pension Liability Sensitivity**

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

**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 stops collections at various times with the last ones being December 31, 2024. For the year ended December 31, 2016, the City paid excess tax increment in the amount of \$104,550. No other commitments were made by the City as part of these agreements.

The City entered into two property tax abatement agreement with local businesses to promote economic development/redevelopment and to increase the tax base as authorized under Minnesota Statutes §469. The City entered into the first agreement during 2010 to abate property taxes for a period to terminate February 1, 2017. To be eligible for abated property taxes, the Developer needed to demolish three existing grain bins, site preparation, and construction of two 245,000 bushel grain storage bins thereby better serving the needs of the community, retaining jobs, and increasing the tax base of the City, County, and State. The City entered into the second 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, 2016, the City abated taxes totaling \$11,015 on these two agreements. No other commitments were made by the City as part of these agreements.

**CITY OF WINDOM, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 12 FUND BALANCE**

At December 31, 2016, the City had various fund balances restricted, or assigned through legal restriction and City Council authorization. Major fund balance appropriations at December 31, 2016 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	Other Governmental Funds	Governmental Funds Total
<b>Nonspendable:</b>					
Inventory	\$ 69,006	\$ -	\$ -	\$ -	\$ 69,006
Prepaid Expenses	-	10,000	-	55,982	65,982
Total Nonspendable	<u>69,006</u>	<u>10,000</u>	<u>-</u>	<u>55,982</u>	<u>134,988</u>
<b>Restricted:</b>					
Debt Service	-	-	-	532,402	532,402
Donations for Fire, Well, and Park	82,984	-	-	-	82,984
Tax Increment Funding	-	437,261	-	-	437,261
Capital Projects	-	-	2,217,076	-	2,217,076
Total Restricted	<u>82,984</u>	<u>437,261</u>	<u>2,217,076</u>	<u>532,402</u>	<u>3,269,723</u>
<b>Assigned:</b>					
Ambulance	-	-	-	873,998	873,998
Economic Development	-	1,029,184	-	-	1,029,184
Airport	108,972	-	-	-	108,972
Library	151,646	-	-	-	151,646
Pool	47,428	-	-	-	47,428
Capital Projects	-	-	-	487,412	487,412
Total Assigned	<u>308,046</u>	<u>1,029,184</u>	<u>-</u>	<u>1,361,410</u>	<u>2,698,640</u>
Unassigned	2,267,288	-	-	(671,734)	1,595,554
Total Fund Balance	<u><u>\$ 2,727,324</u></u>	<u><u>\$ 1,476,445</u></u>	<u><u>\$ 2,217,076</u></u>	<u><u>\$ 1,278,060</u></u>	<u><u>\$ 7,698,905</u></u>

**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.

**CITY OF WINDOM, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 13 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

B. Electric Power Purchase Agreement (Continued)

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. Potential Litigation

The City is subject to potential litigation involving alleged breach of contract. The City intends to contest any litigation which may result from this claim which it deems to be wholly without merit. In addition, management believes no material uninsured loss will result from this claim.

D. 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 \$3,665,622 at December 31, 2016.

**NOTE 14 RESTATEMENT**

Governmental Accounting – Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27* was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. Beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date for the Windom Area Hospital, as follows:

	<u>As Previously Stated</u>	<u>Change in Accounting Principle</u>	<u>As Restated</u>
Net Pension Liability			
Net Position as of April 30, 2015	\$ 22,146,785	\$ (5,577,914)	\$ 16,568,871

Additional information is available in the separately issued financial statement of Windom Area Hospital, which may be obtained by contacting Administration at Windom Area Hospital, 2150 Hospital Drive, P.O. Box 339, Windom, Minnesota 56101.

**CITY OF WINDOM, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 15 SUBSEQUENT EVENTS**

In May 2017, the City approved the sale of \$4,020,000 General Obligation Improvement and Utility Revenue Bonds, Series 2017A and \$855,000 General Obligations Equipment Certificates, Series 2017B.

In April 2017, the City approved a contract bid of \$439,000 for the water treatment facility improvement project.

In March 2017, the City approved locker room upgrades in hockey arena estimated to cost between \$350,000 and \$400,000 and awarded 2017 Street project bid of \$2,177,675.

**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, 2016**

	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)	0.0370%	0.0405%
City's Proportionate Share of the Net Pension Liability (Asset)	\$ 8,243,742	\$ 2,098,920
State's Proportionate Share of the Net Pension Liability Associated with the City of Windom	\$ 39,236	N/A
City's Covered-Employee Payroll	\$ 8,309,488	\$ 2,378,626
City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	99.21%	88.24%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.90%	78.20%
PEPFF		
City's Proportion of the Net Pension Liability (Asset)	0.0547%	0.0550%
City's Proportionate Share of the Net Pension Liability (Asset)	\$ 2,207,246	\$ 624,929
City's Covered-Employee Payroll	\$ 526,951	\$ 506,666
City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	418.87%	123.34%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	63.90%	86.60%
Fire Relief Association		
City's Proportion of the Net Pension Liability (Asset)	100%	100%
City's Proportionate Share of the Net Pension Liability (Asset)	\$ (360,080)	\$ (182,216)
City's Covered-Employee Payroll	N/A	N/A
City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	N/A	N/A
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	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 TWO YEARS**

Schedule of Contributions

	<u>2016</u>	<u>2015</u>
City - GERP		
Contractually Required Contribution	\$ 172,076	\$ 174,770
Contributions in Relation to the Contractually Required Contribution	(172,076)	(174,770)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
City's Covered-Employee Payroll	2,294,350	2,330,263
Contributions as a Percentage of Covered Employee Payroll	7.50%	7.50%
PEPFF		
Contractually Required Contribution	\$ 85,366	\$ 82,258
Contributions in Relation to the Contractually Required Contribution	(85,366)	(82,258)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
City's Covered-Employee Payroll	526,951	507,766
Contributions as a Percentage of Covered Employee Payroll	16.20%	16.20%

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-Employee Payroll	N/A	N/A
Net Pension Liability/(Asset) as a Percentage of Covered-Employee 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, 2016**

	Special Revenue Fund	Capital Projects Funds		Debt Service Funds
	Ambulance Fund	2013 Street Capital Project Fund	2017 Street Capital Project Fund	4th Ave Improvement Bond Fund
<b>ASSETS</b>				
Cash and Investments	\$ 618,364	\$ 487,412	\$ -	\$ -
Cash and Investments with Fiscal Agent	-	-	-	-
Delinquent Taxes Receivable	-	-	-	-
Accounts Receivable	276,218	-	-	-
Due from Other Governmental Units	-	-	-	-
Accrued Interest Receivable	-	-	-	-
Due from Other Funds	-	-	-	-
Advances to Other Funds	-	-	-	-
Interfund Lease Receivable	-	-	-	-
Taxes Receivable	-	-	-	-
Special Assessments Receivable	-	715,341	-	-
Inventory	-	-	-	-
Prepaid Items	55,982	-	-	-
	<u>55,982</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 950,564</u>	<u>\$ 1,202,753</u>	<u>\$ -</u>	<u>\$ -</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES (DEFICITS)</b>				
<b>LIABILITIES</b>				
Accounts and Contracts Payable	\$ 11,342	\$ -	\$ 1,229	\$ -
Other Accrued Liabilities	9,242	-	34,775	-
Due to Other Funds	-	-	83,746	71,704
Total Liabilities	<u>20,584</u>	<u>-</u>	<u>119,750</u>	<u>71,704</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue	-	715,341	-	-
<b>FUND BALANCE (DEFICIT)</b>				
Nonspendable	55,982	-	-	-
Restricted	-	-	-	-
Assigned	873,998	487,412	-	-
Unassigned	-	-	(119,750)	(71,704)
Total Fund Balance (Deficit)	<u>929,980</u>	<u>487,412</u>	<u>(119,750)</u>	<u>(71,704)</u>
Total Liabilities and Fund Balance (Deficit)	<u>\$ 950,564</u>	<u>\$ 1,202,753</u>	<u>\$ -</u>	<u>\$ -</u>

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	2016 Total
\$ -	\$ -	\$ 135,981	\$ 396,421	\$ -	\$ 1,638,178
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	276,218
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	33,659	135,234	24,801	-	909,035
-	-	-	-	-	-
-	-	-	-	-	55,982
<u>\$ -</u>	<u>\$ 33,659</u>	<u>\$ 271,215</u>	<u>\$ 421,222</u>	<u>\$ -</u>	<u>\$ 2,879,413</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,571
-	-	-	-	-	44,017
<u>298,217</u>	<u>165,146</u>	<u>-</u>	<u>-</u>	<u>16,917</u>	<u>635,730</u>
298,217	165,146	-	-	16,917	692,318
-	33,659	135,234	24,801	-	909,035
-	-	-	-	-	55,982
-	-	135,981	396,421	-	532,402
-	-	-	-	-	1,361,410
<u>(298,217)</u>	<u>(165,146)</u>	<u>-</u>	<u>-</u>	<u>(16,917)</u>	<u>(671,734)</u>
(298,217)	(165,146)	135,981	396,421	(16,917)	1,278,060
<u>\$ -</u>	<u>\$ 33,659</u>	<u>\$ 271,215</u>	<u>\$ 421,222</u>	<u>\$ -</u>	<u>\$ 2,879,413</u>

**CITY OF WINDOM, MINNESOTA  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE  
YEAR ENDED DECEMBER 31, 2016**

	Special Revenue Fund	Capital Projects Funds		Debt Service Funds
	Ambulance Fund	2013 Street Capital Project Fund	2017 Street Capital Project Fund	4th Ave Improvement Bond Fund
<b>REVENUE</b>				
General Property Taxes	\$ -	\$ 97,119	\$ -	\$ 32,363
Intergovernmental Special Assessments	-	88,430	-	-
Charges for Services	565,895	-	-	-
Interest Income	15,072	567	-	-
Investment Earnings (Loss)	(2,325)	(252)	-	-
Refunds and Reimbursements	2,575	-	-	-
Grants and Contributions	100	-	-	-
Total Revenue	<u>581,317</u>	<u>185,864</u>	<u>-</u>	<u>32,363</u>
<b>EXPENDITURES</b>				
Current:				
Public Safety	309,855	-	-	-
Public Works	-	1,505	824	925
Capital Outlay:				
Public Works	-	-	118,926	-
Debt Service:				
Principal	-	130,000	-	42,350
Interest and Fiscal Charges	-	57,113	-	2,275
Total Expenditures	<u>309,855</u>	<u>188,618</u>	<u>119,750</u>	<u>45,550</u>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES</b>	271,462	(2,754)	(119,750)	(13,187)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer In	-	-	-	-
Transfer Out	(1,000,000)	-	-	-
Total Other Financing Sources (Uses)	<u>(1,000,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	(728,538)	(2,754)	(119,750)	(13,187)
Fund Balance (Deficit) - Beginning of Year	<u>1,658,518</u>	<u>490,166</u>	<u>-</u>	<u>(58,517)</u>
<b>FUND BALANCE (DEFICIT) - END OF YEAR</b>	<u>\$ 929,980</u>	<u>\$ 487,412</u>	<u>\$ (119,750)</u>	<u>\$ (71,704)</u>



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	2016 Total
\$ 2,936	\$ 63,716	\$ 56,186	\$ 31,152	\$ 78,706	\$ 362,178
20,229	25,653	19,057	5,258	-	158,627
-	-	-	-	-	565,895
-	-	-	-	-	15,639
-	-	-	-	-	(2,577)
-	-	-	-	-	2,575
-	-	-	-	-	100
<u>23,165</u>	<u>89,369</u>	<u>75,243</u>	<u>36,410</u>	<u>78,706</u>	<u>1,102,437</u>
-	-	-	-	-	309,855
970	-	924	549	925	6,622
-	-	-	-	-	118,926
90,000	75,000	90,000	57,650	115,000	600,000
5,532	9,118	40,570	5,542	6,385	126,535
<u>96,502</u>	<u>84,118</u>	<u>131,494</u>	<u>63,741</u>	<u>122,310</u>	<u>1,161,938</u>
(73,337)	5,251	(56,251)	(27,331)	(43,604)	(59,501)
29,898	-	37,865	-	-	67,763
-	-	-	(211,582)	-	(1,211,582)
<u>29,898</u>	<u>-</u>	<u>37,865</u>	<u>(211,582)</u>	<u>-</u>	<u>(1,143,819)</u>
(43,439)	5,251	(18,386)	(238,913)	(43,604)	(1,203,320)
(254,778)	(170,397)	154,367	635,334	26,687	2,481,380
<u>\$ (298,217)</u>	<u>\$ (165,146)</u>	<u>\$ 135,981</u>	<u>\$ 396,421</u>	<u>\$ (16,917)</u>	<u>\$ 1,278,060</u>

**CITY OF WINDOM, MINNESOTA  
NONMAJOR PROPRIETARY FUNDS  
COMBINING STATEMENT OF NET POSITION  
DECEMBER 31, 2016**

<b>ASSETS</b>	Arena Fund	Multi-Purpose Center Fund	River Bluff Townhomes	Totals 2016
<b>CURRENT ASSETS</b>				
Cash and Cash Equivalents	\$ 77,932	\$ 232,741	\$ 91,528	\$ 402,201
Accounts Receivable	14,562	9,685	1,665	25,912
Total Current Assets	<u>92,494</u>	<u>242,426</u>	<u>93,193</u>	<u>428,113</u>
Capital Assets:				
Buildings and Improvements	949,758	1,938,426	1,123,288	4,011,472
Machinery and Equipment	387,203	274,626	-	661,829
Total Capital Assets	1,336,961	2,213,052	1,123,288	4,673,301
Less: Accumulated Depreciation	(1,217,256)	(1,109,980)	(481,896)	(2,809,132)
Net Capital Assets	<u>119,705</u>	<u>1,103,072</u>	<u>641,392</u>	<u>1,864,169</u>
Total Assets	212,199	1,345,498	734,585	2,292,282
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension Related	52,224	68,352	-	120,576
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts Payable	3,436	1,571	1,598	6,605
Accrued Salaries and Fringes	4,537	5,628	-	10,165
Accrued Interest Payable	-	-	385	385
Other Accrued Liabilities	2,138	1,165	-	3,303
Unearned Revenue	-	1,450	5,375	6,825
Current Portion of Bonds Payable	-	-	18,899	18,899
Total Current Liabilities	<u>10,111</u>	<u>9,814</u>	<u>26,257</u>	<u>46,182</u>
<b>NONCURRENT LIABILITIES</b>				
Compensated Absences	36,472	40,588	-	77,060
Net Pension Liability	125,900	164,780	-	290,680
Bonds Payable - Long-Term	-	-	795,908	795,908
Total Noncurrent Liabilities	<u>162,372</u>	<u>205,368</u>	<u>795,908</u>	<u>1,163,648</u>
Total Liabilities	172,483	215,182	822,165	1,209,830
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pension Related	18,827	24,640	-	43,467
<b>NET POSITION</b>				
Net Investment in Capital Assets	119,705	1,103,072	(173,416)	1,049,361
Unrestricted	(46,592)	70,956	85,836	110,200
Total Net Position	<u>\$ 73,113</u>	<u>\$ 1,174,028</u>	<u>\$ (87,580)</u>	<u>\$ 1,159,561</u>

**CITY OF WINDOM, MINNESOTA  
NONMAJOR PROPRIETARY FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN NET POSITION  
YEAR ENDED DECEMBER 31, 2016**

	Arena Fund	Multi-Purpose Center Fund	River Bluff Townhomes	Totals 2016
<b>OPERATING REVENUE</b>				
Facility Use/Other Revenue	\$ 133,462	\$ 107,985	\$ 94,235	\$ 335,682
<b>OPERATING EXPENSES</b>				
Personal Services	150,651	211,923	-	362,574
Supplies, Repairs, Services, and Rents	168,268	98,670	39,434	306,372
Depreciation and Amortization	17,284	53,150	28,082	98,516
Total Operating Expenses	<u>336,203</u>	<u>363,743</u>	<u>67,516</u>	<u>767,462</u>
<b>OPERATING INCOME (LOSS)</b>	(202,741)	(255,758)	26,719	(431,780)
<b>OTHER INCOME (EXPENSE)</b>				
Taxes and Special Assessments	175,285	237,370	-	412,655
Contributions and Reimbursements	25,000	7,650	-	32,650
Interest Income	660	1,297	-	1,957
Investment Earnings	(23)	(56)	-	(79)
Interest Expense	-	-	(8,718)	(8,718)
Total Other Income (Expense)	<u>200,922</u>	<u>246,261</u>	<u>(8,718)</u>	<u>438,465</u>
<b>CHANGE IN NET POSITION</b>	(1,819)	(9,497)	18,001	6,685
Net Position - Beginning of Year	<u>74,932</u>	<u>1,183,525</u>	<u>(105,581)</u>	<u>1,152,876</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 73,113</u>	<u>\$ 1,174,028</u>	<u>\$ (87,580)</u>	<u>\$ 1,159,561</u>

**CITY OF WINDOM, MINNESOTA  
NONMAJOR PROPRIETARY FUNDS  
COMBINING STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2016**

	Arena Fund	Multi-Purpose Fund	River Bluff Townhomes	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash Received from Customers and Service Users	\$ 119,250	\$ 102,924	\$ 92,745	\$ 314,919
Cash Paid to Suppliers	(174,731)	(94,744)	(40,406)	(309,881)
Cash Paid to Employees	(156,305)	(206,597)	-	(362,902)
Net Cash Provided (Used) by Operating Activities	<u>(211,786)</u>	<u>(198,417)</u>	<u>52,339</u>	<u>(357,864)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Property Tax Revenues	175,285	237,370	-	412,655
Miscellaneous Revenues	25,000	7,650	-	32,650
Net Cash Provided by Noncapital Financing Activities	<u>200,285</u>	<u>245,020</u>	<u>-</u>	<u>445,305</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition and Construction of Capital Assets	(9,550)	-	-	(9,550)
Interest Paid on Long-Term Debt	-	-	(5,991)	(5,991)
Principal Payments on Long-Term Debt	-	-	(18,532)	(18,532)
Net Cash Used by Capital and Related Financing Activities	<u>(9,550)</u>	<u>-</u>	<u>(24,523)</u>	<u>(34,073)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investment Income (Loss)	637	1,241	-	1,878
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(20,414)	47,844	27,816	55,246
Cash and Cash Equivalents - Beginning of Year	<u>98,346</u>	<u>184,897</u>	<u>63,712</u>	<u>346,955</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 77,932</u>	<u>\$ 232,741</u>	<u>\$ 91,528</u>	<u>\$ 402,201</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Operating Income (Loss)	\$ (202,741)	\$ (255,758)	\$ 26,719	\$ (431,780)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	17,284	53,150	28,082	98,516
Pension Adjustment	(2,012)	13,390	-	11,378
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	(14,212)	(4,911)	(1,665)	(20,788)
Increase (Decrease) in Accounts and Contracts Payable	(4,451)	(9,464)	(972)	(14,887)
Increase (Decrease) in Accrued Expenses	(3,997)	2,391	-	(1,606)
Increase (Decrease) in Unearned Revenue	-	(150)	175	25
Increase (Decrease) in Accrued Compensated Absences	(1,657)	2,935	-	1,278
Net Cash Provided (Used) by Operating Activities	<u>\$ (211,786)</u>	<u>\$ (198,417)</u>	<u>\$ 52,339</u>	<u>\$ (357,864)</u>

## **OTHER REPORT SECTION**

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## INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Windom (the City), Minnesota, as of December 31, 2016 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, 2017.

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.

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

Honorable Mayor and  
Members of the City Council  
City of Windom

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

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

**CliftonLarsonAllen LLP**

Austin, Minnesota  
June 28, 2017