

**CITY OF WINDOM, MINNESOTA**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2017**



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

**INTRODUCTORY SECTION**

<b>OFFICIAL DIRECTORY</b>	<b>1</b>
---------------------------	----------

**FINANCIAL SECTION**

<b>INDEPENDENT AUDITORS' REPORT</b>	<b>2</b>
-------------------------------------	----------

<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	<b>5</b>
---	----------

**BASIC FINANCIAL STATEMENTS**

<b>STATEMENT OF NET POSITION</b>	<b>17</b>
----------------------------------	-----------

<b>STATEMENT OF ACTIVITIES</b>	<b>18</b>
--------------------------------	-----------

**GOVERNMENTAL FUNDS**

<b>BALANCE SHEET</b>	<b>20</b>
----------------------	-----------

<b>RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES</b>	<b>21</b>
--	-----------

<b>STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE</b>	<b>22</b>
---	-----------

<b>RECONCILIATION OF GOVERNMENTAL STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO STATEMENT OF ACTIVITIES</b>	<b>23</b>
---	-----------

<b>STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND</b>	<b>24</b>
---	-----------

**PROPRIETARY FUNDS**

<b>STATEMENT OF NET POSITION</b>	<b>25</b>
----------------------------------	-----------

<b>STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION</b>	<b>27</b>
---	-----------

<b>STATEMENT OF CASH FLOWS</b>	<b>29</b>
--------------------------------	-----------

<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>33</b>
--------------------------------------	-----------

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

**REQUIRED SUPPLEMENTARY INFORMATION**

<b>SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY</b>	<b>72</b>
<b>SCHEDULE OF THE CITY'S CONTRIBUTIONS</b>	<b>73</b>
<b>WINDOM FIRE RELIEF ASSOCIATION – SCHEDULE OF CHANGES IN THE NET PENSION ASSET AND RELATED RATIOS</b>	<b>74</b>

**SUPPLEMENTARY INFORMATION**

<b>COMBINING AND INDIVIDUAL NONMAJOR FUND FINANCIAL STATEMENTS</b>	
<b>COMBINING BALANCE SHEET</b>	<b>75</b>
<b>COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE</b>	<b>77</b>
<b>COMBINING STATEMENT OF NET POSITION</b>	<b>79</b>
<b>COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION</b>	<b>80</b>
<b>COMBINING STATEMENT OF CASH FLOWS</b>	<b>81</b>

**OTHER REPORT SECTION**

<b>INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE</b>	<b>82</b>
---	-----------

## INTRODUCTORY SECTION

(This page intentionally left blank)

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

Elected Officials

Term Expires

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

(This page intentionally left blank)



## **FINANCIAL SECTION**

(This page intentionally left blank)

## INDEPENDENT AUDITORS' REPORT

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Windom (the City), Minnesota as of and for the year ended December 31, 2017, and the related notes to the financial statements which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

Honorable Mayor and  
Members of the City Council  
City of Windom

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Windom as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows, and budgetary comparison for the General Fund, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of the City's proportionate share of the net pension liability, schedule of the City's contributions, and fire relief association – schedule of changes in the net pension asset and related ratios, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*


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

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

Honorable Mayor and  
Members of the City Council  
City of Windom

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2018, on our consideration of the City of Windom's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City of Windom's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Windom's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Austin, Minnesota  
June 28, 2018

(This page intentionally left blank)

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

(This page intentionally left blank)



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

As management of the City of Windom (the City), Minnesota, we offer readers of the City of Windom's financial statements this narrative overview and analysis of the financial activities of the City of Windom for the fiscal year ended December 31, 2017.

**FINANCIAL HIGHLIGHTS**

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

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

**FINANCIAL HIGHLIGHTS (CONTINUED)**

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

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

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

**OVERVIEW OF THE FINANCIAL STATEMENTS**

**Government-Wide Financial Statements**

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

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

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

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

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

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

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

**Fund Financial Statements**

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

***Governmental Funds***

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

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

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

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

***Proprietary Funds***

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

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

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Notes to the Financial Statements**

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

**Other Information**

The combining statements referred to earlier in conjunction with nonmajor governmental and proprietary funds are presented immediately following the financial statement footnotes. Combining and individual fund statements can be found on pages 75-81.

As noted earlier, net position may serve over time as a useful indicator of a city's financial position. In the case of the City of Windom, total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$50,143,890 at the close of the most recent fiscal year compared to \$47,001,644 at the end of 2016.

Approximately 63% of the City of Windom's net position reflects its net investment in capital assets (e.g. land, buildings, machinery, equipment, and infrastructure), less any related debt outstanding used to acquire those assets. The City of Windom uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Windom's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. At the end of 2017, \$2,637,763 of assets were restricted as to use leaving the remaining balance of \$15,630,382 as unrestricted net position that may be used to meet the City's ongoing obligations.

**CITY OF WINDOM'S NET POSITION**

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

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

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

**Governmental Activities**

Governmental activities increased the City of Windom's net position by \$1,017,178. The most significant change in governmental net position is due to the effect of accounting for net position under the full accrual basis. Under full accrual accounting, the property taxes collected in debt service funds were used to reduce debt obligations. These debt obligations were reported as liabilities in prior years. Also contributing to the net position increase was the use of bond proceeds and property taxes collected for capital expenditures that were capitalized as long-term assets instead of current expenditures.

**Business-Type Activities**

Business-type activities increased the City of Windom's net position by \$2,125,068. All major funds (electric, water, sewer, municipal liquor store, telecom, and Windom Hospital) all recorded positive contributions to net position.

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

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

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

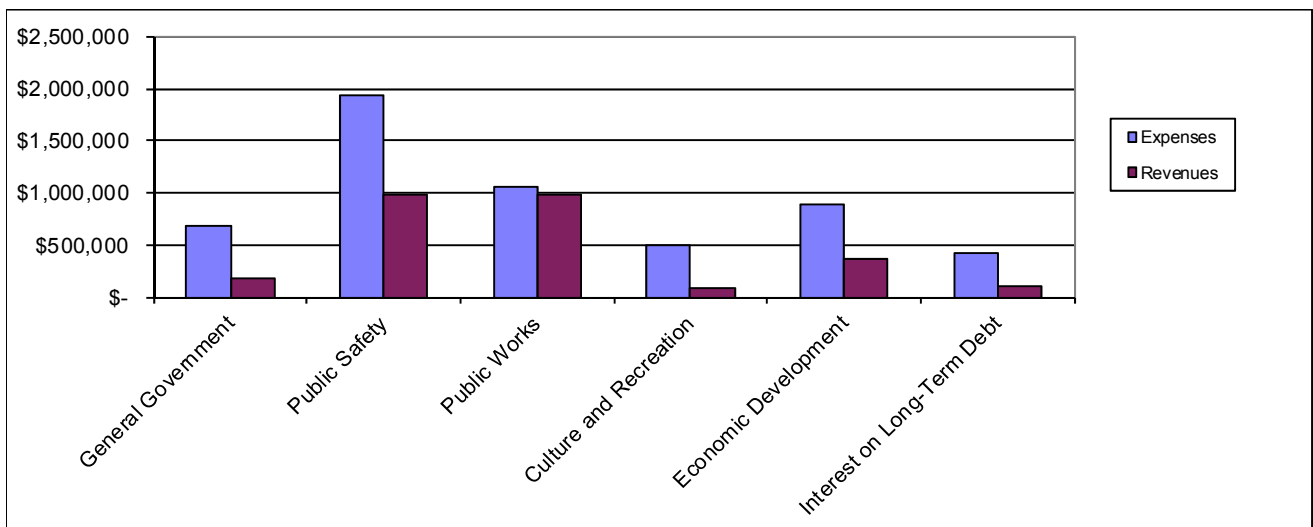
**CITY OF WINDOM, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2017**

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

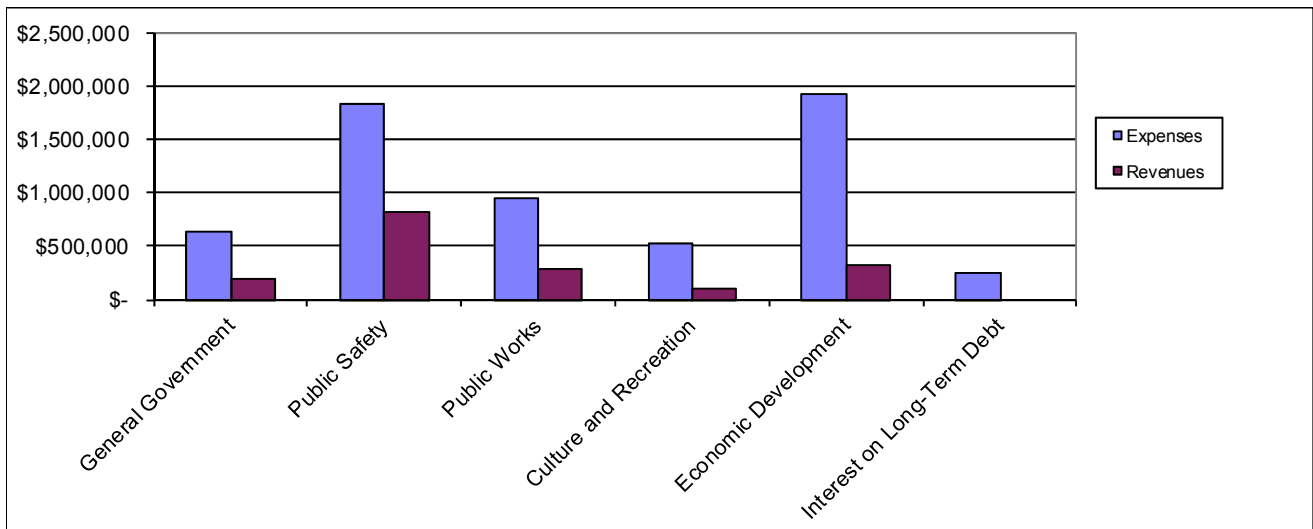
**City of Windom's Changes in Net Position (Continued)**

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

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



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



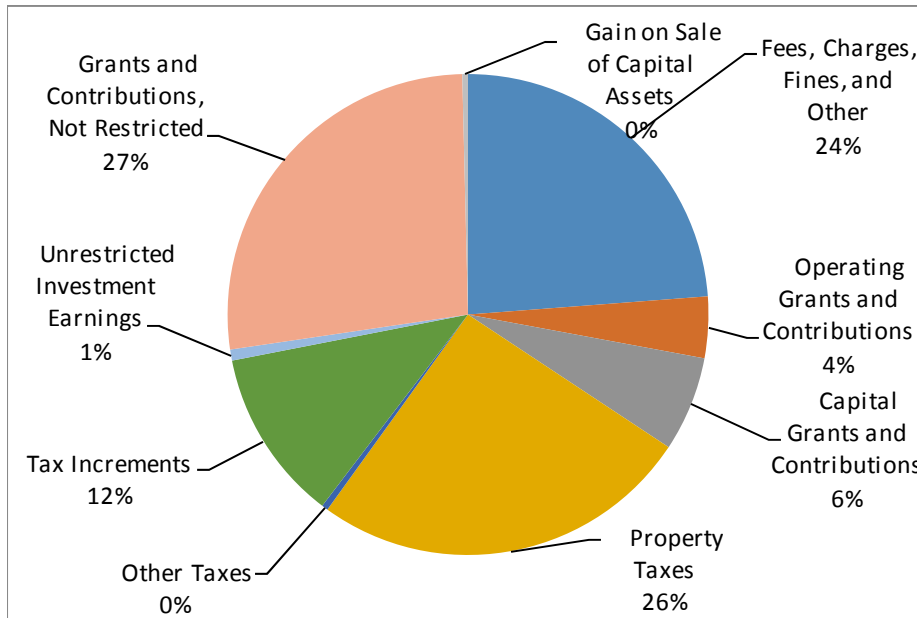
**CITY OF WINDOM, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2017**

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

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

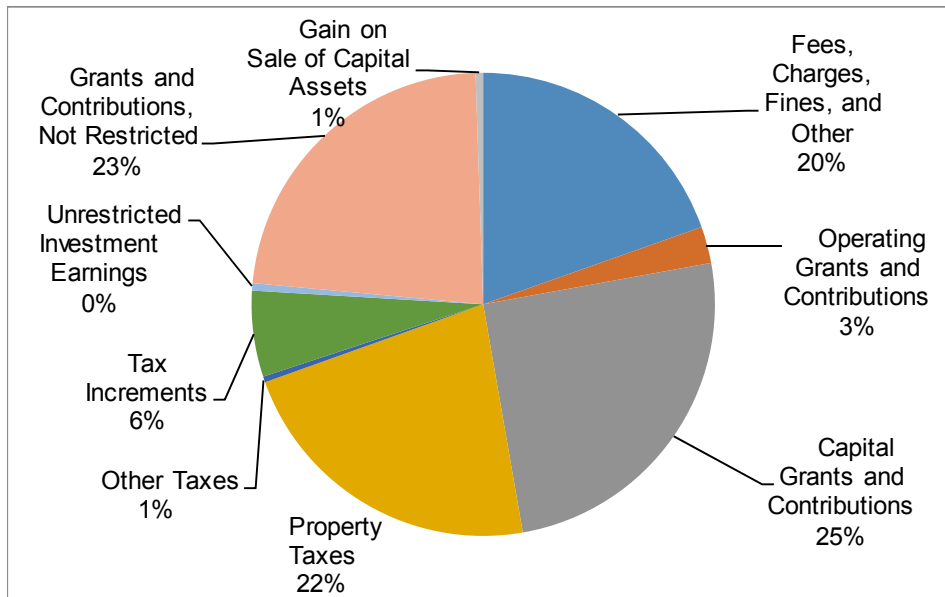
**2017**

**Revenues by Source - Governmental Activities**



**2016**

**Revenues by Source - Governmental Activities**



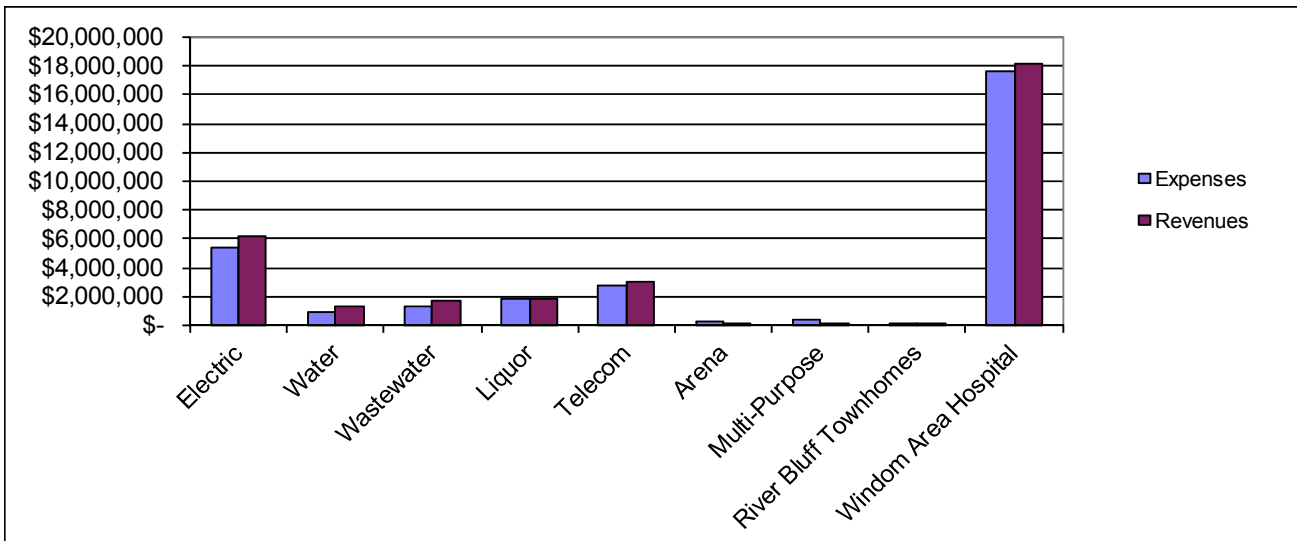
**CITY OF WINDOM, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2017**

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

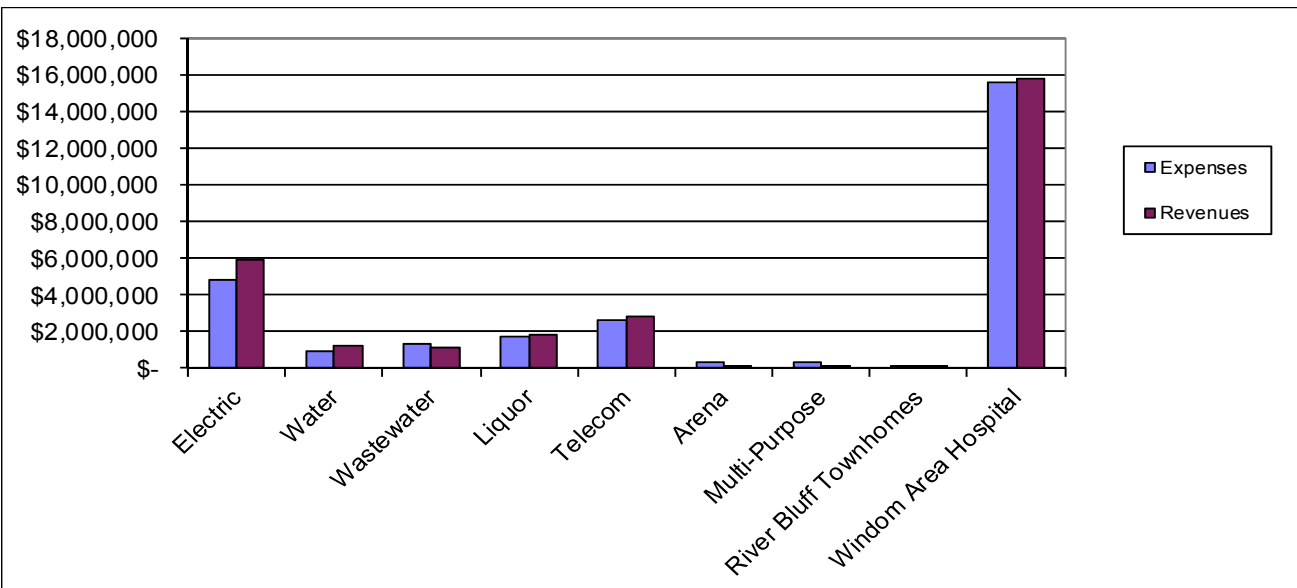
**City of Windom's Changes in Net Position (Continued)**

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

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



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





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

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

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

**Governmental Funds**

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

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

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

The general fund is the chief operating fund of the City of Windom. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,170,771.

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

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

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

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

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

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS (CONTINUED)**

**Proprietary Funds**

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

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

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

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

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

The telecom fund reported a deficit net position of (\$7,931,259), a decrease of the deficit from 2016 by \$246,195. The telecom fund increased their data service rates in 2017 to cover cost increases and recapture margin on their services. Rates will be reviewed annually or more frequently as needed to retain margin on services in the telecom fund.

The hospital fund has total net position of \$17,823,688. The net position for the hospital fund increased \$531,678 during 2017.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

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

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

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

The City of Windom's investment in capital assets for its governmental and business-type activities as of December 31, 2017, amounts to \$62,009,956 (net of accumulated depreciation). This investment in capital assets includes land, buildings, infrastructure, machinery and equipment, office equipment and furniture, and construction in progress. The total increase in the City of Windom's investment in capital assets (net of accumulated depreciation) was \$5,651,643 when compared to 2016. Detailed information about the City's capital assets is presented in the notes to the financial statements.

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

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

**Long-Term Debt**

At the end of the current fiscal year, the City of Windom had total long-term debt outstanding of \$32,748,111. The City of Windom's total long-term debt increased by \$4,094,539 or 14.29% during the current fiscal period. Detailed information about the City's debt and other long-term liabilities is presented in the notes to the financial statements.

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

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

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

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

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

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

**REQUESTS FOR INFORMATION**

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

## **BASIC FINANCIAL STATEMENTS**

(This page intentionally left blank)

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

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

See accompanying Notes to Financial Statements.

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

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

**GENERAL REVENUES**

Taxes:

Property Taxes, Levied for General Purpose

Tax Increments

Other Taxes

Grants and Contributions not Restricted to Specific Programs

Unrestricted Interest Income

Unrestricted Investment Earnings (Loss)

Gain on Sale of Capital Assets

Gain on Sale of Land Held for Resale

Miscellaneous

Transfers

Total General Revenues and Transfers

**CHANGE IN NET POSITION**

Net Position - Beginning of Year

**NET POSITION - END OF YEAR**

See accompanying Notes to Financial Statements.



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

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

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

See accompanying Notes to Financial Statements.

**CITY OF WINDOM, MINNESOTA  
GOVERNMENTAL FUNDS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2017**

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

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

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

Land	232,961
Construction in Progress	116,490
Buildings and Building Improvements	12,805,396
Machinery and Equipment	8,457,889
Infrastructure	18,304,737
Office Equipment and Furniture	205,164
Less: Accumulated Depreciation	(18,557,506)

Some of the City's property taxes, special assessments, and other receivables will be collected after year-end, but are not available soon enough to pay for the current-period's expenditures and, therefore, are reported as unavailable revenue in the governmental funds. 1,311,975

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Accrued interest for general obligation bonds is included in the statement of net position. (116,813)

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

Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Balances at year-end are:

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

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

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

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

See accompanying Notes to Financial Statements.

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

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

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

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

Pension expenses on the governmental funds are measured by current year employee contributions. Pension expenditures on the statement of activities are measured by the change in net pension liability and the related deferred inflows and outflows of resources. (63,202)

The governmental funds report bond and capital lease proceeds as financing sources, while repayment of principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

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

Change in delinquent and deferred property taxes, special assessments receivable, and other receivables will be collected subsequent to year-end, but are not available soon enough to pay for the current-period's expenditures and, therefore, are deferred in the governmental funds. 308,913

In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). 4,726

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

(This page intentionally left blank)

**CITY OF WINDOM, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES – BUDGET AND ACTUAL**  
**GENERAL FUND**  
**YEAR ENDED DECEMBER 31, 2017**

	Original Budget	Final Budget	Actual	Variance from Final Budget
<b>REVENUES</b>				
General Property Taxes	\$ 913,943	\$ 913,943	\$ 916,867	\$ 2,924
Other Taxes	22,000	22,000	22,484	484
Licenses and Permits	54,420	54,420	97,006	42,586
Intergovernmental	1,751,639	1,661,639	1,731,890	70,251
Special Assessments	-	-	2,016	2,016
Charges for Services	279,650	279,650	311,089	31,439
Fines and Forfeits	26,500	26,500	22,315	(4,185)
Investment Earnings	400	400	22,611	22,211
Refunds/Reimbursements	40,000	40,000	61,909	21,909
Grants and Contributions	2,000	2,000	7,467	5,467
Miscellaneous	6,000	6,000	8,920	2,920
Total Revenues	<u>3,096,552</u>	<u>3,006,552</u>	<u>3,204,574</u>	<u>198,022</u>
<b>EXPENDITURES</b>				
General Government:				
Mayor and Council:				
Financial Administration	105,070	105,070	107,013	(1,943)
Elections	126,115	126,115	120,854	5,261
Building and Zoning	-	-	2,982	(2,982)
City Hall	139,720	139,720	131,940	7,780
Total General Government	<u>35,470</u>	<u>35,470</u>	<u>26,563</u>	<u>8,907</u>
Public Safety:	406,375	406,375	389,352	17,023
Police Protection	1,095,640	1,112,633	1,092,476	20,157
Fire Protection	157,231	157,231	158,772	(1,541)
Civil Defense	6,425	6,425	3,323	3,102
Animal Control	2,700	2,700	1,154	1,546
Total Public Safety	<u>1,261,996</u>	<u>1,278,989</u>	<u>1,255,725</u>	<u>23,264</u>
Public Works:				
Street Department	590,820	590,820	496,642	94,178
Sanitation	22,000	22,000	20,253	1,747
Airport	95,160	95,160	112,156	(16,996)
Total Public Works	<u>707,980</u>	<u>707,980</u>	<u>629,051</u>	<u>78,929</u>
Culture and Recreation:				
Parks	240,620	240,620	191,805	48,815
Library	197,330	197,330	175,185	22,145
Pool	122,435	122,435	110,594	11,841
Total Culture and Recreation	<u>560,385</u>	<u>560,385</u>	<u>477,584</u>	<u>82,801</u>
Capital Outlay	335,100	245,100	170,864	74,236
Total Expenditures	<u>3,271,836</u>	<u>3,198,829</u>	<u>2,922,576</u>	<u>276,253</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(175,284)	(192,277)	281,998	474,275
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from Sale of Capital Assets	-	-	361	361
Transfer In	274,000	274,000	279,997	5,997
Transfer Out	(94,626)	(194,626)	(220,604)	(25,978)
Total Other Financing Sources (Uses)	<u>179,374</u>	<u>79,374</u>	<u>59,754</u>	<u>(19,620)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 4,090</u>	<u>\$ (112,903)</u>	<u>341,752</u>	<u>\$ 454,655</u>
Fund Balance - Beginning of Year			<u>2,727,324</u>	
<b>FUND BALANCE - END OF YEAR</b>			<u>\$ 3,069,076</u>	

See accompanying Notes to Financial Statements.

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

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

See accompanying Notes to Financial Statements.



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

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

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

See accompanying Notes to Financial Statements.

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

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

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

See accompanying Notes to Financial Statements.

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

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

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

See accompanying Notes to Financial Statements.

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

(This page intentionally left blank)



## **NOTES TO FINANCIAL STATEMENTS**

(This page intentionally left blank)

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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Financial Reporting Entity**

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

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

Component Units

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

Windom Area Hospital and Foundation

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

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

For financial reporting purposes, the WAH is reported as if it were part of the City's operations (blended component unit) because the City Council is the governing board for the WAH. The Foundation is reported as a discretely presented component unit in the City's financial statements. Separately issued financials statements are available for WAH and its Foundation by contacting WAH.

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

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

A. Financial Reporting Entity (Continued)

Other Organizations

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

B. Basic Financial Statements

**1. Government-Wide Statements**

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

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

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

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

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

B. Basic Financial Statements (Continued)

**2. Fund Financial Statements**

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

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

The City reports the following major governmental funds:

General Fund

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

Economic Development Fund

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

Capital Projects Fund

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

2017 Street Capital Projects Fund

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

The City reports the following major proprietary funds:

Electric Fund

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

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

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

B. Basic Financial Statements (Continued)

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

Water Fund

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

Liquor Fund

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

Wastewater Fund

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

Windom Area Hospital Fund

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

Telecom Fund

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

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

C. Measurement Focus and Basis of Accounting (Continued)

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

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

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

D. Budgets

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

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

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

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

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

D. Budgets (Continued)

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

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

**1. Cash and Investments**

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

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

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

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

**2. Cash and Investments with Fiscal Agent**

At December 31, 2017, cash and investments with a fiscal agent consisted of commercial paper held by US Bank for the purpose of the project and reserve fund for the Revenue Hospital Bonds, Series 2014A.

**3. Restricted Cash and Investments**

At December 31, 2017, restricted cash and investments consisted of Minnesota Municipal Money Market held by 4M Plus Fund. These assets are for a debt service reserve fund required under a bond agreement.



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

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

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

**4. Property Tax Revenue Recognition**

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

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

**5. Special Assessment Revenue Recognition**

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

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

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

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

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

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

**5. Special Assessment Revenue Recognition (Continued)**

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

**6. Accounts Receivable and Allowance for Uncollectible Accounts**

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

The Hospital provides an allowance for uncollectible self-pay and miscellaneous commercial insurance accounts. Patients are not required to provide collateral for services rendered. Payment for services is required upon receipt of an invoice, after payment by insurance, if any. Self-pay accounts are analyzed for collectibility based on the months past due and payment history. An allowance is estimated for these accounts based on the historical experience of the Hospital. Accounts that are determined to be uncollectible are sent to a collection agency and written off at that time. At April 30, 2017, the allowance for uncollectible accounts was approximately \$436,000.

**7. Utility Billing**

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

**8. Inventories**

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

**9. Prepaid Items**

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

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

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

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

**10. Interfund Receivables/Payables**

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

**11. Land Held for Resale**

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

**12. Capital Assets**

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

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

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

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

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

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

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

**13. Compensated Absences**

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

**14. Pensions**

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

**15. Long-Term Obligations**

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

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

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

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

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

**16. Deferred Outflows of Resources**

The Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period. The City will not recognize the related outflow until a future event occurs. More detailed information about pension related deferred outflows of resources can be found in Notes 5 and 10 to the financial statements.

**17. Deferred Inflows of Resources**

The City's governmental fund and government-wide financial statements report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in fund balance that applies to a future period. The City will not recognize the related revenue until a future event occurs. The first type of deferred inflow of resources occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the City's year) under the modified accrual basis of accounting. The city does not have deferred inflows of resources to report in its proprietary fund financial statements in the current year. The second type of deferred inflow of resources relates to pension activity as described in Notes 5 and 10.

**18. Interfund Transactions**

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

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

**19. Net Position**

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

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

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

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

**20. Fund Balance**

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

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

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

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

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

The unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not reported in the other classifications. Also, deficits in fund balances of the other governmental funds are reported as unassigned. The City's policy is to maintain an unrestricted fund balance in the General Fund an amount not less than 35% or more than 60% of the next year's budgeted expenditures of the General Fund.

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

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

**NOTE 2 DEPOSITS AND INVESTMENTS**

The cash balances of substantially all funds are pooled by the City for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2017, based on market prices. Investment earnings on cash and pooled investments are credited to all funds based on their cash balances each month. In addition, some funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants.

**A. Deposits**

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

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

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

**B. Investments**

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

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

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

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

B. Investments (Continued)

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

As of December 31, 2017, the City and the Hospital had the following investments:

**External Investment Pools –**

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

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

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

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



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

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

B. Investments (Continued)

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

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

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

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

**NOTE 3 CAPITAL ASSETS**

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

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

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

**NOTE 3 CAPITAL ASSETS (CONTINUED)**

Depreciation expense was charged to governmental functions as follows:

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

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

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

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

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

**NOTE 4 CITY INDEBTEDNESS**

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

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

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

**NOTE 4 CITY INDEBTEDNESS (CONTINUED)**

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

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

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

Year Ending December 31,	Governmental Activities		
	Long-Term Debt		
	Principal	Interest	Totals
2018	\$ 627,969	\$ 284,179	\$ 912,148
2019	855,120	263,770	1,118,890
2020	901,708	245,531	1,147,239
2021	963,752	220,430	1,184,182
2022	742,000	197,601	939,601
2023-2027	2,851,000	722,397	3,573,397
2028-2032	1,965,000	408,818	2,373,818
2033-2037	1,439,000	148,714	1,587,714
2038-2039	285,000	9,019	294,019
Totals	<u>\$ 10,630,549</u>	<u>\$ 2,500,459</u>	<u>\$ 13,131,008</u>

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

**NOTE 4 CITY INDEBTEDNESS (CONTINUED)**

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

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

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

In 2014, the Hospital issued \$5,600,000 in Gross Revenue Hospital Bonds (Series 2014A) for partial financing of a hospital expansion and renovation project. Principal payments are due annually commencing September 2016 to September 2034 with interest paid semi-annually. The bonds can be optionally redeemed beginning September 1, 2021, with a 1% premium through August 31, 2022, and thereafter no redemption premium. The bonds are payable from the gross revenues of the Hospital.

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

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

**NOTE 4 CITY INDEBTEDNESS (CONTINUED)**

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

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

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

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

**NOTE 5 DEFINED BENEFIT PENSION PLANS**

**A. Plan Description**

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

1. General Employees Retirement Plan (GERF)

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

2. Public Employees Police and Fire Fund (PEPFF)

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

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

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

**B. Benefits Provided**

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

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

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

**1. General Employees Plan Benefits**

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

**2. Police and Fire Plan Benefits**

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

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

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

**C. Contributions**

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

**1. General Employees Fund Contributions**

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2017. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2017. The City contributions to the General Employees Fund for the year ended December 31, 2017 were \$176,975. The City contributions were equal to the required contributions as set by state statute.

**2. Police and Fire Fund Contributions**

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

**D. Pension Costs**

**1. General Employees Fund Pension Costs**

At December 31, 2017, the City reported a liability of \$10,074,407 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the state of Minnesota's contribution of \$6 million to the fund in 2017. The state of Minnesota is considered a nonemployer contributing entity and the state's contribution meets the definition of a special funding situation. The state of Minnesota's proportionate share of the net pension liability associated with the City totaled \$59,522. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016 through June 30, 2017 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportionate share was 0.0366% which was a decrease of 0.0004% from its proportion measured as of June 30, 2016.



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

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

**D. Pension Costs (Continued)**

1. General Employees Fund Pension Costs (Continued)

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

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

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

\$468,182 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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

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

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

**D. Pension Costs (Continued)**

2. Police and Fire Fund Pension Costs

At December 31, 2017 the City reported a liability of \$756,067 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016 through June 30, 2017 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017 the City's proportion was 0.0560% which was an increase of 0.0010% from its proportion measured as of June 30, 2016. The City also recognized \$5,040 for the year ended December 31, 2017 as revenue and an offsetting reduction of net pension liability for its proportionate share of the state of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the state of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

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

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

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

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

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

**D. Pension Costs (Continued)**

2. Police and Fire Fund Pension Costs (Continued)

\$47,029 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

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

**E. Actuarial Assumptions**

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

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

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

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

The following changes in actuarial assumptions occurred in 2017:

General Employees Fund

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

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

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

**E. Actuarial Assumptions (Continued)**

Police and Fire Fund

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

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

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

**E. Actuarial Assumptions (Continued)**

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

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

**F. Discount Rate**

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

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

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

**G. Pension Liability Sensitivity**

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

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

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

**H. Aggregate Pension Costs**

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

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

**I. Pension Plan Fiduciary Net Position**

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

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

**NOTE 6 DEFINED CONTRIBUTION PENSION PLAN**

1. Plan Description

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2% of employer contributions and twenty-five hundredths of 1% of the assets in each member's account annually.

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

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

**NOTE 7 STEWARDSHIP AND ACCOUNTABILITY**

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

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

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

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

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

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

**A. Due to/from Other Funds**

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

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

All of the due from/due to other funds balances are expected to be repaid in future years.

**B. Advances to/from Other Funds**

Fund	Advances To Other Funds	Advances From Other Funds
General Fund	\$ -	\$ 125,040
Proprietary Funds:		
Electric Fund	125,040	-
Total Advances	<u>\$ 125,040</u>	<u>\$ 125,040</u>

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



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

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

**C. Transfers**

Transfers between funds during 2017 are as follows:

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

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

**NOTE 9 RISK MANAGEMENT**

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

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

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

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

**NOTE 10 VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION**

**A. Plan Description**

Firefighters of the City of Windom are members of the Windom Firefighters Relief Association. The Association is the administrator of the single-employer defined benefit pension plan available to firefighters. The plan is administered pursuant to Minnesota Statutes Chapter 69, Chapter 424A, and the Association's by-laws. As of December 31, 2017, membership includes 29 active participants and one terminated employee entitled to benefit but not yet receiving them. The plan issues a stand-alone financial statement.

**B. Benefits Provided**

Authority for payment of pension benefits is established in *Minnesota Statutes* §69.77 and may be amended only by the Minnesota State Legislature. Each member who is at least 50 years of age, has retired from the Fire Department, has served at least 20 years of active service with such department before retirement shall be entitled to a lump sum service pension in the amount of \$2,500 for each year of active Fire Department service (including each year over 20) but not exceeding the maximum amount per year of service allowed by law for the minimum average amount of available financing per firefighter as prescribed by law.

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

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

**B Benefits Provided (Continued)**

Pursuant to *Minnesota Statutes* §424A.02, Subds. 2 and 4, members who retire with 20 years of service and have reached the age of 50 years are eligible for a retirement benefit. Members who retire before full retirement age and years of service requirements are eligible for a reduced benefit, based on the vesting schedule as set forth in *Minnesota Statutes* §424A.02, Subd. 2(c). During the time a member is on early vested pension, they will not be eligible for disability benefits.

If a member of the Association shall become permanently or totally disabled, the Association shall pay the sum \$2,500 for each year the member was an active member of the City of Windom Fire Department. A death benefit is also available, which is payable to a survivor.

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

**C. Contributions**

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

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

The plan is funded in part by fire state aid and, if necessary, City contributions. The state of Minnesota distributed to the City \$48,576 in fire state aid paid by the City to the Relief Association for the year ended December 31, 2017. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contribution to the plan for the year ended December 31, 2017 was \$-0-.

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

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

**D. Pension Costs**

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

As a result of its requirement to contribute to the Relief Association, the City recognized expense of \$1,201 for the year ended December 31, 2017. At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ -	\$ -
Changes in Actuarial Assumptions	1,891	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	51,445	-
Changes in Proportion	-	-
Contributions Paid to PERA Subsequent to the Measurement Date	-	-
Total	<u>\$ 53,336</u>	<u>\$ -</u>

The City contributions to the Association subsequent to the measurement date, \$-0- reported as deferred outflows of resources will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to the Association's pension will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense Amount
2017	\$ 18,508
2018	18,508
2019	18,508
2020	(2,914)
2021	291
2022	291
2023	144

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

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

**E. Actuarial Assumptions**

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

**ASSUMPTIONS FROM ACTUARIAL REPORT**

Valuation Date	December 31, 2016
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar Closed
Actuarial Assumptions:	
Discount Rate	6.75%
Investment Rate of Return	6.75%
20-Year Municipal Bond Yield	3.78%
Age of Service Retirement	50

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

Best estimates of geometric real and nominal rates of return for each major asset class included in the pension plan's asset allocation as of December 31, 2017 are summarized in the following table:

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

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

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

**F. Discount Rate**

The discount rate used to measure the total pension liability was 6.75%. Assets were projected using expected benefit payments and expected asset returns. Expected benefit payments were discounted by year using expected assets return assumption for years in which the assets were sufficient to pay all benefit payments. Any remaining benefit payments after the trust fund is exhausted are discounted at the municipal bond rate of return. The equivalent single rate is the discount rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

**G. Pension Liability Sensitivity**

The following presents the City of Windom's proportionate share of the net pension liability of the Association, calculated using the discount rate of 6.75%, as well as what the Association's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

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

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

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

**H. Plan's Fiduciary Net Position**

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

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

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

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

**NOTE 11 TAX ABATEMENTS**

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

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

**NOTE 11 TAX ABATEMENTS (CONTINUED)**

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

**NOTE 12 FUND BALANCE**

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

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



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

**NOTE 13 COMMITMENTS AND CONTINGENCIES**

A. Federal and State Funds

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

B. Electric Power Purchase Agreement

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

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

C. Construction Contract Commitments

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

**NOTE 14 NEW ACCOUNTING PRONOUNCEMENTS**

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

**NOTE 15 SUBSEQUENT EVENTS**

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

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

(This page intentionally left blank)

**REQUIRED SUPPLEMENTARY INFORMATION**

(This page intentionally left blank)

**CITY OF WINDOM, MINNESOTA  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
YEAR ENDED DECEMBER 31, 2017**

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

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

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

Additional information will be added as it becomes available.

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

Schedule of Contributions

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

Additional information will be added as it becomes available.

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

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

Additional information will be added as it becomes available.

(This page intentionally left blank)



## **SUPPLEMENTARY INFORMATION**

(This page intentionally left blank)

**COMBINING AND INDIVIDUAL NONMAJOR FUND  
FINANCIAL STATEMENTS**

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

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

Debt Service Funds

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

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

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

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

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

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

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

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



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

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

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

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

**OTHER REPORT SECTION**

## INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Windom (the City), Minnesota, as of December 31, 2017 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued our report thereon dated June 28, 2018.

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

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

In connection with our audit, nothing came to our attention that caused us to believe that the City of Windom, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Windom, Minnesota's noncompliance with the above-referenced provisions.

Honorable Mayor and  
Members of the City Council  
City of Windom

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

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Austin, Minnesota  
June 28, 2018