

CITY OF WINDOM, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2014

CITY OF WINDOM, MINNESOTA
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YEAR ENDED DECEMBER 31, 2014

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INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

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INTRODUCTORY SECTION

**CITY OF WINDOM, MINNESOTA
OFFICIAL DIRECTORY
DECEMBER 31, 2014**

Elected Officials

Term Expires

Mayor	Corey Maricle	December 31, 2016
Council Member	Brian Cooley	December 31, 2016
Council Member	JoAnn Ray	December 31, 2016
Council Member	Dominic Jones	December 31, 2018
Council Member	Kelsey Fossing	December 31, 2014
Council Member	Brad Powers	December 31, 2014

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, 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, 2014, 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.

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

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Unmodified
Business-Type Activities	Qualified
General Fund	Unmodified
Economic Development Fund	Unmodified
Electric Fund	Unmodified
Water Fund	Unmodified
Liquor Fund	Unmodified
Sewer Fund	Unmodified
Telecom Fund	Unmodified
Windom Area Hospital Fund	Adverse
Aggregate Remaining Fund Information	Unmodified

Basis for Adverse Opinion on Windom Area Hospital Fund and Qualified Opinion on Business-Type Activities

Management has not included the Windom Area Hospital Fund in the City’s financial statements. Accounting principles generally accepted in the United States of America require the Windom Area Hospital Fund to be presented as a major enterprise fund and financial information about the Windom Area Hospital Fund to be part of the business-type activities, thus increasing that activity’s assets, liabilities, revenues, and expenses, and changing its net position. The amount by which this departure would affect the assets, fund balances, liabilities, net position, revenues, and expenses of the business-type activities and the omitted major fund has not been determined.

Adverse Opinion

In our opinion, because of significance of the matter described in the “Basis for Adverse Opinion on Windom Area Hospital Fund and Qualified Opinion on Business-Type Activities” paragraph, the financial statements referred to above do not present fairly the financial position of the Windom Area Hospital Fund of the City of Windom, as of December 31, 2014, or the changes in financial position or cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the matter described in the “Basis for Adverse Opinion on Windom Area Hospital Fund and Qualified Opinion on Business-Type Activities” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the City of Windom, as of December 31, 2014, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund other than the Windom Area Hospital Fund, and the aggregate remaining fund information of the City of Windom as of December 31, 2014, 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, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2015, on our consideration of the City of Windom's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Windom's internal control over financial reporting and compliance.

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Austin, Minnesota
April 24, 2015

REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

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, 2014.

FINANCIAL HIGHLIGHTS

- The assets of the City of Windom exceeded its liabilities at the close of the most recent fiscal year by \$29,269,573 (net position). The unrestricted portion of net position, the portion used to meet the City's ongoing obligations to citizens and creditors, is \$12,573,501.
- The City's total net position increased by \$1,156,603 from 2013.
- As of the close of the current fiscal year, the City of Windom's governmental funds reported a combined ending fund balance of \$7,332,406, an increase of \$369,768 in comparison with the prior year. The overall *unassigned fund balance* is \$2,110,162.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,417,053, or 79% of total 2014 general fund expenditures. City policy is to maintain a fund balance of at least 75%.
- The City of Windom's total long-term debt decreased by \$1,380,422 or 5.1% during the current fiscal period.
- In June 2014 the NWIP received the designation of MN Shovel Ready Certification. Shovel-ready sites certify that the most time-consuming technical and regulatory aspects of development are already complete. The certification gives Windom a competitive edge by making our site more attractive to site-selection consultants and prospective companies looking for locations for business startups, expansions or relocations. The NWIP is 1 of 23 certified sites in Minnesota and the first such site in the 9-county Southwest MN Region.
- Installation of a Jet-A-Fuel system at the Windom Airport was completed using a grant from the Federal Aviation Administration, through the State of Minnesota Department of Transportation, Office of Aeronautics. The total project cost estimate was \$254,320. The federal portion of the grant received was \$228,976 and the state portion of the grant was 5% of the project cost for a total state grant of \$12,715. The local share for the project was 5% for a total cost of \$12,717.54. The project was completed in August and over 3,000 gallons of Jet-A fuel was sold in 2014 after completion.
- Prior electric investment in a transmission project through a partnership with CEMPA have been completed and accepted by the Federal Energy Regulatory Commission. The 2014 returns on this project were released January 2015. Monthly distributions from this project will continue to return funds to the electric utility

**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

OVERVIEW OF THE FINANCIAL STATEMENTS (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.

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 sewer utility, municipal liquor store, telecom operation, arena facility, multi-purpose center, and River Bluff townhomes.

The government-wide financial statements can be found on pages 19-21 of this report.

Fund Financial Statements

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

**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (Continued)

Governmental Funds

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

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

The City of Windom maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, economic development fund, and capital project fund, all of 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 22-27 of this report.

Proprietary Funds

The City of Windom maintains eight proprietary fund types. *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, sewer and electric utilities, liquor store operation, telecom operation, arena operation, multi-purpose center 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, sewer and electric utilities, municipal liquor store, and telecom operation which are considered to be major funds of the City of Windom. The basic proprietary fund financial statements can be found on pages 28-35 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 37-63 of this report.

**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Other Information

The combining statements referred to earlier in conjunction with nonmajor governmental and proprietary funds are presented immediately following the financial statement footnotes. Combining and individual fund statements can be found on pages 64-70.

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 in resources exceeded total liabilities and deferred inflows of resources by \$29,269,573 at the close of the most recent fiscal year compared to \$28,112,970 at the end of 2013.

More than half of the City of Windom's net position (51%) reflects its net investment in capital assets (e.g. land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that are still outstanding. 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.

CITY OF WINDOM'S NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
ASSETS						
Current and Other Assets	\$ 8,782,177	\$ 8,826,143	\$ 10,162,198	\$ 9,636,256	\$ 18,944,375	\$ 18,462,399
Capital Assets	15,863,955	15,933,048	22,355,306	23,346,804	38,219,261	39,279,852
Total Assets	24,646,132	24,759,191	32,517,504	32,983,060	57,163,636	57,742,251
LIABILITIES						
Noncurrent Liabilities Outstanding	6,899,341	7,598,125	17,672,951	18,685,228	24,572,292	26,283,353
Other Liabilities	973,632	1,068,479	2,348,139	2,277,449	3,321,771	3,345,928
Total Liabilities	7,872,973	8,666,604	20,021,090	20,962,677	27,894,063	29,629,281
Net Position:						
Net Investment in Capital Assets	10,416,740	10,233,282	4,649,458	4,887,627	15,066,198	15,120,909
Restricted	1,629,874	1,831,659	-	-	1,629,874	1,831,659
Unrestricted	4,726,545	4,027,646	7,846,956	7,132,756	12,573,501	11,160,402
Total Net Position	\$ 16,773,159	\$ 16,092,587	\$ 12,496,414	\$ 12,020,383	\$ 29,269,573	\$ 28,112,970

The remaining balance of the City of Windom's net position is mostly *unrestricted net position* (43%) that may be used to meet the City's ongoing obligations to citizens and creditors.

Governmental Activities

Governmental activities increased the City of Windom's net position by \$680,572. The most significant change in governmental net position is due to the effect of accounting for net position under the full accrual basis. Under full accrual accounting, the property taxes collected in debt service funds were used to reduce debt obligations. These debt obligations were accrued as expenses in prior years. Also contributing to the net position increase was lower expenses than planned in several departments as well as unused capital spending dollars being used to fund reserve accounts.

**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Business-Type Activities

Business-type activities increased the City of Windom's net position by \$476,031. Electric, water and sewer utilities as well as the operation of the municipal liquor store all contributed to the increase in net position due to revenues exceeding expenses. Telecom expenses exceeded revenues by \$162,436 offsetting the increase resulting from other business-type activities.

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	
	2014	2013	2014	2013	2014	2013
REVENUES						
Program Revenues:						
Fees, Charges, Fines and Other	\$ 1,110,870	\$ 938,620	\$ 12,906,175	\$ 12,715,778	\$ 14,017,045	\$ 13,654,398
Operating Grants and Contributions	203,232	613,942	-	-	203,232	613,942
Capital Grants and Contributions	445,457	1,672,793	60,508	410,126	505,965	2,082,919
General Revenues:						
Property Taxes	1,335,474	1,242,447	414,990	419,095	1,750,464	1,661,542
Tax Increments	160,621	268,298	-	-	160,621	268,298
Other Taxes	25,952	22,387	-	-	25,952	22,387
Grants and Contributions, Not Restricted	1,418,008	1,202,917	14,374	39,936	1,432,382	1,242,853
Unrestricted Interest Income	25,445	13,505	53,028	18,874	78,473	32,379
Unrestricted Investment Earnings (Loss)	(9,046)	(7,369)	(16,706)	(15,512)	(25,752)	(22,881)
Gain on Disposal of Capital Assets	53,334	(35,774)	21,900	-	75,234	(35,774)
Total Revenues	4,769,347	5,931,766	13,454,269	13,588,297	18,223,616	19,520,063
EXPENSES						
General Government	463,253	734,298	-	-	463,253	734,298
Public Safety	1,495,438	1,510,606	-	-	1,495,438	1,510,606
Public Works	1,210,082	667,201	-	-	1,210,082	667,201
Culture and Recreation	440,906	483,184	-	-	440,906	483,184
Economic Development	557,399	639,543	-	-	557,399	639,543
Interest on Long-Term Debt	204,595	234,342	-	-	204,595	234,342
Electric	-	-	5,480,508	5,417,401	5,480,508	5,417,401
Water	-	-	937,322	1,027,579	937,322	1,027,579
Sewer	-	-	1,234,060	1,223,441	1,234,060	1,223,441
Liquor Store	-	-	1,462,605	1,418,942	1,462,605	1,418,942
Telecom	-	-	2,868,895	2,777,166	2,868,895	2,777,166
Arena	-	-	311,397	340,352	311,397	340,352
Multi-Purpose	-	-	314,912	300,228	314,912	300,228
River Bluff Townhomes	-	-	85,641	82,187	85,641	82,187
Total Expenses	4,371,673	4,269,174	12,695,340	12,587,296	17,067,013	16,856,470
Increase in Net Position						
Before Transfers	397,674	1,662,592	758,929	1,001,001	1,156,603	2,663,593
Transfers	282,898	443,514	(282,898)	(443,514)	-	-
CHANGE IN NET POSITION	680,572	2,106,106	476,031	557,487	1,156,603	2,663,593
Net Position - Beginning of Year	16,092,587	13,986,481	12,020,383	11,462,896	28,112,970	25,449,377
NET POSITION - END OF YEAR	<u>\$ 16,773,159</u>	<u>\$ 16,092,587</u>	<u>\$ 12,496,414</u>	<u>\$ 12,020,383</u>	<u>\$ 29,269,573</u>	<u>\$ 28,112,970</u>

**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

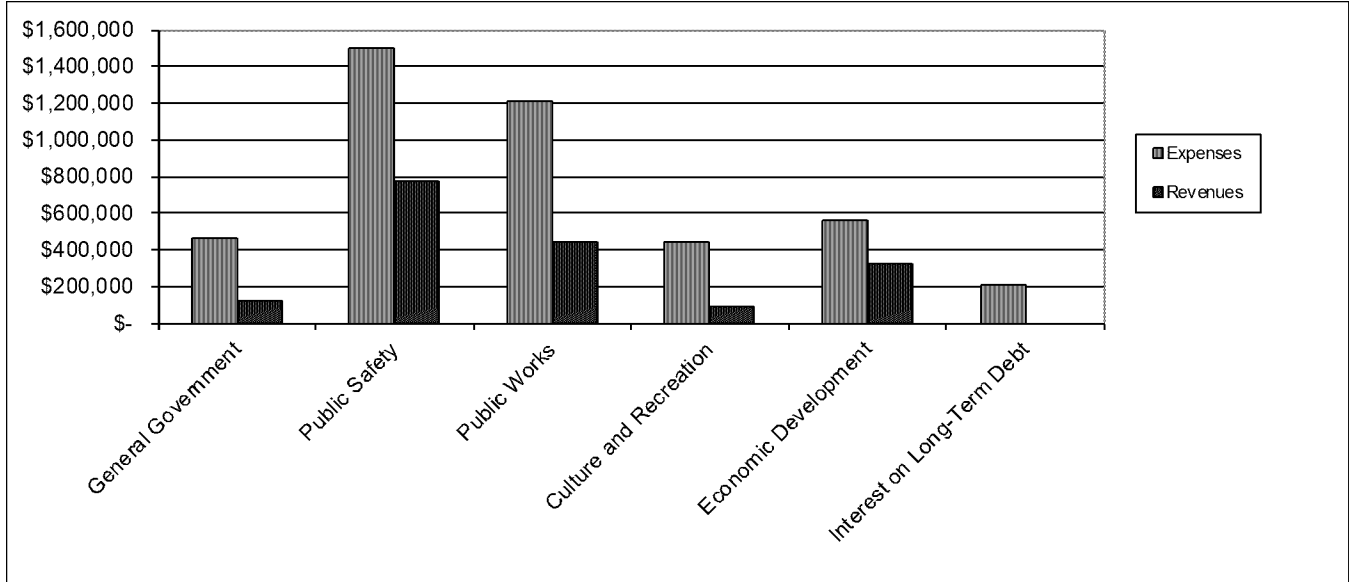
GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

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.

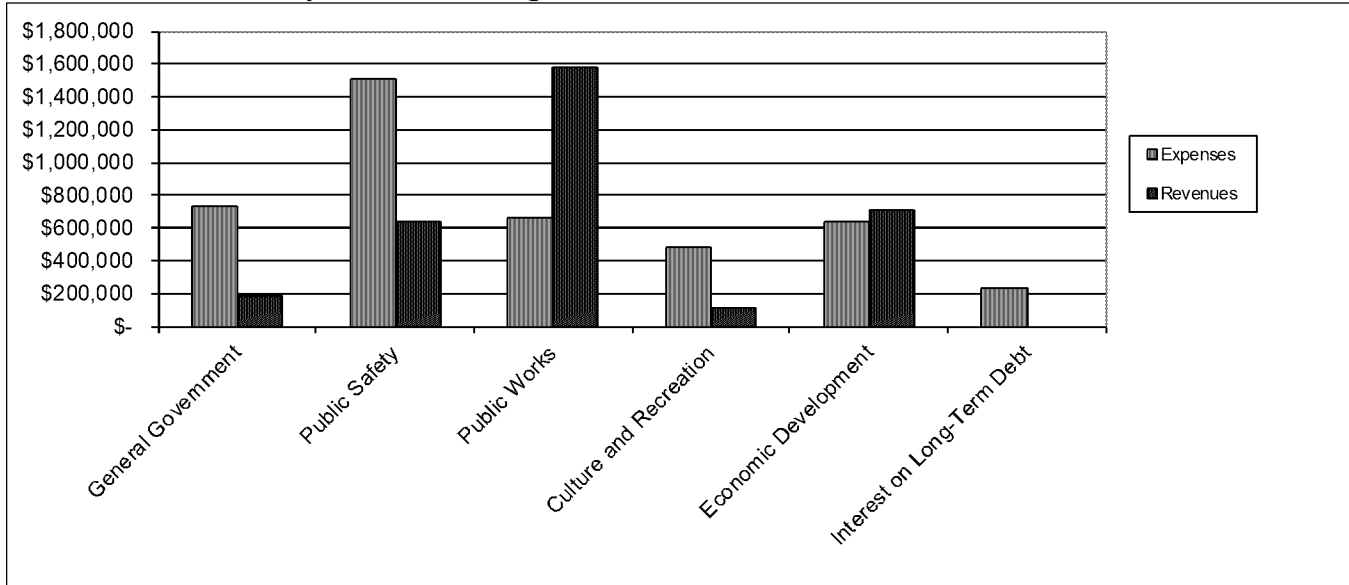
2014

Expenses and Program Revenues-Governmental Activities



2013

Expenses and Program Revenues-Governmental Activities

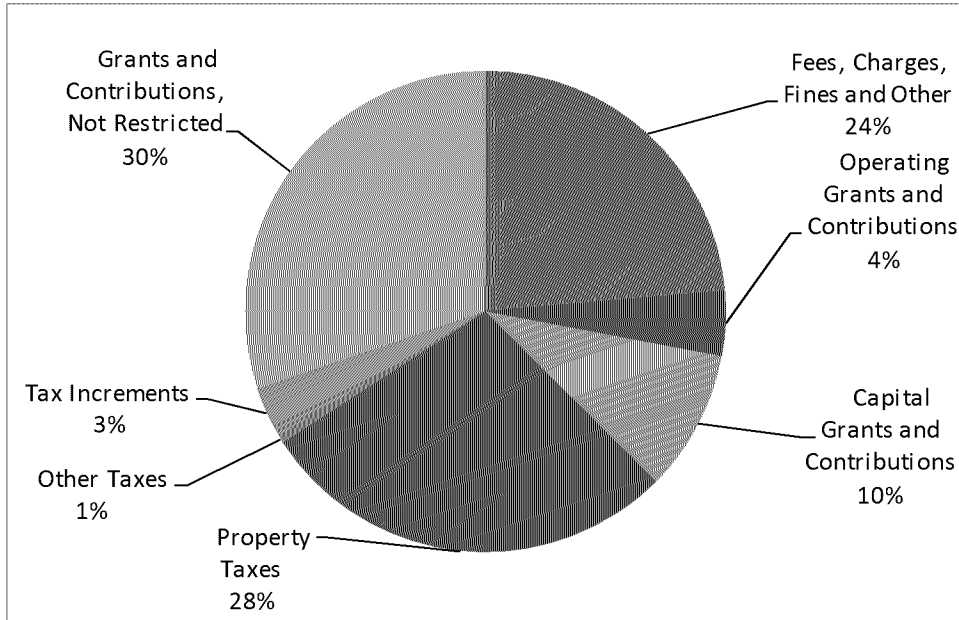


**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

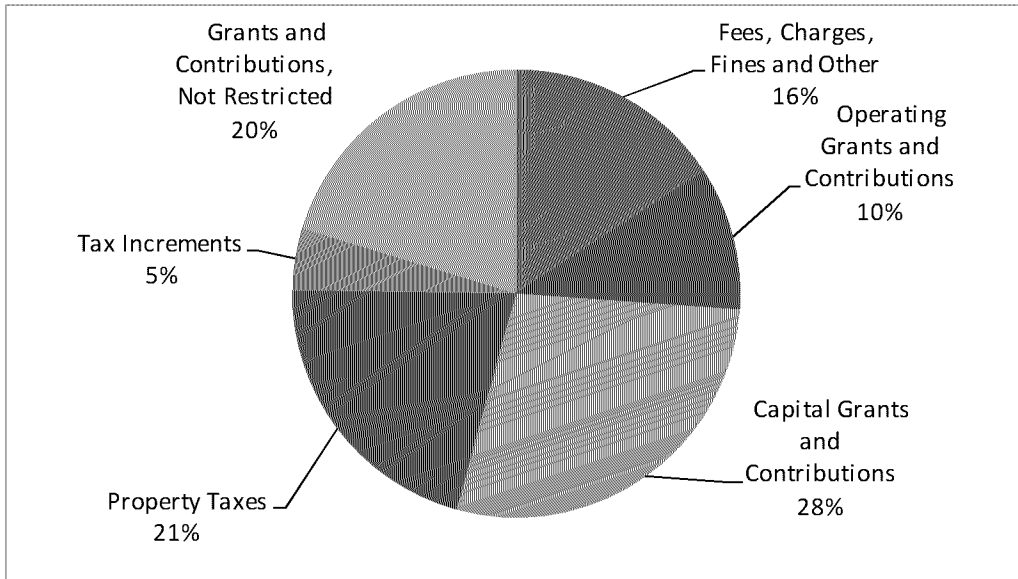
GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

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

**2014
Revenues by Source-Governmental Activities**



**2013
Revenues by Source-Governmental Activities**



**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

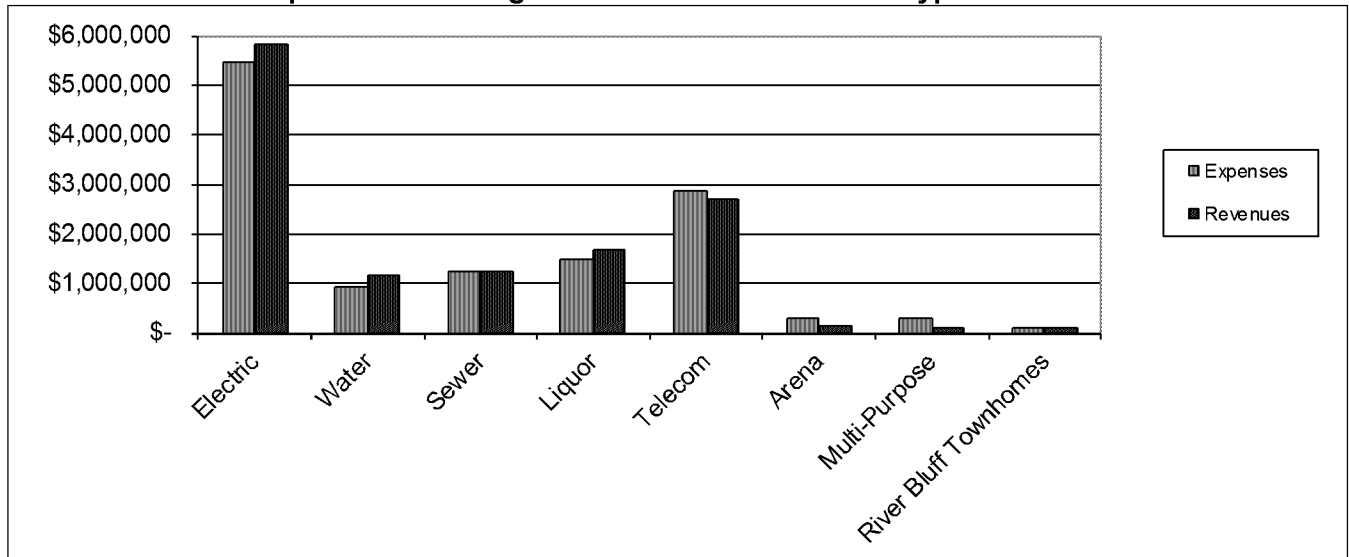
GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

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.

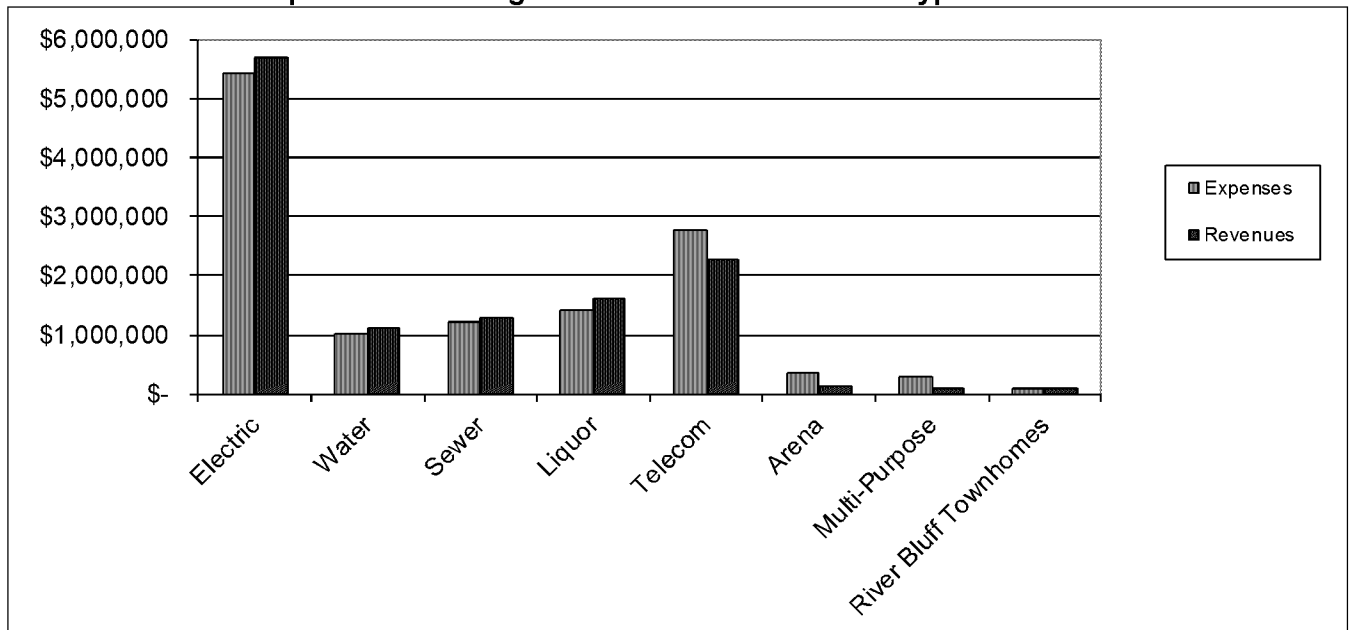
2014

Expenses and Program Revenues – Business-Type Activities



2013

Expenses and Program Revenues – Business-Type Activities

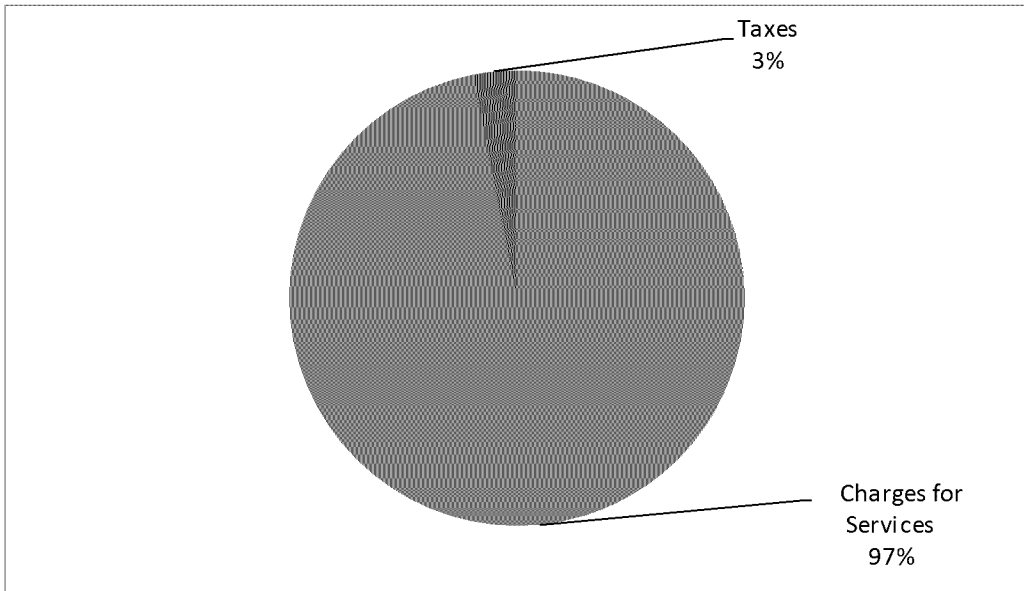


**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

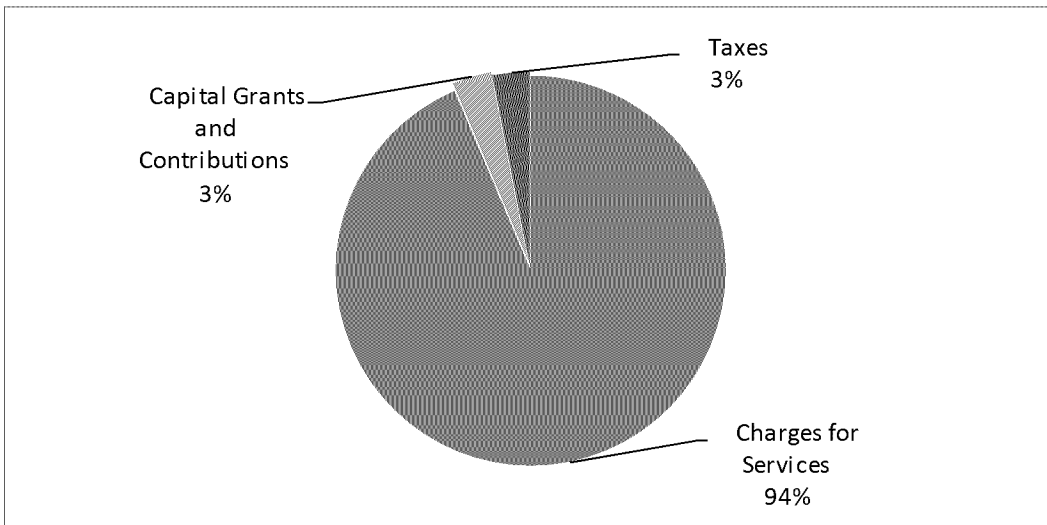
GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

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

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



**2013
Revenues by Source – Business-Type Activities**



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

**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

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 \$7,332,406 an increase of \$369,768 in comparison with 2013. The City reported an unassigned fund balance in the amount of \$2,110,162. The remainder of fund balance is nonspendable or restricted to indicate that it is not available for new spending. At December 31, 2014 fund balances were as follows:

	Balance	Increase (Decrease) From 2013
General Fund	\$ 2,830,678	\$ 285,195
Economic Development Fund	1,507,189	94,777
Other Governmental Funds	2,994,539	(10,204)
Total	\$ 7,332,406	\$ 369,768

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 \$2,417,053.

During the current fiscal year, the City of Windom's general fund balance increased by \$285,195. The increase was a result of reallocated property tax dollars related to decertified TIF districts as well as lower than expected expenditures in Public Safety and Public Works.

Economic Development

The increase in the economic development fund balance was related to land sale proceeds in NWIP and Riverbluff Estates as well as the receipt of program income related to Small Cities Development Fund and grants received in the EDA Revolving Loan Fund.

**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

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 2014 was \$9,848,984, of which \$6,228,996 is unrestricted. Net position increased \$188,795 during the current year primarily due to the continuation of the electric rate calculation used to grow the operational reserve fund for funding anticipated capital projects.

The water fund has total net position of \$3,348,153, of which \$688,261 is unrestricted. The increase in net position of \$235,394 was related to a 2014 rate increase to meet future debt service payments and increased Commercial Water revenue.

The sewer fund has total net position of \$4,863,030, of which \$825,677 is unrestricted. The increase in net position of \$30,541 was lower than expected due to increased maintenance expenditures and reduced usage by PM Windom.

The liquor fund has total net position of \$1,081,679. It has unrestricted net position of \$921,299. Net position increased by \$156,890 from 2013. Net position increase is consistent with prior years and includes an annual transfer to the General Fund (see Note 8).

The telecom fund reported a deficit net position of (\$8,044,058), a decrease from 2013 by \$162,436. Consistent with prior years, total expenses exceeded total revenues in this fund. Expenditures were higher than 2013 due to increased cable programming costs. At the same time, cable revenues decreased primarily due to reduced cable subscribers in 2014. The Telecom fund will be reviewing their service rates in 2015 to increase margin on services.

GENERAL FUND BUDGETARY HIGHLIGHTS

Revenues were over budget due mainly to reallocated property taxes from decertified TIF districts. Expenditures came in under budget in several departments which is mainly due to capital outlay being reserved for future replacements.

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, 2014, amounts to \$38,219,261 (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 decrease in the City of Windom's investment in capital assets (net of accumulated depreciation) was \$1,060,591 when compared to 2013. This is the result of annual depreciation expense exceeding capital additions in 2014. Detailed information about the City's capital assets is presented in the notes to the financial statements

**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Capital Assets (Continued)

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

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 232,961	\$ 227,061	\$ 248,424	\$ 169,920	\$ 481,385	\$ 396,981
Buildings and Building Improvements	7,268,435	7,224,060	18,719,639	19,288,301	25,988,074	26,512,361
Infrastructure	7,240,288	6,222,724	-	-	7,240,288	6,222,724
Machinery and Equipment	1,047,425	808,709	3,248,097	3,716,169	4,295,522	4,524,878
Office Equipment and Furniture	74,846	44,203	139,146	104,605	213,992	148,808
Construction in Progress	-	1,406,291	-	67,810	-	1,474,101
Total	<u>\$ 15,863,955</u>	<u>\$ 15,933,048</u>	<u>\$ 22,355,306</u>	<u>\$ 23,346,805</u>	<u>\$ 38,219,261</u>	<u>\$ 39,279,853</u>

Long-Term Debt

At the end of the current fiscal year, the City of Windom had total long-term debt outstanding of \$25,671,879. The City of Windom's total long-term debt decreased by \$1,380,422 or 5.1% during the current fiscal period. Detailed information about the City's debt and other long-term liabilities is presented in the notes to the financial statements.

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

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

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
G.O. Bonds	\$ 6,801,000	\$ 7,205,291	\$ 2,759,000	\$ 2,873,000	\$ 9,560,000	\$ 10,078,291
Revenue Bonds	-	-	14,572,400	15,545,774	14,572,400	15,545,774
Notes Payable	464,503	538,364	1,074,976	889,872	1,539,479	1,428,236
Total	<u>\$ 7,265,503</u>	<u>\$ 7,743,655</u>	<u>\$ 18,406,376</u>	<u>\$ 19,308,646</u>	<u>\$ 25,671,879</u>	<u>\$ 27,052,301</u>

**CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Increased programming expenses in the telecom fund resulted in reduced income in 2014. Continued increases in programming are expected and will result in a significant rate increases in Telecommunication services provided by the City.
- The electric utility plans to complete a retail electric rate study in 2015 sponsored by CMMPA. The study will evaluate the costs of serving each customer class and propose rates for all classes. This study will also compare Windom's rates to other utilities and provide benchmarking information in several areas such as cash reserves, transfers, line loss and rate design.
- The City of Windom continues to market developed lots in the NWIP and is also pursuing funding for NWIP Phase II project.
- Interest rates have remained low and the City's investment earnings have decreased accordingly.
- During 2014 the EDA contracted the completion of a hotel feasibility study for the City of Windom. The EDA continues to work with a prospective developer and local investors on a potential project.
- The EDA partnered with HRA and Minnesota Housing Finance Agency to complete 2014 Windom Housing Study. The study is a needed first step to identify and quantify demand and is often requested by potential developers before undertaking a project. The EDA has provided the report to several potential housing developers and has maintained contact with the potential developers through the present time.
- The City of Windom continues to research possible facility construction projects including an Arena, Emergency Services Facility, or Pool as well as funding sources for these projects.

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

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**CITY OF WINDOM, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2014**

	2014		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 5,328,352	\$ 7,072,239	\$ 12,400,591
Cash and Investments with Fiscal Agent	591,819	248,645	840,464
Restricted Cash and Investments	-	405,863	405,863
Taxes Receivable	34,467	-	34,467
Special Assessments Receivable	1,211,628	284,381	1,496,009
Accounts Receivable	253,465	1,380,859	1,634,324
Due from Other Governments	69,769	-	69,769
Internal Balances	(21,708)	21,708	-
Inventory	47,956	748,503	796,459
Prepaid Items	190,571	-	190,571
Loans Receivable	27,482	-	27,482
Land Held for Resale	1,048,376	-	1,048,376
Capital Assets:			
Land and Construction in Progress	232,961	248,424	481,385
Other Capital Assets, Net of Depreciation	15,630,994	22,106,882	37,737,876
	<u>24,646,132</u>	<u>32,517,504</u>	<u>57,163,636</u>
LIABILITIES			
Accounts and Contracts Payable	49,749	620,495	670,244
Other Accrued Liabilities	180,496	159,084	339,580
Accrued Interest Payable	75,703	69,639	145,342
Unearned Revenue	250	273,227	273,477
Long-Term Liabilities:			
Due within One Year	667,434	1,225,694	1,893,128
Due in More than One Year	6,899,341	17,672,951	24,572,292
Total Liabilities	<u>7,872,973</u>	<u>20,021,090</u>	<u>27,894,063</u>
Net Position			
Net Investment in Capital Assets	10,416,740	4,649,458	15,066,198
Restricted for:			
Debt Service	1,629,874	-	1,629,874
Unrestricted	4,726,545	7,846,956	12,573,501
Total Net Position	<u>\$ 16,773,159</u>	<u>\$ 12,496,414</u>	<u>\$ 29,269,573</u>

See accompanying Notes to Financial Statements.

**CITY OF WINDOM, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2014**

Functions/Programs	2014			
	Expenses	Fees, Charges, Fines and Other	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$ 463,253	\$ 85,532	\$ 8,096	\$ 27,486
Public Safety	1,495,438	638,803	135,392	-
Public Works	1,210,082	116,989	17,035	308,603
Culture and Recreation	440,906	81,192	11,489	-
Economic Development	557,399	188,354	31,220	109,368
Interest on Long-Term Debt	204,595	-	-	-
Total Governmental Activities	<u>4,371,673</u>	<u>1,110,870</u>	<u>203,232</u>	<u>445,457</u>
Business-Type Activities:				
Electric	5,480,508	5,814,821	-	-
Water	937,322	1,145,677	-	33,219
Sewer	1,234,060	1,244,950	-	27,289
Liquor	1,462,605	1,686,879	-	-
Telecom	2,868,895	2,704,717	-	-
Arena	311,397	139,776	-	-
Multi-Purpose Center	314,912	82,566	-	-
River Bluff Townhomes	85,641	86,789	-	-
Total Business-Type Activities	<u>12,695,340</u>	<u>12,906,175</u>	<u>-</u>	<u>60,508</u>
Total	<u>\$ 17,067,013</u>	<u>\$ 14,017,045</u>	<u>\$ 203,232</u>	<u>\$ 505,965</u>

General Revenues:

Taxes:	
Property Taxes, Levied for General Purpose	
Tax Increments	
Other Taxes	
Grants and Contributions not Restricted to Specific Programs	
Unrestricted Interest Income	
Unrestricted Investment Earnings (Loss)	
Gain on Sale of Capital Assets	
Gain on Sale of Land Held for Resale	
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.

2014

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
\$ (342,139)	\$ -	\$ (342,139)
(721,243)	-	(721,243)
(767,455)	-	(767,455)
(348,225)	-	(348,225)
(228,457)	-	(228,457)
(204,595)	-	(204,595)
<u>(2,612,114)</u>	<u>-</u>	<u>(2,612,114)</u>
-	334,313	334,313
-	241,574	241,574
-	38,179	38,179
-	224,274	224,274
-	(164,178)	(164,178)
-	(171,621)	(171,621)
-	(232,346)	(232,346)
-	1,148	1,148
<u>-</u>	<u>271,343</u>	<u>271,343</u>
(2,612,114)	271,343	(2,340,771)
1,335,474	414,990	1,750,464
160,621	-	160,621
25,952	-	25,952
1,418,008	14,374	1,432,382
25,445	53,028	78,473
(9,046)	(16,706)	(25,752)
-	21,900	21,900
53,334	-	53,334
<u>282,898</u>	<u>(282,898)</u>	<u>-</u>
<u>3,292,686</u>	<u>204,688</u>	<u>3,497,374</u>
680,572	476,031	1,156,603
<u>16,092,587</u>	<u>12,020,383</u>	<u>28,112,970</u>
<u>\$ 16,773,159</u>	<u>\$ 12,496,414</u>	<u>\$ 29,269,573</u>

**CITY OF WINDOM, MINNESOTA
GOVERNMENTAL FUNDS
BALANCE SHEET
DECEMBER 31, 2014**

	General Fund	Economic Development Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 2,094,336	\$ 462,902	\$ 2,747,283	\$ 5,304,521
Cash and Investments with Fiscal Agent	-	-	591,819	591,819
Property Taxes Receivable	34,467	-	-	34,467
Special Assessments Receivable:	-	55,016	1,156,612	1,211,628
Accounts Receivable	99,486	5,908	217,840	323,234
Due from Other Funds	453,684	-	-	453,684
Inventory	47,956	-	-	47,956
Prepaid Expenses	190,571	-	-	190,571
Loans Receivable, Net of Allowance	-	27,482	-	27,482
Land Held for Resale	-	1,048,376	-	1,048,376
	<u>\$ 2,920,500</u>	<u>\$ 1,599,684</u>	<u>\$ 4,713,554</u>	<u>\$ 9,233,738</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICITS)				
LIABILITIES				
Accounts and Contracts Payable	\$ 31,950	\$ 12,858	\$ 10,088	\$ 54,896
Other Accrued Liabilities	37,113	2,913	111,492	151,518
Due to Other Funds	-	-	453,684	453,684
Interfund Advance Payable	-	21,708	-	21,708
Unearned Revenue	250	-	-	250
Total Liabilities	<u>69,313</u>	<u>37,479</u>	<u>575,264</u>	<u>682,056</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	20,509	55,016	1,143,751	1,219,276
Total Deferred Outflows of Resources	<u>20,509</u>	<u>55,016</u>	<u>1,143,751</u>	<u>1,219,276</u>
FUND BALANCES (DEFICITS)				
Nonspendable	238,527	-	-	238,527
Restricted	70,597	431,331	1,588,646	2,090,574
Assigned	104,501	1,075,858	1,712,784	2,893,143
Unassigned	2,417,053	-	(306,891)	2,110,162
Total Fund Balances (Deficits)	<u>2,830,678</u>	<u>1,507,189</u>	<u>2,994,539</u>	<u>7,332,406</u>
Total Liabilities and Fund Balances	<u>\$ 2,920,500</u>	<u>\$ 1,599,684</u>	<u>\$ 4,713,554</u>	<u>\$ 9,233,738</u>

See accompanying Notes to Financial Statements.

**CITY OF WINDOM, MINNESOTA
GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2014**

	2014
Total Fund Balance for Governmental Funds	\$ 7,332,406
Total net position reported for governmental activities in the statement of net position is different because:	
Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:	
Land	232,961
Buildings and Improvements	9,070,944
Machinery & Equipment	7,107,637
Infrastructure	15,306,244
Office Equipment and Furniture	95,918
Less: Accumulated Depreciation	(15,949,749)
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 deferred revenue in the governmental funds.	1,219,276
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.	(75,703)
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	(6,801,000)
Unamortized Discounts and Premium	(74,955)
Note Payable	(464,503)
Compensated Absences Payable	(226,317)
Total Net Position of Governmental Activities	\$ 16,773,159

See accompanying Notes to Financial Statements.

**CITY OF WINDOM, MINNESOTA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED DECEMBER 31, 2014**

	General Fund	Economic Development Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
General Property Taxes	\$ 816,079	\$ 171,329	\$ 342,240	\$ 1,329,648
Tax Increments	-	160,621	-	160,621
Other Taxes	25,952	-	-	25,952
Licenses and Permits	78,961	-	-	78,961
Intergovernmental	1,830,033	38,663	257,789	2,126,485
Special Assessments	301	24,974	-	25,275
Charges for Services	247,684	384	513,278	761,346
Fines and Forfeits	29,884	-	-	29,884
Interest Income	13,056	1,544	10,845	25,445
Investment Earnings (Loss)	(5,524)	(142)	(3,380)	(9,046)
Refunds and Reimbursements	49,385	-	-	49,385
Grants and Contributions	20,075	21,935	23,235	65,245
Miscellaneous	4,699	187,970	-	192,669
Total Revenues	<u>3,110,585</u>	<u>607,278</u>	<u>1,144,007</u>	<u>4,861,870</u>
EXPENDITURES				
Current:				
General Government	380,755	-	-	380,755
Public Safety	1,082,118	-	315,243	1,397,361
Public Works	664,770	-	54,792	719,562
Sanitation	14,450	-	-	14,450
Culture and Recreation	458,370	-	-	458,370
Economic Development	-	462,802	-	462,802
Capital Outlay:				
General Government	22,185	-	-	22,185
Public Safety	74,734	-	271,593	346,327
Public Works	301,793	-	2,902	304,695
Culture and Recreation	16,627	-	-	16,627
Economic Development	-	17,519	-	17,519
Debt Service:				
Principal	49,956	-	404,291	454,247
Interest and Fiscal Charges	4,632	44,509	184,293	233,434
Total Expenditures	<u>3,070,390</u>	<u>524,830</u>	<u>1,233,114</u>	<u>4,828,334</u>
Revenue Over (Under) Expenditures	40,195	82,448	(89,107)	33,536
OTHER FINANCING SOURCES (USES)				
Transfer In	245,000	-	68,903	313,903
Transfer Out	-	(31,005)	-	(31,005)
Sale of Land Held for Resale	-	43,334	10,000	53,334
Total Other Financing Sources (Uses)	<u>245,000</u>	<u>12,329</u>	<u>78,903</u>	<u>336,232</u>
Net Change in Fund Balance	285,195	94,777	(10,204)	369,768
Fund Balance (Deficit) - Beginning of Year	<u>2,545,483</u>	<u>1,412,412</u>	<u>3,004,743</u>	<u>6,962,638</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 2,830,678</u></u>	<u><u>\$ 1,507,189</u></u>	<u><u>\$ 2,994,539</u></u>	<u><u>\$ 7,332,406</u></u>

See accompanying Notes to Financial Statements.

**CITY OF WINDOM, MINNESOTA
RECONCILIATION OF GOVERNMENTAL STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
TO STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2014**

	2014
Net Change in Fund Balances-Total Governmental Funds	\$ 369,768
Amounts reported for governmental activities in the statement of activities are different because:	
<p>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.</p>	
Capital Outlays	694,817
Depreciation Expense	(763,910)
<p>The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:</p>	
Repayment of Bond Principal and Note Payable	478,152
Change in Accrued Interest Expense for General Obligation Bonds	16,249
Amortization of Bond Discount/Premium	5,085
Change in delinquent and deferred property taxes, special assessments receivable, and other receivables will be collected subsequent to year-end, but are not available soon enough to pay for the current-period's expenditures and, therefore, are deferred in the governmental funds.	(145,857)
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).	26,268
Change in Net Position of Governmental Activities	\$ 680,572

See accompanying Notes to Financial Statements.

CITY OF WINDOM, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2014

	2014			Variance from Final Budget
	Original Budget	Final Budget	Actual	
REVENUES				
General Property Taxes	\$ 742,423	\$ 742,423	\$ 816,079	\$ 73,656
Other Taxes	19,500	19,500	25,952	6,452
Licenses and Permits	45,820	45,820	78,961	33,141
Intergovernmental	1,562,408	1,812,408	1,830,033	17,625
Special Assessments	200	200	301	101
Charges for Services	250,900	250,900	247,684	(3,216)
Fines and Forfeits	26,500	26,500	29,884	3,384
Investment Earnings	410	410	7,532	7,122
Refunds/Reimbursements	37,000	37,000	49,385	12,385
Grants and Contributions	2,000	2,000	20,075	18,075
Miscellaneous	5,000	5,000	4,699	(301)
Total Revenues	2,692,161	2,942,161	3,110,585	168,424
EXPENDITURES				
General Government:				
Mayor and Council:	97,440	97,440	96,448	992
Financial Administration	194,946	194,946	163,451	31,495
Elections	6,800	6,800	5,041	1,759
Building & Zoning	135,420	135,420	130,262	5,158
City Hall	34,020	34,020	35,511	(1,491)
Total General Government	468,626	468,626	430,713	37,913
Public Safety:				
Police Protection:	944,440	944,440	921,513	22,927
Fire Protection	137,915	137,915	153,438	(15,523)
Civil Defense	5,925	5,925	4,953	972
Animal Control	2,700	2,700	2,214	486
Total Public Safety	1,090,980	1,090,980	1,082,118	8,862
Public Works:				
Street Department	555,470	555,470	523,004	32,466
Sanitation	22,000	22,000	14,450	7,550
Airport	79,910	79,910	146,398	(66,488)
Total Public Works	657,380	657,380	683,852	(26,472)
Culture and Recreation:				
Parks	225,135	225,135	212,343	12,792
Library	174,400	174,400	166,660	7,740
Pool	82,475	82,475	79,365	3,110
Total Parks Department	482,010	482,010	458,368	23,642
Capital Outlay	631,246	524,024	415,339	108,685
Total Expenditures	3,330,242	3,223,020	3,070,390	152,630
REVENUES OVER (UNDER) EXPENDITURES	(638,081)	(280,859)	40,195	321,054
OTHER FINANCING SOURCES (USES)				
Transfer In	652,864	267,864	245,000	(22,864)
Total Other Financing Sources (Uses)	652,864	267,864	245,000	(22,864)
NET CHANGE IN FUND BALANCE	<u>\$ 14,783</u>	<u>\$ (12,995)</u>	285,195	<u>\$ 298,190</u>
Fund Balance - Beginning of Year			2,545,483	
FUND BALANCE - END OF YEAR			<u>\$ 2,830,678</u>	

See accompanying Notes to Financial Statements.

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**CITY OF WINDOM, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
DECEMBER 31, 2014**

ASSETS	<u>Electric</u>	<u>Water</u>	<u>Liquor</u>
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 4,126,535	\$ 784,211	\$ 837,537
Cash and Investments with Fiscal Agent	-	127,535	-
Restricted Cash and Investments	-	-	-
Accounts Receivable, Net of Allowance	644,659	97,118	27,019
Special Assessments Receivable:		195,354	
Due from Other Funds	1,517,328	-	-
Interfund Advance	21,708	-	-
Inventory	523,134	29,318	157,833
Total Current Assets	<u>6,833,364</u>	<u>1,233,536</u>	<u>1,022,389</u>
LONG-TERM ASSETS			
Capital Assets:			
Land, Buildings, Infrastructure and Improvements	8,863,544	7,561,315	363,436
Equipment	2,555,805	2,953,488	82,093
Total Capital Assets	<u>11,419,349</u>	<u>10,514,803</u>	<u>445,529</u>
Less: Allowance for Depreciation	<u>(7,799,361)</u>	<u>(5,317,374)</u>	<u>(285,149)</u>
Total Net Capital Assets	<u>3,619,988</u>	<u>5,197,429</u>	<u>160,380</u>
 Total Long-Term Assets	<u>3,619,988</u>	<u>5,197,429</u>	<u>160,380</u>
 Total Assets	<u>10,453,352</u>	<u>6,430,965</u>	<u>1,182,769</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts and Contracts Payable	392,243	4,512	69,276
Accrued Expenses	15,409	45,189	4,547
Due to Other Funds	-	-	-
Accrued Interest	-	26,236	-
Unearned Revenue	90,956	-	-
Bonds Payable - Current Portion	-	459,100	-
Total Current Liabilities	<u>498,608</u>	<u>535,037</u>	<u>73,823</u>
LONG-TERM LIABILITIES			
Compensated Absences - Long-Term	105,760	37,357	27,267
Bonds Payable - Long-Term	-	2,510,418	-
Total Long-Term Liabilities	<u>105,760</u>	<u>2,547,775</u>	<u>27,267</u>
 Total Liabilities	<u>604,368</u>	<u>3,082,812</u>	<u>101,090</u>
NET POSITION			
Net Investment in Capital Assets	3,619,988	2,659,892	160,380
Unrestricted	6,228,996	688,261	921,299
Total Net Position	<u>\$ 9,848,984</u>	<u>\$ 3,348,153</u>	<u>\$ 1,081,679</u>

See accompanying Notes to Financial Statements.

Sewer	Telecom	Other Proprietary Funds	Total
\$ 957,286	\$ -	\$ 366,670	\$ 7,072,239
121,110	-	-	248,645
-	405,863	-	405,863
168,300	439,230	4,533	1,380,859
89,027	-	-	284,381
-	-	-	1,517,328
-	-	-	21,708
-	38,218	-	748,503
<u>1,335,723</u>	<u>883,311</u>	<u>371,203</u>	<u>11,679,526</u>
11,119,743	4,983,156	3,964,495	36,855,689
<u>1,480,531</u>	<u>5,583,413</u>	<u>683,194</u>	<u>13,338,524</u>
12,600,274	10,566,569	4,647,689	50,194,213
<u>(4,783,849)</u>	<u>(7,008,787)</u>	<u>(2,644,387)</u>	<u>(27,838,907)</u>
<u>7,816,425</u>	<u>3,557,782</u>	<u>2,003,302</u>	<u>22,355,306</u>
<u>7,816,425</u>	<u>3,557,782</u>	<u>2,003,302</u>	<u>22,355,306</u>
9,152,148	4,441,093	2,374,505	34,034,832
9,455	133,747	11,262	620,495
43,248	42,047	8,644	159,084
-	1,517,328	-	1,517,328
43,179	-	224	69,639
-	175,927	6,344	273,227
303,860	445,000	17,734	1,225,694
<u>399,742</u>	<u>2,314,049</u>	<u>44,208</u>	<u>3,865,467</u>
66,608	102,506	73,762	413,260
<u>3,822,768</u>	<u>10,068,596</u>	<u>857,909</u>	<u>17,259,691</u>
<u>3,889,376</u>	<u>10,171,102</u>	<u>931,671</u>	<u>17,672,951</u>
4,289,118	12,485,151	975,879	21,538,418
4,037,353	(6,955,814)	1,127,659	4,649,458
825,677	(1,088,244)	270,967	7,846,956
<u>\$ 4,863,030</u>	<u>\$ (8,044,058)</u>	<u>\$ 1,398,626</u>	<u>\$ 12,496,414</u>

**CITY OF WINDOM, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 YEAR ENDED DECEMBER 31, 2014**

	<u>Electric</u>	<u>Water</u>	<u>Liquor</u>
OPERATING REVENUES			
Sales	\$ -	\$ -	\$ 1,686,879
Costs of Goods Sold	-	-	(1,177,103)
Charges for Services	5,814,821	1,141,794	-
Charges for Materials and Labor	-	3,883	-
Facility Use/Other Revenue	-	-	-
Total Gross Profit and Operating Revenues	<u>5,814,821</u>	<u>1,145,677</u>	<u>509,776</u>
OPERATING EXPENSES			
Cost of Power	4,009,726	-	-
Personal Services	469,404	263,215	189,050
Supplies, Services, Rent and Maintenance	530,768	253,783	78,572
Depreciation and Amortization	470,610	337,070	17,880
Other Operating Expense	-	12,870	-
Total Operating Expenses	<u>5,480,508</u>	<u>866,938</u>	<u>285,502</u>
OPERATING INCOME (LOSS)	334,313	278,739	224,274
OTHER INCOME (EXPENSES)			
Interest Income	39,807	2,972	3,779
Investment Earnings (Loss)	(12,225)	(1,340)	(1,163)
Interest Expense	-	(70,384)	-
Gain on Sale of Fixed Assets	1,900	10,000	-
Taxes and Special Assessments	-	33,219	-
Contributions and Reimbursements	-	-	-
Total Other Income (Expense)	<u>29,482</u>	<u>(25,533)</u>	<u>2,616</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	363,795	253,206	226,890
CONTRIBUTIONS AND TRANSFERS			
Transfers Out	(175,000)	(17,812)	(70,000)
Total Contributions and Transfers	<u>(175,000)</u>	<u>(17,812)</u>	<u>(70,000)</u>
CHANGE IN NET POSITION	188,795	235,394	156,890
Net Position - Beginning of Year	<u>9,660,189</u>	<u>3,112,759</u>	<u>924,789</u>
NET POSITION - END OF YEAR	<u>\$ 9,848,984</u>	<u>\$ 3,348,153</u>	<u>\$ 1,081,679</u>

See accompanying Notes to Financial Statements.

Sewer	Telecom	Other Proprietary Funds	Total
\$ -	\$ -	\$ -	\$ 1,686,879
-	-	-	(1,177,103)
1,244,950	2,704,717	-	10,906,282
-	-	-	3,883
-	-	309,131	309,131
<u>1,244,950</u>	<u>2,704,717</u>	<u>309,131</u>	<u>11,729,072</u>
-	-	-	4,009,726
327,919	541,210	329,954	2,120,752
446,636	1,218,838	249,773	2,778,370
351,612	755,855	121,454	2,054,481
-	-	-	12,870
<u>1,126,167</u>	<u>2,515,903</u>	<u>701,181</u>	<u>10,976,199</u>
118,783	188,814	(392,050)	752,873
4,121	1,512	837	53,028
(1,673)	-	(305)	(16,706)
(107,893)	(352,992)	(10,769)	(542,038)
10,000	-	-	21,900
27,289	-	414,990	475,498
-	230	14,144	14,374
<u>(68,156)</u>	<u>(351,250)</u>	<u>418,897</u>	<u>6,056</u>
50,627	(162,436)	26,847	758,929
(20,086)	-	-	(282,898)
<u>(20,086)</u>	<u>-</u>	<u>-</u>	<u>(282,898)</u>
30,541	(162,436)	26,847	476,031
<u>4,832,489</u>	<u>(7,881,622)</u>	<u>1,371,779</u>	<u>12,020,383</u>
<u>\$ 4,863,030</u>	<u>\$ (8,044,058)</u>	<u>\$ 1,398,626</u>	<u>\$ 12,496,414</u>

**CITY OF WINDOM, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 YEAR ENDED DECEMBER 31, 2014**

	Electric	Water	Liquor
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers and Service Users	\$ 5,790,990	\$ 1,150,415	\$ 1,673,487
Cash Paid to Suppliers	(4,483,910)	(307,149)	(1,274,945)
Cash Paid to Employees	(479,951)	(261,128)	(185,026)
Net Cash Provided (Used) by Operating Activities	<u>827,129</u>	<u>582,138</u>	<u>213,516</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers (In) Out	(175,000)	(17,812)	(70,000)
Interfund Advance	9,996	-	-
Due to Other Funds	(7,965)	-	-
Property Tax Revenues	-	33,219	-
Miscellaneous Revenues	-	-	-
Payments from Escrow Account	-	20,372	-
Intergovernmental Revenues	-	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(172,969)</u>	<u>35,779</u>	<u>(70,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from Bonds	-	230,000	-
Acquisition and Construction of Capital Assets	(347,147)	(384,933)	(63,778)
Interest Paid on Revenue Bonds	-	(76,917)	-
Principal Payments on Bonds and Notes	-	(408,767)	-
Net Cash Used by Capital and Related Financing Activities	<u>(347,147)</u>	<u>(640,617)</u>	<u>(63,778)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Income (Loss)	27,582	1,632	2,616
Proceeds from Sale of Capital Assets	1,900	10,000	-
Net Cash Provided by Investing Activities	<u>29,482</u>	<u>11,632</u>	<u>2,616</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	336,495	(11,068)	82,354
Cash and Cash Equivalents - Beginning of Year	<u>3,790,040</u>	<u>795,279</u>	<u>755,183</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 4,126,535</u>	<u>\$ 784,211</u>	<u>\$ 837,537</u>

See accompanying Notes to Financial Statements.

Sewer	Telecom	Other Proprietary Funds	Total
\$ 1,282,014	\$ 2,695,577	\$ 306,692	\$ 12,899,175
(450,975)	(1,205,703)	(248,330)	(7,971,012)
(326,164)	(536,269)	(327,364)	(2,115,902)
<u>504,875</u>	<u>953,605</u>	<u>(269,002)</u>	<u>2,812,261</u>
(20,086)	-	-	(282,898)
-	-	-	9,996
-	7,965	-	-
34,029	-	414,990	482,238
-	-	14,144	14,144
8,162	(1,512)	-	27,022
-	230	-	230
<u>22,105</u>	<u>6,683</u>	<u>429,134</u>	<u>250,732</u>
-	-	-	230,000
(75,246)	(173,808)	(23,218)	(1,068,130)
(113,252)	(352,992)	(8,231)	(551,392)
(274,274)	(435,000)	(16,784)	(1,134,825)
<u>(462,772)</u>	<u>(961,800)</u>	<u>(48,233)</u>	<u>(2,524,347)</u>
2,448	1,512	534	36,324
10,000	-	-	21,900
<u>12,448</u>	<u>1,512</u>	<u>534</u>	<u>58,224</u>
76,656	-	112,433	596,870
880,630	-	254,237	6,475,369
<u>\$ 957,286</u>	<u>\$ -</u>	<u>\$ 366,670</u>	<u>\$ 7,072,239</u>

**CITY OF WINDOM, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS (CONTINUED)
 YEAR ENDED DECEMBER 31, 2014**

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>Electric</u>	<u>Water</u>	<u>Liquor</u>
Operating Income (Loss)	\$ 334,313	\$ 278,739	\$ 224,274
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation and Amortization	470,610	337,070	17,880
Changes in Assets and Liabilities:			
(Increase) Decrease in Accounts Receivable	(22,581)	4,738	(13,392)
(Increase) Decrease in Inventory	26,248	(646)	(258)
Increase (Decrease) in Accounts and Contracts Payable	30,336	(32,934)	(19,012)
Increase (Decrease) in Accrued Expenses	(13,083)	(6,916)	859
Increase (Decrease) in Due to Other Governments	-	-	-
Increase in Unearned Revenue	(1,250)	-	-
Increase (Decrease) in Accrued Compensated Absences	2,536	2,087	3,165
Net Cash Provided (Used) by Operating Activities	<u>\$ 827,129</u>	<u>\$ 582,138</u>	<u>\$ 213,516</u>

See accompanying Notes to Financial Statements.

Sewer	Telecom	Other Proprietary Funds	Total
\$ 118,783	\$ 188,814	\$ (392,050)	\$ 752,873
351,612	755,855	121,454	2,054,481
37,064	(11,638)	(3,583)	(9,392)
-	-	-	25,344
(4,339)	11,217	1,443	(13,289)
(3,004)	1,918	2,275	(17,951)
-	1,896	-	1,896
-	2,498	1,144	2,392
4,759	3,045	315	15,907
<u>\$ 504,875</u>	<u>\$ 953,605</u>	<u>\$ (269,002)</u>	<u>\$ 2,812,261</u>

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NOTES TO FINANCIAL STATEMENTS

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**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

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

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

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

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.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

1. Government-Wide Statements (Continued)

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.

2. Fund Financial Statements

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

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

The City reports the following major governmental funds:

General Fund

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

Economic Development Fund

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

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

2. Fund Financial Statements (Continued)

The City reports the following major proprietary funds:

Electric Fund

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

Water Fund

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

Liquor Fund

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

Sewer Fund

The Sewer Fund accounts for customer sewer service charges that are used to finance sewer 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.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

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.

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.

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.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Budgets (Continued)

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.
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.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

2. Cash and Investments with Fiscal Agent

At December 31, 2014, cash and investments with a fiscal agent consisted of US Treasury time deposits held by US Bank for the purpose of refunding the General Obligation Improvement Bonds, Series 2007B maturing in the years of 2016 through 2023 (See Note 4). These assets are sufficient to meet the debt service on the General Obligation Refunding Bonds, Series 2012A through the February 1, 2015 call date on the General Obligation Improvement Bonds, Series 2007B.

3. Restricted Cash and Investments

At December 31, 2014, 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.

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.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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)

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.

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. 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.

7. Inventories

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

8. Prepaid Expenditures

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.

9. 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.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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. 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.

11. 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 uses a capitalization threshold of \$5,000. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are expensed as incurred. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

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

12. 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.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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. 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.

14. Deferred Outflows of Resources

The City's governmental activities and proprietary fund financial statements report a separate section for deferred outflows of resources, if any. This separate financial statement element reflects a decrease in net position or fund balance, that relate to future periods. The City will not recognize the related outflow until a future event occurs.

15. Deferred Inflows of Resources

The City's governmental fund 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 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.

16. 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.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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)

17. 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.

18. 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.

19. 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.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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)

19. Fund Balance (Continued)

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

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

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, 2014, 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*.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

The City 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;
- 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, 2014, the City had the following investments:

External Investment Pools –

	<u>Amortized Cost</u>
Minnesota Municipal Money Market Fund	\$3,385,076

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

Other Investments –

Investment	<u>Fair Value</u>
Federal National Mortgage Association	\$ 14,222
Federal Home Loan Mortgage Corporation	240,108
Corporate Bond	2,000
US Treasury State and Local Government Time Deposits	840,464
	\$ 1,096,794

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

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

Type	Total	12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Negotiable Certificates of Deposit:	\$ 7,829,526	\$ 5,233,803	\$ 842,325	\$ 1,749,398	\$ 4,000
Federal National Mortgage Association	14,222	-	-	-	14,222
Federal Home Loan Mortgage Corporation	240,108	-	-	240,108	-
Coporate Bond	2,000	-	-	-	2,000
US Treasury State and Local Government Time Deposits	840,464	840,464	-	-	-
Minnesota Municipal Money Market Fund	3,385,076	3,385,076	-	-	-
Total	<u>\$ 12,311,396</u>	<u>\$ 9,459,343</u>	<u>\$ 842,325</u>	<u>\$ 1,989,506</u>	<u>\$ 20,222</u>

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

Investment	Credit Rating
Federal National Mortgage Association	Aaa
Federal Home Loan Mortgage Corporation	Aaa
US Treasury State and Local Government Time Deposits	Aaa
Coporate Bond	Aaa

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

Investment	Amount	Percent
Federal Home Loan Mortgage Corporation	\$ 240,108	21.89%

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

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

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

Cash	\$ 1,335,522
Money Market Accounts	3,385,076
Negotiable Certificates of Deposits	7,829,526
Investments	<u>1,096,794</u>
Total Cash and Investments	<u><u>\$ 13,646,918</u></u>
Cash and Investments	\$ 12,400,591
Cash and Investments with Fiscal Agent	840,464
Restricted Cash and Investments	<u>405,863</u>
Total Cash and Investments	<u><u>\$ 13,646,918</u></u>

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 227,061	\$ 5,900	\$ -	\$ 232,961
Construction in Progress	<u>1,406,291</u>	<u>-</u>	<u>(1,406,291)</u>	<u>-</u>
Total Capital Assets, Not Being Depreciated	1,633,352	5,900	(1,406,291)	232,961
Capital Assets, Being Depreciated:				
Buildings and Building Improvements	8,797,164	273,780	-	9,070,944
Office Equipment and Furniture	55,622	40,296	-	95,918
Machinery and Equipment	6,744,462	363,175	-	7,107,637
Infrastructure	<u>13,888,287</u>	<u>1,417,957</u>	<u>-</u>	<u>15,306,244</u>
Total Capital Assets, Being Depreciated	29,485,535	2,095,208	-	31,580,743
Accumulated Depreciation for:				
Buildings and Building Improvements	(1,573,104)	(229,405)	-	(1,802,509)
Office Equipment and Furniture	(11,419)	(9,653)	-	(21,072)
Machinery and Equipment	(5,935,753)	(124,459)	-	(6,060,212)
Infrastructure	<u>(7,665,563)</u>	<u>(400,393)</u>	<u>-</u>	<u>(8,065,956)</u>
Total Accumulated Depreciation	<u>(15,185,839)</u>	<u>(763,910)</u>	<u>-</u>	<u>(15,949,749)</u>
Total Capital Assets, Being Depreciated, Net	<u>14,299,696</u>	<u>1,331,298</u>	<u>-</u>	<u>15,630,994</u>
Governmental Activities Capital Assets, Net	<u><u>\$ 15,933,048</u></u>	<u><u>\$ 1,337,198</u></u>	<u><u>\$ (1,406,291)</u></u>	<u><u>\$ 15,863,955</u></u>

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3 CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to Governmental Functions as follows:

Governmental Activities:

General Government	\$ 316,057
Public Safety	115,784
Public Works	251,426
Parks, Culture and Recreation	13,011
Community Development	<u>67,632</u>
Total Depreciation Expense, Governmental Activities	<u><u>\$ 763,910</u></u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 169,920	\$ 78,504	\$ -	\$ 248,424
Construction in Progress	<u>67,810</u>	<u>-</u>	<u>(67,810)</u>	<u>-</u>
Total Capital Assets, Not Being Depreciated	237,730	78,504	(67,810)	248,424
Capital Assets, Being Depreciated:				
Buildings and Building Improvements	35,934,387	689,882	(17,004)	36,607,265
Office Equipment and Furniture	489,052	49,461	(29,736)	508,777
Machinery and Shop Equipment	<u>12,693,767</u>	<u>318,092</u>	<u>(182,112)</u>	<u>12,829,747</u>
Total Capital Assets, Being Depreciated	49,117,206	1,057,435	(228,852)	49,945,789
Accumulated Depreciation for:				
Buildings and Building Improvements	(16,646,086)	(1,258,544)	17,004	(17,887,626)
Office Equipment and Furniture	(384,447)	(14,920)	29,736	(369,631)
Machinery and Shop Equipment	<u>(8,977,598)</u>	<u>(786,164)</u>	<u>182,112</u>	<u>(9,581,650)</u>
Total Accumulated Depreciation	<u>(26,008,131)</u>	<u>(2,059,628)</u>	<u>228,852</u>	<u>(27,838,907)</u>
Total Capital Assets, Being Depreciated, Net	<u>23,109,075</u>	<u>(1,002,193)</u>	<u>-</u>	<u>22,106,882</u>
Business-Type Activities Capital Assets, Net	<u><u>\$ 23,346,805</u></u>	<u><u>\$ (923,689)</u></u>	<u><u>\$ (67,810)</u></u>	<u><u>\$ 22,355,306</u></u>

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

Business-Type Activities:

Electric Fund	\$ 470,610
Water Fund	339,247
Liquor Fund	17,880
Sewer Fund	356,897
Telecom Fund	753,540
Arena Fund	31,639
Multi-Purpose Fund	61,733
River Bluff Townhomes	<u>28,082</u>
Total Depreciation Expense, Business-Type Activities	<u><u>\$ 2,059,628</u></u>

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 4 CITY INDEBTEDNESS

City indebtedness at December 31, 2014 is composed of the following:

Description	Initial Amount Issued	Maturity Date	Interest Rate	Outstanding Principal
General Obligation Bonds:				
Governmental Activities:				
GO Improvement Refunding Bonds, Series 2006A	\$ 713,000	2018	3.70-4.15%	\$ 266,000
GO Improvement Bonds, Series 2007B	970,000	2023	3.75-4.30%	645,000
GO Improvement Bonds, Series 2009A	1,510,000	2025	2.00-4.25%	1,180,000
GO Improvement Refunding Bonds, Series 2011B	795,000	2019	0.50-1.85%	580,000
GO Refunding Bonds, Series 2012A	980,000	2023	0.55-2.20%	925,000
GO Improvement Bonds, Series 2013A	2,590,000	2034	2.00-3.50%	2,590,000
GO Equipment Bonds, Series 2013B	<u>615,000</u>	2023	0.70-1.90%	<u>615,000</u>
Total Governmental Activities - G.O. Bonds	8,173,000			6,801,000
Business-Type Activities:				
GO Improvement & Refunding Bonds, Series 2006A	227,000	2016	3.75-4.05%	69,000
GO Temporary Equipment Certificates, Series 2007B	410,000	2023	3.75-4.30%	275,000
GO Refunding Bonds, Series 2012A	660,000	2023	0.55-2.20%	605,000
GO Improvement Bonds, Series 2013A	<u>1,810,000</u>	2034	2.00-3.50%	<u>1,810,000</u>
Total Business-Type Activities - G.O. Bonds	<u>3,107,000</u>			<u>2,759,000</u>
Total General Obligation Bonds	<u>\$ 11,280,000</u>			<u>\$ 9,560,000</u>

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

Description	Initial Amount Issued	Maturity Date	Net Interest Rate	Outstanding Principal
Note Payable:				
Governmental Activities:				
Street Shop - League of Minnesota Cities	\$ 250,000	2016	3.00%	\$ 104,454
Economic Development - Fulda Area Credit Union	442,098	2016	4.40%	360,049
Total Notes Payable	692,098			464,503
Business-Type Activities:				
River Bluff Townhomes - Bank of the West	488,847	2031	2.01%	362,645
River Bluff Townhomes - MHFA	353,305	2031	0.00%	353,305
River Bluff Townhomes - GMHF	180,000	2031	0.00%	129,693
River Bluff Townhomes - PM Windom	15,000	2015	0.00%	15,000
River Bluff Townhomes - Toro Foundation	15,000	2015	0.00%	15,000
Water Purchase - Red Rock Rural Water System	230,000	2023	0.00%	199,333
	<u>1,282,152</u>			<u>1,074,976</u>
Total Note Payable	<u>\$ 1,974,250</u>			<u>\$ 1,539,479</u>
General Obligation Revenue Bonds:				
Business-Type Activities:				
Communication System Refunding Bonds, Series 2012B	\$ 11,205,000	2032	3.00-3.63%	\$ 10,550,000
GO Water & Sewer Revenue Bonds, 2011A - Water	3,090,000	2029	1.00-4.00%	3,055,000
GO Sewer Revenue Bonds, 1994	3,886,970	2015	2.71%	247,960
GO Revenue Bonds, 1999	3,151,838	2018	2.57%	317,440
GO Water Revenue Bonds, 1999	1,319,714	2019	2.29%	402,000
Total Business-Type Activities Revenue Bonds	<u>\$ 22,653,522</u>			<u>\$ 14,572,400</u>

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

The following is a schedule of changes in City indebtedness for the year ended December 31, 2014:

	Beginning of Year	Additions	Retirements	End of Year	Due within One Year
Governmental Activities:					
General Obligation Bonds	\$ 7,205,291	\$ -	\$ 404,291	\$ 6,801,000	\$ 591,000
Bond Subtotal	7,205,291	-	404,291	6,801,000	591,000
Bond Premium	80,040	-	5,085	74,955	-
Net Bond Subtotal	7,285,331	-	409,376	6,875,955	591,000
Note Payable	538,364	-	73,861	464,503	76,434
Compensated Absences	252,585	62,845	89,113	226,317	-
Total Governmental Activities	8,076,280	62,845	572,350	7,566,775	667,434
Business-Type Activities:					
General Obligation Bonds	2,873,000	-	114,000	2,759,000	189,000
General Obligation Revenue Bonds	15,545,774	-	973,374	14,572,400	995,960
Bond Subtotal	18,418,774	-	1,087,374	17,331,400	1,184,960
Bond Premium	122,875	-	7,462	115,413	-
Bond Discount	(38,720)	-	(2,316)	(36,404)	-
Net Bond Subtotal	18,502,929	-	1,092,520	17,410,409	1,184,960
Notes Payable	889,872	230,000	44,896	1,074,976	40,734
Compensated Absences	397,353	182,270	166,363	413,260	-
Total Business-Type Activities	19,790,154	412,270	1,303,779	18,898,645	1,225,694
Total Debt	\$ 27,866,434	\$ 475,115	\$ 1,876,129	\$ 26,465,420	\$ 1,893,128

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

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

Years	Governmental Activities		
	Long-Term Debt		
	Principal	Interest	Totals
2015	\$ 667,434	\$ 183,733	\$ 851,167
2016	1,073,069	159,362	1,232,431
2017	640,000	137,753	777,753
2018	640,000	123,608	763,608
2019	605,000	109,235	714,235
2020-2024	2,290,000	344,716	2,634,716
2025-2029	930,000	122,981	1,052,981
2030-2034	420,000	35,550	455,550
Totals	\$ 7,265,503	\$ 1,216,938	\$ 8,482,441

Years	Business-Type Activities		
	Long-Term Debt		
	Principal	Interest	Totals
2015	\$ 1,225,694	\$ 514,133	\$ 1,739,827
2016	1,041,533	483,462	1,524,995
2017	1,006,461	458,089	1,464,550
2018	998,836	434,761	1,433,597
2019	1,082,554	410,350	1,492,904
2020-2024	4,760,097	1,675,547	6,435,644
2025-2029	4,997,881	935,817	5,933,698
2030-2034	3,293,320	169,197	3,462,517
Totals	\$ 18,406,376	\$ 5,081,356	\$ 23,487,732

The annual requirements to amortize all long-term debt outstanding as of December 31, 2014, including interest of \$6,298,294 are as follows:

Year	Amount
2015	\$ 2,590,994
2016	2,757,426
2017	2,242,303
2018	2,197,205
2019	2,207,139
2020-2024	9,070,360
2025-2029	6,986,679
2030-2034	3,918,067
Total	\$ 31,970,173

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

In 2012, the City issued \$1,640,000 in General Obligation Refunding Bonds (Series 2012A) for a crossover refunding of the Series 2005A General Obligation Bonds maturing in 2014 through 2021 and of the Series 2007B General Obligation Improvement Bonds maturing in 2016 through 2023. Refunding bond proceeds for the crossover refunding of Series 2005A were placed in an escrow account to be liquidated on the crossover refunding date of February 1, 2013. The total cash flow savings to the City attributable to the refunding of these bonds is \$59,001 with a net present value of approximately \$54,068. Refunding bond proceeds for the crossover refunding of Series 2007B were placed in an escrow account to be liquidated on the crossover refunding date of February 1, 2015.

As of December 31, 2014, the City had funds held with an escrow agent for the repayment of 2007B General Obligation Improvement Bonds, with an outstanding balance of \$1,005,000. The fair value of funds held with escrow at December 31, 2014 was \$840,464.

NOTE 5 PENSION PLANS - STATEWIDE

A. Defined Benefit Pension Plan

1. Plan Description

All full-time and certain part-time employees of the City of Windom are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employee Police and Fire Fund, (PEPFF) which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with *Minnesota Statutes*, Chapter 353 and 356.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters and peace officers who qualify for membership by statute are covered by the PEPFF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after three years of credited service. The retirement 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.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 5 PENSION PLANS – STATEWIDE (CONTINUED)

1. Plan Description (Continued)

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 PEPFF members, the annuity accrual rate is 3.0% for each year of service. The annuity accrual rate is 1.9% for each year of service for PECF members. For all PEPFF members and GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a life time annuity that ceases upon the death of the retiree—no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous 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.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF and PEPFF. That report may be obtained on the web at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 5 DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

2. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2014. PEPFF members were required to contribute 10.2% of their annual covered salary in 2014. The City of Windom is required to contribute the following percentages of annual covered payroll: 11.78% for GERP Basic Plan members, 7.25% for GERP Coordinated Plan members, and 15.3% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ended December 31, 2014, 2013 and 2012 were \$170,298, \$165,817, and \$168,736, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ended December 31, 2014, 2013 and 2012 were \$77,187, \$67,428, and \$62,695, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

B. Defined Contribution Pension Plan

1. Plan Description

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

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

Total contributions made by the City of Windom during fiscal year 2014 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rates
\$ 7,465	\$ 7,464	5.1%	5.1%	5.1%

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 6 STEWARDSHIP AND ACCOUNTABILITY

A. Excess of Expenditures Over Budget

Expenditures exceeded budgeted amounts in the following funds:

	Budget	Actual
Special Revenue Funds:		
Economic Development Fund	\$ 454,253	\$ 524,830

Expenditures exceeded budget because there was excess consulting, engineering services and site improvements not budgeted in the Economic Development Fund.

B. Deficit Fund Balances/Net Position

The City has deficit fund balances/net position at December 31, 2014 as follows:

Governmental Funds:		
4th Ave Improvement Bond Fund	\$	(71,974)
2006A Refunding Bond Fund		(234,917)
Proprietary Funds:		
Telecom		(8,044,058)
River Bluff Townhomes		(121,127)

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

NOTE 7 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A. Due To/From Other Funds

Individual fund receivable and payable balances at December 31, 2014 are as follows:

Fund	Interfund Receivables Due from Other Funds	Interfund Payables Due to Other Funds	Description
General Fund	\$ 453,684	\$ -	Eliminate Deficit Cash
Other Governmental Funds	-	453,684	Eliminate Deficit Cash
Proprietary Funds:			
Electric Fund	1,517,328	-	Eliminate Deficit Cash
Telecom Fund	-	1,517,328	Eliminate Deficit Cash
Total Due To/From	\$ 1,971,012	\$ 1,971,012	

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

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 7 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (CONTINUED)

B. Advances To/From Other Funds

Fund	Advances To Other Funds	Advances From Other Funds
Economic Development Fund	\$ -	\$ 21,708
Proprietary Funds:		
Electric Fund	21,708	-
Total Advances	\$ 21,708	\$ 21,708

The advance in the amount of \$21,708 represents expenses to make improvements to the spec building incurred by the Economic Development Fund payable to the Electric Fund.

C. Transfers

Transfers between funds during 2014 are as follows:

	Transfer In	Transfer Out
Major Governmental Funds		
General Fund	\$ 245,000	\$ -
Economic Development Fund	-	31,005
2013 Street Capital Project Fund		
Nonmajor Governmental Funds		
Debt Service Funds:		
2006A Refunding Bond Fund	31,005	-
2009 Street Improvement Bond Fund	37,898	-
Major Enterprise Funds		
Water Utility	-	17,812
Sewer Utility	-	20,086
Electric Utility	-	175,000
Liquor	-	70,000
Total	\$ 313,903	\$ 313,903

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 8 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 9 CONDUIT DEBT OBLIGATIONS

The City has issued gross revenue bonds for the purpose of providing capital financing to a private enterprise. Even though the debt bears the City's name, the City is not responsible for the payment of the original debt. The debt is secured by the payments agreed to be paid by the private enterprise under the terms of the agreement between the City and the enterprise. The general description of the transaction and the outstanding balance a December 31, 2014, is as follows:

Enterprise	Purpose	Balance at December 31, 2014
Windom Area Hospital	Construction of Facility	\$ 5,600,000

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 10 FUND BALANCE

At December 31, 2014, the City had various fund balances restricted, or assigned through legal restriction and City Council authorization. Major fund balance appropriations at December 31, 2014 are shown on the various balance sheets as segregations of fund balance. The fund balances are as follows:

	General Fund	Economic Development Fund	Other Governmental Funds	Governmental Funds Total
Nonspendable				
Inventory	\$ 47,956	\$ -	\$ -	\$ 47,956
Prepaid Expenses	190,571	-	-	190,571
Land Held for Resale	-	-	-	-
Total Nonspendable	<u>238,527</u>	<u>-</u>	<u>-</u>	<u>238,527</u>
Restricted				
Debt Service	-	-	1,353,699	1,353,699
Donations for Fire, Well and Park	70,597	-	-	70,597
Tax Increment Funding	-	431,331	-	431,331
Capital Projects	-	-	234,947	234,947
Total Restricted	<u>70,597</u>	<u>431,331</u>	<u>1,588,646</u>	<u>2,090,574</u>
Assigned				
Ambulance	-	-	1,424,791	1,424,791
Economic Development	-	1,075,858	-	1,075,858
Library	64,127	-	-	64,127
Pool	40,374	-	-	40,374
Capital Projects	-	-	287,993	287,993
Total Assigned	<u>104,501</u>	<u>1,075,858</u>	<u>1,712,784</u>	<u>2,893,143</u>
Unassigned	<u>2,417,053</u>	<u>-</u>	<u>(306,891)</u>	<u>2,110,162</u>
Total Fund Balance	<u><u>\$ 2,830,678</u></u>	<u><u>\$ 1,507,189</u></u>	<u><u>\$ 2,994,539</u></u>	<u><u>\$ 7,332,406</u></u>

NOTE 11 COMMITMENTS AND CONTINGENCIES

A. Federal and State Funds

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

**CITY OF WINDOM, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 11 COMMITMENTS AND CONTINGENCIES (CONTINUED)

B. Electric Power Purchase Agreement

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

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

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SUPPLEMENTARY INFORMATION

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**COMBINING AND INDIVIDUAL NONMAJOR FUND
FINANCIAL STATEMENTS**

**CITY OF WINDOM, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2014**

	Special Revenue Fund	Capital Projects Fund	Debt Service Funds	
	Ambulance Fund	2013 Street Capital Project Fund	4th Ave Improvement Bond Fund	2006 A Refunding Bond Fund
ASSETS				
Cash and Investments	\$ 1,274,661	\$ 577,535	\$ -	\$ -
Cash and Investments with Fiscal Agent	-	-	882	-
Accounts Receivable	162,450	54,665	36	-
Special assessments receivable	-	791,872	2,198	50,055
Total Assets	\$ 1,437,111	\$ 1,424,072	\$ 3,116	\$ 50,055
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICITS)				
LIABILITIES				
Accounts and Contracts Payable	\$ 7,204	\$ 2,884	\$ -	\$ -
Other Accrued Liabilities	5,116	106,376	-	-
Due to Other Funds	-	-	72,892	234,917
Total Liabilities	12,320	109,260	72,892	234,917
DEFERRED OUTFLOWS OF RESOURCES				
Unavailable Revenue	-	791,872	2,198	50,055
Total Deferred Outflows of Resources	-	791,872	2,198	50,055
FUND BALANCE (DEFICIT)				
Restricted	-	234,947	-	-
Assigned	1,424,791	287,993	-	-
Unassigned	-	-	(71,974)	(234,917)
Total Fund Balance (Deficit)	1,424,791	522,940	(71,974)	(234,917)
Total Liabilities and Fund Balance (Deficit)	\$ 1,437,111	\$ 1,424,072	\$ 3,116	\$ 50,055

Debt Service Funds

2007 Street Improvement Bond Fund	2009 Street Improvement Bond Fund	GO Special Assessment Bond Fund	2003 Improvement Bond Fund	2014 Total
\$ -	\$ 176,001	\$ 654,271	\$ 64,815	\$ 2,747,283
590,674	-	263	-	591,819
317	-	124	248	217,840
101,898	162,912	47,677	-	1,156,612
<u>\$ 692,889</u>	<u>\$ 338,913</u>	<u>\$ 702,335</u>	<u>\$ 65,063</u>	<u>\$ 4,713,554</u>
\$ -	\$ -	\$ -	\$ -	\$ 10,088
-	-	-	-	111,492
145,875	-	-	-	453,684
<u>145,875</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>575,264</u>
101,898	162,912	34,816	-	1,143,751
<u>101,898</u>	<u>162,912</u>	<u>34,816</u>	<u>-</u>	<u>1,143,751</u>
445,116	176,001	667,519	65,063	1,588,646
-	-	-	-	1,712,784
-	-	-	-	(306,891)
<u>445,116</u>	<u>176,001</u>	<u>667,519</u>	<u>65,063</u>	<u>2,994,539</u>
<u>\$ 692,889</u>	<u>\$ 338,913</u>	<u>\$ 702,335</u>	<u>\$ 65,063</u>	<u>\$ 4,713,554</u>

**CITY OF WINDOM, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
YEAR ENDED DECEMBER 31, 2014**

	Special Revenue Fund	Capital Projects Fund	Debt Service Funds	
	Ambulance Fund	2013 Street Capital Project Fund	4th Ave Improvement Bond Fund	2006 A Refunding Bond Fund
REVENUE				
General Property Taxes	\$ -	\$ 94,283	\$ 43,300	\$ 17,607
Intergovernmental				
Special assessments	-	94,019	16,966	56,062
Charges for Services	513,278	-	-	-
Interest Income	7,983	150	-	-
Investment Earnings (Loss)	(2,344)	(545)	-	-
Grants and Contributions	23,235	-	-	-
Total Revenue	<u>542,152</u>	<u>187,907</u>	<u>60,266</u>	<u>73,669</u>
EXPENDITURES				
Current:				
Public Safety	315,243	-	-	-
Public Works	-	51,948	-	495
Capital Outlay:				
Public Safety	271,593	-	-	-
Public Works	-	2,902	-	-
Debt Service:				
Principal	-	-	42,350	86,000
Interest and Fiscal Charges	-	70,557	2,845	12,515
Total Expenditures	<u>586,836</u>	<u>125,407</u>	<u>45,195</u>	<u>99,010</u>
EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	(44,684)	62,500	15,071	(25,341)
OTHER FINANCING SOURCES (USES)				
Transfer In	-	-	-	31,005
Proceeds from Sale of Capital Assets	10,000	-	-	-
Total Other Financing Sources (Uses)	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>31,005</u>
NET CHANGE IN FUND BALANCE	(34,684)	62,500	15,071	5,664
Fund Balance (Deficit) - Beginning of Year	<u>1,459,475</u>	<u>460,440</u>	<u>(87,045)</u>	<u>(240,581)</u>
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ 1,424,791</u>	<u>\$ 522,940</u>	<u>\$ (71,974)</u>	<u>\$ (234,917)</u>

Debt Service Funds				
2007 Street Improvement Bond Fund	2009 Street Improvement Bond Fund	GO Special Assessment Bond Fund	2003 Improvement Bond Fund	2014 Total
\$ 43,891	\$ 56,606	\$ 42,442	\$ 44,111	\$ 342,240
23,338	24,781	15,305	27,318	257,789
-	-	-	-	513,278
2,624	-	88	-	10,845
-	-	(491)	-	(3,380)
-	-	-	-	23,235
<u>69,853</u>	<u>81,387</u>	<u>57,344</u>	<u>71,429</u>	<u>1,144,007</u>
-	-	-	-	315,243
1,000	449	450	450	54,792
-	-	-	-	271,593
-	-	-	-	2,902
60,000	85,000	20,941	110,000	404,291
37,223	45,683	7,132	8,338	184,293
<u>98,223</u>	<u>131,132</u>	<u>28,523</u>	<u>118,788</u>	<u>1,233,114</u>
(28,370)	(49,745)	28,821	(47,359)	(89,107)
-	37,898	-	-	68,903
-	-	-	-	10,000
<u>-</u>	<u>37,898</u>	<u>-</u>	<u>-</u>	<u>78,903</u>
(28,370)	(11,847)	28,821	(47,359)	(10,204)
<u>473,486</u>	<u>187,848</u>	<u>638,698</u>	<u>112,422</u>	<u>3,004,743</u>
<u>\$ 445,116</u>	<u>\$ 176,001</u>	<u>\$ 667,519</u>	<u>\$ 65,063</u>	<u>\$ 2,994,539</u>

**CITY OF WINDOM, MINNESOTA
NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF NET POSITION
DECEMBER 31, 2014**

ASSETS	Arena Fund	Multi-Purpose Center Fund	River Bluff Townhomes	Totals 2014
Current Assets				
Cash and Cash Equivalents	\$ 138,683	\$ 163,340	\$ 64,647	\$ 366,670
Accounts Receivable	989	3,544	-	4,533
Total Current Assets	139,672	166,884	64,647	371,203
Capital Assets				
Buildings and Improvements	902,781	1,938,426	1,123,288	3,964,495
Machinery and Equipment	413,912	269,282	-	683,194
Total Capital Assets	1,316,693	2,207,708	1,123,288	4,647,689
Less: Accumulated Depreciation	(1,214,824)	(1,003,832)	(425,731)	(2,644,387)
Net Capital Assets	101,869	1,203,876	697,557	2,003,302
Total Assets	241,541	1,370,760	762,204	2,374,505
LIABILITIES				
Current Liabilities				
Accounts Payable	5,460	3,232	2,570	11,262
Accrued Salaries and Fringes	3,537	4,014	-	7,551
Accrued Interest Payable	-	-	224	224
Other Accrued Liabilities	1,093	-	-	1,093
Unearned Revenue	-	1,450	4,894	6,344
Current Portion of Bonds Payable	-	-	17,734	17,734
Total Current Liabilities	10,090	8,696	25,422	44,208
Noncurrent Liabilities				
Compensated Absences	38,428	35,334	-	73,762
Bonds Payable - Long-Term	-	-	857,909	857,909
Total Noncurrent Liabilities	38,428	35,334	857,909	931,671
Total Liabilities	48,518	44,030	883,331	975,879
NET POSITION				
Net Investment in Capital Assets	101,869	1,203,876	(178,086)	1,127,659
Unrestricted	91,154	122,854	56,959	270,967
Total Net Position	\$ 193,023	\$ 1,326,730	\$ (121,127)	\$ 1,398,626

**CITY OF WINDOM, MINNESOTA
NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2014**

	Arena Fund	Multi-Purpose Center Fund	River Bluff Townhomes	Totals 2014
OPERATING REVENUE				
Facility Use/Other Revenue	\$ 139,776	\$ 82,566	\$ 86,789	\$ 309,131
OPERATING EXPENSES				
Personal Services	146,584	183,370	-	329,954
Supplies, Repairs, Services and Rents	133,174	69,809	46,790	249,773
Depreciation and Amortization	31,639	61,733	28,082	121,454
Total Operating Expenses	<u>311,397</u>	<u>314,912</u>	<u>74,872</u>	<u>701,181</u>
OPERATING INCOME	(171,621)	(232,346)	11,917	(392,050)
OTHER INCOME (EXPENSE)				
Taxes and Special Assessments	170,120	244,870	-	414,990
Contributions and Reimbursements	-	14,144	-	14,144
Interest Income	384	453	-	837
Investment Earnings	(119)	(186)	-	(305)
Interest Expense	-	-	(10,769)	(10,769)
Total Other Income (Expense)	<u>170,385</u>	<u>259,281</u>	<u>(10,769)</u>	<u>418,897</u>
CHANGE IN NET POSITION	(1,236)	26,935	1,148	26,847
Net Position - Beginning of Year	<u>194,259</u>	<u>1,299,795</u>	<u>(122,275)</u>	<u>1,371,779</u>
NET POSITION - END OF YEAR	<u>\$ 193,023</u>	<u>\$ 1,326,730</u>	<u>\$ (121,127)</u>	<u>\$ 1,398,626</u>

**CITY OF WINDOM, MINNESOTA
NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2014**

	Arena Fund	Multi-Purpose Fund	2014 River Bluff Townhomes	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Customers and Service Users	\$ 139,737	\$ 80,472	\$ 86,483	\$ 306,692
Cash Paid to Suppliers	(132,696)	(68,844)	(46,790)	(248,330)
Cash Paid to Employees	(146,871)	(180,493)	-	(327,364)
Net Cash Provided (Used) by Operating Activities	<u>(139,830)</u>	<u>(168,865)</u>	<u>39,693</u>	<u>(269,002)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Property Tax Revenues	170,120	244,870	-	414,990
Miscellaneous Revenues	-	14,144	-	14,144
Net Cash Provided by Noncapital Financing Activities	<u>170,120</u>	<u>259,014</u>	<u>-</u>	<u>429,134</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and Construction of Capital Assets	(23,218)	-	-	(23,218)
Interest Paid on Long-Term Debt	-	-	(8,231)	(8,231)
Principal Payments on Long-Term Debt	-	-	(16,784)	(16,784)
Net Cash Used by Capital and Related Financing Activities	<u>(23,218)</u>	<u>-</u>	<u>(25,015)</u>	<u>(48,233)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment Income (Loss)	265	269	-	534
Net Cash Provided by Investing Activities	<u>265</u>	<u>269</u>	<u>-</u>	<u>534</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS				
	7,337	90,418	14,678	112,433
Cash and Cash Equivalents - Beginning of Year	<u>131,346</u>	<u>72,922</u>	<u>49,969</u>	<u>254,237</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 138,683</u>	<u>\$ 163,340</u>	<u>\$ 64,647</u>	<u>\$ 366,670</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ (171,621)	\$ (232,346)	\$ 11,917	\$ (392,050)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	31,639	61,733	28,082	121,454
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	(39)	(3,544)	-	(3,583)
Increase (Decrease) in Accounts and Contracts Payable	478	965	-	1,443
Increase (Decrease) in Accrued Expenses	1,548	727	-	2,275
Increase (Decrease) in Unearned Revenue	-	1,450	(306)	1,144
Increase (Decrease) in Accrued Compensated Absences	(1,835)	2,150	-	315
Net Cash Provided (Used) by Operating Activities	<u>\$ (139,830)</u>	<u>\$ (168,865)</u>	<u>\$ 39,693</u>	<u>\$ (269,002)</u>

OTHER REPORT SECTION

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INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Windom (the City), Minnesota, as of December 31, 2014 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 April 24, 2015.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers 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 miscellaneous provisions. Our audit considered all of the listed categories.

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

The 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

Austin, Minnesota
April 24, 2015

