REPORT

ON

AUDIT

CITY OF WINDOM

COTTONWOOD COUNTY, MINNESOTA

DECEMBER 31, 2009

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DENNIS L. RICK, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

American Institute of Certified Public Accountants
Minnesota Society of Certified Public Accountants

DENNIS L. RICK, CPA
TISHA S. PAPLOW, CPA

INDEPENDENT AUDITOR'S REPORT

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

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, Minnesota, as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Windom, Minnesota's management. 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The financial statements referred to above do not include the financial data of the Windom Area Hospital Fund, which should be included to conform with accounting principles generally accepted in the United States of America. The financial statements of the Windom Area Hospital Fund were audited by other auditors whose report dated July 26, 2010, expressed an unqualified opinion on those statements. If the omitted fund had been included, based on audited information, the proprietary fund type assets would have increased by $17,889,193 and liabilities would have increased by $3,003,859 respectively as of December 31, 2009, and revenues and expenses would have increased $13,774,014 and $12,616,049 respectively for the twelve month period ended December 31, 2009.

In our opinion, except for the effect on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Windom, Minnesota as of December 31, 2009, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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507-376-5818 * 1018 FOURTH AVENUE * WORTHINGTON, MN 56187
507-831-1332 * 1043 FOURTH AVENUE, SUITE 6 * WINDOM, MN 56101

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2010, on our consideration of the City of Windom, Minnesota'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 results of that testing, and not to provides an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

In accordance with OMB Circular A-133, we have also issued our report dated June 11, 2010, on our consideration of the City of Windom, Minnesota's compliance with requirements applicable to each major program and on internal control over compliance. The purpose of that report is to describe the scope of our testing of compliance with requirements applicable to each major program and the results of that testing to provide an opinion on compliance with requirements applicable to each major program and to test and report on the internal control over compliance, and not to provide an opinion on the internal control over compliance, in accordance with OMB Circular A-133. That report is an internal part of an audit performed in accordance with OMB Circular A-133 and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 13 is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Windom, Minnesota's basic financial statements. The introductory section, 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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by US Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Windom, Minnesota. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Dennis L. Rick, LTD.

Worthington, Minnesota
June 11, 2010

CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2009

This section of the City of Windom, Minnesota's annual financial report presents management's discussion and analysis of the City's financial performance during the fiscal year that ended on December 31, 2009. Please read it in conjunction with the City's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Government Accounting Standard Board's (GASB) Statement No. 34 - Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments issued in June, 1999.

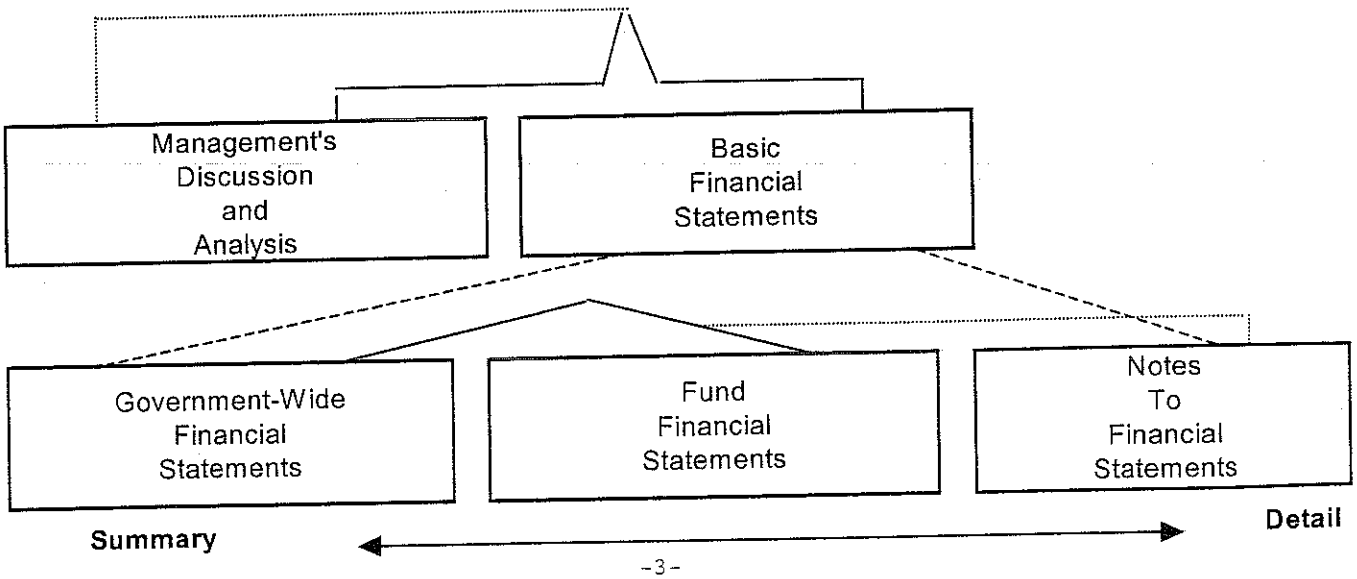
FINANCIAL AND OTHER HIGHLIGHTS

Key financial highlights for the 2009 year include the following:

- The assets of the City exceeded its liabilities at the close of the most recent year by $20,842,791 (net assets).
- The City's total net assets from operations increased by $1,764,992.
- As of the close of the current year, the City's governmental funds reported combined ending net assets of 10,986,558. Of this total amount, fifty-four (54) percent or $5,888,030 is available for use within the City's designations and policies.
- At the end of the current year, designated fund balance for the general fund was $1,447,416 or seventy-six (76) percent of total general fund expenditures. A portion of this balance will be used to reduce deficits in other governmental funds.
- The City's net total bonded debt increased by $2,360,063 during the current fiscal year due to the issuance of two bond series and other debt. In 2010, $2,365,000 was retired with proceeds from one of the bond issues.
- The City received and A+ bond rating from Standard & Poor's.
- Five of the eight enterprise funds have reported an increase in fund balance during the current fiscal year. The largest increases were in the electric, water and sewer funds.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Management's Discussion and Analysis is intended to serve as an introduction to the City's financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other statistical information in addition to the basic financial statements themselves. The diagram below depicts how the various parts of this annual report are arranged and related to one another.



OVERVIEW OF THE FINANCIAL STATEMENTS (Cont'd)

The diagram shown below summarizes the major features of the City's financial statements, including the portion of the City's activities they cover and the types of information they contain. The remainder of the overview section of management's discussion and analysis highlights the structure and contents of each statement.

Major Features of the Government-Wide and Fund Financial Statements

	Government-Wide Statements	Fund Financial Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire City	The activities of the City that are not proprietary, such as public safety, public works and recreation	Activities the City operates similar to private businesses: utilities, liquor store
Required Financial Statements	Statement of net assets Statement of activities	Balance Sheet Statement of revenue, expenditures, and changes in fund balances	Statement of net assets Statement of revenues, expenses, and changes in net assets Statement of cash flows
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenue for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable.	All revenues and expenses during the year, regardless of when cash is received or paid.

Government-Wide Financial Statements

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

- **Statement of Net Assets** - The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

OVERVIEW OF THE FINANCIAL STATEMENTS (Cont'd)

- **Statement of Activities** - The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets 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 but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City 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 costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, health and welfare, culture and recreation, economic development and airport. The business-type activities of the City include the Municipal Liquor Store, Water, Electric, Sewer, Telecom, Arena, Multipurpose Center, and River Bluff Townhomes.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's funds—focusing on its most significant or "major" funds—rather than the City as a whole. Funds are accounting devices the City uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The City establishes other funds to control and manage money for particular purposes or to show that it is properly using certain revenues.

The City has two kinds of funds:

- **Governmental Funds** - The City's basic services are included in governmental funds, which generally focus on: 1) how cash and other financial assets that can readily be converted to cash flow in and out; and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information (reconciliation schedules) follows the governmental funds Balance Sheets and Statements of Revenues and Expenditures and Changes in Fund Balance that explain the relationship (or differences) between these two types of financial statement presentations.

- **Proprietary Funds** - Services for which the City charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as government-wide statements, only in more detail. The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Municipal Liquor Store, Water, Electric, Sewer, Telecom, Arena, Multipurpose Center, and River Bluff Townhomes funds.

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.

OVERVIEW OF THE FINANCIAL STATEMENTS (Cont'd)

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (GOVERNMENT-WIDE STATEMENTS)

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Windom, Minnesota, assets exceeded liabilities by $20,824,791 at the close of the most recent fiscal year. By far the largest portion of the City's net assets (74 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City'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.

A summary of the City's net assets as of December 31, 2009, is as follows:

NET ASSETS - 2009

	Governmental Activities	Business-Type Activities	Total
Current and Other Assets	$ 6,373,244	$ 8,816,574	$ 15,189,818
Capital Assets	10,831,967	22,959,155	33,791,122
Total Assets	17,205,211	31,775,729	48,980,940
Current Liabilities	500,135	4,204,956	4,705,091
Non-Current Liabilities	5,718,518	17,732,540	23,451,058
Total Liabilities	6,218,653	21,937,496	28,156,149
Investment in Capital Assets, Net of Related Debt	4,728,434	10,722,764	15,451,198
Restricted	370,094	3,880,389	4,250,483
Unrestricted	5,888,030	(4,764,920)	1,123,110
Total Net Assets - December 31, 2009	$ 10,986,558	$ 9,838,233	$ 20,824,791

An additional portion of the City's net assets (20 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance is comprised of unrestricted net assets totaling $1,123,110. The City is able to report overall positive balances in all three categories of net assets.

A summary of the City's net assets as of December 31, 2008, is as follows:

NET ASSETS - 2008

	Governmental Activities	Business-Type Activities	Total
Current and Other Assets	$ 6,350,091	$ 5,650,970	$ 12,001,061
Capital Assets	8,531,290	24,398,202	32,929,492
Total Assets	14,881,381	30,049,172	44,930,553
Current Liabilities	652,431	1,670,816	2,323,247
Non-Current Liabilities	4,950,362	18,597,145	23,547,507
Total Liabilities	5,602,793	20,267,961	25,870,754
Investment in Capital Assets, Net of Related Debt	3,249,516	10,599,626	13,849,142
Restricted	886,162	241,332	1,127,494
Unrestricted	5,142,910	(1,059,747)	4,083,163
Total Net Assets - December 31, 2008	$ 9,278,588	$ 9,781,211	$ 19,059,799

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (GOVERNMENT-WIDE STATEMENTS) (CONT'D)

Change in Net Assets

Governmental Activities
Governmental activities increased the City's net assets by $1,707,970, thereby accounting for 18 percent of the total increase in the net assets of the City. The majority of this change is due to property taxes, special assessments, grant revenues, and a decrease in expenses.

Business-Type Activities
Business-type activities increased the City's net assets by $57,022. The increase would have been $770,430 with exclusion of the telecom fund. The largest portion of the lower increase in net assets in the enterprise funds results from liabilities exceeding assets by $5,486,833 and expenses exceeding revenues by $713,408 in the telecom fund.

A summary of the City's change in net assets for the year ended December 31, 2009, is as follows:

CHANGE IN NET ASSETS - 2009

	Governmental Activities	Business-Type Activities	Total
Revenues			
Program Revenues			
Charges for Services	$ 594,449	$ 10,812,576	$ 11,407,025
Capital Grants and Contributions	1,533,462	1,385	1,534,847
General Revenues			
Property Taxes	1,318,468	477,795	1,796,263
Unallocated Federal and State Aid	1,536,014	- - -	1,536,014
Other	592,236	76,850	669,086
Total Revenues	5,574,629	11,368,606	16,943,235
Expenses			
General Government	427,943	- - -	427,943
Public Safety	1,323,462	- - -	1,323,462
Public Works	754,690	- - -	754,690
Health & Welfare	135,113	- - -	135,113
Culture & Recreation	548,439	- - -	548,439
Conservation & Economic Development	264,851	- - -	264,851
Airport	165,854	- - -	165,854
Interest on Long-Term Debt	488,347	- - -	488,347
Liquor	- - -	1,295,602	1,295,602
Water	- - -	845,476	845,476
Electric	- - -	4,880,113	4,880,113
Sewer	- - -	953,050	953,050
Telecom	- - -	2,601,527	2,601,527
Arena	- - -	320,301	320,301
Multipurpose	- - -	282,362	282,362
River Bluff Townhomes	- - -	97,249	97,249
Total Expenses	4,108,699	11,275,680	15,384,379
Increase (Decrease) in Net Assets before Transfers	1,465,930	92,926	1,558,856
Transfers	242,040	(35,904)	206,136
Change in Net Assets	1,707,970	57,022	1,764,992
Net Assets - Beginning	9,278,588	9,781,211	19,059,799
Net Assets - Ending - December 31, 2009	10,986,558	9,838,233	20,824,791

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (GOVERNMENT-WIDE STATEMENTS) (Cont'd)

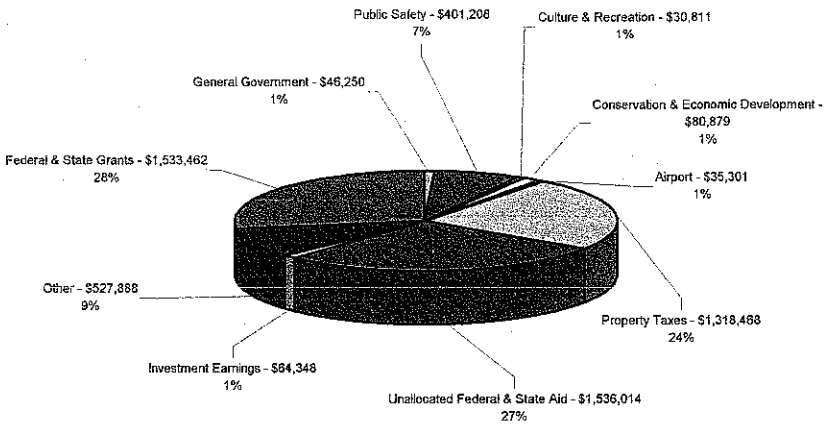
A summary of the City's change in net assets for the year ended December 31, 2008, is as follows:

CHANGE IN NET ASSETS - 2008

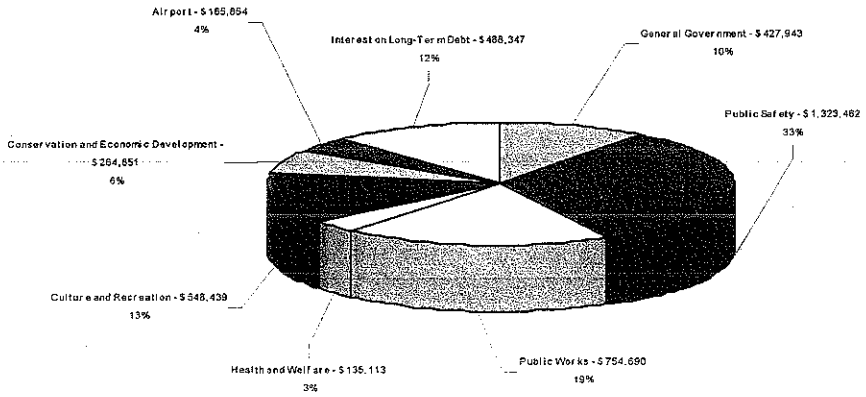
	Governmental Activities	Business-Type Activities	Total
Revenues			
Program Revenues			
Charges for Services	$ 559,778	$ 10,782,277	$ 11,342,055
Capital Grants and Contributions	191,598	13,619	205,217
General Revenues			
Property Taxes	897,626	454,594	1,352,220
Unallocated Federal and State Aid	1,478,478	- - -	1,478,478
Other	571,052	86,800	657,852
Total Revenues	3,698,532	11,337,290	15,035,822
Expenses			
General Government	437,055	- - -	437,055
Public Safety	1,365,825	- - -	1,365,825
Public Works	762,480	- - -	762,480
Health & Welfare	130,335	- - -	130,335
Culture & Recreation	720,900	- - -	720,900
Conservation & Economic Development	298,556	- - -	298,556
Airport	145,378	- - -	145,378
Interest on Long-Term Debt	496,136	- - -	496,136
Liquor	- - -	1,301,676	1,301,676
Water	- - -	891,945	891,945
Electric	- - -	4,509,629	4,509,629
Sewer	- - -	985,447	985,447
Telecom	- - -	2,579,368	2,579,368
Arena	- - -	337,157	337,157
Multipurpose	- - -	311,646	311,646
River Bluff Townhomes	- - -	107,481	107,481
Total Expenses	4,356,665	11,024,349	15,381,014
Increase (Decrease) in Net Assets before Transfers	(658,133)	312,941	(345,192)
Transfers	491,057	(286,308)	204,749
Change in Net Assets	(167,076)	26,633	(140,443)
Net Assets - Beginning	9,445,664	9,754,578	19,200,242
Net Assets - Ending - December 31, 2008	9,278,588	9,781,211	19,059,799

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (GOVERNMENT-WIDE STATEMENTS) (Cont'd)

GOVERNMENTAL ACTIVITIES - REVENUES
Total: $5,574,629

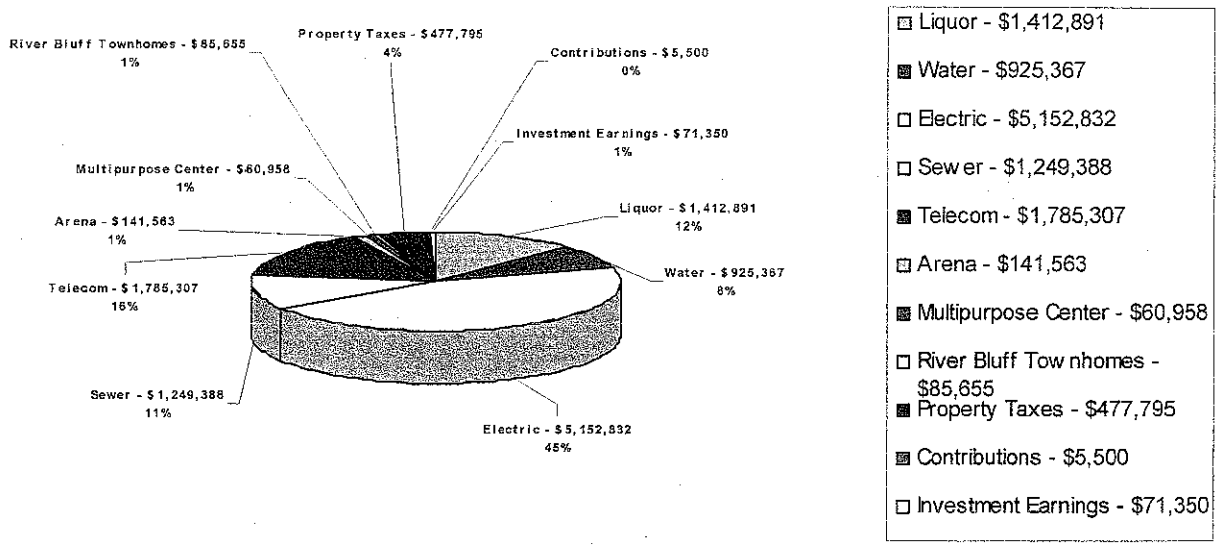


GOVERNMENTAL ACTIVITIES - EXPENSES
Total: $4,108,699

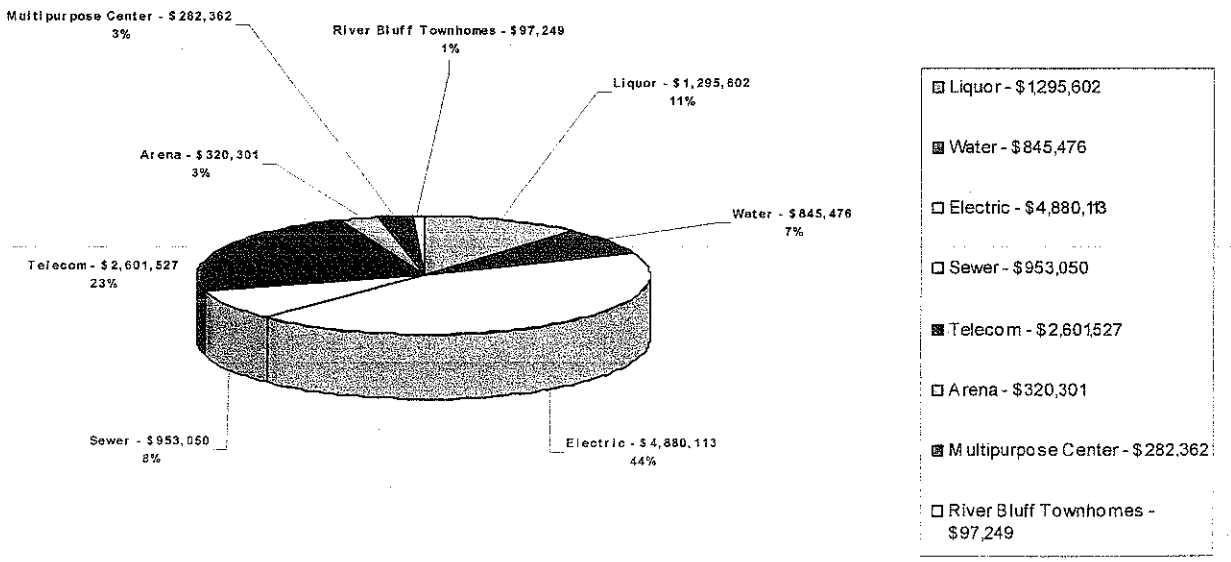


FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (GOVERNMENT-WIDE STATEMENTS) (Cont'd)

BUSINESS TYPE ACTIVITIES - REVENUES
Total: $11,368,606



BUSINESS-TYPE ACTIVITIES - EXPENSES
Total: $11,275,680



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (FUND FINANCIAL STATEMENTS)

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

Governmental Funds

The focus of the City'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's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $4,261,170, an increase of $218,573 in comparison with the prior year. Of this total, $2,443,660 of the fund balances are unreserved, which indicates that those funds are available for spending.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the fund balance of the general fund was $1,447,416, which was designated for working capital needs.

The fund balance of the City's general fund increased by $561,476 during the current fiscal year. This year's increase was due to favorable revenue and expenditure budget variances.

Business-Type Funds

The City's business-type ("proprietary") funds provide the same type of information found in the government-wide financial statements, but in more detail. The focus of the City's business-type funds is providing goods and services.

As of the end of the current fiscal year, the City's business-type funds reported combined ending net assets of $9,838,233, an increase of $57,022 in comparison with the prior year. Of this total, a deficit balance of $4,764,920 of the net assets is unreserved and unrestricted, which indicates that portion of net assets that are not available for spending. The majority of this deficit is due to the telecom fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City approved the original 2009 general fund budget in December of 2008, anticipating a decrease in general fund reserves of $134,278.

The actual results for the year showed an increase of $561,476.

- Actual revenues were $143,640, or 6.9 percent, more than budget, due primarily to actual state aid revenues being more than budgeted amounts.
- Actual expenditures were $283,558, or 12.9 percent, less than budget. This overall favorable variance was a combination of positive variances in general government, public safety, public works, and parks expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2009, amounts to $33,791,122 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, infrastructure and construction in progress. The total increase in the City's investment in capital assets for the current fiscal year was $4,821,311 or 14.6 percent. Governmental activities and business-type activities accounted for 93 percent and 7 percent of the increase respectively.

CAPITAL ASSET AND DEBT ADMINISTRATION (Cont'd)

Both the City's governmental and business-type activities have a significant level of outstanding commitments for capital expenditures. These commitments are detailed in the notes to the financial statements.

CAPITAL ASSETS - NET OF DEPRECIATION - 2009

	Governmental Activities	Business-Type Activities	Total
Land	$ 227,061	$ 154,922	$ 381,983
Buildings and Improvements	3,732,203	9,666,177	13,398,380
Machinery and Equipment	1,674,755	637,809	2,312,564
Construction in Progress	1,423,372	15,018	1,438,390
Other	3,774,576	12,485,229	16,259,805
Total - December 31, 2009	$ 10,831,967	$ 22,959,155	$ 33,791,122

CAPITAL ASSETS - NET OF DEPRECIATION - 2008

	Governmental Activities	Business-Type Activities	Total
Land	$ 227,061	$ 154,922	$ 381,983
Buildings and Improvements	2,276,927	10,021,021	12,297,948
Machinery and Equipment	2,111,888	1,029,545	3,141,433
Construction in Progress	1,433,874	13,619	1,447,493
Other	2,481,540	13,179,095	15,660,635
Total - December 31, 2008	$ 8,531,290	$ 24,398,202	$ 32,929,492

Bonded Debt

At year-end, the City had $24,016,726 in outstanding bonded debt. Detailed information about the City's bonded debt and other long-term liabilities is presented in the notes to the financial statements.

OUTSTANDING BONDED DEBT - 2009

	Governmental Activities	Business-Type Activities	Total
Bonded Debt			
General Obligation Bonds	$ 5,006,320	$ 5,756,000	$ 10,762,320
General Obligation Revenue Bonds	- - -	3,834,406	3,834,406
Revenue Bonds	- - -	9,420,000	9,420,000
Total 2009	$ 5,006,320	$ 19,010,406	$ 24,016,726

OUTSTANDING BONDED DEBT - 2008

	Governmental Activities	Business-Type Activities	Total
Bonded Debt			
General Obligation Bonds	$ 4,169,732	$ 3,440,000	$ 7,609,732
General Obligation Revenue Bonds	- - -	4,521,386	4,521,386
Revenue Bonds	- - -	9,470,000	9,470,000
Total 2008	$ 4,169,732	$ 17,431,386	$ 21,601,118

FACTORS BEARING ON THE CITY'S FUTURE

- The City's investment earnings have been reduced significantly over the past few years due to the dramatically lower interest rates and reductions in invested funds.

- In 2009 the City and POET re-negotiated their industrial water user agreement due to POET's development of another water supply and conservation measures. In 2010 the City Council approved a new industrial water user agreement. Although annual water sales to POET will decline by approximately 90 million gallons per year the benefits to the City include the reduction of debt on the water plant, lower operational expenses and extension of the life of existing municipal wells and aquifers. These benefits will enhance the City's long-term operation and management of the water system while allowing for additional growth within the existing system to accommodate new users.

- The Telecom fund is anticipating the addition of wholesale customers, which is expected to double the current customer base.

- Property tax reforms and budget deficits at the state level have significantly impacted government aid payments made to the City. The City's state aid was reduced for 2003 and beyond by approximately $185,000 per year. Despite the reductions, the general fund reported an increase in fund balance. The City Council maintains a goal of 35 to 50 percent of unreserved fund balance of operating revenue for the general fund per Office of the State Auditor's guidelines as listed in the Statement of Position: Fund Balances for Local Governments. A portion of the general fund balance will be used to reduce deficits in other governmental funds.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If one has questions about this report or needs additional financial information, contact the City Administrator, City of Windom, 444 9th Street, P. O. Box 38, Windom, MN 56101 or call (507) 831-6129.

CITY OF WINDOM, MINNESOTA
STATEMENT OF NET ASSETS
DECEMBER 31, 2009

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash on hand, checking and time deposits	$ 3,396,114	$ 3,029,355	$ 6,425,469
Restricted cash	-	3,880,389	3,880,389
Accounts receivable	153,840	796,380	950,220
Current taxes receivable	46,274	-	46,274
Special assessments receivable:			
Current and deferred	1,292,097	-	1,292,097
Delinquent	6,096	-	6,096
Grants receivable	6,875	-	6,875
Loans receivable	224,691	-	224,691
Interfund loans	(67,178)	67,178	-
Inventories	-	797,451	797,451
Property held for resale	1,314,435	-	1,314,435
Bond issue costs, net of accumulated amortization	-	89,656	89,656
Bond discount costs, net of accumulated amortization	-	156,165	156,165
Property, plant, equipment	16,239,114	42,124,901	58,364,015
Less: accumulated depreciation	5,407,147	19,165,746	24,572,893
Total assets and other debits	$ 17,205,211	$ 31,775,729	$ 48,980,940
LIABILITIES			
Liabilities:			
Accounts payable	$ 114,720	$ 603,065	$ 717,785
Interest payable	-	333,683	333,683
Customer deposits	400	64,318	64,718
Deferred revenues, other	-	171,790	171,790
Non-current liabilities:			
Due within one year	385,015	3,032,100	3,417,115
Due in more than one year	5,718,518	17,732,540	23,451,058
Total liabilities	6,218,653	21,937,496	28,156,149
NET ASSETS			
Net Assets:			
Invested in capital assets, net of related debt	4,728,434	10,722,764	15,451,198
Restricted for:			
Capital Projects	12,144	-	12,144
Debt service	179,013	3,880,389	4,059,402
Unrestricted	6,066,967	(4,764,920)	1,302,047
Total net asssets	$ 10,986,558	$ 9,838,233	$ 20,824,791

The accompanying notes are an integral part of the financial statements

CITY OF WINDOM, MINNESOTA

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2009

		Program Revenues	
	Expenses	Charges for Services	Operating Grants and Contributions
FUNCTIONS/PROGRAMS			
Government Activities:			
General government	$ 427,943	$ 46,250	$ -
Public safety	1,323,462	401,208	-
Public works	754,690	-	-
Health and welfare	135,113	-	-
Culture and recreation	548,439	30,811	-
Conservation and economic development	264,851	80,879	-
Airport	165,854	35,301	-
Interest on long-term debt	488,347	-	-
Total government activities	4,108,699	594,449	-
Business-type Activities			
Municipal liquor	1,295,602	1,412,891	-
Water	845,476	925,367	-
Electric	4,880,113	5,152,832	-
Sewer	953,050	1,249,388	-
Telecom	2,601,527	1,783,922	-
Arena	320,301	141,563	-
Multi-Purpose Center	282,362	60,958	-
River Bluff Townhomes	97,249	85,655	-
Total business-type activities	11,275,680	10,812,576	-
Total government	$ 15,384,379	$ 11,407,025	$ -

General Revenues:

Taxes:

Property taxes - general and debt service

Grants and contributions not restricted to specific programs:

Unallocated federal and state aid

Contributions

Unrestricted investment earnings

Other

Transfers

Total general revenues, and transfers

Change in net assets

Net assets, January 1, 2009

Net assets, December 31, 2009

Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets		
	Government Activities	Business-type Activities	Total
$ 8,236	$ (373,457)	$ -	$ (373,457)
18,000	(904,254)	-	(904,254)
-	(754,690)	-	(754,690)
-	(135,113)	-	(135,113)
-	(517,628)	-	(517,628)
3,086	(180,886)	-	(180,886)
1,504,140	1,373,587	-	1,373,587
-	(488,347)	-	(488,347)
1,533,462	(1,980,788)	-	(1,980,788)
-	-	117,289	117,289
-	-	79,891	79,891
-	-	272,719	272,719
-	-	296,338	296,338
1,385	-	(816,220)	(816,220)
-	-	(178,738)	(178,738)
-	-	(221,404)	(221,404)
-	-	(11,594)	(11,594)
1,385	-	(461,719)	(461,719)
$ 1,534,847	(1,980,788)	(461,719)	(2,442,507)
	$ 1,318,468	$ 477,795	$ 1,796,263
	1,536,014	-	1,536,014
	-	5,500	5,500
	64,348	71,350	135,698
	527,888	-	527,888
	242,040	(35,904)	206,136
	3,688,758	518,741	4,207,499
	1,707,970	57,022	1,764,992
	9,278,588	9,781,211	19,059,799
	$ 10,986,558	$ 9,838,233	$ 20,824,791

The accompanying notes are an integral part of the financial statements

Exhibit C

City of Windom, Minnesota

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2009

	General Fund	Special Revenue: Airport Fund	Capital Projects: 2009 Street Improvement Fund
ASSETS			
Cash on hand, checking and and time deposits	$ 1,450,555	$ -	$ 178,937
Accounts receivable, net of allowances of $6,500	10,661	2,378	-
Current taxes receivable	46,274	-	-
Special assessments receivable:			
Current and deferred	-	-	285,678
Delinquent	-	-	-
Grants receivable	-	6,875	-
Loans receivable	-	-	-
Interfund loans receivable	-	-	-
Property held for resale, construction in progress	-	9,744	-
Total assets	$ 1,507,490	$ 18,997	$ 464,615
LIABILITIES AND FUND BALANCES			
Liabilities:			
Cash deficiency	$ -	$ 42,906	$ -
Accounts payable	19,082	7,441	-
Customer deposits	-	400	-
Deferred revenues, current taxes	40,992	-	
Deferred revenues, special assessments	-	-	285,678
Interfund notes payable	-	-	-
Notes payable	-	-	-
Total liabilities	60,074	50,747	285,678
Fund Balances:			
Fund balance - unreserved, undesignated	-	-	-
Fund balance - designated	1,447,416	(31,750)	178,937
Fund balance - reserved	-	-	-
Total fund balances	1,447,416	(31,750)	178,937
Total liabilities and fund balances	$ 1,507,490	$ 18,997	$ 464,615

Nonmajor Governmental Funds (Schedule 1)	Total Governmental Funds
$ 1,809,528	$ 3,439,020
140,801	153,840
-	46,274
1,006,419	1,292,097
6,096	6,096
-	6,875
224,691	224,691
77,022	77,022
1,304,691	1,314,435
$ 4,569,248	$ 6,560,350
$ -	$ 42,906
88,197	114,720
-	400
-	40,992
1,006,419	1,292,097
144,200	144,200
663,865	663,865
1,902,681	2,299,180
2,475,410	2,475,410
-	1,594,603
191,157	191,157
2,666,567	4,261,170
$ 4,569,248	$ 6,560,350

The accompanying notes are an integral part of the financial statements

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS DECEMBER 31, 2009

Total Fund Balances for Governmental Funds		$ 4,261,170
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Those assets consist of:		
Land and construction in progress	$ 1,650,433	
Other capital assets	14,588,681	
Accumulated depreciation	(5,407,147)	10,831,967
Assessments to be collected, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred special assessments in the funds		1,333,089
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:		
Bonds payable and accrued leave payable		(5,439,668)
Total Net Assets of Governmental Activities		$ 10,986,558

The accompanying notes are an integral part of these statements

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2009

		Special Revenue	Capital Projects
	General Fund	Airport Fund	2009 Street Improvement Fund
Revenues			
Local property taxes	$ 423,328	$ 11,400	$ -
Special assessments	-	-	119,379
Licenses and permits	45,948	-	-
Intergovernmental revenues	1,518,576	-	-
Federal grants	-	1,488,654	-
State grants	8,236	15,486	-
Charges for services and facilities	46,250	35,301	-
Fines and forfeits	19,879	-	-
Investment income	17,140	-	3,470
Other revenues	152,753	523	-
Total revenues	2,232,110	1,551,364	122,849
Expenditures			
Current:			
General government	350,109	-	-
Public safety	886,853	-	-
Public works	468,704	-	-
Health and welfare	24,452	-	-
Culture and recreation:			
Parks and general	185,516	-	-
Library	-	-	-
Swim pool	-	-	-
Conservation and development:			
Economic development & assistance	-	-	-
Airport	-	48,243	-
Capital outlay:			
Other	-	1,521,470	1,368,184
Debt service:			
Principal retirement	-	-	-
Interest and fiscal charges	-	-	30,540
Total expenditures	1,915,634	1,569,713	1,398,724
Excess of revenues over (under) expenditures	316,476	(18,349)	(1,275,875)
Other Financing Sources (Uses)			
Proceeds from bond issuance	-	-	1,510,000
Operating transfers in	245,000	-	-
Operating transfers out	-	-	-
Total other financing sources (uses)	245,000	-	1,510,000
Net change in fund balances	561,476	(18,349)	234,125
Fund balance (deficit), January 1, 2009	885,940	(13,401)	(55,188)
Fund balance (deficit), December 31, 2009	$ 1,447,416	$ (31,750)	$ 178,937

Nonmajor Governmental Funds (Schedule 2)	Total Governmental Funds
$ 465,066	$ 899,794
230,944	350,323
-	45,948
17,438	1,536,014
-	1,488,654
21,086	44,808
512,898	594,449
2,155	22,034
43,738	64,348
306,630	459,906
1,599,955	5,506,278
-	350,109
220,846	1,107,699
4,204	472,908
-	24,452
-	185,516
158,888	158,888
82,734	82,734
253,227	253,227
-	48,243
204,556	3,094,210
773,412	773,412
457,807	488,347
2,155,674	7,039,745
(555,719)	(1,533,467)
-	1,510,000
735,210	980,210
(738,170)	(738,170)
(2,960)	1,752,040
(558,679)	218,573
3,225,246	4,042,597
$ 2,666,567	$ 4,261,170

The accompanying notes are an integral part of the financial statements

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2009

Total Net Change in Fund Balances - Governmental Funds		$ 218,573
Amounts reported for governmental activities in the statement of activities are different because:		
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds		
Change in accrual for deferred taxes - current	$ 19,195	
Change in accrual for deferred taxes - special assessments	49,156	68,351
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives:		
Expenditures for capital assets	3,094,210	
Less current year depreciation	793,533	2,300,677
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, the repayment reduces long-term liabilities in the Statement of Net Assets. Other costs related to debt issuance and retirement use governmental fund resources, but recognizing them as expenses is deferred and amortized on the Statement of Net Assets.		
Proceeds of bond issuance	(1,510,000)	
Payment of Hospital debt	(100,000)	
Repayment of bonds	773,412	(836,588)
Accruing vacation and sick pay increases long-term liabilities in the Statement of Net Assets. Payment of accrued vacation and sick pay reduces long-term liabilities in the Statement of Net Assets.		
Change in accrual for vacation and sick pay		(43,043)
Change in Net Assets of Governmental Activities		$ 1,707,970

The accompanying notes are an integral part of these statements

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	2009 Budgeted Amount		2009	Variance with Final Budget Over
Revenues	Original	Final	Actual	(Under)
Local property taxes	$ 553,414	$ 553,414	$ 423,328	$ (130,086)
Licenses and permits	45,850	45,850	45,948	98
Intergovernmental revenues	1,266,106	1,266,106	1,518,576	252,470
State grants	-	-	8,236	8,236
Charges for services and facilities	36,100	36,100	46,250	10,150
Fines and forfeits	26,000	26,000	19,879	(6,121)
Investment income	-	-	17,140	17,140
Other revenues	161,000	161,000	152,753	(8,247)
Total revenues	2,088,470	2,088,470	2,232,110	143,640
Expenditures				
Current:				
General government	409,075	409,075	350,109	(58,966)
Public safety	981,745	981,745	886,853	(94,892)
Public works	543,402	543,402	468,704	(74,698)
Health and welfare	23,200	23,200	24,452	1,252
Culture and recreation:				
Parks and general	241,770	241,770	185,516	(56,254)
Total expenditures	2,199,192	2,199,192	1,915,634	(283,558)
Excess of revenues over (under) expenditures	(110,722)	(110,722)	316,476	427,198
Other Financing Sources				
Operating transfers in	245,000	245,000	245,000	-
Net change in fund balances	134,278	134,278	561,476	427,198
Fund balance, January 1, 2009	885,940	885,940	885,940	-
Fund balance, December 31, 2009	$ 1,020,218	$ 1,020,218	$ 1,447,416	$ 427,198

The accompanying notes are an integral part of the financial statements

City of Windom, Minnesota

Exhibit H

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

DECEMBER 31, 2009

	Business-type		
	Municipal Liquor Fund	Water Fund	Electric Fund
ASSETS			
Current assets			
Cash and interest-bearing deposits	$ 358,565	$ 380,212	$ 3,551,544
Restricted cash	-	-	-
Accounts and accrued interest receivable	3,465	112,423	444,259
Interfund notes receivable	-	-	67,178
Inventories	142,752	27,486	506,106
Total current assets	504,782	520,121	4,569,087
Fixed			
Property, plant, equipment	407,290	8,373,493	10,147,004
Less: accumulated depreciation	258,147	3,900,064	6,111,837
Net fixed assets	149,143	4,473,429	4,035,167
Other			
Bond issue costs, net of accumulated amortization	-	5,262	-
Bond discount costs, net of accumulated amortization	-	11,662	-
Total other assets	-	16,924	-
Total assets	$ 653,925	$ 5,010,474	$ 8,604,254
LIABILITIES			
Current liabilities			
Cash deficiency	$ -	$ -	$ -
Accounts payable	34,733	7,559	496,292
Interest payable	-	30,404	-
Deferred revenues, and other	-	-	-
Customer deposits	-	-	52,603
Notes payable within one year	-	-	-
Special assessments payable within one year	-	12,750	-
Bond principal payable within one year	-	275,000	-
Total current liabilities	34,733	325,713	548,895
Non-current liabilities and other credits			
Accrued vacation and sick	130,879	89,641	208,540
Notes payable	-	-	-
Special Assessments Payable	-	143,250	-
G.O. revenue bonds principal payable beyond one year (net of amortized discounts)	-	2,541,632	-
Total non-current liabilities	130,879	2,774,523	208,540
Total liabilities	165,612	3,100,236	757,435
Net Assets			
Net Assets:			
Invested in capital assets, net of related debt	149,143	1,500,797	4,035,167
Restricted for debt service	-	-	-
Unreserved (deficit)	339,170	409,441	3,811,652
Total net assets	$ 488,313	$ 1,910,238	$ 7,846,819

Activities - Enterprise Funds

Sewer Fund	Telecom Fund	Nonmajor Enterprise Funds (Schedule 3)	Total
$ 461,154	$ -	$ -	$ 4,751,475
-	3,880,389	-	3,880,389
66,472	169,761	-	796,380
-	-	-	67,178
-	120,939	168	797,451
527,626	4,171,089	168	10,292,873
8,757,745	9,886,194	4,553,175	42,124,901
3,537,995	3,335,655	2,022,048	19,165,746
5,219,750	6,550,539	2,531,127	22,959,155
2,427	81,967	-	89,656
6,399	138,104	-	156,165
8,826	220,071	-	245,821
$ 5,756,202	$ 10,941,699	$ 2,531,295	$ 33,497,849
$ -	$ 1,642,218	$ 79,902	$ 1,722,120
2,112	52,195	10,174	603,065
20,903	282,376	-	333,683
-	171,790	-	171,790
-	7,065	4,650	64,318
20,097	-	9,267	29,364
21,250	-	-	34,000
228,736	2,465,000	-	2,968,736
293,098	4,620,644	103,993	5,927,076
100,009	87,888	93,526	710,483
-	-	1,014,387	1,014,387
238,750	-	-	382,000
1,364,038	11,720,000	-	15,625,670
1,702,797	11,807,888	1,107,913	17,732,540
1,995,895	16,428,532	1,211,906	23,659,616
3,346,879	-	1,690,778	10,722,764
-	3,880,389	-	3,880,389
413,428	(9,367,222)	(371,389)	(4,764,920)
$ 3,760,307	$ (5,486,833)	$ 1,319,389	$ 9,838,233

The accompanying notes are an integral part of the financial statements

STATEMENT OF REVENUES AND EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

			Business-type
	Municipal Liquor Fund	Water Fund	Electric Fund
Sales and cost of sales			
Sales	$ 1,412,891	$ -	$ -
Cost of sales	1,005,618	-	-
Gross profit on sales	407,273	-	-
Operating revenues			
Billings for usage	-	921,817	5,058,125
Materials and service sales income	-	1,357	25,739
Facility use and other revenues	-	2,193	68,968
Total operating revenues	-	925,367	5,152,832
Operating expense			
Power costs, internet and signal costs	-	-	3,522,210
Salaries and wages	172,422	194,793	428,125
Payroll taxes	21,589	25,267	54,260
Employee insurance	22,655	33,293	56,693
Supplies and maintenance costs	5,712	42,764	123,482
Utilities	12,088	60,131	3,722
Insurance	12,265	16,914	81,079
Depreciation and amortization	15,781	268,480	343,231
Other operating expense	27,472	117,773	267,311
Total operating expense	289,984	759,415	4,880,113
Operating income (loss)	117,289	165,952	272,719
Other revenues			
Investment income	-	-	28,615
Local property taxes	-	14,352	-
Contributions/reimbursements	-	-	-
Total other revenues	-	14,352	28,615
Other charges			
Interest and debt services	-	86,061	-
Total other charges	-	86,061	-
Net income (loss) before operating transfers	117,289	94,243	301,334
Operating transfers - in	-	220,000	-
Operating transfers - out	(70,000)	(9,023)	(175,000)
Change in net assets	47,289	305,220	126,334
Net assets (deficit), January 1, 2009	441,024	1,605,018	7,720,485
Net assets (deficit), December 31, 2009	$ 488,313	$ 1,910,238	$ 7,846,819

Activities - Enterprise Funds

Sewer Fund	Telecom Fund	Nonmajor Enterprise Funds (Schedule 4)	Total
$ -	$ -	$ -	$ 1,412,891
-	-	-	1,005,618
-	-	-	407,273
1,218,695	1,783,579	-	8,982,216
30,693	-	-	57,789
-	1,728	288,176	361,065
1,249,388	1,785,307	288,176	9,401,070
-	471,888	-	3,994,098
259,343	320,097	230,733	1,605,513
35,467	21,973	29,903	188,459
55,948	61,062	39,352	269,003
62,032	57,295	53,595	344,880
161,489	20,829	93,336	351,595
15,087	8,231	21,266	154,842
199,989	735,689	133,763	1,696,933
104,984	228,028	72,485	818,053
894,339	1,925,092	674,433	9,423,376
355,049	(139,785)	(386,257)	384,967
-	42,735	-	71,350
10,441	60,077	392,925	477,795
-	-	5,500	5,500
10,441	102,812	398,425	554,645
58,711	676,435	25,479	846,686
58,711	676,435	25,479	846,686
306,779	(713,408)	(13,311)	92,926
-	-	-	220,000
(1,881)	-	-	(255,904)
304,898	(713,408)	(13,311)	57,022
3,455,409	(4,773,425)	1,332,700	9,781,211
$ 3,760,307	$ (5,486,833)	$ 1,319,389	$ 9,838,233

The accompanying notes are an integral part of the financial statements

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2009

	Business-type		
	Municipal Liquor Fund	Water Fund	Electric Fund
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	$ 1,418,527	$ 895,908	$ 5,039,130
Cash payments to suppliers for goods and services	(1,039,613)	(120,786)	(3,596,063)
Cash payments to/for employees for services	(199,783)	(242,025)	(503,467)
Other revenue	-	2,193	68,968
Other expense	(27,472)	(117,773)	(267,311)
Net cash provided (used) by operating activities	151,659	417,517	741,257
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Cash received from property taxes	-	14,352	-
Interest received	-	-	28,615
Operating transfers - in	-	220,000	-
Operating transfers - out	(70,000)	(9,023)	(175,000)
Net cash provided (used) by non-capital financing activities	(70,000)	225,329	(146,385)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisitions and construction of capital assets	-	(77,253)	(165,372)
Proceeds from bind issuance	-	-	-
Principal payments on long-term debt	-	(526,750)	-
Increase in restricted cash	-	-	-
Interest paid	-	(92,651)	-
Other revenue	-	-	-
Net cash (used) by capital and financing activities	-	(696,654)	(165,372)
Net increase (decrease) in cash and cash equivalents	81,659	(53,808)	429,500
Cash and interest bearing deposits, January 1, 2009	276,906	434,020	3,122,044
Cash and interest bearing deposits, December 31, 2009	$ 358,565	$ 380,212	$ 3,551,544

Activities - Enterprise Funds

Sewer Fund	Telecom Fund	Nonmajor Enterprise Funds (Schedule 5)	Totals
$ 1,250,824	$ 1,770,963	$ 292,176	$ 10,667,528
(244,194)	(545,349)	(169,627)	(5,715,632)
(349,517)	(383,765)	(285,065)	(1,963,622)
-	1,728	-	72,889
(104,984)	(228,028)	(72,485)	(818,053)
552,129	615,549	(235,001)	2,243,110
10,441	60,077	392,925	477,795
-	42,735	-	71,350
-	-	-	220,000
(1,881)	-	-	(255,904)
8,560	102,812	392,925	513,241
(15,314)	(87,087)	(3,389)	(348,415)
-	2,365,602	-	2,365,602
(263,742)	(50,000)	(8,700)	(849,192)
-	(3,639,057)	-	(3,639,057)
(61,188)	(674,198)	(25,479)	(853,516)
-	-	5,500	5,500
(340,244)	(2,084,740)	(32,068)	(3,319,078)
220,445	(1,366,379)	125,856	(562,727)
240,709	(275,839)	(205,758)	3,592,082
$ 461,154	$ (1,642,218)	$ (79,902)	$ 3,029,355

The accompanying notes are an integral part of the financial statements

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	Business-type		
	Municipal Liquor Fund	Water Fund	Electric Fund
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Net income (loss) from operations	$ 117,289	$ 165,952	$ 272,719
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	15,781	268,480	343,231
Changes in assets and liabilities:			
(Increase) decrease in receivables	5,636	(27,266)	(45,980)
(Increase) decrease in inventory	2,462	39	(15,204)
Increase (decrease) in accounts payable	(6,392)	(1,016)	149,634
Increase (decrease) in deferred revenue	-	-	-
Increase (decrease) in customer deposits	-	-	1,246
Increase (decrease) in accrued vacation and sick	16,883	11,328	35,611
Net cash provided (used) by operating activities	$ 151,659	$ 417,517	$ 741,257

Activities - Enterprise Funds

Sewer Fund	Telecom Fund	Nonmajor Enterprise Funds (Schedule 5)	Totals
$ 355,049	$ (139,785)	$ (386,257)	$ 384,967
199,989	735,689	133,763	1,696,933
1,436	(12,616)	4,150	(74,640)
-	11,011	113	(1,579)
(5,586)	801	(1,543)	135,898
-	1,082	-	1,082
-	-	(150)	1,096
1,241	19,367	14,923	99,353
$ 552,129	$ 615,549	$ (235,001)	$ 2,243,110

The accompanying notes are an integral part of the financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Principles Used in Determining the Scope of the Reporting Entity

The funds and account groups included in this report are controlled by and/or dependent on the City Council. Control by and/or dependence on the City Council was determined on the basis of budget adoption, taxing authority, debt issuance secured by the general obligation of the City, and/or the City's obligation to fund any deficits that may occur.

Responsibility for the fair presentation of financial position, results of operations and changes in financial position for all funds of the City in conformity with generally accepted accounting principles lies with the City Council. All fund records, with the exception of the Windom Area Hospital Fund, are maintained by a centralized accounting system.

All of the component units of the City's operations are included in this report with the exception of the Windom Area Hospital Fund which is separately audited and reported on. A copy of the Windom Area Hospital Fund Audit Report may be obtained by contacting the City Clerk, City of Windom, 444 9th Street, P.O. Box 38, Windom, MN 56101 or call (507) 831-6129.

b. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) display information about the non-fiduciary reporting government as a whole. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely significantly on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, service or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

c. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

c. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of 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 City.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's proprietary funds and various other functions of the government. Eliminations of these charges would distort the costs and revenues reported for the various functions concerned.

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 revenue of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sale and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The City reports the following major governmental funds:
General Fund: The General Fund is the general operating fund. It is used to account for all financial transactions except those required to be accounted for in another fund.

Additionally, the City reports the following fund types:

Special Revenue Funds: Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted for specific purposes.

Capital Projects Fund: Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds.

Debt Service Funds: Debt Service Funds are used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest and related costs.

Enterprise Funds: Enterprise Funds are used to account for the operations of the City's business-type activities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

c. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

The City reports the following major proprietary funds:

- The municipal liquor fund accounts for all activities related to the operation of a liquor store.
- The water fund accounts for activities related to the operation of a water distribution system.
- The electric fund accounts for activities related to the operation of electric generation and distribution system.
- The municipal wastewater fund accounts for activities related to the operation of a wastewater distribution system.
- The telecommunications fund accounts for the operation of a broadband communications system.

d. Budgetary Data

General Budget Policies -
The City follows legally prescribed procedures in establishing the budgetary data reflected in the financial statements as follows:

1. The City Clerk-Treasurer submits to the City Council a proposed operating budget for the Governmental Fund types. This operating budget includes proposed expenditures and the means of financing them. Budgets are prepared on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets are adopted on a basis consistent with generally accepted accounting principles.

2. The budget is enacted through passage of a resolution by the Council and the tax levy is certified the county auditor annually in December.

3. After adoption by the City Council, the expenditures incorporated into the budget become management guidelines. Appropriations for all budgeted funds and the actual expenditures must be held to budgeted levels unless amended through a supplemental appropriation resolution.

4. The City Council may transfer by resolution, a supplemental budget appropriation to increase spending authority if it is determined during the year sufficient amounts have not been budgeted. Reported budget amounts represent the originally adopted budget.

Unexpended budgeted amounts lapse at the end of the budget year. Legal spending control for City monies is at the fund level, but management control is exercised at budgetary line item levels within each fund.

e. Assets, Liabilities, and Net Assets or Equity

Cash and Interest Bearing Deposits -
Cash balances are invested to the extent available in short term certificates of deposit and interest-bearing savings accounts; these deposits are carried at cost, which at December 31, 2009, is the same as market value.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

e. Assets, Liabilities, and Net Assets or Equity (continued)

Property Taxes Receivable -
Property taxes attach as an enforceable lien as of January 1 annually. Taxes are collected by the County in two equal installments which are payable basically in May and October in the State of Minnesota.

Inventories -
Inventories of the Airport (resale gasoline) and Enterprise funds are carried at the lower of cost or market using the FIFO (first-in, first-out) method.

Capital Assets -
Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than $500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value on the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

Improvements other than buildings	20-50 years
Building and structures	25-50 years
Machinery and equipment	5-15 years
Furniture and fixtures	5-15 years
General purpose computers	3 years

f. Long-term Obligations
In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term debt are reported as liabilities in the applicable governmental activities, business-type activities, and proprietary fund type statement of net assets.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

g. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative Council plans that are subject to change.

h. Net Assets

Net assets represent the difference between assets and liabilities in the government-wide financial statements. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net assets are reported as restricted in the government-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

i. Compensated Absences

The City's vacation policy is that employees may carry-over vacation from one year to the next up to a maximum of eighty hours. The maximum accrual for vacation is capped at two hundred forty hours. Upon termination, for any reason, the City will reimburse an employee up to the maximum vacation accrual of two hundred forty hours. The maximum accrual for sick time is capped at one thousand hours. Upon termination, for reasons other than retirement, the City will not pay accrued sick time. Upon retirement, the City will reimburse an employee up to the maximum sick time accrual of one thousand hours at a 50% reduction. Vacation and sick time is accrued and credited to employee's accounts on January 1 each year.

j. Financial Reporting Entity

The City of Windom, for financial reporting purposes, includes all of the funds relevant to the operations of the City, with the exception of the Windom Area Hospital Fund, which is covered by a separate audit report.

k. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

l. Changes in Accounting Principles

As of the year ended December 31, 2004, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. GASB Statement No. 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements include government-wide financial statements prepared on the accrual basis of accounting, and fund financial statements which present information for individual major funds rather than by fund type, which had been the mode of presentation in financial statements issued prior to December 31, 2004. The implementation of GASB Statement No. 34 at December 31, 2004 caused the opening fund balance to be restated in terms of "net assets".

2. CASH AND INTEREST BEARING DEPOSITS:

In accordance with Minnesota Statutes, the City maintains its deposits at depository banks authorized by the City Council.

Deposits

At year-end the carrying amount of the City's deposits was $10,305,858 and the bank balance was $10,454,817. The City's deposits are categorized below to give an indication of the level of risk assumed by the entity at December 31, 2009. Category 1 includes deposits that are insured or collateralized with securities held by the City or its agent in the City's name. Category 2 includes collateralized deposits with securities held by the pledging financial institution's trust department or agent in securities held by the pledging financial institution's trust department or agent in the City's name. Category 3 includes deposits which are uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City's name.

	Category 1	Category 2	Category 3	Bank Balance
Deposits	$10,305,858	$ -	$ -	$10,454,817

Minnesota Statutes require that all deposits with financial institutions must be collateralized in an amount equal to 110% of deposits in excess of FDIC insurance (140% if collateralized with notes secured by first mortgages). Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the City Treasurer or in a financial institution other than that furnishing the collateral. The bank balance is categorized as follows:

Insured by FDIC insurance	$ 320,471
Insured by NCUA insurance	250,000
Covered by collateral	9,884,346
Not covered by collateral	-
	$ 10,454,817

3. RECEIVABLES AND UNCOLLECTIBLE ACCOUNTS:

Significant receivables include amounts due from customers primarily for utility services, use or rental agreements for the City's airport facilities and services related to fire calls. These receivables are due within one year. Certain funds report accounts receivable net of an allowance for uncollectible accounts and revenues net of unccollectibles. An allowance for uncollectibles in the amount of $6,500 has been estimated in relation to fire call receivables in the General Fund.

4. CAPITAL ASSETS:

Capital asset activity for the year ended December 31, 2009 was as follows:

	Beginning Balance	Primary Increases
Governmental activities:		
Capital assets not being depreciated:		
Land	$ 227,061	$ -
Construction in progress	1,433,874	1,368,184
Total capital assets not being depreciated	1,660,935	1,368,184
Other capital assets:		
Buildings and improvements	2,774,298	1,542,265
Machinery and equipment	5,598,912	129,304
Other fixed assets	1,542,183	54,457
Infrastructure	1,568,576	1,378,686
Total other capital assets at historical cost	11,483,969	3,104,712
Less accumulated depreciation for:		
Buildings and improvements	(497,371)	(86,989)
Machinery and equipment	(3,487,024)	(566,437)
Other fixed assets	(325,729)	(44,720)
Infrastructure	(303,490)	(95,387)
Total accumulated depreciation	(4,613,614)	(793,533)
Total other capital assets, net	6,870,355	2,311,179
Governmental activities capital assets, net	$ 8,531,290	$ 3,679,363

	Beginning Balance	Primary Increases
Business-type activities:		
Capital assets not being depreciated:		
Land	$ 154,922	$ -
Construction in progress	13,619	1,399
Total capital assets not being depreciated	168,541	1,399
Other capital assets:		
Buildings and improvements	16,239,986	-
Machinery and equipment	3,928,010	203,851
Furniture and fixtures	80,379	-
Other fixed assets	21,324,775	143,165
Infrastructure	267,914	-
Total other capital assets at historical cost	41,841,064	347,016

Government

Decreases	Ending Balance
$ -	$ 227,061
(1,378,686)	1,423,372
(1,378,686)	1,650,433
-	4,316,563
-	5,728,216
-	1,596,640
-	2,947,262
-	14,588,681
-	(584,360)
-	(4,053,461)
-	(370,449)
-	(398,877)
-	(5,407,147)
-	9,181,534
$ (1,378,686)	$ 10,831,967

Government

Decreases	Ending Balance
$ -	$ 154,922
-	15,018
-	169,940
-	16,239,986
(94,559)	4,037,302
-	80,379
(26,703)	21,441,237
(111,857)	156,057
(233,119)	41,954,961

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009

	Beginning Balance	Primary Increases
Business-type activities:		
Less accumulated depreciation for:		
Buildings and improvements	(6,218,965)	(354,844)
Machinery and equipment	(2,898,465)	(595,395)
Furniture and fixtures	(80,379)	-
Other fixed assets	(8,369,900)	(724,668)
Infrastructure	(43,694)	(506)
Total accumulated depreciation	(17,611,403)	(1,675,413)
Total other capital assets, net	24,229,661	(1,328,397)
Business-type activities capital assets, net	$ 24,398,202	$ (1,326,998)

Depreciation expense was charged to functions/programs of the city as follows:

Governmental activities:
- General government
- Public safety
- Public works
- Health and welfare
- Culture and recreation
- Conservation and economic development
- Airport

Total governmental activities depreciation expense

Business-type activities:
- Municipal Liquor
- Water
- Electric
- Sewer
- Telecom
- Arena
- Multi-Purpose Center
- River Bluff Townhomes

Total business-type activities depreciation expense

* The capitalized cost of the telecommunications plant includes capitalized interest of $261,833. Capitalized cost in the Water fund includes capitalized interest of $2,650. Capitalized cost in the Sewer fund includes capitalized interest of $2,571. Capitalized cost in the 4th Avenue Improvement fund includes capitalized interest of $4,951. Capitalized cost in the 2007 Street Improvement fund includes capitalized interest of $25,352. Capitalized cost in the 2009 Street Improvement fund includes capitalized interest of $35,147.

Government

Decreases	Ending Balance
-	(6,573,809)
94,367	(3,399,493)
-	(80,379)
26,703	(9,067,865)
-	(44,200)
121,070	(19,165,746)
(112,049)	22,789,215
$ (112,049)	$ 22,959,155

$ 61,085
218,481
272,389
10,661
108,185
5,121
117,611
$ 793,533

$ 15,781
266,541
343,051
199,191
717,086
36,902
67,023
29,838
$ 1,675,413

5. LONG-TERM DEBT:

a. General Obligation Bonds

The City issued general obligation bonds to provide funds for the acquisition and construction of major capital improvements, and to refinance existing bonded debt. General obligation bonds have been issued for governmental activities and for proprietary activities to refinance debt.

General obligation bonds are direct obligations and pledge the full faith and credit of the Government. These bonds generally are issued as 15-year serial bonds with maturing amounts generally increasing each year. Some of the bonds issued contain special assessments. These bonds will be repaid from amounts levied against the property owners benefited by this construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Government must provide resources to cover the deficiency.

General Obligation Revenue Bonds

The City issues general obligation revenue bonds to provide funds for the acquisition and construction of major capital improvements for the water and municipal wastewater funds. General obligation revenue bonds are direct obligations and pledge the full faith and credit of the Government.

Revenue Bonds

The City also issues bonds where the Government pledges income derived from the constructed assets to pay debt service. Revenue bonds have been issued for business-type activities.

Following is a detail of the outstanding bonds as of December 31, 2009:

	Interest Rates	Final Maturity	Outstanding Principal
G O Improvement Bonds of 1994	2.44	2014	$ 92,286
G O Wastewater Treatment Bond Series 1995	2.45	2011	35,034
G O Improvements Bonds, Series 2003	3.77	2019	1,040,000
G O Improvement Bonds, Series 2005 A	3.0-4.4	2021	1,120,000
G O Improvement & Refunding Bonds, Series 2006A	3.7-4.15	2018	890,000
G O Temporary Equipment Certificates Series 2007A	4.0	2010	2,365,000
G O Temporary Equipment Certificates Series 2007A	3.75-4.3	2023	1,310,000
G O Improvement Bonds Series 2009A	2.0-4.25	2025	1,510,000
G O Temporary Equipment Certificates Series 2009B	1.65	2012	2,400,000
Total G O Special Assessment			10,762,320
G O Sewer Bonds Series 1994	2.71	2015	1,392,406
G O Revenue Series 1999	2.57	2018	1,681,000
G O Revenue Note Series 1999A	2.29	2019	761,000
Total G O Revenue			3,834,406
Communication System Revenue Bonds 2004	4.5-6.25	2024	9,420,000
Total Revenue			9,420,000
Total			$ 24,016,726

5. LONG-TERM DEBT (CONTINUED):

Other Notes Payable-
The River Bluff Townhomes (Enterprise Fund) notes payable has various terms on the notes. In 2009, payments were made to Bank of the West in the amount of $8,700. No payments were made on the remaining notes payable. The current portion of the Bank of the West note is $9,267. The list of the notes is as follows:

Bank of the West	$ 435,349
GMHF	180,000
MHFA	353,305
Cottonwood County	25,000
PM Windom	15,000
Toro Foundation	15,000
Total	$ 1,023,654

In the River Bluff Estates Fund (Special Revenue Fund) there is one note payable. The United Prairie Bank (UPB) loan was obtained to pay off a note to Bank Midwest.

UPB 7.25% monthly interest-only pmts Beginning 10-10-07 for 3 years - 427 6th Ave	$ 102,751

In the PM Revolving Loan Fund (Special Revenue Fund) there is one note payable. Certain revolving loan fund requirements have been met, subsequent receipts of principal and interest are payable to the State of Minnesota.

State of Minnesota - PM Windom	$ 27,898

In the EDA Fund there is one note payable. The note was obtained to pay off an interfund note payable with the Electric Fund. The current terms and maturities of the note are as follows:

Bank Midwest - monthly payments of $4,586, interest at 7.25%	$ 454,720

Scheduled principal and interest payments to maturity are as follows:

	Principal	Interest	Total
2010	$ 15,195	$ 32,805	$ 48,000
2011	439,525	10,625	450,150
	$ 454,720	$ 43,430	$ 498,150

5. LONG-TERM DEBT (CONTINUED):

In the Sewer Fund there is one note payable. The current terms and maturities of the note are as follows:

League of Minnesota Cities, equal annual installments for five years, no interest if paid within one year, interest at 3% if paid in more than one annual installment.	$ 20,097

In the Equipment Capital Projects Fund there is one lease payable. The current terms and maturities of the lease are as follows:

John Deer Credit - annual payments of $22,467, interest at 5.5%

	Principal	Interest	Total
2010	$ 18,039	$ 4,428	$ 22,467
2011	19,057	3,410	22,467
2012	20,132	2,335	22,467
2013	21,268	1,199	22,467
	$ 78,496	$ 11,372	$ 89,868

The following funds report accrued vacation and sick time:

	Vacation	Sick	Total
General	$ 84,225	$ 274,967	$ 359,192
Library	7,636	38,910	46,546
Swim Pool	2,478	3,374	5,852
Ambulance	886	1,312	2,198
EDA	4,781	14,780	19,561
Liquor	75,410	55,469	130,879
Water	18,901	70,740	89,641
Electric	82,530	126,010	208,540
Sewer	26,075	73,934	100,009
Telecom	22,054	65,834	87,888
Arena	20,134	36,392	56,526
Multi-Purpose Center	11,922	25,079	37,001
	$ 357,032	$ 786,801	$ 1,143,833

5. LONG-TERM DEBT(CONTINUED):

b. Changes in long-term liabilities:

Governmental activities long-term liability balances and activity for the year ended December 31, 2009 were as follows:

Governmental Activities:	Beginning Balance	Additions
General Obligation Bonds:		
GO Tax Increment Bond of 2000	$ 240,000	$ -
GO Improvement Bonds of 1994	112,043	-
GO Wastewater Treatment Bond of 1995	57,689	-
GO Improvement Bond of 2000	190,000	-
GO Improvement Bonds Series 2003	675,000	-
GO Improvement Bonds Series 2005 A	595,000	-
GO Improvement and Refunding Bonds Series 2006 A	920,000	-
GO Improvement Bonds Series 2007 B	1,380,000	-
GO Improvement Bonds Series 2009 A	-	1,510,000
Other Loans and Obligations:		
River Bluff Estates - United Prairie Bank	102,751	-
PM Revolving Loan - State of Minnesota	150,000	-
Economic Development - Bank Midwest	468,986	-
Capital Projects Equipment - John Deere Credit	-	100,963
Accrued Vacation and Sick Pay	390,305	43,751
Total Governmental Activities Long-Term Debt	$ 5,281,774	$ 1,654,714

Business-type Activities:	Beginning Balance	Additions
General Obligation Bonds:		
GO Improvement Bonds Series 2003	$ 450,000	$ -
GO Improvement Bonds Series 2005 A	625,000	-
GO Temporary Equipment Certificates Series 2007 A	2,365,000	-
GO Temporary Equipment Certificates Series 2009 B	-	2,400,000
General Obligation Revenue Bonds:		
GO Sewer Bonds Series 1994	1,603,386	-
GO Revenue Series 1999	1,845,000	-
GO Water Revenue Bond of 2000	245,000	-
GO Water Note Series 1999A	828,000	-
Revenue Bonds:		
Communications System Revenue Bonds 2004	9,470,000	-

Reductions	Ending Balance	Amounts Due within One Year
$ 240,000	$ -	$ -
19,757	92,286	20,241
22,655	35,034	23,214
190,000	-	-
51,000	624,000	51,000
50,000	545,000	50,000
30,000	890,000	105,000
70,000	1,310,000	70,000
-	1,510,000	-
-	102,751	-
122,102	27,898	27,898
14,266	454,720	15,195
22,467	78,496	22,467
708	433,348	-
$ 832,955	$ 6,103,533	$ 385,015

Reductions	Ending Balance	Amounts Due within One Year
$ 34,000	$ 416,000	$ 34,000
50,000	575,000	50,000
-	2,365,000	2,365,000
-	2,400,000	-
210,980	1,392,406	216,736
164,000	1,681,000	168,000
245,000	-	-
67,000	761,000	69,000
50,000	9,420,000	100,000

5. LONG-TERM DEBT(CONTINUED):

b. Changes in long-term liabilities:

Business-type activities long-term liability balances and activity for the year ended December 31, 2009 were as follows:

	Beginning Balance	Additions
Business-type Activities:		
Other Loans and Obligations:		
River Bluff Townhomes - Bank of the West	444,049	-
River Bluff Townhomes - Special Assessments	111,857	-
River Bluff Townhomes - GMHF	180,000	-
River Bluff Townhomes - MHFA	353,305	-
River Bluff Townhomes - Cottonwood County	25,000	-
River Bluff Townhomes - PM Windom	15,000	-
River Bluff Townhomes - Toro Foundation	15,000	-
Sewer - LMC Emergency Sewer Repair	39,609	-
Accrued Vacation and Sick Pay	611,130	99,353
Total Business-Type Activities Long-Term Debt	$ 19,226,336	$ 2,499,353
Total Long-Term Debt	$ 24,508,110	$ 4,154,067

c. Minimum debt payments:

Minimum annual principal and interest payments to retire long-term bonded debt payable are as follows:

	General Obligation Bonds Payable		General Revenue
	Principal	Interest	Principal
Year Ending December 31			
2010	2,768,455	315,405	453,736
2011	482,557	244,271	465,649
2012	2,886,247	228,127	477,723
2013	496,768	171,568	489,964
2014	498,293	153,736	503,374
2015-2019	2,315,000	491,815	1,443,960
2020-2024	1,185,000	134,888	-
2025	130,000	2,763	-
Total	10,762,320	1,742,573	3,834,406

Reductions	Ending Balance	Amounts Due within One Year
8,700	435,349	9,267
111,857	-	-
-	180,000	-
-	353,305	-
-	25,000	-
-	15,000	-
-	15,000	-
19,512	20,097	20,097
-	710,483	-
$ 961,049	$ 20,764,640	$ 3,032,100
$ 1,794,004	$ 26,868,173	$ 3,417,115

Obligation Bonds Payable	Revenue Bonds Payable	
Interest	Principal	Interest
96,904	100,000	576,946
85,092	140,000	572,246
72,969	240,000	565,246
60,533	290,000	553,006
47,772	325,000	537,780
84,713	2,380,000	2,338,438
-	5,945,000	1,438,439
-	-	-
447,983	9,420,000	6,582,101

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009

6. INTERFUND RECEIVABLES AND PAYABLES:

Economic Development Fund:		
Due from Capital Projects	$ 2,760	
Due from River Bluff Estates Fund	74,262	
Due to Electric Fund		$ 67,718
River Bluff Estates Fund:		
Due to Economic Development Fund		74,262
Capital Projects Fund:		
Due to Economic Development Fund		2,760
Electric Fund:		
Due from Economic Development Fund	67,718	
	$ 77,022	$ 77,022

7. DESIGNATED FUND BALANCES, RESERVED FUND BALANCES AND RESTRICTED NET ASSETS:

General Fund - Designated for working capital needs	$ 1,447,416
Total Designated Fund Balances	$ 1,447,416
Economic Development Fund - Reserved for capital outlay	$ 7,144
Equipment Capital Projects Fund - Reserved for capital outlay	5,000
2007 Street Improvement Bond Fund - Reserved for debt repayment	1,259
2006A Refunding Bond Fund - Reserved for debt repayment	(59,155)
2003 Improvement Bond Fund - Reserved for debt repayment	(107,033)
4th Avenue Improvement Bond Fund - Reserved for debt repayment	(112,459)
GO Special Assessment Bond Fund - Reserved for debt repayment	456,401
2009 Street Improvement Fund - Reserved for debt repayment	178,937
Total Reserved Fund Balances	$ 370,094
Economic Development Fund - Restricted for capital outlay	$ 7,144
Equipment Capital Projects Fund - Reserved for capital outlay	5,000
2007 Street Improvement Bond Fund - Reserved for debt repayment	1,259
2006A Refunding Bond Fund - Reserved for debt repayment	(59,155)
2003 Improvement Bond Fund - Reserved for debt repayment	(107,033)
4th Avenue Improvement Bond Fund - Reserved for debt repayment	(112,459)
GO Special Assessment Bond Fund - Restricted for debt repayment	456,401
2009 Street Improvement Fund - Reserved for debt repayment	178,937
Telecom - Restricted for debt repayment	3,880,389
Total Restricted Net Assets	$ 4,250,483

8. DEFICIT FUND EQUITY:

- The Equipment Capital Projects Fund has a deficit fund balance of $231,715 at December 31, 2009. Management plans to eliminate this deficit by controlling expenses.
- The TIF District 1-13 and 1-14 Funds have deficit fund balances of $80,009 and $2,760 respectively at December 31, 2009. Management plans to eliminate this deficit by transferring cash and controlling expenses.

8. DEFICIT FUND EQUITY (CONTINUED):

- The 2003 Improvement Fund has a deficit fund balance of $107,033 at December 31, 2009. Management plans to eliminate this deficit by transferring cash and controlling expenses.
- The 4th Avenue Improvement Bond Fund has a deficit fund balance of $112,459 at December 31, 2009. Management plans to eliminate this deficit by assessing properties under construction and increasing levies.
- The Airport Fund has a deficit fund balance of $31,750 at December 31, 2009. Management plans to eliminate this deficit by increasing revenues and controlling expenses.
- The 2006A Refund Bond Fund has a deficit fund balance of $59,155 at December 31, 2009. Management plans to eliminate this deficit by transferring cash and controlling expenses.
- The River Bluff Estates Fund has a deficit fund balance of $44,495 at December 31, 2009. Management plans to eliminate this deficit by transferring cash and selling inventoried property.
- The Telecommunications Fund has deficit net assets of $5,486,833 at December 31, 2009. Management plans to eliminate this deficit by increasing sales and controlling expenses.
- The River Bluff Townhomes Fund has deficit net assets of $168,440 at December 31, 2009. Management plans to eliminate this deficit by increasing occupancy and controlling expenses.

9. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY, GOVERNMENTAL FUNDS TYPES:

Expenditures exceeded budget in the following special revenue funds during the year ended December 31, 2009:

Fund	Excess Expenditures
EDA	$ 71,336
TIF District 1-11	578
North Industrial Park	18,469
River Bluff Estates	111,727

10. RETIREMENT BENEFIT PENSION PLANS, STATEWIDE:

a. 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 Public Employees Retirement Fund (PERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

PERF 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, fire-fighters 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 defined 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.

10. RETIREMENT BENEFIT PENSION PLANS, STATEWIDE (CONTINUED):

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF members and PERF 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 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 lifetime 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 retirement age. Refunds of contributions are available 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 published a publicly available financial report that includes financial statements and required supplementary information for PERF and PEPFF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, MN 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

b. 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. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.0%, respectively, of their annual covered salary in 2009. PEPFF members were required to contribute 9.4% of their annual covered salary in 2009. The City of Windom is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 6.75% for Coordinated Plan PERF members and 14.1% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2009, 2008, and 2007 were $152,444, $148,277, and $129,440, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2009, 2008, and 2007 were $62,215, $55,928, and $47,682, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

11. INTERFUND TRANSFERS:

A listing of the operating from/to other funds is as follows:

a. Operating transfer from Municipal Liquor Fund to General Fund	$ 70,000
b. Operating transfer from Electric Fund to General Fund	175,000
c. Capital transfer from Water Fund to 2006A Refunding Bond Fund	9,023
d. Capital transfer from Sewer Fund to North Industrial Park	1,881
e. Capital transfer from 2006A Refunding Bond Fund to Water Fund	220,000
f. Capital transfer from 2006A Refunding Bond Fund to GO Special Assessment Bond Fund	170,000
g. Capital transfer from 2006A Refunding Bond Fund to TIF District 1-13 Fund	220,000
h. Capital transfer from River Bluff Estates Fund to Economic Development Fund	128,170

In addition, a transfer from Windom Area Hospital in the amount of $206,136 was made to the Hospital Bond Debt Service Fund. This is the reported difference between transfers in and transfers out on Exhibit B.

12. RISK INFORMATION:

The government 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. During the year ended December 31, 2009, the Fund managed its risks as follows:

Public Entity Risk Pool:
The Fund is a member of the League of Minnesota Cities Insurance Trust (LMCIT), a public entity risk pool currently operating as a common risk management and insurance program for Minnesota local government entities. The agreement for formation of the LMCIT provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of reserved amounts for each insured event. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Fund had determined that it is not possible to estimate the amount of such additional assessments; however, they are not expected to be material to the financial statements taken as a whole. The Fund pays an annual premium to the pool to provide coverage of risks related to property, automobiles, theft, general liability, worker's compensation, employee liability and employee benefits and errors and omissions.

City of Windom, Minnesota

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2009

	Library Fund	Swim Pool Fund	Economic Development Fund
ASSETS			
Cash on hand, checking and time deposits	$ 35,456	$ 32,297	$ 52,392
Accounts receivable	5,255	-	-
Special assessments receivable, deferred	-	-	-
Special assessments receivable, delinquent	-	-	-
Loans receivable	-	-	-
Interfund loans receivable	-	-	77,022
Property held for resale, construction in progress	-	-	845,034
Total assets	$ 40,711	$ 32,297	$ 974,448
LIABILITIES AND FUND BALANCES			
Liabilities:			
Cash deficiency	$ -	$ -	$ -
Accounts payable	5,080	-	395
Deferred revenue, special assessments	-	-	-
Interfund notes payable	-	-	67,178
Notes payable	-	-	454,720
Total liabilities	5,080	-	522,293
Fund Balances:			
Fund balance - unreserved, undesignated	35,631	32,297	445,011
Fund balance - reserved (deficit)	-	-	7,144
Total fund balances	35,631	32,297	452,155
Total liabilities and fund balances	$ 40,711	$ 32,297	$ 974,448

Special Revenue				
Ambulance Fund	North Industrial Park Fund	River Bluff Estates Fund	River Bluff Revolving Loan Fund	EDA Revolving Loan Fund
$ 752,368	$ 6,686	$ -	$ 21,887	$ 42,539
135,546	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	158,214	-	22,453
$ 887,914	6,686	$ 158,214	$ 21,887	$ 64,992
$ -	$ -	$ 25,396	$ -	$ -
2,459	-	300	-	-
-	-	-	-	-
-	-	74,262	-	-
-	-	102,751	-	-
2,459	-	202,709	-	-
885,455	6,686	(44,495)	21,887	64,992
-	-	-	-	-
885,455	6,686	(44,495)	21,887	64,992
$ 887,914	$ 6,686	$ 158,214	$ 21,887	$ 64,992

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2009

	PM Revolving Loan Fund	SCDP Revolving Loan Fund	TIF District 1-1 Fund
ASSETS			
Cash on hand, checking and time deposits	$ 555,794	$ 110,884	$ 67,003
Accounts receivable	-	-	-
Special assessments receivable, deferred	-	-	-
Special assessments receivable, delinquent	-	-	-
Loans receivable	125,543	99,148	-
Interfund loans receivable	-	-	-
Property held for resale, construction in progress	278,990	-	-
Total assets	$ 960,327	$ 210,032	$ 67,003
LIABILITIES AND FUND BALANCES			
Liabilities:			
Cash deficiency	$ -	$ -	$ -
Accounts payable	-	-	-
Deferred revenue, special assessments	-	-	-
Interfund notes payable	-	-	-
Notes payable	27,898	-	-
Total liabilities	27,898	-	-
Fund Balances:			
Fund balance - unreserved, undesignated	932,429	210,032	67,003
Fund balance - reserved (deficit)	-	-	-
Total fund balances	932,429	210,032	67,003
Total liabilities and fund balances	$ 960,327	$ 210,032	$ 67,003

Special Revenue				
TIF District 1-2 Fund	TIF District 1-3 Fund	TIF District 1-4 Fund	TIF District 1-6 Fund	TIF District 1-8 Fund
$ 95,193	$ 237	$ 1,630	$ 12,906	$ 24,634
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
$ 95,193	$ 237	$ 1,630	$ 12,906	$ 24,634
$ -	$ -	$ -	$ -	$ -
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
95,193	237	1,630	12,906	24,634
-	-	-	-	-
95,193	237	1,630	12,906	24,634
$ 95,193	$ 237	$ 1,630	$ 12,906	$ 24,634

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2009

	Special Revenue		
	TIF District 1-10 Fund	TIF District 1-11 Fund	TIF District 1-12 Fund
ASSETS			
Cash on hand, checking and time deposits	$ -	$ 3,085	$ 6,972
Accounts receivable	-	-	-
Special assessments receivable, deferred	-	-	-
Special assessments receivable, delinquent	-	-	-
Loans receivable	-	-	-
Interfund loans receivable	-	-	-
Property held for resale, construction in progress	-	-	-
Total assets	$ -	$ 3,085	$ 6,972
LIABILITIES AND FUND BALANCES			
Liabilities:			
Cash deficiency	$ -	$ -	$ -
Accounts payable	-	-	6,691
Deferred revenue, special assessments	-	-	-
Interfund notes payable	-	-	-
Notes payable	-	-	-
Total liabilities	-	-	6,691
Fund Balances:			
Fund balance - unreserved, undesignated	-	3,085	281
Fund balance - reserved (deficit)	-	-	-
Total fund balances	-	3,085	281
Total liabilities and fund balances	$ -	$ 3,085	$ 6,972

		Capital Projects	Debt Service	
TIF District 1-13 Fund	TIF District 1-14 Fund	Equipment Capital Projects Fund	2003 Improvement Bond Fund	4th Avenue Improvement Bond Fund
$ -	$ -	$ -	$ -	$ -
-	-	-	-	-
-	-	-	144,264	106,999
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
$ -	$ -	$ -	$ 144,264	$ 106,999
$ 9,065	$ -	$ 153,219	$ 107,033	$ 112,459
70,944	-	-	-	-
-	-	-	144,264	106,999
-	2,760	-	-	-
-	-	78,496	-	-
80,009	2,760	231,715	251,297	219,458
(80,009)	(2,760)	(236,715)	-	-
-	-	5,000	(107,033)	(112,459)
(80,009)	(2,760)	(231,715)	(107,033)	(112,459)
$ -	$ -	$ -	$ 144,264	$ 106,999

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2009

	Debt Service		
	2006 A Refunding Bond Fund	2007 Street Improvement Bond Fund	GO Special Assessment Bond Fund
ASSETS			
Cash on hand, checking and time deposits	$ -	$ 1,259	$ 452,633
Accounts receivable	-	-	-
Special assessments receivable, deferred	126,846	249,945	378,365
Special assessments receivable, delinquent	-	-	6,096
Loans receivable	-	-	-
Interfund loans receivable	-	-	-
Property held for resale, construction in progress	-	-	-
Total assets	$ 126,846	$ 251,204	$ 837,094
LIABILITIES AND FUND BALANCES			
Liabilities:			
Cash deficiency	$ 59,155	$ -	$ -
Accounts payable	-	-	2,328
Deferred revenue, special assessments	126,846	249,945	378,365
Interfund notes payable	-	-	-
Notes payable	-	-	-
Total liabilities	186,001	249,945	380,693
Fund Balances:			
Fund balance - unreserved, undesignated	-	-	-
Fund balance - reserved (deficit)	(59,155)	1,259	456,401
Total fund balances	(59,155)	1,259	456,401
Total liabilities and fund balances	$ 126,846	$ 251,204	$ 837,094

Hospital Bond Fund	Total Nonmajor Governmental Funds
$ -	$ 2,275,855
-	140,801
-	1,006,419
-	6,096
-	224,691
-	77,022
-	1,304,691
$ -	$ 5,035,575
$ -	$ 466,327
-	88,197
-	1,006,419
-	144,200
-	663,865
-	2,369,008
-	2,475,410
-	191,157
-	2,666,567
$ -	$ 5,035,575

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2009

	Library Fund	Swim Pool Fund	Economic Development Fund
Revenues			
Local property taxes	$ 161,750	$ 52,250	$ 103,740
Special assessments	-	-	-
Intergovernmental revenues	10,509	-	-
State grants	-	-	-
Charges for services and facilities	784	30,027	80,879
Fines and forfeits	2,155	-	-
Investment income	-	-	808
Other revenues	600	6,920	7,419
Total revenues	175,798	89,197	192,846
Expenditures			
Current:			
Public safety	-	-	-
Public works	-	-	-
Culture and recreation:			
Library	158,888	-	-
Swim pool	-	82,734	-
Conservation and development:			
Economic development and assistance	-	-	184,080
Capital outlay:			
Other	-	-	-
Debt service:			
Principal retirement	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	158,888	82,734	184,080
Excess of revenues over (under) expenditures	16,910	6,463	8,766
Other Financing Sources (Uses)			
Operating transfers in	-	-	128,170
Operating transfers out	-	-	-
Total other financing sources (uses)	-	-	128,170
Net change in fund balances	16,910	6,463	136,936
Fund balance (deficit), January 1, 2009	18,721	25,834	315,219
Fund balance (deficit), December 31, 2009	$ 35,631	$ 32,297	$ 452,155

Special Revenue				
Ambulance Fund	North Industrial Park Fund	River Bluff Estates Fund	River Bluff Revolving Loan Fund	EDA Revolving Loan Fund
$ -	$ -	$ -	$ -	$ -
-	-	-	-	-
3,025	-	-	-	-
-	-	-	-	-
401,208	-	-	-	-
-	-	-	-	-
418	-	-	-	720
1,664	10,920	16,209	-	-
406,315	10,920	16,209	-	720
220,846	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	7,589	6,123	100	100
-	14,881	-	-	-
-	-	-	-	-
-	-	7,573	-	-
220,846	22,470	13,696	100	100
185,469	(11,550)	2,513	(100)	620
-	1,881	-	-	-
-	-	(128,170)	-	-
-	1,881	(128,170)	-	-
185,469	(9,669)	(125,657)	(100)	620
699,986	16,355	81,162	21,987	64,372
$ 885,455	$ 6,686	$ (44,495)	$ 21,887	$ 64,992

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2009

	PM Revolving Loan Fund	SCDP Revolving Loan Fund	TIF District 1-1 Fund
Revenues			
Local property taxes	$ -	$ -	$ -
Special assessments	-	-	-
Intergovernmental revenues	-	-	784
State grants	-	3,086	-
Charges for services and facilities	-	-	-
Fines and forfeits	-	-	-
Investment income	10,789	-	-
Other revenues	-	1,191	4,993
Total revenues	10,789	4,277	5,777
Expenditures			
Current:			
Public safety	-	-	-
Public works	-	-	-
Culture and recreation:			
Library	-	-	-
Swim pool	-	-	-
Conservation and development:			
Economic development and assistance	100	29,107	-
Capital outlay:			
Other	-	-	-
Debt service:			
Principal retirement	-	-	-
Interest and fiscal charges	16,869	-	-
Total expenditures	16,969	29,107	-
Excess of revenues over (under) expenditures	(6,180)	(24,830)	5,777
Other Financing Sources			
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balances	(6,180)	(24,830)	5,777
Fund balance (deficit), January 1, 2009	938,609	234,862	61,226
Fund balance (deficit), December 31, 2009	$ 932,429	$ 210,032	$ 67,003

Special Revenue				
TIF District 1-2 Fund	TIF District 1-3 Fund	TIF District 1-4 Fund	TIF District 1-6 Fund	TIF District 1-8 Fund
$ -	$ -	$ -	$ -	$ -
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
25,139	-	54,936	11,936	5,754
25,139	-	54,936	11,936	5,754
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
335	-	5,494	-	575
-	-	-	-	-
-	-	-	-	-
3,014	-	49,442	-	5,179
3,349	-	54,936	-	5,754
21,790	-	-	11,936	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
21,790	-	-	11,936	-
73,403	237	1,630	970	24,634
$ 95,193	$ 237	$ 1,630	$ 12,906	$ 24,634

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2009

	Special Revenue		
	TIF District 1-10 Fund	TIF District 1-11 Fund	TIF District 1-12 Fund
Revenues			
Local property taxes	$ -	$ -	$ -
Special assessments	-	-	-
Intergovernmental revenues	-	-	-
State grants	-	-	-
Charges for services and facilities	-	-	-
Fines and forfeits	-	-	-
Investment income	-	-	-
Other revenues	25,190	7,078	104,332
Total revenues	25,190	7,078	104,332
Expenditures			
Current:			
Public safety	-	-	-
Public works	-	-	-
Culture and recreation:			
Library	-	-	-
Swim pool	-	-	-
Conservation and development:			
Economic development and assistance	2,519	7,078	10,027
Capital outlay:			
Other	-	-	-
Debt service:			
Principal retirement	-	-	-
Interest and fiscal charges	22,671	-	90,242
Total expenditures	25,190	7,078	100,269
Excess of revenues over (under) expenditures	-	-	4,063
Other Financing Sources			
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balances	-	-	4,063
Fund balance (deficit), January 1, 2009	-	3,085	(3,782)
Fund balance (deficit), December 31, 2009	$ -	$ 3,085	$ 281

		Capital Projects	Debt Service	
TIF District 1-13 Fund	TIF District 1-14 Fund	Equipment Capital Projects Fund	2003 Improvement Bond Fund	4th Avenue Improvement Bond Fund
$ -	$ -	$ 58,974	$ -	$ -
-	-	-	40,824	29,700
3,120	-	-	-	-
-	-	18,000	-	-
-	-	-	-	-
-	-	-	-	-
-	-	2,035	-	-
21,899	-	450	-	-
25,019	-	79,459	40,824	29,700
-	-	-	-	-
-	-	3,154	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	156,487	-	-
240,000	-	-	51,000	25,000
7,039	-	-	25,124	15,810
247,039	-	159,641	76,124	40,810
(222,020)	-	(80,182)	(35,300)	(11,110)
220,000	-	-	-	-
-	-	-	-	-
220,000	-	-	-	-
(2,020)	-	(80,182)	(35,300)	(11,110)
(77,989)	(2,760)	(151,533)	(71,733)	(101,349)
$ (80,009)	$ (2,760)	$ (231,715)	$ (107,033)	$ (112,459)

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2009

	Debt Service		
	2006 A Refunding Bond Fund	2007 Street Improvement Bond Fund	GO Special Assessment Bond Fund
Revenues			
Local property taxes	$ -	$ 44,428	$ 43,924
Special assessments	-	21,137	139,283
Intergovernmental revenues	-	-	-
State grants	-	-	-
Charges for services and facilities	-	-	-
Fines and forfeits	-	-	-
Investment income	12,064	-	16,904
Other revenues	-	-	-
Total revenues	12,064	65,565	200,111
Expenditures			
Current:			
Public safety	-	-	-
Public works	-	1,050	-
Culture and recreation:			
Library	-	-	-
Swim pool	-	-	-
Conservation and development:			
Economic development and assistance	-	-	-
Capital outlay:			
Other	-	-	33,188
Debt service:			
Principal retirement	30,000	70,000	257,412
Interest and fiscal charges	36,998	54,190	17,520
Total expenditures	66,998	125,240	308,120
Excess of revenues over (under) expenditures	(54,934)	(59,675)	(108,009)
Other Financing Sources			
Operating transfers in	9,023	-	170,000
Operating transfers out	(610,000)	-	-
Total other financing sources (uses)	(600,977)	-	170,000
Net change in fund balances	(655,911)	(59,675)	61,991
Fund balance (deficit), January 1, 2009	596,756	60,934	394,410
Fund balance (deficit), December 31, 2009	$ (59,155)	$ 1,259	$ 456,401

Hospital Bond Fund	Total Nonmajor Governmental Funds
$ -	$ 465,066
-	230,944
-	17,438
-	21,086
-	512,898
-	2,155
-	43,738
-	306,630
-	1,599,955
-	220,846
-	4,204
-	158,888
-	82,734
-	253,227
-	204,556
100,000	773,412
106,136	457,807
206,136	2,155,674
(206,136)	(555,719)
206,136	735,210
-	(738,170)
206,136	(2,960)
-	(558,679)
-	3,225,246
$ -	$ 2,666,567

NONMAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF NET ASSETS
DECEMBER 31, 2009

	Arena Fund	Multi-Purpose Center Fund	River Bluff Townhomes	Total Nonmajor Enterprise Funds
ASSETS				
Current assets				
Cash and interest-bearing deposits	$ 59,834	$ -	$ 22,619	$ 82,453
Inventories	168	-	-	168
Total current assets	60,002	-	22,619	82,621
Fixed				
Property, plant, equipment	1,239,838	2,190,049	1,123,288	4,553,175
Less: accumulated depreciation	1,049,251	689,858	282,939	2,022,048
Net fixed assets	190,587	1,500,191	840,349	2,531,127
Total assets	$ 250,589	$ 1,500,191	$ 862,968	$ 2,613,748
LIABILITIES				
Current liabilities				
Cash deficiency	$ -	$ 162,355	$ -	$ 162,355
Accounts payable	3,813	3,257	3,104	10,174
Customer deposits	-	-	4,650	4,650
Notes payable within one year	-	-	9,267	9,267
Total current liabilities	3,813	165,612	17,021	186,446
Non-current liabilities				
Accrued vacation and sick	56,526	37,000	-	93,526
Notes payable	-	-	1,014,387	1,014,387
Total non-current liabilities	56,526	37,000	1,014,387	1,107,913
Total liabilities	60,339	202,612	1,031,408	1,294,359
Net Assets				
Net Assets:				
Invested in capital assets, net of related debt	190,587	1,500,191	-	1,690,778
Unreserved (deficit)	(337)	(202,612)	(168,440)	(371,389)
Total net assets (deficit)	$ 190,250	$ 1,297,579	$ (168,440)	$ 1,319,389

NONMAJOR ENTERPRISE FUNDS
STATEMENT OF REVENUES AND EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2009

	Arena Fund	Multi-Purpose Center Fund	River Bluff Townhomes	Total Nonmajor Enterprise Funds
Operating revenues				
Facility use and other revenues	$ 141,563	$ 60,958	$ 85,655	$ 288,176
Operating expense				
Salaries and wages	112,301	118,432	-	230,733
Payroll taxes	14,899	15,004	-	29,903
Employee insurance	23,430	15,922	-	39,352
Supplies and maintenance costs	26,748	13,939	12,908	53,595
Utilities	58,688	27,083	7,565	93,336
Insurance	7,048	7,625	6,593	21,266
Depreciation and amortization	36,902	67,023	29,838	133,763
Other operating expense	40,285	17,334	14,866	72,485
Total operating expense	320,301	282,362	71,770	674,433
Operating income (loss)	(178,738)	(221,404)	13,885	(386,257)
Other revenues				
Local property taxes	185,500	207,425	-	392,925
Contributions/reimbursements	5,500	-	-	5,500
Total other revenues	191,000	207,425	-	398,425
Other charges				
Interest and debt services	-	-	25,479	25,479
Total other charges	-	-	25,479	25,479
Change in net assets	12,262	(13,979)	(11,594)	(13,311)
Net assets (deficit), January 1, 2009	177,988	1,311,558	(156,846)	1,332,700
Net assets (deficit), December 31, 2009	$ 190,250	$ 1,297,579	$ (168,440)	$ 1,319,389

NONMAJOR ENTERPRISE FUNDS

COMBINING STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2009

	Arena Fund	Multi-Purpose Center Fund
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 141,943	$ 61,058
Cash payments to suppliers for goods and services	(93,488)	(49,788)
Cash payments to/for employees for services	(145,713)	(139,352)
Other expense	(40,285)	(17,334)
Net cash provided (used) by operating activities	(137,543)	(145,416)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Cash received from property taxes	185,500	207,425
Net cash provided by non-capital financing activities	185,500	207,425
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisitions and construction of capital assets	-	(3,389)
Principal payments on long-term debt	-	-
Interest paid	-	-
Other revenue	5,500	-
Net cash provided (used) by capital and financing activities	5,500	(3,389)
Net increase in cash and cash equivalents	53,457	58,620
Cash and interest bearing deposits, January 1, 2009	6,377	(220,975)
Cash and interest bearing deposits, December 31, 2009	$ 59,834	$ (162,355)
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Net income (loss) from operations	$ (178,738)	$ (221,404)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	36,902	67,023
Changes in assets and liabilities:		
(Increase) decrease in receivables	380	100
(Increase) decrease in inventory	113	-
Increase (decrease) in accounts payable	(1,117)	(1,141)
Increase (decrease) in customer deposits	-	-
Increase (decrease) in accrued vacation and sick	4,917	10,006
Net cash provided (used) by operating activities	$ (137,543)	$ (145,416)

	River Bluff Townhomes		Total Nonmajor Enterprise Funds
	$ 89,175		$ 292,176
	(26,351)		(169,627)
	-		(285,065)
	(14,866)		(72,485)
	47,958		(235,001)
	-		392,925
	-		392,925
	-		(3,389)
	(8,700)		(8,700)
	(25,479)		(25,479)
	-		5,500
	(34,179)		(32,068)
	13,779		125,856
	8,840		(205,758)
	22,619		$ (79,902)
	$ 13,885		$ (386,257)
	29,838		133,763
	3,670		4,150
	-		113
	715		(1,543)
	(150)		(150)
	-		14,923
	$ 47,958		$ (235,001)

CITY OF WINDOM

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2009

Federal Grantor/ Pass-Through Grantor, Program Title		Federal CFDA Number	(Accrued) Deferred Revenue 1/1/2009	Funds Received	Expendi-tures	(Accrued) Deferred Revenue 12/31/2009
US Department of Transportation:						
Passed through MN Department of Transportation						
Airport Improvement Program	*	20.106	$ -	$ 6,271	$ 6,271	$ -
Airport Improvement Program	*	20.106	-	326,446	326,446	-
Airport Improvement Program - ARRA	*	20.106	-	1,149,062	1,155,937	(6,875)
Total Federal Awards			$ -	$ 1,481,779	$ 1,488,654	$ (6,875)

* Denotes major program

The Accompanying Notes to the Schedule of Expenditures of Federal Awards are an Integral Part of this Schedule.

CITY OF WINDOM
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2009

1. BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Windom, Minnesota and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

DENNIS L. RICK, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

American Institute of Certified Public Accountants
Minnesota Society of Certified Public Accountants

DENNIS L. RICK, CPA
TISHA S. PAPLOW, CPA

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF

FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH

GOVERNMENT AUDITING STANDARDS

Members of the City Council
City of Windom
Windom, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of Windom, Minnesota, as of and for the year ended December 31, 2009, which collectively comprise the City of Windom, Minnesota's basic financial statements and have issued our report thereon dated June 11, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Internal Control over Financial Reporting

In planning and performing our audit, we considered City of Windom, Minnesota's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Windom, Minnesota's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Windom, Minnesota's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe tan a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies. The deficiencies are described in the accompanying schedule of findings and questioned costs as items 2009-1 and 2009-2. A material weakness is a deficiency, or a combination of deficiencies, in internal control that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2009-1 and 2009-2 to be material weaknesses.

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507-376-5818 * 1018 FOURTH AVENUE * WORTHINGTON, MN 56187
507-831-1332 * 1043 FOURTH AVENUE, SUITE 6 * WINDOM, MN 56101

Compliance and other matters

As part of obtaining reasonable assurance about whether City of Windom, Minnesota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of City of Windom, Minnesota, in a separate letter dated June 11, 2010.

City of Windom, Minnesota's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit City of Windom, Minnesota's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Council, others within the entity, and other state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dennis L. Rick, LTD.

Worthington, Minnesota
June 11, 2010

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Minnesota Society of Certified Public Accountants

DENNIS L. RICK, CPA
TISHA S. PAPLOW, CPA

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Members of the City Council
City of Windom
Windom, Minnesota

We have audited the compliance of City of Windom, Minnesota, with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. City of Windom, Minnesota's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Windom, Minnesota's management. Our responsibility is to express an opinion of City of Windom, Minnesota's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the Unites States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Windom, Minnesota's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Windom, Minnesota's compliance with those requirements.

In our opinion, City of Windom, Minnesota, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

Internal Control Over Compliance

The management of City of Windom, Minnesota, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Windom, Minnesota's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133,, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express and opinion on the effectiveness of City of Windom, Minnesota's internal control over compliance.

CPA SM
America Counts on CPAs

507-376-5818 * 1018 FOURTH AVENUE * WORTHINGTON, MN 56187
507-831-1332 * 1043 FOURTH AVENUE, SUITE 6 * WINDOM, MN 56101

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance what we consider to be material weaknesses, as defined above.

City of Windom, Minnesota's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit City of Windom, Minnesota's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, City Council, others within the entity, and other state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dennis L. Rick, CPA.

Worthington, Minnesota
June 11, 2010

CITY OF WINDOM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2009

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of City of Windom, Minnesota.

2. There were two control deficiencies disclosed during the audit of the financial statements as reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. The control deficiencies are described in the Schedule of Findings and Questioned Costs as items 2009-1, and 2009-2. The two conditions are significant deficiencies and are also considered material weaknesses.

3. There are no instances of noncompliance material to the financial statements of City of Windom, Minnesota that are required to be reported in this Schedule in accordance with *Government Auditing Standards*.

4. The auditor's report on compliance for the major federal award programs for City of Windom, Minnesota expresses an unqualified opinion on all major federal programs.

5. There are no audit findings related to major federal award programs of City of Windom, Minnesota that are required to be reported in this Schedule in accordance with Section 510(a) of OMB Circular A-133.

6. The programs tested as major programs included:

   CFDA 20.106 Airport Improvement Program

7. The threshold for distinguishing Types A and B programs was $300,000.

8. City of Windom, Minnesota did not meet the criteria to qualify as a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

Finding 2009-1

Condition: Due to the small size of the City's staff, the City is not able to obtain segregation of duties to the extent required for ideal internal control in the accounting function.

Criteria: A fundamental concept in a good system of internal control is the segregation of duties. Duties should be separated so that no one person performs incompatible duties or has complete control of any type of transaction.

Effect: The lack of segregation of duties increases the potential risk of errors or fraud.

Recommendation: Segregation of duties should be implemented to the extent possible without impairing efficiency.

Response/Corrective Plan of Action: The Council will increase knowledge and awareness of operations by reviewing certain accounting records and reports.

Finding 2009-2

Condition: Due to the small size of the City's staff, the City does not have internal resources to prepare full-disclosure financial statements required by generally accepted accounting principles for external reporting.

Criteria: The preparation of full-disclosure financial statements requires a preparer with certain knowledge and expertise.

Effect: The lack of internal expertise requires the City to contract the preparation of full-disclosure financial statements required by generally accepted accounting principles for external reporting.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)

Finding 2009-2

Recommendation: For entities of the City's size, it generally is not practical to obtain the internal expertise to handle all aspects of the external financial reporting.

Response/Corrective Plan of Action: City personnel prepare periodic financial statements and other financial information for internal use that meet the needs of management of and City Council. Full-disclosure financial statements prepared by an external party are reviewed and approved by City Council. Management distributes them to other users within the entity and external to the entity.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERL AWARD PROGRAMS AUDIT

None.

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TISHA S. PAPLOW, CPA

INDEPENDENT AUDITOR'S REPORT ON LEGAL COMPLIANCE

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

We have audited the financial statements of City of Windom, Minnesota as of and for the year ended December 31, 2009 and have issued our report thereon dated June 11, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* covers seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and Tax Increment Financing. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, the City of Windom, Minnesota complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the City Council, management, others within the City, and State and Federal awarding agencies and is not intended to be, and should not be, used by anyone other than those specified parties.

Dennis L. Rick, LTD.

Worthington, Minnesota
June 11, 2010

CPA℠
America Counts on CPAs

507-376-5818 * 1018 FOURTH AVENUE * WORTHINGTON, MN 56187
507-831-1332 * 1043 FOURTH AVENUE, SUITE 6 * WINDOM, MN 56101