

REPORT

ON

AUDIT

CITY OF WINDOM

COTTONWOOD COUNTY, MINNESOTA

DECEMBER 31, 2012

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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
ANDREA M. JOHNSON, 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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion of Reporting Entity

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 12, 2012, 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 \$19,187,085 and liabilities would have increased by \$1,046,141 respectively as of December 31, 2012, and revenues and expenses would have increased \$15,013,803 and \$13,707,721 respectively for the twelve month period ended December 31, 2012.

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507-831-1332 * 1043 FOURTH AVENUE, SUITE 6 * WINDOM, MN 56101

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on Reporting Entity" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the reporting entity of the City of Windom as of December 31, 2012, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund other than the Windom Area Hospital Fund, and the aggregate remaining fund information of the City of Windom, Minnesota, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters - Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-13 and 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Matters - Other Information

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 accompanying combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards as required by Office of Management and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2013, 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 provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Windom, Minnesota's internal control over financial reporting and compliance.

Dennis J. Rick Ltd.
Worthington, Minnesota

June 14, 2013

CITY OF WINDOM, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE YEAR ENDED DECEMBER 31, 2012

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, 2012. 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.

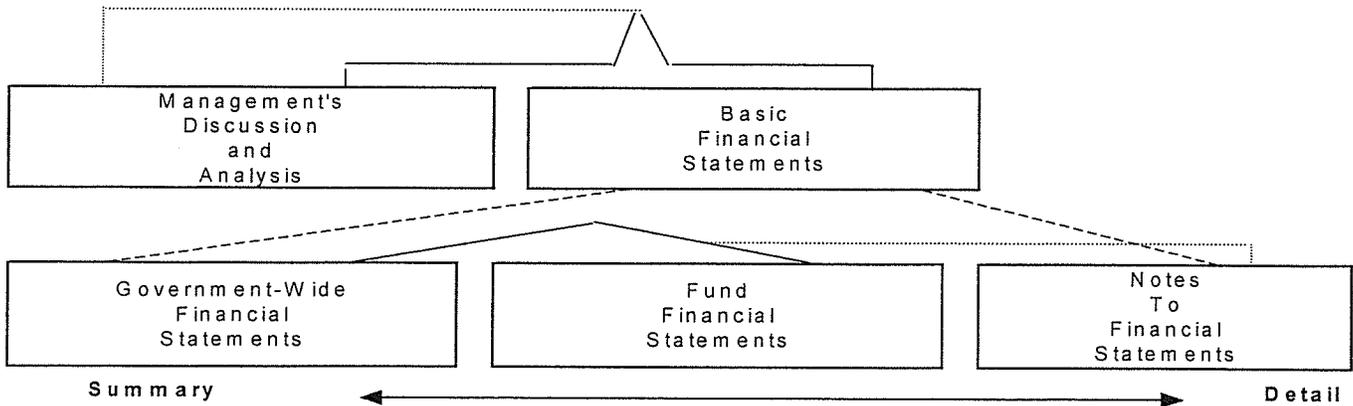
FINANCIAL AND OTHER HIGHLIGHTS

Key financial highlights for the 2012 year include the following:

- The assets of the City exceeded its liabilities at the close of the most recent year by \$23,658,312 (net position).
- The City's total net position from operations increased by \$1,654,489.
- As of the close of the current year, the City's governmental funds reported combined ending net position of 11,904,956. Of this total amount, fifty-six (56) percent or \$6,648,243 is available for use within the City's designations and policies.
- At the end of the current year, assigned fund balance for the general fund was \$2,118,542 or eighty-eight (88) percent of total general fund expenditures. This is in accordance with the fund balance policy that was adopted for the General Fund. A portion of this balance will be used to reduce deficits in other governmental funds and provide resources for accrued leave.
- The City's net total bonded debt decreased by \$468,971 during the current fiscal year. The Bonded Telecom debt was refinanced, saving approximately 14% on the debt. The City's A+ bond rating from S & P was reaffirmed.
- The main lift station, interceptor line and wastewater plant upgrades project was substantially completed.
- The City received a dividend from the worker's compensation policy crediting employees for working safely.
- The City received funds from Transportation Economic Development (TED) and Greater Minnesota Business Public Infrastructure (BDPI) program for the North Windom Industrial Park Project.
- The City Council adopted a long range business plan and a new emergency operations plan. The City completed and adopted the 2013-2017 Capital Improvement Plan.

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.



CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012

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 position Statement of activities	Balance Sheet Statement of revenue, expenditures, and changes in fund balances	Statement of net position Statement of revenues, expenses, and changes in net position 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 Position** - The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012

OVERVIEW OF THE FINANCIAL STATEMENTS (Cont'd)

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

CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012

OVERVIEW OF THE FINANCIAL STATEMENTS (Cont'd)

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

Net Position

As noted earlier, net position 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 \$23,658,312 at the close of the most recent fiscal year. By far the largest portion of the City's net position (62 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 position as of December 31, 2012, is as follows:

NET POSITION - 2012

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current and Other Assets	\$ 7,732,677	\$ 9,510,602	\$ 17,243,279
Capital Assets	<u>9,944,940</u>	<u>22,458,150</u>	<u>32,403,090</u>
Total Assets	<u>17,677,617</u>	<u>31,968,752</u>	<u>49,646,369</u>
Current Liabilities	649,914	1,816,746	2,466,660
Non-Current Liabilities	<u>5,122,747</u>	<u>18,398,650</u>	<u>23,521,397</u>
Total Liabilities	<u>5,772,661</u>	<u>20,215,396</u>	<u>25,988,057</u>
Investment in Capital Assets, Net of Related Debt	4,328,635	10,446,421	14,775,056
Restricted	928,078	2,064,030	2,992,108
Unrestricted	<u>6,648,243</u>	<u>(757,095)</u>	<u>5,891,148</u>
Total Net Position - December 31, 2012	<u>\$ 11,904,956</u>	<u>\$ 11,753,356</u>	<u>\$ 23,658,312</u>

An additional portion of the City's net position (13 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance is comprised of unrestricted net position totaling \$5,891,148. The City is able to report overall positive balances in all three categories of net position.

A summary of the City's net position as of December 31, 2011, is as follows:

NET POSITION - 2011

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current and Other Assets	\$ 7,194,877	\$ 11,052,019	\$ 18,246,896
Capital Assets	<u>10,056,733</u>	<u>20,824,767</u>	<u>30,881,500</u>
Total Assets	<u>17,251,610</u>	<u>31,876,786</u>	<u>49,128,396</u>
Current Liabilities	1,340,757	4,689,750	6,030,507
Non-Current Liabilities	<u>5,170,963</u>	<u>16,058,879</u>	<u>21,229,842</u>
Total Liabilities	<u>6,511,720</u>	<u>20,748,629</u>	<u>27,260,349</u>
Investment in Capital Assets, Net of Related Debt	3,935,746	8,379,730	12,315,476
Restricted	774,606	4,614,554	5,389,160
Unrestricted	<u>6,029,538</u>	<u>(1,866,127)</u>	<u>4,163,411</u>
Total Net Position - December 31, 2011	<u>\$ 10,739,890</u>	<u>\$ 11,128,157</u>	<u>\$ 21,868,047</u>

CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012

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

Change in Net Position

Governmental Activities

Governmental activities increased the City's net position by \$1,165,066, thereby accounting for 65 percent of the total change in the net position of the City. The majority of this change is due to a decrease in expenses, increases in property taxes, and the receipt of grant funds.

Business-Type Activities

Business-type activities increased the City's net position by \$489,423. The increase would have been \$1,055,226 with exclusion of the telecom fund. The largest portion of the lower increase in net position in the enterprise funds results from liabilities exceeding assets by \$7,442,530 and expenses exceeding revenues by \$565,803 in the telecom fund.

A summary of the City's change in net position for the year ended December 31, 2012, is as follows:

CHANGE IN NET POSITION - 2012

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Revenues			
Program Revenues			
Charges for Services	\$ 714,677	\$ 12,293,980	\$ 13,008,657
Capital Grants and Contributions	1,088,557	- - -	1,088,557
General Revenues			
Property Taxes	1,165,245	534,727	1,699,972
Unallocated Federal and State Aid	1,342,898	- - -	1,342,898
Other	596,887	17,651	614,538
Total Revenues	<u>4,908,264</u>	<u>12,846,358</u>	<u>17,754,622</u>
Expenses			
General Government	438,386	- - -	438,386
Public Safety	1,434,361	- - -	1,434,361
Public Works	807,847	- - -	807,847
Health & Welfare	29,136	- - -	29,136
Culture & Recreation	448,741	- - -	448,741
Conservation & Economic Development	421,778	- - -	421,778
Airport	195,451	- - -	195,451
Interest on Long-Term Debt	373,975	- - -	373,975
Liquor	- - -	1,391,364	1,391,364
Water	- - -	831,093	831,093
Electric	- - -	5,178,854	5,178,854
Sewer	- - -	995,969	995,969
Telecom	- - -	2,893,303	2,893,303
Arena	- - -	293,060	293,060
Multi-Purpose	- - -	287,482	287,482
River Bluff Townhomes	- - -	79,333	79,333
Total Expenses	<u>4,149,675</u>	<u>11,950,458</u>	<u>16,100,133</u>
Increase in Net Position			
before Transfers	758,589	895,900	1,654,489
Transfers	406,477	(406,477)	- - -
Change in Net Position	1,165,066	489,423	1,654,489
Net Position - Beginning	10,739,890	11,128,157	21,868,047
Prior Period Adjustment		135,776	135,776
Net Position - Ending - December 31, 2012	11,904,956	11,753,356	23,658,312

CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012

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

A summary of the City's change in net position for the year ended December 31, 2011, is as follows:

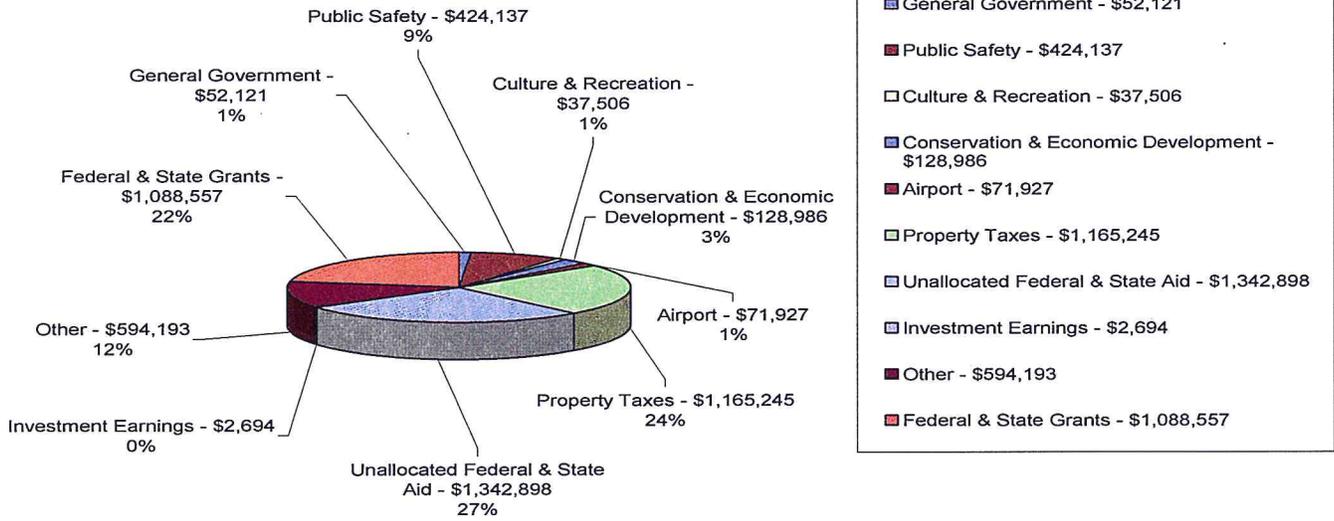
CHANGE IN NET POSITION - 2011

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Revenues			
Program Revenues			
Charges for Services	\$ 698,226	\$ 11,810,056	\$ 12,508,282
Capital Grants and Contributions	165,908	100,000	265,908
General Revenues			
Property Taxes	1,051,141	453,347	1,504,488
Unallocated Federal and State Aid	1,415,124	- - -	1,415,124
Other	576,306	19,446	595,752
Total Revenues	<u>3,906,705</u>	<u>12,382,849</u>	<u>16,289,554</u>
Expenses			
General Government	441,148	- - -	441,148
Public Safety	1,421,318	- - -	1,421,318
Public Works	815,952	- - -	815,952
Health & Welfare	34,337	- - -	34,337
Culture & Recreation	556,723	- - -	556,723
Conservation & Economic Development	385,706	- - -	385,706
Airport	233,103	- - -	233,103
Interest on Long-Term Debt	407,272	- - -	407,272
Liquor	- - -	1,366,172	1,366,172
Water	- - -	774,665	774,665
Electric	- - -	5,185,330	5,185,330
Sewer	- - -	994,934	994,934
Telecom	- - -	2,800,692	2,800,692
Arena	- - -	318,623	318,623
Multi-Purpose	- - -	305,041	305,041
River Bluff Townhomes	- - -	97,813	97,813
Total Expenses	<u>4,295,559</u>	<u>11,843,270</u>	<u>16,138,829</u>
Increase (Decrease) in			
Net Position before Transfers	(388,854)	539,579	150,725
Transfers	366,739	(366,739)	- - -
Change in Net Position	(22,115)	172,840	150,725
Net Position - Beginning	10,762,005	10,955,317	21,717,322
Net Position - Ending - December 31, 2011	10,739,890	11,128,157	21,868,047

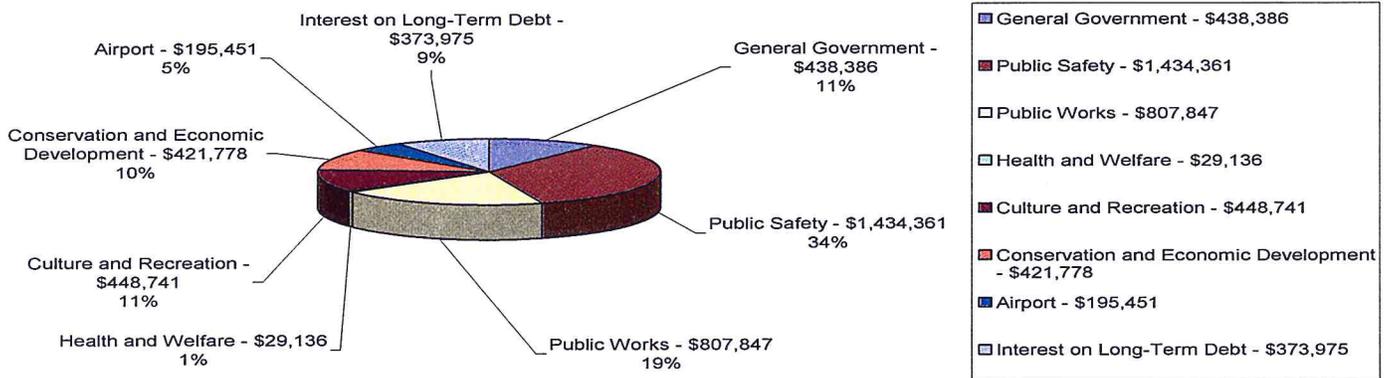
CITY OF WINDOM, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE YEAR ENDED DECEMBER 31, 2012

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

GOVERNMENTAL ACTIVITIES - REVENUES
 Total: \$4,908,264



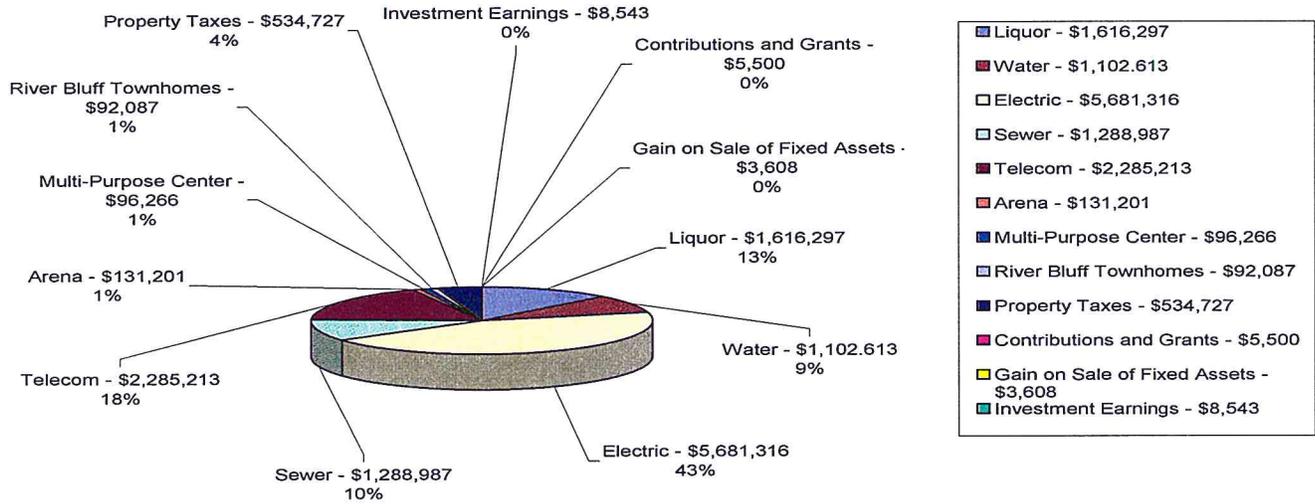
GOVERNMENTAL ACTIVITIES - EXPENSES
 Total: \$4,149,675



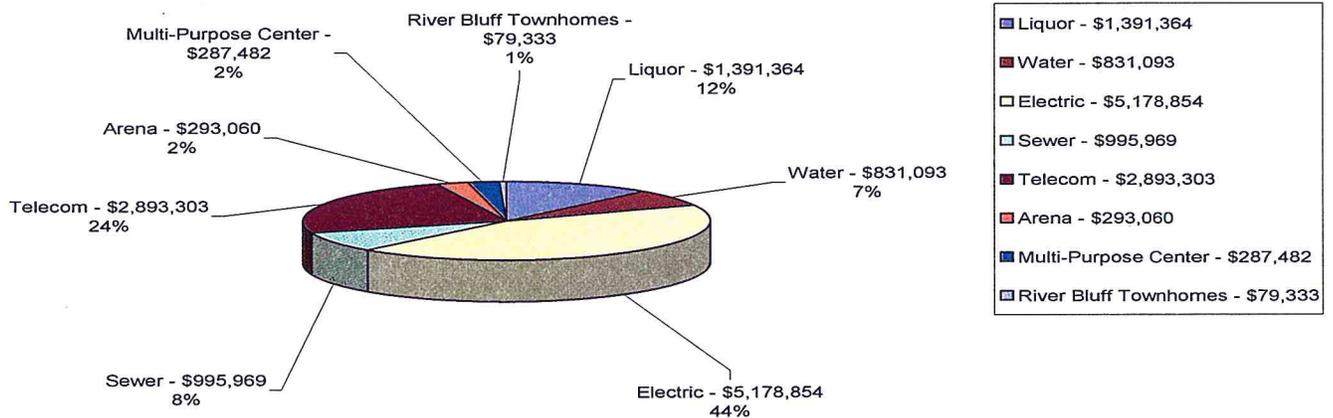
CITY OF WINDOM, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE YEAR ENDED DECEMBER 31, 2012

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

BUSINESS TYPE ACTIVITIES - REVENUES
 Total: \$12,846,358



BUSINESS-TYPE ACTIVITIES - EXPENSES
 Total: \$11,950,458



CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012

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, unassigned 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 \$6,211,295, an increase of \$1,106,113 in comparison with the prior year. Of this total, a deficit balance of \$608,741 of the fund balances are unassigned, which indicates that those funds are not 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 \$2,152,950, of which \$2,118,542 was assigned in accordance with the policy regarding fund balance.

The fund balance of the City's general fund decreased by \$8,187 during the current fiscal year. This year's decrease was due to capital project fund transfers in the amount of \$249,423 exceeding favorable budget variances in the amount of \$209,586 before transfers.

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 position of \$11,753,356 an increase of \$625,199 in comparison with the prior year. Of this total, a deficit balance of \$757,095 of the net position is unreserved and unrestricted, which indicates that portion of net position 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 2012 general fund budget in December of 2011, anticipating a increase in the general fund of \$31,650.

A strong City General Fund balance is necessary to balance the cash flow needs of the community, meet bond payment obligations, guard against additional State Aid losses, and keep a good bond rating.

- Actual revenues were \$155,470, or 7 percent, more than budget, due primarily to actual state aid and federal grant revenues being more than budgeted amounts.
- Actual expenditures were \$54,116, or 2 percent, less than budget. This overall variance was a combination of positive variances in public safety, health and welfare, public works, and culture and recreation 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, 2012, amounts to \$32,403,090 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, infrastructure. The total additions in the City's capital assets for the current fiscal year were \$4,220,666 or 5 percent. Governmental activities and business-type activities accounted for 52 percent and 48 percent of the increase, respectively.

CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012

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 - 2012

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Land	\$ 227,061	\$ 169,921	\$ 396,982
Buildings and Improvements	3,777,564	7,938,999	11,716,563
Machinery and Equipment	857,264	76,938	934,202
Other	<u>5,083,051</u>	<u>14,272,292</u>	<u>19,355,343</u>
Total - December 31, 2012	<u>\$ 9,944,940</u>	<u>\$ 22,458,150</u>	<u>\$ 32,403,090</u>

CAPITAL ASSETS - NET OF DEPRECIATION - 2011

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Land	\$ 227,061	\$ 169,921	\$ 396,982
Buildings and Improvements	3,827,772	8,530,965	12,358,737
Machinery and Equipment	694,701	302,332	997,033
Other	<u>5,307,199</u>	<u>11,821,549</u>	<u>17,128,748</u>
Total - December 31, 2011	<u>\$ 10,056,733</u>	<u>\$ 20,824,767</u>	<u>\$ 30,881,500</u>

Bonded Debt

At year-end, the City had \$22,545,798 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 - 2012

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Bonded Debt			
General Obligation Bonds	\$ 4,745,060	\$ 1,545,000	\$ 6,290,060
General Obligation Revenue Bonds	- - -	5,050,738	5,050,738
Revenue Bonds	- - -	<u>11,205,000</u>	<u>11,205,000</u>
Total 2012	<u>\$ 4,745,060</u>	<u>\$ 17,800,738</u>	<u>\$ 22,545,798</u>

OUTSTANDING BONDED DEBT - 2011

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Bonded Debt			
General Obligation Bonds	\$ 5,085,308	\$ 3,221,000	\$ 8,306,308
General Obligation Revenue Bonds	- - -	5,528,461	5,528,461
Revenue Bonds	- - -	<u>9,180,000</u>	<u>9,180,000</u>
Total 2011	<u>\$ 5,085,308</u>	<u>\$ 17,929,461</u>	<u>\$ 23,014,769</u>

CITY OF WINDOM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012

FACTORS BEARING ON THE CITY'S FUTURE

- The Telecommunications Fund continues to build its operations and lower the loss in this account. New partnerships with other telecom providers and the Southwest Minnesota Broadband Group will provide additional revenue to the Telecommunications Fund in future years.
- The Electric Fund continues to be in a strong financial position. Through its partnership with CMMPA the Electric Fund has investments in energy generation and transmission. Both of these investments are planned to provide a future return to the Windom utility.
- The Liquor Fund reports continued growth in sales.
- 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.
- 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. The current year reduction was approximately \$72,000. Despite the reductions, the general fund reported an increase in fund balance. The City Council maintains a goal of 75 to 100 percent of assigned fund balance of operating expenditures for the general fund. A portion of the general fund balance will be used to reduce deficits in other governmental funds and provide resources for the payment of accrued leave.
- The City awarded a bid for the construction of a large hanger at the Airport.
- The City distributes monthly financial statements to the City Council for review. The City also began distributing Council packets in an electronic format, which provides cost savings to the City.

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 POSITION
DECEMBER 31, 2012

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash on hand, checking and time deposits	\$ 4,616,914	\$ 4,840,096	\$ 9,457,010
Restricted cash	928,078	2,064,030	2,992,108
Accounts receivable	151,665	1,381,928	1,533,593
Grants receivable	35,654	-	35,654
Current taxes receivable	52,793	-	52,793
Special assessments receivable:			
Current and deferred	716,559	-	716,559
Delinquent	10,001	-	10,001
Loans receivable	66,341	-	66,341
Interfund loans	(41,230)	41,230	-
Inventories	-	796,730	796,730
Property held for resale	1,195,902	-	1,195,902
Bond issue costs,			
net of accumulated amortization	-	140,302	140,302
Bond discount costs,			
net of accumulated amortization	-	246,286	246,286
Property, plant, equipment	17,937,254	46,514,853	64,452,107
Less: accumulated depreciation	7,992,314	24,056,703	32,049,017
Total assets	<u>\$ 17,677,617</u>	<u>\$ 31,968,752</u>	<u>\$ 49,646,369</u>
<u>LIABILITIES</u>			
Liabilities:			
Accounts payable	\$ 155,956	\$ 562,126	\$ 718,082
Interest payable	-	102,145	102,145
Customer deposits	400	119,625	120,025
Deferred revenues, other	-	169,996	169,996
Bond premium, net of accumulated amortization	-	28,687	28,687
Non-current liabilities:			
Due within one year	493,558	834,167	1,327,725
Due in more than one year	5,122,747	18,398,650	23,521,397
Total liabilities	<u>5,772,661</u>	<u>20,215,396</u>	<u>25,988,057</u>
<u>NET POSITION</u>			
Net Position:			
Invested in capital assets, net of related debt	4,328,635	10,446,421	14,775,056
Restricted for:			
Capital projects	-	1,660,022	1,660,022
Debt service	928,078	404,008	1,332,086
Unrestricted (deficit)	6,648,243	(757,095)	5,891,148
Total net position	<u>\$ 11,904,956</u>	<u>\$ 11,753,356</u>	<u>\$ 23,658,312</u>

The accompanying notes are an integral part of the financial statements

CITY OF WINDOW, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

FUNCTIONS/PROGRAMS	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Government Activities	Business-type Activities	Total
Government Activities:							
General government	\$ 438,386	\$ 52,121	\$ -	\$ -	\$ (386,265)	\$ -	\$ (386,265)
Public safety	1,434,361	424,137	-	483,313	(526,911)	-	(526,911)
Public works	807,847	-	-	347,491	(460,356)	-	(460,356)
Health and welfare	29,136	-	-	-	(29,136)	-	(29,136)
Culture and recreation	448,741	37,506	-	-	(411,235)	-	(411,235)
Conservation and economic development	421,778	128,886	-	171,369	(121,429)	-	(121,429)
Airport	195,451	71,927	-	86,390	(37,134)	-	(37,134)
Interest on long-term debt	373,975	-	-	-	(373,975)	-	(373,975)
Total government activities	4,149,675	714,677	-	1,088,557	(2,346,441)	-	(2,346,441)
Business-type Activities							
Municipal liquor	1,391,364	1,616,297	-	-	-	224,933	224,933
Water	831,093	1,102,613	-	-	-	271,520	271,520
Electric	5,178,854	5,681,316	-	-	-	502,462	502,462
Sewer	995,969	1,288,987	-	-	-	293,018	293,018
Telecom	2,893,303	2,285,213	-	-	-	(608,090)	(608,090)
Arena	293,060	131,201	-	-	-	(161,859)	(161,859)
Multi-Purpose Center	287,482	96,266	-	-	-	(191,216)	(191,216)
River Bluff Townhomes	79,333	92,087	-	-	-	12,754	12,754
Total business-type activities	11,950,458	12,293,980	-	-	-	343,522	343,522
Total government	\$ 16,100,133	\$ 13,008,657	\$ -	\$ 1,088,557	(2,346,441)	343,522	(2,002,919)
General Revenues:							
Taxes:							
Property taxes - general and debt service					\$ 1,165,245	\$ 534,727	\$ 1,699,972
Grants and contributions not restricted to specific programs:							
Unallocated federal and state aid					1,342,898	-	1,342,898
Contributions					-	5,500	5,500
Unrestricted investment earnings					2,694	8,543	11,237
Other					594,193	3,608	597,801
Transfers					406,477	(406,477)	-
Total general revenues, and transfers					3,511,507	145,901	3,657,408
Change in net position					1,165,066	489,423	1,654,489
Net position, January 1, 2012					10,739,890	11,128,157	21,868,047
Prior period adjustment					-	135,776	135,776
Net position, December 31, 2012					\$ 11,904,956	\$ 11,753,356	\$ 23,658,312

The accompanying notes are an integral part of the financial statements

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Revenue</u> <u>Economic</u> <u>Development</u> <u>Fund</u>	<u>Nonmajor</u> <u>Governmental</u> <u>Funds</u> <u>(Schedule 1)</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
<u>ASSETS</u>				
Cash on hand, checking and and time deposits	\$ 2,087,457	\$ 993,348	\$ 1,536,109	\$ 4,616,914
Restricted cash	-	-	928,078	928,078
Accounts receivable, net of allowances of \$7,250	7,006	-	144,659	151,665
Grants receivable	35,654	-	-	35,654
Current taxes receivable	52,793	-	-	52,793
Special assessments receivable:				
Current and deferred	-	-	716,559	716,559
Delinquent	-	-	10,001	10,001
Loans receivable	-	66,341	-	66,341
Property held for resale, construction in progress	34,408	1,161,494	-	1,195,902
Total assets	<u>\$ 2,217,318</u>	<u>\$ 2,221,183</u>	<u>\$ 3,335,406</u>	<u>\$ 7,773,907</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 47,654	\$ 85,544	\$ 22,758	\$ 155,956
Customer deposits	400	-	-	400
Deferred revenues, current taxes	16,314	-	-	16,314
Deferred revenues, special assessments	-	-	716,559	716,559
Interfund notes payable	-	41,230	-	41,230
Notes payable	-	406,978	225,175	632,153
Total liabilities	<u>64,368</u>	<u>533,752</u>	<u>964,492</u>	<u>1,562,612</u>
Fund Balances:				
Fund balance - nonspendable	34,408	1,161,494	-	1,195,902
Fund balance - restricted	-	-	928,078	928,078
Fund balance - assigned	2,118,542	525,937	2,051,577	4,696,056
Fund balance - unassigned	-	-	(608,741)	(608,741)
Total fund balances	<u>2,152,950</u>	<u>1,687,431</u>	<u>2,370,914</u>	<u>6,211,295</u>
Total liabilities and fund balance	<u>\$ 2,217,318</u>	<u>\$ 2,221,183</u>	<u>\$ 3,335,406</u>	<u>\$ 7,773,907</u>

The accompanying notes are an integral part of the financial statements

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2012

Total Fund Balances for Governmental Funds \$ 6,211,295

Amounts reported for governmental activities in the statement of net position 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	\$ 227,061	
Other capital assets	17,710,193	
Accumulated depreciation	<u>(7,992,314)</u>	9,944,940

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

732,873

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	<u>(4,984,152)</u>
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Total Net Position of Governmental Activities \$ 11,904,956

The accompanying notes are an integral part of the financial statements

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	General Fund	Special Revenue		Nonmajor Governmental Funds (Schedule 2)	Total Governmental Funds
		Economic Development Fund			
<u>Revenues</u>					
Local property taxes	\$ 598,028	\$ 116,775		\$ 477,975	\$ 1,192,778
Special assessments	-	-		172,102	172,102
Licenses and permits	63,784	-		-	63,784
Intergovernmental revenues	1,317,460	-		25,438	1,342,898
Federal grants	56,583	125,508		583,313	765,404
State grants	29,807	45,855		247,491	323,153
Charges for services and facilities	161,554	128,986		424,137	714,677
Fines and forfeits	44,425	-		-	44,425
Investment income	347	820		1,527	2,694
Other revenues	124,987	349,847		11,150	485,984
Total revenues	<u>2,396,975</u>	<u>767,791</u>		<u>1,943,133</u>	<u>5,107,899</u>
<u>Expenditures</u>					
Current:					
General government	414,985	-		-	414,985
Public safety	933,381	-		266,427	1,199,808
Public works	490,992	-		2,400	493,392
Health and welfare	18,475	-		-	18,475
Culture and recreation:					
Parks and general	193,752	-		-	193,752
Library	162,168	-		-	162,168
Swim pool	71,607	-		-	71,607
Conservation and development:					
Economic development & assistance	-	416,242		-	416,242
Airport	72,955	-		-	72,955
Capital outlay:					
Other	42,424	219,530		848,702	1,110,656
Debt service:					
Principal retirement	-	-		860,248	860,248
Interest and fiscal charges	-	163,438		210,537	373,975
Total expenditures	<u>2,400,739</u>	<u>799,210</u>		<u>2,188,314</u>	<u>5,388,263</u>
Excess of revenues over (under) expenditures	<u>(3,764)</u>	<u>(31,419)</u>		<u>(245,181)</u>	<u>(280,364)</u>
<u>Other Financing Sources (Uses)</u>					
Proceeds from bond issuance	-	-		980,000	980,000
Operating transfers in	245,000	-		559,050	804,050
Operating transfers out	(249,423)	(29,945)		(118,205)	(397,573)
Total other financing sources (uses)	<u>(4,423)</u>	<u>(29,945)</u>		<u>1,420,845</u>	<u>1,386,477</u>
Net change in fund balances	(8,187)	(61,364)		1,175,664	1,106,113
Fund balance, January 1, 2012 - *Restated	2,161,137	1,748,795		1,195,250	5,105,182
Fund balance, December 31, 2012	<u>\$ 2,152,950</u>	<u>\$ 1,687,431</u>		<u>\$ 2,370,914</u>	<u>\$ 6,211,295</u>

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, 2012

Total Net Change in Fund Balances - Governmental Funds \$ 1,106,113

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	\$ (25,560)	
Change in accrual for deferred taxes - special assessments	<u>(174,075)</u>	(199,635)

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	1,110,656	
Less current year depreciation	<u>808,843</u>	301,813

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, the repayment reduces long-term liabilities in the Statement of Net Position. 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 Position.

Proceeds of bond issuance	(980,000)	
Repayment of bonds	<u>860,248</u>	(119,752)

Accruing vacation and sick pay increases long-term liabilities in the Statement of Net Position. Payment of accrued vacation and sick pay reduces long-term liabilities in the Statement of Net Position.

Change in accrual for vacation and sick pay		<u>76,527</u>
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Change in Net Position of Governmental Activities	\$	<u><u>1,165,066</u></u>
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STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

<u>Revenues</u>	<u>2012 Budgeted Amount</u>		<u>2012 Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Local property taxes	\$ 586,788	\$ 586,788	\$ 598,028	\$ 11,240
Licenses and permits	42,150	42,150	63,784	21,634
Intergovernmental revenues	1,292,817	1,292,817	1,317,460	24,643
Federal grants	-	-	56,583	56,583
State grants	16,000	16,000	29,807	13,807
Charges for services and facilities	231,950	231,950	161,554	(70,396)
Fines and forfeits	31,500	31,500	44,425	12,925
Investment income	12,000	12,000	347	(11,653)
Other revenues	28,300	28,300	124,987	96,687
Total revenues	2,241,505	2,241,505	2,396,975	155,470
 <u>Expenditures</u>				
Current:				
General government	402,150	402,150	414,985	12,835
Public safety	975,025	975,025	933,381	(41,644)
Public works	539,450	539,450	490,992	(48,458)
Health and welfare	24,000	24,000	18,475	(5,525)
Culture and recreation:				
Parks and general	203,190	203,190	193,752	(9,438)
Library	167,180	167,180	162,168	(5,012)
Swim Pool	80,875	80,875	71,607	(9,268)
Airport	62,985	62,985	72,955	9,970
Capital outlay:				
Other	-	-	42,424	42,424
Total expenditures	2,454,855	2,454,855	2,400,739	(54,116)
 Excess of revenues over (under) expenditures	 (213,350)	 (213,350)	 (3,764)	 209,586
 <u>Other Financing Sources (Uses)</u>				
Operating transfers in	245,000	245,000	245,000	-
Operating transfers out	-	-	(249,423)	(249,423)
 Total other financing sources (uses)	 245,000	 245,000	 (4,423)	 (249,423)
 Net change in fund balances	 31,650	 31,650	 (8,187)	 (39,837)
 Fund balance, January 1, 2012	 2,161,137	 2,161,137	 2,161,137	 -
 Fund balance, December 31, 2012	 \$ 2,192,787	 \$ 2,192,787	 \$ 2,152,950	 \$ (39,837)

The accompanying notes are an integral part of the financial statements

STATEMENT OF REVENUES AND EXPENSES
AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Business-type Activities - Enterprise Funds					Total
	Municipal Liquor Fund	Water Fund	Electric Fund	Sewer Fund	Telecom Fund	
Sales and cost of sales	\$ 1,616,297	\$ -	\$ -	\$ -	\$ -	\$ 1,616,297
Sales	1,103,146	-	-	-	-	1,103,146
Cost of sales	513,151	-	-	-	-	513,151
Gross profit on sales	-	-	-	-	-	-
Operating revenues	-	1,098,198	5,458,694	1,287,503	2,260,013	10,104,408
Billings for usage	-	3,469	58,664	1,484	-	63,617
Materials and service sales income	-	946	163,958	-	25,200	509,658
Facility use and other revenues	-	1,102,613	5,681,316	1,288,987	2,285,213	10,677,683
Total operating revenues	-	-	-	-	-	-
Operating expense	-	-	3,855,819	-	632,708	4,488,527
Power costs, internet and signal costs	158,353	142,556	385,704	233,832	353,608	1,490,152
Salaries and wages	28,776	23,240	62,695	37,063	26,616	211,796
Payroll taxes	23,898	36,811	63,745	42,074	82,288	295,040
Employee insurance	7,385	92,550	91,209	87,309	143,682	476,890
Supplies and maintenance costs	11,044	47,322	1,902	164,990	26,177	338,457
Utilities	11,866	13,942	72,386	7,445	16,785	131,988
Insurance	14,509	280,021	395,614	203,073	759,140	1,774,524
Depreciation and amortization	32,387	130,487	249,780	116,318	238,749	843,276
Other operating expense	288,218	766,929	5,178,854	894,223	2,270,413	10,050,650
Total operating expense	224,933	335,684	502,462	394,764	14,800	1,140,184
Operating income (loss)	-	352	5,270	1,723	707	8,543
Other revenues	-	-	3,608	-	-	3,608
Investment income	-	61,261	-	39,021	41,580	534,727
Gain on sale of fixed assets	-	-	-	-	-	5,500
Local property taxes	-	-	-	-	-	398,856
Contributions/reimbursements	-	61,613	8,878	40,744	42,287	552,378
Total other revenues	-	64,164	-	101,746	622,890	796,662
Other charges	-	64,164	-	101,746	622,890	796,662
Interest and debt services	-	333,133	511,340	333,762	(565,803)	895,900
Total other charges	-	75,675	(245,294)	88,167	-	163,842
Net income (loss) before operating transfers	224,933	(70,000)	154,933	600,208	1,250,824	(570,319)
Operating transfers - in	-	192,051	266,046	383,661	(565,803)	489,423
Operating transfers - out	-	2,743,997	9,000,547	4,409,308	(6,876,727)	11,128,157
Change in net position	224,933	2,936,048	9,402,369	4,792,969	(7,442,530)	11,753,356
Net position (deficit), January 1, 2012	-	-	135,776	-	-	135,776
Prior period adjustment	-	-	-	-	-	-
Net position (deficit), December 31, 2012	755,141	2,936,048	9,402,369	4,792,969	(7,442,530)	11,753,356

The accompanying notes are an integral part of the financial statements

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Business-type Activities -- Enterprise Funds					Totals
	Municipal Liquor Fund	Water Fund	Electric Fund	Sewer Fund	Telecom Fund	
CASH FLOWS FROM OPERATING ACTIVITIES:						
Cash received from customers	\$ 1,615,210	\$ 1,060,507	\$ 5,534,321	\$ 1,208,547	\$ 1,904,182	\$ 11,642,821
Cash payments to suppliers for goods and services	(1,066,544)	(136,153)	(4,063,929)	(396,279)	(730,518)	(6,566,228)
Cash payments to/for employees for services	(267,691)	(226,968)	(579,436)	(342,602)	(477,741)	(2,208,050)
Other revenue	-	946	163,958	-	25,200	190,104
Other expense	(32,387)	(130,487)	(249,780)	(116,318)	(238,749)	(843,276)
Net cash provided (used) by operating activities	248,588	567,845	805,134	353,348	482,374	2,215,371
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:						
Cash received from property taxes	-	61,261	-	39,021	41,580	534,727
Interest received	-	352	5,270	1,723	707	8,543
Operating transfers - in	-	29,600	-	45,637	-	75,237
Operating transfers - out	(70,000)	(81,757)	(245,294)	(38,268)	-	(435,319)
Net cash provided (used) by non-capital financing activities	(70,000)	9,456	(240,024)	48,113	42,287	183,188
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisitions and construction of capital assets	(7,556)	(482,357)	(318,900)	(2,212,143)	(83,255)	(3,110,010)
Sale of fixed assets	-	-	143,916	-	-	143,916
Cash received from interfund borrowings	-	-	9,084	-	-	9,084
Proceeds from bond issuance	-	382,200	-	277,800	10,988,429	11,648,429
Principal payments on long-term debt	-	(414,350)	-	(459,373)	(11,580,000)	(12,470,584)
Increase in restricted cash	-	(241,979)	-	-	-	(241,979)
Decrease in restricted cash	-	-	-	1,697,564	1,094,939	2,792,503
Interest paid	-	(57,534)	-	(79,145)	(829,121)	(973,950)
Other revenue	-	-	-	-	-	5,500
Net cash (used) by capital and financing activities	(7,556)	(814,020)	(165,900)	(775,297)	(409,008)	(2,197,091)
Net increase (decrease) in cash and cash equivalents	171,032	(236,719)	399,210	(373,836)	115,653	201,468
Cash and interest bearing deposits, (deficit) January 1, 2012	458,940	663,146	4,740,751	720,996	(1,975,474)	4,638,628
Cash and interest bearing deposits, (deficit) December 31, 2012	\$ 629,972	\$ 426,427	\$ 5,139,961	\$ 347,160	\$ (1,859,821)	\$ 4,840,096

The accompanying notes are an integral part of the financial statements

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Business-type Activities - Enterprise Funds					Totals
	Municipal Liquor Fund	Water Fund	Electric Fund	Sewer Fund	Telecom Fund	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:						
Net income (loss) from operations	\$ 224,933	\$ 335,684	\$ 502,462	\$ 394,764	\$ 14,800	\$ 1,140,184
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation and amortization	14,509	280,021	395,614	203,073	759,140	1,774,524
Changes in assets and liabilities:						
(Increase) decrease in receivables	(1,087)	(41,160)	1,086	(80,440)	(355,831)	(477,432)
(Increase) decrease in inventory	50,372	121	(70,806)	-	7,147	(13,227)
Increase (decrease) in accounts payable	16,525	17,540	28,193	(134,416)	55,681	(30,659)
Increase in deferred revenue	-	-	-	-	16,666	16,666
Increase in customer deposits	-	-	15,877	-	-	500
(Decrease) in accrued vacation and sick	(56,664)	(24,361)	(67,292)	(29,633)	(15,229)	(17,883)
Net cash provided (used) by operating activities	\$ 248,588	\$ 567,845	\$ 805,134	\$ 353,348	\$ 482,374	\$ 2,215,371

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

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 accounting principles generally accepted in the United States of America 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 Administrator, 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 position and the statement of activities) 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012

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. The General Fund includes the operations of the Library, Airport and Swim Pool.

Economic Development Fund: The Economic Development Fund is used to account for financial resources to be used for the growth and development of commercial, residential and industrial concerns in the City.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012

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 Administrator 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 Position or Equity

Cash and Interest Bearing Deposits -

Cash balances are invested to the extent available in demand deposit accounts, money market accounts, short term certificates of deposit and interest-bearing savings accounts; these deposits are carried at cost, which at December 31, 2012, is the same as market value.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) :

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

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 \$1,000 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 Position.

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.

g. Fund Balance Classifications

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable - consists of amounts that are not in spendable form, such as inventory.

Restricted - consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

g. Fund Balance Classifications (continued)

Committed - consists of internally imposed constraints. These constraints are established by Resolution of the City Council.

Assigned - consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the City's intended use. These constraints are established by the City Council and/or management. Pursuant to City Council Resolution, the City's Administrator and/or Mayor is authorized to establish assignments of fund balance.

Unassigned - is the residual classification for the general fund and also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, it is the City's policy to first use restricted resources, and then use unrestricted resources as needed.

When committed, assigned, or unassigned resources are available for use, it is the City's policy to use resources in the following order; 1) committed 2) assigned and 3) unassigned.

Minimum Unrestricted Fund Balance Policy

The City Council has formally adopted a policy regarding the minimum unrestricted (committed, assigned, or unassigned) fund balance for the General Fund. The policy established a year-end targeted unrestricted fund balance amount for cash flow requirements and contingency needs in the range of 75%-100% of the current year's General Fund expenditures. At December 31, 2012, the assigned fund balance of the General Fund included 88% of the current year's expenditures. Accrued leave accounts for 11% of the assigned fund balance for General Fund operations.

h. Net Position

Net Position represents the difference between assets and liabilities in the government-wide financial statements. Net Position 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 Position is 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

k. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

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 \$12,449,118 and the bank balance was \$12,510,836. The City's deposits are categorized below to give an indication of the level of risk assumed by the entity at December 31, 2012. 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.

	<u>Category</u> <u>1</u>	<u>Category</u> <u>2</u>	<u>Category</u> <u>3</u>	<u>Bank</u> <u>Balance</u>
Deposits	\$12,449,118	\$ -	\$ -	\$12,510,836

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	\$ 648,361
Covered by collateral	11,862,475
Not covered by collateral	-
	<u>\$ 12,510,836</u>

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 uncollectibles. An allowance for uncollectibles in the amount of \$7,250 has been estimated in relation to fire call receivables in the General Fund.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012

4. CAPITAL ASSETS:

Capital asset activity for the year ended December 31, 2012 was as follows:

	Beginning Balance	Primary		Government		Ending Balance
		Increases	Decreases	Increases	Decreases	
Governmental activities:						
Capital assets not being depreciated:						
Land	\$ 227,061	\$ -	\$ -	\$ -	\$ -	227,061
Construction in progress	-	-	-	-	-	-
Total capital assets not being depreciated	227,061	-	-	-	-	227,061
Other capital assets:						
Buildings and improvements	4,630,696	66,884	-	-	-	4,697,580
Machinery and equipment	5,912,958	654,621	-	-	-	6,567,579
Furniture and fixtures	40,152	31,389	-	-	-	71,541
Other fixed assets	3,355,331	156,228	-	-	-	3,511,559
Infrastructure	3,074,006	201,534	-	(413,606)	-	2,861,934
Total other capital assets at historical cost	17,013,143	1,110,656	-	(413,606)	-	17,710,193
Less accumulated depreciation for:						
Buildings and improvements	(802,924)	(117,092)	-	-	-	(920,016)
Machinery and equipment	(5,218,257)	(492,058)	-	-	-	(5,710,315)
Furniture and fixtures	(39,148)	(4,135)	-	-	-	(43,283)
Other fixed assets	(351,600)	(85,272)	-	-	-	(436,872)
Infrastructure	(771,542)	(110,286)	-	-	-	(881,828)
Total accumulated depreciation	(7,183,471)	(808,843)	-	-	-	(7,992,314)
Total other capital assets, net	9,829,672	301,813	-	(413,606)	-	9,717,879
Governmental activities capital assets, net	\$ 10,056,733	\$ 301,813	\$ -	\$ (413,606)	\$ -	\$ 9,944,940
Business-type activities:						
Capital assets not being depreciated:						
Land	\$ 169,921	\$ -	\$ -	\$ -	\$ -	169,921
Construction in progress	-	-	-	-	-	-
Total capital assets not being depreciated	169,921	-	-	-	-	169,921
Other capital assets:						
Buildings and improvements	16,964,948	34,747	-	(172,687)	-	16,827,008
Machinery and equipment	4,267,374	391,200	-	(24,036)	-	4,634,538
Furniture and fixtures	74,815	-	-	(3,807)	-	71,008
Other fixed assets	21,558,652	3,097,669	-	-	-	24,656,321
Infrastructure	156,057	-	-	-	-	156,057
Total other capital assets at historical cost	43,021,846	3,523,616	-	(200,530)	-	46,344,932

* Assets transferred to utility funds

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012

4. CAPITAL ASSETS (CONTINUED)

	Primary		Government		Ending Balance
	Beginning Balance	Increase	Decreases		
Business-type activities:					
Less accumulated depreciation for:					
Buildings and improvements	(8,433,983)	(486,405)	32,379		(8,888,009)
Machinery and equipment	(3,965,042)	(616,594)	24,036		(4,557,600)
Furniture and fixtures	(74,815)	-	3,807		(71,008)
Other fixed assets	(9,847,948)	(641,024)	-		(10,488,972)
Infrastructure	(45,212)	(5,902)	-		(51,114)
Total accumulated depreciation	<u>(22,367,000)</u>	<u>(1,749,925)</u>	<u>60,222</u>		<u>(24,056,703)</u>
Total other capital assets, net	20,654,846	1,773,691	(140,308)		22,288,229
Business-type activities capital assets, net	\$ <u>20,824,767</u>	\$ <u>1,773,691</u>	\$ <u>(140,308)</u>		\$ <u>22,458,150</u>
Depreciation expense was charged to functions/programs of the city as follows:					
Governmental activities:					
General government			\$ 53,388		
Public safety			248,731		
Public works			321,515		
Health and welfare			10,661		
Culture and recreation			43,352		
Conservation and economic development			8,700		
Airport			122,496		
Total governmental activities depreciation expense			\$ <u>809,843</u>		
Business-type activities:					
Municipal Liquor			\$ 14,509		
Water			277,782		
Electric			395,614		
Sewer			203,962		
Telecom			735,891		
Arena			32,053		
Multi-Purpose Center			63,162		
River Bluff Townhomes			26,952		
Total business-type activities depreciation expense			\$ <u>1,749,925</u>		

* The capitalized cost of the telecommunications plant includes capitalized interest of \$261,833. Capitalized cost in the Water fund includes capitalized interest of \$15,307. 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012

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, 2012:

	<u>Interest Rates</u>	<u>Final Maturity</u>	<u>Outstanding Principal</u>
G O Improvement Bonds of 1994	2.44	2014	\$ 30,060
G O Improvement Bonds Series 2005 A	3.0-4.4	2021	820,000
G O Improvement & Refunding Bonds			
Series 2006A	3.7-4.15	2018	570,000
G O Temporary Equipment Certificates			
Series 2007B	3.75-4.3	2023	1,085,000
G O Improvement Bonds			
Series 2009A	2.0-4.25	2025	1,350,000
G O Improvement Refunding Bonds			
Series 2012B	.5-1.85	2019	795,000
G O Crossover Refunding Bonds			
Series 2012A	.55-2.2	2023	<u>1,640,000</u>
Total G O Special Assessment			<u>6,290,060</u>
G O Sewer Bonds Series 1994	2.71	2015	724,298
G O Revenue Series 1999	2.57	2018	686,440
G O Revenue Note Series 1999A	2.29	2019	550,000
G O Water and Sewer Revenue Bonds			
Series 2012A	1.0-4.0	2029	<u>3,090,000</u>
Total G O Revenue			<u>5,050,738</u>
Communication System Refunding Bonds			
Series 2012B	2.5-3.625	2032	<u>11,205,000</u>
Total Revenue			<u>11,205,000</u>
Total			<u>\$ 22,545,798</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012

5. LONG-TERM DEBT (CONTINUED):

Other Notes Payable-

The River Bluff Townhomes (Enterprise Fund) notes payable has various terms on the notes. In 2012, principal payments were made to Bank of the West in the amount of \$16,861. No payments were made on the remaining notes payable. The current portion of the Bank of the West note is \$17,203. The list of the notes is as follows:

Bank of the West		
-monthly payments of \$2,083, interest at 2.01%	\$	395,654
GMHF		180,000
MHFA		353,305
PM Windom		15,000
Toro Foundation		15,000
Total	\$	<u>958,959</u>

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

Fulda Area Credit Union - monthly payments		
of \$3,360, interest at 4.4%	\$	<u>406,978</u>

Scheduled principal and interest payments to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 23,025	\$ 17,295	\$ 40,320
2014	23,905	16,415	40,320
2015	24,979	15,341	40,320
2016	<u>335,069</u>	<u>6,062</u>	<u>341,131</u>
	<u>\$ 406,978</u>	<u>\$ 55,113</u>	<u>\$ 462,091</u>

In the Equipment Capital Projects Fund there are two notes payable. The current terms and maturities of the notes are as follows:

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ <u>22,264</u>	\$ <u>203</u>	\$ <u>22,467</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012

5. LONG-TERM DEBT (CONTINUED):

League of Minnesota Cities - first payment in 2012 of \$52,452, annual payments of \$54,589 thereafter, interest at 3.0%

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 48,501	\$ 6,088	\$ 54,589
2014	49,956	4,633	54,589
2015	51,455	3,134	54,589
2016	<u>52,999</u>	<u>1,590</u>	<u>54,589</u>
	<u>\$ 202,911</u>	<u>\$ 15,445</u>	<u>\$ 218,356</u>

The following funds report accrued vacation and sick time:

	<u>Vacation</u>	<u>Sick</u>	<u>FICA</u>	<u>Total</u>
General	\$ 55,301	\$ 133,573	\$ 14,449	\$ 203,323
Library	2,862	19,290	1,695	23,847
Pool	2,238	1,709	302	4,249
Ambulance	478	1,374	142	1,994
Multi-Purpose Center	8,032	23,059	2,378	33,469
Liquor	38,313	28,657	5,123	72,093
Water	9,185	28,189	2,859	40,233
Electric	46,454	78,893	9,589	134,936
Sewer	13,913	43,158	4,366	61,437
Arena	16,898	18,704	2,724	38,326
EDA	930	4,345	404	5,679
Telecom	<u>15,985</u>	<u>70,058</u>	<u>6,583</u>	<u>92,626</u>
	<u>\$ 210,589</u>	<u>\$ 451,009</u>	<u>\$ 50,614</u>	<u>\$ 712,212</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012

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, 2012 were as follows:

Governmental Activities:	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
General Obligation Bonds:					
GO Improvement Bonds of 1994	\$ 51,308	\$ -	\$ 21,248	\$ 30,060	\$ 21,768
GO Improvement Bonds Series 2003	519,000	-	519,000	-	-
GO Improvement Bonds Series 2005 A	445,000	-	50,000	395,000	50,000
GO Improvement and Refunding Bonds Series 2006 A	680,000	- *	245,000	435,000	83,000
GO Improvement Bonds Series 2007 B	1,165,000	- *	405,000	760,000	55,000
GO Improvement Bonds Series 2009 A	1,430,000	-	80,000 **	1,350,000	85,000
GO Improvement Refunding Bonds Series 2011B	795,000	-	-	795,000	105,000
GO Crossover Refunding Bonds Series 2012A	-	980,000	-	980,000	-
Other Loans and Obligations:					
Economic Development - Fulda Area Credit Union	426,723	-	19,745	406,978	23,025
Capital Projects Equipment - John Deere Credit	43,337	-	21,073	22,264	22,264
Street Shop - League of Minnesota Cities	250,000	-	47,089	202,911	48,501
Accrued Vacation and Sick Pay	315,619	-	76,527	239,092	-
Total Governmental Activities Long-Term Debt	\$ 6,120,987	\$ 980,000	\$ 1,484,682	\$ 5,616,305	\$ 493,558

* Reduction includes portion of debt transferred to utility funds and principal payments

** Defeasance of this debt includes non-obligatory transfers of 29% of scheduled debt payments from utility funds; split 47% Water and 53% Sewer.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012

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, 2012 were as follows:

Business-Type Activities: General Obligation Bonds:	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
GO Improvement Bonds Series 2003	\$ 346,000	\$ -	\$ 346,000	\$ -	\$ -
GO Improvement Bonds Series 2005 A	475,000	-	50,000	425,000	50,000
GO Improvement and Refunding Bonds Series 2006 A	-	* 135,000	-	135,000	32,000
GO Improvement Bonds Series 2007 B	-	* 325,000	-	325,000	25,000
GO Temporary Equipment Certificates Series 2009 B	2,400,000	-	2,400,000	-	-
GO Crossover Refunding Bonds Series 2012A	-	660,000	-	660,000	-
General Obligation Revenue Bonds:					
GO Sewer Bonds Series 1994	953,021	-	228,723	724,298	234,964
GO Revenue Series 1999	863,440	-	177,000	686,440	182,000
GO Water Note Series 1999A	622,000	-	72,000	550,000	73,000
GO Water and Sewer Revenue Bonds Series 2011A	3,090,000	-	-	3,090,000	-
Revenue Bonds:					
Communications System Revenue Bonds 2004	9,180,000	-	9,180,000	-	-
Communication System Refunding Bonds Series 2012B	-	11,205,000	-	11,205,000	220,000
Other Loans and Obligations:					
River Bluff Townhomes - Bank of the West	412,515	-	16,861	395,654	17,203
River Bluff Townhomes - GWHF	180,000	-	-	180,000	-
River Bluff Townhomes - WHEA	353,305	-	-	353,305	-
River Bluff Townhomes - PM Windom	15,000	-	-	15,000	-
River Bluff Townhomes - Toro Foundation	15,000	-	-	15,000	-
Accrued Vacation and Sick Pay	684,182	-	211,062	473,120	-
Total Business-Type Activities Long-Term Debt	\$ 19,589,463	\$ 12,325,000	\$ 12,681,646	\$ 19,232,817	\$ 834,167
Total Long-Term Debt	\$ 25,710,450	\$ 13,305,000	\$ 14,166,328	\$ 24,849,122	\$ 1,327,725

c. Minimum debt payments:

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

Year Ending December 31	General Obligation Bonds Payable		General Obligation Revenue Bonds Payable		Revenue Bonds Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 506,768	\$ 176,324	\$ 489,964	\$ 127,532	\$ 220,000	\$ 367,961
2014	618,292	158,279	536,374	114,597	435,000	354,056
2015	615,000	142,338	550,960	101,138	445,000	340,856
2016	745,000	124,831	285,440	88,839	460,000	327,281
2017	680,000	107,038	285,000	82,049	475,000	313,256
2018-2022	2,510,000	296,011	1,241,000	332,625	2,585,000	1,347,481
2023-2027	615,000	28,048	1,210,000	190,150	3,010,000	908,688
2028-2032	-	-	450,000	18,200	3,575,000	333,047
Total	\$ 6,250,060	\$ 1,032,869	\$ 5,050,738	\$ 1,055,130	\$ 11,205,000	\$ 4,292,626

* Transferred from Debt Service Fund

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012

6. INTERFUND RECEIVABLES AND PAYABLES:

Electric Fund:

Due from Economic Development Fund	\$ 41,230	
Economic Development Fund:		
Due to Electric Fund		\$ 41,230
	<u>\$ 41,230</u>	<u>\$ 41,230</u>

7. FUND BALANCE CLASSIFICATIONS AND RESTRICTED NET POSITION:

At December 31, 2012, a summary of the governmental fund balance classifications are as follows:

	<u>General Fund</u>	<u>Economic Development Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Nonspendable:				
Inventory	\$ 34,408	\$ 1,161,494	\$ -	\$ 1,195,902
Total Nonspendable	<u>34,408</u>	<u>1,161,494</u>	<u>-</u>	<u>1,195,902</u>
Restricted for:				
Debt Service	-	-	928,078	928,078
Total Restricted	<u>-</u>	<u>-</u>	<u>928,078</u>	<u>928,078</u>
Assigned to:				
General Operations	1,887,123	-	-	1,887,123
Accrued Leave	231,419	5,679	1,994	239,092
Ambulance	-	-	1,287,306	1,287,306
Economic Development	-	520,258	-	520,258
Other Purposes	-	-	762,277	762,277
Total Assigned	<u>2,118,542</u>	<u>525,937</u>	<u>2,051,577</u>	<u>4,696,056</u>
Unassigned	<u>-</u>	<u>-</u>	<u>(608,741)</u>	<u>(608,741)</u>
Total	<u>\$ 2,152,950</u>	<u>\$ 1,687,431</u>	<u>\$ 2,370,914</u>	<u>\$ 6,211,295</u>

At December 31, 2012, the proprietary funds report the following restricted Net Position:

Water Fund	
- Restricted for Capital Improvements	\$ 757,206
Sewer Fund	
- Restricted for Capital Improvements	902,816
Telecom Fund	
- Restricted for Debt Repayment	<u>404,008</u>
Total Proprietary Fund	
Restricted Net Position	<u>\$ 2,064,030</u>

8. DEFICIT FUND EQUITY:

- The Equipment Capital Project Fund has a deficit fund balance of \$149,331 at December 31, 2012. Management plans to eliminate this deficit by controlling expenses.
- The 2013 Street Project Fund has a deficit fund balance of \$39,135 at December 31, 2012. Management plans to eliminate this deficit by transferring cash and controlling expenses.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012

8. DEFICIT FUND EQUITY (CONTINUED):

- The 2006A Refunding Bond Fund has a deficit fund balance of \$241,505 at December 31, 2012. Management plans to eliminate this deficit by transferring cash and controlling expenses.
- The Telecommunications Fund has deficit net position of \$7,442,530 at December 31, 2012. Management plans to eliminate this deficit by increasing sales and controlling expenses.
- The River Bluff Townhomes Fund has deficit net position of \$186,083 at December 31, 2012. Management plans to eliminate this deficit by increasing occupancy and controlling expenses.

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

The Economic Development Fund, a special revenue fund, reported expenditures of \$275,155 in excess of budget during the year ended December 31, 2012.

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 General Employees Retirement Fund (GERF) 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.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, 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.

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 GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012

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

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 GERF 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. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2012. PEPFF members were required to contribute 9.6% of their annual covered salary in 2012. In 2012, the City of Windom was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.25% for Coordinated Plan members and 14.4% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2012, 2011, and 2010 were \$168,736, \$165,319, and \$164,502, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2012, 2011, and 2010 were \$62,695, \$64,285, and \$67,022, 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	173,058
d. Capital transfer from Economic Development Fund to 2006A Refunding Bond Fund	29,945
e. Capital transfer from General Fund to Equipment Capital Project Fund	17,494
f. Capital transfer from Water Fund to 2007 Street Improvement Bond Fund	20,160
g. Capital transfer Water Fund to 2009 Street Improvement Bond Fund	23,539
h. Capital transfer from Sewer Fund to 2007 Street Improvement Fund	18,609
i. Capital transfer from Sewer Fund to 2009 Street Improvement Bond Fund	19,659
j. Capital transfer from General Fund to Equipment Capital Project Fund	231,929
k. Capital transfer from Electric Fund to Sewer Fund	45,637

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012

11. INTERFUND TRANSFERS (CONTINUED):

l. Capital transfer from Electric Fund to Equipment Capital Project Fund	24,657
m. Capital transfer from 2007 Street Improvement Fund to Water Fund	46,075
n. Capital transfer 2007 Street Improvement Fund to Sewer Fund	42,530
o. Capital transfer from 2009 Street Improvement Fund to Water Fund	29,600

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, 2012, 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.

13. RESTATEMENT OF PRIOR YEAR'S FUND BALANCE:

The City transferred bonded debt and related fixed assets from the 2007 Street Improvement Bond Fund and the 2006A Refunding Bond Fund to the Water Fund and Sewer Fund.

	<u>Fund Balance at December 31, 2011</u>	<u>Fund Balance at December 31, 2011 as Restated</u>
2007 Street Improvement Fund	\$(54,310)	\$ 34,296
2006A Refunding Bond Fund	(223,487)	(358,486)

14. PRIOR PERIOD ADJUSTMENT:

A prior period adjustment was recorded in the Electric Fund to account for the effects of prior years' aged utility accounts receivable balances. The adjustment was \$135,776 as of December 31, 2012.

15. SUBSEQUENT EVENTS:

Management evaluated events and transactions that occurred after the balance sheet date for potential recognition and disclosure through June 14, 2013, the date on which the financial statements were available to be issued.

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

DECEMBER 31, 2012

	Special	Capital Projects		
	Revenue	Equipment	Dam	2013 Street
	Ambulance	Capital	Capital	Capital
	Fund	Project Fund	Project Fund	Project Fund
<u>ASSETS</u>				
Cash on hand, checking and time deposits	\$ 1,152,445	\$ 76,680	\$ -	\$ -
Retricted cash	-	-	-	-
Accounts receivable	144,659	-	-	-
Special assessments receivable, deferred	-	-	-	-
Special assessments receivable, delinquent	-	-	-	-
Total assets	<u>\$ 1,297,104</u>	<u>\$ 76,680</u>	<u>\$ -</u>	<u>\$ -</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Cash deficiency	\$ -	\$ -	\$ -	\$ 25,017
Accounts payable	7,804	836	-	14,118
Deferred revenue, special assessments	-	-	-	-
Notes payable	-	225,175	-	-
Total liabilities	<u>7,804</u>	<u>226,011</u>	<u>-</u>	<u>39,135</u>
Fund Balances:				
Fund balance - restricted	-	-	-	-
Fund balance - assigned	1,289,300	-	-	-
Fund balance - unassigned	-	(149,331)	-	(39,135)
Total fund balances	<u>1,289,300</u>	<u>(149,331)</u>	<u>-</u>	<u>(39,135)</u>
Total liabilities and fund balances	<u>\$ 1,297,104</u>	<u>\$ 76,680</u>	<u>\$ -</u>	<u>\$ -</u>

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2012

	Debt				Service		2003 Improvement Bond Fund	Total Nonmajor Governmental Funds
	4th Avenue Improvement Bond Fund	2006 A Refunding Bond Fund	2007 Street Improvement Bond Fund	2009 Street Improvement Bond Fund	GO Special Assessment Bond Fund	2003 Improvement Bond Fund		
ASSETS								
Cash on hand, checking and time deposits	\$ 277,200	- \$	- \$	\$ 196,091	\$ 405,949	\$ 150,236	\$ 1,981,401	
Restricted cash	-	-	568,078	-	82,800	-	928,078	
Accounts receivable	-	-	-	-	-	-	144,659	
Special assessments receivable, deferred	49,024	69,796	163,450	217,655	161,964	54,670	716,559	
Special assessments receivable, delinquent	-	-	-	-	10,001	-	10,001	
Total assets	\$ 326,224	\$ 69,796	\$ 731,528	\$ 413,746	\$ 660,714	\$ 204,906	\$ 3,780,698	
LIABILITIES AND FUND BALANCES								
Liabilities:								
Cash deficiency	\$ 107,089	\$ 241,505	\$ 71,681	\$ -	\$ -	\$ -	\$ 445,292	
Accounts payable	-	-	-	-	-	-	22,758	
Deferred revenue, special assessments	49,024	69,796	163,450	217,655	161,964	54,670	716,559	
Notes payable	-	-	-	-	-	-	225,175	
Total liabilities	\$ 156,113	\$ 311,301	\$ 235,131	\$ 217,655	\$ 161,964	\$ 54,670	\$ 1,409,784	
Fund Balances:								
Fund balance - restricted	277,200	-	568,078	-	82,800	-	928,078	
Fund balance - assigned	-	-	-	196,091	415,950	150,236	2,051,577	
Fund balance - unassigned	(107,089)	(241,505)	(71,681)	-	-	-	(608,741)	
Total fund balances	\$ 170,111	\$ (241,505)	\$ 496,397	\$ 196,091	\$ 498,750	\$ 150,236	\$ 2,370,914	
Total liabilities and fund balances	\$ 326,224	\$ 69,796	\$ 731,528	\$ 413,746	\$ 660,714	\$ 204,906	\$ 3,780,698	

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Special			
	Revenue	Capital Projects		
	Ambulance Fund	Equipment Capital Project Fund	Dam Capital Project Fund	2013 Street Capital Project Fund
<u>Revenues</u>				
Local property taxes	\$ -	\$ 241,339	\$ -	\$ -
Special assessments	-	-	-	-
Intergovernmental revenues	-	25,438	-	-
Federal grants	-	483,313	100,000	-
State grants	-	-	247,491	-
Charges for services and facilities	424,137	-	-	-
Investment income	1,291	170	-	-
Other revenues	3,450	7,700	-	-
Total revenues	<u>428,878</u>	<u>757,960</u>	<u>347,491</u>	<u>-</u>
<u>Expenditures</u>				
Current:				
Public safety	266,427	-	-	-
Public works	-	650	-	-
Capital outlay:				
Other	25,442	730,942	48,065	39,135
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	6,756	-	-
Total expenditures	<u>291,869</u>	<u>738,348</u>	<u>48,065</u>	<u>39,135</u>
Excess of revenues over (under) expenditures	<u>137,009</u>	<u>19,612</u>	<u>299,426</u>	<u>(39,135)</u>
<u>Other Financing Sources (Uses)</u>				
Proceeds from bond issuance	-	-	-	-
Operating transfers in	-	256,586	17,494	-
Operating transfers out	-	-	-	-
Total other financing sources	<u>-</u>	<u>256,586</u>	<u>17,494</u>	<u>-</u>
Net change in fund balances	137,009	276,198	316,920	(39,135)
Fund balance (deficit),				
January 1, 2012 - *Restated	1,152,291	(425,529)	(316,920)	-
Fund balance (deficit), December 31, 2012	<u>\$ 1,289,300</u>	<u>\$ (149,331)</u>	<u>\$ -</u>	<u>\$ (39,135)</u>

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2012

Revenues	Debt				Service		Total Nonmajor Governmental Funds
	4th Avenue Improvement Bond Fund	2006 A Refunding Bond Fund	2007 Street Improvement Bond Fund	2009 Street Improvement Bond Fund	GO Special Assessment Bond Fund	2003 Improvement Bond Fund	
Local property taxes	\$ 47,200	\$ 19,623	\$ 43,320	\$ 55,818	\$ 28,825	\$ 41,850	\$ 477,975
Special assessments	14,124	30,028	22,939	30,105	36,549	38,357	172,102
Intergovernmental revenues	-	-	-	-	-	-	25,438
Federal grants	-	-	-	-	-	-	583,313
State grants	-	-	-	-	-	-	247,491
Charges for services and facilities	-	-	-	-	-	-	424,137
Investment income	-	-	-	-	61	5	1,527
Other revenues	-	-	-	-	-	-	11,150
Total revenues	61,324	49,651	66,259	85,923	65,435	80,212	1,943,133
Expenditures							
Current:							
Public safety	-	-	-	-	-	-	266,427
Public works	-	-	1,050	700	-	-	2,400
Capital outlay:	-	-	-	-	-	-	848,702
Other	-	-	-	-	5,118	-	-
Debt service:	-	-	-	-	-	-	-
Principal retirement	25,000	110,000	80,000	80,000	46,248	519,000	860,248
Interest and fiscal charges	13,298	25,673	93,272	49,670	4,808	17,060	210,537
Total expenditures	38,298	135,673	174,322	130,370	56,174	536,060	2,188,314
Excess of revenues over (under) expenditures	23,026	(86,022)	(108,063)	(44,447)	9,261	(455,848)	(245,181)
Other Financing Sources (Uses)							
Proceeds from bond issuance	277,200	-	620,000	-	82,800	-	980,000
Operating transfers in	-	203,003	38,769	43,198	-	-	559,050
Operating transfers out	-	-	(88,605)	(29,600)	-	-	(118,205)
Total other financing sources	277,200	203,003	570,164	13,598	82,800	-	1,420,845
Net change in fund balances	300,226	116,981	462,101	(30,849)	92,061	(455,848)	1,175,664
Fund balance (deficit), January 1, 2012 - *Restated	(130,115)	*(359,486)	* 34,296	225,940	406,689	606,084	1,195,250
Fund balance (deficit), December 31, 2012	170,111	(243,505)	496,397	196,091	498,750	150,236	2,370,914

NONMAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF NET POSITION
DECEMBER 31, 2012

	<u>Arena</u> <u>Fund</u>	<u>Multi-Purpose</u> <u>Center</u> <u>Fund</u>	<u>River</u> <u>Bluff</u> <u>Townhomes</u>	<u>Total</u> <u>Nonmajor</u> <u>Enterprise</u> <u>Funds</u>
<u>ASSETS</u>				
<u>Current assets</u>				
Cash and interest-bearing deposits	\$ 101,537	\$ 27,681	\$ 27,179	\$ 156,397
Inventories	320	-	-	320
Total current assets	<u>101,857</u>	<u>27,681</u>	<u>27,179</u>	<u>156,717</u>
<u>Fixed</u>				
Property, plant, equipment	1,274,118	2,198,795	1,123,288	4,596,201
Less: accumulated depreciation	<u>1,151,827</u>	<u>879,805</u>	<u>369,567</u>	<u>2,401,199</u>
Net fixed assets	<u>122,291</u>	<u>1,318,990</u>	<u>753,721</u>	<u>2,195,002</u>
Total assets	<u>\$ 224,148</u>	<u>\$ 1,346,671</u>	<u>\$ 780,900</u>	<u>\$ 2,351,719</u>
<u>LIABILITIES</u>				
<u>Current liabilities</u>				
Accounts payable	\$ 2,651	\$ 931	\$ 2,824	\$ 6,406
Customer deposits	-	-	5,200	5,200
Notes payable within one year	-	-	17,203	17,203
Total current liabilities	<u>2,651</u>	<u>931</u>	<u>25,227</u>	<u>28,809</u>
<u>Non-current liabilities</u>				
Accrued vacation and sick	38,326	33,469	-	71,795
Notes payable	-	-	941,756	941,756
Total non-current liabilities	<u>38,326</u>	<u>33,469</u>	<u>941,756</u>	<u>1,013,551</u>
Total liabilities	<u>40,977</u>	<u>34,400</u>	<u>966,983</u>	<u>1,042,360</u>
<u>Net Position</u>				
Net Position:				
Invested in capital assets, net of related debt	122,291	1,318,990	-	1,441,281
Unreserved (deficit)	60,880	(6,719)	(186,083)	(131,922)
Total net position (deficit)	<u>\$ 183,171</u>	<u>\$ 1,312,271</u>	<u>\$ (186,083)</u>	<u>\$ 1,309,359</u>

NONMAJOR ENTERPRISE FUNDS
STATEMENT OF REVENUES AND EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2012

	Arena Fund	Multi-Purpose Center Fund	River Bluff Townhomes	Total Nonmajor Enterprise Funds
<u>Operating revenues</u>				
Facility use and other revenues	\$ 131,201	\$ 96,266	\$ 92,087	\$ 319,554
<u>Operating expense</u>				
Salaries and wages	98,960	117,139	-	216,099
Payroll taxes	16,258	17,148	-	33,406
Employee insurance	23,898	22,326	-	46,224
Supplies and maintenance costs	26,501	9,782	18,472	54,755
Utilities	57,203	21,502	8,317	87,022
Insurance	4,894	4,939	6,952	16,785
Depreciation and amortization	32,053	63,162	26,952	122,167
Other operating expense	33,293	31,484	10,778	75,555
Total operating expense	293,060	287,482	71,471	652,013
Operating income (loss)	(161,859)	(191,216)	20,616	(332,459)
<u>Other revenues</u>				
Investment income	12	15	464	491
Local property taxes	175,115	217,750	-	392,865
Contributions/reimbursements	5,500	-	-	5,500
Total other revenues	180,627	217,765	464	398,856
<u>Other charges</u>				
Interest and debt services	-	-	7,862	7,862
Total other charges	-	-	7,862	7,862
Change in net position	18,768	26,549	13,218	58,535
Net position (deficit), January 1, 2012	164,403	1,285,722	(199,301)	1,250,824
Net position (deficit), December 31, 2012	\$ 183,171	\$ 1,312,271	\$ (186,083)	\$ 1,309,359

NONMAJOR ENTERPRISE FUNDS
 COMBINING STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Arena Fund	Multi-Purpose Center Fund	River Bluff Townhomes	Total Nonmajor Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 131,201	\$ 96,266	\$ 92,587	\$ 320,054
Cash payments to suppliers for goods and services	(87,099)	(52,457)	(33,249)	(172,805)
Cash payments to/for employees for services	(153,183)	(160,429)	-	(313,612)
Other expense	(33,293)	(31,484)	(10,778)	(75,555)
Net cash provided (used) by operating activities	(142,374)	(148,104)	48,560	(241,918)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:				
Cash received from property taxes	175,115	217,750	-	392,865
Interest received	12	15	464	491
Net cash provided by non-capital financing activities	175,127	217,765	464	393,356
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisitions and construction of capital assets	(2,280)	(3,519)	-	(5,799)
Principal payments on long-term debt	-	-	(16,961)	(16,961)
Interest paid	-	-	(8,150)	(8,150)
Other revenue	5,500	-	-	5,500
Net cash provided (used) by capital and financing activities	3,220	(3,519)	(25,011)	(25,310)
Net increase in cash and cash equivalents	35,973	66,142	24,013	126,128
Cash and interest bearing deposits, (deficit) January 1, 2012	65,564	(38,461)	3,166	30,269
Cash and interest bearing deposits, December 31, 2012	\$ 101,537	\$ 27,681	\$ 27,179	\$ 156,397
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Net income (loss) from operations	\$ (161,859)	\$ (191,216)	\$ 20,616	\$ (332,459)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	32,053	63,162	26,952	122,167
Changes in assets and liabilities:				
(Increase) in inventory	(61)	-	-	(61)
Increase (decrease) in accounts payable	1,560	(16,234)	492	(14,182)
Increase in customer deposits	-	-	500	500
(Decrease) in accrued vacation and sick	(14,067)	(3,816)	-	(17,883)
Net cash provided (used) by operating activities	\$ (142,374)	\$ (148,104)	\$ 48,560	\$ (241,918)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2012

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	(Accrued) Deferred Revenue 1/1/2012	Funds Received	Expenditures	(Accrued) Deferred Revenue 12/31/2012
U.S. Department of Interior Direct Award Fish and Wildlife Management Assistance	15.608		\$ -	\$ 100,000	\$ 100,000	\$ -
Total U.S. Department of Interior			-	100,000	100,000	-
U.S. Department of Homeland Security Direct Award Assistance to Firefighters Grant Program	97.044	*	-	483,313	483,313	-
Total U.S. Department of Homeland Security			-	483,313	483,313	-
U.S. Department of Public Transportation Pass-Through Minnesota Department of Transportation Airport Improvement Program	20.106	unknown	-	20,929	21,596	(667)
Airport Improvement Program	20.106	unknown	-	-	34,987	(34,987)
Total U.S. Department of Transportation			-	20,929	56,583	(35,654)
U.S. Department of Housing and Urban Development Pass-Through Minnesota Department of Employment and Economic Development Block Grant Cluster: Community Development Block Grant Program	14.228	unknown	-	2,441	2,441	-
Community Development Block Grant Program	14.228	unknown	-	123,067	123,067	-
Total Block Grant Cluster			-	125,508	125,508	-
Total U.S. Department of Housing and Urban Development			-	125,508	125,508	-
Total for Year Ended December 31, 2012			\$ -	\$ 729,750	\$ 765,404	\$ (35,654)

* denotes major program

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

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

DECEMBER 31, 2012

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.

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ANDREA M. JOHNSON, 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

To the City Council
City of Windom, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Windom, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise City of Windom, Minnesota's basic financial statements and have issued our report thereon dated June 14, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Windom, Minnesota's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Windom, Minnesota's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Windom, Minnesota's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such 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 to be material weaknesses, listed as Finding 2012-1 and Finding 2012-2.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Windom, Minnesota's financial statements are free from 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 14, 2013.

City of Windom, Minnesota's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Donald Z. Rick, Ltd.

Worthington, Minnesota
June 14, 2013

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM

AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the City Council
City of Windom, Minnesota

Report on Compliance for Each Major Federal Program

We have audited City of Windom, Minnesota's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Windom, Minnesota's major federal programs for the year ended December 31, 2012. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Windom, Minnesota's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 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 on compliance for each major federal program. However, our audit does not provide a legal determination of City of Windom, Minnesota's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Windom, Minnesota, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.



Report on Internal Control over Compliance

Management of City of Windom, Minnesota, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Windom, Minnesota's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 an opinion on the effectiveness of City of Windom, Minnesota's internal control over compliance.

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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Donald Z. Riek, Ltd.

Worthington, Minnesota

December 31, 2012

CITY OF WINDOM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of City of Windom, Minnesota.
2. There were two internal 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 internal control deficiencies are described in the Schedule of Findings and Questioned Costs as items 2012-1, and 2012-2. The two conditions are 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 97.044	Assistance to Firefighters Grant 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 2012-1

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.

Condition: The City has a lack of adequate segregation of duties.

Context: The finding was discovered during our testing of internal control.

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

Cause: 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.

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

Views of responsible officials and planned corrective actions: The Council will increase knowledge and awareness of operations by reviewing certain accounting records and reports.

Finding 2012-2

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

Condition: The City does not have internal resources to prepare full-disclosure financial statements.

Context: The finding was discovered during our testing of internal control.

CITY OF WINDOM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (CONTINUED)

Finding 2012-2

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.

Cause: 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.

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.

Views of responsible officials and planned corrective actions: City personnel prepare monthly financial statements and other financial information for internal use that meet the needs of management 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 FEDERAL AWARD PROGRAMS AUDIT

None.

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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, 2012 and have issued our report thereon dated June 14, 2013.

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 Political Subdivisions*, 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 Political Subdivisions* 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 14, 2013

