

Comprehensive Annual Financial Report
Year Ended December 31, 2016
City of Wadena, Minnesota
Prepared by Office of City Administration
Lloyd Lanz, Finance Officer

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Introductory Section
Year Ended December 31, 2016
City of Wadena, Minnesota

June 27, 2016

The Honorable Mayor, Members
of the City Council, and the Citizens
of the City of Wadena, Minnesota:

The comprehensive annual financial report of the City of Wadena for the year ended December 31, 2016, is submitted herewith. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner that presents fairly the financial position and results of operations of the various funds and component units of the City. All disclosures necessary to enable the reader to gain an understanding of the City's activities have been included.

The Management of the City has implemented policies to insure maximum internal controls, such as segregation of duties and when necessary two parties are required to carry out a transaction or duty. Our biggest problem is having a small number of staff to accomplish the segregation of duties, but the two party rules helps to offset this.

The financial data has been audited by a private auditing firm, engaged by the City of Wadena, as evidenced in their Independent Auditor's Report.

Management's discussion and analysis (MD&A) immediately follows the Independent Auditors Report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

The City and its Services

The City of Wadena was incorporated in 1874. The City, located at the crossroads of U.S. Highways 10 & 71 and State Highway 29, serves as the center of finance, industry, trade and transportation for Wadena County. The City of Wadena is 150 miles northwest of Minneapolis, and 100 miles southeast of Moorhead.

There are over 200 businesses in Wadena, from commercial, to retail and industrial, everything anyone would ever need. The City of Wadena is the County Seat for Wadena County in Central Minnesota.

Wadena is home to 4,088 people according to the 2010 Census data, a decrease from the 2000 census data population count of 4,300. Wadena is 5.25 square miles and 3,364 acres, of which over 200 acres are public parks.

The City is a 4th Class Statutory City governed by a Mayor-Council form of government. The Mayor is elected for a term of 2 years and four council members are elected for terms of 4 years, without any limit on the amount of years they may serve.

The City is organized into departments, which are managed by department heads (see City of Wadena Organizational Chart).

The City provides a full range of municipal services. These include public safety (police and fire), streets, economic development, culture-recreation, public improvements, planning and zoning, municipal airport and general administrative services. The City also operates a municipal liquor store, a golf course, a wellness center, and public electric, water, and sewer utilities. A portion of net revenue produced in excess of working capital requirements by the public utilities and liquor store operations have been available to provide financing for current general fund expenditures.

Major Initiatives

The development and funding of old airport property into 33 residential lots.

The sale of vacant industrial lots and development of undeveloped lots for future expansion.

The completion of the final section of four lanes for US Highway 10, by finding Federal and State funding for this project.

The infrastructure revitalization program for the southeast section of town, which involves water mains and services, sanitary and storm sewer mains and services, and electrical services.

The completion of a grass crosswind runway, and a new deer fence around property at the City Airport.

The remodeling and possible addition to the City Library to meet current needs.

The building and relocation of the electric and water plant facility.

Reporting Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report (CAFR) for the year ended December 31, 2014. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. The City had received this award for the last 20 years.

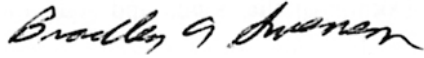
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current report continues to conform to the Certificate of Achievement program requirements and we are submitting it to the GFOA.

Acknowledgements

We would like to thank the firm of Eide Bailly, LLP, for their professional assistance and expertise. We would also like to thank the mayor and members of the city council for their continued interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



Bradley A. Swenson
City Administrator



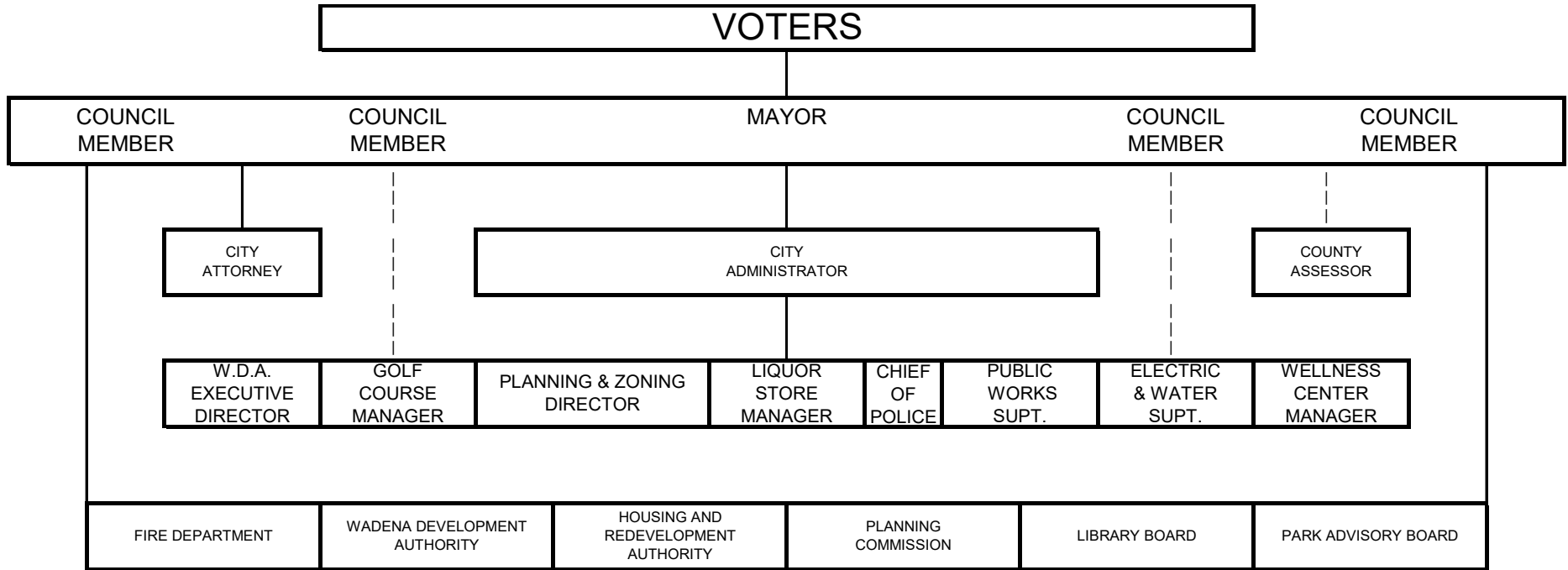
Lloyd J. Lanz
Finance Officer

Elected Officials

| Name | Position | Term Expires |
|----------------|-----------------|---------------------|
| George Deiss | Mayor | 12/31/16 |
| Deb Wiese | Council Member | 12/31/18 |
| Bruce Uselman | Council Member | 12/31/18 |
| Gillette Kempf | Council Member | 12/31/16 |
| Don Niles | Council Member | 12/31/16 |

Appointed Officials

| | |
|-----------------|----------------------------------|
| Bradley Swenson | City Administrator |
| Jeff Pederson | City Attorney |
| Naomi Plautz | Police Chief |
| Dean Uselman | Fire Chief |
| Dean Uselman | Planning and Zoning/WDA Director |
| Daniel Kovar | Public Works Superintendent |
| David Evans | Electric & Water Superintendent |
| Tim Booth | Liquor Store Manager |
| Kevin Ross | Golf Course Manager |
| Eric Robb | Wellness Center Manager |



Financial Section
Year Ended December 31, 2016
City of Wadena, Minnesota

- Independent Auditor's Report
- Management's Discussion and Analysis
- Basic Financial Statements
- Notes to the Basic Financial Statements
- Combining and Individual Fund Statements and Schedules

Independent Auditor's Report

The Honorable Mayor and
Members of the City Council
City of Wadena, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Wadena, Minnesota (the City), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 did not audit the financial statements of the Housing and Redevelopment Authority, the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Housing and Redevelopment Authority, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, the business-type activities, the discretely presented component unit, each major fund, the aggregate remaining fund information, and the general fund budget to actual schedule of the City as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity 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 discussion and analysis, schedule of funding progress, schedule of employer's share of net pension liability and schedule of employer's contributions 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 or preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. The introductory section, listing of elected and appointed officials, combining and individual nonmajor fund schedules, budgetary comparison schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the financial statements.

The combining and individual nonmajor fund financial statements, budgetary comparison schedules, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 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, budgetary comparison schedules, and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the financial statements as a whole.

The introductory section, listing of elected and appointed officials, and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated June 27, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
June 27, 2017

As management of the City of Wadena, we offer readers of the City of Wadena's financial statements this narrative overview and analysis of the financial activities of the City of Wadena for the fiscal year ended December 31, 2016. We encourage readers to consider this information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-3 of this report.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$48,562,738 (net position), compared to \$44,041,297 for 2015, an increase of 10.27%.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,623,016 or 49.13% of the total general fund expenditures.
- The City's total long term bonded debt increased from \$9,638,294 in 2015 to \$14,530,816 in 2016.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

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

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

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned 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, culture and recreation, economic development, and airport. The business-type activities of the City include municipal liquor, sewer utility, water utility, electric utility, golf course, and wellness center.

Fund Financial Statements

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

Governmental Funds

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

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

The City maintains 14 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and capital projects fund which are considered major funds. Data from the other 11 individual governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary Funds

The City maintains six different types of proprietary funds. 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, sewer utility, water utility, electric utility, golf course operations, and wellness center operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the liquor operations, sewer, water, electric, golf course operations, and wellness center operations.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$48,562,738 at the close of the most recent fiscal year.

Statement of Net Position

| | Governmental Activities | | Business-Type Activities | | Total | |
|---------------------------------------|-------------------------|---------------|--------------------------|---------------|---------------|---------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Assets | | | | | | |
| Cash and investments | \$ 3,339,072 | \$ 1,683,750 | \$ 3,933,828 | \$ 2,372,819 | \$ 7,272,900 | \$ 4,056,569 |
| Other assets | 3,702,660 | 2,432,789 | 2,635,053 | 2,076,226 | 6,337,713 | 4,509,015 |
| Capital assets | 14,476,096 | 11,829,168 | 39,100,066 | 36,790,574 | 53,576,162 | 48,619,742 |
| Total assets | 21,517,828 | 15,945,707 | 45,668,947 | 41,239,619 | 67,186,775 | 57,185,326 |
| Deferred Outflows of Resources | | | | | | |
| Pension plans | 2,027,830 | 276,120 | 565,102 | 250,364 | 2,592,932 | 526,484 |
| Liabilities | | | | | | |
| Other liabilities | 223,087 | 162,279 | 1,022,510 | 955,914 | 1,245,597 | 1,118,193 |
| Long-term outstanding | 7,308,709 | 3,534,863 | 11,917,612 | 8,417,171 | 19,226,321 | 11,952,034 |
| Total liabilities | 7,531,796 | 3,697,142 | 12,940,122 | 9,373,085 | 20,471,918 | 13,070,227 |
| Deferred Inflows of Resources | | | | | | |
| Pension plans | 541,098 | 295,524 | 203,953 | 304,792 | 745,051 | 600,316 |
| Net position | | | | | | |
| Net investment | | | | | | |
| in capital assets | 10,511,003 | 9,472,543 | 28,480,955 | 29,456,401 | 38,991,958 | 38,928,944 |
| Restricted | 1,960,273 | 516,885 | - | - | 1,960,273 | 516,885 |
| Unrestricted | 3,001,488 | 2,239,733 | 4,609,019 | 2,355,735 | 7,610,507 | 4,595,468 |
| Total net position | \$ 15,472,764 | \$ 12,229,161 | \$ 33,089,974 | \$ 31,812,136 | \$ 48,562,738 | \$ 44,041,297 |

The largest portion of the City's net assets (80%) reflects its investment in capital assets (e.g., land, construction in progress, buildings, improvements other than buildings, machinery and equipment, general plant and system, furniture and fixtures), less any related debt used to acquire assets that are still outstanding. The City has elected not to retroactively report infrastructure, so general infrastructure assets acquired prior to January 1, 2005, are not reported in the basic financial statements. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investments 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.

Change in Net Position

| | Governmental Activities | | Business-Type Activities | | Total | |
|------------------------------------|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Revenues | | | | | | |
| Program revenues | | | | | | |
| Charges for services | \$ 1,615,856 | \$ 1,964,232 | \$ 8,404,505 | \$ 7,938,193 | \$ 10,020,361 | \$ 9,902,425 |
| Operating grants and contributions | 197,921 | 135,884 | - | - | 197,921 | 135,884 |
| Capital grants and contributions | 214,113 | 670,685 | - | - | 214,113 | 670,685 |
| General revenues | | | | | | |
| Property taxes | 966,354 | 760,091 | - | - | 966,354 | 760,091 |
| Unrestricted state aid | 1,829,737 | 1,838,085 | - | - | 1,829,737 | 1,838,085 |
| Unrestricted investment earnings | 43,599 | 27,018 | 39,608 | 35,564 | 83,207 | 62,582 |
| Miscellaneous | 2,196,903 | 185,895 | - | - | 2,196,903 | 185,895 |
| Total revenues | 7,064,483 | 5,581,890 | 8,444,113 | 7,973,757 | 15,508,596 | 13,555,647 |
| Expenses | | | | | | |
| General government | 701,259 | 705,085 | - | - | 701,259 | 705,085 |
| Public safety | 718,339 | 1,003,708 | - | - | 718,339 | 1,003,708 |
| Public works | 1,553,220 | 549,433 | - | - | 1,553,220 | 549,433 |
| Culture and recreation | 414,666 | 375,991 | - | - | 414,666 | 375,991 |
| Economic development | 94,019 | 229,254 | - | - | 94,019 | 229,254 |
| Airport | 459,688 | 232,618 | - | - | 459,688 | 232,618 |
| Interest on debt | 46,626 | 38,102 | - | - | 46,626 | 38,102 |
| Municipal liquor | - | - | 249,230 | 290,401 | 249,230 | 290,401 |
| Sewer utility | - | - | 883,707 | 904,024 | 883,707 | 904,024 |
| Water utility | - | - | 591,410 | 477,113 | 591,410 | 477,113 |
| Electric utility | - | - | 4,968,421 | 5,212,324 | 4,968,421 | 5,212,324 |
| Golf course | - | - | 305,307 | 356,441 | 305,307 | 356,441 |
| Wellness Center | - | - | 994,942 | 906,556 | 994,942 | 906,556 |
| Total expenses | 3,987,817 | 3,134,191 | 7,993,017 | 8,146,859 | 11,980,834 | 11,281,050 |
| Excess before transfers | 3,076,666 | 2,447,699 | 451,096 | (173,102) | 3,527,762 | 2,274,597 |
| Other financing sources | 166,937 | (11,589,774) | 826,742 | 11,599,037 | 993,679 | 9,263 |
| Change in net position | 3,243,603 | (9,142,075) | 1,277,838 | 11,425,935 | 4,521,441 | 2,283,860 |
| Beginning net position, | 12,229,161 | 21,371,236 | 31,812,136 | 20,386,201 | 44,041,297 | 41,757,437 |
| Ending net position | <u>\$ 15,472,764</u> | <u>\$ 12,229,161</u> | <u>\$ 33,089,974</u> | <u>\$ 31,812,136</u> | <u>\$ 48,562,738</u> | <u>\$ 44,041,297</u> |

Governmental Activities

Governmental activities increased the City's net position by \$3,076,666 before transfers from the business-type activities. Key elements of the increase are as follows:

- FEMA and MNDOT Aviation projects funds expensed in a prior year, but reimbursed in 2016.
- Wellness Center received donations in the amount of \$633,360.

Business-Type Activities

Business-type activities increased the City's net position by \$1,444,775 before transfers. Key elements of this decrease are as follows:

- The City has set utility rates at a level to be able to set aside reserves for future replacement of those utility assets and infrastructure and reviews these rates periodically so as to foresee any necessary changes.

Financial Analysis of the Government's Funds

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, unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Major Funds

| | Fund Balance / Net Position | | Increase (Decrease) | Percentage Increase (Decrease) |
|---------------------|-----------------------------|--------------|------------------------|--------------------------------------|
| | 12/31/16 | 12/31/15 | | |
| Governmental Funds: | | | | |
| General | \$ 2,323,512 | \$ 2,605,315 | \$ (281,803) | -10.8% |
| Debt service | 501,504 | 286,416 | 215,088 | 75.1% |
| Capital projects | 1,166,980 | (2,020,607) | 3,187,587 | -157.8% |
| Proprietary Funds: | | | | |
| Sewer utility | 5,278,479 | 4,791,493 | 486,986 | 10.2% |
| Water utility | 2,654,500 | 2,117,693 | 536,807 | 25.3% |
| Electric utility | 12,688,246 | 12,260,593 | 427,653 | 3.5% |
| Municipal liquor | 402,587 | 259,156 | 143,431 | 55.3% |
| Wellness center | 11,204,737 | 11,535,464 | (330,727) | -2.9% |
| Golf course | 861,425 | 847,737 | 13,688 | 1.6% |

General Fund Budgetary Highlights

- Actual revenues for 2016 were \$2,888,332, compared to budgeted revenues of \$2,966,759. Largest overage was for intergovernmental revenues of \$70,842, for FEMA and MNDOT Aviation projects funds expensed in a prior year, but reimbursed in 2016, and that was not budgeted for.
- Actual expenditures for 2016 were \$3,303,268, compared to budgeted expenditures of \$3,301,469. The largest under budgeted area was for culture and recreational activity. The capital outlay was under budgeted by \$120,849 for the Leaf Trail Improvement.

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2016, amounts to \$53,576,162 (net of accumulated depreciation). This investment in capital assets includes land, construction in process, buildings, improvements other than buildings, infrastructure, machinery and equipment, general plant and system, and furniture and fixtures. See Note 6 for more detailed information on capital asset activity.

Capital Assets (Net of Depreciation)

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Capital assets (net of accumulated depreciation where applicable) | | | | | | |
| Land | \$ 2,127,215 | \$ 2,110,215 | \$ 888,238 | \$ 888,238 | \$ 3,015,453 | \$ 2,998,453 |
| Construction in progress | 5,148,034 | 3,158,641 | 6,136,164 | 3,181,664 | 11,284,198 | 6,340,305 |
| Buildings | 2,067,994 | 2,131,451 | 18,034,674 | 18,409,550 | 20,102,668 | 20,541,001 |
| Improvements other than buildings | 2,136,009 | 1,655,544 | - | - | 2,136,009 | 1,655,544 |
| Machinery and equipment | 1,239,076 | 1,298,031 | 2,644,462 | 2,906,491 | 3,883,538 | 4,204,522 |
| General plant and system | - | - | 11,396,528 | 11,404,631 | 11,396,528 | 11,404,631 |
| Infrastructure | 1,757,768 | 1,475,286 | - | - | 1,757,768 | 1,475,286 |
| Total capital assets | <u>\$ 14,476,096</u> | <u>\$ 11,829,168</u> | <u>\$ 39,100,066</u> | <u>\$ 36,790,574</u> | <u>\$ 53,576,162</u> | <u>\$ 48,619,742</u> |

Major capital assets events during the current fiscal year included the following:

- Purchase of land from the railroad in the amount of \$17,000.
- Purchase of a new mower for the Park Department in the amount of \$74,134.
- Electric underground improvements in the amount of \$220,465.
- Electric and water meters upgraded in the amount of \$881,115.
- SE Infrastructure project continued in the amount of \$6,246,460.

Long-term Debt

At the end of the current fiscal year, the City had \$14,936,289 in long-term debt.

Outstanding Debt

| | Governmental Activities | | Business-Type Activities | | Total | |
|--------------------------|-------------------------|---------------------|--------------------------|---------------------|----------------------|---------------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| General obligation bonds | \$ 3,965,093 | \$ 2,356,625 | \$ 10,565,723 | \$ 7,281,669 | \$ 14,530,816 | \$ 9,638,294 |
| OPEB obligation | 149,055 | 71,931 | - | - | 149,055 | 71,931 |
| Compensated absences | 118,206 | 114,968 | 138,212 | 137,072 | 256,418 | 252,040 |
| Total long-term debt | <u>\$ 4,232,354</u> | <u>\$ 2,543,524</u> | <u>\$ 10,703,935</u> | <u>\$ 7,418,741</u> | <u>\$ 14,936,289</u> | <u>\$ 9,962,265</u> |

Additional information on the City's long-term debt can be found in Note 7 of this report.

The City has \$4,290,032 in net pension liability at December 31, 2016. See Note 11 for further information.

Economic Factors

The development of the old City airport property into residential and commercial lots has been platted for 33 lots and awaiting funding to install the infrastructure.

The City's industrial park, and adjacent land platted for use as industrial park lots, has 3 lots available for the sale. The City is in the process of developing a business park next to the current industrial park. This park has 14 lots available for future development. The lots are available for sale, but without infrastructure. The City is working on funding to complete the business park infrastructure, and is currently working with the city engineer on final design and engineering for the street construction.

The completion of the four lanes on US Highway 10, currently scheduled for 2027, could spur significant growth along the four lanes, and generate more traffic running through the City. The City continues to seek ways to speed this project to completion. The City hopes to obtain Federal or State funding to accomplish this project. MNDOT has recently completed a transportation study in Wadena and is planning a rebuild of 6/10ths of a mile, of the through town portion, of Highway 10 in the summer of 2019.

- The City is finishing an infrastructure project for the southeast section of town. This project will be under construction and finished in the spring of 2017. The current estimate for the project is \$12,500,000, which is funded with G.O. Debt, grants, an increase in water and sewer rates, and special assessments.
- The City has completed an environmental assessment for our airport, looking at a grass crosswind runway. This would be funded with a 70% MNDOT grant and 30% local share. Project continues to be negotiated with the FAA. In 2009 the City extended our taxiway, making it run along the entire runway, which was funded at 90% FAA grant, 5% state, and 5% local share. In 2014 the City replaced the existing blacktop surfaces in the non-runway and taxiway portions of the airport and installed a new entrance gate. In 2016 new PAPPI lights were installed and a new deer fence around the airport was installed.
- Electric & Water rates are set to stay ahead of inflation for the next few years. The City conducted a rate study in 2015 and rates were increased in 2016.
- Trends affecting budgets include rising health insurance costs, increasing fuel costs, rising labor costs, increases in the employer share of Public Employee Retirement contributions and fluctuations in the cost of building, liability, and workers compensation insurances, which we seem to have limited control over.
- Local businesses seem to staying above water and continuing to thrive in the present economy. Lost some businesses in the last year, but there seems to be new interest and hope for the future. There is a general increase in growth and construction in the areas of housing, retail and manufacturing.
- The City will be entering into a 3-year partnership with a national firm to help us recruit additional retail and service businesses to Wadena.
- Current projects include a 49 unit assisted living facility that will employ up to 28 persons; a 22,000 square foot expansion of a high tech manufacturing business with 12 new jobs expected; and a new professional office for a local dentist.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City's Finance Officer or the City Administrator, City of Wadena, 222 Second Street S.E., P.O. Box 30, Wadena, MN 56482.

City of Wadena, Minnesota
Statement of Net Position
December 31, 2016

| | Primary Government | | | Component Unit |
|---|----------------------------|-----------------------------|----------------------|---|
| | Governmental Activities | Business-type Activities | Total | Housing and Redevelopment Authority |
| Assets | | | | |
| Cash and cash equivalents | \$ 369,494 | \$ 1,056,947 | \$ 1,426,441 | \$ 726,821 |
| Receivables | | | | |
| Accounts (net of allowance) | 1,450,132 | 1,038,059 | 2,488,191 | - |
| Interest | 3,889 | 2,886 | 6,775 | - |
| Loans | 683,267 | - | 683,267 | 94,346 |
| Special assessments | 1,100,133 | 921,992 | 2,022,125 | - |
| Due from other governmental units | 529,328 | - | 529,328 | - |
| Internal balances | (69,970) | 69,970 | - | - |
| Prepaid items | 5,881 | 63,440 | 69,321 | - |
| Inventories | - | 538,706 | 538,706 | - |
| Investments | 2,932,566 | 2,876,881 | 5,809,447 | 898,520 |
| Restricted assets | | | | |
| Permanently restricted: investments | 37,012 | - | 37,012 | - |
| Capital assets, net of accumulated depreciation where applicable | | | | |
| Land | 2,127,215 | 888,238 | 3,015,453 | - |
| Construction in progress | 5,148,034 | 6,136,164 | 11,284,198 | - |
| Buildings | 2,067,994 | 18,034,674 | 20,102,668 | - |
| Improvements other than buildings | 2,136,009 | - | 2,136,009 | - |
| Machinery and equipment | 1,239,076 | 2,644,462 | 3,883,538 | - |
| Infrastructure | 1,757,768 | 11,396,528 | 13,154,296 | - |
| Land and improvements | - | - | - | 93,144 |
| Land, buildings, fixtures, and equipment | - | - | - | 2,132,517 |
| Total assets | <u>21,517,828</u> | <u>45,668,947</u> | <u>67,186,775</u> | <u>3,945,348</u> |
| Deferred Outflows of Resources | | | | |
| Pension plans | <u>2,027,830</u> | <u>565,102</u> | <u>2,592,932</u> | <u>-</u> |
| Liabilities | | | | |
| Current | | | | |
| Accounts payable | 185,075 | 526,731 | 711,806 | 29,211 |
| Other accrued liabilities | 34,399 | 31,533 | 65,932 | 40,725 |
| Consumer deposits | - | 151,015 | 151,015 | - |
| Unearned revenue | - | 264,602 | 264,602 | 44,967 |
| Accrued interest payable | 3,613 | 48,629 | 52,242 | 21,344 |
| Due to other governmental units | - | - | - | 6,552 |
| Noncurrent | | | | |
| Due within one year - bonds, compensated absences, and OPEB obligations | 430,879 | 906,546 | 1,337,426 | 245,000 |
| Due in more than one year - bonds, compensated absences, and OPEB obligations | 3,801,475 | 9,797,389 | 13,598,863 | 1,660,000 |
| Due in more than one year - net pension liability | <u>3,076,355</u> | <u>1,213,677</u> | <u>4,290,032</u> | <u>-</u> |
| Total liabilities | <u>7,531,796</u> | <u>12,940,122</u> | <u>20,471,918</u> | <u>2,047,799</u> |
| Deferred Inflows of Resources | | | | |
| Pension plans | <u>541,098</u> | <u>203,953</u> | <u>745,051</u> | <u>-</u> |
| Net Position | | | | |
| Net investment in capital assets | 10,511,003 | 28,480,955 | 38,991,958 | 320,661 |
| Restricted for: | | | | |
| Debt service | 501,504 | - | 501,504 | 564,713 |
| Commercial loans | 111,685 | - | 111,685 | - |
| Residential loans | 131,425 | - | 131,425 | - |
| Tax increment district | 11,667 | - | 11,667 | - |
| Capital projects | 1,166,980 | - | 1,166,980 | - |
| Merickel park | 37,012 | - | 37,012 | - |
| Housing assistant payments | - | - | - | 2,226 |
| Unrestricted | <u>3,001,488</u> | <u>4,609,019</u> | <u>7,610,507</u> | <u>1,009,949</u> |
| Total net position | <u>\$ 15,472,764</u> | <u>\$ 33,089,974</u> | <u>\$ 48,562,738</u> | <u>\$ 1,897,549</u> |

City of Wadena, Minnesota
Statement of Activities
Year Ended December 31, 2016

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | | |
|---|----------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|----------------------|-------------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | | Component Unit |
| | | | | | Governmental Activities | Business-Type Activities | Total | Housing and Redevelopment Authority |
| Primary government | | | | | | | | |
| Governmental activities | | | | | | | | |
| General government | \$ 701,259 | \$ 163,911 | \$ 66,540 | \$ 195,656 | \$ (275,152) | \$ - | \$ (275,152) | \$ - |
| Public safety | 718,339 | 13,178 | 88,437 | - | (616,724) | - | (616,724) | - |
| Public works | 1,553,220 | 1,348,826 | - | 5,094 | (199,300) | - | (199,300) | - |
| Culture and recreation | 414,666 | 35,006 | 5,607 | - | (374,053) | - | (374,053) | - |
| Economic development | 94,019 | 13,200 | 10,563 | 13,363 | (56,893) | - | (56,893) | - |
| Airport | 459,688 | 41,735 | 26,774 | - | (391,179) | - | (391,179) | - |
| Interest on long-term debt | 46,626 | - | - | - | (46,626) | - | (46,626) | - |
| Total governmental activities | <u>3,987,817</u> | <u>1,615,856</u> | <u>197,921</u> | <u>214,113</u> | <u>(1,959,927)</u> | <u>-</u> | <u>(1,959,927)</u> | <u>-</u> |
| Business-type activities | | | | | | | | |
| Municipal liquor | 249,230 | 545,413 | - | - | - | 296,183 | 296,183 | - |
| Sewer utility | 883,707 | 863,325 | - | - | - | (20,382) | (20,382) | - |
| Water utility | 591,410 | 675,791 | - | - | - | 84,381 | 84,381 | - |
| Electric utility | 4,968,421 | 5,493,123 | - | - | - | 524,702 | 524,702 | - |
| Golf course | 305,307 | 263,528 | - | - | - | (41,779) | (41,779) | - |
| Wellness center | 994,942 | 563,325 | - | - | - | (431,617) | (431,617) | - |
| Total business-type activities | <u>7,993,017</u> | <u>8,404,505</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>411,488</u> | <u>411,488</u> | <u>-</u> |
| Total primary government | <u>\$ 11,980,834</u> | <u>\$ 10,020,361</u> | <u>\$ 197,921</u> | <u>\$ 214,113</u> | <u>(1,959,927)</u> | <u>411,488</u> | <u>(1,548,439)</u> | <u>-</u> |
| Component Unit | | | | | | | | |
| Housing and Redevelopment Authority | <u>\$ 1,365,477</u> | <u>\$ 535,753</u> | <u>\$ 626,703</u> | <u>\$ -</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(203,021)</u> |
| General revenues | | | | | | | | |
| Property taxes | | | | | 966,354 | 993,679 | 1,960,033 | 18,582 |
| Unrestricted state aid | | | | | 1,829,737 | - | 1,829,737 | - |
| Unrestricted investment earnings (loss) | | | | | 43,599 | 39,608 | 83,207 | 7,707 |
| Miscellaneous | | | | | 2,196,903 | - | 2,196,903 | 171,417 |
| Transfers | | | | | 166,937 | (166,937) | - | - |
| Total general revenue and transfers | | | | | <u>5,203,530</u> | <u>866,350</u> | <u>6,069,880</u> | <u>197,706</u> |
| Change in net position | | | | | 3,243,603 | 1,277,838 | 4,521,441 | (5,315) |
| Net position - beginning | | | | | <u>12,229,161</u> | <u>31,812,136</u> | <u>44,041,297</u> | <u>1,902,864</u> |
| Net position - ending | | | | | <u>\$ 15,472,764</u> | <u>\$ 33,089,974</u> | <u>\$ 48,562,738</u> | <u>\$ 1,897,549</u> |

The Notes to Financial Statements are an integral part of this statement.

City of Wadena, Minnesota
Balance Sheet - Governmental Funds
December 31, 2016

| | General | Debt Service | Capital Projects | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|---------------------|---------------------|--------------------------------|--------------------------------|
| Assets | | | | | |
| Cash and cash equivalents | \$ (20,077) | \$ 111,292 | \$ - | \$ 278,279 | \$ 369,494 |
| Permanently restricted investments | - | - | - | 37,012 | 37,012 |
| Receivables | | | | | |
| Accounts | 1,450,132 | - | - | - | 1,450,132 |
| Interest | 35 | 419 | 2,660 | 775 | 3,889 |
| Property taxes | 15,205 | 11,804 | - | - | 27,009 |
| Allowance for delinquent taxes | (15,205) | (11,804) | - | - | (27,009) |
| Loans | - | - | - | 683,267 | 683,267 |
| Special assessments | 128,943 | 971,190 | - | - | 1,100,133 |
| Prepaid items | 5,881 | - | - | - | 5,881 |
| Investments | 300,803 | 380,964 | 1,520,000 | 730,799 | 2,932,566 |
| Due from other funds | 285,710 | - | - | - | 285,710 |
| Due from other governmental units | 520,501 | 8,827 | - | - | 529,328 |
| | <u>\$ 2,671,928</u> | <u>\$ 1,472,692</u> | <u>\$ 1,522,660</u> | <u>\$ 1,730,132</u> | <u>\$ 7,397,412</u> |
| Liabilities, Deferred Inflows of Resources, and Fund Balance | | | | | |
| Liabilities | | | | | |
| Accounts payable | \$ 185,075 | \$ - | \$ - | \$ - | \$ 185,075 |
| Other liabilities | 34,399 | - | - | - | 34,399 |
| Due to other funds | - | - | 355,680 | - | 355,680 |
| Total liabilities | <u>219,474</u> | <u>-</u> | <u>355,680</u> | <u>-</u> | <u>575,154</u> |
| Deferred Inflows of Resources | | | | | |
| Unavailable revenue-special assessments | 128,942 | 971,188 | - | - | 1,100,130 |
| Unavailable revenue-loans receivable | - | - | - | 683,266 | 683,266 |
| Total deferred inflows of resources | <u>128,942</u> | <u>971,188</u> | <u>-</u> | <u>683,266</u> | <u>1,783,396</u> |
| Fund Balances | | | | | |
| Nonspendable | | | | | |
| Prepaid items | 5,881 | - | - | - | 5,881 |
| Restricted | | | | | |
| Debt service | - | 501,504 | - | - | 501,504 |
| Commercial loans | - | - | - | 111,685 | 111,685 |
| Residential loans | - | - | - | 131,425 | 131,425 |
| Tax increment district | - | - | - | 11,667 | 11,667 |
| Capital projects | - | - | 1,166,980 | - | 1,166,980 |
| Merickel park | - | - | - | 37,012 | 37,012 |
| Committed | | | | | |
| Economic development | - | - | - | 729,278 | 729,278 |
| Assigned | | | | | |
| Equipment | 734,615 | - | - | - | 734,615 |
| Library | - | - | - | 25,799 | 25,799 |
| Unassigned | 1,583,016 | - | - | - | 1,583,016 |
| Total fund balances | <u>2,323,512</u> | <u>501,504</u> | <u>1,166,980</u> | <u>1,046,866</u> | <u>5,038,862</u> |
| | <u>\$ 2,671,928</u> | <u>\$ 1,472,692</u> | <u>\$ 1,522,660</u> | <u>\$ 1,730,132</u> | <u>\$ 7,397,412</u> |
| Total liabilities, deferred inflows of resources, and fund balances | | | | | |

City of Wadena, Minnesota
 Reconciliation of the Governmental Funds
 Balance Sheet to the Statement of Net Position
 December 31, 2016

| | | |
|---|--------------------|----------------------|
| Total Fund Balances - Governmental Funds | | \$ 5,038,862 |
| 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 in the funds. | | 14,476,096 |
| Other assets are not available to pay for current-period expenditures and, therefore, are either not recognized as a receivable or are unearned in the funds. | | 1,783,396 |
| Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds. | | 1,486,732 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. In the current period these amounts are | | |
| General obligation bonds | \$ (3,965,093) | |
| OPEB obligations | (149,055) | |
| Compensated absences | (118,206) | |
| Accrued interest | (3,613) | |
| Net pension liability | <u>(3,076,355)</u> | <u>(7,312,322)</u> |
| Net Position of Governmental Activities | | <u>\$ 15,472,764</u> |

City of Wadena, Minnesota
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended December 31, 2016

| | General | Debt Service | Capital Projects | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|-------------------|---------------------|--------------------------------|--------------------------------|
| Revenues | | | | | |
| Property taxes | \$ 499,055 | \$ 441,435 | \$ - | \$ 51,841 | \$ 992,331 |
| Special assessments | 11,563 | - | 307,809 | - | 319,372 |
| Licenses and permits | 18,124 | 151,084 | - | - | 169,208 |
| Intergovernmental | 2,041,057 | 3,369 | 522,805 | - | 2,567,231 |
| Charges for service | 181,352 | - | - | - | 181,352 |
| Fines and forfeitures | 29,855 | - | - | - | 29,855 |
| Investment earnings | 11,083 | 7,189 | 12,070 | 12,226 | 42,568 |
| Rents | 32,781 | - | - | - | 32,781 |
| Contributions | 6,739 | - | - | 4,998 | 11,737 |
| Reimbursements | 26,923 | - | - | - | 26,923 |
| Loan repayments | - | - | - | 386,467 | 386,467 |
| Donations | - | - | 2,688,451 | - | 2,688,451 |
| Miscellaneous | 29,800 | - | - | 15,456 | 45,256 |
| Total revenues | <u>2,888,332</u> | <u>603,077</u> | <u>3,531,135</u> | <u>470,988</u> | <u>7,493,532</u> |
| Expenditures | | | | | |
| Current | | | | | |
| General government | 480,638 | - | - | - | 480,638 |
| Public safety | 977,713 | - | - | - | 977,713 |
| Public works | 546,547 | - | - | - | 546,547 |
| Culture and recreation | 297,137 | - | - | - | 297,137 |
| Economic development | - | - | - | 167,898 | 167,898 |
| Airport | 59,973 | - | - | - | 59,973 |
| Miscellaneous | 85,103 | - | - | 122,016 | 207,119 |
| Debt service | | | | | |
| Principal | - | 376,242 | - | - | 376,242 |
| Interest and fees | 45 | 48,749 | 4,560 | - | 53,354 |
| Capital outlay | | | | | |
| General government | 6,001 | - | - | - | 6,001 |
| Public safety | 82,490 | - | - | - | 82,490 |
| Public works | - | - | 2,323,698 | - | 2,323,698 |
| Culture and recreation | 193,349 | - | - | - | 193,349 |
| Economic development | - | - | - | 14,527 | 14,527 |
| Airport | 574,272 | - | - | - | 574,272 |
| Total expenditures | <u>3,303,268</u> | <u>424,991</u> | <u>2,328,258</u> | <u>304,441</u> | <u>6,360,958</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (414,936) | 178,086 | 1,202,877 | 166,547 | 1,132,574 |
| Other Financing Sources (Uses) | | | | | |
| Transfers in | 372,583 | 37,002 | - | 1,618 | 411,203 |
| Transfers out | (244,266) | - | - | - | (244,266) |
| Issuance of debt | - | - | 1,984,710 | - | 1,984,710 |
| Sale of capital assets | 4,816 | - | - | - | 4,816 |
| Total other financing sources (uses) | <u>133,133</u> | <u>37,002</u> | <u>1,984,710</u> | <u>1,618</u> | <u>2,156,463</u> |
| Net Change in Fund Balances | (281,803) | 215,088 | 3,187,587 | 168,165 | 3,289,037 |
| Fund Balances (Deficit), Beginning of Year | <u>2,605,315</u> | <u>286,416</u> | <u>(2,020,607)</u> | <u>878,701</u> | <u>1,749,825</u> |
| Fund Balances, End of Year | <u>\$ 2,323,512</u> | <u>\$ 501,504</u> | <u>\$ 1,166,980</u> | <u>\$ 1,046,866</u> | <u>\$ 5,038,862</u> |

City of Wadena, Minnesota
 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
 Governmental Funds to the Statement of Activities
 Year Ended December 31, 2016

| | |
|---|----------------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ 3,289,037 |
| <p>Amounts reported for governmental activities in the statement of activities are different because:</p> | |
| <p>Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities the cost of capital assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense, net disposals, and contributions of capital assets exceeded capital outlays in the current period.</p> | 2,646,928 |
| <p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p> | (429,887) |
| <p>In the statement of activities compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used.</p> | (3,238) |
| <p>In the statement of activities OPEB obligations are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used.</p> | (53,951) |
| <p>In the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense. In the governmental funds, however, the contributions are reported as expense.</p> | (602,054) |
| <p>The issuance of long-term debt provided current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transactions, however, has any effect on net position. Also, governmental funds report the effect of premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p> | <u>(1,603,232)</u> |
| Change in Net Position of Governmental Activities | <u><u>\$ 3,243,603</u></u> |

City of Wadena, Minnesota
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
General Fund
Year Ended December 31, 2016

| | <u>Original and Final Budget</u> | <u>Actual Amounts</u> | <u>Variance With Final Budget</u> |
|---|--------------------------------------|---------------------------|---------------------------------------|
| Revenues | | | |
| Property taxes | \$ 496,100 | \$ 499,055 | \$ 2,955 |
| Special assessments | 2,845 | 11,563 | 8,718 |
| Licenses and permits | 30,015 | 18,124 | (11,891) |
| Intergovernmental | 2,111,899 | 2,041,057 | (70,842) |
| Charges for services | 171,400 | 181,352 | 9,952 |
| Fines and forfeitures | 32,500 | 29,855 | (2,645) |
| Miscellaneous | 122,000 | 107,326 | (14,674) |
| Total revenues | <u>2,966,759</u> | <u>2,888,332</u> | <u>(78,427)</u> |
| Expenditures | | | |
| Current | | | |
| General government | 583,175 | 480,638 | 102,537 |
| Public safety | 974,700 | 977,713 | (3,013) |
| Public works | 611,150 | 546,547 | 64,603 |
| Culture and recreation | 348,931 | 297,137 | 51,794 |
| Airport | 61,527 | 59,973 | 1,554 |
| Miscellaneous | 85,436 | 85,103 | 333 |
| Debt service | 1,500 | 45 | 1,455 |
| Capital outlay | | | |
| General government | 17,550 | 6,001 | 11,549 |
| Public safety | 45,000 | 82,490 | (37,490) |
| Culture and recreation | 72,500 | 193,349 | (120,849) |
| Airport | 500,000 | 574,272 | (74,272) |
| Total expenditures | <u>3,301,469</u> | <u>3,303,268</u> | <u>(1,799)</u> |
| Deficiency of Revenues Under Expenditures | (334,710) | (414,936) | (80,226) |
| Other Financing Sources (Uses) | | | |
| Transfers in | 430,245 | 372,583 | (57,662) |
| Transfers out | (100,000) | (244,266) | (144,266) |
| Sale of capital assets | 5,000 | 4,816 | (184) |
| Total other financing sources (uses) | <u>335,245</u> | <u>133,133</u> | <u>(202,112)</u> |
| Net Change in Fund Balances | <u>\$ 535</u> | (281,803) | <u>\$ (282,338)</u> |
| Fund Balances, Beginning of Year | | <u>2,605,315</u> | |
| Fund Balances, End of Year | | <u>\$ 2,323,512</u> | |

City of Wadena, Minnesota
Statement of Net Position
Proprietary Funds
December 31, 2016

| | Sewer Utility | Water Utility | Electric Utility | Municipal Liquor |
|--|---------------------|---------------------|----------------------|---------------------|
| Assets | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | \$ 400,006 | \$ 396,184 | \$ 5,730 | \$ 65,187 |
| Accounts receivable - net | 45,270 | 30,231 | 957,845 | 1,130 |
| Special assessment receivables | 484,436 | 437,556 | - | - |
| Interest receivable | 66 | 148 | 2,461 | 211 |
| Due from other funds | - | - | 69,992 | - |
| Prepaid expenses | 16,616 | 5,595 | 18,362 | 7,068 |
| Inventories | - | 21,615 | 305,871 | 188,832 |
| Investments | 60,000 | 135,000 | 2,489,842 | 192,039 |
| Total current assets | <u>1,006,394</u> | <u>1,026,329</u> | <u>3,850,103</u> | <u>454,467</u> |
| Noncurrent Assets | | | | |
| Capital assets | | | | |
| Land | 4,600 | 2,850 | 44,993 | - |
| Construction in progress | 3,513,753 | 2,622,411 | - | - |
| Buildings | 7,055,660 | 2,540,841 | 802,670 | 188,862 |
| Equipment | 2,332,106 | 807,935 | 999,905 | 104,638 |
| General plant and system | 2,192,933 | 2,378,001 | 13,956,381 | - |
| Less accumulated depreciation | <u>(4,185,971)</u> | <u>(2,544,308)</u> | <u>(5,873,142)</u> | <u>(217,272)</u> |
| Total noncurrent assets | <u>10,913,081</u> | <u>5,807,730</u> | <u>9,930,807</u> | <u>76,228</u> |
| Total assets | <u>11,919,475</u> | <u>6,834,059</u> | <u>13,780,910</u> | <u>530,695</u> |
| Deferred Outflows of Resources | | | | |
| Pension plans | <u>72,146</u> | <u>29,131</u> | <u>278,227</u> | <u>42,104</u> |
| Liabilities | | | | |
| Current Liabilities | | | | |
| Accounts payable | 9,221 | 16,197 | 427,764 | 55,932 |
| Due to other funds | - | - | - | - |
| Accrued interest | 28,707 | 19,922 | - | - |
| Other accrued liabilities | 3,256 | 1,979 | 14,916 | 3,285 |
| Consumer deposits | - | - | 151,015 | - |
| Unearned revenue | - | - | - | - |
| Current portion of long-term debt | 457,460 | 402,687 | 31,842 | 2,159 |
| Total current liabilities | <u>498,644</u> | <u>440,785</u> | <u>625,537</u> | <u>61,376</u> |
| Noncurrent Liabilities | | | | |
| Accrued compensated absences | 5,150 | 8,464 | 47,387 | 3,213 |
| Bonds payable (net of current portion) | 6,028,362 | 3,686,361 | - | - |
| Net pension liability | 154,948 | 62,566 | 597,551 | 90,427 |
| Total noncurrent liabilities | <u>6,188,460</u> | <u>3,757,391</u> | <u>644,938</u> | <u>93,640</u> |
| Total liabilities | <u>6,687,104</u> | <u>4,198,176</u> | <u>1,270,475</u> | <u>155,016</u> |
| Deferred Inflows of Resources | | | | |
| Pension plans | <u>26,038</u> | <u>10,514</u> | <u>100,416</u> | <u>15,196</u> |
| Net Position | | | | |
| Net investment in capital assets | 4,427,259 | 1,718,682 | 9,898,965 | 76,228 |
| Unrestricted | 851,220 | 935,818 | 2,789,281 | 326,359 |
| Total net position | <u>\$ 5,278,479</u> | <u>\$ 2,654,500</u> | <u>\$ 12,688,246</u> | <u>\$ 402,587</u> |

City of Wadena, Minnesota
Statement of Net Position
Proprietary Funds
December 31, 2016

| | Wellness Center | Golf Course | Total |
|--|----------------------|-------------------|----------------------|
| Assets | | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ 189,840 | \$ - | \$ 1,056,947 |
| Accounts receivable - net | 2,106 | 1,477 | 1,038,059 |
| Special assessment receivables | - | - | 921,992 |
| Interest receivable | - | - | 2,886 |
| Due from other funds | - | - | 69,992 |
| Prepaid expenses | 9,491 | 6,308 | 63,440 |
| Inventories | 3,509 | 18,879 | 538,706 |
| Investments | - | - | 2,876,881 |
| Total current assets | <u>204,946</u> | <u>26,664</u> | <u>6,568,903</u> |
| Noncurrent Assets | | | |
| Capital assets | | | |
| Land | 256,619 | 579,176 | 888,238 |
| Construction in progress | - | - | 6,136,164 |
| Buildings | 11,327,666 | 423,598 | 22,339,297 |
| Equipment | 354,944 | 656,861 | 5,256,389 |
| General plant and system | - | - | 18,527,315 |
| Less accumulated depreciation | <u>(513,151)</u> | <u>(713,493)</u> | <u>(14,047,337)</u> |
| Total capital assets | <u>11,426,078</u> | <u>946,142</u> | <u>39,100,066</u> |
| Total assets | <u>11,631,024</u> | <u>972,806</u> | <u>45,668,969</u> |
| Deferred Outflows of Resources | | | |
| Pension plan | <u>87,735</u> | <u>55,759</u> | <u>565,102</u> |
| Liabilities | | | |
| Current Liabilities | | | |
| Accounts payable | 16,454 | 1,163 | 526,731 |
| Due to other funds | - | 22 | 22 |
| Accrued interest | - | - | 48,629 |
| Other accrued liabilities | 6,616 | 1,481 | 31,533 |
| Consumer deposits | - | - | 151,015 |
| Unearned revenue | 264,602 | - | 264,602 |
| Current portion of long-term debt | 2,514 | 9,885 | 906,546 |
| Total current liabilities | <u>290,186</u> | <u>12,551</u> | <u>1,929,078</u> |
| Noncurrent Liabilities | | | |
| Accrued compensated absences | 3,741 | 14,710 | 82,666 |
| Bonds payable (net of current portion) | - | - | 9,714,723 |
| Net pension liability | 188,430 | 119,755 | 1,213,677 |
| Total noncurrent liabilities | <u>192,171</u> | <u>134,465</u> | <u>11,011,066</u> |
| Total liabilities | <u>482,357</u> | <u>147,016</u> | <u>12,940,144</u> |
| Deferred Inflows of Resources | | | |
| Pension plan | <u>31,665</u> | <u>20,124</u> | <u>203,953</u> |
| Net Position | | | |
| Net investment in capital assets | 11,423,564 | 936,257 | 28,480,955 |
| Unrestricted | <u>(218,827)</u> | <u>(74,832)</u> | <u>4,609,019</u> |
| Total net position | <u>\$ 11,204,737</u> | <u>\$ 861,425</u> | <u>\$ 33,089,974</u> |

The Notes to Financial Statements are an integral part of this statement

City of Wadena, Minnesota
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
Year Ended December 31, 2016

| | Sewer Utility | Water Utility | Electric Utility | Municipal Liquor |
|--|---------------------|---------------------|----------------------|---------------------|
| Operating Revenues | | | | |
| Sales | \$ - | \$ - | \$ - | \$ 2,002,216 |
| Cost of sales | - | - | - | (1,456,803) |
| Gross profit | - | - | - | 545,413 |
| Charges for services | 863,237 | 666,822 | 5,416,202 | - |
| Miscellaneous | 88 | 8,969 | 76,921 | - |
| Total operating revenues | <u>863,325</u> | <u>675,791</u> | <u>5,493,123</u> | <u>545,413</u> |
| Operating Expenses | | | | |
| Administration | 33,047 | 105,904 | 331,003 | 129,329 |
| Purchased power | - | - | 3,721,127 | - |
| Operating and maintenance | 376,510 | 233,570 | 260,493 | 110,306 |
| Equipment maintenance | 26,192 | 6,451 | 25,394 | - |
| Customer account expense | - | 42,322 | 179,258 | - |
| Depreciation | 378,363 | 155,924 | 451,146 | 9,595 |
| Total operating expenses | <u>814,112</u> | <u>544,171</u> | <u>4,968,421</u> | <u>249,230</u> |
| Operating Income (Loss) | 49,213 | 131,620 | 524,702 | 296,183 |
| Other Income (Expense) | | | | |
| Investment earnings | 2,345 | 772 | 32,886 | 2,786 |
| Property taxes and special assessments | 521,964 | 471,715 | - | - |
| Interest expense | (69,595) | (47,239) | - | - |
| Total other income (expense) | <u>454,714</u> | <u>425,248</u> | <u>32,886</u> | <u>2,786</u> |
| Net Income (Loss) Before Other Financing Sources (Uses) | 503,927 | 556,868 | 557,588 | 298,969 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | - | - | 142,648 | - |
| Transfers out | (16,941) | (20,061) | (272,583) | (155,538) |
| Total other financing sources (uses) | <u>(16,941)</u> | <u>(20,061)</u> | <u>(129,935)</u> | <u>(155,538)</u> |
| Change in Net Position | 486,986 | 536,807 | 427,653 | 143,431 |
| Total Net Position, Beginning of year | <u>4,791,493</u> | <u>2,117,693</u> | <u>12,260,593</u> | <u>259,156</u> |
| Total Net Position, End of Year | <u>\$ 5,278,479</u> | <u>\$ 2,654,500</u> | <u>\$ 12,688,246</u> | <u>\$ 402,587</u> |

City of Wadena, Minnesota
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
Year Ended December 31, 2016

| | Wellness Center | Golf Course | Total |
|--|----------------------|-------------------|----------------------|
| Operating Revenues | | | |
| Sales | \$ - | \$ 119,133 | \$ 2,121,349 |
| Cost of sales | - | (67,556) | (1,524,359) |
| Gross profit | - | 51,577 | 596,990 |
| Charges for services | 464,336 | 208,538 | 7,619,135 |
| Miscellaneous | 98,989 | 3,413 | 188,380 |
| Total operating revenues | <u>563,325</u> | <u>263,528</u> | <u>8,404,505</u> |
| Operating Expenses | | | |
| Administration | 352,907 | 176,139 | 1,128,329 |
| Purchased power | - | - | 3,721,127 |
| Operating and maintenance | 357,512 | 89,096 | 1,427,487 |
| Equipment maintenance | 27,348 | 14,389 | 99,774 |
| Customer account expense | - | - | 221,580 |
| Depreciation | 257,116 | 25,683 | 1,277,827 |
| Total operating expenses | <u>994,883</u> | <u>305,307</u> | <u>7,876,124</u> |
| Operating Income (Loss) | (431,558) | (41,779) | 528,381 |
| Other Income (Expense) | | | |
| Investment earnings | 890 | (71) | 39,608 |
| Property taxes and special assessments | - | - | 993,679 |
| Interest expense | (59) | - | (116,893) |
| Total other income (expense) | <u>831</u> | <u>(71)</u> | <u>916,394</u> |
| Net Income (Loss) Before Other Financing Sources (Uses) | (430,727) | (41,850) | 1,444,775 |
| Other Financing Sources (Uses) | | | |
| Transfers in | 100,000 | 55,538 | 298,186 |
| Transfers out | - | - | (465,123) |
| Total other financing sources (uses) | <u>100,000</u> | <u>55,538</u> | <u>(166,937)</u> |
| Change in Net Position | (330,727) | 13,688 | 1,277,838 |
| Total Net Position, Beginning of year | <u>11,535,464</u> | <u>847,737</u> | <u>31,812,136</u> |
| Total Net Position, End of Year | <u>\$ 11,204,737</u> | <u>\$ 861,425</u> | <u>\$ 33,089,974</u> |

City of Wadena, Minnesota
Statement of Cash Flows
Proprietary Funds
Year Ended December 31, 2016

| | Sewer Utility | Water Utility | Electric Utility | Municipal Liquor |
|---|-------------------|-------------------|---------------------|---------------------|
| Operating Activities | | | | |
| Receipts from customers and users | \$ 854,711 | \$ 764,293 | \$ 5,333,168 | \$ 2,024,448 |
| Payments to suppliers | (385,605) | (251,161) | (4,189,808) | (1,579,853) |
| Payments to employee costs | (33,510) | (105,831) | (328,470) | (130,388) |
| Net Cash From (Used for) Operating Activities | <u>435,596</u> | <u>407,301</u> | <u>814,890</u> | <u>314,207</u> |
| Noncapital Financing Activities | | | | |
| Net payments (proceeds) on due from other funds | (314,349) | - | 771,258 | - |
| Transfer from other funds | - | - | 142,648 | - |
| Transfer to other funds | (16,941) | (20,061) | (272,583) | (155,538) |
| Net Cash From (Used For) Noncapital Financing Activities | <u>(331,290)</u> | <u>(20,061)</u> | <u>641,323</u> | <u>(155,538)</u> |
| Capital and Related Financing Activities | | | | |
| Property and equipment additions | (1,567,263) | (1,402,136) | (558,471) | (12,561) |
| Proceeds from long-term debt | 1,896,043 | 1,712,553 | - | - |
| Payments on long-term debt | | | | |
| Principal | (179,252) | (145,290) | - | - |
| Interest | (69,595) | (47,239) | - | - |
| Receipt of tax and specials revenues | 37,527 | 34,159 | - | - |
| Net pension liability and related deferred inflows and outflows of resources | (29,105) | (15,418) | (129,899) | (34,870) |
| Net Cash From (Used for) Capital and Related Financing Activities | <u>88,355</u> | <u>136,629</u> | <u>(688,370)</u> | <u>(47,431)</u> |
| Investing Activities | | | | |
| Sale of investments | 205,000 | (135,000) | (794,999) | (75,000) |
| Interest and dividends from investments | 2,345 | 772 | 32,886 | 2,786 |
| Net Cash From (Used for) Investing Activities | <u>207,345</u> | <u>(134,228)</u> | <u>(762,113)</u> | <u>(72,214)</u> |
| Change in Cash and Cash Equivalents | 400,006 | 389,641 | 5,730 | 39,024 |
| Cash and Cash Equivalents, Beginning of Year | - | 6,543 | - | 26,163 |
| Cash and Cash Equivalents, End of Year | <u>\$ 400,006</u> | <u>\$ 396,184</u> | <u>\$ 5,730</u> | <u>\$ 65,187</u> |
| Reconciliation of Operating Income (Loss) to Net Cash From (Used for) Operating Activities | | | | |
| Operating income (loss) | \$ 49,213 | \$ 131,620 | \$ 524,702 | \$ 296,183 |
| Adjustments to reconcile operating income (loss) to net cash from (used for) operating activities | | | | |
| Depreciation | 378,363 | 155,924 | 451,146 | 9,595 |
| Changes in assets and liabilities | | | | |
| Accounts receivable | (8,614) | 88,502 | (159,955) | 22,232 |
| Prepaid items | 703 | 222 | 1,507 | (826) |
| Inventories | - | 9,814 | (36,612) | (5,763) |
| Accounts payable | 5,143 | 11,726 | 29,165 | (6,666) |
| Other current liabilities | 11,251 | 9,420 | 2,404 | 511 |
| Accrued compensated absences | (463) | 73 | 2,533 | (1,059) |
| Net Cash From (Used for) Operating Activities | <u>\$ 435,596</u> | <u>\$ 407,301</u> | <u>\$ 814,890</u> | <u>\$ 314,207</u> |

City of Wadena, Minnesota
Statement of Cash Flows
Proprietary Funds
Year Ended December 31, 2016

| | Wellness Center | Golf Course | Total |
|---|---------------------|--------------------|---------------------|
| Operating Activities | | | |
| Receipts from customers and users | \$ 557,683 | \$ 329,607 | \$ 9,863,910 |
| Payments to suppliers | (378,980) | (171,136) | (6,956,543) |
| Payments to employee costs | (353,561) | (175,430) | (1,127,190) |
| Net Cash From (Used for) Operating Activities | <u>(174,858)</u> | <u>(16,959)</u> | <u>1,780,177</u> |
| Noncapital Financing Activities | | | |
| Net payments (proceeds) on due from other funds | - | 22 | 456,931 |
| Transfer from other funds | 100,000 | 55,538 | 298,186 |
| Transfer to other funds | - | - | (465,123) |
| Net Cash From (Used For) Noncapital Financing Activities | <u>100,000</u> | <u>55,560</u> | <u>289,994</u> |
| Capital and Related Financing Activities | | | |
| Property and equipment additions | (46,886) | - | (3,587,317) |
| Proceeds from long-term debt | - | - | 3,608,596 |
| Payments on long-term debt | | | |
| Principal | - | - | (324,542) |
| Interest | (59) | - | (116,893) |
| Receipt of tax revenues | - | - | 71,686 |
| Net pension liability and related deferred inflows and outflows of resources | 47,521 | (38,530) | (200,301) |
| Net Cash From (Used for) Capital and Related Financing Activities | <u>576</u> | <u>(38,530)</u> | <u>(548,771)</u> |
| Investing Activities | | | |
| Sale of investments | - | - | (799,999) |
| Interest and dividends from investments | 890 | (71) | 39,608 |
| Net Cash From (Used for) Investing Activities | <u>890</u> | <u>(71)</u> | <u>(760,391)</u> |
| Change in Cash and Cash Equivalents | (73,392) | - | 761,009 |
| Cash and Cash Equivalents, Beginning of Year | 263,232 | - | 295,938 |
| Cash and Cash Equivalents, End of Year | <u>\$ 189,840</u> | <u>\$ -</u> | <u>\$ 1,056,947</u> |
| Reconciliation of Operating Income (Loss) to Net Cash From (Used for) Operating Activities | | | |
| Operating income (loss) | \$ (431,558) | \$ (41,779) | \$ 528,381 |
| Adjustments to reconcile operating income (loss) to net cash from (used for) operating activities | | | |
| Depreciation | 257,116 | 25,683 | 1,277,827 |
| Changes in assets and liabilities | | | |
| Accounts receivable | (539) | (1,477) | (59,851) |
| Prepaid items | (962) | 876 | 1,520 |
| Inventories | (1,768) | (1,106) | (35,435) |
| Accounts payable | 8,638 | 821 | 48,827 |
| Other current liabilities | (5,131) | (686) | 17,769 |
| Accrued compensated absences | (654) | 709 | 1,139 |
| Net Cash From (Used for) Operating Activities | <u>\$ (174,858)</u> | <u>\$ (16,959)</u> | <u>\$ 1,780,177</u> |

Note 1 - Significant Accounting Policies

The City of Wadena was incorporated June 1, 1874, and is a fourth class statutory city under Minnesota statutes with Council-Mayor form of government. The accounting policies of the City, as reflected in the accompanying financial statements, confirm to accounting principles generally accepted in the United States of America for local government units as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants.

The following is a summary of the significant accounting policies:

Reporting Entity

The City is a primary government because it is a special-purpose government that has a separate elected governing body, is legally separate, and is fiscally independent of other state or local governments. Additionally, the City is not included in any other governmental reporting entity.

The accompanying financial statements present the governmental, business-type, and fiduciary funds of the City.

Blended component units are entities which are legally separate from the City but which are so intertwined with the City that they are, in substance, the same as the City. Discretely presented component units are entities for which the City is considered to be financially accountable or for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The city has determined that Housing and Redevelopment Authority would fall under the heading of a discretely presented component unit. The Housing and Redevelopment Authority's fiscal year end presented in this report is June 30, 2016.

Government-Wide and Fund Financial Statements

The goal of government-wide financial statements is to present a broad overview of government's finances. The basic statements that form the government-wide financial statements are the statement of net position and the statement of activities. These two statements report information on all of the non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities, which are normally financed through taxes and intergovernmental revenues, are reported separately from business-type activities, which are normally financed through user fees and charges for goods or services.

The statement of activities reports gross direct expenses by function reduced by program revenues. This results in a measurement of net revenue or expense for each of the government's activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues are directly associated with the function or business-type activity and include 1) charges for services and 2) operating or capital grants and contributions that are restricted to a particular function. Tax and other items not properly included among program revenues are reported instead as general revenues.

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, 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.

Taxes, special assessments, intergovernmental revenue, permits, charges for services and investment income associated with the current fiscal period are the major revenues that are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent they are collected in 60 days. All other revenue items are considered to be measurable and available only when the City receives cash.

The City reports the following major governmental funds:

- General Fund – The general fund is the general operating fund of the City. All financial resources of the general government that are not required to be reported in another fund are accounted for in the general fund.
- Debt Service – The debt service fund accounts for the resources and accumulated payments made for debt service of governmental funds.
- Capital Projects – The capital projects fund accounts for the resources accumulated and payments made for capital projects of governmental funds.

The City reports the following major proprietary funds:

- Sewer Utility – This fund accounts for the provision of sanitary sewer service to the residents of the City.
- Water Utility – This fund accounts for the provision of water utility service to the residents of the City.
- Electric Utility – This fund accounts for the provision of electric service to the residents of the City.
- Municipal Liquor – This fund accounts for the provision of liquor store activity.
- Wellness Center – This fund accounts for the provision of wellness center activity.
- Golf Course – This fund accounts for the provision of golf course activity.

Amounts reported as program revenues include the following: amounts received from those who purchase, use or directly benefit from a program; amounts received from parties outside the City that are restricted to one or more specific programs; and earnings on investments that are legally restricted for a specific program. Revenues that do not meet the previous criteria are reported as general revenues, including all taxes.

Proprietary funds report operating revenues and expenses separately from nonoperating items. Operating revenues and expenses generally result from providing services or producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges between the City's enterprise fund functions and various other functions of the City. Elimination of these charges would distort the direct costs of and program revenues reported from the various functions concerned.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

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

Other Significant Accounting Policies

Budgets and Budgetary Accounting

The City is required by statutes to adopt an annual budget for its general fund. However, there is no legal restriction on expenditures in excess of appropriations.

An annual budget is adopted for the General Fund. Budget appropriations lapse at the end of each year. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Any transfers of budgeted amounts between departments of the general fund, transfers between other funds, and any revisions that alter the total expenditures of any department or fund must be approved by the City Council.

The legal level of control is at the department level within each fund. Management is not allowed to change the budget without council approval.

Formal budgetary integration is employed as a management control device during the year for the general fund. Formal budgetary integration is not employed for other governmental funds.

Cash and Investments

The City maintains a cash pool. Interest earned from pooled cash accounts is allocated to each of the funds based on the fund's average balance, while funds that incur a negative balance in pooled cash accounts during the year are charged for interest. Funds with a negative balance as of year-end show such amounts as due to other funds.

For purposes of the statement of cash flows, the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Receivables and Credit Policy

Receivables are carried at invoice amounts less an estimate made for uncollectible accounts. Management determines the allowance for uncollectible accounts by using historical experience and review of individual customer accounts. The allowance for uncollectible accounts receivable is \$7,129 in the electric utility fund.

A receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 15 days. Interest is charged on receivables that are outstanding for more than 15 days at an interest rate of 5%.

Notes receivable represent amounts for loans made to various individuals and organizations from the City.

Inventories

Inventories of the proprietary funds are presented on an average cost basis. Inventories of governmental funds are recorded as expenditures when purchased.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2016, are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets, other than infrastructure, are defined by the City as assets with an initial, individual cost of more than \$5,000. Infrastructure capital assets are defined by the City as assets with an individual cost of more than \$50,000. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

| | |
|-----------------------------------|-------------|
| Buildings | 50 years |
| Improvements other than buildings | 40 years |
| Machinery and equipment | 5-15 years |
| General plant and system | 25-50 years |
| Infrastructure | 25 years |

Compensated Absences

The liability for compensated absences is based on the provisions of Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*. Vacation benefits are accrued as a liability as the benefits are earned if the employees' right to receive compensation is attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

The City compensates employees for all unused vacation pay upon termination of employment for union and nonunion employees. Effective January 1, 1996, employees receive 80 hours of vacation each year for the first year through the fifth year of employment. During the sixth through tenth year of employment employees receive 120 hours. After ten years of service employees receive an additional eight hours per year up to a maximum of 160 hours. After twenty years of service employees receive an additional eight hours per year, up to a total of 180 hours.

Long-Term Liabilities

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are expensed in the period incurred. Bonds payable are reported net of the applicable bond premium or discount.

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 sources while discounts 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.

Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deletions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA.

For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows and Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expenses/expenditure) until then. The City has two items that qualify for reporting in this category. They are in the contributions made to pension plans after the measurement date and prior to the fiscal year-end and changes in the net pension liability not included in pension expense reported in the government-wide statement of net position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of items that qualify for reporting in this category. The City reports unavailable revenues from property taxes on the government-wide statement of net position and the governmental funds balance sheet. These amounts are deferred and recognized as an outflow of resources in the period that the amounts became available. The other item is changes in the net position liability not included in pension expense reported in the government-wide statement of net position.

Fund Balance

The following classifications describe the relative strength of the spending constraints:

- **Nonspendable Fund Balance** – amounts that are not in nonspendable form (such as inventory) or are required to be maintained intact.
- **Restricted Fund Balance** – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed Fund Balance** – amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- **Assigned Fund Balance** – amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
- **Unassigned Fund Balance** – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

City Council establishes fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. Assigned fund balance is established by City Council through adoption or amendment of the budget as intended for specific purpose.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, committed second, assigned third, and unassigned fourth.

The City will strive to maintain a minimum general fund balance of six months of operating expenses.

Net Position

Net position represents the difference between (a) Assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the City’s financial statements. Net investment in capital assets 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. Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 - Legal Compliance

Excess Expenditures Over Appropriations

Budget control for the General Fund is established by the fund’s total appropriations. The General Fund had expenditures exceeding appropriations by \$1,799 for the year ended December 31, 2016. These excess expenditures were funded by revenues exceeding budgeted amounts and available fund balance.

Note 3 - Deposits and Investments

Statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. Agencies, bankers’ acceptances, certain repurchase agreements and commercial paper rated A-1 by Standard & Poor’s Corporate or P-1 by Moody’s Commercial Paper Record.

The following table presents the maturities of the City’s deposit and investment balances at December 31, 2016:

| Deposit or Investment Type | Fair Value | Maturities (in Years) | | | |
|------------------------------------|---------------------|-----------------------|---------------------|---------------------|-------------------|
| | | Not Applicable | < 1 | 1 - 5 | > 5 - 10 |
| Primary Government: | | | | | |
| Cash | \$ 1,544,023 | \$ 1,544,023 | \$ - | \$ - | \$ - |
| Certificates of Deposit | 4,078,824 | 200,000 | 1,326,287 | 2,310,810 | 241,727 |
| Investments | | | | | |
| U.S. Government Securities | 201,543 | 102,282 | - | - | 99,261 |
| Money Market Funds | 1,339,467 | - | 400,000 | 700,869 | 238,598 |
| External Investment Pool - 4M Fund | 109,043 | 109,043 | - | - | - |
| | <u>1,650,053</u> | <u>211,325</u> | <u>400,000</u> | <u>700,869</u> | <u>337,859</u> |
| Total deposits and investments | <u>\$ 7,272,900</u> | <u>\$ 1,955,348</u> | <u>\$ 1,726,287</u> | <u>\$ 3,011,679</u> | <u>\$ 579,586</u> |

The following table presents the maturities of the component unit's deposit and investment balances at June 30, 2016:

| Deposit or Investment Type | Fair Value | Not Applicable | Maturities (in Years) | | |
|--------------------------------|---------------------|-------------------|-----------------------|-------------|-------------|
| | | | < 1 | 1 - 5 | > 5 - 10 |
| Component Unit: | | | | | |
| Cash | \$ 726,821 | \$ 726,821 | \$ - | \$ - | \$ - |
| Certificates of Deposit | 898,520 | - | 898,520 | - | - |
| Total deposits and investments | <u>\$ 1,625,341</u> | <u>\$ 726,821</u> | <u>\$ 898,520</u> | <u>\$ -</u> | <u>\$ -</u> |

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. More than 5 percent of the City's investments are in government bonds, the investment is 30% of the City's total investments.

Custodial Credit Risk – Deposits

Minnesota statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

At December 31, 2016, all deposits were not fully insured or collateralized.

Custodial Credit Risk – Investments

The investment in the 4M Fund is not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement No. 40.

Interest Rate Risk

The City's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. After the liquidity needs, and scheduled maturity needs are satisfied, the balance of the funds available for investment are placed with institutions that offer the greatest safety and highest rate of return consistent with the maturities as determined by the City.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Beyond what is stated in state statutes, the City does not have a formal policy to further limit its exposure to credit risk. As of December 31, 2016, the City's investments in government bonds were rated AAA by Moody's. The City's investments in the U.S. government securities, mutual funds, money market funds, external investment pool are not rated.

Note 4 - Property Taxes and Special Assessments

Property Taxes

Property tax levies are set by the City Council in December of each year and are certified to Wadena County and Otter Tail County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes.

The county spreads all levies over the assessable property. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. Revenues are accrued in the year collectible, net of delinquencies.

Property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. The counties provides tax settlements to cities and other local governments three times a year, on or before January 25, July 21 and November 30. Taxes, which remain unpaid at December 31, are classified as delinquent taxes receivable and the portion not available within 60 days is fully offset by deferred revenue because it is not available to finance current expenditures.

Special Assessments

Special assessments are levies against the benefited properties for the assessable costs of special assessment improvement projects in accordance with state statutes. The City usually adopts the assessment rolls when the individual projects are complete or substantially complete. The assessments are collectible over a term of years generally consistent with the term of years of the related bond issue. Collection of annual installments (including interest) is handled by the county in the same manner as property taxes. Property owners are allowed to prepay total future installments plus accrued interest without prepayment penalties.

Note 5 - Loans Receivable

Primary Government

As of December 31, 2016, loans receivable consisted of loans from individuals and organizations and had a total balance of \$683,267. The loans have maturity dates between 2017 and 2024 and interest rates ranging from 0% to 7.5%.

Component Unit

As of June 30, 2016, loans receivable consisted of loans from organizations and had a total balance of \$94,346. The terms of the loans range from 60 months to 12 years and interest rates ranging from 3% to 6%.

Note 6 - Capital Assets

Governmental activities capital asset activity for the year ended December 31, 2016 was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|---------------------|-------------------|---------------------------|
| Governmental activities | | | | |
| Capital assets, not being depreciated | | | | |
| Land | \$ 2,110,215 | \$ 17,000 | \$ - | \$ 2,127,215 |
| Construction in progress | 3,158,641 | 2,052,973 | 63,580 | 5,148,034 |
| Total capital assets, not being depreciated | <u>5,268,856</u> | <u>2,069,973</u> | <u>63,580</u> | <u>7,275,249</u> |
| Capital assets, being depreciated | | | | |
| Buildings | 3,360,676 | - | - | 3,360,676 |
| Improvements other than buildings | 2,673,348 | 553,584 | - | 3,226,932 |
| Machinery and equipment | 3,250,345 | 155,045 | 54,176 | 3,351,214 |
| Infrastructure | 1,703,582 | 317,615 | - | 2,021,197 |
| Total capital assets, being depreciated | <u>10,987,951</u> | <u>1,026,244</u> | <u>54,176</u> | <u>11,960,019</u> |
| Less accumulated depreciation for | | | | |
| Buildings | 1,229,225 | 63,457 | - | 1,292,682 |
| Improvements other than buildings | 1,017,804 | 73,119 | - | 1,090,923 |
| Machinery and equipment | 1,952,314 | 212,011 | 52,187 | 2,112,138 |
| Infrastructure | 228,296 | 35,133 | - | 263,429 |
| Total accumulated depreciation | <u>4,427,639</u> | <u>383,720</u> | <u>52,187</u> | <u>4,759,172</u> |
| Total capital assets, being depreciated, net | <u>6,560,312</u> | <u>642,524</u> | <u>65,569</u> | <u>7,200,847</u> |
| Governmental activities capital assets, net | <u>\$ 11,829,168</u> | <u>\$ 2,712,497</u> | <u>\$ 129,149</u> | <u>\$ 14,476,096</u> |

Construction in progress balance as of December 31, 2016 relates to a street reconstruction project which is still in process. The remaining commitment for the street reconstruction project is \$118,937 as of December 31, 2016.

Business-type activities capital asset activity for the year ended December 31, 2016 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|---------------------|--------------------|----------------------|
| Business-type activities | | | | |
| Capital assets, not being depreciated | | | | |
| Land | \$ 888,238 | \$ - | \$ - | \$ 888,238 |
| Construction in progress | 3,181,664 | 2,954,500 | - | 6,136,164 |
| Total capital assets, not being depreciated | <u>4,069,902</u> | <u>2,954,500</u> | <u>-</u> | <u>7,024,402</u> |
| Capital assets, being depreciated | | | | |
| Buildings | 22,276,292 | 63,005 | - | 22,339,297 |
| Machinery and equipment | 5,225,879 | 37,763 | 7,253 | 5,256,389 |
| General plant and system | 18,253,649 | 433,699 | 160,033 | 18,527,315 |
| Total capital assets, being depreciated | <u>45,755,820</u> | <u>534,467</u> | <u>167,286</u> | <u>46,123,001</u> |
| Less accumulated depreciation for | | | | |
| Buildings | 3,866,742 | 437,881 | - | 4,304,623 |
| Machinery and equipment | 2,319,388 | 339,472 | 46,933 | 2,611,927 |
| General plant and system | 6,849,018 | 500,474 | 218,705 | 7,130,787 |
| Total accumulated depreciation | <u>13,035,148</u> | <u>1,277,827</u> | <u>265,638</u> | <u>14,047,337</u> |
| Total capital assets, being depreciated, net | <u>32,720,672</u> | <u>(743,360)</u> | <u>(98,352)</u> | <u>32,075,664</u> |
| Business-type activities capital assets, net | <u>\$ 36,790,574</u> | <u>\$ 2,211,140</u> | <u>\$ (98,352)</u> | <u>\$ 39,100,066</u> |

Construction in progress balance as of December 31, 2016 relates to work to a street reconstruction project. This project is anticipated to be completed during 2017. The remaining commitment on the street reconstruction project is \$1,439,287 as of December 31, 2016.

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

| | |
|---|---------------------|
| Governmental activities | |
| General government | \$ 14,368 |
| Public safety | 75,556 |
| Public works | 70,312 |
| Culture and recreation | 50,895 |
| Infrastructure | 35,133 |
| Airport | 137,456 |
| Total depreciation expense - governmental activities | <u>\$ 383,720</u> |
| Business-type activities | |
| Municipal liquor | \$ 9,595 |
| Sewer utility | 378,363 |
| Water utility | 155,924 |
| Electric utility | 451,146 |
| Golf course | 25,683 |
| Wellness center | 257,116 |
| Total depreciation expense - business-type activities | <u>\$ 1,277,827</u> |

Component unit capital asset activity for the year ended June 30, 2016 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|---------------------|-------------|---------------------|
| Component unit | | | | |
| Capital assets, management and administration | | | | |
| Land and improvements | \$ 94,436 | \$ - | \$ - | \$ 94,436 |
| Furniture and equipment | 5,681 | - | - | 5,681 |
| Less accumulated depreciation | (6,157) | (816) | - | (6,973) |
| Total capital assets, management and administration | <u>93,960</u> | <u>(816)</u> | <u>-</u> | <u>93,144</u> |
| Capital assets, enterprise activities | | | | |
| Land, buildings, fixtures, and equipment | 8,830,827 | 29,786 | 13,735 | 8,846,878 |
| Less accumulated depreciation | (6,551,208) | (176,887) | (13,734) | (6,714,361) |
| Total capital assets, enterprise activities | <u>2,279,619</u> | <u>(147,101)</u> | <u>1</u> | <u>2,132,517</u> |
| Component unit capital assets, net | <u>\$ 2,373,579</u> | <u>\$ (147,917)</u> | <u>\$ 1</u> | <u>\$ 2,225,661</u> |

Note 7 - Long-Term Debt

The following is a summary of changes in long-term debt of the primary government for the year ended December 31, 2016 and the component unit for the year ended June 30, 2016:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--------------------------|----------------------|---------------------|-------------------|----------------------|------------------------|
| Governmental activities | | | | | |
| General obligation bonds | \$ 2,356,625 | \$ 1,984,710 | \$ 376,242 | \$ 3,965,093 | \$ 386,000 |
| OPEB Obligation | 95,104 | 53,951 | - | 149,055 | - |
| Compensated absences | 114,968 | 75,585 | 72,347 | 118,206 | 44,879 |
| | <u>\$ 2,566,697</u> | <u>\$ 2,114,246</u> | <u>\$ 448,589</u> | <u>\$ 4,232,354</u> | <u>\$ 430,879</u> |
| Business-type activities | | | | | |
| General obligation bonds | \$ 7,281,669 | \$ 3,608,596 | \$ 324,542 | \$ 10,565,723 | \$ 851,000 |
| Compensated absences | 137,072 | 96,548 | 95,408 | 138,212 | 55,546 |
| | <u>\$ 7,418,741</u> | <u>\$ 3,705,144</u> | <u>\$ 419,950</u> | <u>\$ 10,703,935</u> | <u>\$ 906,546</u> |
| Component Unit | | | | | |
| Revenue bonds | <u>\$ 2,135,000</u> | <u>\$ -</u> | <u>\$ 230,000</u> | <u>\$ 1,905,000</u> | <u>\$ 245,000</u> |

Bonds Payable

| | <u>Interest Rate</u> | <u>Final Year of Maturity</u> | <u>Authorized and Issued</u> | <u>Outstanding</u> |
|---|----------------------|-------------------------------|------------------------------|----------------------|
| Governmental activities | | | | |
| General Obligation Bonds | | | | |
| 2009 Taxable Improvement Bonds | 2.2 - 5 | 2020 | \$ 800,000 | \$ 375,000 |
| PFA Storm Sewer Note | 1.0 | 2030 | 4,418,242 | 3,590,093 |
| | | | | <u>\$ 3,965,093</u> |
| Business-type activities | | | | |
| General Obligation Bonds | | | | |
| 2002 Water Revenue Note | 2.6 | 2031 | \$ 2,615,975 | \$ 3,012,001 |
| 2012 Sewer Revenue Note | 1.5 | 2022 | 3,130,411 | 949,000 |
| PFA Sewer Improvement Note | 1.0 | 2030 | 4,102,252 | 3,134,361 |
| PFA Water Improvement Note | 1.0 | 2030 | 3,718,290 | 3,470,361 |
| | | | | <u>\$ 10,565,723</u> |
| Component unit | | | | |
| Revenue Bonds | | | | |
| Multifamily Housing Revenue Bonds | 3.2 - 6 | 2019 | \$ 2,770,000 | \$ 560,000 |
| Fair Oaks Gross Revenue Refunding Bonds | 4.8 - 6.25 | 2028 | 1,895,000 | 1,345,000 |
| | | | | <u>\$ 1,905,000</u> |

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for the governmental activities.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. The general obligations issued for the general government are payable from the debt service funds primarily through special assessments and property taxes levied and collected.

The City issued three Minnesota Public Facilities Authority (PFA) bonds in August of 2015. The PFA Storm Sewer Note, the PFA Sewer Improvement Note, and the PFA Water Improvement Note issuances in 2016 were for \$1,984,711, \$1,896,042, and \$1,712,554, respectively. The agreements require annual principal and lease payments that began in 2016 and continue through maturity in 2030, at an interest rate of 1.00%. The projects are ongoing and additional draws will be made during 2017.

General Obligation Revenue Bonds

The City also issues bonds where the City pledge income derived from the constructed assets to pay debt service.

Revenue Bonds

The component unit issues bonds where the component unit pledges income derived from the various entities it operates to pay debt service.

The annual requirements to amortize all bonded debt outstanding as of December 31, 2016, are as follows:

| Years Ending December 31, | Governmental Activities | | Business-type Activities | |
|---------------------------|-------------------------|-------------------|--------------------------|---------------------|
| | Principal | Interest | Principal | Interest |
| 2017 | \$ 386,000 | \$ 61,513 | \$ 851,000 | \$ 149,572 |
| 2018 | 388,000 | 54,773 | 863,000 | 137,638 |
| 2019 | 396,000 | 47,743 | 876,000 | 125,502 |
| 2020 | 404,000 | 40,220 | 888,000 | 113,152 |
| 2021 | 308,000 | 32,180 | 900,000 | 100,601 |
| 2022-2026 | 1,585,000 | 114,100 | 3,974,000 | 333,556 |
| 2027-2031 | 498,093 | 33,290 | 2,213,723 | 109,136 |
| | <u>\$ 3,965,093</u> | <u>\$ 383,819</u> | <u>\$ 10,565,723</u> | <u>\$ 1,069,157</u> |

| Years Ending June 30, | Component Unit | |
|-----------------------|---------------------|-------------------|
| | Principal | Interest |
| 2017 | \$ 245,000 | \$ 117,663 |
| 2018 | 260,000 | 102,788 |
| 2019 | 280,000 | 87,000 |
| 2020 | 85,000 | 70,000 |
| 2021 | 90,000 | 64,688 |
| 2022-2026 | 535,000 | 232,500 |
| 2027-2030 | 410,000 | 52,188 |
| | <u>\$ 1,905,000</u> | <u>\$ 726,827</u> |

Legal Debt Margin

Minnesota statutes limit the net bonded indebtedness of the City to 2% of the market value. The legal debt limit as of December 31, 2016, is \$2,855,491.

Operating Lease

During 1994, the City sold an auditorium to the Wadena School District. The District subsequently issued building bonds in the amount of \$900,000 for the purpose of remodeling the auditorium. The City and the District entered into a lease and use agreement through 2034, which requires the City to pay the District approximately 29% of the annual debt service of the bonds for use of the facilities. The original debt service was paid in full in April 2015. The lease continues until 2034 with no cost except for possible future capital improvements, which would be shared equally with the school.

Compensated Absences

Compensated absences for governmental funds are recorded as a liability in the governmental activities in the government-wide statement. For the proprietary funds and component unit, compensated absences are recorded as a liability. This liability matures only upon qualified retirements or terminations. Compensated absences in the governmental fund are liquidated by the General Fund; in the proprietary funds each respective fund is responsible to liquidate for employees paid from those funds; the component unit is responsible for liquidation.

OPEB Obligations

As of January 1, 2009, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. It was determined the only obligation the City has to record is the implied subsidy portion as described in the standard.

Plan Description

All employees are allowed upon meeting the eligibility requirements under Minn. Stat. 471.61 sub, 2b, to participate in the City’s health insurance plan after retirement. This plan covers active and retired employees. Benefit provisions are established through negotiations between the City and the union representing City employees and are renegotiated at the end of each contract period. The retiree health plan does not issue a publicly available financial report.

Funding Policy

The City has elected to fund the plan on a pay-as-you-go method.

Annual OPEB Cost and Net OPEB Obligation

The City’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities (or funding excess) over a period of thirty years. The following table shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation:

| | |
|--|------------|
| Normal Cost | \$ 32,637 |
| Amortization of UAAL over 30 years | 20,780 |
| Interest on OPEB Obligation | 534 |
| | 53,951 |
| Total year-end ARC | 53,951 |
| Increase in OPEB Obligation | 53,951 |
| Net OPEB Obligation, Beginning of Year | 95,104 |
| | \$ 149,055 |
| Net OPEB Obligation, End of Year | |

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2016, 2015, and 2014 was as follows:

| Fiscal Year Ended | Annual OPEB Cost | Annual OPEB Cost Contributed | OPEB Obligation |
|----------------------|---------------------|---------------------------------|--------------------|
| 12/31/16 | \$ 53,951 | 0% | \$ 149,055 |
| 12/31/15 | 23,173 | 0% | 95,104 |
| 12/31/14 | 23,173 | 0% | 71,931 |

Funded Status and Funding Progress

As of December 31, 2016, the most recent valuation date, the plan was unfunded. The accrued liability for benefits was \$419,797 and the value of assets was \$0, resulting in an unfunded accrued liability (UAAL) of \$419,797. The covered payroll (annual payroll of active employees covered by the plan) was \$2,582,082, and the ratio of the UAAL to the covered payroll was 16.26 percent.

Valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in accrued liabilities and the value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2016 valuation, the projected unit credit cost method was used. The assumptions included a 3.0 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 7 percent. The assumptions also included a health care inflation factor of 1.519% based on age differences. The UAAL is being amortized as a level percentage of projected payroll on an open basis over 30 years.

Note 8 - Defined Contribution Pension Plan – Component Unit

Plan Description

The Housing Renewal and Local Agency Retirement Plan (the Plan) is a defined contribution retirement plan covering essentially all employees of the various participating employers. Since the participating employers are all governmental units, the Plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, except for the contribution limitations of Section 415.

The Plan and trust are qualified under Section 401 (a) of the Internal Revenue Code and their income is exempt from taxation under section 501 (a) of the Code.

The Plan is funded by employer contributions and in some cases, employee contributions. The rates of contributions are determined by the various joint agreements of the participating employers.

If the Plan is terminated or contributions under the Plan are discontinued, the participating employees are entitled to benefits accrued to the date of such termination or discontinuance to the extent funded and/or to the amounts credited to the employees' accounts.

Contributions Required and Contributions Made

Although covered employees have the option to contribute to the Plan, a mandatory contribution is not required. The Authority makes annual contributions to the Plan. The current contribution rate for the employer is 11%.

Total contributions made by the employer during the fiscal year ended June 30, 2016 amounted to \$28,230. These employer contributions represented 11% of the covered payroll.

Note 9 - Conduit Debt

The City has issued a Municipal Industrial Development Bond (Health Care Facilities Revenue Note, Series 2005) to provide financial assistance to a nonprofit corporation for the construction of a new facility deemed to be in the public interest. This Bond is secured by an assignment of the Loan Agreement, a Guaranty Agreement and a Mortgage, Security Agreement and Fixture Financing Statement. Accordingly, the Bond is not reported as a liability in the accompanying financial statements.

Note 10 - Interfund Receivables, Payables, and Transfers

Interfund receivables/payables are used to record accrued obligations between funds. A summary of the City's interfund balances at December 31, 2016, are as follows:

| | Receivable | Payable |
|-----------------------|------------|------------|
| General fund | \$ 285,710 | \$ - |
| Capital projects fund | - | 355,680 |
| Electric utility fund | 69,992 | - |
| Golf Course | - | 22 |
| | \$ 355,702 | \$ 355,702 |

A summary of the government's interfund transfers is as follows:

| | Transfer out | | | | | Total |
|-----------------------|--------------|---------------|---------------|------------------|----------------------|------------|
| | General Fund | Sewer Utility | Water Utility | Electric Utility | Nonmajor Proprietary | |
| Transfer in | | | | | | |
| General | \$ - | \$ - | \$ - | \$ 272,583 | \$ 100,000 | \$ 372,583 |
| Debt Service | - | 16,941 | 20,061 | - | - | 37,002 |
| Nonmajor Governmental | 1,618 | - | - | - | - | 1,618 |
| Electric | 142,648 | - | - | - | - | 142,648 |
| Wellness Center | 100,000 | - | - | - | - | 100,000 |
| Golf Course | - | - | - | - | 55,538 | 55,538 |
| Total | \$ 244,266 | \$ 16,941 | \$ 20,061 | \$ 272,583 | \$ 155,538 | \$ 709,389 |

Transfers are made for funding various projects, meeting debt service requirements, distributing interest earnings between funds, and for capital infrastructure.

Note 11 - Litigation

The City generally follows the practice of recording liabilities resulting from claims and legal actions only when they become fixed or determinable in amount. There were no significant legal actions outstanding as of December 31, 2016.

Note 12 - Defined Benefit Pension Plans

A. Plan Descriptions

The City participates in the following defined benefit pension plans administered by PERA. PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

1. General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the [entity's name] are covered by the General Employees Plan. General Employees Plan members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. Public Employees Police and Fire Plan (PEPFF)

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

B. Benefits Provided

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

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

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

1. GERF Benefits

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

2. PEPFF Benefits

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

C. Contributions

Minnesota Statutes set the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

1. GERF Contributions

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in calendar year 2016. In calendar year 2016, the City was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members. The City's contributions to the GERF for the year ended December 31, 2016, were \$140,306. The City's contributions were equal to the required contributions for each year as set by state statute.

2. PEPFF Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2016. The City was required to contribute 16.20% of pay for PEPFF members in calendar year 2016. The City's contributions to the PEPFF for the year ended December 31, 2016, were \$71,863. The City's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

1. GERF Pension Costs

At December 31, 2016, the City reported a liability of \$2,443,972 for its proportionate share of the GERF's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$31,926. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll dates from July 1, 2015 through June 30, 2016 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportionate share was .0301% which was a decrease of .0018% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$362,064 for its proportionate share of GERF's pension expense. In addition, the City recognized an additional \$9,520 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual economic experience | \$ 7,233 | \$ 198,536 |
| Changes in actuarial assumptions | 527,106 | - |
| Difference between projected and actual investment earnings | 463,876 | 191,025 |
| Change in proportion and differences between contributions made and City's proportionate share of contributions | 69,964 | 21,139 |
| City's contributions to GERF subsequent to the measurement date | 69,736 | - |
| Total | \$ 1,137,915 | \$ 410,700 |

\$69,736 reported as deferred outflows of resources related to pensions resulting from City contributions to PEPFF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to PEPFF pensions will be recognized in pension expense as follows:

| Years Ended June 30, | Pension Expense Amount |
|----------------------|---------------------------|
| 2017 | \$ 180,532 |
| 2018 | 124,725 |
| 2019 | 246,452 |
| 2020 | 105,770 |
| 2021 | - |

1. PEPFF Pension Costs

At December 31, 2016, the City reported a liability of \$1,846,060 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016 through December 31, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion was 0.046%, which was an increase of 0.002%.

For the year ended December 31, 2016, the City recognized pension expense of \$317,691 for its proportionate share of PEPFF's pension expense.

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual economic experience | \$ 417 | \$ 211,777 |
| Changes in actuarial assumptions | 1,090,476 | - |
| Difference between projected and actual investment earnings | 281,722 | 122,574 |
| Change in proportion and differences between contributions made and City's proportionate share of contributions | 45,938 | - |
| City's contributions to PEPFF subsequent to the measurement date | 36,464 | - |
| Total | \$ 1,455,017 | \$ 334,351 |

\$36,464 reported as deferred outflows of resources related to pensions resulting from City contributions to PEPFF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to PEPFF pensions will be recognized in pension expense as follows:

| Years Ended June 30, | Pension Expense Amount |
|----------------------|---------------------------|
| 2017 | \$ 210,992 |
| 2018 | 210,992 |
| 2019 | 272,279 |
| 2020 | 215,538 |
| 2021 | 174,401 |

E. Actuarial Assumptions

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

| Assumptions | GERF & PEPFF |
|------------------------------|----------------|
| Inflation | 2.50% per year |
| Active Member Payroll Growth | 3.25% per year |
| Investment Rate of Return | 7.50% per year |

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

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The experience study for Police and Fire Plan was for the period July 1, 2004 through June 30, 2009. Experience studies have not been prepared for the Correctional Plan, but assumptions are reviewed annually.

The following changes in actuarial assumptions occurred in 2016:

GERF

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

PEPFF

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

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

| Asset Class | Target Allocations | Long-Term Expected Real Rate of Return |
|----------------------|--------------------|--|
| Domestic Stocks | 45.00% | 5.50% |
| International Stocks | 15.00% | 6.00% |
| Bonds | 18.00% | 1.45% |
| Alternative Assets | 20.00% | 6.40% |
| Cash | 2.00% | 0.50% |

F. Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.50%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

In the Police and Fire Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056 and June 30, 2058 respectively. Beginning in fiscal years ended June 30, 2057 for the Police and Fire Fund, when projected benefit payments exceed the funds' projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85% based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60% for the Police and Fire Fund and 5.31% for the Correctional Fund was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50% applied to all years of projected benefits through the point of asset depletion and 2.85% after.

G. Pension Liability Sensitivity

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

| | <u>1% Decrease in Discount Rate</u> | <u>Discount Rate</u> | <u>1% Increase in Discount Rate</u> |
|--|---|----------------------|---|
| GERF discount rate | 6.50% | 7.50% | 8.50% |
| City's proportionate share of the GERF net pension liability | \$ 3,471,163 | \$ 2,443,972 | \$ 1,597,844 |
| PEPFF discount rate | 4.60% | 5.60% | 6.60% |
| City's proportionate share of the PEPFF net pension liability | 2,584,239 | 1,846,060 | 1,242,912 |

H. Pension Plan Fiduciary Net Position

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

Note 13 - Risk Management

The City is exposed to various risks of loss related to torts; theft of damage, and destruction of assets; errors and omissions; injuries to employees; and disasters. The City participates in a group workers’ compensation plan with the League of Minnesota Cities Insurance Trust (LMCIT), which is a public entity risk pool currently operating as a common risk management and insurance program for member Minnesota cities. The plan is administered by Berkley Administrators.

The workers’ compensation plan is self-sustaining based on the premiums charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. The City has entered into a regular premium plan with LMCIT. The City pays its premium annually based on current year budgeted salaries with premium adjustment after annual actual salaries are determined. All charges are distributed to each City department based upon salary and workers’ compensation class code. LMCIT is responsible for Workers’ Compensation Reinsurance Association premiums and for the general administrative and claim expenses.

The City continues to carry commercial insurance for employee health, standard liability, property, and automotive insurance. Settlements have not exceeded coverage for each of the three fiscal years. There has been no substantial change in coverage from the prior year.

Note 14 - Issued But Non-Effective Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued several statements not yet implemented by the City. The first statement issued but not yet implemented that will significantly affect the City is statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts that meet the specified criteria. This statement will be implemented at the City in the year ended December 31, 2017.

The second statement issued but not yet implemented that will significantly affect the City is statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense. This statement will be implemented at the City in the year ended December 31, 2018.

The final statement issued but not yet implemented that will significantly affect the City is statement No. 80, *Blending Requirements for Certain Component Units—an Amendment of GASB Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this Statement enhance the comparability of financial statements among governments. This statement will be implemented at the City in the year ended December 31, 2017.

Management has not yet determined the effect these pronouncements will have on the City's financial statements.

Required Supplementary Information
December 31, 2016

City of Wadena, Minnesota

City of Wadena, Minnesota
 Schedule of Funding Progress
 December 31, 2016

| Valuation Date | Value of Assets | Accrued Liability (AAL) Simplified Entry Age | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|-------------------|--------------------|--|---------------------------|-----------------|--------------------|--|
| 12/31/16 | \$ - | \$ 419,797 | \$ 419,797 | 0% | \$ 2,582,082 | 16.26% |
| 12/31/13 | - | 206,116 | 206,116 | 0% | 2,020,705 | 10.20% |
| 12/31/12 | - | 212,214 | 212,214 | 0% | 1,795,364 | 11.82% |

Note to the Schedule of Funding Progress

The standard requires a schedule of funding progress for the three most recent valuations and accompanying notes to describe factors that significantly affect the trends in the amounts reported. The City implemented the standard as of December 31, 2009. When calculated, the amounts prior to 2012 were determined to be immaterial; however, when calculated in 2012 this amount was considered material and was recorded as a liability.

Since the last actuarial valuation as of December 31, 2012, the following actuarial assumption has changed:

- The turnover & discount factor and healthcare trend factor were updated to better reflect the age difference of the population.

Since the last actuarial valuation as of December 31, 2012, no plan provisions have changed.

City of Wadena, Minnesota
 Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions
 December 31, 2016

**Schedule of Employer's Share of Net Pension Liability
 Last 10 Fiscal Years***

| Pension Plan | Measurement Date | Employer's Proportion (Percentage) of the Net Pension Liability | Employer's Proportionate Share (Amount) of the Net Pension Liability (a) | Proportionate Share (Amount) of the Net Pension Liability Associated With City (b) | Total (c) (a+b) | Employer's Covered-Employee Payroll (d) | Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll (a/d) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|--------------|------------------|---|--|--|-----------------|---|---|--|
| GERF | 6/30/2016 | 0.0301% | \$ 2,443,971 | N/A | \$ 2,443,971 | \$ 1,737,886 | 140.6% | 68.9% |
| GERF | 6/30/2015 | 0.0283% | 1,466,653 | N/A | 1,466,653 | 1,570,439 | 93.4% | 78.2% |
| PEPFF | 6/30/2016 | 0.0440% | 1,846,060 | N/A | 1,846,060 | 405,362 | 455.4% | 63.9% |
| PEPFF | 6/30/2015 | 0.0440% | 499,943 | N/A | 499,943 | 371,833 | 134.5% | 86.6% |

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend in compiled, the City will present information for those years for which information is available.

**Schedule of Employer's Share of Net Pension Liability
 Last 10 Fiscal Years***

| Pension Plan | Fiscal Year Ending | Statutorily Required Contribution (a) | Contributions in Relation to the Statutorily Required Contribution (b) | Contribution Deficiency (Excess) (a-b) | Covered-Employee Payroll (c) | Contributions as a Percentage of Covered-Employee Payroll (b/c) |
|--------------|--------------------|---------------------------------------|--|--|------------------------------|---|
| GERF | 12/31/2016 | \$ 257,842 | \$ 257,842 | \$ - | \$ 1,841,727 | 14.0% |
| GERF | 12/31/2015 | 234,556 | 234,556 | - | 1,808,846 | 13.0% |
| PEPFF | 12/31/2016 | 130,229 | 130,229 | - | 446,242 | 29.2% |
| PEPFF | 12/31/2015 | 106,594 | 106,594 | - | 427,752 | 24.9% |

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend in compiled, the City will present information for those years for which information is available.

Combining and Individual Fund Schedules
December 31, 2016

City of Wadena, Minnesota

City of Wadena, Minnesota
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2016

| | Special Revenue Funds | Tax Increment | Permanent Funds | Total Nonmajor Governmental Funds |
|--|-----------------------------|------------------|--------------------|---|
| Assets | | | | |
| Cash and cash equivalents | \$ 266,612 | \$ 11,667 | \$ - | \$ 278,279 |
| Permanently restricted investments | - | - | 37,012 | 37,012 |
| Receivables | | | | |
| Interest | 775 | - | - | 775 |
| Loans | 683,267 | - | - | 683,267 |
| Investments | 730,799 | - | - | 730,799 |
| | <u>730,799</u> | <u>-</u> | <u>-</u> | <u>730,799</u> |
| Total assets | <u>\$ 1,681,453</u> | <u>\$ 11,667</u> | <u>\$ 37,012</u> | <u>\$ 1,730,132</u> |
| Deferred Inflows of Resources and Fund Balances | | | | |
| Deferred Inflows of Resources | | | | |
| Unavailable revenue-loans receivable | \$ 683,266 | \$ - | \$ - | 683,266 |
| | <u>683,266</u> | <u>-</u> | <u>-</u> | <u>683,266</u> |
| Fund Balances | | | | |
| Restricted | | | | |
| Commercial loans | 111,685 | - | - | 111,685 |
| Residential loans | 131,425 | - | - | 131,425 |
| Tax increment district | - | 11,667 | - | 11,667 |
| Merickel park | - | - | 37,012 | 37,012 |
| Committed | | | | |
| Economic development | 729,278 | - | - | 729,278 |
| Assigned | | | | |
| Library | 25,799 | - | - | 25,799 |
| Total fund balances | <u>998,187</u> | <u>11,667</u> | <u>37,012</u> | <u>1,046,866</u> |
| Total deferred inflows of resources and fund balances | <u>\$ 1,681,453</u> | <u>\$ 11,667</u> | <u>\$ 37,012</u> | <u>\$ 1,730,132</u> |

City of Wadena, Minnesota
Combining Schedules of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended December 31, 2016

| | Special Revenue Funds | Tax Increment | Permanent Funds | Total Nonmajor Governmental Funds |
|--|-----------------------------|------------------|--------------------|---|
| Revenues | | | | |
| Property taxes | \$ - | \$ 51,841 | \$ - | \$ 51,841 |
| Investment earnings | 12,226 | - | - | 12,226 |
| Loan repayments | 386,467 | - | - | 386,467 |
| Contributions | 4,998 | - | - | 4,998 |
| Miscellaneous | 15,456 | - | - | 15,456 |
| Total revenues | <u>419,147</u> | <u>51,841</u> | <u>-</u> | <u>470,988</u> |
| Expenditures | | | | |
| Current | | | | |
| Economic development | 121,979 | 45,919 | - | 167,898 |
| Other | 122,016 | - | - | 122,016 |
| Capital outlay | | | | |
| Economic development | 14,527 | - | - | 14,527 |
| Total expenditures | <u>258,522</u> | <u>45,919</u> | <u>-</u> | <u>304,441</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 160,625 | 5,922 | - | 166,547 |
| Other Financing Sources | | | | |
| Transfers in | <u>1,618</u> | <u>-</u> | <u>-</u> | <u>1,618</u> |
| Net Change in Fund Balances | 162,243 | 5,922 | - | 168,165 |
| Fund Balances, Beginning of Year | <u>835,944</u> | <u>5,745</u> | <u>37,012</u> | <u>878,701</u> |
| Fund Balances, End of Year | <u>\$ 998,187</u> | <u>\$ 11,667</u> | <u>\$ 37,012</u> | <u>\$ 1,046,866</u> |

City of Wadena, Minnesota
Combining Balance Sheet
Nonmajor Special Revenue Funds
December 31, 2016

| | MIF Revolving Loan Fund #2 | WDA Revolving Loan I Fund | WDA Revolving Loan II Fund | MIF Revolving Loan Fund | SCDG Commercial Loan Fund | SCDG Residential Loan Fund | Library Endowment Fund | Innovative MIF Revolving Loan Fund | Kern MIF Loan | Total Nonmajor Special Revenue Funds |
|--|----------------------------------|------------------------------------|-------------------------------------|-------------------------------|------------------------------------|-------------------------------------|------------------------------|--|-------------------|--|
| Assets | | | | | | | | | | |
| Cash and cash equivalents | \$ 57,021 | \$ 30,447 | \$ 5,835 | \$ 24,296 | \$ 41,607 | \$ 40,062 | \$ - | \$ 40,323 | \$ 27,021 | \$ 266,612 |
| Receivables | | | | | | | | | | |
| Interest | 319 | 297 | 16 | 44 | 77 | - | - | 22 | - | 775 |
| Loans | 291,911 | 280,772 | - | - | 24,485 | 11,186 | - | - | 74,913 | 683,267 |
| Investments | 290,000 | 270,000 | 15,000 | 40,000 | 70,000 | - | 25,799 | 20,000 | - | 730,799 |
| Total assets | \$ 639,251 | \$ 581,516 | \$ 20,851 | \$ 64,340 | \$ 136,169 | \$ 51,248 | \$ 25,799 | \$ 60,345 | \$ 101,934 | \$ 1,681,453 |
| Deferred Inflows of Resources and Fund Balances | | | | | | | | | | |
| Deferred Inflows of Resources | | | | | | | | | | |
| Unavailable revenue-loans receivable | \$ 291,911 | \$ 280,774 | \$ - | \$ - | \$ 24,484 | \$ 11,184 | \$ - | \$ - | \$ 74,913 | \$ 683,266 |
| Fund Balances | | | | | | | | | | |
| Restricted | | | | | | | | | | |
| Commercial loans | - | - | - | - | 111,685 | - | - | - | - | 111,685 |
| Residential loans | - | - | - | 64,340 | - | 40,064 | - | - | 27,021 | 131,425 |
| Committed | | | | | | | | | | |
| Economic development | 347,340 | 300,742 | 20,851 | - | - | - | - | 60,345 | - | 729,278 |
| Assigned for library | - | - | - | - | - | - | 25,799 | - | - | 25,799 |
| Total fund balances | 347,340 | 300,742 | 20,851 | 64,340 | 111,685 | 40,064 | 25,799 | 60,345 | 27,021 | 998,187 |
| Total deferred inflows of resources and fund balances | \$ 639,251 | \$ 581,516 | \$ 20,851 | \$ 64,340 | \$ 136,169 | \$ 51,248 | \$ 25,799 | \$ 60,345 | \$ 101,934 | \$ 1,681,453 |

City of Wadena, Minnesota
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position
Nonmajor Special Revenue Funds
Year Ended December 31, 2016

| | MIF Revolving Loan Fund #2 | WDA Revolving Loan I Fund | WDA Revolving Loan II Fund | MIF Revolving Loan Fund | SCDG Commercial Loan Fund | SCDG Residential Loan Fund | Library Endowment Fund | Innovative MIF Revolving Loan Fund | Kern MIF Loan | Total Nonmajor Special Revenue Funds |
|--|----------------------------------|------------------------------------|-------------------------------------|-------------------------------|------------------------------------|-------------------------------------|------------------------------|--|------------------|--|
| Revenues | | | | | | | | | | |
| Investment earnings | \$ 3,989 | \$ 4,880 | \$ 277 | \$ 778 | \$ 1,287 | \$ 180 | \$ 243 | \$ 455 | \$ 137 | \$ 12,226 |
| Loan repayments | 132,700 | 56,790 | - | 1,965 | 26,411 | 16,246 | - | 110,308 | 42,047 | 386,467 |
| Contributions | - | - | - | - | - | - | 4,998 | - | - | 4,998 |
| Other | - | 15,426 | - | - | - | 30 | - | - | - | 15,456 |
| Total revenues | <u>136,689</u> | <u>77,096</u> | <u>277</u> | <u>2,743</u> | <u>27,698</u> | <u>16,456</u> | <u>5,241</u> | <u>110,763</u> | <u>42,184</u> | <u>419,147</u> |
| Expenditures | | | | | | | | | | |
| Current | | | | | | | | | | |
| Economic development | - | 121,979 | - | - | - | - | - | - | - | 121,979 |
| Other | - | - | - | 46 | - | - | - | 88,333 | 33,637 | 122,016 |
| Capital outlay | | | | | | | | | | |
| Economic development | - | 14,527 | - | - | - | - | - | - | - | 14,527 |
| Total expenditures | <u>-</u> | <u>136,506</u> | <u>-</u> | <u>46</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>88,333</u> | <u>33,637</u> | <u>258,522</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 136,689 | (59,410) | 277 | 2,697 | 27,698 | 16,456 | 5,241 | 22,430 | 8,547 | 160,625 |
| Other Financing Sources | | | | | | | | | | |
| Transfers in | - | 1,618 | - | - | - | - | - | - | - | 1,618 |
| Net Change in Fund Balances | 136,689 | (57,792) | 277 | 2,697 | 27,698 | 16,456 | 5,241 | 22,430 | 8,547 | 162,243 |
| Fund Balance, Beginning of Year | 210,651 | 358,534 | 20,574 | 61,643 | 83,987 | 23,608 | 20,558 | 37,915 | 18,474 | 835,944 |
| Fund Balances, End of Year | <u>\$ 347,340</u> | <u>\$ 300,742</u> | <u>\$ 20,851</u> | <u>\$ 64,340</u> | <u>\$ 111,685</u> | <u>\$ 40,064</u> | <u>\$ 25,799</u> | <u>\$ 60,345</u> | <u>\$ 27,021</u> | <u>\$ 998,187</u> |

City of Wadena, Minnesota
Schedule of Revenues – Budget and Actual
General Fund
Year Ended December 31, 2016
(With Comparative Totals for 2015)

| | Original and Final Budget | 2016 Actual Amounts | Variance With Final Budget | 2015 Actual Amounts |
|---------------------------|------------------------------|---------------------------|-------------------------------|---------------------------|
| Revenues | | | | |
| Property taxes | | | | |
| Ad valorem | \$ 351,100 | \$ 346,499 | \$ (4,601) | \$ 324,349 |
| Hotel/motel | 33,000 | 37,166 | 4,166 | 37,007 |
| Franchise | 112,000 | 115,390 | 3,390 | 114,805 |
| | <u>496,100</u> | <u>499,055</u> | <u>2,955</u> | <u>476,161</u> |
| Special assessments | 2,845 | 11,563 | 8,718 | 10,848 |
| Licenses and permits | | | | |
| Business | 20,565 | 6,235 | (14,330) | 13,514 |
| Nonbusiness | 9,450 | 11,889 | 2,439 | 6,461 |
| | <u>30,015</u> | <u>18,124</u> | <u>(11,891)</u> | <u>19,975</u> |
| Intergovernmental revenue | | | | |
| Federal | 450,000 | 323,469 | (126,531) | 55,017 |
| State | | | | |
| Local government aid | 1,556,541 | 1,556,541 | - | 1,545,422 |
| Tax credits | 100 | 275 | 175 | 256 |
| Police aid | 52,000 | 60,638 | 8,638 | 56,228 |
| Fire aid | 26,000 | 28,677 | 2,677 | 28,218 |
| PERA rate increase aid | 6,069 | 6,069 | - | 6,069 |
| Airport maintenance | 21,189 | 26,774 | 5,585 | 14,459 |
| Other aid | - | 38,614 | 38,614 | 143,021 |
| | <u>2,111,899</u> | <u>2,041,057</u> | <u>(70,842)</u> | <u>1,848,690</u> |
| Charges for services | | | | |
| General government | 2,200 | 1,859 | (341) | 2,286 |
| Police department | 13,200 | 32,875 | 19,675 | 10,807 |
| Fire department | 57,000 | 52,172 | (4,828) | 65,105 |
| Highway and streets | 20,000 | 19,086 | (914) | 15,954 |
| Parks and recreation | 33,000 | 33,625 | 625 | 40,911 |
| Airport | 46,000 | 41,735 | (4,265) | 48,054 |
| | <u>171,400</u> | <u>181,352</u> | <u>9,952</u> | <u>183,117</u> |
| Fines and forfeitures | 32,500 | 29,855 | (2,645) | 31,293 |
| Miscellaneous | | | | |
| Investment earnings | 20,000 | 11,083 | (8,917) | 16,117 |
| Rents | 26,000 | 32,781 | 6,781 | 32,069 |
| Contributions | 4,000 | 6,739 | 2,739 | 5,700 |
| Reimbursements | 41,000 | 26,923 | (14,077) | 19,699 |
| Other | 31,000 | 29,800 | (1,200) | 8,057 |
| | <u>122,000</u> | <u>107,326</u> | <u>(14,674)</u> | <u>81,642</u> |
| Total revenues | \$ 2,966,759 | \$ 2,888,332 | \$ (78,427) | \$ 2,651,726 |

City of Wadena, Minnesota
Schedule of Expenditures – Budget and Actual
General Fund
Year Ended December 31, 2016
(With Comparative Totals for 2015)

| | 2016 | | Variance With Final Budget | 2015 |
|---------------------------|------------------------------|-------------------|-------------------------------|-------------------|
| | Original and Final Budget | Actual Amounts | | Actual Amounts |
| General government | | | | |
| Legislative | \$ 280,045 | \$ 179,738 | \$ 100,307 | \$ 185,010 |
| Mayor and council | 39,527 | 36,255 | 3,272 | 43,902 |
| City administrator | 49,885 | 47,610 | 2,275 | 45,154 |
| Elections | 6,750 | 6,681 | 69 | - |
| Accounting | 109,110 | 108,208 | 902 | 128,207 |
| Planning and zoning | 70,965 | 73,811 | (2,846) | 67,331 |
| City hall maintenance | 26,893 | 28,335 | (1,442) | 28,033 |
| Tornado recovery | - | - | - | (95,519) |
| Capital outlay | 17,550 | 6,001 | 11,549 | 110,904 |
| | <u>600,725</u> | <u>486,639</u> | <u>114,086</u> | <u>513,022</u> |
| Public safety | | | | |
| Police department | | | | |
| Current | 822,592 | 860,744 | (38,152) | 780,567 |
| Capital outlay | 24,560 | 18,325 | 6,235 | 39,019 |
| Fire department | | | | |
| Current | 127,548 | 116,969 | 10,579 | 131,139 |
| Capital outlay | 45,000 | 64,165 | (19,165) | 4,660 |
| | <u>1,019,700</u> | <u>1,060,203</u> | <u>(40,503)</u> | <u>955,385</u> |
| Public works | | | | |
| Roadway maintenance | 385,951 | 349,009 | 36,942 | 305,598 |
| Snow and ice removal | 115,092 | 87,877 | 27,215 | 63,620 |
| Street signs and markings | 18,391 | 15,886 | 2,505 | 10,116 |
| Parking lots | 3,874 | 6,300 | (2,426) | 3,043 |
| Storm sewers | 26,380 | 21,199 | 5,181 | 24,108 |
| Street cleaning | 31,869 | 37,284 | (5,415) | 34,483 |
| Waste collection | 11,170 | 12,400 | (1,230) | 11,943 |
| Shade tree program | 12,791 | 12,724 | 67 | 16,409 |
| Weed control | 5,632 | 3,868 | 1,764 | 3,515 |
| Capital outlay | - | - | - | 293,400 |
| | <u>611,150</u> | <u>546,547</u> | <u>64,603</u> | <u>766,235</u> |
| Culture and recreation | | | | |
| Skating rink | 13,453 | 10,275 | 3,178 | 10,126 |
| Playgrounds | 21,000 | 13,969 | 7,031 | 16,750 |
| Pool | 5,267 | 2,430 | 2,837 | 3,783 |
| Campground | 20,805 | 17,240 | 3,565 | 19,661 |
| Parks | 192,620 | 159,360 | 33,260 | 127,662 |
| Libraries | 95,786 | 93,863 | 1,923 | 92,725 |
| Capital outlay | 72,500 | 193,349 | (120,849) | 97,728 |
| | <u>421,431</u> | <u>490,486</u> | <u>(69,055)</u> | <u>368,435</u> |

City of Wadena, Minnesota
Schedule of Expenditures – Budget and Actual
General Fund
Year Ended December 31, 2016
(With Comparative Totals for 2015)

| | 2016 | | Variance With Final Budget | 2015 |
|-----------------------------------|------------------------------|---------------------|-------------------------------|---------------------|
| | Original and Final Budget | Actual Amounts | | Actual Amounts |
| Airport | | | | |
| Current | 61,527 | 59,973 | 1,554 | 398,972 |
| Capital outlay | 500,000 | 574,272 | (74,272) | (305,042) |
| Debt service | | | | |
| Interest, fees, and abatements | 1,500 | 45 | 1,455 | 21 |
| | <u>563,027</u> | <u>634,290</u> | <u>(71,263)</u> | <u>93,951</u> |
| Miscellaneous | | | | |
| Unallocated expenditures | 6,500 | 7,453 | (953) | 23,354 |
| Wadena Development Authority | 78,936 | 69,332 | 9,604 | 80,401 |
| Health insurance | - | 8,318 | (8,318) | (1,294) |
| | <u>85,436</u> | <u>85,103</u> | <u>333</u> | <u>102,461</u> |
| Total expenditures | <u>\$ 3,301,469</u> | <u>\$ 3,303,268</u> | <u>\$ (1,799)</u> | <u>\$ 2,799,489</u> |

Statistical Section
Year Ended December 31, 2016
City of Wadena, Minnesota

Statistical Section

This part of the City of Wadena's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the city's overall financial health.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the city's financial performance has changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the factors tax affecting the city's ability to generate its individual income and sales.

Debt Capacity

These schedules present information to help the reader assess the affordability of the city's current levels of outstanding debt and the city's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the city's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the city's financial report relates to the services the city provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial report for the relevant year.

City of Wadena, Minnesota
Components of Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)
Table 1

| | Fiscal Year | | | | | | | | | |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Governmental activities | | | | | | | | | | |
| Net investment in capital assets | \$ 5,541,365 | \$ 3,478,112 | \$ 3,997,653 | \$ 4,282,176 | \$ 5,813,413 | \$ 6,179,466 | \$ 8,559,949 | \$ 19,295,214 | \$ 9,472,543 | \$ 10,511,003 |
| Restricted | 10,000 | 10,000 | - | 3,737,474 | 3,050,739 | 1,312,273 | 624,417 | 646,430 | 516,885 | 1,960,273 |
| Unrestricted | 1,885,459 | 4,631,891 | 4,692,967 | 1,679,260 | 2,164,414 | 4,545,469 | 3,988,810 | 2,404,126 | 2,239,733 | 3,001,488 |
| Total governmental activities net position | \$ 7,436,824 | \$ 8,120,003 | \$ 8,690,620 | \$ 9,698,910 | \$ 11,028,566 | \$ 12,037,208 | \$ 13,173,176 | \$ 22,345,770 | \$ 12,229,161 | \$ 15,472,764 |
| Business-type activities | | | | | | | | | | |
| Net investment in capital assets | \$ 12,713,697 | \$ 13,463,221 | \$ 13,181,756 | \$ 13,034,843 | \$ 13,583,361 | \$ 16,227,542 | \$ 16,769,240 | \$ 17,211,445 | \$ 29,456,401 | \$ 28,480,955 |
| Unrestricted | 4,447,130 | 4,251,765 | 5,147,386 | 5,827,728 | 5,539,454 | 4,467,291 | 4,766,460 | 4,214,229 | 2,355,735 | 4,609,019 |
| Total business-type activities net position | \$ 17,160,827 | \$ 17,714,986 | \$ 18,329,142 | \$ 18,862,571 | \$ 19,122,815 | \$ 20,694,833 | \$ 21,535,700 | \$ 21,425,674 | \$ 31,812,136 | \$ 33,089,974 |
| Primary government | | | | | | | | | | |
| Net investment in capital assets | \$ 18,255,062 | \$ 16,941,333 | \$ 17,179,409 | \$ 17,317,019 | \$ 19,396,774 | \$ 22,407,008 | \$ 25,329,189 | \$ 36,506,659 | \$ 38,928,944 | \$ 38,991,958 |
| Restricted | 10,000 | 10,000 | - | 3,737,474 | 3,050,739 | 1,312,273 | 624,417 | 646,430 | 516,885 | 1,960,273 |
| Unrestricted | 6,332,589 | 8,883,656 | 9,840,353 | 7,506,988 | 7,703,868 | 9,012,760 | 8,755,270 | 6,618,355 | 4,595,468 | 7,610,507 |
| Total primary government net position | \$ 24,597,651 | \$ 25,834,989 | \$ 27,019,762 | \$ 28,561,481 | \$ 30,151,381 | \$ 32,732,041 | \$ 34,708,876 | \$ 43,771,444 | \$ 44,041,297 | \$ 48,562,738 |

City of Wadena, Minnesota
Changes in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)
Table 2

| | Fiscal Year | | | | | | | | | |
|--|---------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Expenses | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| General government | \$ 653,427 | \$ 854,266 | \$ 509,565 | \$ 1,453,126 | \$ 892,427 | \$ 834,901 | \$ 602,499 | \$ 559,984 | \$ 705,085 | \$ 701,259 |
| Public safety | 806,060 | 818,199 | 931,703 | 878,169 | 918,679 | 659,777 | 955,348 | 1,011,661 | 1,003,708 | 718,339 |
| Public works | 685,074 | 748,166 | 1,677,511 | 807,007 | 556,661 | 365,526 | 654,610 | 601,322 | 549,433 | 1,553,220 |
| Culture and recreation | 387,420 | 420,348 | 392,406 | 289,133 | 336,439 | 277,531 | 229,374 | 193,261 | 375,991 | 414,666 |
| Economic development | 603,296 | 1,038,870 | 203,637 | 127,926 | 310,929 | 459,799 | 1,144,374 | 483,343 | 229,254 | 94,019 |
| Airport | 74,914 | 131,921 | 83,661 | 163,058 | 240,768 | 631,415 | 359,270 | 561,211 | 232,618 | 459,688 |
| Interest in debt | 196,860 | 168,907 | 213,743 | 172,566 | 150,943 | 165,883 | 83,514 | 56,788 | 38,102 | 46,626 |
| Total governmental activities expenses | <u>3,407,051</u> | <u>4,180,677</u> | <u>4,012,226</u> | <u>3,890,985</u> | <u>3,406,846</u> | <u>3,394,832</u> | <u>4,028,989</u> | <u>3,467,570</u> | <u>3,134,191</u> | <u>3,987,817</u> |
| Business-type activities: | | | | | | | | | | |
| Municipal liquor | 1,322,845 | 1,423,997 | 1,429,366 | 1,454,775 | 1,511,492 | 1,643,842 | 1,711,625 | 276,973 | 290,401 | 249,230 |
| Sewer utility | 504,152 | 571,102 | 543,610 | 522,354 | 558,711 | 562,294 | 587,591 | 869,002 | 904,024 | 883,707 |
| Water utility | 486,544 | 477,957 | 475,245 | 457,029 | 455,041 | 462,403 | 449,126 | 511,743 | 477,113 | 591,410 |
| Electric utility | 3,819,490 | 4,056,933 | 4,399,212 | 4,380,771 | 4,421,853 | 4,520,279 | 4,777,042 | 4,859,187 | 5,212,324 | 4,968,421 |
| Golf course | 420,250 | 420,438 | 383,163 | 435,054 | 387,283 | 407,704 | 408,830 | 347,294 | 356,441 | 305,307 |
| Wellness Center | - | - | - | - | - | - | - | 131,954 | 906,556 | 994,942 |
| Total business-type activities expenses | <u>6,553,281</u> | <u>6,950,427</u> | <u>7,230,596</u> | <u>7,249,983</u> | <u>7,334,380</u> | <u>7,596,522</u> | <u>7,934,214</u> | <u>6,996,153</u> | <u>8,146,859</u> | <u>7,993,017</u> |
| Total primary government expenses | <u>\$ 9,960,332</u> | <u>\$ 11,131,104</u> | <u>\$ 11,242,822</u> | <u>\$ 11,140,968</u> | <u>\$ 10,741,226</u> | <u>\$ 10,991,354</u> | <u>\$ 11,963,203</u> | <u>\$ 10,463,723</u> | <u>\$ 11,281,050</u> | <u>\$ 11,980,834</u> |

City of Wadena, Minnesota
Changes in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)
Table 2, Continued

| | Fiscal Year | | | | | | | | | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|---------------------|-----------------------|----------------------|----------------------|----------------------|-----------------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Program Revenues | | | | | | | | | | |
| Governmental activities | | | | | | | | | | |
| Charges for services | | | | | | | | | | |
| General government | \$ 59,185 | \$ 67,455 | \$ 29,308 | \$ 30,945 | \$ 28,839 | \$ 50,388 | \$ 246,113 | \$ 177,962 | \$ 162,950 | \$ 163,911 |
| Public safety | 10,601 | 12,965 | 121,338 | 81,245 | 86,508 | 79,547 | 35,863 | 23,852 | 29,084 | 13,178 |
| Public works | 117,691 | 32,354 | 21,619 | 16,140 | 11,211 | 391,025 | 231,453 | 1,080,683 | 1,663,996 | 1,348,826 |
| Culture and recreation | 51,716 | 28,259 | 67,859 | 40,968 | 32,865 | 32,145 | 34,269 | 35,099 | 42,603 | 35,006 |
| Economic development | 18,800 | 18,800 | 72,961 | 77,850 | 51,902 | 11,550 | 28,875 | 28,603 | 17,545 | 13,200 |
| Airport | 28,472 | 27,744 | 28,847 | 28,279 | 38,542 | 45,706 | 47,779 | 41,447 | 48,054 | 41,735 |
| Operating grants and contributions | 268,810 | 148,137 | 473,071 | 1,027,848 | 545,477 | 175,959 | 177,007 | 190,960 | 135,884 | 197,921 |
| Capital grants and contributions | 582,716 | 1,137,843 | 1,098,196 | 122,614 | 959,232 | 234,222 | 3,352,135 | 891,641 | 670,685 | 214,113 |
| Total governmental activities program revenues | <u>1,137,991</u> | <u>1,473,557</u> | <u>1,913,199</u> | <u>1,425,889</u> | <u>1,754,576</u> | <u>1,020,542</u> | <u>4,153,494</u> | <u>2,470,247</u> | <u>2,770,801</u> | <u>2,027,890</u> |
| Business-type activities | | | | | | | | | | |
| Capital grants and contributions | 4,000 | - | - | - | 32,900 | - | - | - | - | - |
| Charges for services | 7,517,353 | 7,790,625 | 8,101,415 | 8,026,182 | 8,170,929 | 8,738,985 | 8,762,975 | 7,543,197 | 7,938,193 | 8,404,505 |
| Total business-type activities program revenues | <u>7,521,353</u> | <u>7,790,625</u> | <u>8,101,415</u> | <u>8,026,182</u> | <u>8,203,829</u> | <u>8,738,985</u> | <u>8,762,975</u> | <u>7,543,197</u> | <u>7,938,193</u> | <u>8,404,505</u> |
| Total primary government program revenues | <u>\$ 8,659,344</u> | <u>\$ 9,264,182</u> | <u>\$ 10,014,614</u> | <u>\$ 9,452,071</u> | <u>\$ 9,958,405</u> | <u>\$ 9,759,527</u> | <u>\$ 12,916,469</u> | <u>\$ 10,013,444</u> | <u>\$ 10,708,994</u> | <u>\$ 10,432,395</u> |
| Net Revenue (Expense) | | | | | | | | | | |
| Governmental activities | \$ (2,269,060) | \$ (2,707,120) | \$ (2,099,027) | \$ (2,465,096) | \$ (1,652,270) | \$ (2,374,290) | \$ 124,505 | \$ (997,323) | \$ (363,390) | \$ (1,959,927) |
| Business-type activities | 968,072 | 840,198 | 870,819 | 776,199 | 869,449 | 1,142,463 | 828,761 | 547,044 | (208,666) | 411,488 |
| Total primary government net expense | <u>\$ (1,300,988)</u> | <u>\$ (1,866,922)</u> | <u>\$ (1,228,208)</u> | <u>\$ (1,688,897)</u> | <u>\$ (782,821)</u> | <u>\$ (1,231,827)</u> | <u>\$ 953,266</u> | <u>\$ (450,279)</u> | <u>\$ (572,056)</u> | <u>\$ (1,548,439)</u> |

City of Wadena, Minnesota
Changes in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)
Table 2, Continued

| | Fiscal Year | | | | | | | | | |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| General Revenues and Other Changes in Net Position | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| Property taxes | \$ 976,207 | \$ 934,483 | \$ 914,694 | \$ 888,131 | \$ 775,589 | \$ 807,527 | \$ 908,925 | \$ 746,037 | \$ 760,091 | \$ 966,354 |
| Unrestricted state aid | 1,315,791 | 1,820,843 | 1,322,100 | 1,209,116 | 1,252,560 | 2,682,438 | 2,377,619 | 6,219,492 | 1,838,085 | 1,829,737 |
| Unrestricted investment earnings | 191,959 | 134,437 | 161,115 | 128,338 | 100,338 | 56,049 | (40,996) | 79,677 | 27,018 | 43,599 |
| Miscellaneous | 37,114 | 75,334 | 106,786 | 654,118 | 135,426 | 131,030 | 87,523 | 133,651 | 185,895 | 2,196,903 |
| Gain on disposal of capital asset | - | - | - | - | 7,900 | - | - | - | - | - |
| Transfers | 411,741 | 425,202 | 382,164 | 376,468 | 710,113 | (294,112) | 186,024 | 483,428 | (11,589,774) | 166,937 |
| Total governmental activities | <u>2,932,812</u> | <u>3,390,299</u> | <u>2,886,859</u> | <u>3,256,171</u> | <u>2,981,926</u> | <u>3,382,932</u> | <u>3,519,095</u> | <u>7,662,285</u> | <u>(8,778,685)</u> | <u>5,203,530</u> |
| Business-type activities: | | | | | | | | | | |
| Property taxes and special assessments | - | - | - | - | - | - | - | - | - | 993,679 |
| Unrestricted investment earnings | 168,218 | 139,163 | 125,501 | 133,698 | 100,908 | 87,011 | (26,730) | 99,650 | 35,564 | 39,608 |
| Donated asset | - | - | - | - | - | - | - | - | 9,263 | - |
| Miscellaneous | - | - | - | - | - | 48,432 | 224,860 | - | - | - |
| Transfers | (411,741) | (425,202) | (382,164) | (376,468) | (710,113) | 294,112 | (186,024) | (483,428) | 11,589,774 | (166,937) |
| Total business-type activities | <u>(243,523)</u> | <u>(286,039)</u> | <u>(256,663)</u> | <u>(242,770)</u> | <u>(609,205)</u> | <u>429,555</u> | <u>12,106</u> | <u>(383,778)</u> | <u>11,634,601</u> | <u>866,350</u> |
| Total primary government | <u>\$ 2,689,289</u> | <u>\$ 3,104,260</u> | <u>\$ 2,630,196</u> | <u>\$ 3,013,401</u> | <u>\$ 2,372,721</u> | <u>\$ 3,812,487</u> | <u>\$ 3,531,201</u> | <u>\$ 7,278,507</u> | <u>\$ 2,855,916</u> | <u>\$ 6,069,880</u> |
| Change in Net Position | | | | | | | | | | |
| Governmental activities | \$ 663,752 | \$ 683,179 | \$ 787,832 | \$ 791,075 | \$ 1,329,656 | \$ 1,008,642 | \$ 3,643,600 | \$ 6,664,962 | \$ (9,142,075) | \$ 3,243,603 |
| Business-type activities | <u>724,549</u> | <u>554,159</u> | <u>614,156</u> | <u>533,429</u> | <u>260,244</u> | <u>1,572,018</u> | <u>840,867</u> | <u>163,266</u> | <u>11,425,935</u> | <u>1,277,838</u> |
| Total primary government change in net position | <u>\$ 1,388,301</u> | <u>\$ 1,237,338</u> | <u>\$ 1,401,988</u> | <u>\$ 1,324,504</u> | <u>\$ 1,589,900</u> | <u>\$ 2,580,660</u> | <u>\$ 4,484,467</u> | <u>\$ 6,828,228</u> | <u>\$ 2,283,860</u> | <u>\$ 4,521,441</u> |

City of Wadena, Minnesota
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)
Table 3

| | Fiscal Year | | | | | | | | | |
|------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| General Fund | | | | | | | | | | |
| Nonspendable | | | | | \$ - | \$ 1,436 | \$ 8,483 | \$ 2,308 | \$ 1,145 | \$ 5,881 |
| Assigned | | | | | 517,985 | 528,749 | 228,793 | 262,532 | 734,615 | 734,615 |
| Unassigned | | | | | <u>1,324,700</u> | <u>2,439,075</u> | <u>1,887,305</u> | <u>2,232,549</u> | <u>1,869,555</u> | <u>1,583,016</u> |
| Total general fund | | | | | <u>\$ 1,842,685</u> | <u>\$ 2,969,260</u> | <u>\$ 2,124,581</u> | <u>\$ 2,497,389</u> | <u>\$ 2,605,315</u> | <u>\$ 2,323,512</u> |
| All Other Governmental Funds | | | | | | | | | | |
| Restricted | | | | | \$ 1,566,234 | \$ 1,312,273 | \$ 3,132,049 | \$ 646,430 | \$ 516,885 | \$ 1,960,273 |
| Committed | | | | | 296,265 | 495,750 | 370,974 | 408,263 | 627,674 | 729,278 |
| Assigned | | | | | 19,667 | 19,902 | 20,150 | 20,326 | 20,558 | 25,799 |
| Unassigned | | | | | <u>(83,148)</u> | <u>123,600</u> | <u>-</u> | <u>(1,906,107)</u> | <u>(2,020,607)</u> | <u>-</u> |
| Total all other governmental funds | | | | | <u>\$ 1,799,018</u> | <u>\$ 1,951,525</u> | <u>\$ 3,523,173</u> | <u>\$ (831,088)</u> | <u>\$ (855,490)</u> | <u>\$ 2,715,350</u> |
| General Fund | | | | | | | | | | |
| Reserved | \$ 54,205 | \$ - | \$ - | \$ - | | | | | | |
| Unreserved | <u>643,475</u> | <u>636,305</u> | <u>707,837</u> | <u>1,352,509</u> | | | | | | |
| Total general fund | <u>\$ 697,680</u> | <u>\$ 636,305</u> | <u>\$ 707,837</u> | <u>\$ 1,352,509</u> | | | | | | |
| All Other Governmental Funds | | | | | | | | | | |
| Reserved | \$ 11,874 | \$ 11,388 | \$ 11,701 | \$ 10,000 | | | | | | |
| Unreserved, reported in: | | | | | | | | | | |
| Debt service funds | 1,748,141 | 1,774,954 | 1,694,260 | 1,677,709 | | | | | | |
| Special revenue funds | 376,378 | 361,130 | 322,205 | 465,649 | | | | | | |
| Capital projects funds | 294,694 | (28,366) | 303,982 | 97,978 | | | | | | |
| Permanent funds | <u>-</u> | <u>-</u> | <u>215</u> | <u>133</u> | | | | | | |
| Total all other governmental funds | <u>\$ 2,431,087</u> | <u>\$ 2,119,106</u> | <u>\$ 2,332,363</u> | <u>\$ 2,251,469</u> | | | | | | |

For the year ended December 31, 2011, the City implemented GASB Statement No. 54, Fund Balance Reporting and Government Fund Type Definitions.

City of Wadena, Minnesota
 Changes in Fund Balances of Governmental Funds
 Last Ten Fiscal Years
 (Modified Accrual Basis of Accounting)
 Table 4

| | Fiscal Year | | | | | | | | | |
|-------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|------------------|------------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Revenues | | | | | | | | | | |
| General property taxes | \$ 975,164 | \$ 933,633 | \$ 913,797 | \$ 886,074 | \$ 774,880 | \$ 759,975 | \$ 908,329 | \$ 858,891 | \$ 874,877 | \$ 992,331 |
| Special assessments | 318,075 | 258,122 | 239,946 | 255,130 | 201,100 | 238,951 | 145,930 | 153,576 | 157,565 | 319,372 |
| Licenses and permits | 23,023 | 22,879 | 25,688 | 30,937 | 27,847 | 26,298 | 27,190 | 29,431 | 72,293 | 169,208 |
| Intergovernmental | 1,776,267 | 2,208,270 | 2,731,405 | 2,343,477 | 2,737,432 | 2,958,453 | 2,603,891 | 7,077,891 | 2,342,628 | 2,567,231 |
| Charges for services | 137,393 | 140,551 | 209,044 | 170,180 | 177,372 | 171,776 | 204,608 | 165,702 | 183,117 | 181,352 |
| Fines and forfeitures | 37,889 | 47,376 | 44,939 | 20,968 | 21,386 | 25,315 | 24,884 | 36,813 | 31,293 | 29,855 |
| Investment earnings | 193,001 | 135,521 | 147,726 | 107,796 | 90,338 | 54,254 | 1,265 | 80,526 | 27,197 | 42,568 |
| Other revenues | 427,181 | 280,768 | 249,829 | 832,567 | 277,399 | 665,146 | 3,446,250 | 1,306,657 | 1,259,587 | 3,191,615 |
| Total revenues | 3,887,993 | 4,027,120 | 4,562,374 | 4,647,129 | 4,307,754 | 4,900,168 | 7,362,347 | 9,709,487 | 4,948,557 | 7,493,532 |
| Expenditures | | | | | | | | | | |
| General government | 439,765 | 480,600 | 439,452 | 1,405,973 | 831,433 | 601,280 | 748,809 | 525,873 | 498,253 | 480,638 |
| Public safety | 791,060 | 770,277 | 852,084 | 803,136 | 830,241 | 851,565 | 872,867 | 867,535 | 917,810 | 977,713 |
| Public works | 507,099 | 507,902 | 455,881 | 434,276 | 446,199 | 479,160 | 549,705 | 545,880 | 472,835 | 546,547 |
| Culture and recreation | 369,304 | 401,156 | 351,241 | 252,604 | 257,622 | 337,596 | 334,901 | 225,837 | 327,108 | 297,137 |
| Economic development | 672,281 | 1,218,326 | 547,576 | 124,456 | 285,973 | 47,293 | 306,887 | 251,807 | 119,623 | 167,898 |
| Airport | 40,568 | 97,576 | 57,289 | 42,751 | 124,461 | 299,495 | 96,725 | 396,691 | 62,945 | 59,973 |
| Miscellaneous | 87,803 | 21,450 | 113,692 | 76,672 | 86,472 | 146,246 | 565,134 | 139,192 | 161,483 | 207,119 |
| Capital outlay | 835,084 | 446,476 | 1,792,631 | 498,651 | 1,282,363 | 674,636 | 2,144,990 | 10,533,298 | 3,514,202 | 3,194,337 |
| Debt service | | | | | | | | | | |
| Principal | 463,626 | 677,126 | 680,627 | 655,000 | 680,000 | 1,455,000 | 1,085,000 | 630,000 | 645,000 | 376,242 |
| Interest, fees and abatements | 252,996 | 205,111 | 169,276 | 166,300 | 155,378 | 189,354 | 118,529 | 65,005 | 46,381 | 53,354 |
| Total expenditures | 4,459,586 | 4,826,000 | 5,459,749 | 4,459,819 | 4,980,142 | 5,081,625 | 6,823,547 | 14,181,118 | 6,765,640 | 6,360,958 |

City of Wadena, Minnesota
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)
Table 4, Continued

| | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|---|-----------------------|---------------------|-------------------|-------------------|------------------|---------------------|-------------------|-----------------------|------------------|---------------------|
| Excess (Deficiency) of Revenues over (Under) Expenditures | (571,593) | (798,880) | (897,375) | 187,310 | (672,388) | (181,457) | 538,800 | (4,471,631) | (1,817,083) | 1,132,574 |
| Other Financing Sources (Uses) | | | | | | | | | | |
| Transfers from other funds | 767,846 | 447,290 | 495,449 | 405,401 | 742,910 | 415,044 | 1,305,107 | 547,488 | 421,961 | 411,203 |
| Transfers to other funds | (356,105) | (22,088) | (113,285) | (28,933) | (32,797) | (54,616) | (1,119,083) | (64,060) | (128,655) | (244,266) |
| Payment to refunding bond age | (1,785,000) | - | - | - | - | - | - | - | - | - |
| Bonds issued (net of discounts) | 675,000 | - | 800,000 | - | - | 1,045,000 | - | - | 1,606,625 | 1,984,710 |
| Sale of capital assets | 6,670 | 322 | - | - | - | 55,111 | 2,145 | 6,750 | 676 | 4,816 |
| Total other financing sources (uses) | <u>(691,589)</u> | <u>425,524</u> | <u>1,182,164</u> | <u>376,468</u> | <u>710,113</u> | <u>1,460,539</u> | <u>188,169</u> | <u>490,178</u> | <u>1,900,607</u> | <u>2,156,463</u> |
| Net Change in Fund Balances | <u>\$ (1,263,182)</u> | <u>\$ (373,356)</u> | <u>\$ 284,789</u> | <u>\$ 563,778</u> | <u>\$ 37,725</u> | <u>\$ 1,279,082</u> | <u>\$ 726,969</u> | <u>\$ (3,981,453)</u> | <u>\$ 83,524</u> | <u>\$ 3,289,037</u> |
| Debt service as a percentage of noncapital expenditures | 19.8% | 20.1% | 23.2% | 20.7% | 22.6% | 37.3% | 25.7% | 19.1% | 21.3% | 13.6% |

City of Wadena, Minnesota
 General Government Tax Revenues by Source
 Last Ten Fiscal Years
 (Modified Accrual Basis of Accounting)
 Table 5

| Fiscal Year | Property Tax | Hotel/Motel Tax | Franchise Tax | Total |
|-------------|-----------------|--------------------|------------------|------------|
| 2007 | \$ 853,795 | \$ 30,236 | \$ 91,133 | \$ 975,164 |
| 2008 | 823,521 | 33,491 | 76,621 | 933,633 |
| 2009 | 783,491 | 29,758 | 100,548 | 913,797 |
| 2010 | 763,370 | 32,567 | 90,137 | 886,074 |
| 2011 | 652,688 | 32,751 | 89,441 | 774,880 |
| 2012 | 642,892 | 34,897 | 82,186 | 759,975 |
| 2013 | 767,868 | 31,493 | 108,968 | 908,329 |
| 2014 | 712,077 | 33,960 | 112,854 | 858,891 |
| 2015 | 723,065 | 37,007 | 114,805 | 874,877 |
| 2016 | 839,775 | 37,166 | 115,390 | 992,331 |

City of Wadena, Minnesota
Tax Capacity and Estimated Actual Value of Taxable Property (1)
Last Ten Fiscal Years
(Unaudited)
Table 6

| Levy Year | Collection Year | Real Property | | Ratio of Tax Capacity to Total Estimated Market Value | Total Direct Rate |
|-----------|-----------------|------------------|----------------------------|---|-------------------|
| | | Net Tax Capacity | Estimated Market Value (2) | | |
| 2006 | 2007 | \$ 1,866,710 | \$ 176,794,900 | 1.06% | 74.13 |
| 2007 | 2008 | 2,108,985 | 180,064,000 | 1.17% | 70.90 |
| 2008 | 2009 | 2,091,276 | 177,275,200 | 1.18% | 76.28 |
| 2009 | 2010 | 2,151,389 | 176,144,900 | 1.22% | 69.02 |
| 2010 | 2011 | 2,032,639 | 166,324,700 | 1.22% | 71.98 |
| 2011 | 2012 | 1,747,488 | 134,837,900 | 1.30% | 91.95 |
| 2012 | 2013 | 1,629,458 | 124,385,800 | 1.31% | 81.54 |
| 2013 | 2014 | 1,694,281 | 128,462,700 | 1.32% | 79.71 |
| 2014 | 2015 | 1,728,961 | 132,020,100 | 1.31% | 86.71 |
| 2015 | 2016 | 1,859,258 | 142,774,592 | 1.30% | 111.80 |

(1) Source - Wadena County

(2) Without the adjustment for JOBZ Properties

City of Wadena, Minnesota
Property Tax Rates – Direct and Overlapping Governments (1)
Last Ten Fiscal Years
(Unaudited)
Table 7

| Levy Year | Collection Year | City of Wadena | | | Overlapping Rates | | Total Direct and Overlapping Rates |
|-----------|-----------------|-----------------------------|--------------------------------|------------------------------|--------------------------------|--------------------------------|------------------------------------|
| | | Operating Tax Capacity Rate | Debt Service Tax Capacity Rate | Total City Tax Capacity Rate | Total County Tax Capacity Rate | Total School Tax Capacity Rate | |
| 2007 | 2008 | 7.18 | 29.88 | 37.08 | 77.59 | 25.24 | 139.90 |
| 2008 | 2009 | 5.60 | 29.85 | 35.45 | 78.44 | 23.93 | 137.82 |
| 2009 | 2010 | 8.14 | 30.00 | 38.14 | 72.29 | 23.51 | 133.94 |
| 2010 | 2011 | 21.22 | 13.29 | 34.51 | 79.30 | 19.75 | 133.56 |
| 2011 | 2012 | 19.20 | 16.79 | 35.99 | 88.61 | 23.29 | 147.89 |
| 2012 | 2013 | 19.39 | 26.59 | 45.98 | 95.84 | 23.18 | 165.00 |
| 2013 | 2014 | 18.64 | 22.13 | 40.77 | 90.14 | 22.79 | 153.70 |
| 2014 | 2015 | 18.18 | 21.68 | 39.85 | 89.67 | 19.94 | 149.46 |
| 2015 | 2016 | 17.87 | 25.49 | 43.36 | 88.19 | 21.13 | 152.67 |
| 2016 | 2017 | 16.25 | 39.65 | 55.90 | 90.64 | 20.77 | 167.31 |

(1) Source - Wadena County

City of Wadena, Minnesota
Principal Property Taxpayers
Current Year and Ten Years Ago (1)
(Unaudited)
Table 8

| Taxpayer | Type of Property | 2016 | | | 2007 | | |
|------------------------------|-------------------------|--------------------|------|-------------------------------------|--------------------|------|-------------------------------------|
| | | Tax Capacity Value | Rank | Percent of Total Tax Capacity Value | Tax Capacity Value | Rank | Percent of Total Tax Capacity Value |
| Bullinger Enterprises LLLP | Furniture Manufacturer | \$ 103,958 | 1 | 5.59% | \$ - | | 0.00% |
| Wal-Mart Stores, Inc. | Retail Store | 74,746 | 2 | 4.02% | - | | 0.00% |
| Mason Brothers Co | Wholesale Grocers | 57,530 | 3 | 3.09% | 52,950 | 2 | 2.84% |
| Burlington Northern Railroad | Railroad | 47,122 | 4 | 2.53% | 12,388 | 10 | 0.66% |
| Wadena Medical Center | Medical Facilities | 34,002 | 5 | 1.83% | 16,758 | 7 | 0.90% |
| Merickel, James R & Jane M | Property Management | 30,774 | 7 | 1.66% | 17,580 | 4 | 0.94% |
| Russ Davis Wholesale Inc. | Wholesale Grocers | 27,720 | 6 | 1.49% | 24,242 | 3 | 1.30% |
| Leaf River Ag Service | Agriculture Cooperative | 23,510 | 8 | 1.26% | - | | 0.00% |
| Merickel Lumber Mills | Lumber/Hardware | 22,359 | 9 | 1.20% | - | | 0.00% |
| Minnesota Energy Resources | Natural Gas Utility | 22,019 | 10 | 1.18% | - | | 0.00% |
| Total | | <u>\$ 443,740</u> | | <u>23.87%</u> | <u>\$ 123,918</u> | | <u>6.64%</u> |

(1) Source - Wadena County Auditor

City of Wadena, Minnesota
Property Tax Levies and Collections (1)
Last Ten Fiscal Years
(Unaudited)
Table 9

| Levy Year | Collection Year | Total Tax Levy | Collected Within the Fiscal Year of the Levy | | Collections in Subsequent Years | Total Collections to Date | |
|-----------|-----------------|----------------|--|--------------------|---------------------------------|---------------------------|--------------------|
| | | | Amount (1) | Percentage of Levy | | Amount | Percentage of Levy |
| 2006 | 2007 | \$ 703,065 | \$ 593,454 | 84.4 | \$ 109,611 | \$ 703,065 | 100.0 |
| 2007 | 2008 | 764,927 | 668,819 | 87.4 | 83,639 | 752,458 | 98.4 |
| 2008 | 2009 | 742,023 | 634,387 | 85.5 | 103,045 | 737,432 | 99.4 |
| 2009 | 2010 | 790,230 | 786,613 (2) | 99.5 | 3,617 | 790,230 | 100.0 |
| 2010 | 2011 | 682,793 | 668,143 (2) | 97.9 | 9,368 | 677,511 | 99.2 |
| 2011 | 2012 | 604,193 | 587,124 | 97.2 | 17,069 | 604,193 | 100.0 |
| 2012 | 2013 | 724,182 | 707,020 | 97.6 | 17,162 | 724,182 | 100.0 |
| 2013 | 2014 | 666,182 | 652,590 | 98.0 | 16,764 | 669,354 | 100.5 |
| 2014 | 2015 | 666,182 | 649,207 | 97.5 | - | 649,207 | 97.5 |
| 2015 | 2016 | 776,883 | 751,862 | 96.8 | - | 751,862 | 96.8 |

(1) Includes Market Value Homestead Credit for levy years 2012 and prior

(2) Includes Disaster Credits

City of Wadena, Minnesota
 Ratios of Outstanding Debt by Type
 Last Ten Fiscal Years
 (Unaudited)
 Table 10

| Year | Governmental Activities | | Business-Type Activities | | Total Primary Government | Percentage of Personal Income (1) | Per Capita (1) |
|------|--------------------------------|-----------|--------------------------------|------------------|--------------------------------|---|-------------------|
| | Special Assessment Bonds | Other | General Obligation Bonds | Revenue Bonds | | | |
| 2007 | \$ 5,365,000 | \$ 47,754 | \$ 2,119,000 | \$ 240,000 | \$ 7,771,754 | 12.08% | 1,830 |
| 2008 | 4,720,000 | 15,628 | 2,002,000 | - | 6,737,628 | 10.26% | 1,586 |
| 2009 | 4,855,000 | - | 1,882,000 | - | 6,737,000 | 10.26% | 1,586 |
| 2010 | 4,200,000 | - | 1,759,000 | - | 5,959,000 | 9.43% | 1,458 |
| 2011 | 3,520,000 | - | 1,633,000 | - | 5,153,000 | 6.52% | 1,261 |
| 2012 | 3,110,000 | - | 4,370,322 | - | 7,480,322 | 9.24% | 1,830 |
| 2013 | 2,025,000 | - | 4,314,411 | - | 6,339,411 | 7.69% | 1,551 |
| 2014 | 1,395,000 | - | 4,598,010 | - | 5,993,010 | 7.27% | 1,466 |
| 2015 | 2,356,625 | - | 7,281,669 | - | 9,638,294 | 12.01% | 2,358 |
| 2016 | 3,965,093 | - | 10,565,723 | - | 14,530,816 | 17.48% | 3,555 |

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(1) Population data can be found in the Schedule of Demographic and Economic Statistics at Table 15.

City of Wadena, Minnesota
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years
(Unaudited)
Table 11

| Year | General Obligation Bonds | Less: Amounts Available in Debt Service Funds | Total | Percentage of Estimated Actual Taxable Value of Property (1) | Per Capita (2) |
|------|--------------------------------|--|--------------|--|-------------------|
| 2007 | 5,365,000 | 1,748,141 | \$ 3,616,859 | 193.76% | \$ 851 |
| 2008 | 4,720,000 | 1,774,954 | 2,945,046 | 139.64% | 693 |
| 2009 | 4,855,000 | 1,694,260 | 3,160,740 | 151.14% | 744 |
| 2010 | 4,200,000 | 1,677,709 | 2,522,291 | 117.24% | 617 |
| 2011 | 5,153,000 | 1,312,098 | 3,840,902 | 188.96% | 940 |
| 2012 | 7,480,322 | 1,202,418 | 6,277,904 | 359.25% | 1,536 |
| 2013 | 6,339,411 | 496,465 | 5,842,946 | 358.58% | 1,429 |
| 2014 | 5,993,010 | 494,085 | 5,498,925 | 324.56% | 1,345 |
| 2015 | 9,638,294 | 286,416 | 9,351,878 | 540.90% | 2,288 |
| 2016 | 14,530,816 | 501,504 | 14,029,312 | 754.57% | 3,432 |

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(1) See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property at Table 6 for property value data.

(2) Population data can be found in the Schedule of Demographic and Economic Statistics at Table 15.

Beginning in 2011, the City is including both governmental and business-type general obligation bonds.

City of Wadena, Minnesota
 Computation of Direct and Overlapping Debt
 December 31, 2016
 (Unaudited)
 Table 12

| <u>Jurisdiction</u> | <u>Total Bonded Debt Outstanding</u> | <u>Percentage Applicable to City (1)</u> | <u>Total Direct Debt</u> | <u>Total Overlapping Debt</u> | <u>Total Direct and Overlapping Debt</u> |
|---------------------|--|--|------------------------------|---------------------------------------|--|
| City of Wadena | \$ 14,530,817 | 100% | \$ 14,530,817 | \$ - | \$ 14,530,817 |
| I.S.D. No. 2155 (2) | 2,940,000 | 61% | - | 1,793,400 | 1,793,400 |
| Wadena HRA | <u>1,905,000</u> | 100% | <u>1,905,000</u> | <u>-</u> | <u>1,905,000</u> |
| Total | <u>\$ 19,375,817</u> | | <u>\$ 16,435,817</u> | <u>\$ 1,793,400</u> | <u>\$ 18,229,217</u> |

(1) Based on percentage of tax capacity to total.

(2) Source - Wadena County Auditor.

City of Wadena, Minnesota
 Legal Debt Margin Information
 Last Ten Fiscal Years
 (Unaudited)
 Table 13

| | Fiscal Year | | | | | | | | | |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Debt limit | \$ 3,068,798 | \$ 3,601,280 | \$ 3,545,504 | \$ 3,551,904 | \$ 3,326,494 | \$ 2,696,758 | \$ 2,487,716 | \$ 2,569,254 | \$ 2,640,402 | \$ 2,855,492 |
| Total net debt applicable to limit | - | - | - | - | - | - | - | - | - | - |
| Legal debt margin | <u>\$ 3,068,798</u> | <u>\$ 3,601,280</u> | <u>\$ 3,545,504</u> | <u>\$ 3,551,904</u> | <u>\$ 3,326,494</u> | <u>\$ 2,696,758</u> | <u>\$ 2,487,716</u> | <u>\$ 2,569,254</u> | <u>\$ 2,640,402</u> | <u>\$ 2,855,492</u> |
| Total net debt applicable to the limit as a percentage of debt limit | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |

Legal Debt Margin Calculation for 2012

| | |
|---|-----------------------|
| Estimated market value (1) | <u>\$ 142,774,592</u> |
| Debt limit - 2% of estimated market value (2) | \$ 2,855,492 |
| Debt applicable to limit: | |
| Total Bonded Debt | \$ 14,530,818 |
| Less: | |
| G.O. Water revenue note of 2002 | \$ 949,000 |
| G.O. Taxable Improvement Bonds of 2009 | 375,000 |
| G.O. Sewer Revenue note of 2012 | 3,012,000 |
| PFA Revenue Note of 2015 - DW | 3,134,361 |
| PFA Revenue Note of 2015 - CW | 3,470,362 |
| PFA Revenue Note of 2015 - CW03 | 3,590,094 |
| | <u>14,530,817</u> |
| Total net debt applicable to limit | <u>1.00</u> |
| Legal debt margin | <u>\$ 2,855,491</u> |

(1) Source - Wadena County Auditor

(2) Minnesota Statutes - 475.53 LIMIT ON NET DEBT. Subdivision 1. Generally, except as otherwise provided in Section 475.51 to 475.75, no municipality, except a school district or a city of the first class, shall incur or be subject to a net debt in excess of two percent of the estimated market value.

City of Wadena, Minnesota
Pledged Revenue Coverage
Last Ten Fiscal Years
(Unaudited)
Table 14

| Year | Utility Bonds | | | | | | | Coverage |
|----------|---------------------------|------------------------------|-----------------------|--------------|-----------|------------|------|----------|
| | Utility Charges and Other | Less: Operating Expenses (1) | Net Available Revenue | Debt Service | | Total | | |
| | | | | Principal | Interest | | | |
| 2007 (2) | \$ 5,189,569 | \$ 3,862,363 | \$ 1,327,206 | \$ 224,000 | \$ 77,286 | \$ 301,286 | 4.41 | |
| 2008 (2) | 5,397,000 | 4,091,453 | 1,305,547 | 357,000 | 65,042 | 422,042 | 3.09 | |
| 2009 (2) | 459,225 | 294,533 | 164,692 | 120,000 | 52,270 | 172,270 | 0.96 | |
| 2010 (2) | 472,699 | 279,794 | 192,905 | 120,000 | 52,270 | 172,270 | 1.12 | |
| 2011 (2) | 477,079 | 280,946 | 196,133 | 126,000 | 45,737 | 171,737 | 1.14 | |
| 2012 (3) | 1,156,290 | 702,217 | 454,073 | 217,926 | 62,398 | 280,324 | 1.62 | |
| 2013 (3) | 1,170,101 | 690,432 | 479,669 | 319,000 | 82,200 | 401,200 | 1.20 | |
| 2014 (3) | 1,276,795 | 790,304 | 486,491 | 326,000 | 85,790 | 411,790 | 1.18 | |
| 2015 (4) | 1,255,868 | 783,241 | 472,627 | 315,010 | 82,002 | 397,012 | 1.19 | |
| 2016 (4) | 1,539,116 | 823,996 | 715,120 | 324,542 | 116,834 | 441,376 | 1.62 | |

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(1) Not including depreciation expense.

(2) Includes both Electric and Water revenues and expenses.

(3) Includes only Water revenues and expenses.

(4) Includes both Sewer and Water revenues and expenses.

City of Wadena, Minnesota
Pledged Revenue Coverage
Last Ten Fiscal Years
(Unaudited)
Table 14, Continued

| Year | Special Assessment Bonds | | | | | Coverage |
|------|--------------------------------------|--------------|------------|------------|-------|----------|
| | Special Assessment Collections | Debt Service | | | Total | |
| | | Principal | Interest | Total | | |
| 2007 | \$ 318,075 | \$ 430,000 | \$ 244,469 | \$ 674,469 | 0.47 | |
| 2008 | 258,122 | 645,000 | 199,460 | 844,460 | 0.31 | |
| 2009 | 239,946 | 665,000 | 169,276 | 834,276 | 0.29 | |
| 2010 | 255,130 | 655,000 | 166,300 | 821,300 | 0.31 | |
| 2011 | 166,677 | 680,000 | 155,095 | 835,095 | 0.20 | |
| 2012 | 222,735 | 410,000 | 183,614 | 593,614 | 0.38 | |
| 2013 | 167,651 | 710,000 | 98,787 | 808,787 | 0.21 | |
| 2014 | 153,576 | 630,000 | 55,169 | 685,169 | 0.22 | |
| 2015 | 157,565 | 645,000 | 36,774 | 681,774 | 0.23 | |
| 2016 | 319,372 | 376,242 | 48,749 | 424,991 | 0.75 | |

City of Wadena, Minnesota
 Demographic and Economic Statistics
 Last Ten Fiscal Years
 (Unaudited)
 Table 15

| <u>Year</u> | <u>Population (1)</u> | <u>Personal Income</u> | <u>County per Capita Income (2)</u> | <u>Public School Enrollment (3)</u> | <u>County Unemployment Rate (4)</u> |
|-------------|-----------------------|------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| 2007 | 4,248 | 64,340,208 | 15,146 | 1,152 | 6.8% |
| 2008 | 4,248 | 65,640,096 | 15,452 | 1,048 | 13.5% |
| 2009 | 4,248 | 65,640,096 | 15,452 | 1,006 | 13.5% |
| 2010 | 4,088 | 63,167,776 | 15,452 | 1,000 | 10.8% |
| 2011 | 4,088 | 79,078,272 | 19,344 | 933 | 10.5% |
| 2012 | 4,088 | 80,991,456 | 19,812 | 982 | 10.2% |
| 2013 | 4,088 | 82,430,432 | 20,164 | 1,003 | 6.6% |
| 2014 | 4,088 | 82,430,432 | 20,164 | 1,001 | 6.6% |
| 2015 | 4,088 | 80,284,232 | 19,639 | 936 | 6.6% |
| 2016 | 4,088 | 83,104,952 | 20,329 | 947 | 7.4% |

(1) Source - Minnesota State Demographer/Community Facts

(2) Source - Bureau of Economic Analysis - Minnesota State Demographer Office.

(3) Source - Wadena-Deer Creek Public Schools.

(4) Source - Minnesota Department of Employment and Economic Development.

City of Wadena, Minnesota
Principal Employers
Current Year and Nine Years Ago
(Unaudited)
Table 16

| Employer | 2016 | | | 2007 | | |
|--|--------------|------|---------------------------------------|--------------|------|---------------------------------------|
| | Employees | Rank | Percentage of Total County Employment | Employees | Rank | Percentage of Total County Employment |
| Tri-County Hospital | 450 | 1 | 7.61% | 340 | 1 | 5.33% |
| Mason Brothers Company | 285 | 2 | 4.82% | 200 | 3 | 3.13% |
| Ind. School District 2155 | 195 | 3 | 3.30% | 215 | 2 | 3.37% |
| County of Wadena, MN | 181 | 4 | 3.06% | 165 | 4 | 2.59% |
| Wal-Mart | 160 | 5 | 2.70% | 150 | 5 | 2.35% |
| Russ Davis Wholesale | 120 | 6 | 2.03% | 115 | 7 | 1.80% |
| Homecrest Outdoor Living | 110 | 7 | 1.86% | 85 | 9 | 1.33% |
| Fair Oaks Lodge | 110 | 8 | 1.86% | 110 | 8 | 1.72% |
| Polman Trucking Company | 93 | 9 | 1.57% | 136 | 6 | 2.13% |
| MN State Community & Technical College | 71 | 10 | 1.20% | - | - | - |
| The Grocery Store by MB | - | - | - | 80 | 10 | 1.25% |
| Total | 1,775 | | 30.00% | 1,596 | | 25.00% |

Source - Information was obtained, by the City of Wadena, from each of the entities listed.

City of Wadena, Minnesota
 Full-Time Equivalent City Government Employees by Function
 Last Ten Fiscal Years
 (Unaudited)
 Table 17

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Function | | | | | | | | | | |
| General government | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 |
| Public safety | | | | | | | | | | |
| Police | | | | | | | | | | |
| Officers | 8.5 | 8.5 | 8.5 | 8.5 | 8.5 | 9.0 | 9.0 | 9.0 | 9.0 | 9.0 |
| Civilians | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Fire | | | | | | | | | | |
| Firefighters and officers* | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Highways and streets | | | | | | | | | | |
| Engineering | | | | | | | | | | |
| Maintenance | 6.5 | 6.5 | 6.5 | 5.5 | 5.5 | 5.5 | 5.5 | 5.5 | 6.5 | 6.5 |
| Sanitation | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Culture and recreation | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 | 10.0 | 10.0 | 10.0 |
| Water | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| Sewer | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 |
| Electric | 9.5 | 7.5 | 7.5 | 9.5 | 9.5 | 9.5 | 9.5 | 9.5 | 10.5 | 10.5 |
| Liquor Store | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 |
| Total | <u>48.5</u> | <u>46.5</u> | <u>46.5</u> | <u>47.5</u> | <u>47.5</u> | <u>48.0</u> | <u>48.0</u> | <u>51.0</u> | <u>53.0</u> | <u>53.0</u> |

*The City employs 20 permanent part-time volunteer firefighters and 6 of those are elected Officers.

City of Wadena, Minnesota
 Operating Indicators by Function
 Last Ten Fiscal Years
 (Unaudited)
 Table 18

| Function | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Police | | | | | | | | | | |
| Physical arrests | 334 | 421 | 557 | 698 | 349 | 409 | 382 | 151 | 165 | 170 |
| Parking violations | 32 | 17 | 51 | 30 | 17 | 14 | 0 | 64 | 15 | 10 |
| Traffic violations | 51 | 102 | 252 | 195 | 141 | 149 | 165 | 239 | 343 | 138 |
| Fire | | | | | | | | | | |
| Number of calls answered | 32 | 27 | 40 | 37 | 30 | 30 | 47 | 56 | 56 | 40 |
| Highways and streets | | | | | | | | | | |
| Street resurfacing (miles) | 0.6 | 2.4 | 0.3 | 0.0 | 0.2 | 0.5 | 0.6 | 0.6 | 0.8 | 0.9 |
| Tons of Asphalt used to Repair Potholes | 90 | 46 | 58 | 74 | 215 | 190 | 74 | 40 | 60 | 61 |
| Water | | | | | | | | | | |
| New connections | 4 | 7 | 3 | 3 | 3 | 8 | 7 | 4 | 4 | 5 |
| Water main breaks | 0 | 1 | 3 | 5 | 3 | 2 | 3 | 3 | 4 | 3 |
| Average daily consumption (in gallons) (thousands of gallons) | 473,138 | 452,106 | 413,886 | 406,962 | 372,777 | 438,895 | 503,085 | 572,375 | 514,515 | 413,899 |
| Wastewater | | | | | | | | | | |
| Average daily sewage treatment (in gallons) | 433,000 | 432,000 | 432,000 | 462,000 | 608,083 | 460,323 | 463,674 | 828,219 | 510,493 | 466,145 |

Source - various City departments.

Note: Indicators are not available for the general government function.

City of Wadena, Minnesota
 Capital Assets Statistics by Function
 Last Ten Fiscal Years
 (Unaudited)
 Table 19

| Function | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Public safety | | | | | | | | | | |
| Police: | | | | | | | | | | |
| Stations | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Patrol units | 2 | 2 | 2 | 2 | 2 | 3 | 3 | 3 | 3 | 3 |
| Fire stations | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Sanitation | | | | | | | | | | |
| Collection trucks | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Highways and streets | | | | | | | | | | |
| Streets (miles) | 41.3 | 41.3 | 41.3 | 42.5 | 42.5 | 42.5 | 42.5 | 42.5 | 42.5 | 42.5 |
| Streetlights | 705 | 705 | 705 | 705 | 690 | 690 | 690 | 690 | 690 | 690 |
| Traffic signals | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| Culture and recreation | | | | | | | | | | |
| Parks acreage | 463 | 463 | 463 | 463 | 463 | 463 | 463 | 463 | 463 | 463 |
| Parks | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 |
| Swimming pools | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Tennis courts | 5 | 5 | 5 | 5 | 2 | 2 | 2 | 2 | 3 | 3 |
| Water | | | | | | | | | | |
| Water mains (miles) | 33.0 | 33.0 | 33.0 | 33.0 | 33.0 | 33.2 | 33.0 | 33.0 | 33.0 | 33.0 |
| Fire hydrants | 306 | 306 | 306 | 306 | 308 | 314 | 308 | 308 | 310 | 320 |
| Maximum daily capacity (thousands of gallons) | 1,900 | 1,900 | 1,900 | 1,900 | 1,900 | 1,900 | 1,900 | 1,900 | 1,900 | 1,900 |
| Sewer | | | | | | | | | | |
| Sanitary sewers (miles) | 26.0 | 26.0 | 26.0 | 26.0 | 30.0 | 30.0 | 30.0 | 30.0 | 30.0 | 30.0 |
| Storm sewers (miles) | 11.0 | 11.0 | 11.0 | 11.0 | 11.0 | 11.0 | 11.0 | 11.0 | 11.0 | 11.0 |
| Maximum daily treatment capacity (thousands of gallons) | 750,000 | 750,000 | 750,000 | 750,000 | 750,000 | 750,000 | 750,000 | 750,000 | 750,000 | 750,000 |
| Electric | | | | | | | | | | |
| Number of distribution stations | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Miles of service lines | 56.0 | 56.0 | 56.0 | 56.5 | 56.5 | 58.0 | 58.0 | 58.0 | 58.7 | 58.7 |

Source - various City departments.

Note: No capital asset indicators are available for the general government function.

Other Reports
December 31, 2016
City of Wadena, Minnesota

**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 Honorable Mayor, City Council and City Administrator
City of Wadena, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Wadena as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated June 27, 2017. Our report includes a reference to other auditors who audited the financial statements of the Housing and Redevelopment Authority, a discretely presented component unit, as described in our report on the City’s financial statements. This report does not include the results of the other auditors’ testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City’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 the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting 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 *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 2016-A, 2016-B, 2016-C, 2016-D, and 2016-E described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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*.

City's Response to Findings

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

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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Fargo, North Dakota
June 27, 2017

Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance Required by the Uniform Guidance

To the Honorable Mayor, City Council and City Administrator
City of Wadena, Minnesota

Report on Compliance for the Major Federal Program

We have audited City of Wadena's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended December 31, 2016. The City's major federal program is 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance for the City of Wadena's major federal program 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the 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 the City'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 the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on the Major Federal Program

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major Federal program identified above for the year ended December 31, 2016.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 the City'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 compliance requirement 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 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
June 27, 2017

Report on *Minnesota Legal Compliance*

To the Honorable Mayor, City Council and City Administrator
City of Wadena, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Wadena, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 27, 2017.

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

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, except as described in the schedule of findings and questioned costs as item 2016-F. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

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

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

A handwritten signature in black ink that reads "Erik Sully LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
June 27, 2017

City of Wadena, Minnesota

Schedule of Expenditures of Federal Awards and Notes to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2016

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Pass Through Entity Identifying Number | Federal CFDA Number | Expenditures |
|---|---|---------------------------|---|
| Department of Defense <i>Passed through the State of Minnesota</i> National Guard Operations | P0116X01SRM | 12.401 | \$ 2,969 |
| Department of Transportation <i>Passed through the State of Minnesota</i> Airport Improvements | 8001-26 | 20.106 | 418,974 |
| Environmental Protection Agency <i>Passed through the State of Minnesota</i> Clean Water Revolving Fund | MPFA-11-0118-R-FY16 | 66.458 | \$ 1,552,364 |
| Clean Water Revolving Fund with Principal Forgiveness Total CFDA 66.458 | MPFA/MPFG-15-0051-R-FY16 | 66.458 | <u>2,052,973</u> |
| Drinking Water Revolving Fund | MPFA-15-0009-R-FY16 | 66.468 | <u>\$ 3,605,337</u> <u>1,402,136</u> |
| Total Environmental Protection Agency | | | 5,007,473 |
| Department of Homeland Security <i>Passed through the State of Minnesota</i> Disaster Recovery Grant | DR-1921 | 97.036 | <u>102,647</u> |
| Total Federal Financial Assistance | | | <u>\$ 5,532,063</u> |

Notes to Schedule of Expenditures of Federal Awards

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. The City received federal awards indirectly through pass-through entities.

Note B – Significant Accounting Policies

Governmental and proprietary fund types account for the City’s federal grant activity. Expenditures in the schedule of expenditures of federal awards are recognized on the modified accrual basis – when they become a demand on current available financial resources. The City’s summary of significant accounting policies is presented in Note 1 in the City’s basic financial statements.

The City has elected to use the 10% de minimis cost rate.

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

| | |
|--|---------------|
| Type of auditor's report issued: | Unmodified |
| Internal control over financial reporting: | |
| Material weaknesses identified | Yes |
| Significant deficiencies identified not considered to be material weaknesses | None reported |
| Noncompliance material to financial statements noted? | No |

FEDERAL AWARDS

| | |
|--|---------------|
| Internal control over major program: | |
| Material weaknesses identified | No |
| Significant deficiencies identified not considered to be material weaknesses | None reported |
| Type of auditor's report issued on compliance for major programs: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516: | No |

Identification of major programs:

| <u>Name of Federal Program</u> | <u>CFDA Number</u> |
|--|--------------------|
| Clean Water Revolving Fund | 66.458 |
| Dollar threshold used to distinguish between Type A and Type B programs: | \$ 750,000 |
| Auditee qualified as low-risk auditee? | No |

Section II – Financial Statement Findings

**2016-A Material Journal Entries
 Material Weakness**

Criteria: A good system of internal control contemplates an adequate system for recording and processing entries material to the financial statements.

Condition: During the course of our engagement, we proposed numerous material audit adjustments, including prior period adjustments, which would not have been identified as a result of the City's existing internal controls, and therefore could have resulted in a material misstatement of the City's financial statements.

Cause: The City does not have an internal control system designed to identify all necessary adjustments.

Effect: This control deficiency could result in a material misstatement to the financial statements that would not be prevented or detected.

Recommendation: A thorough review and reconciliation of accounts in each fund should take place prior to the beginning of the audit. This review should be done at both the accounting staff and accounting supervisory levels.

View of Responsible Officials: Management of the City is in agreement with the finding.

**2016-B Preparation of Financial Statements
 Material Weakness**

Criteria: A good system of internal accounting control contemplates an adequate system for recording and processing entries material to the financial statements, and the ability to internally prepare their financial statements.

Condition: The City does not have an internal control system designed to provide for the preparation of the financial statements being audited. The auditors were requested to, and did, draft the City's financial statements and accompanying notes to the financial statements.

Cause: The City does not have an internal control system designed to provide for the preparation of the financial statements being audited.

Effect: The financial disclosures in the financial statements could be incomplete.

Recommendation: This circumstance is not unusual in a City of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

View of Responsible Officials: Management of the City is in agreement with the finding.

**2016-C Preparation of the Schedule of Expenditures of Federal Awards
Material Weakness**

Criteria: As described in the Uniform Guidance, auditees must complete the Schedule of Expenditures of Federal Awards and include Catalog of Federal Domestic Assistance (CFDA) title and numbers provided in Federal awards/subawards and associated expenditures.

Condition: During the course of our engagement, we assisted with the preparation of the Schedule of Expenditures of Federal Awards as the City did not properly include all federal expenditures, CFDA numbers, and additional pass through agency federal expenditures.

Cause: The lack of proper communication between management and pass-through agencies regarding the federal funding identification.

Effect: There were additional federal expenditures that were not properly identified in the Schedule of Expenditures of Federal Awards. This control deficiency could result in a misstatement to the Schedule of Expenditures of Federal Awards that would not be prevented or detected.

Recommendation: Develop a system in identifying and tracking the following information for each control: pass-through agency, Catalog of Federal Domestic Assistance (CFDA) title and number, award number and year, and name of the federal agency.

View of Responsible Officials: Management of the City is in agreement with the finding.

**2016-D Lack of Approval for Reimbursements
Material Weakness**

Criteria: A good system of internal accounting control contemplates an adequate system for reviewing and approving reimbursable expenses incurred on behalf of department head's.

Condition: During the course of our engagement, we noted instances of reimbursement requests paid to department head's without being reviewed and approved.

Cause: The City does not have an official policy in place to review and approve reimbursement requests.

Effect: This control deficiency could result in payments being made for inappropriate expenditures.

Recommendation: The City Administrator should review and approve department head's reimbursement requests to ensure reimbursements are appropriate.

View of Responsible Officials: Management of the City is in agreement with the finding.

**2016-E Electric Utility Billing
Material Weakness**

Criteria: A good system of internal accounting control contemplates an adequate system for ensuring the billing system is billing customers at the approved rates.

Condition: During the course of our engagement we noted there was a period of time that commercial customers were being charged incorrect rates per the approved rate schedule.

Cause: The approved rate was not updated within the billing software and billed commercial utilities incorrectly.

Effect: This control deficiency could result in electric utility sales and receivables to not be properly recorded.

Recommendation: Proper controls are in place to ensure approved rates are updated timely in the billing software.

View of Responsible Officials: Management of the City is in agreement with the finding.

Section III – Federal Award Findings and Questioned Costs

No findings reported in the current year

Section IV – Minnesota Legal Compliance Findings

2016-F Pledged Collateral

Criteria: A good system of internal control contemplates an adequate system for monitoring the requirements of pledged collateral.

Condition: Minnesota statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by federal deposit insurance or corporate security bonds. The City's pledged collateral did not meet this requirement at December 31, 2016 for Mid Central Federal Savings Bank and Wadena State Bank. The City's deposits were under collateralized at Mid Central Federal Savings Bank and Wadena State Bank by approximately \$10,100 and \$951,600, respectively, at December 31, 2016.

Cause: The City does not have an internal control system designed to properly monitor the requirements of pledged collateral.

Effect: The City was not in compliance with Minnesota statutes. Additionally, noncompliance increases the custodial risk of the City.

Recommendation: The City needs to periodically review its pledged collateral to ensure compliance.

View of Responsible Officials: Management of the City is in agreement with the finding.