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# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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Year Ended December 31, 2016

Owatonna, Minnesota

# **CITY OF OWATONNA, MINNESOTA**

## **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED DECEMBER 31, 2016**

DEPARTMENT OF FINANCE

Rhonda L. Moen, CPA, CPFO  
Finance Director

Member of the Government Finance Officer's Association

Of the United States and Canada

**CITY OF OWATONNA, MINNESOTA**  
**Comprehensive Annual Financial Report**  
For the year ended December 31, 2016

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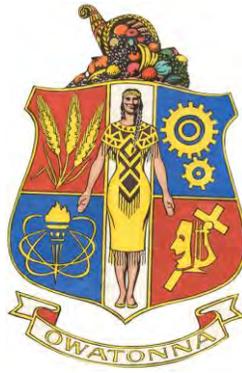
**CITY OF OWATONNA, MINNESOTA**  
**Comprehensive Annual Financial Report**  
For the year ended December 31, 2016

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# **INTRODUCTORY SECTION**

# THE CITY OF



# OWATONNA

Kris Busse  
City Administrator

540 West Hills Circle  
Owatonna, MN 55060-4794  
Ph. (507) 444-4300  
FAX: (507) 444-4394

May 24, 2017

Honorable Mayor and  
Members of the City Council

State statutes require that the City publish a complete set of audited financial statements. This report is published to fulfill that requirement for the fiscal year ended December 31, 2016.

Management assumes full responsibility for the completeness and reliability of the information contained in this report based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

CliftonLarsonAllen, LLP, Certified Public Accountants, have issued an unmodified ("clean") opinion on the City of Owatonna's financial statements for the year ended December 31, 2016. The independent auditors' report is located at the front of the financial section of this 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. The analysis complements this letter of transmittal and should be read in conjunction with it.

## **Profile of the Government**

The City of Owatonna was organized as a municipality in 1854. The City of Owatonna is located on the Straight River in the heart of Southern Minnesota. The City's characteristic beauty, healthy economy, quality lifestyle and proximity to the Twin Cities Metropolitan Area are factors that have contributed to the City's substantial growth over the last ten years. The population has expanded from over 22,000 to over 25,000 in the last ten years. Owatonna is the county seat of Steele County and is located at the crossroads of Interstate 35 and U.S. Highways 14 and 218.

The City of Owatonna operates under a home rule charter form of government. Policy-making and legislative authority are vested in a governing council (Council) consisting of a mayor and seven other members, all elected on a non-partisan basis. The Mayor position is a non-voting position. Council members serve four-year terms, with half of the council up for election every other year. The mayor and one council member are elected at large, and the remaining members of the Council are elected by ward.

The City provides a full range of services. These services include police and fire protection; the construction and maintenance of streets and other infrastructure; and other recreational and cultural activities. The City also provides water, sewer, storm water, gas and electric services along with the operation of the aquatic center. The financial reporting entity (the City) includes all the funds of the primary government (i.e., the City of Owatonna as legally defined), as well as its component units. A component unit is a legally separate entity for which the primary government is financially accountable. The Owatonna Housing & Redevelopment Authority and the Economic Development Authority are included as discretely presented component units.

The Council is required to hold at least one public hearing in early December of each year for discussion of the budget. Following this hearing, they are required to adopt a budget and certify their levy by December 28 of each year. This annual budget serves as the foundation for the City of Owatonna's financial planning and control. The budget is prepared by fund, department (i.e. street) and cost center (i.e. snow & ice removal). Amendments to the budget need approval from the Council.

## **Local Economy**

Owatonna has developed from its agricultural heritage as a community with a diverse economy, including a strong industrial, financial and service base. Owatonna is the home of many nationally renowned firms such as Federated Mutual Insurance Company, Bosch, Jostens, Wenger Company and others. Owatonna is strategically placed at the crossroads of I-35 and two major US highways, giving it one of the most accessible locations in the Midwest. Highway 14 connects half the employment centers in Southern Minnesota and three-quarters of the top employers. Owatonna consistently ranks among the livable small towns in the country.

The City of Owatonna owns four industrial parks: Crane Creek Industrial Site, Ebeling Industrial Area, Alexander Industrial Park and Sanders Industrial Addition. These four sites total an area of over 200 available acres within 1/2 mile of I-35, fully served by municipal infrastructure and direct rail access to the Dakota, Minnesota and Eastern Railroad, and Union Pacific Railroad.

Owatonna has more than 500 retail, wholesale and professional firms supporting its large industrial base. Boasting over 40 industrial firms, Owatonna's business community provides jobs for a labor force in excess of 17,000 people.

Owatonna is continuing the pattern of strong tax base growth established in 2013-14. The city saw increases in all sectors of building. The total number of permits issued in 2015 was 1,795 with a valuation of \$32 million; this compares with 1,896 permits for 2016 with the valuation doubling to \$64 million. The number of Industrial permits also showed strong growth. There were 53 permits in 2015 with a valuation of \$6.4 million as compared to 74 permits in 2016 with a valuation of \$36.5 million. Commercial permits in 2015 totaled 179 permits with \$10.8 million of valuation. 2016 permits increased to 187 and totaled \$10.2 million. In 2016, the city experienced the highest number of residential permits since 2008. 12 permits were issued in 2015 as compared to 37 permits in 2016.

Local Government Aid (LGA) in 2016 remained essentially flat. It increased by only \$36,000 in accordance with the current formula. The City Council places a high priority on using these funds for necessary infrastructure investments.

The City continued its investment in capital improvement projects that reflect the priorities established in the strategic plan of infrastructure, quality of life, economic vitality, and residential redevelopment. Key items included computer/technology replacements, new voice mail system, Airport hangar bi-fold door replacement, emergency warning siren at Brooktree area, SCBA compressor at the fire station, library window blinds, tennis and fitness center surveillance system and Chase Lake fishing pier. In addition, the city began a limited use of the VRF fund or vehicle replacement fund: squad cars, engineering survey truck, fire department light rescue vehicle and a building and grounds pick-up truck.

Major capital projects completed in 2016 included: street reconstruction on the following streets: Olympic Hills Place NE, 30<sup>th</sup> Place SW, 22<sup>nd</sup> Street SE and Cedardale. Overlays were completed on 3<sup>rd</sup> Avenue NE and Barney Street. Phase I of the North Street reconstruction was also completed. Phase II is scheduled for 2017. The city also continued efforts to address flood mitigation by completing phase 2 of the SE storm water project at 18<sup>th</sup> Street SE and 4<sup>th</sup> Avenue. This \$2.1 million dollar project involved installation of much larger storm sewer pipe to accommodate storm water in the area. Highway 14, a key component of Owatonna's economic development success, received another Corridors of Commerce

grant for \$8.8 million for right of way acquisition from Owatonna to Dodge Center. For Segment 2, all (20) offers have been made to property owners, and all three relocations are being processed.

The City of Owatonna continued its strong growth in the commercial and industrial areas. Viracon, a major employer, has completed a 240,000 square foot addition to its flagship facility. It is in the process of hiring an additional 100 employees. Cybex, who recently had been acquired by Lifetime Fitness, has completed a 150,000 square foot addition and hired an additional 110 employees. Pro-Pet began construction on an 18,000 square feet addition and will add 10 jobs. Bushel Boy has completed construction of a 170,000 square foot greenhouse addition that has increased their production area by 8 acres. In addition, the city received an \$800,000 BDPI grant to fund a public storm water retention pond. Bushel Boy will add 10 jobs when complete. SMMPA, Southern Minnesota Municipal Power Agency is finishing a 38-megawatt power generating station. Construction will be completed this fall with plans to open the facility in 2018. This facility can provide back-up generation to the city if needed.

Other commercial projects included the construction of a 5,000 square foot professional building for commercial tenants and three additional businesses for downtown. The Retail Challenge contest facilitated the opening of all three downtown businesses. The contest was a collaboration between the Economic Development Authority, the Chamber of Commerce and the Owatonna Area Business Development Center. Participants received assistance in developing their business plans and marketing. The winner of the challenge was Straight River Rug Hooking who received 30K worth of incentives and in-kind services. Two finalists, Curly Girlz Candy and Simple Greens also decided to open their businesses after going through the process.

Major residential projects include an additional facility for the Cottages, a memory care facility. Construction began on a second 24- unit facility. A new market rate 33 unit apartment complex called Park Place on Allan began construction in 2016. Gateway II construction was completed which added a 36-unit apartment building with underground parking in the downtown area at a cost of \$5.4 million.

### **Long-term Financial Planning**

Assigned and unassigned fund balance in the general fund is within the recommendation by the Office of the State Auditor. It is recommended that the City maintain a balance between thirty and fifty percent of next year's expenditures.

Included as part of the City's guiding principles are: exercise fiscal responsibility by ensuring the best use of tax dollars; empower employees and boards of the City of Owatonna to perform their duties with efficiency, quality, and the highest regard for the public trust; and accept only the highest standard of legal and ethical behavior by all who are elected or appointed to public office.

### **Major Initiatives**

City council members and department directors met, reviewed and revised the City's three-year strategic plan for the City of Owatonna. After a thorough review of the existing objectives, progress made to date, and mission and vision, a revised plan was developed. Some key focus areas were revised to better fit the Council's current priorities. The strategic objectives for 2014-2016 include infrastructure, economic vitality, quality of life, and residential redevelopment.

#### **Infrastructure**

The objective identified was to develop and implement fiscal sustainability policies to support core services that proactively ensure the health, safety, and welfare of our citizens; attract, develop and retain a high performing municipal workforce; and fund infrastructure needs. Excellent progress was made in this area. The levy and CIP allocation reflected Council priorities. 2016 budget included funding the vehicle replacement fund at 100% as planned. Funding costs for vehicles in this way will more accurately

reflect the true costs in their respective department/program. Improvements at the airport include new fuel cabinets and pumps, completing a runway, taxiway and main apron crack sealing and sealcoat project. The city has continued its sanitary sewer-lining program implemented in 2013. 20,000 linear feet of sewer was lined and 35 manholes were rehabbed in 2016. This important program reduces the amount of inflow and infiltration (I & I) from entering the sanitary sewer system. Reducing I&I secures the WWTP capacity for treatment of sanitary waste and prolongs the timeframe for a capacity expansion of the facility. The city also completed a major upgrade to the Bridge Street Lift station by replacing the valve vault and upgrading three pumps and controls. This site moves one million gallons a day, which is 25% of the total flow to the Wastewater Treatment Plant.

The 10-year long-term facility plan was reviewed and integrated with 5 year CIP, which helps the city, focus on longer term issues/needs. Because of this planning, the city was able to take advantage of an opportunity to secure land for a future fire station on the north side of the community. The site was strategically located to serve future development and obtained at a reasonable price.

Projects that were completed in 2016 that will improve water quality include the following: construction of a storm water retention pond, dredging of two storm ponds and educational workshops for contractors, landscapers and real estate agents. The City also continued with flood mitigation efforts. Phase II of 4<sup>th</sup> Avenue SE project was completed. This project will relieve localized flooding due to undersized storm water pipes. A total of three homes were removed from the flood plain.

### Economic Vitality

This key focus area supports economic development efforts through collaboration with city enterprises, other public entities, Owatonna Partners for Economic Development (OPED) and private entities that attract, retain, and create quality jobs to ensure a diverse economic base, a resilient and growing tax base, and thriving neighborhoods. As detailed previously, staff completed work on four major commercial/industrial projects that added a minimum of 230 jobs to Owatonna and over 578,000 square feet of commercial/industrial space. In an effort to continue to spur investment in the community, Owatonna held its first Micropolitan Summit. The purpose of the summit was to attract site selectors, developers and brokers to the community and encourage economic growth and development. Over 100 participants from Southern Minnesota attended. Because of this Summit, a developer has purchased property and is beginning construction on a \$4.5 million 37-unit apartment building. The city has also received official certification from the State of Minnesota that Owatonna has a shovel ready building site. This will greatly enhance the visibility of land within Owatonna's industrial park. Shovel ready sites are extremely attractive to companies looking to expand relocate or start up. Shovel ready sites simplify the development process and greatly reduce risk by eliminating most of the unknowns from the site selection decision. The State of Minnesota will heavily market these sites at national conferences and trade shows as well as on their property search tool.

### Quality of Life

The objective is to maximize resources that provide quality of life city services and programs, including adherence to the aforementioned city services and economic vitality goals; enhancing conveniences for our citizens, and providing the art, cultural and recreational amenities befitting the size and geographic location of Owatonna. The city continues to make progress in this area. An interactive early literacy play structure was installed in the children's services area of the library. This new structure was funded through the Owatonna Library Foundation. Through a collaboration with Cabela's and the Minnesota DNR a new fishing pier was installed on Lake Chase. A partnership with the Owatonna Softball Association and the Owatonna Foundation resulted in the construction of new dugouts at the Fairgrounds ball field. The Park and Recreation department developed several new and successful programs. They included the following: Party in the Park- Manthey Park, Camp out and a Movie at Brown Park, Calendar Photo Contest, Skate Board and BMX competition and Woofstock at Lake Chase. The City has also entered into a development agreement with a property owner to acquire 16 acres for future a soccer complex. The Owatonna Soccer Association will be donating the funds to cover the acquisition.

### Residential Redevelopment

The objective is to encourage and make effective use of vacant infill properties to blend with existing neighborhoods. The City will proactively pursue redevelopment projects of distressed properties to result in highest and best use. To achieve progress in this focus area, the city acquired three very distressed properties consisting of a triplex, duplex and single family home on Pearl Street. Plans are for demolition in 2017 and a redevelopment project. Three residential properties in the flood plain were removed or demolished. The city also commissioned a housing study that provided a market analysis and demand estimates. This study provides critical information for developers when considering a housing project in Owatonna.

### **Awards and Acknowledgements**

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 of Owatonna for its comprehensive annual financial report for the fiscal year ended December 31, 2015. This was the fifth year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report 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 comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the finance and administration department. Credit is also due to the auditing firm of CliftonLarsonAllen, LLP for their valuable contributions and advice. I would also like to thank the Mayor and City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Owatonna's finances.

Respectfully submitted,



Kris M. Busse  
City Administrator



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**City of Owatonna  
Minnesota**

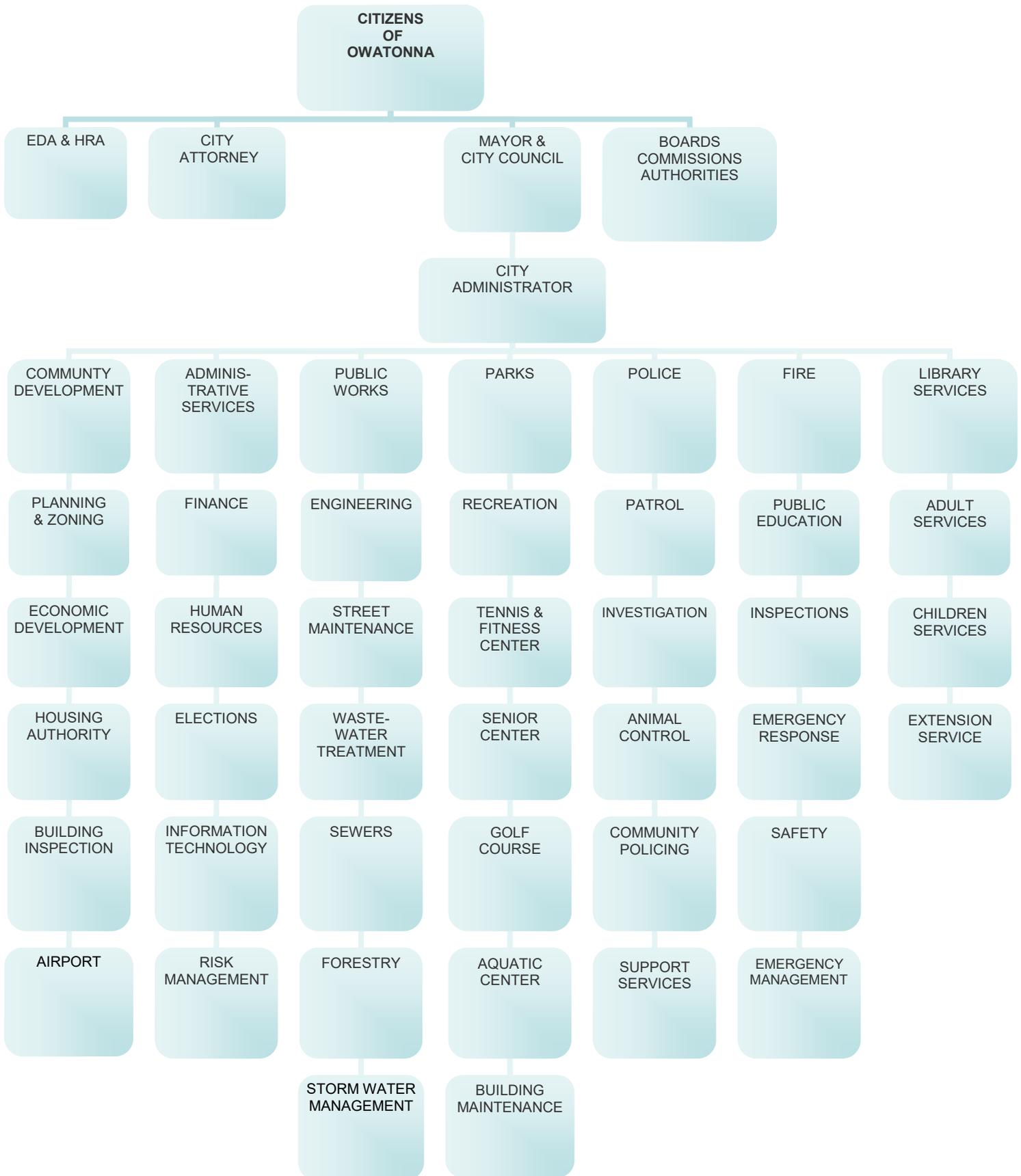
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**December 31, 2015**

Executive Director/CEO

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# City of Owatonna, Minnesota Organization Chart



# City of Owatonna, Minnesota

## Elected and Appointed Officials

December 31, 2016

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### ***City Council:***

Thomas A. Kuntz	Mayor
Les Abraham	Council member at large
Jeff Okerberg	Council member at large
Nathan Dotson	Council member First Ward
Greg Schultz	Council member Second Ward
Dave Burbank	Council member Third Ward
Kevin Raney	Council member Fourth Ward
Brent Svenby	Council member Fifth Ward

### ***City Officials:***

Kris Busse	City Administrator
Kyle Skov	City Engineer/Director of Public Works
Keith Hiller	Chief of Police
Rhonda Moen	Finance Director
Michael J. Johnson	Fire Chief
Troy Klecker	Director of Community Development
James "Corky" Ebeling	Director of Parks & Recreation
Mark M. Walbran	City Attorney

## **FINANCIAL SECTION**

## INDEPENDENT AUDITORS' REPORT

Honorable Mayor and  
Members of the City Council  
City of Owatonna

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

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

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

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

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

Honorable Mayor and  
Members of the City Council  
City of Owatonna

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 governmental activities, the business-type activities, each discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Owatonna, Minnesota as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows, and budgetary comparison for the General Fund, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of a Matter**

For the year ended December 31, 2016, the City restated net position/fund balance in the aggregate discretely presented component unit, Debt Service Fund and Capital Project Fund to correct errors in the previously issued financial statements (See Note I.D.16). Our auditors' opinion was not modified with respect to the restatement.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Funding Progress for Postemployment Benefit Plan, Schedule of Proportionate Share of the Net Pension Liability, the Schedule of Contributions, and the Schedule of Changes in Net Pension Asset and Related Ratios – Relief Association, as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Owatonna, Minnesota's basic financial statements. The introductory section, combining statements, capital assets used in the operation of governmental funds and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Honorable Mayor and  
Members of the City Council  
City of Owatonna

**Other Matters (Continued)**

*Other Information (Continued)*

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

The introductory section 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 our report dated May 24, 2017, on our consideration of the City of Owatonna, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Owatonna, Minnesota's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Austin, Minnesota  
May 24, 2017

## **Management's Discussion and Analysis**

This discussion and analysis is intended to be an easily readable analysis of the City of Owatonna's (City) financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the Transmittal Letter found on pages 1-5 and with the financial statements that follow.

### **Financial Highlights**

- The assets and deferred outflows of resources of the City of Owatonna exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$226,079,226 (net position). Of this amount, \$46,622,147 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$1,671,816.
- As of the end of the current fiscal year, the City of Owatonna's governmental funds reported combined ending fund balances of \$23,796,827, a decrease of \$874,660 from the previous year. Over 68% of this amount, \$16,270,605, is available for spending at the government's discretion (assigned, committed and unassigned fund balance).
- At the end of the current fiscal year, the assigned, committed and unassigned fund balance for the general fund was \$10,145,863, or 56.2% of total general fund expenditures for 2016.
- The City of Owatonna's long-term debt increased. Although, the City issued bonds in 2016, the increase is primarily due to the increase in pension liability from the previous year. The pension liability for governmental activities increased \$11,689,910 and for business-type activities \$2,570,261.

### **Overview of the Financial Statements**

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

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

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

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

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

- The Statement of Activities presents information showing how the City's net position changed during the most recent 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 periods (e.g. uncollected taxes and earned, but unused absences).

Both of the government-wide financial statements distinguish functions of the City of Owatonna 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 of Owatonna include general government, public safety, public works, culture and recreation, and housing and economic development. The business-type activities of the City of Owatonna include a sewer utility, storm water utility, and a municipal electric, water, and gas utility. The electric, water and gas utility, comprising the Owatonna Public Utilities, are under the direction of their Board of Commissioners.

The government-wide financial statements include not only the City of Owatonna itself (known as the primary government), but also a legally separate Housing and Redevelopment Authority (HRA) and Economic Development Authority (EDA) for which the City of Owatonna is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 26-29 of this report.

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

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

The City of Owatonna maintains 17 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 the capital projects fund, all of which are considered major funds. Data from the other 14 funds are combined into a single, aggregate presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Owatonna 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.

The basic governmental fund financial statements can be found on pages 32-41 of this report.

Proprietary funds. The City of Owatonna maintains five different proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Owatonna uses enterprise funds to account for its sewer utility, storm water utility, and electric, water and gas utilities. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Owatonna's various functions. The City of Owatonna uses internal service funds to account for its risk management program and its vehicle replacement program. Because these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

The proprietary fund statements 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 sewer fund, storm water fund, and the municipal electric, water, and gas funds, which are considered to be major funds of the City of Owatonna. The data from the aquatic center which was the only nonmajor enterprise fund has been transferred to the general fund as of January 1, 2016.

The basic proprietary fund financial statements can be found on pages 42-47 of this report.

**Notes to the basic financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 49-85 of this report.

**Other information.** Readers desiring additional information on nonmajor funds can find it in the Combining Statements of Nonmajor Funds section of this report. Completing the financial section of the report are schedules on capital assets and other financial schedules. Finally, the statistical section presents trend information, revenue capacity information, debt capacity information, demographics and economic information, and operating information.

## **City as a Whole**

### *Government-wide Financial Statements*

Net Position serves as a useful indicator of a government's financial position. For the City of Owatonna, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$226.1 million at the end of the current year. The largest portion of the City's net position are invested in capital assets (e.g. land, building, equipment and streets) and reported net of related outstanding debt (\$169.0 million, or 74.8%). The City uses these capital assets to provide services to its citizens; thus they do not represent resources available for future spending. An additional portion of the City of Owatonna's net position (\$10.4 million or 4.6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$46.7 million or 20.6%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Owatonna is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The City's financial position improved during 2016 with their net position increasing by \$1.7 million from \$224.4 million, as restated, to \$226.1 million.

A condensed version of the Statement of Net Position at December 31, 2016 follows:

	<b>Net Position at Year-end</b>				
	(in millions)				
	Governmental Activities		Business-type Activities		Total Government
	2016	2015	2016	2015	2016
Cash and investments	\$24.7	\$25.9	\$41.1	\$38.1	\$65.8
Other assets	6.8	6.7	10.4	9.5	17.2
Capital assets	89.2	86.2	98.5	98.7	187.7
Total assets	<u>120.7</u>	<u>118.8</u>	<u>150.0</u>	<u>146.3</u>	<u>270.7</u>
Deferred outflows of resources	<u>12.4</u>	<u>1.5</u>	<u>2.9</u>	<u>.6</u>	<u>15.3</u>
Other liabilities	1.6	1.6	7.8	7.0	9.4
Long term outstanding	30.8	20.3	16.6	12.4	47.4
Total liabilities	<u>32.4</u>	<u>21.9</u>	<u>24.4</u>	<u>19.4</u>	<u>56.8</u>
Deferred inflows of resources	<u>2.3</u>	<u>1.1</u>	<u>.8</u>	<u>.4</u>	<u>3.1</u>
Net position:					
Net investment in capital assets	80.1	76.0	88.9	90.8	169.0
Restricted	10.4	11.9			10.4
Unrestricted	7.9	9.4	38.8	36.3	46.7
Total net position	<u>\$98.4</u>	<u>\$97.3</u>	<u>\$127.7</u>	<u>\$127.1</u>	<u>\$226.1</u>

**Governmental activities.** Governmental activities provided a \$1.1 million increase to the City's net position. A key element of this increase is as follows:

- The capital assets of the aquatic center were transferred from business-type activities to governmental activities in the current year. That resulted in an increase of \$3.0 to the City's net position.

A condensed version of the Statement of Activities follows:

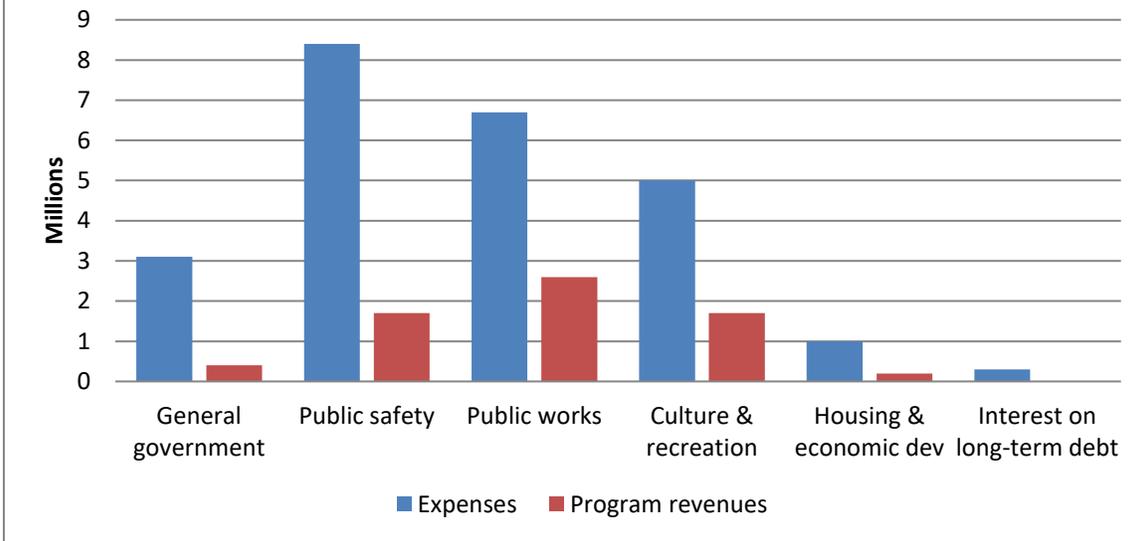
**Governmental and Proprietary Activities**  
**For the year ended December 31, 2016**  
(in millions)

	Governmental Activities		Business-type Activities		Total Government
	2016	2015	2016	2015	2016
<b>Revenues</b>					
<b>Program revenues</b>					
Charges for services	\$3.2	\$2.7	\$59.4	\$56.8	\$62.6
Grants and contributions					
Operating	1.5	1.4			1.5
Capital	2.0	3.4	.2		2.2
<b>General revenues</b>					
Taxes	11.3	10.6	.2	.3	11.5
Interest	.1	.2	.3	.3	.4
Sale of capital assets					
Grants and contributions	4.2	4.1			4.2
<b>Total revenues</b>	<u>22.3</u>	<u>22.4</u>	<u>60.1</u>	<u>57.4</u>	<u>82.4</u>
<b>Expenses</b>					
General government	3.1	2.9			3.1
Public safety	8.4	6.3			8.4
Public works	6.7	7.3			6.7
Culture and recreation	5.0	4.6			5.0
Housing & economic dev	1.0	.7			1.0
Miscellaneous					
Interest on long-term debt	.3	.3			.3
Sewer			3.0	2.5	3.0
Storm water			.7	.5	.7
Aquatic center				.3	
Electric			37.7	34.6	37.7
Water			3.0	3.2	3.0
Gas			11.8	13.1	11.8
<b>Total expenses</b>	<u>24.5</u>	<u>22.1</u>	<u>56.2</u>	<u>54.2</u>	<u>80.7</u>
Excess (deficiency) before transfers	(2.2)	.3	3.9	3.2	1.7
Transfers	3.3	.1	(3.3)	(.1)	
Change in net position	1.1	.4	.6	3.1	1.7
Beginning net position	97.3	103.3	127.1	127.9	224.4
Restatement		(6.4)		(3.9)	
<b>Ending net position</b>	<u>\$98.4</u>	<u>\$97.3</u>	<u>\$127.7</u>	<u>\$127.1</u>	<u>\$226.1</u>

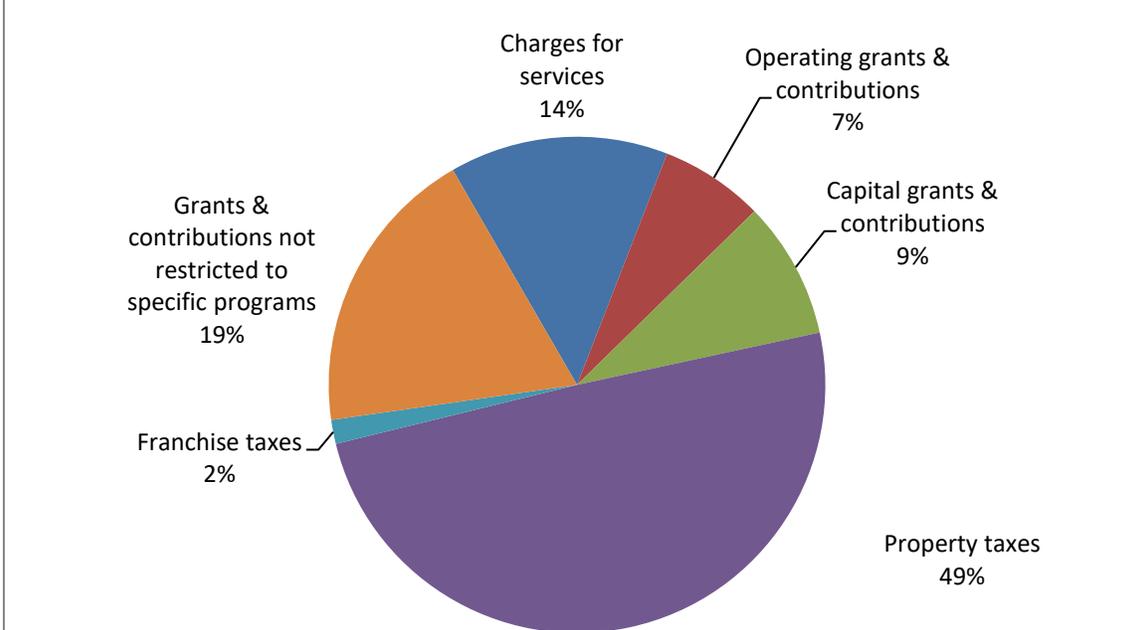
**Business-type activities.** Business-type activities provided a \$0.6 million increase to the City's total net position. Key elements of this increase are as follows:

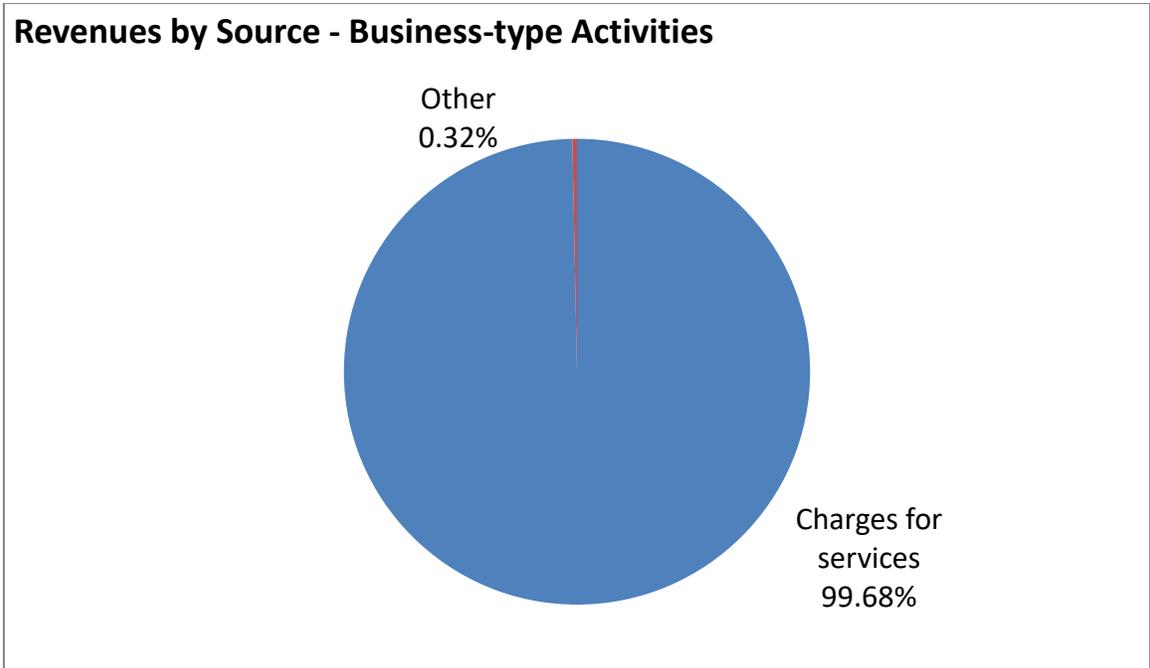
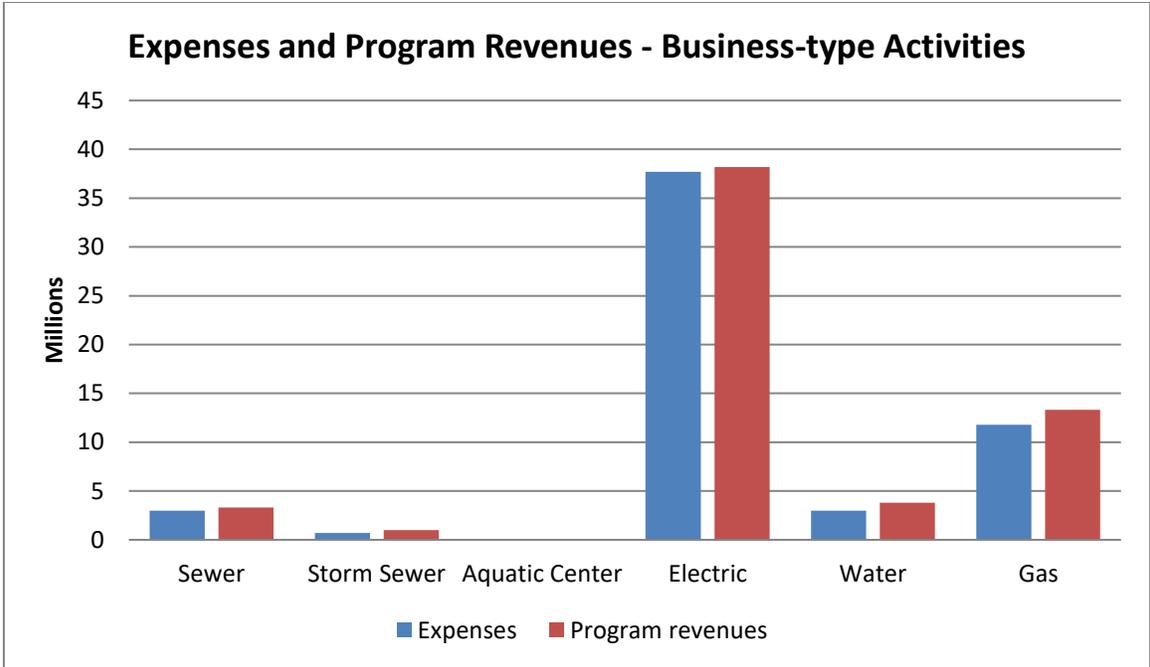
- \$2.9 million increase is attributable to the operations of the municipal electric, gas, and water utilities.
- The Sewer fund had a gain from operations of \$0.6 million.
- The storm water fund implemented new rates in 2016 following the completion of a rate study. \$0.7 increase is attributable to the storm water operations.
- The aquatic center which has been included in business-type activities was transferred to governmental activities in 2016, resulting in a \$3.3 transfer of capital assets.

### Expenses and Program Revenues - Governmental Activities



### Revenues by Source - Governmental Activities





## Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City of Owatonna's governmental funds reported combined ending fund balances of \$23.8 million, a \$0.9 million decrease from the prior year. Over half of this total amount (\$16.3 million) constitutes assigned, committed and unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is not available for new spending because it is already either in nonspendable form, or restricted for 1) various capital projects (\$2.5 million), or 2) debt service (\$4.8 million), or 3) a variety of other restricted purposes (\$0.2 million).

The general fund is the chief operating fund of the City of Owatonna. At the end of the current fiscal year, assigned and unassigned fund balance of the general fund was \$10.1 million, while total fund balance was \$10.4 million. As a measure of the general fund's liquidity, it may be useful to compare assigned and unassigned fund balance and total fund balance to total fund expenditures for 2016. Assigned and unassigned fund balance represents 56.2% of total general fund expenditures, while total fund balance represents 57.6% of that same amount.

The fund balance of the City of Owatonna's general fund decreased by \$0.1 million during the current fiscal year. Key factors in this decline are as follows:

- With the transfer of the aquatic center to the general fund, a previous advance to the aquatic center was written off in the amount of \$0.1 million.

The debt service fund has a fund balance of \$4.8 million, all of which is restricted for the payment of debt service. The net decrease in fund balance during the current year was \$0.7 million following a restatement of beginning fund balance (\$0.6 million) due to an overstatement of receivables. The government collected \$1.1 million in debt service levy and \$0.8 million in assessments. \$1.8 million in debt was retired in 2016 plus \$0.2 million in interest costs. Additionally, by depositing pre-paid assessments and other money with a refunding escrow agent, the City defeased \$0.8 million in bonds. The debt service fund received a transfer of \$0.2 million from a non-major governmental fund which represented tax increment collected for the purpose of paying TIF bonds.

The capital projects fund has a fund balance of \$6.8 million, of which \$0.4 million is restricted for specific capital projects, \$5.2 million has been assigned for future capital projects and the council has committed \$1.1 million for specific capital projects. There was an increase of \$0.8 million in fund balance during the current year. The capital projects fund received improvement bond proceeds, including premium, of \$1.4 million in 2016.

The most significant changes in fund balance for the nonmajor governmental funds was in the Sales Tax fund. The Owatonna Art Center sales tax project was started in 2015. This project was to be financed partly with sales tax revenue and partly from a contribution from the Art Center. The sales tax fund received a contribution of \$1.1 million in 2015 for the Owatonna Art Center's portion of the project. Capital outlay related to this capital project was \$0.9 million in 2016. This project was completed in 2016.

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

Unrestricted net position at the end of the year was \$15.1 million for the sewer fund, \$1.1 million for the storm water fund, \$22.6 million for the municipal electric, water and gas utilities. The total change in net position was \$0.0 million for the sewer fund, \$0.7 million for the storm water fund, \$2.9 million for the municipal electric, water and gas utilities. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Owatonna's business-type activities.

### **Budgetary Highlights**

The current year budget included expenditures in excess of revenues by \$.03 million for the general fund. Actual expenditures were within the budgeted amount. Additional information on the budget can be found in note III.A. on page 58 of the basic financial statements.

General fund revenues and other financing sources were \$0.3 million over budget primarily due to intergovernmental revenues and charges for services.

### **Capital Assets and Debt Administration**

**Capital Assets.** The City of Owatonna's investment in capital assets for its governmental and business-type activities as of December 31, 2016, amounts to \$187.7 million (net of accumulated depreciation). This investment in capital assets includes land and other rights, building, improvements, equipment, park facilities, roads, bridges, and utility systems. The total increase in the City of Owatonna's investment in capital assets for the current fiscal year was 1.5% (a 3.5% increase for governmental activities and a 0.2% decrease for business-type activities).

Major capital asset events during the current year included the following:

- Transfer of aquatic center capital assets from business-type activities to governmental activities of \$3.0 million
- Completion of the art center project (\$1.6million) and JC Park Pavillion (\$0.3 million) of which \$0.9 million were in process at the end of the prior year.
- Vehicle acquisitions of \$0.8 million.
- Street reconstruction projects including Mineral Springs Parkway and the 2016 Street and Utility project for \$1.6 million.
- There were \$0.3 million in storm water improvements completed as part of the current year street improvement projects.
- Various system improvements were completed for the municipal water, electric and gas utilities at cost of \$8.0 million of which \$3.0 million were in process at the end of the prior year.

**Capital Assets at Year-end**  
(in millions)

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Land and other rights	\$8.3	\$7.7	\$2.9	\$2.8	\$11.2	\$10.5
Buildings	22.5	17.1	47.3	51.3	69.8	68.4
Improvements	1.0	1.0			1.0	1.0
Equipment	13.6	12.6	17.0	17.3	30.6	29.9
Infrastructure	110.0	108.4	90.3	87.5	200.3	195.9
Construction in Progress		1.4	6.4	3.3	6.4	4.7
Subtotal	155.4	148.2	163.9	162.2	319.3	310.4
Accumulated depreciation	66.2	62.0	65.4	63.5	131.6	125.5
Capital assets, net	<u>\$89.2</u>	<u>\$86.2</u>	<u>\$98.5</u>	<u>\$98.7</u>	<u>\$187.7</u>	<u>\$184.9</u>

Additional information on the City's capital assets can be found in note IV.D. on pages 63-64 of the basic financial statements.

**Long-term Debt.** At year-end, the City had \$18.0 million in bonds and notes outstanding. There was \$5.6 million of debt issued in 2016. There was a total of \$5.5 million in debt retired during the year, \$2.5 million routine annual debt service payments and \$3.0 million paid to an refunding escrow agent resulting in defeasance of debt.

**Debt Outstanding at Year-end**  
(in millions)

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
G.O. Bonds	\$1.6	\$1.8			1.6	1.8
G.O. Improvement Bonds	6.1	7.1			6.1	7.1
G.O. Tax Increment Bonds	1.0	1.1			1.0	1.1
G.O. Revenue Bonds			\$4.3	\$2.4	4.4	2.4
Revenue Bonds			5.0	5.5	5.0	5.5
Total bonds payable	<u>\$8.7</u>	<u>\$10.0</u>	<u>\$9.3</u>	<u>\$7.9</u>	<u>\$18.0</u>	<u>\$17.9</u>

The City's bond rating is Aa2 from Moody's Investor Services. Other obligations include compensated absences. More detailed information on the City's long-term liabilities is presented in note IV.G. on pages 66-70 of the basic financial statements.

## **Economic Factors and Next Year's Budgets and Rates**

- The State of Minnesota is now forecasting surpluses. What this will mean for LGA funding in the future is uncertain. LGA funding continues to be a contentious issue each legislative session. Recent increases have aided in the budgeting process, but the uncertainty of future LGA does create a challenge.
- The City of Owatonna has established an internal service fund to serve as a vehicle replacement fund. This has resulted in an increase to the operating budget of the general fund with the intention of eventually decreasing the demands on the capital projects funds.
- The City of Owatonna has seen its population increase 14.1% since the 2000 census.
- The City of Owatonna has seen local unemployment rates improve as well as development activity has resumed.

Unrestricted fund balance in the general fund is within the recommendation by the Office of the State Auditor. It is recommended that the city maintain a balance between thirty and fifty percent of fund operating revenues or no less than 5 months of operating expenditures. The committed, assigned and unassigned fund balance of the general fund, which is the equivalent of "unrestricted fund balance" at the end of the current fiscal year equaled 54.5% of next years' budgeted expenditures.

## **Financial Contact**

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, please contact the City's Finance Director at 540 West Hills Circle, Owatonna, Minnesota 55060.

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# **BASIC FINANCIAL STATEMENTS**

**CITY OF OWATONNA, MINNESOTA**  
**Statement of Net Position**  
December 31, 2016

	<b>Primary Government</b>			<b>Component Units</b>	
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Housing &amp; Redevelopment Activities</b>	<b>Economic Development Activities</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$5,456,164	\$9,138,103	\$14,594,267	\$208,236	\$547,359
Investments	19,236,012	31,930,323	51,166,335		1,500,000
Interest receivable	94,882		94,882		125
Taxes receivable - delinquent	158,157		158,157	2,053	
Accounts receivable	159,898	6,914,409	7,074,307	22,416	23,254
Assessments receivable	2,835,056	68,786	2,903,842		
Due from other governments	1,967,773	72,019	2,039,792	30,164	
Due from component units	1,848		1,848		
Inventories	38,695	803,604	842,299		
Other current assets		2,046,278	2,046,278	54,380	2,554,179
Loans receivable	68,593		68,593	6,170	884,405
Prepaid items	235,766	17,000	252,766		
Internal balances	199,708	(199,708)			
Restricted assets:					
Cash and cash equivalents				28,419	
Other assets		660,343	660,343		
Net Pension Asset	1,059,067		1,059,067		
Capital assets:					
Land and land rights	8,274,966	2,905,772	11,180,738		252,156
Buildings	22,521,728	47,325,068	69,846,796	95,362	
Improvements other than buildings	997,378		997,378		
Equipment	13,629,248	16,963,814	30,593,062		
Infrastructure	110,027,161	90,274,728	200,301,889		
Construction in progress	5,920	6,427,071	6,432,991		
Less: accumulated depreciation	(66,278,821)	(65,366,696)	(131,645,517)	(15,394)	
<b>Total assets</b>	<b>120,689,199</b>	<b>149,980,914</b>	<b>270,670,113</b>	<b>431,806</b>	<b>5,761,478</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Pension related	12,420,182	2,890,720	15,310,902		

<b>LIABILITIES</b>					
Accounts payable	\$1,141,203	\$6,970,596	\$8,111,799	\$30,634	\$149,313
Accrued wages	302,801	12,604	315,405		
Accrued interest payable	70,560	66,818	137,378		
Deposits	24,550		24,550	7,778	
Surcharges payable	19,351		19,351		
Unearned revenue	57,652	717,119	774,771	58,073	1,100
Due to other governments				17,678	
Due to primary government					1,848
Noncurrent liabilities:					
Due within one year	2,462,186	570,000	3,032,186		
Due in more than one year	28,348,552	16,079,032	44,427,584		
	<u>32,426,855</u>	<u>24,416,169</u>	<u>56,843,024</u>	<u>114,163</u>	<u>152,261</u>
<b>Total liabilities</b>					
	<u>32,426,855</u>	<u>24,416,169</u>	<u>56,843,024</u>	<u>114,163</u>	<u>152,261</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Pension related	2,283,998	698,533	2,982,531		
Gain on bond refunding		76,234	76,234		
	<u>2,283,998</u>	<u>774,767</u>	<u>3,058,765</u>		
<b>NET POSITION</b>					
Net investment in capital assets	80,110,407	88,935,574	169,045,981	79,968	252,156
Restricted for:					
Library Hunewill	16,500		16,500		
Net pension asset	1,059,067		1,059,067		
Debt service	6,818,277		6,818,277		
Dam repair	42,842		42,842		
Grant projects	21		21		
Capital projects	2,468,263		2,468,263		
Housing voucher program				(20,530)	
Economic development	6,128		6,128		5,349,752
Unrestricted	7,877,023	38,745,124	46,622,147	258,205	7,309
	<u>7,877,023</u>	<u>38,745,124</u>	<u>46,622,147</u>	<u>258,205</u>	<u>7,309</u>
<b>Total Net Position</b>					
	<u>\$98,398,528</u>	<u>\$127,680,698</u>	<u>\$226,079,226</u>	<u>\$317,643</u>	<u>\$5,609,217</u>

The notes to the basic financial statements are an integral part of this statement.

**CITY OF OWATONNA, MINNESOTA**  
**Statement of Activities**  
For the year ended December 31, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$3,099,636	\$354,171	\$17,171	
Public safety	8,377,228	821,115	912,760	
Public works	6,691,503	658,045	182,917	\$1,806,513
Culture and recreation	5,040,588	1,308,683	387,125	
Housing & economic development	1,063,892	19,528		178,929
Interest on long-term debt	287,028			
Total governmental activities	<u>24,559,875</u>	<u>3,161,542</u>	<u>1,499,973</u>	<u>1,985,442</u>
Business-type activities:				
Sewer	3,006,694	3,322,407		21,986
Storm water	682,131	784,774		166,149
Aquatic center				
Electric	37,738,830	38,219,579		
Water	3,046,878	3,804,917		
Gas	11,789,863	13,266,847		
Total business-type activities	<u>56,264,396</u>	<u>59,398,524</u>		<u>188,135</u>
Total primary government	<u>\$80,824,271</u>	<u>\$62,560,066</u>	<u>\$1,499,973</u>	<u>\$2,173,577</u>
Component Units:				
Housing & redevelopment authority	\$1,173,833	\$32,154	\$944,068	
Economic development authority	1,132,972	130,391	600,000	
Component Unit	<u>\$2,306,805</u>	<u>\$162,545</u>	<u>\$1,544,068</u>	

General revenues:  
Property taxes  
Lodging tax  
Franchise taxes  
Grants and contributions not restricted to specific programs  
Unrestricted investment earnings  
Transfers  
Total general revenues and transfers

Change in net position

Net position – beginning  
As previously reported  
Restatement  
As restated

Net position – ending

The notes to the basic financial statements are an integral part of this statement.



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## **Major Funds**

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### **Governmental**

#### ***General Fund***

This fund accounts for the financial operations of the City that are not accounted for in any other fund. Principal sources of revenue are state and county shared revenue and property taxes.

#### ***Debt Service Fund***

This fund was established to account for the accumulation of special assessments levied against property for improvements which are a benefit to such property, the debt service tax levy for the non-assessable portion of projects, and any other source of funding related to debt service. These resources are used for the payment of principal and interest on the debt of the City.

#### ***Capital Projects Fund***

This fund was established to account for financial resources to be used for the acquisition or construction of major capital assets. This includes street improvement projects as well as capital asset purchases.

### **Proprietary**

The City's enterprise funds are used to account for self-supporting activities that render services to the general public on a user charge basis.

#### ***Sewer Fund***

This fund accounts for the income and expenses in the operation of the sanitary sewer collection function and wastewater treatment.

#### ***Storm Water Fund***

This fund accounts for the income and expenses in the operation of the storm water management function.

#### ***Electric Utility Fund***

This fund accounts for the income and expenses in the operation of the electric distribution function.

#### ***Water Utility Fund***

This fund accounts for the income and expenses in the operation of the water distribution function.

#### ***Gas Utility Fund***

This fund accounts for the income and expenses in the operation of the gas distribution function.

**CITY OF OWATONNA, MINNESOTA**  
**Balance Sheet**  
**Governmental Funds**  
December 31, 2016

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>
<b>ASSETS</b>			
Cash	\$1,038,190	\$1,897,818	\$180,125
Investments	9,456,012	2,850,000	4,950,000
Interest receivable	94,265		617
Taxes receivable – delinquent	153,481		
Accounts receivable	127,726		
Assessments receivable		2,149,552	685,504
Due from other funds	34,312		82,404
Due from other governments	285,257		1,643,502
Inventories	38,695		
Advance to other funds	121,136		182,310
Loans receivable			68,593
Prepaid items	40,213		
	<u>\$11,389,287</u>	<u>\$6,897,370</u>	<u>\$7,793,055</u>
<b>LIABILITIES</b>			
Accounts payable	\$461,321	\$4,950	\$143,860
Accrued wages	302,801		
Surcharges payable	19,351		
Deposits	24,550		
Unearned revenue	54,802		
Due to other funds		3,583	
Advance from other funds			121,136
Total liabilities	<u>862,825</u>	<u>8,533</u>	<u>264,996</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue	127,838	2,096,413	732,116
Total deferred inflows of resources	<u>127,838</u>	<u>2,096,413</u>	<u>732,116</u>
<b>FUND BALANCES</b>			
Fund Balances			
Nonspendable:			
Prepaid expenses	40,213		
Inventories	38,695		
Advance to other funds	121,136		
Restricted for:			
Library Hunewill			
Debt service		4,792,424	
Dam repair	42,842		
Airport programs	875		
Grant projects			
Capital projects			440,935
Economic development			
Committed for:			
Capital projects			1,114,534
Assigned for:			
Capital projects			5,240,474
Compensated absences/OPEB	2,066,020		
Unassigned	8,088,843		
Total fund balances	<u>10,398,624</u>	<u>4,792,424</u>	<u>6,795,943</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$11,389,287</u>	<u>\$6,897,370</u>	<u>\$7,793,055</u>

The notes to the basic financial statements are an integral part of this statement.

<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
\$498,157	\$3,614,290
1,700,000	18,956,012
	94,882
4,676	158,157
1,566	129,292
	2,835,056
	116,716
39,014	1,967,773
	38,695
	303,446
	68,593
	40,213
<u>\$2,243,413</u>	<u>\$28,323,125</u>
\$187,736	\$797,867
	302,801
	19,351
	24,550
2,850	57,652
56,005	59,588
182,310	303,446
<u>428,901</u>	<u>1,565,255</u>
4,676	2,961,043
<u>4,676</u>	<u>2,961,043</u>
	40,213
	38,695
	121,136
16,500	16,500
	4,792,424
	42,842
	875
21	21
2,026,453	2,467,388
6,128	6,128
	1,114,534
	5,240,474
	2,066,020
(239,266)	7,849,577
<u>1,809,836</u>	<u>23,796,827</u>
<u>\$2,243,413</u>	<u>\$28,323,125</u>

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**CITY OF OWATONNA, MINNESOTA**  
**Reconciliation of the Balance Sheet of**  
**Governmental Funds to the**  
**Statement of Net Position**  
December 31, 2016

Fund balance – total governmental funds	\$23,796,827
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets (net of depreciation) used in governmental activities are not financial resources and therefore are not reported in the funds.	86,138,784
Net Pension Asset is included in the Statement of Net Position	1,059,067
Deferred pension outflows of \$12,420,182 and inflows of \$(2,283,998) are included in the Statement of Net Position	10,136,184
Long-term liabilities, including bonds payable, are not due and payable in the current period and are therefore not reported in the funds.	(30,881,298)
Internal service fund assets and liabilities are included in governmental activities in the Statement of Net Position.	5,187,921
Other long-term assets are not available to pay for current-period expenditures and therefore are unavailable in the funds.	<u>2,961,043</u>
Net Position of Governmental Activities	<u><u>\$98,398,528</u></u>

The notes to the basic financial statements are an integral part of this statement.

**CITY OF OWATONNA, MINNESOTA**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**

For the year ended December 31, 2016

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Capital Projects Fund</b>
<b>REVENUES</b>			
Taxes	\$9,116,931	\$1,134,938	\$305,000
Licenses and permits	428,138		
Intergovernmental revenue	5,527,138		1,269,087
Charges for service	2,132,546		
Fines and forfeits	142,447		
Special assessments		781,056	155,009
Interest on investments	46,174	25,813	46,111
Miscellaneous	341,900		98,488
Total revenues	17,735,274	1,941,807	1,873,695
<b>EXPENDITURES</b>			
Current:			
General government	2,674,639		
Public safety	6,605,121		
Public works	3,850,262		
Culture and recreation	4,495,841		
Housing & economic development	265,470		
Miscellaneous		12,450	
Capital outlay	162,976		2,562,539
Debt service:			
Principal retired		1,765,000	
Interest and service charges		261,237	68,917
Payment to refunding escrow agent		810,000	
Total expenditures	18,054,309	2,848,687	2,631,456
Excess of revenues over (under) expenditures	(319,035)	(906,880)	(757,761)
<b>OTHER FINANCING SOURCES (USES)</b>			
Bond issuance			1,300,000
Premium on bonds			99,109
Transfers out	(263,385)	(225,000)	
Transfers in	527,500	395,590	200,000
Total other financing sources (uses)	264,115	170,590	1,599,109
Net change in fund balance	(54,920)	(736,290)	841,348
Fund balance – beginning			
As previously reported	10,453,544	6,119,004	5,364,305
Restatement		(590,290)	590,290
As restated	10,453,544	5,528,714	5,954,595
Fund balance – ending	\$10,398,624	\$4,792,424	\$6,795,943

The notes to the basic financial statements are an integral part of this statement.

<b>Non-major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$758,816	\$11,315,685
	428,138
73,380	6,869,605
	2,132,546
	142,447
	936,065
16,863	134,961
181,244	621,632
<u>1,030,303</u>	<u>22,581,079</u>
	2,674,639
	6,605,121
	3,850,262
	4,495,841
762,568	1,028,038
134,097	146,547
887,846	3,613,361
	1,765,000
	330,154
	810,000
<u>1,784,511</u>	<u>25,318,963</u>
<u>(754,208)</u>	<u>(2,737,884)</u>
	1,300,000
	99,109
(170,590)	(658,975)
	1,123,090
<u>(170,590)</u>	<u>1,863,224</u>
(924,798)	(874,660)
2,734,634	24,671,487
<u>2,734,634</u>	<u>24,671,487</u>
<u>\$1,809,836</u>	<u>\$23,796,827</u>

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**CITY OF OWATONNA, MINNESOTA**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances of Governmental**  
**Funds to the Statement of Activities**  
For the year ended December 31, 2016

Net change in fund balances – total governmental funds	\$(874,660)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which depreciation (\$3,495,062) exceeded capital outlays (\$3,272,208) in the current period.	(222,854)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	2,702,455
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net position.	1,196,713
The loss on refunding is amortized over the life of the bonds in the statement of activities. There is no impact on the governmental funds.	(3,985)
Net changes in the net pension asset/liability and the additions and amortization of deferred inflows and outflows related to pensions in the Statement of Activities.	(2,074,418)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds	31,595
The net revenue (expense) of the internal service funds is reported with governmental activities.	<u>320,438</u>
Change in Net Position of Governmental Activities	<u><u>\$1,075,284</u></u>

The notes to the basic financial statements are an integral part of this statement.

**CITY OF OWATONNA, MINNESOTA**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual – General Fund**  
For the year ended December 31, 2016

	<u>Budget</u>		<u>(Budgetary Basis) Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes	\$9,051,500	\$9,051,500	\$9,116,931	\$65,431
Licenses and permits	352,905	352,905	428,138	75,233
Intergovernmental revenue	5,367,818	5,422,818	5,527,138	104,320
Charges for service	1,990,462	2,004,462	2,132,546	128,084
Fines and forfeits	204,500	204,500	142,447	(62,053)
Interest on investments	90,000	90,000	46,174	(43,826)
Miscellaneous	307,375	322,375	341,900	19,525
<b>Total revenues</b>	<u>17,364,560</u>	<u>17,448,560</u>	<u>17,735,274</u>	<u>286,714</u>
<b>EXPENDITURES</b>				
Current:				
General government				
Mayor & council	497,921	272,921	247,573	25,348
Administrative services	1,251,180	1,269,810	1,308,133	(38,323)
City attorney	244,621	244,621	228,626	15,995
Government buildings	901,438	915,718	890,307	25,411
<b>Total general government</b>	<u>2,895,160</u>	<u>2,703,070</u>	<u>2,674,639</u>	<u>28,431</u>
Public safety				
Police	4,658,757	4,724,717	4,697,717	27,000
Fire	1,513,278	1,535,368	1,513,342	22,026
Building inspection	370,632	402,862	394,062	8,800
<b>Total public safety</b>	<u>6,542,667</u>	<u>6,662,947</u>	<u>6,605,121</u>	<u>57,826</u>
Public works				
Engineering	836,440	847,150	836,394	10,756
Street maintenance	2,698,468	2,732,468	2,627,159	105,309
Airport	433,218	435,458	386,709	48,749
<b>Total public works</b>	<u>3,968,126</u>	<u>4,015,076</u>	<u>3,850,262</u>	<u>164,814</u>
Culture and recreation				
Library	1,225,576	1,314,316	1,318,959	(4,643)
Park & rec administration	224,649	228,519	297,382	(68,863)
Park maintenance	1,206,679	1,243,279	1,319,066	(75,787)
Recreation – adult	97,095	98,845	85,378	13,467
Recreation – youth	295,510	315,640	332,735	(17,095)
Tennis & fitness center	270,408	273,298	255,403	17,895
Senior center	119,896	121,506	113,335	8,171
Aquatic center	210,121	213,021	209,022	3,999
Brooktree golf course	579,094	606,274	564,561	41,713
<b>Total culture and recreation</b>	<u>4,229,028</u>	<u>4,414,698</u>	<u>4,495,841</u>	<u>(81,143)</u>
Housing & economic development				
Planning & zoning	251,579	255,769	265,470	(9,701)
<b>Total housing &amp; economic develop</b>	<u>251,579</u>	<u>255,769</u>	<u>265,470</u>	<u>(9,701)</u>

(Continued)

The notes to the basic financial statements are an integral part of this statement.

**CITY OF OWATONNA, MINNESOTA**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual – General Fund (Continued)**  
For the year ended December 31, 2016

	<u>Budget</u>		<u>(Budgetary Basis) Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Capital outlay	\$5,500	\$19,500	\$162,976	\$(143,476)
Total expenditures	<u>17,892,060</u>	<u>18,071,060</u>	<u>18,054,309</u>	<u>16,751</u>
Excess of revenues over (under) expenditures	(527,500)	(622,500)	(319,035)	303,465
OTHER FINANCING SOURCES (USES)				
Transfers out		(200,000)	(263,385)	63,385
Transfers in	<u>527,500</u>	<u>527,500</u>	<u>527,500</u>	
Total other financing sources and uses	<u>527,500</u>	<u>327,500</u>	<u>264,115</u>	<u>63,385</u>
Net change in fund balance		(295,000)	(54,920)	366,850
Fund balance – beginning	<u>10,453,544</u>	<u>10,453,544</u>	<u>10,453,544</u>	
Fund balance – ending	<u><u>\$10,453,544</u></u>	<u><u>\$10,158,544</u></u>	<u><u>\$10,398,624</u></u>	<u><u>\$366,850</u></u>

**CITY OF OWATONNA, MINNESOTA**  
**Statement of Net Position**  
**Proprietary Funds**  
December 31, 2016

	<b>Business-type Activities</b>		
	<b>Sewer Fund</b>	<b>Storm Water Fund</b>	<b>Electric Fund</b>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$185,868	\$601,294	\$2,421,135
Investments	14,800,000	700,000	4,524,152
Accounts receivable	7,100		3,812,926
Assessments receivable	68,786		
Due from other funds	706,760	28,650	27,588
Due from other governments	4,586	67,433	
Inventories at cost			578,910
Other assets	17,000		1,579,758
Total current assets	15,790,100	1,397,377	12,944,469
Noncurrent assets:			
Capital assets – net	24,503,492	10,313,384	37,373,487
Land held for future use			
Total noncurrent assets	24,503,492	10,313,384	37,373,487
Total assets	40,293,592	11,710,761	50,317,956
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension related	252,485	40,967	1,273,305
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	107,249	84,032	3,875,698
Accrued wages	11,127	1,477	
Accrued interest payable	25,988	40,830	
Due to other funds			355,812
Unearned revenue			495,736
Accrued compensated absences	50,000		
Notes and bonds payable – net	520,000		
Total current liabilities	714,364	126,339	4,727,246
Noncurrent liabilities:			
Notes and bonds payable – net	4,434,928	4,639,255	
Net pension liability	602,252	97,724	2,981,445
Accrued compensated absences	61,764	2,564	
Accrued OPEB liability	11,482		66,400
Total noncurrent liabilities	5,110,426	4,739,543	3,047,845
Total liabilities	5,824,790	4,865,882	7,775,091
<b>DEFERRED INLFOWS OF RESOURCES</b>			
Pension related	60,762	9,860	307,832
Gain on refunding		76,234	
Total deferred inflows of resources	60,762	86,094	307,832
<b>NET POSITION</b>			
Net investment in capital assets	19,548,564	5,674,129	37,373,487
Unrestricted	15,111,961	1,125,623	6,134,851
Total net position	\$34,660,525	\$6,799,752	\$43,508,338

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds  
**Net Position of Business-type Activities**

The notes to the basic financial statements are an integral part of this statement.

<b>- Enterprise Funds</b>				<b>Governmental Activities</b>
<b>Water Fund</b>	<b>Gas Fund</b>	<b>Nonmajor Fund Aquatic Center Fund</b>	<b>Total Enterprise Funds</b>	<b>Internal Service Funds</b>
\$2,596,017	\$3,333,789		\$9,138,103	\$1,841,874
3,948,457	7,957,714		31,930,323	280,000
347,482	2,746,901		6,914,409	30,606
			68,786	
			762,998	
			72,019	
38,515	186,179		803,604	
110,095	356,425		2,063,278	195,553
<u>7,040,566</u>	<u>14,581,008</u>		<u>51,753,520</u>	<u>2,348,033</u>
14,887,456	11,451,938		98,529,757	3,038,796
	660,343		660,343	
<u>14,887,456</u>	<u>12,112,281</u>		<u>99,190,100</u>	<u>3,038,796</u>
<u>21,928,022</u>	<u>26,693,289</u>		<u>150,943,620</u>	<u>5,386,829</u>
554,817	769,146		2,890,720	
468,726	2,434,891		6,970,596	343,336
			12,604	
			66,818	
464,314			820,126	
95,189	126,194		717,119	
			50,000	
			520,000	
<u>1,028,229</u>	<u>2,561,085</u>		<u>9,157,263</u>	<u>343,336</u>
1,299,105	1,800,958		9,074,183	
			6,781,484	
			64,328	
32,462	48,693		159,037	
<u>1,331,567</u>	<u>1,849,651</u>		<u>16,079,032</u>	
<u>2,359,796</u>	<u>4,410,736</u>		<u>25,236,295</u>	<u>343,336</u>
134,132	185,947		698,533	
			76,234	
<u>134,132</u>	<u>185,947</u>		<u>774,767</u>	
14,887,456	11,451,938		88,935,574	3,038,796
5,101,455	11,413,814		38,887,704	2,004,697
<u>\$19,988,911</u>	<u>\$22,865,752</u>		<u>127,823,278</u>	<u>\$5,043,493</u>
			(142,580)	
			<u>\$127,680,698</u>	

**CITY OF OWATONNA, MINNESOTA**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
For the year ended December 31, 2016

	<b>Business-type Activities</b>		
	<b>Sewer Fund</b>	<b>Storm Water Fund</b>	<b>Electric Fund</b>
OPERATING REVENUES:			
Charges for service	\$3,320,094	\$784,774	\$38,219,579
Miscellaneous	2,313		
Total operating revenues	3,322,407	784,774	38,219,579
OPERATING EXPENSES:			
Operation and maintenance	1,820,234	198,549	30,690,206
Depreciation	950,592	192,420	2,265,775
Utility service contributed to city			1,032,599
Capitalized internal costs			(257,627)
Administrative costs	172,827		4,007,877
Total operating expenses	2,943,653	390,969	37,738,830
Operating income (loss)	378,754	393,805	480,749
Non-operating revenues (expenses)			
Property taxes		247,970	
Intergovernmental revenue	4,586	166,149	
Income (loss) on investments	106,841	10,102	58,705
Sale of capital assets	17,400		
Interest expense and fiscal charges	(75,341)	(291,439)	
Total non-operating revenues (expenses)	53,486	132,782	58,705
Income (loss) before contributions & transfers	432,240	526,587	539,454
Capital contributions		246,973	
Contribution of capital assets to governmental activities			
Transfers in			
Transfer out	(460,500)	(67,000)	
Total contributions & transfers	(460,500)	179,973	
Change in net position	(28,260)	706,560	539,454
Total net position – beginning	34,688,785	6,093,192	42,968,884
Total net position – ending	\$34,660,525	\$6,799,752	\$43,508,338

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds

**Change in Net Position of Business-type Activities**

The notes to the basic financial statements are an integral part of this statement.

<b>- Enterprise Funds</b>				<b>Governmental Activities</b>
<b>Water Fund</b>	<b>Gas Fund</b>	<b>Nonmajor Fund Aquatic Center Fund</b>	<b>Total Enterprise Funds</b>	<b>Internal Service Funds</b>
\$3,804,917	\$13,266,847		\$59,396,211	\$2,993,025
<u>3,804,917</u>	<u>13,266,847</u>		<u>59,398,524</u>	<u>2,993,025</u>
1,219,274	8,998,911		42,927,174	2,181,329
474,750	527,979		4,411,516	502,475
101,193	203,336		1,337,128	
(56,063)	(85,429)		(399,119)	
<u>1,307,724</u>	<u>2,145,066</u>		<u>7,633,494</u>	
<u>3,046,878</u>	<u>11,789,863</u>		<u>55,910,193</u>	<u>2,683,804</u>
<u>758,039</u>	<u>1,476,984</u>		<u>3,488,331</u>	<u>309,221</u>
			247,970	
			170,735	
38,345	118,428		332,421	
			17,400	23,794
			(366,780)	
<u>38,345</u>	<u>118,428</u>		<u>401,746</u>	<u>23,794</u>
796,384	1,595,412		3,890,077	333,015
			246,973	158,285
		\$(3,088,980)	(3,088,980)	
		63,385	63,385	
			(527,500)	
		<u>(3,025,595)</u>	<u>(3,306,122)</u>	<u>158,285</u>
796,384	1,595,412	(3,025,595)	583,955	491,300
<u>19,192,527</u>	<u>21,270,340</u>	<u>3,025,595</u>		<u>4,552,193</u>
<u>\$19,988,911</u>	<u>\$22,865,752</u>			<u>\$5,043,493</u>
			12,577	
			<u>\$596,532</u>	

**CITY OF OWATONNA, MINNESOTA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
For the year ended December 31, 2016

	Sewer Fund	Storm Water Fund	Electric Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$2,909,645	\$784,774	\$35,261,422
Cash payments to suppliers for goods and services	(1,206,950)	(28,984)	(32,441,381)
Cash payments to employees for services	(714,520)	(98,149)	(2,556,577)
Other cash receipts			2,318,660
	<u>988,175</u>	<u>657,641</u>	<u>2,582,124</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Advance from other funds			
Transfer to other funds	(460,500)	(67,000)	
	<u>(460,500)</u>	<u>(67,000)</u>	
<b>CASH FLOWS FROM CAPITAL AND REL. FIN. ACTIVITIES</b>			
Acquisition of capital assets	(774,862)	(2,545,794)	(1,903,781)
Cost of removal, net of salvage	17,400		24,356
Due from other funds – asset acquisition		(28,650)	
Intergovernmental		98,716	
Taxes levied for debt service		247,970	
Net proceeds from revenue bonds		4,639,255	
Principal paid on revenue bonds/notes payable	(513,000)	(2,420,000)	
Interest expense and fiscal charges	(77,808)	(216,808)	
	<u>(1,348,270)</u>	<u>(225,311)</u>	<u>(1,879,425)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of investment securities		(500,000)	(1,397,809)
Proceeds from sale of investment securities	200,000		252,750
Interest on investments	106,841	10,102	24,535
	<u>306,841</u>	<u>(489,898)</u>	<u>(1,120,524)</u>
Net increase (decrease) in cash and cash equivalents	(513,754)	(124,568)	(417,825)
Cash and cash equivalents – beginning of the year	699,622	725,862	2,838,960
Cash and Cash Equivalents – end of the year	<u>\$185,868</u>	<u>\$601,294</u>	<u>\$2,421,135</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Operating income	\$378,754	\$393,805	\$480,749
Adjustments			
Depreciation	950,592	192,420	2,265,775
Net changes in assets and deferred outflows and liabilities and deferred inflows:			
Accounts receivable	3,165		(375,501)
Assessments receivable	551		
Inventories at cost			(31,950)
Other current assets	(433,478)		(129,673)
Accounts payable and accrued expenses	59,885	47,181	108,021
Unearned revenue			(122,185)
OPEB and compensated absences	(12,066)	441	6,812
Pension related	40,772	23,794	380,076
	<u>\$988,175</u>	<u>\$657,641</u>	<u>\$2,582,124</u>
<b>Noncash investing, capital, and financing activities:</b>			
Gain on refunding		\$77,590	
Amortization of gain on refunding		(10,637)	
Capital Contribution		246,973	

The notes to the basic financial statements are an integral part of this statement.

<b>- Enterprise Funds</b>				<b>Governmental Activities</b>
<b>Water Fund</b>	<b>Gas Fund</b>	<b>Nonmajor Fund Aquatic Center Fund</b>	<b>Total Enterprise Funds</b>	<b>Internal Service Funds</b>
\$3,254,017	\$12,143,723		\$54,353,581	\$2,987,752
(1,156,879)	(9,076,163)	\$(1,141)	(43,911,498)	(1,886,266)
(962,616)	(1,525,735)		(5,857,597)	
764,865	753,403		3,836,928	
<u>1,899,387</u>	<u>2,295,228</u>	<u>(1,141)</u>	<u>8,421,414</u>	<u>1,101,486</u>
		385	385	
			(527,500)	
		385	(527,115)	
(1,440,818)	(430,223)		(7,095,478)	(603,436)
	10,000		51,756	35,105
			(28,650)	
			98,716	
			247,970	
			4,639,255	
			(2,933,000)	
			(294,616)	
<u>(1,440,818)</u>	<u>(420,223)</u>		<u>(5,314,047)</u>	<u>(568,331)</u>
(1,716,685)	(3,965,770)		(7,580,264)	
758,250	248,000		1,459,000	
36,036	65,170		242,684	
<u>(922,399)</u>	<u>(3,652,600)</u>		<u>(5,878,580)</u>	
(463,830)	(1,777,595)	(756)	(3,298,328)	533,155
3,059,847	5,111,384	756	12,436,431	1,308,719
<u>\$2,596,017</u>	<u>\$3,333,789</u>		<u>\$9,138,103</u>	<u>\$1,841,874</u>
\$758,039	\$1,476,984		\$3,488,331	\$309,221
474,750	527,979		4,411,516	502,475
197,130	69,275		(105,931)	(5,273)
8,069	(11,409)		551	
20,889	(321,606)		(35,290)	
335,955	623,428	\$(1,141)	(863,868)	(4,544)
19,771	(96,018)		1,173,329	299,607
6,135	8,493		(198,432)	
78,649	18,102		9,815	
			541,393	
<u>\$1,899,387</u>	<u>\$2,295,228</u>	<u>\$(1,141)</u>	<u>\$8,421,414</u>	<u>\$1,101,486</u>
			\$77,590	
			(10,637)	
			246,973	\$158,284

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**CITY OF OWATONNA, MINNESOTA**  
**Notes to the Basic Financial Statements**  
**December 31, 2016**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States. GAAP statements include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the City's policies are described below.

**A. Reporting Entity**

The City of Owatonna (the City) operates under a Home Rule Charter form of government allowed by Minnesota statutes. The City is governed by an elected Mayor and seven-member Council. The Council exercises legislative authority and determines all matter of policy. The Council appoints personnel responsible for the proper administration of all affairs relating to the City. The City has considered all potential units for which it is financially accountable, and other organizations 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 Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

**Individual Component Unit Disclosures**

*Discretely Presented Component Units* – The Owatonna Housing and Redevelopment Authority (HRA) and Economic Development Authority (EDA) serve all the citizens of the City and are governed by City appointed boards.

The HRA was created by the City to carry out certain redevelopment projects. The five-member board is appointed by the Council. The Council reviews and approves HRA tax levies, and the City provides major community development financing for HRA activities. Debt issued for HRA activities are City general obligations. The HRA consists of two separate operations: general operations and housing programs. Separately issued financial statements as of December 31 are available upon request from the Executive Director of the HRA at 540 West Hills Circle, Owatonna, MN.

The EDA was created pursuant to Minnesota statutes 469.090 through 469.108 to carry out economic and industrial development and redevelopment within the City in accordance with policies established by the Council. The seven-member board consists of three Council members and four other Council approved members. The EDA may not exercise any of the powers enumerated by the authorizing statutes without prior approval of the Council. The EDA has a December 31 year end. Separate financial statements are not issued.

**CITY OF OWATONNA, MINNESOTA**  
**Notes to the Basic Financial Statements**  
**December 31, 2016**

**B. Basic Financial Statements**

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Government-wide financial statements report information about the reporting government as a whole. For the most part, the effect of interfund activity has been removed from these statements. Interfund services provided and used are not eliminated as this would distort the direct costs and program revenues reported for the various functions concerned. These statements focus on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the year. These aggregated statements consist of the Statement of Net Position and the Statement of Activities.

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

Fund financial statements report information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified as governmental and proprietary. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are consolidated into a single column in the financial section of the basic financial statements.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be measurable when the amount of the transaction can be determined. Revenues are considered to be available when they are collectible with 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 after year end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

**CITY OF OWATONNA, MINNESOTA**  
**Notes to the Basic Financial Statements**  
**December 31, 2016**

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

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned or unavailable revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as unearned revenue. On the modified accrual basis, receivables that will not be collected within the available period have been reported as unavailable revenue in the fund financial statements.

The City reports the following major governmental funds:

*General fund*

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

*Debt service fund*

This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

*Capital projects fund*

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

The City reports the following major proprietary funds:

*Sewer fund*

This accounts for the operating, maintenance, and capital improvement of the City's sewer utility.

*Storm water fund*

This accounts for the operating, maintenance, and capital improvement of the City's storm water utility.

*Electric fund*

This accounts for the operating, maintenance, and capital improvement of the municipally owned electric utility in the City.

**CITY OF OWATONNA, MINNESOTA**  
**Notes to the Basic Financial Statements**  
**December 31, 2016**

*Water fund*

This accounts for the operating, maintenance, and capital improvement of the municipally owned water utility in the City.

*Gas fund*

This accounts for the operating, maintenance, and capital improvement of the municipally owned gas utility in the City.

Additionally, the City reports the following fund types:

Internal service funds account for services and/or commodities provided to other departments of the City on a cost reimbursement basis. The City has two internal service funds. One fund accounts for payroll and risk management activities for workers compensation insurance, the activities of the group health plan, and property and liability insurance. The other fund accounts for the cost of purchasing vehicles.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

As a general rule the effect of interfund activity has been eliminated from government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's Public Utilities function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for 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 revenues and expenses of the City's enterprise funds and internal service funds are charges to customers for 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.

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

**D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity**

**1. Deposits and Investments**

Cash balances from all funds are pooled and invested to the extent available in investments authorized by Minnesota State Statute and as further authorized by the Council. Earnings from investments are allocated monthly to each fund based on month end balances of cash and investments.

The City's investment policy states funds are to be invested to the maximum extent possible at the highest rates obtainable after considering safety, liquidity, yield and risk factors.

Investments are stated at fair value as of the end of the year, except for non-negotiable certificates of deposit, which are stated at cost. Broker money market funds operate in accordance with appropriate state laws and regulations.

**CITY OF OWATONNA, MINNESOTA**  
**Notes to the Basic Financial Statements**  
**December 31, 2016**

For purposes of the statement of cash flows, the enterprise and internal service funds consider cash on hand, demand deposits, and short-term investments with original maturities of three months or less when purchased to be cash and cash equivalents.

**2. Property Tax Receivables**

The City levies its property tax for the subsequent year in December. This levy is certified to Steele County as they are the collection agency for taxes within the County. Taxes are recognized as receivables in the current year when the City is notified by the County of the amounts. They become a lien against the property on the date of levy. Taxes are due and payable at the County on May 15 and October 15, and collections are remitted to the City in July and December. Adjustments are made to delinquent taxes based on the records of the County Auditor.

Delinquent taxes represent unpaid taxes for the past nine years. Delinquent taxes have been offset by an unavailable revenue for delinquent taxes not received within 60 days after year end in the fund financial statements.

**3. Special Assessments**

Special assessments are certified to Steele County for collection annually. Noncertified assessments represent assessments to be certified annually in the future. Special assessments are recognized as revenue when they are received in cash or within 60 days after year end. All governmental special assessments receivable are offset by an unavailable revenue in fund financial statements.

**4. Interfund Receivables and Payables**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. Short-term interfund loans are classified as "due to/from other funds." All short-term interfund receivables and payables at year end are planned to be eliminated in the subsequent year. Long-term interfund loans are classified as "advances to/from other funds." Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

**5. Inventories and Prepaid Items**

Inventories are valued at cost using the first-in/first-out (FIFO) method. The cost of inventories are recorded as an expenditure/expense when consumed rather than when purchased.

Certain payments reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide statements. These costs are recognized during the period benefitted by the prepayment using the consumption method.

**6. Restricted Assets**

Restricted assets consist of cash and temporary investments restricted for specific purposes by agreements.

**CITY OF OWATONNA, MINNESOTA**  
**Notes to the Basic Financial Statements**  
**December 31, 2016**

**7. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, sidewalks, street lights, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at estimated fair market value as of the date of the donation. The City reports infrastructure assets on a network or subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

In the case of initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include items dating back to June 30, 1980. The City was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e. estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). The cost of infrastructure acquired prior to implementation of GASB 34 is included at estimated historical costs based on the current replacement cost of a similar asset and deflated through the use of price-level indexes.

The costs of normal maintenance and repairs that do not add to the value or capacity of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation on exhaustible assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Position. A composite depreciation rate is used for infrastructure assets. Depreciation on the remaining capital assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	20-50 years
Improvements Other than Buildings	15-50 years
Equipment and vehicles	3-20 years
Infrastructure	20-50 years

Capital assets not being depreciated consist of land and construction in progress.

Electric and Gas Utility Plant is recorded at original cost. Water Utility Plant is recorded at cost less funds provided from municipal special assessments. When units of property are sold, retired or otherwise disposed of in the ordinary course of business, their average book cost less net salvage is charged to accumulated depreciation. Repairs and the replacement and renewal of items determined to be less than units of property are charged to maintenance expense.

Depreciation is computed using the straight-line method which expenses the cost of the plant over its estimated useful life. The composite depreciation rates of the utilities range between 2% and 20%.

**8. Credit Risk**

As of December 31, 2016 the enterprise funds had no significant concentration of credit risk with respect to consumer accounts receivable due to the large number of customers and their dispersion across many different residential and industrial customers.

**CITY OF OWATONNA, MINNESOTA**  
**Notes to the Basic Financial Statements**  
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**9. Deferred Inflows of Resources**

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 government has two types of this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources; property taxes, special assessments, and a long-term receivable. These amounts are recognized as an inflow of resources in the period that the amounts become available. The City reports a deferred inflow for a gain on a bond refunding which will be amortized over the life of the bonds. Pension related deferred inflows are recorded in the current year, but the revenue will be recorded in subsequent years.

**10. Pension**

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

**11. Deferred Outflows of Resources**

The City's governmental activities and proprietary fund financial statements report a separate section for deferred outflows of resources. This separate financial statement element reflects a decrease in net position or fund balance, that relates to future periods. The City will not recognize the related outflow until a future event occurs. Pension related deferred outflows are recorded in the current year, but the expenses will be recorded in subsequent years.

**12. Compensated Absences**

It is the City's policy to permit employees to accumulate earned but unused vacation, sick leave and paid time off (PTO). Vacation and PTO are paid upon separation. Sick leave is only payable at 50% and only upon retirement. Employees hired prior to 1980 are paid the current year accrual annually. The General Fund is used to liquidate governmental compensated absences payable.

All vacation, PTO and the portion of sick pay allowable at retirement is accrued when incurred in the government-wide and proprietary fund financial statements. The current portion for these amounts is calculated based on historical trends. There is an assigned fund balance for the entire amount of these compensated absences in the general fund.

**CITY OF OWATONNA, MINNESOTA**  
**Notes to the Basic Financial Statements**  
**December 31, 2016**

**13. Long-term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net position. Bond premiums and discounts are amortized over the life of the bonds using the effective interest rate method. 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 during the current period. The face amount of debt issued and premiums 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.

**14. Fund Balance/Net Position**

The City of Owatonna reports the following categories of fund balance:

- Nonspendable Fund Balance – These are amounts that cannot be spent because they are not in spendable form (i.e. inventories, prepaids and advances to other funds)
- Restricted Fund Balance – These are amounts that are restricted to specific purposes either by constraints placed on the use of resources by creditors, grantors, contributors, laws, or regulations, or other governments
- Committed Fund Balance – These are amounts that can only be used for specific purposes pursuant to constraints imposed by the City Council (highest level of decision making authority) through resolution.
- Assigned Fund Balance – These are amounts that are constrained by the City's intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by the City Administrator as permitted by policy.
- Unassigned Fund Balance – these are residual amounts in the General Fund, not reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted and committed fund balances exceed the total net resources of that fund.

The City's fund balance policy provides that the City maintain a minimum general fund balance of 50% of budgeted operating expenditures.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the City's policy to use restricted first and then unrestricted. The order of use for unrestricted fund balance shall be committed, assigned, and then unassigned.

In the government-wide financial statements, net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvements of those assets, adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Unrestricted net position consists of all other items that do not meet the definitions of "restricted" or "net investment in capital assets".

**CITY OF OWATONNA, MINNESOTA**  
**Notes to the Basic Financial Statements**  
**December 31, 2016**

**15. Use of Estimates**

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

**16. Restatement Due to a Correction of an Error**

The Debt Service Fund fund balance at January 1, 2016 was restated to reflect an overstatement of the prior year fund balance of \$590,290 due to an overstatement of prior year revenues. The Debt Service Fund beginning fund balance of \$6,119,004 has been restated to \$5,528,714. The Capital Projects Fund fund balance at January 1, 2016 was restated to reflect an understatement of the prior year fund balance of \$590,290 due to an understatement of prior year revenues. The Capital Projects Fund beginning fund balance of \$5,364,305 has been restated to \$5,954,595.

**Discretely Presented Component Unit**

The EDA Land Fund fund balance at January 1, 2016 was restated to reflect an overstatement of the prior year fund balance of \$135,207 due to an overstatement of receivables. The EDA Land Fund beginning fund balance \$3,712,443 has been restated to \$3,577,236. The EDA Fund's beginning net assets of \$5,705,621 has been restated to \$5,570,414.

**II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**A. Explanation of certain differences between the governmental fund balance sheet and the government-wide Statement of Net Position**

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide Statement of Net Position. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this (\$30,881,298) difference are as follows:

Bonds and notes payable	\$(9,067,173)
Net Pension liability	(19,677,546)
Accrued OPEB liability	(179,882)
Accrued compensated absences	(1,886,137)
Accrued interest payable	<u>(70,560)</u>
 Total difference	 <u><u>\$(30,881,298)</u></u>

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities.

**CITY OF OWATONNA, MINNESOTA**  
**Notes to the Basic Financial Statements**  
**December 31, 2016**

One element of that reconciliation explains that “Revenues on the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.” The details of this \$2,720,427 difference are as follows:

Delinquent taxes rec. unavailable revenue:	
At December 31, 2015	\$(102,428)
At December 31, 2016	132,514
Special assessments/development receivable unavailable revenue:	
At December 31, 2015	(3,227,168)
At December 31, 2016	2,828,529
Transfer of capital assets from an enterprise fund to general fund	3,088,980
	\$2,720,427

Another element of that reconciliation states that “Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.” The details of this \$31,595 difference are as follows:

Amortization of bond premium	\$26,750
Change in accrued OPEB liability	(7,513)
Change in accrued interest	20,361
Change in accrued compensated absences	(8,003)
	\$31,595

**III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds of the City. Only the General Fund’s budget is considered an “annually legally adopted budget”. The remaining funds’ budgets are used as a management tool. The debt service funds are budgeted according to the terms of the original bond issues. Project-length financial plans are adopted for all capital projects funds. Any modification in the adopted budget can be made upon request of and approval by the City Council. Appropriations in all funds lapse at the end of the year.

In July of each year, all departments of the City submit requests for appropriation to the City Administrator so that a budget may be prepared. The budget is prepared for the General Fund by department and cost center and also includes information on the preceding two fiscal years, current year estimates of expenditures and requested appropriations for the next fiscal year.

The proposed budget is presented to the City Council for review prior to September 15. The City Council holds public hearings. A final budget is adopted by December 28 of each year.

Expenditures may not legally exceed budgeted appropriations at the total level for the General Fund. Management cannot amend the adopted budget, but must request the City Council to adopt supplemental appropriations when the need arises. There were two amendments to the budget in 2016. The first was to amend the allocation between departments of some budgeted expenditures. The second amendment was to appropriate some unanticipated expenditures.

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**B. Deficit Fund Balance**

At year-end 2016, there were five funds that carried deficit fund balances. Two funds were special revenue funds that were funded through grants and donations. The remaining funds were tax increment financing funds that were funded by the City through interfund loans. These deficit fund balances will be reduced and eliminated over time as grants, donations and increment from the levies are used to retire the various loans.

The following funds carried deficit fund balances at the end of 2016 in the amounts indicated:

Library Reserve & Memorial Fund	\$18,959
Small Cities Development Program Fund	2,278
TIF 3-6 Viracon Economic Development Fund	80,708
TIF 3-8 Daikin Applied Economic Development Fund	120,205
TIF 5-1 Tailwind Redevelopment Fund	616

**IV. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

The City maintains a cash and investment pool that is available for use by all funds. Earnings from such investments are allocated to the respective funds on the basis of applicable balance participation by each fund. The primary government and component units' cash and investments are pooled.

*Deposits*

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it in full. In accordance with Minnesota Statutes and as authorized by the City Council, the City of Owatonna maintains deposits at those depository banks, all of which are members of the Federal Reserve System.

Minnesota Statutes require that all City deposits be protected by insurance, surety bond or collateral. The market value of the collateral pledged must be equal to 110% of the deposits not covered by insurance or bonds. Authorized collateral includes U.S. government securities, state or local government obligations, and other securities authorized by Minnesota Statute 118A.03. Minnesota Statutes require that all collateral shall be placed in safekeeping in a restricted account at a 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. The selection should be approved by the City.

The City's deposits in banks at December 31, 2016 were entirely covered by federal depository insurance or by collateral held by the City's custodial bank in the City's name.

*Investments*

The City may also invest idle funds as authorized investments by Minnesota Statutes as follows:

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

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- f. Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
- g. Repurchase or reverse repurchase agreements and securities lending agreements financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
- h. Guaranteed investment contracts (GIC’s) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, and with a credit quality in one of the top two rating highest categories.

The City’s investments as of December 31, 2016 are as follows:

Type of Investment	Credit Quality Rating	Amount	Investment Maturity in Years			
			< 1 Year	1-5 Years	6-10 Years	> 10 years
US Govt Agencies	AAA	\$14,623,737		\$13,346,147	\$1,277,590	
US Govt Agencies	N/R	4,785,068	\$3,999,020	749,483		\$36,565
Local Govt Obligations	AA2	2,214,331	140,364	695,065	1,378,902	
Local Govt Obligations	AA3	1,268,357		1,268,357		
Local Govt Obligations	A+	594,530	594,530			
Pooled Investments	N/A	11,067		140	2,892	8,035
MN Municipal MM	N/A	5,895,909	5,895,909			
Wells Fargo Adv MM	N/A	1,062,197	1,062,197			
Wells Fargo Money Mrkt	N/A	1,015,716	1,015,716			
Profinium	N/A	8,818	8,818			
Fed Prime Cash Oblig	AAA	7,168	7,168			
Negotiable CDs	N/A	12,738,922	8,932,248	3,806,674		
		<u>\$44,225,820</u>	<u>\$21,655,970</u>	<u>\$19,865,866</u>	<u>\$2,659,384</u>	<u>\$44,600</u>

Reconciliation of deposits and investments to Statement of Net Position:

	Primary Government	EDA	HRA	Total Reporting Entity
Cash on hand	\$3,435			\$3,435
Deposits	23,031,347	\$547,359	\$236,655	23,815,361
Investments	42,725,820	1,500,000		44,225,820
Total deposits and investments	<u>\$65,760,602</u>	<u>\$2,047,359</u>	<u>\$236,655</u>	<u>\$68,044,616</u>
<u>Per Statement of Net Position:</u>				
Cash and cash equivalents	\$14,594,267	\$547,359	\$208,236	\$15,349,862
Investments	51,166,335	1,500,000		52,666,335
Restricted cash & cash equivalents			28,419	28,419
Total cash and investments	<u>\$65,760,602</u>	<u>\$2,047,359</u>	<u>\$236,655</u>	<u>\$68,044,616</u>

*Interest rate risk.* The City’s investment policy requires minimizing interest rate risk by structuring the investment portion so securities mature to meet cash requirements for ongoing operations. Within these parameters, it is the City’s practice to stagger portfolio maturities to avoid undue concentration of assets, provide for stability of income, and limit exposure to fair value losses related to rising interest rates.

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*Credit risk.* The City's investment policy limits the level of investments allowed in each category of credit risk. Credit risk is the risk that an issuer to an investment will not fulfill its obligation. State law limits investments in state and local securities and commercial paper to those with specified rating by nationally recognized rating agencies. U.S. Treasury Obligations are not considered to have credit risk. U.S. Government Agencies which are rated all carry a AAA credit rating. The U.S. Government Agencies which are unrated are comprised of "stripped" securities for which the underlying agency notes are all AAA rated. The underlying agency's rating is considered to pass through to the "stripped" bond. The Local Government Obligations carry a AA2 credit rating.

*Concentration risk.* The City does not have a formal policy limiting the amount of the portfolio that may be invested in any one depository or issuer. The following investments represent at least 5% of the City's investment portfolio: FNMA, FHLMC, and Minnesota Municipal Money Market.

*Fair Value Measurements.* The City uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

The City follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the City has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs use to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities.

Level 2 – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.

Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants and would use in pricing the asset.

Assets of the City measured at fair value on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
US Govt Agencies		\$19,408,805		\$19,408,805
Local Govt Obligations		4,077,218		4,077,218
Negotiable CDs		12,738,922		12,738,922
US Govt Agency pools		11,067		11,067
Total		<u>\$36,236,012</u>		<u>\$36,236,012</u>

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Assets of the City measured at amortized cost:

4M Fund Liquid Asset Fund	\$3,159,100
4M Fund PLUS Fund	2,736,809
Wells Fargo Advisors Money Market Fund	1,062,197
Wells Fargo Money Market Fund	1,015,716
Profinium Money Market Fund	8,818
Federal Prime Cash Obligation Fund	7,168
 Total	 \$7,989,808

The 4M Fund is a brokered money market account that is valued at amortized cost with maturities of investments of one year or less.

The Federal Prime Cash Obligation Fund is an external investment pool and its investments are valued at amortized cost. The amortized cost method of valuation values a security at its cost on the date of purchase and thereafter assumes a constant amortization to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of investments.

**B. Receivables**

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major accounts receivable balances for the governmental activities include franchise fees and miscellaneous charges. Business-type activities report utility earnings as their major accounts receivable.

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current year, the three components of unavailable revenue reported in the governmental funds were for delinquent taxes receivable not yet available (general fund and nonmajor capital projects fund) of \$132,514; special assessments receivable not yet available (debt service fund and capital projects fund) of \$2,759,936; and a development receivable not yet available (capital projects fund) of \$68,593.

**C. Loans Receivable**

The Capital Projects Fund has made a loan to a local business. The balance of this loan at December 31, 2016 was \$68,593 and is offset by an unavailable revenue. This loan matures in fourteen years.

**Discretely Presented Component Unit**

The EDA Loan Fund has made loans to local businesses with various terms and interest rates for repayment. The balance of these loans at December 31, 2016 was \$300,559 which consists of loans maturing in one to eleven years with interest ranging from 0 to 5 percent. These notes are secured by property, equipment and personal guarantees.

The EDA Loan Fund has made five loans to local businesses with certain conditions attached which would then make the loans forgivable. These loans are not considered receivable and are not included in the loans receivable balance at December 31, 2016. The balance of these forgivable loans was \$221,353 at December 31, 2016.

The EDA Land Fund has entered into various development agreements with local businesses to finance the sale of property to the developer. The balance of these loans at December 31, 2016 was \$583,846 which consists of loans maturing in 1 to 26 years with interest ranging from 0 to 4.75 percent.

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The HRA issues notes as their contribution to SCDP housing rehab program. These notes consist of \$1,000 per housing unit. They are deferred for a period of 7 years. The notes will be forgiven as long as the owner continues to rent to low income residents and maintains ownership for the 7 years. If the owner sells before the 7 years the note will need to be repaid in full. These notes are not considered receivable and are not included in the Statement of Net Position. The balance of these notes at December 31, 2016 is \$21,851.

The HRA works with local community housing agencies to provide emergency fix-up deferred loans for home improvements that resolve code emergency deficiencies, energy efficiency, or improve accessibility. The maximum amount of each loan is \$5,000. They are deferred until the property is sold or transferred. The balance of these notes at December 31, 2016 is \$6,170.

**D. Capital Assets**

Capital asset activity for governmental activities for the year ended December 31, 2016 was as follows:

	Beginning Balances	Transfer	Increases	Decreases	Ending Balances
Land	\$7,698,945		\$576,021		\$8,274,966
Construction in Progress	1,368,053		1,001,685	\$2,363,818	5,920
Total Non-depreciable	<u>9,066,998</u>		<u>1,577,706</u>	<u>2,363,818</u>	<u>8,280,886</u>
Depreciable capital assets:					
Buildings	17,143,269	\$3,518,447	1,873,320	13,308	22,521,728
Improvements Other than Bldgs	983,998		13,380		997,378
Equipment	12,658,677	89,953	1,121,355	240,737	13,629,248
Infrastructure	108,373,460		1,653,701		110,027,161
Total depreciable	<u>139,159,404</u>	<u>3,608,400</u>	<u>4,661,756</u>	<u>254,045</u>	<u>147,175,515</u>
Accumulated Depreciation					
Buildings	9,597,346	492,583	472,754	1,331	10,561,352
Improvements Other than Bldgs	246,843		49,318		296,161
Equipment	8,115,935	26,837	802,035	223,431	8,721,376
Infrastructure	44,026,502		2,673,430		46,699,932
Total accumulated depreciation	<u>61,986,626</u>	<u>519,420</u>	<u>3,997,537</u>	<u>224,762</u>	<u>66,278,821</u>
Govtl activities capital assets, net	<u>\$86,239,776</u>	<u>\$3,088,980</u>	<u>\$2,241,925</u>	<u>\$2,393,101</u>	<u>\$89,177,580</u>

Depreciation expense for governmental activities is charged to functions as follows:

General government	\$196,583
Public safety	193,900
Public works	2,779,523
Culture and recreation	325,056
Internal service funds	502,475
Total depreciation for governmental activities	<u>\$3,997,537</u>

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

	Beginning Balances	Transfer	Increases	Decreases	Ending Balances
Land and other rights	\$2,782,281		\$123,491		\$2,905,772
Construction in Progress	3,264,417		7,513,237	\$4,350,583	6,427,071
Total Non-depreciable	<u>6,046,698</u>		<u>7,636,728</u>	<u>4,350,583</u>	<u>9,332,843</u>
Depreciable capital assets:					
Buildings	51,329,839	\$(3,518,447)	51,415	537,739	47,325,068
Equipment	17,307,567	(89,953)	712,984	966,784	16,963,814
Infrastructure	87,545,657		3,256,740	527,669	90,274,728
Total depreciable	<u>156,183,063</u>	<u>(3,608,400)</u>	<u>4,021,139</u>	<u>2,032,192</u>	<u>154,563,610</u>
Accumulated Depreciation					
Buildings	13,799,710	(496,791)	930,522	526,715	13,706,726
Equipment	13,220,541	(22,629)	1,076,333	941,782	13,332,463
Infrastructure	36,487,352		2,466,103	625,948	38,327,507
Total accumulated depreciation	<u>63,507,603</u>	<u>(519,420)</u>	<u>4,472,958</u>	<u>2,094,445</u>	<u>65,366,696</u>
Business-type activities capital assets, net	<u>\$98,722,158</u>	<u>\$(3,088,980)</u>	<u>\$7,184,909</u>	<u>\$4,288,330</u>	<u>\$98,529,757</u>

Depreciation expense for business-type activities is charged to functions as follows:

Sewer	\$950,592
Storm water	192,420
Electric	2,265,775
Water	536,192
Gas	527,979
Total depreciation for business-type activities	<u>\$4,472,958</u>

**Discretely Presented Component Units**

Capital asset activity for the component units was as follows:

**Economic Development Authority**

	Beginning Balances 12/31/15	Increases	Decreases	Ending Balances 12/31/16
Land	<u>\$252,156</u>			<u>\$252,156</u>

**Housing and Redevelopment Authority**

	Beginning Balances 12/31/15	Increases	Decreases	Ending Balances 12/31/16
Buildings	\$95,362			\$95,362
Accumulated Depreciation	<u>13,471</u>	<u>\$1,923</u>		<u>15,394</u>
Capital assets, net	<u>\$81,891</u>	<u>\$1,923</u>		<u>\$79,968</u>

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

Housing & economic development	\$1,923
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**E. Interfund Balances and Transfers**

The composition of interfund balances as of December 31, 2016 is as follows:

***Due to/from other funds***

Several funds have made short-term loans to other funds through normal day-to-day operations. Items such as utility infrastructure associated with street projects, sewer billing and collections performed by another utility fund, and centralized fuel purchases are examples of why these occur. These loans are planned to be eliminated in the subsequent year.

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Sewer Fund</u>	<u>Storm Water Fund</u>	<u>Electric Fund</u>	<u>Total</u>
Due from:						
Debt Service Fund					\$3,583	\$3,583
Nonmajor Govtl Funds	\$32,000				24,005	56,005
Electric Fund	2,312		\$353,500			355,812
Water Fund		<u>\$82,404</u>	<u>353,260</u>	<u>\$28,650</u>		<u>464,314</u>
Total Due to:	<u>\$34,312</u>	<u>\$82,404</u>	<u>\$706,760</u>	<u>\$28,650</u>	<u>\$27,588</u>	<u>\$879,714</u>

***Advance to/from other funds***

During the course of operations, numerous transactions occur between individual funds for goods provided, services rendered, or cash flow purposes. Long-term interfund loans are classified as "advances to/from other funds".

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Due from:			
Capital Projects Fund	\$121,136		\$121,136
Nonmajor Govtl Funds		<u>\$182,310</u>	<u>182,310</u>
Total Due to:	<u>\$121,136</u>	<u>\$182,310</u>	<u>\$303,446</u>

***Due to/from primary government and component units***

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Primary Govt – ISF	Component Unit – EDA	<u>\$1,848</u>
Total		<u>\$1,848</u>

***Interfund transfers***

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Nonmajor Govtl Funds</u>	<u>Sewer Fund</u>	<u>Storm Water Fund</u>	<u>Total</u>
Transfers In:						
General Fund				\$460,500	\$67,000	\$527,500
Debt Service Fund		\$225,000	\$170,590			395,590
Capital Projects Fund	\$200,000					200,000
Nonmajor Enterprise	<u>63,385</u>					<u>63,385</u>
Total Transfers Out	<u>\$263,385</u>	<u>\$225,000</u>	<u>\$170,590</u>	<u>\$460,500</u>	<u>\$67,000</u>	<u>\$1,186,475</u>

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Throughout the course of the year, the City has to make occasional interfund transfers. The City annually transfers funds from its enterprise operations to its general fund to compensate for the cost of administration. The City annually transfers tax increment from a nonmajor Governmental Fund to its debt service fund for upcoming debt service payments.

**Capital Contributions**

Occasionally, the acquisitions of capital assets for business-type activities are funded by governmental activities. These capital contributions totaled \$246,973 in 2016. The Aquatic Center, a non-major enterprise fund, contributed its capital assets to governmental activities in 2016 totaling \$3,088,980.

**F. Capital Leases**

The City has entered into lease agreements as lessee for financing the acquisition of equipment. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
Equipment	\$110,979
Less: Accumulated depreciation	<u>(21,612)</u>
Total	<u><u>\$89,367</u></u>

The lease currently outstanding is as follows:

Welch State Bank	2017-2020	3.17%	\$90,157
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The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2016, were as follows:

Year ending December 31	Governmental Activities
2017	\$24,359
2018	24,359
2019	24,359
2020	<u>24,360</u>
Total minimum lease payments	97,437
Less: amount representing interest	<u>(7,280)</u>
Present value of minimum lease payments	<u><u>\$90,157</u></u>

**G. Long-term Debt**

**General Obligation Bonds**

General obligation bonds are issued to provide for the acquisition of major capital equipment. These bonds are direct obligations and are backed by the full faith and credit of the City. Five general obligation bonds with an original issue amount of \$2,490,000 are currently outstanding as follows:

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G.O. Equipment Certificates Series 2011A	2017	1.250%	\$155,000
G.O. Equipment Certificates Series 2013A	2017-2019	2.00-2.000%	120,000
G.O. Equipment Certificates Series 2014A	2017-2020	2.00%	660,000
G.O. Equipment Certificates Series 2015A	2017-2021	3.00%	460,000
G.O. Equipment Certificates Series 2016A	2017-2022	3.00%	240,000
			<u>\$1,635,000</u>

Annual debt service requirements to maturity for general obligation improvement bonds are as follows:

Year	Governmental Activities	
	Principal	Interest
2017	\$435,000	\$30,889
2018	340,000	26,800
2019	345,000	18,575
2020	315,000	10,625
2021	150,000	4,500
2022	50,000	1,500
	<u>\$1,635,000</u>	<u>\$92,889</u>

**General Obligation Improvement Bonds**

General obligation improvement bonds are issued for the construction of major capital improvements having a relatively long life. They are payable from special assessments levied and collected on local improvements to property and are backed by the full faith and credit of the City. Seven bond issues with a total original issue amount of \$13,455,000 are currently outstanding as follows:

G.O. Improvement Series 2006C	2017	3.875%	\$310,000
G.O. Improvement Series 2007C	2017-2018	4.000%	600,000
G.O. Improvement Series 2011A	2017-2022	1.75-2.200%	490,000
G.O. Improvement Series 2013A	2017-2024	2.00-2.750%	2,075,000
G.O. Improvement Series 2014A	2017-2021	2.000%	300,000
G.O. Improvement Series 2015A	2017-2026	2.50-3.000%	1,225,000
G.O. Improvement Series 2016A	2018-2027	2.00-3.000%	1,060,000
			<u>\$6,060,000</u>

Annual debt service requirements to maturity for general obligation improvement bonds are as follows:

Year	Governmental Activities	
	Principal	Interest
2017	\$1,060,000	\$132,625
2018	875,000	119,078
2019	580,000	99,621
2020	585,000	85,903
2021	735,000	72,672
2022-2026	2,110,000	133,569
2027	115,000	2,300
	<u>\$6,060,000</u>	<u>\$645,768</u>

**G.O. Tax Increment Bonds**

The City issued bonds for an economic development project. The tax increments resulting from increased tax capacity of the development property will be used to retire the related debt. These bonds had an original issue amount of \$1,140,000. These bonds are backed by the full faith and credit of the City.

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The general obligation tax increment bonds currently outstanding are as follows:

Governmental Activities			
Tax Increment Bonds Series 2013A	2017-2024	2.00-2.75%	\$1,025,000

Annual debt service requirements to maturity for the general obligation revenue bonds are as follows:

Year	Business-type Activities	
	Principal	Interest
2017	\$120,000	\$22,338
2018	120,000	19,937
2019	125,000	17,487
2020	125,000	14,987
2021	130,000	12,275
2022-2024	405,000	16,818
Total	\$1,025,000	\$103,842

**G.O. Revenue Bonds**

The City issues bonds where the City pledges income derived from the acquired or constructed assets to pay debt service in addition to levying a tax. These bonds are recorded in the fund according to the purpose for which they were issued. The Storm Water Fund is currently carrying bonds payable for storm water improvements. These bonds had an original issue amount of \$4,360,000. These bonds are backed by the full faith and credit of the City.

The general obligation revenue bonds currently outstanding are as follows:

Business-type Activities			
Revenue Bonds Series 2016A	2018-2032	2.00-3.00%	\$2,520,000
Revenue Bonds Series 2016A – Refunding	2018-2024	3.00%	1,840,000
			\$4,360,000

Annual debt service requirements to maturity for the general obligation revenue bonds are as follows:

Year	Business-type Activities	
	Principal	Interest
2017		\$61,244
2018	\$385,000	118,538
2019	385,000	106,988
2020	395,000	95,438
2021	410,000	83,588
2022-2032	2,785,000	318,174
Total	\$4,360,000	\$783,970

**CITY OF OWATONNA, MINNESOTA**  
**Notes to the Basic Financial Statements**  
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**Revenue Bonds**

The City also issues bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. These bonds are recorded in the fund according to the purpose for which they were issued. The Sewer Fund is currently carrying bonds payable for the expansion of the Sewage Treatment Plant. These bonds had an original issue amount of \$7,929,333. These bonds are payable from the net revenues of the fund for which they were issued and not from an ad valorem tax, but are backed by the full faith and credit of the City.

The revenue bonds currently outstanding are as follows:

Business-type Activities			
MPFA Revenue Bonds Series 2011	2017-2025	1.423%	\$4,954,928

Annual debt service requirements to maturity for the revenue bonds are as follows:

Year	Business-type Activities	
	Principal	Interest
2017	\$520,000	\$70,508
2018	527,000	63,109
2019	535,000	55,610
2020	543,000	47,996
2021	550,000	40,270
2022-2025	2,279,928	81,677
Total	\$4,954,928	\$359,170

**Defeasance and Advance Refunding**

With the 2016 issuance of debt, the City took the opportunity to defease the 2017-2019 general obligation improvement portion of the 2008A bond issue. By depositing pre-paid assessments and other money in an escrow account, the interest and principal currently outstanding of \$810,000 will be paid on March 1, 2017. These bonds are considered defeased and the liability has been removed from the governmental activities of the statement of net assets.

In addition, the City issued \$1,840,000 of general obligation revenue refunding bonds for an advance refunding of the City's Series 2008A general obligation revenue bonds. The net carrying amount of the old debt exceeded the reacquisition price by \$86,872. This amount is reported as a deferred inflow and is amortized over the life of the new debt. The refunding was undertaken to reduce future debt service payments. The interest and principal currently outstanding of \$2,190,000 will be paid on March 1, 2017. These bonds are considered defeased and the liability has been removed from the business-type activities of the statement of net assets. This transaction resulted in an economic gain of \$191,639 and a reduction of \$465,661 in future debt service payments.

**CITY OF OWATONNA, MINNESOTA**  
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**Change in Long-term Liabilities**

Long-term liability activity for the year ended December 31, 2016 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
Bonds Payable					
G.O. Bonds	\$1,735,000	\$240,000	\$340,000	\$1,635,000	\$435,000
G.O. Tax Increment Bonds	1,140,000		115,000	1,025,000	120,000
G.O. Improvement Bonds	7,120,000	1,060,000	2,120,000	6,060,000	1,060,000
Less: bond discount	(11,095)		(2,504)	(8,591)	
Plus: bond premium	195,752	99,109	29,254	265,607	
Total bonds payable	<u>10,179,657</u>	<u>1,399,109</u>	<u>2,601,750</u>	<u>8,977,016</u>	<u>1,615,000</u>
Capital Leases Payable	110,979		20,822	90,157	21,493
Accrued Compensated Absences	1,878,134	986,266	978,263	1,886,137	825,693
OPEB liability	172,369	56,679	49,166	179,882	
Net Pension Liability	<u>7,987,636</u>	<u>11,689,910</u>		<u>19,677,546</u>	
Governmental Activity Long-term liabilities	<u>\$20,328,775</u>	<u>\$14,131,964</u>	<u>\$3,650,001</u>	<u>\$30,810,738</u>	<u>\$2,462,186</u>
	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
<b>Business-type Activities</b>					
Bonds Payable					
G.O. Revenue Bonds	\$2,420,000	\$4,360,000	\$2,420,000	\$4,360,000	
Revenue Bonds	5,467,928		513,000	4,954,928	520,000
Plus: bond premium	9,281	269,974		279,255	
Total notes & bonds payable	<u>7,897,209</u>	<u>4,629,974</u>	<u>2,933,000</u>	<u>9,594,183</u>	<u>520,000</u>
Accrued Compensated Absences	126,433	66,924	79,029	114,328	50,000
OPEB liability	137,117	56,605	34,685	159,037	
Net Pension Liability	<u>4,211,223</u>	<u>2,570,261</u>		<u>6,781,484</u>	
Business-type Activity Long-term liabilities	<u>\$12,371,982</u>	<u>\$7,323,764</u>	<u>\$3,046,714</u>	<u>\$16,649,032</u>	<u>\$570,000</u>

For the governmental activities, accrued compensated absences and OPEB are generally liquidated by the general fund.

**Conduit Debt Obligations**

From time to time, the City has issued Industrial Development Revenue Bonds to provide financial assistance to private sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from revenues of the industries to which the bonds were remitted. The City is not obligated in any matter for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2016, there were ten outstanding bond issues with an original issue amount of \$32,052,694 and a balance of \$27,784,092.

**CITY OF OWATONNA, MINNESOTA**  
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**H. Tax Abatements**

The City has several pay-as-you-go tax increment financing districts with local businesses to promote economic development, housing, and redevelopment within the City as authorized under Minnesota Statute 469.174. The City reaches agreements with the business related to land acquisition, public infrastructure and building improvements. The businesses complete their improvements which increase the tax base. The increment taxes are based on the increase of the property's value after the improvements are made. The school district and the county have also abated their portion of the tax increment following the improvements. The agreements call for 90-95% of the property tax increments collected to be paid to reimburse development costs less administrative fees. The City currently has thirteen tax increment financing districts which include eight economic development districts which end between December 31, 2018-December 31, 2026; one housing and redevelopment district which ends on December 31, 2023; and four redevelopment districts which end between December 31, 2026-December 31, 2042. For the year ended December 31, 2016, the City paid tax increment in the amount of \$763,492. No other commitments were made by the City as part of these agreements.

**V. OTHER INFORMATION**

**A. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City accounts for its risk management activities in an internal service fund. Revenue to this fund is derived from premium charges to user departments, employees, and other funds of the City. These charges are then available to pay claims, administrative costs and insurance premiums.

There has been no significant reduction in insurance coverage from the previous year in any of the City's policies. In addition, there have been no settlements in excess of the City's insurance coverage in any of the prior three fiscal years.

The City is a member of the League of Minnesota Cities Insurance Trust (LMCIT), a public entity risk pool, and has currently placed coverage with them for its general liability and personal property claims. Coverage is provided up to a maximum of \$1,000,000. This coverage has a \$100,000 annual deductible. The City levies funds annually to cover all claims against this deductible.

The City participates in the LMCIT for its workers compensation insurance which is administered by Berkley Administrators. This is a retrospectively rated policy with the premium being based primarily on the City's loss experience.

The LMCIT operates as a common risk management and insurance program for member cities. The LMCIT agreement provides that the LMCIT will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of certain limits for each insured event. The reinsurance point is \$1.2 million per occurrence for general liability and \$850,000 for workers compensation medical and hospitalization.

**B. Commitments and Contingent Liabilities**

In connection with the normal conduct of its affairs, the City is involved in various claims, litigations and judgments. It is expected that the final settlement of these matters will not materially affect the financial statements of the City.

**CITY OF OWATONNA, MINNESOTA**  
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Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The City had several commitments under construction contracts still in process at the end of the year. The combined total of remaining commitments was \$212,815 at December 31, 2016.

Power Sales Contract - Owatonna Public Utilities (electric, water and gas funds) is a member of the Southern Minnesota Municipal Power Agency (SMMPA). Under the terms of the power sales contract, Owatonna Public Utilities and the other members are committed to purchase 100% of their power requirements from SMMPA through the contract life. After which, Owatonna Public Utilities, and the other member cities, may elect to purchase their future power and energy requirements, from sources other than SMMPA. The contract expires April 2050 and the rates paid are subject to periodic review. Power purchased from SMMPA was \$28,567,969 in 2016.

Capacity Purchase Agreement – On September 1, 1991, the Electric Utility entered into a Capacity Purchase Agreement with SMMPA. Under this agreement, the Utility has agreed to dedicate a gas fired electric generating facility owned by the Electric Utility for SMMPA’s exclusive use. In order to get the generating units in working order and to operate, SMMPA agreed to reimburse the Electric Utility for operation and maintenance costs and recommissioning costs. The contract remains in effect until the date five years after written notice of termination by either party or until retirement of the facility.

Gas Service Agreement – Under its gas service agreement, the Gas Utility is committed to purchase its natural gas demand requirements from Northern Natural Gas Company until October 2022. The rates paid are in accordance with the Federal Energy Regulatory Commission.

Gas Purchase Commitment – The Gas Utility has entered into forward contracts to purchase a portion of its natural gas at a specified time in the future at a guaranteed price. The Gas Utility enters into these contracts to help plan its natural gas costs for the year and to protect itself against an increase in the market price of the commodity. It is possible that the market price before or at the specified time to purchase natural gas may be lower than the price at which the Utilities is committed to buy. This would reduce the value of the contract. The Gas Utility is committed to purchase 3,390,000 thousand cubic feet of natural gas through December 2023 for a total commitment of \$12,923,344 at December 31, 2016.

**C. Lease Commitments**

The Utilities entered into an operating lease for a mini excavator and various copier equipment. Lease expense for the year ended December 31, 2016 was \$11,452.

Minimum lease commitments in effect at December 31, 2016 are as follows:

Year ending December 31	Business-type Activities
2017	\$17,148
2018	8,122
2019	4,042
2020	3,369
	\$32,681

**CITY OF OWATONNA, MINNESOTA**  
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**D. Tax Increment Districts**

The City's tax increment districts are subject to review by the State of Minnesota Office of the State Auditor (OSA). Any disallowed claims or misuse of tax increments could become a liability of the applicable fund. Management has indicated that they are not aware of any instances of noncompliance which would have a material effect on the financial statements.

**E. Deferred Compensation Plan**

The City of Owatonna offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans, available to all City employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

**F. Other Postemployment Benefits**

The City of Owatonna administers a single-employer defined benefit healthcare plan. The plan provides lifetime healthcare insurance for eligible retirees and their spouses through the City's group health insurance plan, which covers both active and retired members. The healthcare plan does not issue a publicly available financial report.

The primary government includes amounts for the City and Owatonna Public Utilities (Electric Fund, Water Fund and Gas Fund); however the City and Owatonna Public Utilities had separate actuary reports for which the amounts were taken from and combined.

The City of Owatonna does not contribute to the cost of premiums for eligible retired plan members and their spouses. Because the actual cost for retirees is higher than the average per-person premium for the entire group, the difference gives rise to an implicit rate subsidy. The City pays the difference between the actual and apparent cost.

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 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 to the health plan:

Annual required contribution	\$100,904
Interest on net OPEB obligation	12,380
Adjustment to annual required contribution	<u>(18,209)</u>
Annual OPEB cost (expense)	95,075
Contributions made	<u>(65,642)</u>
Increase in net OPEB obligation	29,433
Net OPEB obligation – beginning of year	<u>309,486</u>
Net OPEB obligation – end of year	<u><u>\$338,919</u></u>

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Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2016	\$95,075	69.0%	\$338,919
12/31/2015	95,314	53.0%	309,486
12/31/2014	95,301	40.0%	264,660

As of January 1, 2014, the actuarial accrued liability for benefits was \$824,971, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$11,592,486, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 7.1%.

The projection of future benefits payments for an ongoing plan involves 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. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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 actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following assumptions were made:

*Retirement age for active employees* – Based on the historical average retirement age for the covered group, active plan members were assumed to retire at the first subsequent year in which the member would qualify for benefits.

*Marital status* – Marital status of members at the calculation date was assumed to continue through retirement.

*Mortality* – Life expectancies are based on mortality tables at the National Center for Health Statistics. The 2000 United States Life Tables for Males and Females was used.

*Turnover* – The probability that an employee will remain employed until the assumed retirement age was determined using non-group specific age-based turnover data provided in Table 1 in Paragraph 35b of GASB 45.

*Healthcare cost trend rate* - The expected rate of increase in healthcare insurance premiums used was 7.5% initial year, 5% ultimate year, with 8 years to the ultimate year.

*Health insurance premiums* – The premiums represent a blended average cost of both active and retired individuals. Since older, pre-65 retirees generally incur higher claims than younger active employees, GASB requires employers to value retiree liability based on estimated retiree costs rather than premiums. Age-adjusted claims are developed and used to value the retiree medical liability.

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Based on the historical and expected returns of the city's short-term investments portfolio, a discount rate of 4.0 percent was used. An inflation rate of 3% has been used. In addition, the projected unit credit actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level dollar amount over 30 years on an open basis. The remaining amortization period at December 31, 2016 does not exceed thirty years.

**G. Employee Retirement Systems**

Substantially all City employees are members of retirement plans. The following disclosures are made in accordance with requirements of the Governmental Accounting Standards Board:

Public Employees Retirement Association

**Cost-sharing Multiple Employer Defined Benefit Pension Plan**

1. Plan Description

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

A. General Employees Retirement Fund (GERF)

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

B. Public Employees Police and Fire Fund (PEPFF)

The PEPFF, 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 PEPFF also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

2. Benefits Provided

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

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

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

**CITY OF OWATONNA, MINNESOTA**  
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A. GERS 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% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

B. PEPFF Benefits

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

3. Contributions

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

A. GERS Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2016. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. The City contributions to the GERS for the year ended December 31, 2016, were \$804,270. The City contributions were equal to the required contributions as set by state statute.

B. 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 contributions to the PEPFF for the year ended December 31, 2016, were \$500,744. The City contributions were equal to the required contributions as set by state statute.

**CITY OF OWATONNA, MINNESOTA**  
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5. Pension Costs

A. GERS Pension Costs

At December 31, 2016, the City was allocated by the plan a liability of \$13,657,005 for its proportionate share of the GERS'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 \$178,369. 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 proportion of the net pension liability was based on the City contributions received by PERA during the measurement period for employer payroll paid 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 proportion was 0.1682% which was an increase/decrease of .0010% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$1,844,135 for its proportionate share of the GERS's pension expense. In addition, the City recognized an additional \$53,185 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's proportionate share of GERS's deferred outflows of resources and deferred inflows of resources related to pensions from the following source is as follows:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between Expected and Actual Experience		\$1,109,429
Change of Assumptions	\$2,674,054	
Net Difference between Projected and Actual Earnings on Pension Plan Investments	2,592,158	
Change in Proportion and Differences between City Contributions and Proportionate Share of Contributions	78,013	282,785
City Contributions Made Subsequent to Measurement Date	428,949	
Total	<u>\$5,773,174</u>	<u>\$1,392,214</u>

\$428,949 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31,</u>	<u>Pension Expense Amount</u>
2017	\$1,063,747
2018	1,063,747
2019	1,331,203
2020	493,314

**CITY OF OWATONNA, MINNESOTA**  
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**B. PEPFF Pension Costs**

At December 31, 2016, the City was allocated by the plan a liability of \$12,802,025 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 proportion of the net pension liability was based on the City contributions received by PERA during the measurement period for employer payroll paid 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 proportion was 0.319% which was an increase of .008% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$2,210,537 for its proportionate share of the PEPFF's pension expense. The City also recognized \$28,710 for the year ended December 31, 2016, as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's on-behalf contributions to the PEPFF. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the PEPFF each year, starting in fiscal year 2014 for the PEPFF pension expense.

At December 31, 2016, the City's proportionate share of PEPFF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources is as follows:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience		\$1,468,635
Change of Assumptions	\$7,045,514	
Net Difference between Projected and Actual Earnings on Pension Plan Investments	1,953,678	
Change in Proportion and Differences between City Contributions and Proportionate Share of Contributions	74,835	86,403
City Contributions Made Subsequent to Measurement Date	283,706	
<b>Total</b>	<b>\$9,357,733</b>	<b>\$1,555,038</b>

\$283,706 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	Pension Expense Amount
2017	\$1,613,120
2018	1,613,120
2019	1,613,120
2020	1,455,239
2021	1,224,390

**CITY OF OWATONNA, MINNESOTA**  
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6. Actuarial Assumptions

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

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 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 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.

The following changes in actuarial assumptions occurred in 2016:

GERF

- The assumed post-retirement increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1% 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 .25% to 3.25% for payroll growth and 2.5% for inflation.

PEPFF

- The assumed post-retirement increase rate was changed from 1.0% per year through 2037 and 2.5% per year thereafter to 1% 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 5.6%
- The assumed future salary increases, payroll growth, and inflation were decreased by .25% to 3.25% for payroll growth and 2.5% for inflation.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness 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:

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Asset Class	Target Allocation	Long-Term Expected Rate of Return
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%
Totals	<u>100%</u>	

**7. Discount Rate**

The discount rate used to measure the total pension liability in 2016 was 7.5%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at rates set in Minnesota statute. 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 payment of current plan members through June 30, 2056. 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 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.

**8. Pension Liability Sensitivity**

The following presents the City 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 proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	General Employees Fund		Police & Fire Fund	
1% Higher	6.5%	\$19,396,995	4.6%	\$17,921,136
Current Discount Rate	7.5%	13,657,005	5.6%	12,802,025
1% Lower	8.5%	8,928,814	6.6%	8,619,323

**9. Pension Plan Fiduciary Net Position**

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

**CITY OF OWATONNA, MINNESOTA**  
**Notes to the Basic Financial Statements**  
**December 31, 2016**

**Defined Contribution Plan**

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5 percent of salary which is matched by the elected official's employer. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2 percent of employer contributions and twenty-five hundredths of one percent of the assets in each member's account annually.

Total contributions made by the City of Owatonna during fiscal year 2016 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rates
\$2,520	\$2,520	5.0%	5.0%	5.0%

Owatonna Firefighter's Relief Association

**Single Employer Defined Benefit Pension Plan**

1. Plan Description

Firefighters of the City of Owatonna are members of the Owatonna Firefighters Relief Association. The Association is the administrator of the single-employer defined benefit pension plan available to firefighters. The plan is administered pursuant to Minnesota Statutes Chapter 69, Chapter 424A and the Association's by-laws. As of December 31, 2015, membership includes 34 active participants and 3 terminated employees entitled to benefit but not yet receiving them. The Plan issues a stand-alone financial statement.

2. Benefits Provided

Authority for payment of pension benefits is established in *Minnesota Statutes* §69.77 and may be amended only by the Minnesota State Legislature. Each member who is at least 50 years of age, has retired from the Fire Department, has served at least 20 years of active service with such department before retirement shall be entitled to a lump sum service pension in the amount of \$5,750 for each year of active Fire Department service (including each year over 20) but not exceeding the maximum amount per year of service allowed by law for the minimum average amount of available financing per firefighter as prescribed by law. The lump sum amount was increased to \$6,100 in 2016 and \$6,450 in 2017.

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

**CITY OF OWATONNA, MINNESOTA**  
**Notes to the Basic Financial Statements**  
**December 31, 2016**

If a member of the Association shall become permanently or totally disabled, the Association shall pay the sum \$5,750 for each year the member was an active member of the Owatonna Fire Department. If a member who received a disability pension subsequently recovers and returns to active duty, the disability pension is deducted from the service pension. A death benefit is also available, which is payable to a survivor.

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

3. Contributions

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

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

The Plan is funded in part by fire state aid and, if necessary, City contributions. The State of Minnesota distributed to the City \$169,227 in fire state aid paid by the City to the Relief Association for the year ended December 31, 2015. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contribution to the plan for the year ended December 31, 2015 was \$0.

4. Pension Costs

At December 31, 2016, the City reported an asset of \$1,059,067 for the Association's net pension asset. The net pension asset was measured as of December 31, 2015, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date.

As a result of its requirement to contribute to the Relief Association, the City recognized expense of \$(100,935) for the year ended December 31, 2016. At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Economic Experience		
Changes of Actuarial Assumptions	\$17,314	
Net Difference between Projected and Actual Earnings on Pension Plan Investments	162,681	\$35,279
City Contributions Subsequent to Measurement Date		
Total	\$179,995	\$35,279

**CITY OF OWATONNA, MINNESOTA**  
**Notes to the Basic Financial Statements**  
**December 31, 2016**

Amounts reported as deferred outflows and inflows of resources related to the Association's pension will be recognized in pension expense as follows:

Year Ended December 31,	Pension Expense Amount
2017	\$30,689
2018	30,689
2019	30,687
2020	42,449
2021	1,778
Thereafter	8,424

5. Actuarial Assumptions

The actuarial total pension asset was determined as of December 31, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	12/31/14
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar Closed
Actuarial Assumptions:	
Discount Rate	7.00%
Investment Rate of Return	7.00%
20-Year Municipal Bond Yield	3.57%
Age of Service Retirement	50

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These asset class estimates are combined to produce the portfolio long-term expected rate of return by weighting the expected future real rates of return by the current asset allocation percentage (or target allocation, if available) and by adding expected inflation (2.75%). All results are then rounded to the nearest quarter percentage point.

The best-estimate of expected future real rates of return were published in the 2015 Survey of Capital Market Assumptions produced by Horizon Actuarial Services. These expected returns, along with expected asset class standard deviations and correlation coefficients, are based on Horizon's annual survey of investment advisory firms. The expected inflation assumption was developed based on an analysis of historical experience blended with forward-looking expectations available in market data.

Best estimates of geometric real and nominal rates of return for each major asset class included in the pension plan's asset allocation as of December 31, 2015 are summarized in the following table:

Asset Class	Allocation at December 31, 2015	Long-Term Expected Real Rate of Return	Long-Term Expected Nominal Rate of Return
Domestic Equity	42.46%	5.58%	8.33%
International Equity	18.64%	5.71%	8.46%
Fixed Income	15.05%	2.27%	5.02%
Real Estate	0.28%	4.44%	7.19%
Cash Equivalents	23.57%	.84%	3.59%
Total Portfolio	100%		7.12%

**CITY OF OWATONNA, MINNESOTA**  
**Notes to the Basic Financial Statements**  
**December 31, 2016**

6. Discount Rate

The discount rate used to measure the total pension liability was 7.00%. Assets were projected using expected benefit payments and expected asset returns. Expected benefit payments were discounted by year using expected assets return assumption for years in which the assets were sufficient to pay all benefit payments. Any remaining benefit payments after the trust fund is exhausted are discounted at the municipal bond rate of return. The equivalent single rate is the discount rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

7. Pension Liability Sensitivity

The following presents the City of Owatonna's net pension asset of the Association, calculated using the discount rate of 7.0%, as well as what the Association's net pension asset would be if it were calculated using a discount rate that is one percentage point lower (6.0%) or one percentage point higher (8.0%) than the current rate:

	1% Decrease	Selected Discount Rate	1% Increase
Net Pension Asset	\$1,016,557	\$1,059,067	\$1,099,664
Discount Rate	6.0%	7.0%	8.0%

8. Plan's Fiduciary Net Position

Information about the Plan's fiduciary net position is as follows:

	2015
<b>Assets</b>	
Cash and Investments	\$3,007,237
<b>Total Assets</b>	<b>\$3,007,237</b>
<b>Net Position</b>	
Unrestricted	<b>\$3,007,237</b>
<b>Revenues</b>	
Fire State Aid	\$169,227
Interest	9,916
Total Revenues	<b>179,143</b>
<b>Expenses</b>	
Administrative	6,291
Total Expenses	<b>6,291</b>
Change in Net Position	172,852
Beginning Net Position	2,834,385
Ending Net Position	<b>\$3,007,237</b>

**CITY OF OWATONNA, MINNESOTA**  
**Notes to the Basic Financial Statements**  
**December 31, 2016**

Information about the changes in the Plan's net pension asset is as follows:

	Measurement Date December 31, 2015
<b><u>Total Pension Liability</u></b>	
Service Cost	\$53,176
Interest	130,326
Changes of assumptions	19,092
Changes of benefit terms	61,077
<b>Net Change in Total Pension Liability</b>	<b>263,671</b>
Total Pension Liability – Beginning	1,684,499
Total Pension Liability – Ending (a)	<b>\$1,948,170</b>
<b><u>Plan Fiduciary Net Position</u></b>	
State Contributions	\$169,227
Net Investment Income	9,916
Benefit Payments	
Administrative Expenses	(6,291)
<b>Net Change in Fiduciary Net Position</b>	<b>172,852</b>
Fiduciary Net Position – Beginning	2,834,385
Fiduciary Net Position – Ending (b)	<b>\$3,007,237</b>
<b>Association's Net Pension Liability/(Asset) – Ending (a) – (b)</b>	<b>\$(1,059,067)</b>

**CITY OF OWATONNA, MINNESOTA**  
**Required Supplementary Information**  
**Schedule of Funding Progress for Postemployment Benefit Plan**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/(c)]
01/01/14	\$0	\$824,971	\$824,971	0.00%	\$11,592,486	7.1%
01/01/11	\$0	945,001	945,001	0.00%	10,710,086	8.8%
01/01/08	\$0	964,497	964,497	0.00%	11,566,995	8.3%

**CITY OF OWATONNA, MINNESOTA**  
**Required Supplementary Information**  
**Schedule of Proportionate Share of the Net Pension Liability**

<b>PERA General Employees Retirement Fund (GERF)</b>		
Measurement Date	6/30/16	6/30/15
Proportion of the Net Pension Liability	0.1682%	0.1672%
Proportionate Share of the Net Pension Liability	\$13,657,005	\$8,665,171
State's Proportionate Share of the Net Pension Liability Associated with the City	<u>178,369</u>	<u>                    </u>
Total State and City's proportionate share of the Net Pension Liability	<u>\$13,835,374</u>	<u>\$8,665,171</u>
Covered-Employee Payroll	\$10,443,843	\$9,826,867
Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	130.77%	88.18%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.91%	78.20%
<b>PERA Public Employees Police &amp; Fire Fund (PEPFF)</b>		
Measurement Date	6/30/16	6/30/15
Proportion of the Net Pension Liability	.319%	0.311%
Proportionate Share of the Net Pension Liability	\$12,802,025	\$3,533,688
Covered-Employee Payroll	\$3,070,825	\$2,853,462
Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	416.89%	123.84%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	63.88%	86.60%

Note: Information is presented prospectively and an accumulation of ten years will be provided.

**CITY OF OWATONNA, MINNESOTA**  
**Required Supplementary Information**  
**Schedule of City Contributions**

<b>PERA General Employees Retirement Fund (GERF)</b>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$804,270	\$778,475	\$695,645
Contributions in Relation to the Contractually Required Contribution	<u>(804,270)</u>	<u>(778,475)</u>	<u>(695,645)</u>
Contribution Deficiency (Excess)	<u>0</u>	<u>0</u>	<u>0</u>
City's Covered-Employee Payroll	\$10,726,757	\$10,379,740	\$9,595,508
Contributions as a Percentage of Covered-Employee Payroll	7.50%	7.50%	7.25%
<b>PERA Public Employees Police &amp; Fire Fund (PEPFF)</b>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$500,744	\$508,708	\$432,074
Contributions in Relation to the Contractually Required Contribution	<u>(500,744)</u>	<u>(508,708)</u>	<u>(432,074)</u>
Contribution Deficiency (Excess)	<u>0</u>	<u>0</u>	<u>0</u>
City's Covered-Employee Payroll	\$3,091,017	\$3,140,174	\$2,824,017
Contributions as a Percentage of Covered-Employee Payroll	16.2%	16.2%	15.3%
<b>Owatonna Firefighters Relief Association</b>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily Required Contribution	\$-	\$ -	\$ -
Contributions in Relation to the Statutorily Required Contribution	<u>-</u>	<u>-</u>	<u>-</u>
Contribution Deficiency (Excess)	<u>\$-</u>	<u>\$ -</u>	<u>\$ -</u>
Association's Covered-Employee Payroll	N/A	N/A	N/A
Contributions as a Percentage of Covered-Employee Payroll	N/A	N/A	N/A

Note: Information is presented prospectively and an accumulation of ten years will be provided.

**CITY OF OWATONNA, MINNESOTA**  
**Required Supplementary Information**  
**Schedule of Changes in Net Pension Asset**  
**And Related Ratios – Relief Association**

	Measurement Date December 31, 2015	Measurement Date December 31, 2014
Total Pension Liability		
Service Cost	\$53,176	\$51,753
Interest	130,326	135,178
Benefit Payments, Including member refunds	-	(506,107)
Net Change in Total Pension Liability	183,502	(319,176)
Total Pension Liability – Beginning	1,684,499	2,003,675
Total Pension Liability – Ending (a)	\$1,814,825	\$1,684,499
Plan Fiduciary Net Position		
State Contributions	\$169,227	\$154,878
Net Investment Income	9,916	260,890
Benefit Payments	-	(506,107)
Administrative Expenses	(6,291)	(6,218)
Net Change in Fiduciary Net Position	172,852	(96,557)
Fiduciary Net Position – Beginning	2,834,385	2,930,942
Fiduciary Net Position – Ending (b)	\$3,007,237	\$2,834,385
Association’s Net Pension Liability/(Asset) – Ending (a) – (b)	\$(1,059,067)	\$(1,149,886)
Fiduciary Net Position as a Percentage of the Total Pension Liability	165.70%	168.26%
Covered Employee Payroll	N/A	N/A
Net Pension Liability/(Asset) as a Percentage of Covered-Employee Payroll	N/A	N/A

Note: Information is presented prospectively and an accumulation of ten years will be provided.

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## **COMBINING STATEMENTS**

## **Nonmajor Governmental Funds**

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### **Special Revenue Funds**

***Library Reserve and Memorial Fund*** – This fund is used to account for private donations and memorials that are specifically to be used for library activity. The Hunewill Trust principal was set to remain at \$16,500 with interest earnings being used to purchase books as specified by donor.

***Small Cities Development Program Fund*** – This fund was established to account for grants received for commercial and residential development projects.

***MIF Fund*** – This fund was established to account for grants received for flood recovery.

**Capital Projects Funds** – see fund definitions on page 97

**CITY OF OWATONNA, MINNESOTA**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
December 31, 2016

	<b>Library Reserve &amp; Memorial Fund</b>	<b>Small Cities Development Program Fund</b>	<b>Special Revenue  MIF Fund</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$16,793	\$29,135	\$21
Investments			
Taxes receivable - delinquent			
Accounts receivable		1,566	
Due from other governments		39,014	
Total assets	<u>\$16,793</u>	<u>\$69,715</u>	<u>\$21</u>
<b>LIABILITIES</b>			
Accounts payable	\$902	\$71,993	
Unearned revenue	2,850		
Due to other funds	32,000		
Advance from other funds			
Total liabilities	<u>35,752</u>	<u>71,993</u>	
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue			
Total deferred inflows of resources			
<b>FUND BALANCES</b>			
Restricted for:			
Hunewill	16,500		
Grant projects			\$21
Capital projects			
Economic development			
Unassigned	(35,459)	(2,278)	
Total fund balances	<u>(18,959)</u>	<u>(2,278)</u>	<u>21</u>
Total liabilities and fund balances	<u>\$16,793</u>	<u>\$69,715</u>	<u>\$21</u>

<u>Funds</u>	<u>Nonmajor Capital Project Funds</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Total</u>		
\$45,949	\$452,208	\$498,157
	1,700,000	1,700,000
	4,676	4,676
1,566		1,566
39,014		39,014
<u>\$86,529</u>	<u>\$2,156,884</u>	<u>\$2,243,413</u>
\$72,895	\$114,841	\$187,736
2,850		2,850
32,000	24,005	56,005
	182,310	182,310
<u>107,745</u>	<u>321,156</u>	<u>428,901</u>
	4,676	4,676
	4,676	4,676
16,500		16,500
21		21
	2,026,453	2,026,453
	6,128	6,128
(37,737)	(201,529)	(239,266)
(21,216)	1,831,052	1,809,836
<u>\$86,529</u>	<u>\$2,156,884</u>	<u>\$2,243,413</u>

**CITY OF OWATONNA, MINNESOTA**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
For the year ended December 31, 2016

	<b>Library Reserve &amp; Memorial Fund</b>	<b>Special Revenue Small Cities Development Program Fund</b>
REVENUES		
Taxes		
Intergovernmental revenue		\$73,380
Interest on investments	\$157	
Miscellaneous	87,726	105,549
Total revenues	87,883	178,929
EXPENDITURES		
Current:		
Housing & economic development		189,275
Miscellaneous	134,097	
Capital outlay		
Total expenditures	134,097	189,275
Excess of revenues over (under) expenditures	(46,214)	(10,346)
OTHER FINANCING SOURCES (USES)		
Transfers out		
Total other financing sources (uses)		
Net change in fund balances	(46,214)	(10,346)
Fund balances – beginning	27,255	8,068
Fund balances – ending	\$(18,959)	\$(2,278)

<b>Funds</b>		<b>Nonmajor Capital Projects Funds</b>	<b>Total Nonmajor Governmental Funds</b>
<b>MIF Fund</b>	<b>Total</b>		
		\$758,816	\$758,816
	\$73,380		73,380
	157	16,706	16,863
	193,275	(12,031)	181,244
	<u>266,812</u>	<u>763,491</u>	<u>1,030,303</u>
	189,275	573,293	762,568
	134,097		134,097
		887,846	887,846
	<u>323,372</u>	<u>1,461,139</u>	<u>1,784,511</u>
	(56,560)	(697,648)	(754,208)
		(170,590)	(170,590)
		(170,590)	(170,590)
	(56,560)	(868,238)	(924,798)
\$21	35,344	2,699,290	2,734,634
\$21	<u>\$(21,216)</u>	<u>\$1,831,052</u>	<u>\$1,809,836</u>

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## Nonmajor Capital Projects Funds

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A Capital Projects Fund is established to account for financial resources to be used for the acquisition or construction of major capital assets.

**Sales Tax Capital Projects Fund** – was established to account for the capital projects being funded by the special local option sales tax and excise tax.

**TIF 1-1 Metro Plains Cedar Run Housing Fund** – was established to account for tax increment financing activities relative to project costs associated with the development of rental apartment complexes for low and moderate income persons.

**TIF 1-6 Northgate Redevelopment Fund** - was established to account for tax increment financing activities relative to property acquisition, building rehabilitation, and site improvements to assist with redevelopment within the district.

**TIF 3-2 Cybex, Inc. Economic Development Fund** – was established to account for tax increment financing activities relative to property acquisition, infrastructure, and private site improvements to assist with construction of a production/warehouse facility.

**TIF 3-3 Gopher Sport Economic Development Fund** – was established to account for tax increment financing activities relative to property acquisition and private site improvements to assist with construction of a distribution facility.

**TIF 3-4 Rayven, Inc. Economic Development Fund** – was established to account for tax increment financing activities relative to property acquisition and private site improvements to assist with construction of a manufacturing facility.

**TIF 3-5 Sputtering Components Economic Development Fund** – was established to account for tax increment financing activities relative to private site improvements to assist with expansion of the manufacturing facility.

**TIF 3-6 Viracon Economic Development Fund** – was established to account for tax increment financing activities relative to private site improvements to assist with expansion of the manufacturing facility.

**TIF 4-1 Hospital Redevelopment Fund** – was established to account for tax increment financing activities relative to site improvements to assist with redevelopment of the old hospital site.

**TIF 5-1 Tailwind Redevelopment Fund** – was established to account for tax increment financing activities relative to site improvements to assist with redevelopment of the old Hardees/Budgetmart site.

**TIF 3-8 Daikin Applied Economic Development Fund** – was established to account for tax increment financing activities relative to private site improvements to assist with expansion of the manufacturing facility.

**CITY OF OWATONNA, MINNESOTA**  
**Combining Balance Sheet**  
**Nonmajor Capital Projects Funds**  
December 31, 2016

	Sales Tax Capital Projects Fund	TIF 1-1 Metro Plains Cedar Run Fund	TIF 1-6 Northgate Fund	TIF 3-2 Cybex Inc. Fund
<b>ASSETS</b>				
Cash and cash equivalents	\$440,677		\$1,247	\$4,860
Investments	1,700,000			
Taxes receivable - delinquent				
Total assets	<u>\$2,140,677</u>	<u>\$0</u>	<u>\$1,247</u>	<u>\$4,860</u>
<b>LIABILITIES</b>				
Accounts payable	\$114,224			
Due to other funds				
Advance from other funds				
Total liabilities	<u>114,224</u>			
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue				
Total deferred inflows of resources				
<b>FUND BALANCES</b>				
Restricted for:				
Capital projects	2,026,453			
Economic development			\$1,247	\$4,860
Unassigned				
Total fund balances	<u>2,026,453</u>		<u>1,247</u>	<u>4,860</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$2,140,677</u>	<u>\$0</u>	<u>\$1,247</u>	<u>\$4,860</u>

<b>TIF 3-3 Gopher Sport Fund</b>	<b>TIF 3-4 Rayven Fund</b>	<b>TIF 3-5 Sputtering Fund</b>	<b>TIF 3-6 Viracon Fund</b>	<b>TIF 4-1 Hospital Redevelop Fund</b>	<b>TIF 5-1 Tailwind Fund</b>	<b>TIF 3-8 Daikin Fund</b>	<b>Total Nonmajor Capital Projects Funds</b>
	\$19	\$2	\$550		1	\$4,852	\$452,208
					\$4,676		1,700,000
							4,676
<u>\$0</u>	<u>\$19</u>	<u>\$2</u>	<u>\$550</u>	<u>\$0</u>	<u>\$4,677</u>	<u>\$4,852</u>	<u>\$2,156,884</u>
					\$617		\$114,841
			\$24,005				24,005
			57,253			\$125,057	182,310
			81,258		617	125,057	321,156
					4,676		4,676
					4,676		4,676
	\$19	\$2					2,026,453
			(80,708)		(616)	(120,205)	6,128
	19	2	(80,708)		(616)	(120,205)	(201,529)
<u>\$0</u>	<u>\$19</u>	<u>\$2</u>	<u>\$550</u>	<u>\$0</u>	<u>\$4,677</u>	<u>\$4,852</u>	<u>\$2,156,884</u>

**CITY OF OWATONNA, MINNESOTA**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Capital Projects Funds**  
For the year ended December 31, 2016

	<u>Sales Tax Capital Projects Fund</u>	<u>TIF 1-1 Metro Plains Cedar Run Fund</u>	<u>TIF 1-6 Northgate Fund</u>	<u>TIF 3-2 Cybex, Inc Fund</u>
<b>REVENUES</b>				
Taxes		\$15,167	\$51,755	\$120,786
Intergovernmental revenue				
Interest on investments	\$16,618		8	33
Miscellaneous	(12,031)			
Total revenues	<u>4,587</u>	<u>15,167</u>	<u>51,763</u>	<u>120,819</u>
<b>EXPENDITURES</b>				
Current				
Housing & economic development		15,167	51,755	120,786
Capital outlay	887,846			
Total expenditures	<u>887,846</u>	<u>15,167</u>	<u>51,755</u>	<u>120,786</u>
Excess of revenues over (under) expenditures	(883,259)		8	33
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out				
Total other financing sources (uses)				
Net change in fund balances	(883,259)		8	33
Fund balances- beginning	<u>2,909,712</u>		<u>1,239</u>	<u>4,827</u>
Fund balances – ending	<u>\$2,026,453</u>	<u>\$0</u>	<u>\$1,247</u>	<u>\$4,860</u>

<b>TIF 3-3 Gopher Sport Fund</b>	<b>TIF 3-4 Rayven Fund</b>	<b>TIF 3-5 Sputtering Fund</b>	<b>TIF 3-6 Viracon Fund</b>	<b>TIF 4-1 Hospital Redevelop Fund</b>	<b>TIF 5-1 Tailwind Fund</b>	<b>TIF 3-8 Daikin Fund</b>	<b>Total Nonmajor Capital Projects Funds</b>
\$99,582	\$18,342	\$22,290	\$190,055	\$58,959	\$12,080	\$169,800	\$758,816
	1		4		6	36	16,706
<u>99,582</u>	<u>18,343</u>	<u>22,290</u>	<u>190,059</u>	<u>58,959</u>	<u>12,086</u>	<u>169,836</u>	<u>(12,031)</u>
							<u>763,491</u>
99,582	18,423	22,290	18,217	58,959	12,702	155,412	573,293
<u>99,582</u>	<u>18,423</u>	<u>22,290</u>	<u>18,217</u>	<u>58,959</u>	<u>12,702</u>	<u>155,412</u>	<u>887,846</u>
	(80)		171,842		(616)	14,424	(697,648)
			(170,590)				(170,590)
			<u>(170,590)</u>				<u>(170,590)</u>
	(80)		1,252		(616)	14,424	(868,238)
	99	2	(81,960)			(134,629)	2,699,290
<u>\$0</u>	<u>\$19</u>	<u>\$2</u>	<u>\$(80,708)</u>	<u>\$0</u>	<u>\$(616)</u>	<u>\$(120,205)</u>	<u>\$1,831,052</u>

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## **Nonmajor Discretely Presented Component Unit**

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The Economic Development Authority (EDA) consists of three funds which are all accounted for as governmental funds.

### ***EDA Administration Fund***

This fund accounts for the administrative activities related to economic and industrial development and redevelopment within the City.

### ***EDA Loan Fund***

This fund accounts for the activities related to loans for the purpose of economic and industrial development and redevelopment within the City.

### ***EDA Land Fund***

This fund accounts for the activities related to the acquisition and sale of land related to economic and industrial development and redevelopment within the City.

**CITY OF OWATONNA, MINNESOTA**  
**Combining Balance Sheet**  
**Component Unit – Economic Development Authority**  
December 31, 2016

	<u>EDA Administration Fund</u>	<u>EDA Loan Fund</u>	<u>EDA Land Fund</u>	<u>Total EDA Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$42,024	\$289,597	\$215,738	\$547,359
Investments		800,000	700,000	1,500,000
Interest receivable		125		125
Accounts receivable	23,206		48	23,254
Advance to other funds			20,000	20,000
Due from other governments				
Loans receivable		300,559	583,846	884,405
Land held for resale			2,554,179	2,554,179
Total assets	<u>\$65,230</u>	<u>\$1,390,281</u>	<u>\$4,073,811</u>	<u>\$5,529,322</u>
<b>LIABILITIES</b>				
Accounts payable	\$37,921		\$111,392	\$149,313
Advance from other funds	20,000			20,000
Unearned revenue			1,100	1,100
Total liabilities	<u>57,921</u>		<u>112,492</u>	<u>170,413</u>
<b>DEFERRED INFLOW OF RESOURCES</b>				
Unavailable revenue			362,975	362,975
Total deferred inflows of resources			<u>362,975</u>	<u>362,975</u>
<b>FUND BALANCES</b>				
Restricted for:				
Economic development	7,309	\$1,390,281	3,598,344	4,995,934
Unassigned				
Total fund balances	<u>7,309</u>	<u>1,390,281</u>	<u>3,598,344</u>	<u>4,995,934</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$65,230</u>	<u>\$1,390,281</u>	<u>\$4,073,811</u>	<u>\$5,529,322</u>

Fund balances – component unit \$4,995,934

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 252,156

Donated land held for resale is not expected to be sold soon enough to provide available resources and therefore, is a deferred inflow in the funds 121,500

Other long-term assets are not available to pay for current expenditures, and therefore, are a deferred inflow in the funds 241,475

Internal service funds are used by management to charge the costs of various services to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net position. (1,848)

Net position – component unit \$5,609,217

**CITY OF OWATONNA, MINNESOTA**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Component Unit – Economic Development Authority**  
For the year ended December 31, 2016

	<b>EDA Administration Fund</b>	<b>EDA Loan Fund</b>	<b>EDA Land Fund</b>	<b>Total EDA Funds</b>
<b>REVENUES</b>				
Taxes	\$424,596			\$424,596
Intergovernmental revenue	600,000			600,000
Interest on investments	18	\$8,430	\$8,340	16,788
Interest on loans		1,840		1,840
Miscellaneous	22,246	12,750	93,555	128,551
Total revenues	<u>1,046,860</u>	<u>23,020</u>	<u>101,895</u>	<u>1,171,775</u>
<b>EXPENDITURES</b>				
Current – miscellaneous	<u>1,034,511</u>	<u>17,674</u>	<u>80,787</u>	<u>1,132,972</u>
Total expenditures	<u>1,034,511</u>	<u>17,674</u>	<u>80,787</u>	<u>1,132,972</u>
Excess of revenues over (under) Expenditures	12,349	5,346	21,108	38,803
Fund balance - beginning				
As previously reported	(5,040)	1,384,935	3,712,443	5,092,338
Restatement			(135,207)	(135,207)
As restated	<u>(5,040)</u>	<u>1,384,935</u>	<u>3,577,236</u>	<u>4,957,131</u>
Fund balance – ending	<u>\$7,309</u>	<u>\$1,390,281</u>	<u>\$3,598,344</u>	<u>\$4,995,934</u>

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# **CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS**

**CITY OF OWATONNA, MINNESOTA**  
**Capital Assets Used in the Operation of Governmental Funds**  
**Schedule by Function and Activity**  
December 31, 2016

	Land	Buildings	Improv. Other than Buildings	Equipment
General Government				
Administrative Services	\$1,586,880	\$2,731,656		\$930,413
Government Buildings		4,015,079	\$29,349	51,361
Total General Government	<u>1,586,880</u>	<u>6,746,735</u>	<u>29,349</u>	<u>981,774</u>
Public Safety				
Police	21,549	963,405		348,790
Fire	237,582	2,394,648		1,122,910
Building Inspection				37,097
Total Public Safety	<u>259,131</u>	<u>3,358,053</u>		<u>1,508,797</u>
Public Works				
Engineering				81,914
Street Maintenance	337,026	1,461,479	55,367	704,863
Airport	4,399,281	1,867,447		445,256
Total Public Works	<u>4,736,307</u>	<u>3,328,926</u>	<u>55,367</u>	<u>1,232,033</u>
Culture and Recreation				
Library	244,940	2,713,603		425,501
Park & Recreation	1,249,591	1,308,814	740,351	449,990
Tennis & Fitness Center		818,739		39,732
Senior Center		366,033		27,879
Brooktree Golf Course	198,117	362,378	172,311	113,617
Aquatic Center		3,518,447		89,953
Total Culture and Recreation	<u>1,692,648</u>	<u>9,088,014</u>	<u>912,662</u>	<u>1,146,672</u>
Construction in Progress				
Subtotal	<u>8,274,966</u>	<u>22,521,728</u>	<u>997,378</u>	<u>4,869,276</u>
Internal Service Funds				<u>8,759,972</u>
Total governmental fund capital assets	<u>\$8,274,966</u>	<u>\$22,521,728</u>	<u>\$997,378</u>	<u>\$13,629,248</u>

<u>Infrastructure</u>	<u>Construction In Progress</u>	<u>Total</u>
		\$5,248,949
		4,095,789
		<u>9,344,738</u>
		1,333,744
		3,755,140
		37,097
		<u>5,125,981</u>
		81,914
\$104,211,550		106,770,285
5,406,712		12,118,696
<u>109,618,262</u>		<u>118,970,895</u>
		3,384,044
		3,748,746
		858,471
		393,912
408,899		1,255,322
		3,608,400
<u>408,899</u>		<u>13,248,895</u>
	\$5,920	5,920
110,027,161	5,920	146,696,429
		8,759,972
<u>\$110,027,161</u>	<u>\$5,920</u>	<u>\$155,456,401</u>

**CITY OF OWATONNA, MINNESOTA**  
**Capital Assets Used in the Operation of Governmental Funds**  
**Schedule of Changes by Function and Activity**  
For the year ended December 31, 2016

	Beginning Balances	Additions	Deletions	Ending Balances
General Government				
Administrative Services	\$5,213,772	\$35,177		\$5,248,949
Government Buildings	2,533,550	1,562,239		4,095,789
Total General Government	<u>7,747,322</u>	<u>1,597,416</u>		<u>9,344,738</u>
Public Safety				
Police	1,246,230	87,514		1,333,744
Fire	3,522,376	246,072	\$13,308	3,755,140
Building Inspection	37,097			37,097
Total Public Safety	<u>4,805,703</u>	<u>333,586</u>	<u>13,308</u>	<u>5,125,981</u>
Public Works				
Engineering	94,659		12,745	81,914
Street Maintenance	105,128,209	1,669,072	26,996	106,770,285
Airport	12,118,696			12,118,696
Total Public Works	<u>117,341,564</u>	<u>1,669,072</u>	<u>39,741</u>	<u>118,970,895</u>
Culture and Recreation				
Library	3,183,058	200,986		3,384,044
Park & Recreation	3,112,538	636,208		3,748,746
Tennis & Fitness Center	835,183	23,288		858,471
Senior Center	393,912			393,912
Brooktree Golf Course	1,239,822	15,500		1,255,322
Aquatic Center		3,608,400		3,608,400
Total Culture & Recreation	<u>8,764,513</u>	<u>4,484,382</u>		<u>13,248,895</u>
Construction in Progress	<u>1,368,053</u>	<u>1,001,685</u>	<u>2,363,818</u>	<u>5,920</u>
Subtotal	140,027,155	9,086,141	2,416,867	146,696,429
Internal Service Funds	<u>8,199,247</u>	<u>761,721</u>	<u>200,996</u>	<u>8,759,972</u>
Total governmental fund capital assets	<u>\$148,226,402</u>	<u>\$9,847,862</u>	<u>\$2,617,863</u>	<u>\$155,456,401</u>

# **STATISTICAL SECTION**

## Statistical Section

This part of the City of Owatonna'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.

<b>Contents</b>	<b>Page</b>
<b>Financial Trends</b> These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	112-123
<b>Revenue Capacity</b> These schedules contain information to help the reader assess the City's most significant local revenue source, property taxes.	124-128
<b>Debt Capacity</b> 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.	129-134
<b>Demographic and Economic Information</b> These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	135-136
<b>Operating Information</b> These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the city provides and the activities it performs.	137-139

Source of data: Unless specifically noted, the information on the following tables is derived from the basic financial statements.

**CITY OF OWATONNA, MINNESOTA**  
**Net Position by Component**  
Last Ten Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Governmental activities				
Net investment in capital assets	\$80,110,407	\$75,953,125	\$75,256,663	\$75,121,100
Restricted	10,411,098	11,942,498	12,177,716	12,189,560
Unrestricted	<u>7,877,023</u>	<u>9,427,621</u>	<u>15,929,892</u>	<u>15,409,299</u>
Total governmental activities	<u>\$98,398,528</u>	<u>\$97,323,244</u>	<u>\$103,364,271</u>	<u>\$102,719,959</u>
Business-type activities				
Net investment in capital assets	\$88,935,574	\$90,824,949	\$86,780,807	\$77,397,242
Restricted			910,766	876,365
Unrestricted	<u>38,745,124</u>	<u>36,259,217</u>	<u>40,178,245</u>	<u>45,231,887</u>
Total business-type activities	<u>\$127,680,698</u>	<u>\$127,084,166</u>	<u>\$127,869,818</u>	<u>\$123,505,494</u>
Primary government				
Net investment in capital assets	\$169,045,981	\$166,778,074	\$162,037,470	\$152,518,342
Restricted	10,411,098	11,942,498	13,088,482	13,065,925
Unrestricted	<u>46,622,147</u>	<u>45,686,838</u>	<u>56,108,137</u>	<u>60,641,186</u>
Total primary government net assets	<u>\$226,079,226</u>	<u>\$224,407,410</u>	<u>\$231,234,089</u>	<u>\$226,225,453</u>

Note: In 2015 GASB 68 was implemented

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$76,286,230	\$73,223,353	\$71,148,324	\$64,771,533	\$57,430,717	\$55,883,520
13,584,152	12,010,707	1,758,332	5,338,162	3,586,636	2,742,792
11,575,794	15,319,157	26,151,601	27,342,921	29,369,502	31,950,611
<u>\$101,446,176</u>	<u>\$100,553,217</u>	<u>\$99,058,257</u>	<u>\$97,452,616</u>	<u>\$90,386,855</u>	<u>\$90,576,923</u>
\$70,537,639	\$68,259,836	\$65,941,057	\$70,989,086	\$61,033,066	\$60,220,680
866,194	829,580	1,077,453	1,195,898	1,161,106	1,079,874
44,381,688	43,050,203	41,050,837	32,907,465	34,952,820	32,063,855
<u>\$115,785,521</u>	<u>\$112,106,619</u>	<u>\$108,069,347</u>	<u>\$105,092,449</u>	<u>\$97,146,992</u>	<u>\$93,364,409</u>
\$146,823,868	\$141,483,189	\$137,089,381	\$135,760,619	\$118,463,783	\$116,104,200
14,450,347	12,840,287	2,835,785	6,534,060	4,747,742	3,822,666
55,957,482	58,369,360	67,202,438	60,250,386	64,322,322	64,014,466
<u>\$217,231,697</u>	<u>\$212,692,836</u>	<u>\$207,127,604</u>	<u>\$202,545,065</u>	<u>\$187,533,847</u>	<u>\$183,941,332</u>

**CITY OF OWATONNA, MINNESOTA**  
**Changes in Net Position**  
 Last Ten Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Program Revenues</b>				
Governmental activities:				
Charges for services:				
General government	\$354,171	\$325,810	\$353,387	\$343,280
Public safety	821,115	646,479	704,699	778,934
Public works	658,045	583,402	433,409	849,117
Culture and recreation	1,308,683	1,167,819	1,147,686	1,108,691
Other activities	19,528	9,640	13,121	12,794
Operating grants & contributions	1,499,973	1,411,675	1,692,420	1,253,133
Capital grants & contributions	1,985,442	3,351,342	2,596,415	5,401,249
Total governmental activities	<u>6,646,957</u>	<u>7,496,167</u>	<u>6,941,137</u>	<u>9,747,198</u>
Business-type activities:				
Charges for services:				
Sewer	3,322,407	3,106,003	2,995,373	2,467,088
Storm water	784,774	397,464	399,983	344,831
Electric	38,219,579	35,805,919	35,756,468	34,586,900
Water	3,804,917	3,489,771	3,433,348	3,509,578
Gas	13,266,847	13,795,668	21,471,393	15,776,954
Aquatic center		195,018	174,787	164,532
Operating grants and contributions				
Capital grants and contributions	188,135	50,000	25,688	4,449,193
Total business-type activities	<u>59,586,659</u>	<u>56,839,843</u>	<u>64,257,040</u>	<u>61,299,076</u>
Total primary government	<u>\$66,233,616</u>	<u>\$64,336,010</u>	<u>\$71,198,177</u>	<u>\$71,046,274</u>
<b>Expenses</b>				
Governmental activities:				
General government	\$3,099,636	\$2,856,561	\$2,680,256	\$2,496,706
Public safety	8,377,228	6,348,914	6,310,828	5,999,244
Public works	6,691,503	7,270,857	6,925,355	7,301,740
Culture and recreation	5,040,588	4,652,758	4,279,720	4,229,251
Other activities	1,063,892	747,447	570,317	627,951
Interest on long-term debt	287,028	288,678	300,765	409,891
Total governmental activities	<u>24,559,875</u>	<u>22,165,215</u>	<u>21,067,241</u>	<u>21,064,783</u>
Business-type activities:				
Sewer	3,006,694	2,492,185	2,452,577	2,191,955
Storm water	682,131	516,915	508,608	457,454
Electric	37,738,830	34,612,064	34,319,736	34,455,128
Water	3,046,878	3,159,786	2,734,692	2,767,320
Gas	11,789,863	13,066,535	20,613,979	14,962,607
Aquatic center		291,201	249,672	268,532
Total business-type activities	<u>56,264,396</u>	<u>54,138,686</u>	<u>60,879,264</u>	<u>55,102,996</u>
Total primary government	<u>\$80,824,271</u>	<u>\$76,303,901</u>	<u>\$81,946,505</u>	<u>\$76,167,779</u>

Note: The Aquatic center was transferred from a business-type activity to a governmental activity in 2016.

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$277,682	\$190,330	\$132,361	\$222,588	\$273,331	\$264,959
672,500	806,155	744,927	584,890	807,735	781,429
675,880	561,208	502,500	203,771	310,690	583,940
1,136,581	1,082,618	1,182,280	1,344,399	1,412,107	1,454,560
8,579	15,442	9,179	125,554	80,032	319,066
1,095,946	1,058,672	1,333,288	1,015,913	908,405	1,919,661
3,305,708	4,209,760	3,676,916	5,431,043	5,053,373	3,892,654
<u>7,172,876</u>	<u>7,924,185</u>	<u>7,581,451</u>	<u>8,928,158</u>	<u>8,845,673</u>	<u>9,216,269</u>
2,022,730	2,163,278	2,237,337	2,169,847	2,152,952	2,347,183
397,888	339,905	330,000	301,712	253,814	251,316
34,651,139	34,252,624	34,486,785	31,884,063	31,880,134	32,008,441
3,602,180	3,413,443	3,695,706	3,318,519	3,247,419	3,020,615
13,008,829	15,727,297	17,369,887	19,090,971	24,133,450	22,888,305
198,191	173,984	183,781	171,217		579,514
749,465	205,115	563,437	3,761,930	74,000	184,000
<u>54,630,422</u>	<u>56,275,646</u>	<u>58,866,933</u>	<u>60,698,259</u>	<u>61,741,769</u>	<u>61,279,374</u>
<u>\$61,803,298</u>	<u>\$64,199,831</u>	<u>\$66,448,384</u>	<u>\$69,626,417</u>	<u>\$70,587,442</u>	<u>\$70,495,643</u>
\$2,190,496	\$2,214,779	\$2,584,345	\$2,350,230	\$2,671,970	\$2,438,113
5,770,904	5,760,579	5,656,846	5,898,353	6,011,315	5,936,716
6,640,567	6,905,658	7,006,584	4,949,913	5,758,426	3,913,635
4,051,046	4,020,572	4,193,364	4,416,540	4,817,582	4,817,514
627,678	840,271	1,230,376	695,768	453,832	2,416,313
307,253	447,757	660,324	852,329	994,414	942,152
<u>19,587,944</u>	<u>20,189,616</u>	<u>21,331,839</u>	<u>19,163,133</u>	<u>20,707,539</u>	<u>20,464,443</u>
2,479,096	2,408,860	2,319,607	1,817,628	1,855,646	1,683,066
367,752	333,266	338,878	239,802	72,103	43,882
33,341,909	32,751,288	34,139,463	31,599,411	31,673,356	31,465,992
2,531,144	2,441,081	2,857,315	2,458,048	2,466,784	2,299,862
12,513,597	14,532,831	16,670,867	17,201,803	22,432,645	22,919,882
264,385	232,096	244,399	297,848		522,738
<u>51,497,883</u>	<u>52,699,422</u>	<u>56,570,529</u>	<u>53,614,540</u>	<u>58,500,534</u>	<u>58,935,422</u>
<u>\$71,085,827</u>	<u>\$72,889,038</u>	<u>\$77,902,368</u>	<u>\$72,777,673</u>	<u>\$79,208,073</u>	<u>\$79,399,865</u>

**CITY OF OWATONNA, MINNESOTA**  
**Changes in Net Position - Continued**  
Last Ten Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Net (Expense)/Revenue</b>				
Governmental activities	\$(17,912,918)	\$(14,669,968)	\$(14,126,104)	\$(11,317,585)
Business-type activities	3,322,263	2,701,157	3,377,776	6,196,080
Total primary government	<u>\$(14,590,655)</u>	<u>\$(11,968,811)</u>	<u>\$(10,748,328)</u>	<u>\$(5,121,505)</u>
<b>General Revenues and Other</b>				
<b>Changes in Net Position</b>				
Governmental activities:				
Taxes				
Property taxes, (general purposes)	\$9,864,056	\$9,148,313	\$8,620,566	\$8,753,451
Property taxes, (debt service)	1,134,938	1,150,319	1,096,471	923,671
Sales & excise tax				
Franchise tax	346,777	339,322	342,607	324,401
Lodging tax				
Unrestricted grants and contributions	4,201,348	4,103,313	4,253,144	3,357,405
Investment earnings	134,961	190,031	511,958	(308,037)
Other			195,095	
Transfers	3,306,122	90,441	(249,425)	(1,351,736)
Total governmental activities	<u>18,988,202</u>	<u>15,021,739</u>	<u>14,770,416</u>	<u>11,699,155</u>
Business-type activities:				
Property taxes, (debt service)	247,970	248,410	251,775	253,885
Unrestricted grants and contributions				
Investment earnings	332,421	284,548	485,348	(81,728)
Other				
Transfers	(3,306,122)	(90,441)	249,425	1,351,736
Total business-type activities	<u>(2,725,731)</u>	<u>442,517</u>	<u>986,548</u>	<u>1,523,893</u>
Total primary government	<u>\$16,262,471</u>	<u>\$15,464,256</u>	<u>\$15,756,964</u>	<u>\$13,223,048</u>
<b>Change in Net Position</b>				
Governmental activities	\$1,075,284	\$352,691	\$644,312	\$381,570
Business-type activities	596,532	3,143,674	4,364,324	7,719,973
Total primary government	<u>\$1,671,816</u>	<u>\$3,496,365</u>	<u>\$5,008,636</u>	<u>\$8,101,543</u>

<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
\$(12,415,068)	\$(12,265,431)	\$(13,750,388)	\$(10,234,975)	\$(11,861,866)	\$(11,248,174)
3,132,539	3,577,556	2,296,404	7,083,719	3,241,235	2,343,952
<u>\$(9,282,529)</u>	<u>\$(8,687,875)</u>	<u>\$(11,453,984)</u>	<u>\$(3,151,256)</u>	<u>\$(8,620,631)</u>	<u>\$(8,904,222)</u>
\$8,436,179	\$7,517,394	\$7,181,958	\$7,058,666	\$6,876,626	\$6,156,067
1,037,055	1,308,435	1,549,154	1,663,077	1,610,922	1,350,983
	888,740	1,878,549	1,934,293	1,941,014	1,412,930
307,594	303,642	303,946	295,786	294,382	277,208
					232,063
3,428,021	3,624,122	4,224,944	4,498,163	4,308,299	5,121,043
137,539	360,304	377,409	654,023	1,229,733	1,436,457
				760	15,721
(38,361)	212,002	(159,931)	264,121	506,600	506,600
<u>13,308,027</u>	<u>14,214,639</u>	<u>15,356,029</u>	<u>16,368,129</u>	<u>16,768,336</u>	<u>16,509,072</u>
252,521	233,499	238,628	232,808		
			17,460		
222,481	421,654	281,935	764,205	1,141,828	1,746,452
				50,000	
38,361	(212,002)	159,931	(264,121)	(506,600)	(506,600)
<u>513,363</u>	<u>443,151</u>	<u>680,494</u>	<u>750,352</u>	<u>685,228</u>	<u>1,239,852</u>
<u>\$13,821,390</u>	<u>\$14,657,790</u>	<u>\$16,036,523</u>	<u>\$17,118,481</u>	<u>\$17,453,564</u>	<u>\$17,748,924</u>
\$892,959	\$1,949,208	\$1,605,641	\$6,133,154	\$4,906,470	\$5,260,898
3,645,902	4,020,707	2,976,898	7,834,071	3,926,463	3,583,804
<u>\$4,538,861</u>	<u>\$5,969,915</u>	<u>\$4,582,539</u>	<u>\$13,967,225</u>	<u>\$8,832,933</u>	<u>\$8,844,702</u>

**CITY OF OWATONNA, MINNESOTA**  
**Fund Balance – Governmental Funds**  
Last Ten Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
General Fund				
Reserved				
Unreserved				
Nonspendable	\$200,044	\$283,764	\$224,489	\$78,276
Restricted	43,717	43,432	43,058	42,066
Committed				
Assigned	2,066,020	2,050,503	1,912,882	1,843,366
Unassigned	8,088,843	8,075,845	7,851,566	7,731,961
Total general fund	<u>10,398,624</u>	<u>10,453,544</u>	<u>10,031,995</u>	<u>9,695,669</u>
All Other Governmental Funds				
Reserved				
Unreserved, reported in:				
Special revenue funds				
Debt service funds				
Capital projects funds				
Nonspendable			74,064	549,915
Restricted	7,282,461	9,414,768	8,953,592	8,312,438
Committed	1,114,534	1,114,534	1,528,371	2,644,186
Assigned	5,240,474	3,905,230	4,360,834	2,446,348
Unassigned	(239,266)	(216,589)	(219,861)	
Total all other governmental funds	<u>13,398,203</u>	<u>14,217,943</u>	<u>14,697,000</u>	<u>13,952,887</u>
Total governmental funds	<u>\$23,796,827</u>	<u>\$24,671,487</u>	<u>\$24,728,995</u>	<u>\$23,648,556</u>

Note: GASB Statement No. 54 was adopted in 2011

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$86,340	\$122,709	\$100,103	\$6,173	\$52,936	\$47,547
42,066	41,791	8,373,093	5,718,264	5,405,100	5,772,381
2,164,701	2,145,826				
7,348,001	6,620,420				
<u>9,641,108</u>	<u>8,930,746</u>	<u>8,473,196</u>	<u>5,724,437</u>	<u>5,458,036</u>	<u>5,819,928</u>
		7,859,383	13,072,081	12,252,765	14,081,237
		397,564	(132,268)	(121,136)	
		5,571,539	5,167,651	6,349,032	1,227,428
					6,087,424
9,084,236	11,734,213				
2,324,410	4,167,721				
<u>11,408,646</u>	<u>15,901,934</u>	<u>13,828,486</u>	<u>18,107,464</u>	<u>18,480,661</u>	<u>21,396,089</u>
<u>\$21,049,754</u>	<u>\$24,832,680</u>	<u>22,301,682</u>	<u>\$23,831,901</u>	<u>\$23,938,697</u>	<u>\$27,216,017</u>

**CITY OF OWATONNA, MINNESOTA**  
**Changes in Fund Balance of Governmental Funds**  
Last Ten Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Revenues</b>				
Taxes	\$11,315,685	\$10,658,545	\$10,089,188	\$9,999,651
Licenses and permits	428,138	292,628	349,311	350,707
Intergovernmental revenue	6,869,605	7,290,973	7,755,657	7,562,657
Charges for service	2,132,546	1,857,471	1,704,610	2,084,835
Fines and forfeits	142,447	157,719	172,951	172,778
Special assessments	936,065	1,137,312	1,099,194	1,361,391
Interest on investments	134,961	190,031	511,958	(308,037)
Miscellaneous	621,632	1,452,189	853,621	667,413
Total revenues	<u>22,581,079</u>	<u>23,036,868</u>	<u>22,536,490</u>	<u>21,891,395</u>
<b>Expenditures</b>				
Current operating				
General government	2,674,639	2,528,782	2,338,333	2,131,704
Public safety	6,605,121	6,200,216	6,094,080	5,645,420
Public works	3,850,262	3,681,956	3,444,217	3,091,860
Culture and recreation	4,495,841	4,035,671	3,796,924	3,770,340
Housing & economic development	1,028,038	734,410	462,086	453,050
Miscellaneous	146,547	127,580	294,163	380,217
Capital outlay	3,613,361	5,905,097	4,615,949	7,234,554
Debt service:				
Principal retired	1,765,000	1,890,000	1,845,000	2,175,000
Interest and service charges	330,154	293,620	313,028	302,980
Payment to refunding escrow agent	810,000			
Total all other governmental funds	<u>25,318,963</u>	<u>25,397,332</u>	<u>23,203,780</u>	<u>25,185,125</u>
Excess of revenues over (under) expenditures	<u>(2,737,884)</u>	<u>(2,360,464)</u>	<u>(667,290)</u>	<u>(3,293,730)</u>
<b>Other finance sources (uses)</b>				
Bond issuance	1,300,000	1,685,000	1,135,000	3,845,000
Premium(Discount) on bonds	99,109	98,893	32,211	71,433
Other		110,979		1,858,593
Sale of capital assets		5,584	215,518	
Transfers out	(658,975)	(128,000)	(564,000)	(2,963,221)
Transfers in	1,123,090	530,500	929,000	3,278,221
Total other financing sources (uses)	<u>1,863,224</u>	<u>2,302,956</u>	<u>1,747,729</u>	<u>6,090,026</u>
Net change in fund balance	<u>\$(874,660)</u>	<u>\$(57,508)</u>	<u>\$1,080,439</u>	<u>\$2,796,296</u>
Debt service as a percentage of noncapital expenditures	13.18%	10.55%	10.84%	11.87%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$9,820,395	\$9,981,547	\$10,977,977	\$10,720,490	\$10,477,266	\$9,218,552
279,645	374,415	328,385	334,968	558,158	576,978
6,434,010	7,617,353	7,569,590	10,354,028	8,654,117	7,991,776
1,899,600	2,167,578	1,747,190	1,646,622	1,840,757	2,257,674
206,517	231,901	251,339	255,549	290,100	315,777
1,444,022	1,467,016	1,720,604	1,870,284	2,000,535	1,974,527
137,539	360,304	377,401	654,023	1,229,733	1,436,457
332,307	443,774	809,623	483,842	431,412	2,210,212
<u>20,554,035</u>	<u>22,643,858</u>	<u>23,782,109</u>	<u>26,319,806</u>	<u>25,482,078</u>	<u>25,981,953</u>
2,086,672	2,065,066	2,337,400	2,380,507	2,380,529	2,214,716
5,566,365	5,604,482	5,427,133	5,630,424	5,661,694	5,530,872
3,267,360	3,151,255	3,384,887	2,747,184	3,349,834	3,530,135
3,813,868	3,976,416	3,902,203	4,142,220	4,442,696	4,498,755
405,640	494,299	655,547	226,572	62,279	1,108,450
359,119	532,355	702,863	257,405	193,267	216,922
4,145,253	4,758,793	4,351,521	7,068,675	8,695,416	6,929,902
4,720,000	3,085,000	7,100,000	3,360,337	5,592,826	3,594,506
339,625	512,999	666,210	873,063	945,023	995,278
<u>24,703,902</u>	<u>24,180,665</u>	<u>28,527,764</u>	<u>26,686,387</u>	<u>31,323,564</u>	<u>28,619,536</u>
<u>(4,149,867)</u>	<u>(1,536,807)</u>	<u>(4,745,655)</u>	<u>(366,581)</u>	<u>(5,841,486)</u>	<u>(2,637,583)</u>
	3,325,000			3,585,000	8,053,214
	(14,963)			(30,939)	38,733
46,941					301,000
(50,000)	(1,403,508)	(6,649,225)	(1,199,781)	(708,105)	(1,466,210)
370,000	1,663,508	9,349,779	1,561,781	1,214,705	1,972,810
366,941	3,570,037	2,700,554	362,000	4,060,661	8,899,547
<u>\$(3,782,926)</u>	<u>\$2,033,230</u>	<u>\$(2,045,101)</u>	<u>\$(4,581)</u>	<u>\$(1,780,825)</u>	<u>\$6,261,964</u>
23.99%	17.99%	30.34%	21.82%	28.86%	21.54%

**CITY OF OWATONNA, MINNESOTA**  
**Program Revenues and Expenses by Function**  
Last Ten Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Program Revenues</b>				
Governmental activities:				
Charges for services:				
General government	\$354,171	\$325,810	\$353,387	\$343,280
Public safety	821,115	646,479	704,699	778,934
Public works	658,045	583,402	433,409	849,117
Culture and recreation	1,308,683	1,167,819	1,147,686	1,108,691
Other activities	19,528	9,640	13,121	12,794
Operating grants & contributions	1,499,973	1,411,675	1,692,420	1,253,133
Capital grants & contributions	1,985,442	3,351,342	2,596,415	5,401,249
Total governmental activities	<u>6,646,957</u>	<u>7,496,167</u>	<u>6,941,137</u>	<u>9,747,198</u>
Business-type activities:				
Charges for services:				
Sewer	3,322,407	3,106,003	2,995,373	2,467,088
Storm water	784,774	397,464	399,983	344,831
Electric	38,219,579	35,805,919	35,756,468	34,586,900
Water	3,804,917	3,489,771	3,433,348	3,509,578
Gas	13,266,847	13,795,668	21,471,393	15,776,954
Aquatic center		195,018	174,787	164,532
Operating grants and contributions				
Capital grants and contributions	188,135	50,000	25,688	4,449,193
Total business-type activities	<u>59,586,659</u>	<u>56,839,843</u>	<u>64,257,040</u>	<u>61,299,076</u>
Total primary government	<u>\$66,233,616</u>	<u>\$64,336,010</u>	<u>\$71,198,177</u>	<u>\$71,046,274</u>
<b>Expenses</b>				
Governmental activities:				
General government	\$3,099,636	\$2,856,561	\$2,680,256	\$2,496,706
Public safety	8,377,228	6,348,914	6,310,828	5,999,244
Public works	6,691,503	7,270,857	6,925,355	7,301,740
Culture and recreation	5,040,588	4,652,758	4,279,720	4,229,251
Other activities	1,063,892	747,447	570,317	627,951
Interest on long-term debt	287,028	288,678	300,765	409,891
Total governmental activities	<u>24,559,875</u>	<u>22,165,215</u>	<u>21,067,241</u>	<u>21,064,783</u>
Business-type activities:				
Sewer	3,006,694	2,492,185	2,452,577	2,191,955
Storm water	682,131	516,915	508,608	457,454
Electric	37,738,830	34,612,064	34,319,736	34,455,128
Water	3,046,878	3,159,786	2,734,692	2,767,320
Gas	11,789,863	13,066,535	20,613,979	14,962,607
Aquatic center		291,201	249,672	268,532
Housing and economic development				
Total business-type activities	<u>56,264,396</u>	<u>54,138,686</u>	<u>60,879,264</u>	<u>55,102,996</u>
Total primary government	<u>\$80,824,271</u>	<u>\$76,303,901</u>	<u>\$81,946,505</u>	<u>\$76,167,779</u>

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$277,682	\$190,330	\$132,361	\$222,588	\$273,331	\$264,959
672,500	806,155	744,927	584,890	807,735	781,429
675,880	561,208	502,500	203,771	310,690	583,940
1,136,581	1,082,618	1,182,280	1,344,399	1,412,107	1,454,560
8,579	15,442	9,179	125,554	80,032	319,066
1,095,946	1,058,672	1,333,288	1,015,913	908,405	1,919,661
3,305,708	4,209,760	3,676,916	5,431,043	5,053,373	3,892,654
<u>7,172,876</u>	<u>7,924,185</u>	<u>7,581,451</u>	<u>8,928,158</u>	<u>8,845,673</u>	<u>9,216,269</u>
2,022,730	2,163,278	2,237,337	2,169,847	2,152,952	2,347,183
397,888	339,905	330,000	301,712	253,814	251,316
34,651,139	34,252,624	34,486,785	31,884,063	31,880,134	32,008,441
3,602,180	3,413,443	3,695,706	3,318,519	3,247,419	3,020,615
13,008,829	15,727,297	17,369,887	19,090,971	24,133,450	22,888,305
198,191	173,984	183,781	171,217		579,514
749,465	205,115	563,437	3,761,930	74,000	184,000
<u>54,630,422</u>	<u>56,275,646</u>	<u>58,866,933</u>	<u>60,698,259</u>	<u>61,741,769</u>	<u>61,279,374</u>
<u>\$61,803,298</u>	<u>\$64,199,831</u>	<u>\$66,448,384</u>	<u>\$69,626,417</u>	<u>\$70,587,442</u>	<u>\$70,495,643</u>
\$2,190,496	\$2,214,779	\$2,584,345	\$2,350,230	\$2,671,970	\$2,438,113
5,770,904	5,760,579	5,656,846	5,898,353	6,011,315	5,936,716
6,640,567	6,905,658	7,006,584	4,949,913	5,758,426	3,913,635
4,051,046	4,020,572	4,193,364	4,416,540	4,817,582	4,817,514
627,678	840,271	1,230,376	695,768	453,832	2,416,313
307,253	447,757	660,324	852,329	994,414	942,152
<u>19,587,944</u>	<u>20,189,616</u>	<u>21,331,839</u>	<u>19,163,133</u>	<u>20,707,539</u>	<u>20,464,443</u>
2,479,096	2,408,860	2,319,607	1,817,628	1,855,646	1,683,066
367,752	333,266	338,878	239,802	72,103	43,882
33,341,909	32,751,288	34,139,463	31,599,411	31,673,356	31,465,992
2,531,144	2,441,081	2,857,315	2,458,048	2,466,784	2,299,862
12,513,597	14,532,831	16,670,867	17,201,803	22,432,645	22,919,882
264,385	232,096	244,399	297,848		522,738
<u>51,497,883</u>	<u>52,699,422</u>	<u>56,570,529</u>	<u>53,614,540</u>	<u>58,500,534</u>	<u>58,935,422</u>
<u>\$71,085,827</u>	<u>\$72,889,038</u>	<u>\$77,902,368</u>	<u>\$72,777,673</u>	<u>\$79,208,073</u>	<u>\$79,399,865</u>

**CITY OF OWATONNA, MINNESOTA**  
**General Governmental Tax Revenues by Source**  
 Last Ten Fiscal Years

Fiscal Year	Property Taxes	Franchise Fees	Sales/Excise Tax <sup>1</sup>	Other Taxes <sup>2</sup>	Total Taxes
2016	\$10,235,502	\$346,777		\$763,492	\$11,345,771
2015	9,761,650	339,322		536,982	10,637,954
2014	9,395,859	342,607		321,178	10,059,644
2013	9,362,644	324,401		314,478	10,001,523
2012	9,184,422	307,594		288,812	9,780,828
2011	8,508,860	303,642	\$888,740	316,969	10,018,211
2010	8,439,992	303,946	1,878,549	291,120	10,913,607
2009	8,216,957	295,786	1,934,293	273,454	10,720,490
2008	7,984,316	294,382	1,941,014	257,554	10,477,266
2007	7,120,715	277,208	1,412,930	407,699	9,218,552

Sources of Data: Includes general fund, special revenue funds, capital project funds and debt service fund

<sup>1</sup> Special Legislation authorized a local option sales tax and excise tax beginning April 1, 2007. This tax was terminated by council resolution on June 30, 2011.

<sup>2</sup> Prior to 2008, lodging tax was included in this figure.

**CITY OF OWATONNA, MINNESOTA**  
**Property Tax Levies and Collections**  
 Last Ten Fiscal Years

Fiscal Year	Total Net Tax Levy	Collected in the Year of the Levy		Collections In Subsequent Years	Total Collections To Date	
		Current Tax Collections	Percent of Levy		Amount	Percent of Levy
2016	\$10,620,130	\$10,510,986	98.97%	\$21,097	\$10,532,083	99.17%
2015	10,140,627	10,062,832	99.23%	47,740	10,110,572	99.70%
2014	9,739,414	9,648,527	99.07%	72,896	9,721,423	99.82%
2013	9,742,984	9,627,589	98.82%	100,080	9,727,669	99.84%
2012	9,559,080	9,400,793	98.34%	155,343	9,556,136	99.97%
2011	8,818,938	8,665,892	98.26%	148,026	8,813,918	99.94%
2010	8,765,557	8,619,692	98.34%	143,760	8,763,452	99.98%
2009	8,793,278	8,650,062	98.37%	142,698	8,792,760	99.99%
2008	8,342,435	8,219,803	98.53%	122,075	8,341,878	99.99%
2007	7,322,570	7,236,979	98.83%	85,063	7,322,042	99.99%

Source of Data: Includes general fund and debt service funds

**CITY OF OWATONNA, MINNESOTA**  
**Tax Capacity and Estimated Value of Taxable Property**  
 Last Ten Fiscal Years

Fiscal Year	Real Property		Personal Property		Total		Ratio of Tax Capacity to Estimated Market Value	Total Direct Tax Rate
	Tax Capacity	Estimated Market Value	Tax Capacity	Estimated Market Value	Tax Capacity	Estimated Market Value		
2016	\$18,269,331	\$1,669,155,800	\$91,010	\$5,494,500	\$18,360,341	\$1,674,650,300	.0110:1	60.653
2015	17,584,660	1,622,202,000	93,925	5,677,800	17,678,585	1,627,879,800	.0109:1	58.102
2014	16,865,181	1,575,917,700	96,222	5,796,800	16,961,403	1,581,714,500	.0107:1	59.018
2013	16,610,085	1,561,121,700	95,410	5,757,100	16,705,495	1,566,878,800	.0107:1	59.754
2012	16,774,602	1,594,105,600	88,362	5,224,600	16,862,964	1,599,330,200	.0105:1	58.051
2011	19,394,151	1,654,389,500	91,239	5,338,200	19,485,390	1,659,727,700	.0117:1	50.197
2010	20,662,450	1,749,599,900	88,088	5,155,000	20,750,538	1,754,754,900	.0118:1	46.687
2009	21,245,546	1,797,484,900	87,545	5,153,000	21,333,091	1,802,637,900	.0118:1	45.336
2008	20,544,898	1,766,010,800	57,393	3,603,700	20,602,291	1,769,614,500	.0116:1	44.650
2007	19,390,529	1,669,699,400	52,112	3,362,300	19,442,641	1,673,061,700	.0116:1	41.190
2006	17,277,600	1,496,038,300	30,544	1,812,000	17,308,144	1,497,850,300	.0116:1	41.017

Source: Steele County Auditor & Steele County Assessor

**CITY OF OWATONNA, MINNESOTA**  
**Property Tax Rates and Tax Levies – Direct and Overlapping Governments**  
 Last Ten Fiscal Years

Year	Direct					Overlapping			Direct & Overlapping Total
	General	Debt Service	Capital Improvement	Other	Direct Total	School District	County	Overlapping Total	
2016	49.541	6.430	1.732	2.950	60.653	31.493	60.393	91.886	152.539
2015	46.627	7.887	1.993	1.595	58.102	16.662	59.533	76.195	134.297
2014	47.019	8.032	2.404	1.563	59.018	17.954	59.246	77.200	136.218
2013	47.682	7.142	3.348	1.582	59.754	19.375	62.495	81.870	141.624
2012	45.569	7.686	2.710	2.086	58.051	20.047	62.970	83.017	141.068
2011	39.037	8.182	.803	2.175	50.197	17.122	55.332	72.454	122.651
2010	35.050	8.825	.732	2.080	46.687	16.646	52.331	68.977	115.664
2009	33.301	9.279	.711	2.045	45.336	18.963	51.394	70.357	115.693
2008	34.543	8.025		2.082	44.650	18.731	50.212	68.943	113.593
2007	32.487	7.106		1.597	41.190	19.188	47.974	67.162	108.352

Note: Tax rates are per \$1,000 of tax capacity. Tax capacity is equal to market value multiplied by the applicable class rate for the type of property that is being taxed.  
 Source: Steele County Auditor and Steele County Assessor

**CITY OF OWATONNA, MINNESOTA**  
**Principal Property Taxpayers**  
 Current Year and Ten Years Ago

<u>Taxpayer</u>	<u>Business type</u>	<u>2016</u>			<u>2006</u>		
		<u>Tax Capacity</u>	<u>Rank</u>	<u>Percentage of Total Tax Capacity</u>	<u>Tax Capacity</u>	<u>Rank</u>	<u>Percentage of Total Tax Capacity</u>
Viracon, Inc	Glass Products	\$375,692	1	2.05%	\$212,054	1	1.23%
Federated Mutual Insurance	Insurance	295,254	2	1.61%	92,496	10	.54%
Union Pacific Corporation	Railroad	190,450	3	1.04%			
Crystal Valley Cooperative	Agricultural	180,004	4	.98%			
Dakota MN Eastern Railroad	Railroad	161,220	5	.88%			
Owatonna Clinic – Mayo	Health System	159,346	6	.87%	93,721	9	.54%
Daikin, Inc.	Manufacturing	155,456	7	.85%			
Cabela’s Retail	Retail	151,250	8	.82%	173,980	2	1.01%
Mills Properties	Retail	151,216	9	.82%	153,834	3	.89%
Cybex	Manufacturing	129,298	10	.70%			
Wenger Corp (JAS)	Musical Equip				137,834	4	.80%
Wal-Mart	Retail				110,778	5	.64%
Lakeside Foods	Manufacturing				105,411	7	.73%
Owatonna Hospitality, LLC	Hotel				108,996	6	.61%
Continental Beverage Packaging	Beverage Pkg				99,250	8	.57%
		<u>\$1,949,186</u>		<u>10.62%</u>	<u>\$1,288,354</u>		<u>7.56%</u>

Source: Steele County Assessor  
 Ranking based on tax capacity

**CITY OF OWATONNA, MINNESOTA**  
**Ratios of Outstanding Debt by Type**  
 Last Ten Fiscal Years

Fiscal Year	Governmental Activities					Business-type Activities		Total Primary Government	Percentage Of Personal Income*	Per Capita*
	General Obligation Bonds	G.O. Improvement Bonds	Other Bonds <sup>3</sup>	Lease Revenue Bonds	Capital Leases	Revenue Bonds	G.O. Revenue Bonds			
2016	\$1,635,000	\$6,317,016	\$1,025,000	\$0	\$90,157	\$4,954,928	\$4,639,255	\$18,661,356	N/A	N/A
2015	1,735,000	7,304,657	1,140,000	0	110,979	5,467,928	2,429,281	18,187,845	1.65%	705.45
2014	1,465,000	7,695,348	1,140,000	0	16,261	6,858,928	2,655,441	19,830,978	1.83%	772.83
2013	805,000	9,021,992	1,140,000	0	31,900	8,209,512	2,876,601	22,085,005	2.06%	863.57
2012	765,000	8,475,000	0	0	46,941	9,477,928	3,075,000	21,839,869	2.00%	857.51
2011	765,000	13,095,000	0	100,000	21,942	10,707,928	3,280,000	27,969,870	2.77%	1,093.77
2010	500,000	13,020,000	0	200,000	69,510	11,909,333	3,480,000	29,178,843	2.96%	1,139.84
2009	985,000	15,710,000	3,825,000	300,000	115,080	4,675,000	3,670,000	29,280,080	3.12%	1,151.26
2008	1,455,000	18,435,000	3,825,000	400,000	157,569	5,335,000	3,670,000	33,277,569	3.47%	1,311.12
2007	1,910,000	19,828,000	3,825,000	2,551,362	197,547	5,965,000	0	34,276,909	3.89%	1,366.16

\*Personal income and population data can be found in the demographic statistics on page 135.

Note: Details regarding the City's outstanding debt can be found in the Notes to the Financial Statements

<sup>3</sup> Other Bonds consisted of TIF bonds in 2013-2015 and temporary sales tax revenue bonds in 2007-2009.

**CITY OF OWATONNA, MINNESOTA**  
**Ratios of Net General Bonded Debt Outstanding**  
 Last Ten Fiscal Years

Fiscal Year	Gross Bonded Debt	Less Debt Service Funds	Net Bonded Debt	Ratio of Net Bonded Debt to Tax Capacity	Net Bonded Debt per Capita
2016	\$1,635,000	\$535,675	\$1,099,325	.0599:1	N/A
2015	1,735,000	397,239	1,337,761	.0757:1	51.89
2014	1,465,000	208,537	1,256,463	.0741:1	48.97
2013	805,000	141,064	663,936	.0397:1	25.96
2012	765,000	126,388	638,612	.0379:1	25.07
2011	765,000	0	765,000	.0393:1	29.92
2010	500,000	13,540	486,460	.0234:1	19.00
2009	985,000	8,853	976,147	.0458:1	38.38
2008	1,455,000	195,211	1,259,789	.0611:1	49.64
2007	1,910,000	166,842	1,743,158	.0897:1	69.48

**CITY OF OWATONNA, MINNESOTA**  
**Legal Debt Margin Information**  
 Last Ten Fiscal Years  
 (amounts expressed in thousands)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Debt Limit	\$50,240	\$48,836	\$47,451	\$47,006	\$47,980	\$49,792	\$52,643	\$54,079	\$53,088	\$50,192
Total net debt applicable to limit	1,099	1,333	1,256	664	639	765	486	976	1,259	1,743
Legal debt margin	49,141	47,503	46,195	46,342	47,341	49,027	52,157	53,103	51,829	48,449
Total net debt applicable to the limit as a % of debt limit	2.19%	2.73%	2.65%	1.41%	1.33%	1.54%	0.92%	1.80%	2.37%	3.47%

**Legal Debt Margin Calculation for Current Fiscal Year**

Market Value of Taxable Property	\$1,674,650
Debt limit (3% of market value)	50,240
Debt applicable to limit:	
General obligation bonds	1,635
Less: Amount set aside for repayment of general obligation debt	536
Total net debt applicable to limit	<u>1,099</u>
Legal debt margin	<u><u>\$49,141</u></u>

The legal debt limit for municipalities in Minnesota is 3% of the market value of taxable property. This limit applies only to the City's general obligation tax levy bonds and excludes improvement, revenue, and tax increment bonds.

**CITY OF OWATONNA, MINNESOTA**  
**Computation of Direct and Overlapping Debt**  
End of Fiscal Year 2016

Jurisdiction	Net Debt Outstanding	Percentage Applicable to City of Owatonna	City of Owatonna's Share of Debt
Direct:			
City of Owatonna	\$8,977,016	100.00%	\$8,977,016
Overlapping:			
School District	14,665,000	62.75%	9,202,288
Steele County	14,920,000	45.76%	6,827,392
Total overlapping debt			<u>16,029,680</u>
Total direct and overlapping debt			<u>\$25,006,696</u>

Source: Steele County Auditor

Note: The overlap is based on tax capacity. It equals the percentage of tax capacity that falls within the City.

**CITY OF OWATONNA, MINNESOTA**  
**Schedule of (OPU) Revenue Bond Coverage**  
 Last Ten Fiscal Years

Fiscal Year	Gross Revenue	Operating Expense	Net Revenue Available for Debt Service	Debt Service Requirements		Total	Coverage
				Principal	Interest		
2016	\$55,506,821	\$49,306,287	\$6,200,534	\$0	\$0	\$0	N/A
2015	53,231,414	47,800,366	5,431,048	885,000	44,251	929,251	5.84
2014	60,769,422	54,868,584	5,900,838	830,000	85,750	915,750	6.44
2013	53,980,784	49,381,717	4,599,067	800,000	125,750	925,750	4.97
2012	51,378,741	45,864,009	5,514,732	745,000	163,000	908,000	6.07
2011	53,507,291	47,147,464	6,359,827	720,000	199,000	919,000	6.92
2010	55,705,522	51,062,704	4,642,818	695,000	230,275	925,275	5.02
2009	54,568,413	48,660,742	5,907,671	660,000	259,975	919,975	6.42
2008	59,794,333	53,915,228	5,879,104	630,000	288,325	918,325	6.40
2007	58,777,376	54,230,283	4,547,093	605,000	312,525	917,525	4.96

Note: OPU bonds were issued in 2003.

Gross revenues include all revenues from operations and interest.  
 Operating expense includes the cost of operations excluding depreciation expense.

**CITY OF OWATONNA, MINNESOTA**  
**Schedule of Storm Water Fund Bond Coverage**  
 Last Eight Fiscal Years

Fiscal Year	Gross Revenue	Operating Expense	Net Revenue Available for Debt Service	Debt Service Requirements		Total	Coverage
				Principal	Interest		
2016	\$1,042,846	\$198,549	\$844,297	\$230,000	\$95,143	\$325,143	2.60
2015	653,918	229,302	424,616	225,000	103,674	328,674	1.29
2014	675,404	220,108	455,296	220,000	112,018	332,018	1.37
2013	584,554	153,262	431,292	210,000	119,817	329,817	1.31
2012	652,806	116,261	536,545	205,000	127,080	332,080	1.62
2011	582,304	88,726	493,578	200,000	134,168	334,168	1.48
2010	569,006	125,839	443,167	190,000	140,518	330,518	1.34
2009	562,160	15,813	546,347	0	144,562	144,562	3.78

Note: Storm Water Fund Bonds were issued in 2008.

Gross revenues include all revenues from operations, debt service levy and interest.  
 Operating expense includes the cost of operations excluding depreciation expense.

**CITY OF OWATONNA, MINNESOTA**  
**Demographic and Economic Statistics**  
 Last Ten Fiscal Years

Fiscal Year	Population <sup>1</sup>	Personal Income <sup>2</sup>	Per Capita Personal Income <sup>3</sup>	School Enrollment <sup>4</sup>	Average Annual Unemployment Rate <sup>5</sup>
2016	N/A	N/A	N/A	5,048	3.6%
2015	25,782	\$1,101,200,784	\$42,712	4,985	3.4%
2014	25,660	1,086,239,120	42,332	4,990	3.8%
2013	25,574	1,071,243,712	41,888	4,906	4.9%
2012	25,469	1,093,791,674	42,946	4,851	5.7%
2011	25,572	1,011,474,888	39,554	4,889	6.6%
2010	25,599	985,331,109	38,491	4,930	8.2%
2009	25,433	939,698,484	36,948	4,958	9.8%
2008	25,381	958,818,037	37,777	4,969	5.2%
2007	25,090	880,985,170	35,113	5,026	4.6%

<sup>1</sup> State demographer estimate. 2010 Census

<sup>2</sup> Estimation; Calculated (population multiplied by per capita personal income)

<sup>3</sup> Bureau of Economic Analysis; <http://www.bea.gov/regional/reis/> (Steele County)

<sup>4</sup> Owatonna School District #761 – regular average daily membership

<sup>5</sup> MN Department of Employment and Economic Development

N/A: Data was not available for this year

**CITY OF OWATONNA, MINNESOTA**  
**Principal Employers**  
 Current Year and Ten Years Ago

<u>Employer</u>	<u>Business type</u>	2016			2006		
		<u>Number Of Employees</u>	<u>Rank</u>	<u>% of Total City Employment</u>	<u>Number Of Employees</u>	<u>Rank</u>	<u>% of Total City Employment</u>
Viracon, Inc.	Glass products	1,420	1	6.68%	1,600	1	12.38%
Federated Mutual Insurance	Insurance	1,375	2	6.47%	1,470	2	11.38%
Truth Hardware Corp	Window hardware	735	3	3.46%	790	3	6.11%
Owatonna ISD# 761	Education	688	4	3.24%	656	5	5.08%
Bosch	Specialty tools	540	5	2.54%	775	4	6.00%
Josten's Inc.	Recognition products	464	6	2.18%	450	8	3.48%
Wenger Corp	Musical equipment	370	7	1.74%	560	6	4.33%
Daikin	HVAC manufacturing	341	8	1.60%			
Steele County	County government	335	9	1.58%	506	7	3.92%
Owatonna Hospital-Allina	Healthcare	323	10	1.52%			
Cabela's	Outfitters/sporting goods				354	9	2.74%
Owatonna Clinic	Healthcare/pharmacy				350	10	2.71%
<b>Total</b>		<b>6,591</b>		<b>31.01%</b>	<b>7,511</b>		<b>58.13%</b>

Source: 2006 – Minnesota State Business Directory and Minnesota Manufacturers Register  
 2016 – Owatonna Chamber of Commerce  
 Total City employment data obtained from Minnesota Quarterly Census and Employment and Wages Data

**CITY OF OWATONNA, MINNESOTA**  
**Full-time Equivalent City Employees by Function**  
 Last Ten Fiscal Years  
 (based on Adopted budgets)

<b>Function</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
General government										
Admin services	10.0	9.5	8.0	8.0	7.0	7.0	7.0	7.0	7.0	6.0
Govt buildings	10.1	10.1	10.1	10.4	8.0	8.0	8.0	9.0	9.0	7.0
Public safety										
Police	42.8	42.8	43.1	40.6	38.0	38.0	36.0	38.0	38.0	36.0
Fire	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Inspection	3.7	3.7	4.0	4.0	4.0	4.0	5.0	6.0	6.0	7.0
Public works										
Engineering	7.0	7.0	7.0	7.0	7.0	7.0	7.0	8.0	8.0	8.0
Street maintenance	17.0	17.0	17.0	17.0	17.0	18.0	18.0	18.5	18.5	18.5
Airport	1.5	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Culture & recreation										
Library	13.9	12.5	11.4	11.9	10.0	10.0	10.0	10.0	10.0	10.0
Recreation – admin	5.2	4.0	3.5	3.8	2.0	2.0	2.0	2.0	2.0	2.0
Park maintenance	11.2	11.2	11.2	11.4	8.0	8.0	8.0	10.5	10.5	9.5
Adult recreation	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Youth recreation	1.9	1.9	2.0	1.9	1.0	1.0	1.0	1.0	1.0	1.0
Tennis & fitness	1.7	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Senior center	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Brooktree golf course	3.5	2.8	3.7	3.6	1.0	1.0	1.0	1.0	1.0	1.0
Housing & econ develop										
Planning & zoning	4.0	4.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
<b>Total</b>	<u>145.5</u>	<u>140.5</u>	<u>138.0</u>	<u>136.6</u>	<u>120.0</u>	<u>121.0</u>	<u>120.0</u>	<u>128.0</u>	<u>128.0</u>	<u>123.0</u>

Source: Adopted 2007-2016 Budgets

Note: Years 2006 – 2012 did not include FTE for part-time positions. Those years only include full time positions, as part-time positions were not detailed out in the budget document.

**CITY OF OWATONNA, MINNESOTA**  
**Capital Asset Statistics by Function**  
 Last Ten Fiscal Years

<b>Function</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units – marked	13	13	13	13	14	15	18	N/A	N/A	N/A
Patrol units – unmarked	8	8	8	8	8	8	8	N/A	N/A	N/A
Police reserve unit - marked	2	2	2	4	2	3	N/A	N/A	N/A	N/A
Parking control	1	1	1	1	1	1	1	1	1	1
Off-road vehicle	1	1	1	1	1	N/A	N/A	N/A	N/A	N/A
Fire station										
Stations	1	1	1	1	1	1	1	1	1	1
Fire/Rescue vehicles	12	12	12	12	12	12	12	12	12	12
Streets										
Streets (miles)	161.9	161.9	161.9	161.9	161.9	161.9	161.1	161.1	158.7	158.7
Airport										
Primary Runway length (ft)	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500
Secondary Runway length (ft)	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	0	0
Culture and recreation										
Senior center	1	1	1	1	1	1	1	1	1	1
Swimming pools	2	2	2	2	2	2	2	2	1	1
Tennis courts	16	16	16	16	16	16	16	16	16	16
Parks acreage	1,000	997	997	997	995	955	955	955	955	830
Parks	36	36	36	36	36	31	31	31	31	31
Water										
Storage capacity (millions of gallons)	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Fire hydrants	1,232	1,234	1,319	1,319	1,319	1,319	1,303	1,302	1,300	1,302
Electric										
Number of customers	11,994	11,907	11,916	11,903	11,795	11,673	11,414	11,416	11,348	11,337
Gas										
Number of customers	10,447	10,385	10,411	10,339	10,263	10,229	10,185	10,124	10,084	10,070
Sewer										
Max daily treatment capacity (millions of gallons)	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0

Source: Various government departments

**CITY OF OWATONNA, MINNESOTA**  
**Operating Indicators by Function**  
 Last Ten Fiscal Years

<b>Function</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Police										
Events	28,856	30,868	43,622	42,721	41,380	37,782	40,838	38,387	24,743	12,762
Part I crimes	608	739	665	720	646	530	519	539	475	728
Part II crimes	743	895	864	894	916	801	864	904	962	1,237
Traffic citations	1,249	1,436	2,130	1,807	2,829	2,462	3,673	4,090	6,555	4,832
Fire										
Number of calls answered	441	444	467	493	426	494	490	444	451	480
Aquatic Center										
Admissions *	23,414	30,306	26,455	26,807	28,392	24,393	26,133	19,967	N/A	N/A
Water										
Average daily consumption (thousands of cubic ft)	477	482	488	477	515	486	494	501	597	587
Electric										
Average daily consumption (thousands of KWh)	1,039	1,018	1,019	995	981	983	999	983	1,068	1,079
Gas										
Average daily consumption (thousands of cubic ft)	4,865	5,353	6,189	5,937	4,648	5,125	5,123	5,408	5,728	5,969
Wastewater										
Average daily sewage treatment (millions of gallons)	4.01	3.94	4.09	4.04	3.53	4.32	3.87	2.69	3.32	3.81

Source: Various government departments

\* Aquatic Center opened in 2009