



**COMPREHENSIVE ANNUAL
FINANCIAL REPORT
Year Ended December 31, 2017
Owatonna, Minnesota**

CITY OF OWATONNA, MINNESOTA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2017

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, 2017

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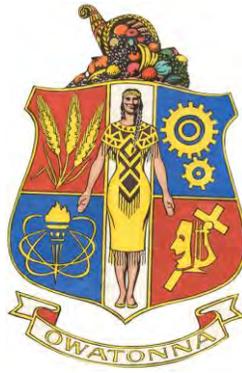
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INTRODUCTORY SECTION

THE CITY OF



OWATONNA

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City Administrator

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May 24, 2018

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, 2017.

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, 2017. 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, Daikin, 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 was fortunate to have a number of major employers expand their facilities in 2016-2017. The city is still feeling the positive impacts of this growth. Because of these plant expansions and additional jobs added, the housing market required further development to meet the growing demand. Over the last two years 94 apartment units have been constructed or in the process of development. Owatonna also had the most new home construction permits issued (33) when compared to our neighboring communities of Faribault, Northfield, Albert Lea, Austin, New Ulm and Winona. Commercial permits in 2016 totaled 187 permits with \$10.2 million of valuation. 2017 permits increased to 195 and totaled \$8.6 million. Because the major projects occurred in 2016, the number of industrial permits and valuation dropped from the previous year. There were 74 permits in 2016 with a valuation of \$36.5 million as compared to 59 permits in 2017 with a valuation of \$11.3 million. Overall construction numbers are still strong. The total number of permits issued in 2016 was 1,896 with a total valuation of \$64,164,565 as compared to 2017 total permits of 2,512 and valuation of \$48,482,633.

Local Government Aid (LGA) in 2017 remained essentially flat. It increased by only \$14,656 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 Efficient, Effective, Government. Key items included computer/technology replacements, SCBA (self-contained Breathing Apparatus) for fire fighters, Library folding wall, fitness center pool heater, Darts Park Tennis court resurfacing and partial funding of the Lincoln tennis courts. In addition, the VRF fund is now 100% funded. Key equipment purchased through the VRF include: squad cars, two-ton plow truck, unmarked police cars, mowers, front-end loader and a tandem axle truck.

Major capital projects completed in 2017 included: The Lemond Road project from the I35 Bridge to Kim Lane, which consisted of street reconstruction, storm sewer installation, sidewalk installation, and driveway replacements. North Cedar Avenue Project from Front Street to North Street, included street &

storm sewer reconstruction, sewer service replacement, sidewalk & ADA construction and driveway and water main replacements. New bituminous street and concrete curb and gutter were installed in Majestic Oaks and Eagle Ridge. Several bituminous pavement reconstruction projects were completed in 2017. They include the following streets: Radel Place, 12th Street NE, 13th Street NE, Mound, Bryan Ave SW, Martin Street SW, Valley Avenue SW, Godfathers Alley and the alley from Lincoln to Chambers south of Agnes. The city continues with its flood mitigation efforts. Two structures on North Oak Avenue were demolished and another property acquired along Dartts Park on Mineral Springs Road.

Highway 14, a key component of Owatonna's economic development success, received Corridors of Commerce grant for \$8.8 million for right of way acquisition from Owatonna to Dodge Center in 2016. For Segment 2, all amended offers have been made and five of 20 parcels purchased. All three relocations have been acquired. Additional progress was made on the third segment too with 7 of 9 relocations acquired. An additional 60-65 property owners will be affected through partial acquisition with this segment.

The City of Owatonna had another good year in terms of economic development. Progress was made in all areas of industrial, commercial and residential development. Viracon continues to expand by adding another 55,000 square foot addition for manufacturing space. Staff is working with Cemstone to relocate their concrete plant from a commercial area to the industrial park. City Council has approved Tax Increment Financing to assist with the relocation. The city experienced reinvestment and redevelopment in its downtown area too. The city purchased and demolished the old dilapidated Arnold House building which facilitated the construction of a new 11,000 square foot Arrow Ace Hardware store. A new public parking lot was also constructed as a part of this redevelopment project. Torey's Restaurant has announced their plans to relocate to the former Arrow Ace Hardware store. Demand for housing options has definitely intensified. Park Plaza apartments, a new market rate 33- unit apartment complex began leasing in June of 2017. South Pointe Apartment homes is under construction with plans to open in the summer of 2018. This project consists of demolishing a vacant nursing home, which had fallen into disrepair, and constructing 37-unit market rate apartments. Interest in apartments near downtown has also increased. Plans have been received for another market rate apartment complex to be located near downtown on Vine Street.

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 fit the Council's current priorities. The strategic objectives for 2017-2019 include infrastructure, economic vitality, quality of life and a new key focus area, Efficient Effective Government.

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: City facility's assessment/usage planning; ten-year facilities planning; funding. Strong progress was made in this area. The levy and CIP allocation reflected Council priorities. 2017 budget included vehicle replacement fund costs for Brooktree golf course. Funding costs for vehicles in this way will more accurately reflect the true costs in their respective department/program. Improvements at the airport include completing phase I of landscaping improvements in terminal area and improvements to customer waiting areas. Also completed were obstruction removals and Runway 5/23 north drainage ditch clearing. The city has continued its sanitary sewer-lining program implemented in 2013. 20,000 linear feet of sewer was lined. 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 contracted for televising 100,000 feet of sewer in order to identify problems early. Staff is working with a consultant to develop a Waste Treatment Facility Plan. The plan will evaluate current and future needs, identify preliminary projects, and schedule. Staff is awaiting new effluent limits from MPCA in order to finalize the plan.

Other key infrastructure investments for 2017 involved two major street projects. The Lemond Road project included street reconstruction, storm sewer installation along with a new sidewalk, which now provides a link into Leo Rudolph Nature Reserve. This vital sidewalk link completed another phase one priority identified by the city's sidewalk and trail plan. The North Cedar Avenue Project, located downtown, included a street reconstruction, storm sewer reconstruction, sewer service replacement and installation of sidewalk and ADA improvements. New streets, curb and gutter were installed in Majestic Oaks and Eagle Ridge Street NE. This will open up 28 additional single-family lots for development. The City also continued with flood mitigation efforts. The City commissioned engineering studies on Cardinal Drive and Buecksler Park areas to provide recommendations addressing localized flooding in the area. Other future plans include addressing a long standing flooding problem at Broadway and Elm streets through construction of an infiltration basin on the city owned lot to the east of the library parking lot. Two structures in the flood plain on North Oak Avenue were demolished. Another home on Mineral Springs Road was acquired and will be demolished in 2018. The land will be added to the adjacent park to provide additional parking.

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

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 assisted in expansion projects for industry and redevelopment projects impacting downtown commercial and multifamily housing options. The City of Owatonna is always striving to encourage and facilitate additional economic development through promotional activities and networking. Based on the success of the previous event, the city hosted its 2nd Micropolitan Summit. The purpose of the summit was to attract site selectors, developers and brokers to the community and encourage economic growth and development. The Summit attracted 70 plus developers and brokers. This event allowed the city to strengthen relationships and generated additional opportunities for the future. Additional activities included participating the State of Minnesota's DEED familiarization tour for site selectors and a metro broker event. The city collaborated with United Properties and held this marketing event which included 25 metro industrial real estate brokers.

The city also commissioned a retail trade analysis from the University of Minnesota and implemented recommendations from the recently completed housing study.

Quality of Life

The objective is to maximize resources that provide quality of life city services and programs, including safety and security, 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 good progress in this area. The City has a strong history of partnerships that continue to expand and grow. Through a collaboration with Cabela's a new archery range was developed on Elm Avenue. The City utilized seldom-used city property and a grant from Cabela's for targets to provide this new recreational amenity for very little cost. Other notable partnerships include; Ecuman sponsorships with Senior Place, Public Health with promotion and programming, Owatonna Trails Association for purchase of a trail groomer for Kaplan's Woods. The City of Owatonna also utilizes grant opportunities wherever possible. The North Straight River Trail Project was funded from DNR grant funds and a Federal TAP grant. This project adds 1.4 miles of lighted, paved trail through the woods along the Straight River. An outdoor recreation grant was obtained to reconstruct and repurpose the Lincoln Park Tennis courts. The Park and Recreation department developed several new and successful programs. They included the following: Rocking Around Owatonna, Music on the Patio, Games Galore Sports Camp, Owatonna Freestyle Series and Rec on the Go.

A critical component of quality of life has to be safety and security. For the second year in a row, part I crimes were reduced by 12.4% and part II crimes by 17.6 %. Reducing the crime rate takes a multi-faceted approach from re-energizing the Landlord Association to Night to Unite neighborhood parties. The department also created a Preventing Organized Retail Theft and Area Loss program (PORTAL) which has experienced positive results.

Efficient Effective Government

This key focus area seeks to provide an innovative, responsible and customer-focused government working collaboratively; attract, develop, and retain a high performing municipal workforce: City Government is a service-based industry and high performing and well-trained employees are a critical component to our success. Key training sessions were provided on "Crucial Conversations", Supervisory training, MMUA Executive Leadership Training, "Respectful Workplace" and effective performance review training. In order to encourage innovation and customer focus, departments are encouraged to conduct a LEAN process improvement project. The fire department completed an event for nuisance complaints resulting in a streamlined process and improved customer service. The City established a central garage system with fleet management software automating maintenance processes. City staff is also in the process of reviewing Human Capital Management software (HCM). HCM will allow the city to automate many paper processes and provide real time information for managers and supervisors.

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, 2016. This was the sixth 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

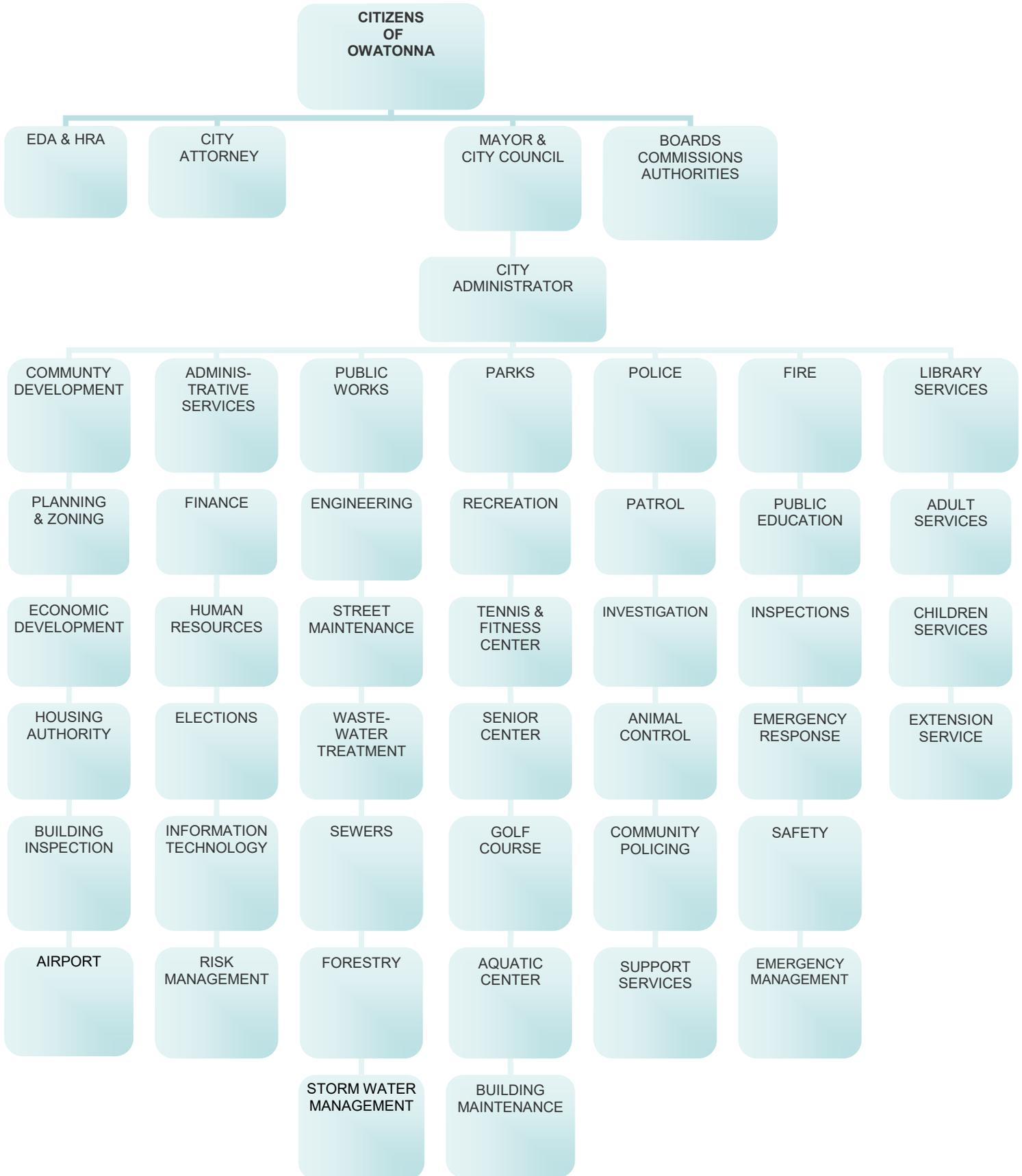
December 31, 2016

Christopher P. Morill

Executive Director/CEO

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City of Owatonna, Minnesota Organization Chart



City of Owatonna, Minnesota

Elected and Appointed Officials

December 31, 2017

City Council:

Thomas A. Kuntz	Mayor
Doug Voss	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, each discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Owatonna, Minnesota (the City), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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, 2017, and the respective changes in financial position and, where applicable, cash flows, and budgetary comparison for the General Fund, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, 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, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the City's 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's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Austin, Minnesota
May 24, 2018

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 1-6 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 \$230,890,486 (net position). Of this amount, \$48,684,771 (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 \$4,811,260.
- As of the end of the current fiscal year, the City of Owatonna's governmental funds reported combined ending fund balances of \$24,160,362, an increase of \$363,535 from the previous year. Over 69% of this amount, \$16,746,874, 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 \$10,461,511, or 56.1% of total general fund expenditures for 2017.
- The City of Owatonna's long-term liabilities decreased. Although, the City issued bonds in 2017, the decrease is primarily due to the decrease in pension liability from the previous year. The pension liability for governmental activities decreased \$9,484,175 and for business-type activities increased \$1,392,301.

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 19 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 16 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, 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 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 \$230.9 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 (\$171.4 million, or 74.2%). 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 (\$10.8 million or 4.7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$48.7 million or 21.1%) 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 2017 with their net position increasing by \$4.8 million from \$226.1 million to \$230.9 million.

A condensed version of the Statement of Net Position at December 31, 2017 follows:

Net Position at Year-end
(in millions)

	Governmental Activities		Business-type Activities		Total Government
	2017	2016	2017	2016	2017
Cash and investments	\$23.8	\$24.7	\$45.2	\$41.1	\$69.0
Other assets	8.4	6.8	9.8	10.4	18.2
Capital assets	90.6	89.2	99.4	98.5	190.0
Total assets	<u>122.8</u>	<u>120.7</u>	<u>154.4</u>	<u>150.0</u>	<u>277.2</u>
Deferred outflows of resources	<u>8.2</u>	<u>12.4</u>	<u>1.4</u>	<u>2.9</u>	<u>9.6</u>
Other liabilities	3.8	1.6	9.1	7.8	12.9
Long term outstanding	19.7	30.8	13.6	16.6	33.3
Total liabilities	<u>23.5</u>	<u>32.4</u>	<u>22.7</u>	<u>24.4</u>	<u>46.2</u>
Deferred inflows of resources	<u>8.6</u>	<u>2.3</u>	<u>1.1</u>	<u>.8</u>	<u>9.7</u>
Net position:					
Net investment in capital assets	81.1	80.1	90.3	88.9	171.4
Restricted	10.8	10.4			10.8
Unrestricted	7.0	7.9	41.7	38.8	48.7
Total net position	<u>\$98.9</u>	<u>\$98.4</u>	<u>\$132.0</u>	<u>\$127.7</u>	<u>\$230.9</u>

Governmental activities. Governmental activities provided a \$.5 million increase to the City's net position. A key element of this increase is as follows:

- The city received several capital grants from both the federal government and the state which resulted in the increase in net position. Included was the addition of the North Straight River Trail and some state aid street projects on Lemond Road and North Cedar.

A condensed version of the Statement of Activities follows:

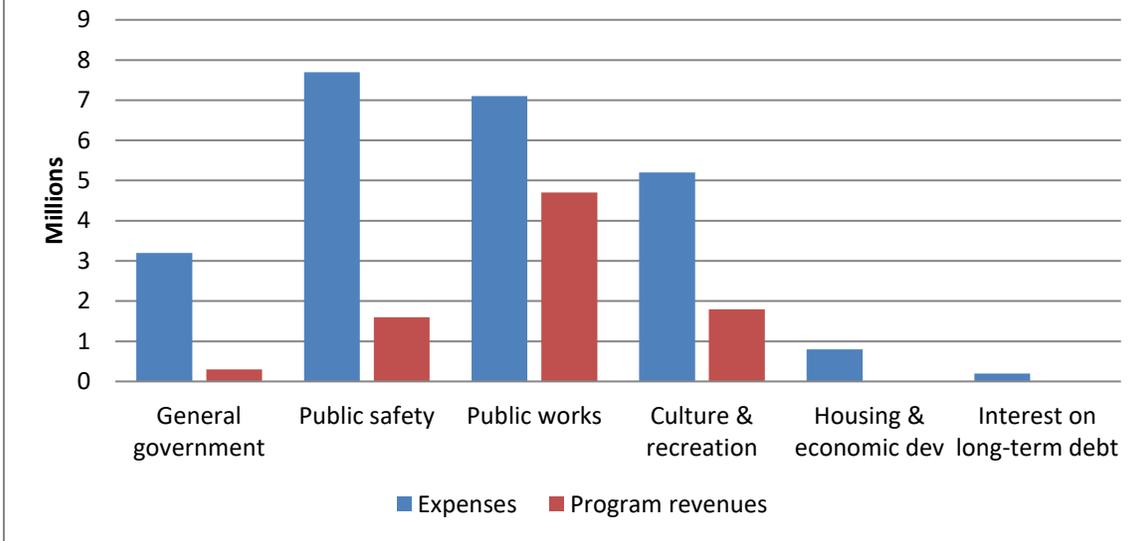
Governmental and Proprietary Activities
For the year ended December 31, 2017
(in millions)

	Governmental Activities		Business-type Activities		Total Government
	2017	2016	2017	2016	2017
Revenues					
Program revenues					
Charges for services	\$3.1	\$3.2	\$61.3	\$59.4	\$64.4
Grants and contributions					
Operating	1.6	1.5			1.6
Capital	3.7	2.0	.1	.2	3.8
General revenues					
Taxes	11.8	11.3	.3	.2	12.1
Interest	.2	.1	.5	.3	.7
Sale of capital assets					
Grants and contributions	4.4	4.2			4.4
Total revenues	24.8	22.3	62.2	60.1	87.0
Expenses					
General government	3.2	3.1			3.2
Public safety	7.7	8.4			7.7
Public works	7.1	6.7			7.1
Culture and recreation	5.2	5.0			5.2
Housing & economic dev	.8	1.0			.8
Miscellaneous					
Interest on long-term debt	.2	.3			.2
Sewer			2.8	3.0	2.8
Storm water			.6	.7	.6
Electric			37.6	37.7	37.6
Water			3.3	3.0	3.3
Gas			13.7	11.8	13.7
Total expenses	24.2	24.5	58.0	56.2	82.2
Excess (deficiency) before transfers	.6	(2.2)	4.2	3.9	4.8
Transfers	(.1)	3.3	.1	(3.3)	
Change in net position	.5	1.1	4.3	.6	4.8
Beginning net position	98.4	97.3	127.7	127.1	226.1
Ending net position	\$98.9	\$98.4	\$132.0	\$127.7	\$230.9

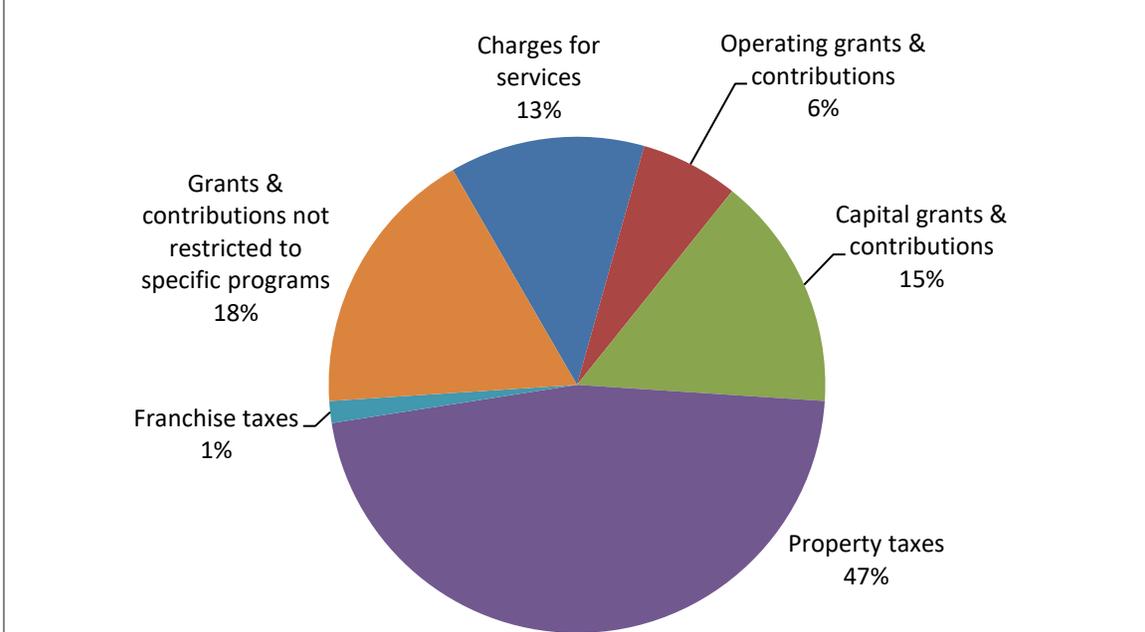
Business-type activities. Business-type activities provided a \$4.3 million increase to the City's total net position. Key elements of this increase are as follows:

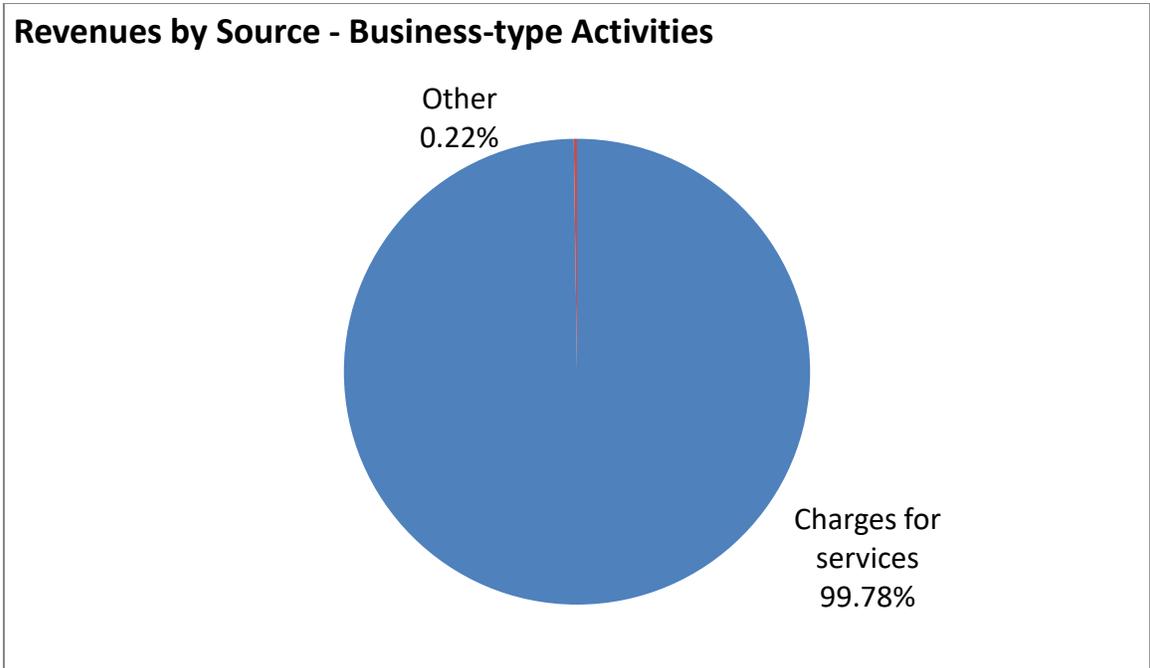
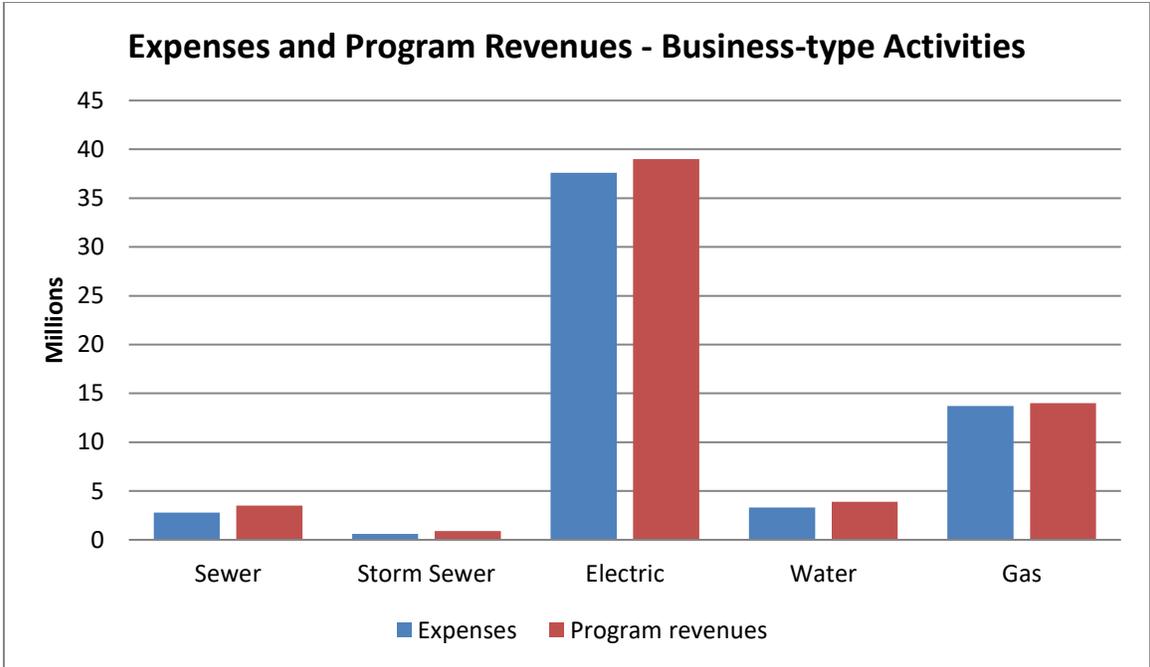
- \$2.7 million increase is attributable to the operations of the municipal electric, gas, and water utilities.
- The Sewer fund had a gain from operations of \$0.6 million.
- The storm water fund continued to implement its new rate structure following the completion of a rate study. \$1.2 million increase is attributable to the storm water operations.

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 \$24.1 million, a \$0.3 million increase from the prior year. Over half of this total amount (\$16.7 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 (\$2.4 million), or 2) debt service (\$4.8 million), or 3) a variety of other restricted purposes (\$66,940).

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 \$10.5 million, while total fund balance was \$10.7 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 2017. Assigned and unassigned fund balance represents 56.1% of total general fund expenditures, while total fund balance represents 57.2% of that same amount.

The fund balance of the City of Owatonna's general fund increased by \$0.3 million during the current fiscal year. Key factors in this increase are as follows:

- Most all revenue categories had higher than anticipated results. The largest of these was building permits. The City is experiences very healthy increases in construction activity.
- There were a few departments that experienced some salary savings due to vacant positions throughout the year.

The debt service fund has a fund balance of \$4.8 million, all of which is restricted for the payment of debt service. The debt service fund's fund balance has remained unchanged from prior year. The government collected \$1.0 million in debt service levy and \$0.6 million in assessments. \$1.6 million in debt was retired in 2017 plus \$0.2 million in interest costs. The debt service fund received a transfer of \$0.1 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 \$7.0 million, of which \$0.5 million is restricted for specific capital projects, \$5.5 million has been assigned for future capital projects and the council has committed \$1.0 million for specific capital projects. There was an increase of \$0.2 million in fund balance during the current year. The capital projects fund received improvement bond proceeds, including premium, of \$2.1 million in 2017.

The most significant changes in fund balance for the nonmajor governmental funds was in the Sales Tax fund. Some of the residual sales tax funds were used for improvements related to the original sales tax purposes and the elevators and West Hills Administration Building and the Library received major upgrades.

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 \$15.2 million for the sewer fund, \$1.9 million for the storm water fund, \$24.7 million for the municipal electric, water and gas utilities. The total change in net position was \$0.4 million for the sewer fund, \$1.2 million for the storm water fund, \$2.7 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 revenues equal to expenditures 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 \$0.1 million over budget primarily due to licenses and permits and taxes.

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, 2017, amounts to \$189.9 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 1.2% (a 1.6% increase for governmental activities and a 0.8% increase for business-type activities).

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

- Completion of the North Straight River Trail project (\$.5 million).
- Vehicle acquisitions of \$0.8 million.
- Street reconstruction projects including Lemond Road, North Cedar, the 2017 Street and Utility project, and the Majestic Oaks/Eagle Ridge curb and gutter project for \$3.0 million.
- There were \$0.6 million in storm water improvements completed as part of the current year street improvement projects. This was in addition to the completion of the SE storm water project and the industrial park storm pond which were both in process at the end of the prior year and completed in 2017.
- Various system improvements were completed for the municipal water, electric and gas utilities at cost of \$2.4 million.

Capital Assets at Year-end
(in millions)

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Land and other rights	\$8.6	\$8.3	\$2.9	\$2.9	\$11.5	\$11.2
Buildings	22.8	22.5	48.0	47.3	70.8	69.8
Improvements	1.0	1.0			1.0	1.0
Equipment	14.4	13.6	17.8	17.0	32.2	30.6
Infrastructure	113.7	110.0	95.2	90.3	208.9	200.3
Construction in Progress	.1		4.3	6.4	4.4	6.4
Subtotal	160.6	155.4	168.2	163.9	328.8	319.3
Accumulated depreciation	70.0	66.2	68.9	65.4	138.9	131.6
Capital assets, net	<u>\$90.6</u>	<u>\$89.2</u>	<u>\$99.3</u>	<u>\$98.5</u>	<u>\$189.9</u>	<u>\$187.7</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 \$17.9 million in bonds and notes outstanding. There was \$2.0 million of debt issued in 2017. There was a total of \$2.1 million in debt retired during the year.

Debt Outstanding at Year-end
(in millions)

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
G.O. Bonds	\$1.3	\$1.6			\$1.3	\$1.6
G.O. Improvement Bonds	6.9	6.1			6.9	6.1
G.O. Tax Increment Bonds	.9	1.0			.9	1.0
G.O. Revenue Bonds			\$4.3	\$4.3	4.3	4.4
Revenue Bonds			4.5	5.0	4.5	5.0
Total bonds payable	<u>\$9.1</u>	<u>\$8.7</u>	<u>\$8.8</u>	<u>\$9.3</u>	<u>\$17.9</u>	<u>\$18.0</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 legislature attempts to reach an agreement on the funding level of LGA on an annual basis. This has proven to be a contentious issue each legislative session. The uncertainty of future LGA funding levels 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 established a building maintenance fund in order to address the maintenance needs of the many buildings the City owns. The funding for this will begin in 2018.
- 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.

BASIC FINANCIAL STATEMENTS

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CITY OF OWATONNA, MINNESOTA
Statement of Net Position
December 31, 2017

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Housing & Redevelopment Activities	Economic Development Activities
ASSETS					
Cash and cash equivalents	\$6,145,053	\$10,846,889	\$16,991,942	\$87,661	\$624,312
Investments	17,654,869	34,366,535	52,021,404		1,000,000
Interest receivable	129,024		129,024		45
Taxes receivable - delinquent	120,368		120,368	1,632	
Accounts receivable	134,977	7,222,574	7,357,551	22,185	23,111
Assessments receivable	3,199,062	49,886	3,248,948		
Due from other governments	2,907,478	108	2,907,586	111,362	
Due from component units	1,848		1,848		
Inventories	48,393	851,529	899,922		
Other current assets		1,469,924	1,469,924	135,112	2,261,055
Loans receivable	60,776		60,776	6,170	1,642,610
Prepaid items	224,678		224,678		
Internal balances	440,735	(440,735)			
Restricted assets:					
Cash and cash equivalents				20,084	
Other assets		660,266	660,266		
Net Pension Asset	1,204,775		1,204,775		
Capital assets:					
Land and land rights	8,572,410	2,964,619	11,537,029		252,156
Buildings	22,749,624	48,007,017	70,756,641	95,362	
Improvements other than buildings	1,031,436		1,031,436		
Equipment	14,352,486	17,816,894	32,169,380		
Infrastructure	113,743,775	95,213,687	208,957,462		
Construction in progress	108,209	4,309,542	4,417,751		
Less: accumulated depreciation	(69,989,972)	(68,946,544)	(138,936,516)	(17,317)	
Total assets	<u>122,840,004</u>	<u>154,392,191</u>	<u>277,232,195</u>	<u>462,251</u>	<u>5,803,289</u>
DEFERRED OUTFLOWS OF RESOURCES					
Pension related	<u>8,197,358</u>	<u>1,373,960</u>	<u>9,571,318</u>		

LIABILITIES					
Accounts payable	\$1,098,386	\$7,605,491	\$8,703,877	\$2,105	\$102,954
Accrued wages	314,603	16,691	331,294		
Accrued interest payable	80,545	62,828	143,373		
Deposits	51,700		51,700	12,587	
Surcharges payable	15,008		15,008		
Unearned revenue	21,298	374,714	396,012	3,626	
Due to other governments				28,851	
Due to primary government					1,848
Noncurrent liabilities:					
Accrued OPEB liability	264,591	179,791	444,382		
Net pension liability	10,193,371	5,278,492	15,471,863		
Due within one year	2,194,276	980,600	3,174,876		
Due in more than one year	9,278,585	8,173,785	17,452,370		
	<u>23,512,363</u>	<u>22,672,392</u>	<u>46,184,755</u>	<u>47,169</u>	<u>104,802</u>
DEFERRED INFLOWS OF RESOURCES					
Pension related	8,647,266	1,015,409	9,662,675		
Gain on bond refunding		65,597	65,597		
	<u>8,647,266</u>	<u>1,081,006</u>	<u>9,728,272</u>		
NET POSITION					
Net investment in capital assets	81,046,952	90,321,448	171,368,400	78,045	252,156
Restricted for:					
Library Hunewill	16,500		16,500		
Net pension asset	1,204,775		1,204,775		
Debt service	7,174,815		7,174,815		
Dam repair	43,323		43,323		
Grant projects	21		21		
Capital projects	2,391,660		2,391,660		
Housing voucher program				7,497	
Economic development	6,221		6,221		5,408,547
Unrestricted	6,993,466	41,691,305	48,684,771	329,540	37,784
	<u>\$98,877,733</u>	<u>\$132,012,753</u>	<u>\$230,890,486</u>	<u>\$415,082</u>	<u>\$5,698,487</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, 2017

<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	\$3,243,404	\$321,021	\$4,394	
Public safety	7,652,397	778,822	853,380	
Public works	7,072,006	673,815	269,464	\$3,747,082
Culture and recreation	5,201,248	1,321,495	435,482	
Housing & economic development	791,706	19,208		2,278
Interest on long-term debt	234,573			
Total governmental activities	<u>24,195,334</u>	<u>3,114,361</u>	<u>1,562,720</u>	<u>3,749,360</u>
Business-type activities:				
Sewer	2,847,495	3,416,993		123,691
Storm water	591,835	923,459		11,341
Electric	37,610,225	39,025,342		
Water	3,250,860	3,948,324		
Gas	13,730,892	14,019,597		
Total business-type activities	<u>58,031,307</u>	<u>61,333,715</u>		<u>135,032</u>
Total primary government	<u>\$82,226,641</u>	<u>\$64,448,076</u>	<u>\$1,562,720</u>	<u>\$3,884,392</u>
Component Units:				
Housing & redevelopment authority	\$1,209,827	\$56,036	\$1,095,131	
Economic development authority	1,520,893	138,082	1,000,678	
Component Unit	<u>\$2,730,720</u>	<u>\$194,118</u>	<u>\$2,095,809</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

Net position – ending

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

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	Housing & Redevelopment Authority	Economic Development Authority
\$(2,917,989)		\$(2,917,989)		
(6,020,195)		(6,020,195)		
(2,381,645)		(2,381,645)		
(3,444,271)		(3,444,271)		
(770,220)		(770,220)		
(234,573)		(234,573)		
<u>(15,768,893)</u>		<u>(15,768,893)</u>		
	\$693,189	\$693,189		
	342,965	342,965		
	1,415,117	1,415,117		
	697,464	697,464		
	288,705	288,705		
	<u>3,437,440</u>	<u>3,437,440</u>		
			\$ (58,660)	\$ (382,133)
			<u>(58,660)</u>	<u>(382,133)</u>
11,398,865	322,411	11,721,276	155,091	165,000
348,769		348,769		287,303
4,341,397		4,341,397		
240,752	490,519	731,271	1,008	19,100
(81,685)	81,685			
<u>16,248,098</u>	<u>894,615</u>	<u>17,142,713</u>	<u>156,099</u>	<u>471,403</u>
479,205	4,332,055	4,811,260	97,439	89,270
98,398,528	127,680,698	226,079,226	317,643	5,609,217
<u>\$98,877,733</u>	<u>\$132,012,753</u>	<u>\$230,890,486</u>	<u>\$415,082</u>	<u>\$5,698,487</u>

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Major Funds

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, 2017

	General Fund	Debt Service Fund	Capital Projects Fund
ASSETS			
Cash	\$1,469,636	\$2,832,335	\$52,978
Investments	9,474,869	1,850,000	4,350,000
Interest receivable	129,024		
Taxes receivable – delinquent	120,368		
Accounts receivable	122,371		
Assessments receivable		2,579,194	619,868
Due from other funds	9,773		322,182
Due from other governments	238,148		2,669,330
Inventories	48,393		
Advance to other funds	121,136		161,883
Loans receivable			60,776
	\$11,733,718	\$7,261,529	\$8,237,017
LIABILITIES			
Accounts payable	\$518,323	\$1,107	\$495,326
Accrued wages	314,603		
Surcharges payable	15,008		
Deposits	51,700		
Unearned revenue	21,298		
Due to other funds	20,234	5,062	
Advance from other funds			121,136
Total liabilities	941,166	6,169	616,462
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	117,314	2,469,126	650,043
Total deferred inflows of resources	117,314	2,469,126	650,043
FUND BALANCES			
Fund Balances			
Nonspendable:			
Inventories	48,393		
Advance to other funds	121,136		
Restricted for:			
Library Hunewill			
Debt service		4,786,234	
Dam repair	43,323		
Airport programs	875		
Grant projects			
Capital projects			495,298
Economic development			
Committed for:			
Capital projects			1,036,672
Assigned for:			
Capital projects			5,438,542
Compensated absences/OPEB	2,216,436		
Unassigned	8,245,075		
Total fund balances	10,675,238	4,786,234	6,970,512
Total liabilities, deferred inflows of resources and fund balances	\$11,733,718	\$7,261,529	\$8,237,017

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

Nonmajor Governmental Funds	Total Governmental Funds
\$267,970	\$4,622,919
1,700,000	17,374,869
	129,024
	120,368
1,566	123,937
	3,199,062
	331,955
	2,907,478
	48,393
	283,019
	60,776
<u>\$1,969,536</u>	<u>\$29,201,800</u>
\$58,305	\$1,073,061
	314,603
	15,008
	51,700
	21,298
20,970	46,266
161,883	283,019
<u>241,158</u>	<u>1,804,955</u>
	<u>3,236,483</u>
	<u>3,236,483</u>
	48,393
	121,136
16,500	16,500
	4,786,234
	43,323
	875
21	21
1,895,487	2,390,785
6,221	6,221
	1,036,672
	5,438,542
	2,216,436
(189,851)	8,055,224
<u>1,728,378</u>	<u>24,160,362</u>
<u>\$1,969,536</u>	<u>\$29,201,800</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, 2017

Fund balance – total governmental funds	\$24,160,362
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.	87,287,571
Net Pension Asset is included in the Statement of Net Position.	1,204,775
Deferred pension outflows of \$8,197,358 and inflows of \$(8,647,266) are included in the Statement of Net Position.	(449,908)
Long-term liabilities, including bonds payable, are not due and payable in the current period and are therefore not reported in the funds.	(22,011,368)
Internal service fund assets and liabilities are included in governmental activities in the Statement of Net Position.	5,449,818
Other long-term assets are not available to pay for current-period expenditures and therefore are unavailable in the funds.	<u>3,236,483</u>
Net Position of Governmental Activities	<u><u>\$98,877,733</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, 2017

	General Fund	Debt Service Fund	Capital Projects Fund
REVENUES			
Taxes	\$9,681,820	\$991,067	\$400,000
Licenses and permits	445,702		
Intergovernmental revenue	5,582,220		2,617,489
Charges for service	2,122,977		
Fines and forfeits	157,683		
Special assessments		638,504	201,127
Interest on investments	95,148	40,787	80,434
Miscellaneous	300,722		210,075
Total revenues	18,386,272	1,670,358	3,509,125
EXPENDITURES			
Current:			
General government	2,815,113		
Public safety	6,841,352		
Public works	4,031,989		
Culture and recreation	4,634,202		
Housing & economic development	269,370		
Miscellaneous		5,536	9,948
Capital outlay	65,132		5,394,558
Debt service:			
Principal retired		1,615,000	
Interest and service charges		204,202	53,632
Total expenditures	18,657,158	1,824,738	5,458,138
Excess of revenues over (under) expenditures	(270,886)	(154,380)	(1,949,013)
OTHER FINANCING SOURCES (USES)			
Bond issuance			2,015,000
Premium on bonds			108,582
Transfers out			
Transfers in	547,500	148,190	
Total other financing sources (uses)	547,500	148,190	2,123,582
Net change in fund balance	276,614	(6,190)	174,569
Fund balance - beginning	10,398,624	4,792,424	6,795,943
Fund balance – ending	\$10,675,238	\$4,786,234	\$6,970,512

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

Non-major Governmental Funds	Total Governmental Funds
\$689,947	\$11,762,834
(678)	445,702
	8,199,031
	2,122,977
	157,683
24,383	839,631
114,100	240,752
<u>827,752</u>	<u>624,897</u>
	<u>24,393,507</u>
	2,815,113
	6,841,352
	4,031,989
	4,634,202
504,079	773,449
84,626	100,110
172,315	5,632,005
	1,615,000
	257,834
<u>761,020</u>	<u>26,701,054</u>
<u>66,732</u>	<u>(2,307,547)</u>
	2,015,000
	108,582
(148,190)	(148,190)
	695,690
<u>(148,190)</u>	<u>2,671,082</u>
(81,458)	363,535
<u>1,809,836</u>	<u>23,796,827</u>
<u>\$1,728,378</u>	<u>\$24,160,362</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, 2017

Net change in fund balances – total governmental funds	\$363,535
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 capital outlays (\$4,997,584) exceeded depreciation (\$3,770,935) in the current period.	1,226,649
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	275,440
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.	(487,089)
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.	(956,209)
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.	(127,156)
The net revenue (expense) of the internal service funds is reported with governmental activities.	<hr style="width: 100%;"/> 184,035
Change in Net Position of Governmental Activities	<hr style="width: 100%;"/> \$479,205

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, 2017

	<u>Budget</u>		<u>(Budgetary Basis) Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$9,645,526	\$9,645,526	\$9,681,820	\$36,294
Licenses and permits	358,155	369,755	445,702	75,947
Intergovernmental revenue	5,499,781	5,568,381	5,582,220	13,839
Charges for service	2,040,782	2,110,782	2,122,977	12,195
Fines and forfeits	151,900	151,900	157,683	5,783
Interest on investments	90,000	90,000	95,148	5,148
Miscellaneous	302,911	302,911	300,722	(2,189)
Total revenues	<u>18,089,055</u>	<u>18,239,255</u>	<u>18,386,272</u>	<u>147,017</u>
EXPENDITURES				
Current:				
General government				
Mayor & council	302,531	302,531	257,235	45,296
Administrative services	1,417,210	1,417,210	1,444,503	(27,293)
City attorney	245,349	245,349	239,480	5,869
Government buildings	884,536	884,536	873,895	10,641
Total general government	<u>2,849,626</u>	<u>2,849,626</u>	<u>2,815,113</u>	<u>34,513</u>
Public safety				
Police	4,891,027	4,891,027	4,738,543	152,484
Fire	1,654,222	1,654,222	1,661,602	(7,380)
Building inspection	390,602	402,202	441,207	(39,005)
Total public safety	<u>6,935,851</u>	<u>6,947,451</u>	<u>6,841,352</u>	<u>106,099</u>
Public works				
Engineering	892,682	892,682	913,746	(21,064)
Street maintenance	2,798,965	2,837,965	2,704,188	133,777
Airport	432,899	432,899	414,055	18,844
Total public works	<u>4,124,546</u>	<u>4,163,546</u>	<u>4,031,989</u>	<u>131,557</u>
Culture and recreation				
Library	1,252,386	1,252,386	1,184,556	67,830
Park & rec administration	296,565	296,565	351,192	(54,627)
Park maintenance	1,260,502	1,290,102	1,381,552	(91,450)
Recreation – adult	88,288	88,288	80,923	7,365
Recreation – youth	294,425	294,425	348,889	(54,464)
Tennis & fitness center	244,488	294,488	309,043	(14,555)
Senior center	133,997	153,997	135,861	18,136
Aquatic center	229,986	229,986	220,280	9,706
Brooktree golf course	641,048	641,048	621,906	19,142
Total culture and recreation	<u>4,441,685</u>	<u>4,541,285</u>	<u>4,634,202</u>	<u>(92,917)</u>
Housing & economic development				
Planning & zoning	279,347	279,347	269,370	9,977
Total housing & economic develop	<u>279,347</u>	<u>279,347</u>	<u>269,370</u>	<u>9,977</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, 2017

	<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	\$5,500	\$65,132	\$(59,632)
Total expenditures	<u>18,636,555</u>	<u>18,786,755</u>	<u>18,657,158</u>	<u>129,597</u>
Excess of revenues over (under) expenditures	(547,500)	(547,500)	(270,886)	276,614
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>547,500</u>	<u>547,500</u>	<u>547,500</u>	
Total other financing sources and uses	<u>547,500</u>	<u>547,500</u>	<u>547,500</u>	<u>276,614</u>
Net change in fund balance			276,614	276,614
Fund balance – beginning	<u>10,398,624</u>	<u>10,398,624</u>	<u>10,398,624</u>	
Fund balance – ending	<u>\$10,398,624</u>	<u>\$10,398,624</u>	<u>\$10,675,238</u>	<u>\$276,614</u>

CITY OF OWATONNA, MINNESOTA
Statement of Net Position
Proprietary Funds
December 31, 2017

	Business-type Activities		
	Sewer Fund	Storm Water Fund	Electric Fund
ASSETS			
Current assets:			
Cash and cash equivalents	\$179,732	\$854,625	\$4,282,118
Investments	15,400,000	1,300,000	4,336,790
Accounts receivable			3,676,868
Assessments receivable	49,886		
Due from other funds	394,378		46,266
Due from other governments	108		
Inventories at cost			610,713
Other assets			922,236
Total current assets	16,024,104	2,154,625	13,874,991
Noncurrent assets:			
Capital assets – net	24,299,791	10,751,032	37,613,260
Land held for future use			
Total noncurrent assets	24,299,791	10,751,032	37,613,260
Total assets	40,323,895	12,905,657	51,488,251
DEFERRED OUTFLOWS OF RESOURCES			
Pension related	150,840	23,300	575,848
LIABILITIES			
Current liabilities:			
Accounts payable	196,709	69,240	3,689,682
Accrued wages	14,642	2,049	
Accrued interest payable	23,315	39,513	
Due to other funds			405,076
Unearned revenue		1,250	222,589
Accrued compensated absences	68,600		
Notes and bonds payable – net	527,000	385,000	
Total current liabilities	830,266	497,052	4,317,347
Noncurrent liabilities:			
Notes and bonds payable – net	3,907,928	4,223,839	
Net pension liability	524,440	81,012	2,242,804
Accrued compensated absences	40,228	1,790	
Accrued OPEB liability	16,889		73,306
Total noncurrent liabilities	4,489,485	4,306,641	2,316,110
Total liabilities	5,319,751	4,803,693	6,633,457
DEFERRED INLFOWS OF RESOURCES			
Pension related	92,990	14,364	435,817
Gain on refunding		65,597	
Total deferred inflows of resources	92,990	79,961	435,817
NET POSITION			
Net investment in capital assets	19,864,863	6,142,193	37,613,260
Unrestricted	15,197,131	1,903,110	7,381,565
Total net position	\$35,061,994	\$8,045,303	\$44,994,825

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.

- Enterprise Funds			Governmental Activities
Water Fund	Gas Fund	Total Enterprise Funds	Internal Service Funds
\$2,013,314	\$3,517,100	\$10,846,889	\$1,522,134
4,988,245	8,341,500	34,366,535	280,000
325,528	3,220,178	7,222,574	11,040
		49,886	
		440,644	
		108	
43,110	197,706	851,529	
132,309	415,379	1,469,924	224,678
<u>7,502,506</u>	<u>15,691,863</u>	<u>55,248,089</u>	<u>2,037,852</u>
15,107,031	11,594,101	99,365,215	3,280,397
	660,266	660,266	
<u>15,107,031</u>	<u>12,254,367</u>	<u>100,025,481</u>	<u>3,280,397</u>
<u>22,609,537</u>	<u>27,946,230</u>	<u>155,273,570</u>	<u>5,318,249</u>
265,809	358,163	1,373,960	
386,855	3,263,005	7,605,491	25,325
		16,691	
		62,828	
321,257		726,333	
138,481	12,394	374,714	
		68,600	
		912,000	
<u>846,593</u>	<u>3,275,399</u>	<u>9,766,657</u>	<u>25,325</u>
1,035,268	1,394,968	8,131,767	
		5,278,492	
		42,018	
35,838	53,758	179,791	
<u>1,071,106</u>	<u>1,448,726</u>	<u>13,632,068</u>	
<u>1,917,699</u>	<u>4,724,125</u>	<u>23,398,725</u>	<u>25,325</u>
201,171	271,067	1,015,409	
		65,597	
<u>201,171</u>	<u>271,067</u>	<u>1,081,006</u>	
15,107,031	11,594,101	90,321,448	3,280,397
5,649,445	11,715,100	41,846,351	2,012,527
<u>\$20,756,476</u>	<u>\$23,309,201</u>	<u>132,167,799</u>	<u>\$5,292,924</u>
		(155,046)	
		<u>\$132,012,753</u>	

CITY OF OWATONNA, MINNESOTA
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the year ended December 31, 2017

	<u>Business-type Activities</u>		
	<u>Sewer Fund</u>	<u>Storm Water Fund</u>	<u>Electric Fund</u>
OPERATING REVENUES:			
Charges for service	\$3,414,902	\$923,459	\$39,025,342
Miscellaneous	2,091		
Total operating revenues	<u>3,416,993</u>	<u>923,459</u>	<u>39,025,342</u>
OPERATING EXPENSES:			
Operation and maintenance	1,565,110	229,466	31,565,621
Depreciation	1,031,363	283,875	2,178,096
Utility service contributed to city			1,064,310
Capitalized internal costs			(269,205)
Administrative costs	171,071		3,071,403
Total operating expenses	<u>2,767,544</u>	<u>513,341</u>	<u>37,610,225</u>
Operating income (loss)	<u>649,449</u>	<u>410,118</u>	<u>1,415,117</u>
Non-operating revenues (expenses)			
Property taxes		322,411	
Intergovernmental revenue	25,000	11,341	
Income (loss) on investments	176,665	17,639	71,370
Sale of capital assets	4,825		
Compensation for loss of capital asset	93,866		
Interest expense and fiscal charges	(67,836)	(78,143)	
Total non-operating revenues (expenses)	<u>232,520</u>	<u>273,248</u>	<u>71,370</u>
Income (loss) before contributions & transfers	881,969	683,366	1,486,487
Capital contributions		629,185	
Transfer out	(480,500)	(67,000)	
Total contributions & transfers	<u>(480,500)</u>	<u>562,185</u>	
Change in net position	401,469	1,245,551	1,486,487
Total net position – beginning	<u>34,660,525</u>	<u>6,799,752</u>	<u>43,508,338</u>
Total net position – ending	<u>\$35,061,994</u>	<u>\$8,045,303</u>	<u>\$44,994,825</u>

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.

- Enterprise Funds			Governmental Activities
Water Fund	Gas Fund	Total Enterprise Funds	Internal Service Funds
\$3,948,324	\$14,019,597	\$61,331,624	\$2,998,276
<u>3,948,324</u>	<u>14,019,597</u>	<u>61,333,715</u>	<u>2,998,276</u>
1,389,389	10,758,813	45,508,399	2,276,543
452,030	551,569	4,496,933	617,662
117,020	230,143	1,411,473	
(36,491)	(90,987)	(396,683)	
<u>1,328,912</u>	<u>2,281,354</u>	<u>6,852,740</u>	
<u>3,250,860</u>	<u>13,730,892</u>	<u>57,872,862</u>	<u>2,894,205</u>
<u>697,464</u>	<u>288,705</u>	<u>3,460,853</u>	<u>104,071</u>
		322,411	
		36,341	
70,101	154,744	490,519	
		4,825	67,498
		93,866	
		(145,979)	
<u>70,101</u>	<u>154,744</u>	<u>801,983</u>	<u>67,498</u>
767,565	443,449	4,262,836	171,569
		629,185	77,862
		(547,500)	
		<u>81,685</u>	<u>77,862</u>
767,565	443,449	4,344,521	249,431
<u>19,988,911</u>	<u>22,865,752</u>		<u>5,043,493</u>
<u>\$20,756,476</u>	<u>\$23,309,201</u>		<u>\$5,292,924</u>
		(12,466)	
		<u>\$4,332,055</u>	

CITY OF OWATONNA, MINNESOTA
Statement of Cash Flows
Proprietary Funds
For the year ended December 31, 2017

	Sewer Fund	Storm Water Fund	Electric Fund
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$3,755,375	\$923,459	\$36,988,733
Cash payments to suppliers for goods and services	(837,805)	(138,563)	(33,041,268)
Cash payments to employees for services	(729,869)	(99,188)	(2,508,791)
Other cash receipts			2,581,446
	<u>2,187,701</u>	<u>685,708</u>	<u>4,020,120</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfer to other funds	(480,500)	(67,000)	
	<u>(480,500)</u>	<u>(67,000)</u>	
CASH FLOWS FROM CAPITAL AND REL. FIN. ACTIVITIES			
Acquisition of capital assets	(890,496)	(92,338)	(2,417,869)
Cost of removal, net of salvage	4,825		
Due from other funds – asset acquisition		28,650	
Intergovernmental	29,478	78,774	
Taxes levied for debt service		322,411	
Insurance recovery capital asset	156,700		
Principal paid on revenue bonds/notes payable	(520,000)		
Interest expense and fiscal charges	(70,509)	(120,513)	
	<u>(1,290,002)</u>	<u>216,984</u>	<u>(2,417,869)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investment securities	(600,000)	(600,000)	(233,399)
Proceeds from sale of investment securities			453,750
Interest on investments	176,665	17,639	38,782
	<u>(423,335)</u>	<u>(582,361)</u>	<u>259,133</u>
Net cash provided by (used for) investing activities			
Net increase (decrease) in cash and cash equivalents	(6,136)	253,331	1,861,384
Cash and cash equivalents – beginning of the year	185,868	601,294	2,420,734
Cash and Cash Equivalents – end of the year	<u>\$179,732</u>	<u>\$854,625</u>	<u>\$4,282,118</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income	\$649,449	\$410,118	\$1,415,117
Adjustments			
Depreciation	1,031,363	283,875	2,178,096
Net changes in assets and deferred outflows and liabilities and deferred inflows:			
Accounts receivable	7,100		408,518
Assessments receivable	18,900		
Inventories at cost			(31,803)
Other current assets	329,382		366,384
Deferred outflows	101,645	17,667	697,457
Accounts payable and accrued expenses	92,975	(14,220)	(136,752)
Unearned revenue		1,250	(273,147)
Net pension liability	(77,812)	(16,712)	(738,641)
OPEB and compensated absences	2,471	(774)	6,906
Deferred inflows	32,228	4,504	127,985
	<u>\$2,187,701</u>	<u>\$685,708</u>	<u>\$4,020,120</u>
Net cash provided by (used for) operating activities			
Noncash investing, capital, and financing activities:			
Amortization of gain on refunding		\$(10,637)	
Amortization of bond premium		(30,416)	
Capital Contribution		629,185	

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

- Enterprise Funds			Governmental Activities
Water Fund	Gas Fund	Enterprise Funds	Internal Service Funds
\$3,436,649	\$12,960,800	\$58,065,016	\$3,017,842
(1,844,962)	(10,745,901)	(46,608,499)	(2,623,679)
(1,109,951)	(1,554,589)	(6,002,388)	
576,853	445,775	3,604,074	
<u>1,058,589</u>	<u>1,106,085</u>	<u>9,058,203</u>	<u>394,163</u>
		(547,500)	
		(547,500)	
(671,605)	(693,732)	(4,766,040)	(781,401)
		4,825	67,498
		28,650	
		108,252	
		322,411	
		156,700	
		(520,000)	
		(191,022)	
<u>(671,605)</u>	<u>(693,732)</u>	<u>(4,856,224)</u>	<u>(713,903)</u>
(2,960,000)	(1,797,654)	(6,191,053)	
1,945,016	1,472,823	3,871,589	
50,382	101,464	384,932	
<u>(964,602)</u>	<u>(223,367)</u>	<u>(1,934,532)</u>	
(577,618)	188,986	1,719,917	(319,740)
2,590,932	3,328,114	9,126,942	1,841,874
<u>\$2,013,314</u>	<u>\$3,517,100</u>	<u>\$10,846,889</u>	<u>\$1,522,740</u>
\$697,464	\$288,705	\$3,460,853	\$104,071
452,030	551,569	4,496,933	617,662
(37,192)	26,128	404,554	19,566
(4,595)	(11,527)	18,900	
36,932	(558,282)	(47,925)	
289,008	410,983	174,416	(29,125)
(224,928)	828,114	1,516,760	
43,292	(113,800)	545,189	(318,011)
(263,837)	(405,990)	(342,405)	
3,376	5,065	(1,502,992)	
67,039	85,120	17,044	
		316,876	
<u>\$1,058,589</u>	<u>\$1,106,085</u>	<u>\$9,058,203</u>	<u>\$394,163</u>
		\$(10,637)	
		(30,416)	
		629,185	\$77,862

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CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
December 31, 2017

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, 2017

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, 2017

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, 2017

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, 2017

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, 2017

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 acquisition value. 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.

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 utilities depreciate on a composite basis.

8. Credit Risk

As of December 31, 2017 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
December 31, 2017

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 of 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, 2017

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, 2017

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.

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 (\$22,011,368) difference are as follows:

Bonds and notes payable	\$(9,521,016)
Net Pension liability	(10,193,371)
Accrued OPEB liability	(264,591)
Accrued compensated absences	(1,951,845)
Accrued interest payable	<u>(80,545)</u>
 Total difference	 <u><u>\$(22,011,368)</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.

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 \$275,440 difference are as follows:

Delinquent taxes rec. unavailable revenue:	
At December 31, 2016	\$(132,514)
At December 31, 2017	117,314
 Special assessments/development receivable unavailable revenue:	
At December 31, 2016	(2,828,529)
At December 31, 2017	<u>3,119,169</u>
	 <u><u>\$275,440</u></u>

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 \$(127,156) difference are as follows:

CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
December 31, 2017

Amortization of bond premium	\$33,246
Change in accrued OPEB liability	(84,709)
Change in accrued interest	(9,985)
Change in accrued compensated absences	<u>(65,708)</u>
	<u><u>\$(127,156)</u></u>

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 was one amendment to the budget in 2017 to appropriate some unanticipated expenditures which all had offsetting revenues.

B. Deficit Fund Balance

At year-end 2017, there were two funds that carried deficit fund balances. Two 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 increment from the levies are used to retire the various loans.

The following funds carried deficit fund balances at the end of 2017 in the amounts indicated:

TIF 3-6 Viracon Economic Development Fund	\$70,426
TIF 3-8 Daikin Applied Economic Development Fund	111,910

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.

CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
December 31, 2017

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, 2017 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.
- 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.

CITY OF OWATONNA, MINNESOTA
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The City's investments as of December 31, 2017 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	\$18,096,493	\$7,746,193	\$8,756,398	\$1,593,902	
US Govt Agencies	N/R	3,019,531	2,993,940			\$25,591
Local Govt Obligations	AA2	1,569,144		691,607	877,537	
Local Govt Obligations	AA3	1,293,046		1,293,046		
Local Govt Obligations	AA+	891,811		578,464	313,347	
Pooled Investments	N/A	8,964		102	2,285	6,577
MN Municipal MM	N/A	8,282,424	8,282,424			
Wells Fargo Adv MM	N/A	8,820	8,820			
Bremer Bank MM	N/A	1,008,033	1,008,033			
Profinium	N/A	17,015	17,015			
Fed Prime Cash Oblig	AAA	26,448	26,448			
Negotiable CDs	N/A	10,475,880	5,355,433	5,120,447		
		<u>\$44,697,609</u>	<u>\$25,438,306</u>	<u>\$16,440,064</u>	<u>\$2,787,071</u>	<u>\$32,168</u>

Reconciliation of deposits and investments to Statement of Net Position:

	Primary Government	EDA	HRA	Total Reporting Entity
Cash on hand	\$3,635			\$3,635
Deposits	25,312,102	\$624,312	\$107,745	26,044,159
Investments	43,697,609	1,000,000		44,697,609
Total deposits and investments	<u>\$69,013,346</u>	<u>\$1,624,312</u>	<u>\$107,745</u>	<u>\$70,745,403</u>
<u>Per Statement of Net Position:</u>				
Cash and cash equivalents	\$16,991,942	\$624,312	\$87,661	\$17,703,915
Investments	52,021,404	1,000,000		53,021,404
Restricted cash & cash equivalents			20,084	20,084
Total cash and investments	<u>\$69,013,346</u>	<u>\$1,624,312</u>	<u>\$107,745</u>	<u>\$70,745,403</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.

CITY OF OWATONNA, MINNESOTA
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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, FFCB, 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		\$21,116,024		\$21,116,024
Local Govt Obligations		3,754,001		3,754,001
Negotiable CDs		10,475,880		10,475,880
US Govt Agency pools		8,964		8,964
Total		<u>\$35,354,869</u>		<u>\$35,354,869</u>

CITY OF OWATONNA, MINNESOTA
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Assets of the City measured at amortized cost:

4M Fund Liquid Asset Fund	\$6,027,054
4M Fund PLUS Fund	2,255,370
Wells Fargo Advisors Money Market Fund	8,820
Bremer Bank Money Market Fund	1,008,033
Profinium Money Market Fund	17,015
Federal Prime Cash Obligation Fund	26,448
 Total	 \$9,342,740

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 \$117,314; special assessments receivable not yet available (debt service fund and capital projects fund) of \$3,058,393; and a development receivable not yet available (capital projects fund) of \$60,776.

C. Loans Receivable

The Capital Projects Fund has made a loan to a local business. The balance of this loan at December 31, 2017 was \$60,776 and is offset by an unavailable revenue. This loan matures in thirteen 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, 2017 was \$234,460 which consists of loans maturing in one to seven years with interest ranging from 0 to 5.25 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, 2017. The balance of these forgivable loans was \$216,736 at December 31, 2017.

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, 2017 was \$1,408,150 which consists of loans maturing in 1 to 25 years with interest ranging from 0 to 3 percent.

CITY OF OWATONNA, MINNESOTA
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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, 2017 is \$11,851.

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, 2017 is \$6,170.

D. Capital Assets

Capital asset activity for governmental activities for the year ended December 31, 2017 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Land	\$8,274,966	\$297,444		\$8,572,410
Construction in Progress	5,920	250,185	\$147,896	108,209
Total Non-depreciable	<u>8,280,886</u>	<u>547,629</u>	<u>147,896</u>	<u>8,680,619</u>
Depreciable capital assets:				
Buildings	22,521,728	227,896		22,749,624
Improvements Other than Bldgs	997,378	34,058		1,031,436
Equipment	13,629,248	1,400,684	677,446	14,352,486
Infrastructure	110,027,161	3,716,614		113,743,775
Total depreciable	<u>147,175,515</u>	<u>5,379,252</u>	<u>677,446</u>	<u>151,877,321</u>
Accumulated Depreciation				
Buildings	10,561,352	507,487		11,068,839
Improvements Other than Bldgs	296,161	53,760		349,921
Equipment	8,721,376	962,070	677,446	9,006,000
Infrastructure	46,699,932	2,865,280		49,565,212
Total accumulated depreciation	<u>66,278,821</u>	<u>4,388,597</u>	<u>677,446</u>	<u>69,989,972</u>
Govtl activities capital assets, net	<u>\$89,177,580</u>	<u>\$1,538,284</u>	<u>\$147,896</u>	<u>\$90,567,968</u>

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

General government	\$201,456
Public safety	215,819
Public works	2,967,676
Culture and recreation	385,984
Internal service funds	617,662
Total depreciation for governmental activities	<u>\$4,388,597</u>

CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
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Capital asset activity for business-type activities for the year ended December 31, 2017 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Land and other rights	\$2,905,772	\$58,847		\$2,964,619
Construction in Progress	6,427,071	4,144,951	\$6,262,480	4,309,542
Total Non-depreciable	<u>9,332,843</u>	<u>4,203,798</u>	<u>6,262,480</u>	<u>7,274,161</u>
Depreciable capital assets:				
Buildings	47,325,068	681,949		48,007,017
Equipment	16,963,814	1,459,385	606,305	17,816,894
Infrastructure	90,274,728	5,375,394	436,435	95,213,687
Total depreciable	<u>154,563,610</u>	<u>7,516,728</u>	<u>1,042,740</u>	<u>161,037,598</u>
Accumulated Depreciation				
Buildings	13,706,726	957,927		14,664,653
Equipment	13,332,463	977,897	490,040	13,820,320
Infrastructure	38,327,507	2,561,109	427,045	40,461,571
Total accumulated depreciation	<u>65,366,696</u>	<u>4,496,933</u>	<u>917,085</u>	<u>68,946,544</u>
Business-type activities capital assets, net	<u>\$98,529,757</u>	<u>\$7,223,593</u>	<u>\$6,388,135</u>	<u>\$99,365,215</u>

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

Sewer	\$1,031,363
Storm water	283,875
Electric	2,178,096
Water	452,030
Gas	551,569
Total depreciation for business-type activities	<u>\$4,496,933</u>

Discretely Presented Component Units

Capital asset activity for the component units was as follows:

Economic Development Authority

	Beginning Balances 12/31/16	Increases	Decreases	Ending Balances 12/31/17
Land	<u>\$252,156</u>			<u>\$252,156</u>

Housing and Redevelopment Authority

	Beginning Balances 12/31/16	Increases	Decreases	Ending Balances 12/31/17
Buildings	\$95,362			\$95,362
Accumulated Depreciation	<u>15,394</u>	<u>\$1,923</u>		<u>17,317</u>
Capital assets, net	<u>\$79,968</u>	<u>\$1,923</u>		<u>\$78,045</u>

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

Housing & economic development	\$1,923
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CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
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E. Interfund Balances and Transfers

The composition of interfund balances as of December 31, 2017 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>Electric Fund</u>	<u>Total</u>
Due from:					
General Fund				\$20,234	\$20,234
Debt Service Fund				5,062	5,062
Nonmajor Govtl Funds				20,970	20,970
Electric Fund	\$9,773	\$2,915	\$392,388		405,076
Water Fund		319,267	1,990		321,257
	<u>\$9,773</u>	<u>\$322,182</u>	<u>\$394,378</u>	<u>\$46,266</u>	<u>\$772,599</u>
Total Due to:					

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		\$161,883	161,883
	<u>\$121,136</u>	<u>\$161,883</u>	<u>\$283,019</u>
Total Due to:			

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>Nonmajor Govtl Funds</u>	<u>Sewer Fund</u>	<u>Storm Water Fund</u>	<u>Total</u>
Transfers In:				
General Fund		\$480,500	\$67,000	\$547,500
Debt Service Fund	\$148,190			148,190
Total Transfers Out	<u>\$148,190</u>	<u>\$480,500</u>	<u>\$67,000</u>	<u>\$695,690</u>

CITY OF OWATONNA, MINNESOTA
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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 \$629,185 in 2017.

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	(32,783)
Total	\$78,196

The lease currently outstanding is as follows:

Welch State Bank	2018-2020	3.17%	\$68,664
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The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2017, were as follows:

Year ending December 31	Governmental Activities
2018	\$24,359
2019	24,359
2020	24,360
Total minimum lease payments	73,078
Less: amount representing interest	(4,414)
Present value of minimum lease payments	\$68,664

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 \$1,870,000 are currently outstanding as follows:

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G.O. Equipment Certificates Series 2013A	2018-2019	2.00%	\$80,000
G.O. Equipment Certificates Series 2014A	2018-2020	2.00%	500,000
G.O. Equipment Certificates Series 2015A	2018-2021	3.00%	380,000
G.O. Equipment Certificates Series 2016A	2018-2022	3.00%	240,000
G.O. Equipment Certificates Series 2017A	2019-2025	3.00%	145,000
			\$1,345,000

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

Year	Governmental Activities	
	Principal	Interest
2018	\$340,000	\$30,487
2019	365,000	21,950
2020	335,000	13,325
2021	170,000	6,600
2022	70,000	3,000
2023-2025	65,000	3,075
	\$1,345,000	\$78,437

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 \$12,535,000 are currently outstanding as follows:

G.O. Improvement Series 2007C	2018-2018	4.000%	\$300,000
G.O. Improvement Series 2011A	2018-2022	1.75-2.200%	400,000
G.O. Improvement Series 2013A	2018-2024	2.00-2.750%	1,835,000
G.O. Improvement Series 2014A	2018-2021	2.000%	270,000
G.O. Improvement Series 2015A	2018-2026	2.50-3.000%	1,135,000
G.O. Improvement Series 2016A	2018-2027	2.00-3.000%	1,060,000
G.O. Improvement Series 2017A	2019-2028	2.00-3.000%	1,870,000
			\$6,870,000

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

Year	Governmental Activities	
	Principal	Interest
2018	\$875,000	\$170,167
2019	760,000	145,865
2020	765,000	128,748
2021	915,000	107,546
2022	755,000	85,626
2023-2027	2,605,000	163,073
2028	195,000	2,072
	\$6,870,000	\$803,097

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	2018-2024	2.00-2.75%	\$905,000

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

Year	Business-type Activities	
	Principal	Interest
2018	\$120,000	\$19,937
2019	125,000	17,487
2020	125,000	14,987
2021	130,000	12,274
2022	130,000	9,187
2023-2024	275,000	7,632
Total	\$905,000	\$81,504

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
2018	\$385,000	\$112,763
2019	385,000	101,213
2020	395,000	89,513
2021	410,000	77,438
2022	430,000	64,838
2023-2027	1,405,000	156,443
2028-2032	950,000	61,248
Total	\$4,360,000	\$572,366

CITY OF OWATONNA, MINNESOTA
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December 31, 2017

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	2018-2025	1.423%	\$4,434,928

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

Year	Business-type Activities	
	Principal	Interest
2018	\$527,000	\$63,109
2019	535,000	55,610
2020	543,000	47,996
2021	550,000	40,270
2022	558,000	32,444
2023-2025	1,721,928	49,233
Total	\$4,434,928	\$288,662

Change in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2017 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Governmental Activities					
Bonds Payable					
G.O. Bonds	\$1,635,000	\$145,000	\$435,000	\$1,345,000	\$340,000
G.O. Tax Increment Bonds	1,025,000		120,000	905,000	120,000
G.O. Improvement Bonds	6,060,000	1,870,000	1,060,000	6,870,000	875,000
Less: bond discount	(8,591)		(2,504)	(6,087)	
Plus: bond premium	265,607	108,582	35,750	338,439	
Total bonds payable	8,977,016	2,123,582	1,648,246	9,452,352	1,335,000
Capital Leases Payable	90,157		21,493	68,664	22,176
Accrued Compensated Absences	1,886,137	1,003,218	937,510	1,951,845	837,100
Governmental Activity Long-term liabilities	\$10,953,310	\$3,258,443	\$2,607,249	\$11,472,861	\$2,194,276

CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
December 31, 2017

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Business-type Activities					
Bonds Payable					
G.O. Revenue Bonds	\$4,360,000			\$4,360,000	385,000
Revenue Bonds	4,954,928		\$520,000	4,434,928	527,000
Plus: bond premium	279,255		30,416	248,839	
Total notes & bonds payable	<u>9,594,183</u>		<u>550,416</u>	<u>9,043,767</u>	<u>912,000</u>
Accrued Compensated Absences	114,328	64,948	68,657	110,618	68,600
Business-type Activity					
Long-term liabilities	<u>\$9,708,511</u>	<u>\$64,948</u>	<u>\$619,073</u>	<u>\$9,154,385</u>	<u>\$980,600</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, 2017, there were ten outstanding bond issues with an original issue amount of \$31,862,239 and a balance of \$26,851,173.

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 sixteen tax increment financing districts which includes 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 seven redevelopment districts which end between December 31, 2026-December 31, 2044. For the year ended December 31, 2017, the City paid tax increment in the amount of \$672,758. No other commitments were made by the City as part of these agreements.

CITY OF OWATONNA, MINNESOTA
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December 31, 2017

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.

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 \$167,251 at December 31, 2017.

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 \$29,437,806 in 2017.

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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 3,975,000 thousand cubic feet of natural gas through December 2023 for a total commitment of \$13,580,314 at December 31, 2017.

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, 2017 was \$17,148.

Minimum lease commitments in effect at December 31, 2017 are as follows:

<u>Year ending December 31</u>	<u>Business-type Activities</u>
2018	\$8,122
2019	4,042
2020	3,369
	<u>\$15,533</u>

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.

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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. There are 145 active participants, 35 actives waiving coverage, and 11 retired participants. 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	\$161,683
Interest on net OPEB obligation	11,863
Adjustment to annual required contribution	<u>(18,291)</u>
Annual OPEB cost (expense)	155,255
Contributions made	<u>(49,791)</u>
Increase in net OPEB obligation	105,464
Net OPEB obligation – beginning of year	<u>338,919</u>
Net OPEB obligation – end of year	<u><u>\$444,383</u></u>

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2017	\$155,255	32.1%	\$444,383
12/31/2016	95,075	69.0%	338,919
12/31/2015	95,314	53.0%	309,486

As of January 1, 2017, the actuarial accrued liability for benefits was \$1,304,990, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$13,165,190, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 9.9%.

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

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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 – 20% of future retirees electing coverage are assumed to cover a spouse at retirement.

Mortality – Life expectancies are based on mortality rates used in the July 1, 2016 PERA of Minnesota Plans.

Healthcare cost trend rate - The expected rate of increase in healthcare insurance premiums used was 6.8% initial year, 4.4% ultimate year, with 28 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.

Based on the historical and expected returns of the city's short-term investments portfolio, a discount rate of 3.5 percent was used. An inflation rate of 2.75% has been used. In addition, the entry age normal level percent of cost 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, 2017 does not exceed thirty years.

Since the most recent GASB 45 valuation, the following assumption changes have been made:

- The actuarial cost method was changed from using the Projected Unit Credit cost method to the Entry Age Normal level percent of pay cost method.
- The discount rate was changed from 4.00% to 3.5%.
- Healthcare trend rates were reset to reflect updated cost increase expectations.
- Medical per capita claims costs were updated to reflect recent experience and new plan offerings.
- Withdrawal, retirement and mortality rates were updated.
- The percent of future retirees assumed to elect coverage at retirement changed from 20% to 25%.
- The participation assumption for current retirees who are not Medicare eligible was changed from waiving at age 65 to 60% continuing coverage for life.
- A disability assumption was added for P&F employees.
- The inflation assumption was changed from 3.00% to 2.75%.

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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 Plan (General Employees Plan (accounted for in the General Employees Fund)

All full-time and certain part-time employees of the City are covered by the General Employees Retirement Plan. General Employees Plan (GEP) 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 (Police and Fire Plan (accounted for in the Police and Fire Fund))

The Police and Fire Plan (P&FP), 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 P&FP 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.

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A. GEP 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. P&FP Benefits

Benefits for the P&FP 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 P&FP 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 P&FP 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. General Employee Fund 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 2017. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2017. The City contributions to the GEP for the year ended December 31, 2017, were \$836,385. The City contributions were equal to the required contributions as set by state statute.

B. Police and Fire Fund Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2017. The City was required to contribute 16.20% of pay for P&FP members in calendar year 2017. The City contributions to the P&FP for the year ended December 31, 2017, were \$544,997. The City contributions were equal to the required contributions as set by state statute.

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4. Pension Costs

A. General Employees Fund Pension Costs

At December 31, 2017, the City was allocated by the plan a liability of \$11,056,974 for its proportionate share of the General Employee Fund'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 2017. 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 \$139,012. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City proportion was 0.1732% which was an increase of .0050% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the City recognized pension expense of \$1,622,733 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$4,015 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, 2017, the City's proportionate share of General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between Expected and Actual Experience	\$364,404	\$711,319
Change of Assumptions	1,835,697	1,108,463
Net Difference between Projected and Actual Earnings on Pension Plan Investments	71,413	
Change in Proportion	335,830	220,221
City Contributions Made Subsequent to Measurement Date	428,617	
Total	<u>\$3,035,961</u>	<u>\$2,040,003</u>

\$428,617 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, 2018. 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>
2018	451,832
2019	723,642
2020	(138,785)
2021	(469,348)

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B. Police and Fire Fund Pension Costs

At December 31, 2017, the City was allocated by the plan a liability of \$4,414,889 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City proportion was 0.327% which was an increase of .008% from its proportion measured as of June 30, 2016. The City also recognized \$29,430 for the year ended December 31, 2017 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contribution to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

For the year ended December 31, 2017, the City recognized pension expense of \$1,108,243 for its proportionate share of the P&FP's pension expense.

At December 31, 2017, the City's proportionate share of P&FP's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	\$101,621	\$1,180,272
Change of Assumptions	5,777,762	6,268,047
Net Difference between Projected and Actual Earnings on Pension Plan Investments	60,634	
Change in Proportion	170,035	64,802
City Contributions Made Subsequent to Measurement Date	284,177	
Total	<u>\$6,394,229</u>	<u>\$7,513,121</u>

\$284,177 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, 2018. 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
2018	\$92,261
2019	92,261
2020	(69,579)
2021	(306,760)
2022	(1,211,252)

The City's total pension expense for all plans for the year ended December 31, 2017, was \$2,866,645.

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5. Actuarial Assumptions

The total pension liability in the June 30, 2017, 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 all plans for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be one percent per year for the General Employees Plan through 2044 and Police and Fire Plan through 2064 and then 2.5 percent thereafter for both plans.

Actuarial assumptions used in the June 30, 2017 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 most recent five-year experience study for Police and Fire Plan was completed in 2016.

The following changes in actuarial assumptions occurred in 2017:

General Employees Fund

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

Police and Fire Fund

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65 percent to 60 percent.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.

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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:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%
Totals	<u>100%</u>	

6. Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.5%. 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 and the Police and Fire 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.

7. Pension Liability Sensitivity

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

	General Employees Fund		Police & Fire Fund	
1% Lower	6.5%	\$17,330,188	6.5%	\$8,314,524
Current Discount Rate	7.5%	11,056,974	7.5%	4,414,889
1% Higher	8.5%	6,068,571	8.5%	1,195,525

8. 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.

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Defined Contribution Plan

Seven 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 2017 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rates
\$3,000	\$3,000	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, 2016, membership includes 30 active participants and 6 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 \$6,100 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 \$6,450 in 2017 and \$6,800 in 2018.

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.

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If a member of the Association shall become permanently or totally disabled, the Association shall pay the sum \$6,100 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 \$164,223 in fire state aid paid by the City to the Relief Association for the year ended December 31, 2016. 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, 2016 was \$0.

4. Pension Costs

At December 31, 2017, the City reported an asset of \$1,204,775 for the Association's net pension asset. The net pension asset was measured as of December 31, 2016, 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 \$131,654 for the year ended December 31, 2017. At December 31, 2017, 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		\$109,551
Changes of Actuarial Assumptions	\$34,191	
Net Difference between Projected and Actual Earnings on Pension Plan Investments	106,937	
City Contributions Subsequent to Measurement Date		
Total	\$141,128	\$109,551

CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
December 31, 2017

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
2018	\$22,575
2019	22,573
2020	34,335
2021	(6,334)
2022	(8,447)
Thereafter	(33,125)

5. Actuarial Assumptions

The actuarial total pension asset was determined as of December 31, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	12/31/16
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar Closed
Actuarial Assumptions:	
Discount Rate	6.50%
Investment Rate of Return	6.50%
20-Year Municipal Bond Yield	3.78%
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 2017 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, 2016 are summarized in the following table:

Asset Class	Allocation at December 31, 2016	Long-Term Expected Real Rate of Return	Long-Term Expected Nominal Rate of Return
Domestic Equity	41.89%	5.39%	8.14%
International Equity	17.82%	5.20%	7.95%
Fixed Income	13.71%	1.98%	4.73%
Real Estate	0.54%	4.25%	7.00%
Cash Equivalents	26.04%	.79%	3.54%
Total Portfolio	100.00%		6.83%

CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
December 31, 2017

6. Discount Rate

The discount rate used to measure the total pension liability was 6.50%. 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 6.5%, 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 (5.5%) or one percentage point higher (7.5%) than the current rate:

	1% Decrease	Selected Discount Rate	1% Increase
Net Pension Asset	\$1,159,806	\$1,204,775	\$1,247,844
Discount Rate	5.5%	6.5%	7.5%

8. Plan's Fiduciary Net Position

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

	2016
Assets	
Cash and Investments	\$3,339,899
Total Assets	\$3,339,899
Net Position	
Unrestricted	\$3,339,899
Revenues	
Fire State Aid	\$164,223
Interest	200,390
Total Revenues	364,613
Expenses	
Benefit Payments	25,640
Administrative	6,311
Total Expenses	31,951
Change in Net Position	332,662
Beginning Net Position	3,007,237
Ending Net Position	\$3,339,899

CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
December 31, 2017

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

	Measurement Date December 31, 2016
<u>Total Pension Liability</u>	
Service Cost	\$66,200
Interest	140,109
Difference between expected and actual experience	(121,874)
Changes of assumptions	20,753
Changes of benefit terms	107,406
Benefit payments, including member contribution refunds	(25,640)
Net Change in Total Pension Liability	186,954
Total Pension Liability – Beginning	1,948,170
Total Pension Liability – Ending (a)	\$2,135,124
<u>Plan Fiduciary Net Position</u>	
State Contributions	\$164,223
Net Investment Income	200,390
Benefit Payments	(25,640)
Administrative Expenses	(6,311)
Net Change in Fiduciary Net Position	332,662
Fiduciary Net Position – Beginning	3,007,237
Fiduciary Net Position – Ending (b)	\$3,339,899
Association's Net Pension Liability/(Asset) – Ending (a) – (b)	\$(1,204,775)

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)]
01/01/17	\$0	\$1,304,990	\$1,304,990	0.00%	13,165,190	9.9%
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

PERA General Employees Retirement Fund (GEP)

Measurement Date	6/30/17	6/30/16	6/30/15
Proportion of the Net Pension Liability	0.1732%	0.1682%	0.1672%
Proportionate Share of the Net Pension Liability	\$11,056,974	\$13,657,005	\$8,665,171
State's Proportionate Share of the Net Pension Liability Associated with the City	139,018	178,369	
Total State and City's proportionate share of the Net Pension Liability	<u>\$11,195,995</u>	<u>\$13,835,374</u>	<u>\$8,665,171</u>
Covered Payroll	\$11,313,906	\$10,443,843	\$9,826,867
Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered Payroll	97.73%	130.77%	88.18%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.90%	68.91%	78.20%

PERA Public Employees Police & Fire Fund (P&FP)

Measurement Date	6/30/17	6/30/16	6/30/15
Proportion of the Net Pension Liability	0.327%	0.319%	0.311%
Proportionate Share of the Net Pension Liability	\$4,414,889	\$12,802,025	\$3,533,688
Covered Payroll	\$3,361,271	\$3,070,825	\$2,853,462
Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered Payroll	131.35%	416.89%	123.84%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.40%	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

PERA General Employees Retirement Fund (GEP)	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$836,385	\$804,270	\$778,475	\$695,645
Contributions in Relation to the Contractually Required Contribution	<u>(836,385)</u>	<u>(804,270)</u>	<u>(778,475)</u>	<u>(695,645)</u>
Contribution Deficiency (Excess)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
 City's Covered Payroll	 \$11,151,750	 \$10,726,757	 \$10,379,740	 \$9,595,508
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.50%	7.25%
 PERA Public Employees Police & Fire Fund (P&FP)	 <u>2017</u>	 <u>2016</u>	 <u>2015</u>	 <u>2014</u>
Contractually Required Contribution	\$544,997	\$500,744	\$508,708	\$432,074
Contributions in Relation to the Contractually Required Contribution	<u>(544,997)</u>	<u>(500,744)</u>	<u>(508,708)</u>	<u>(432,074)</u>
Contribution Deficiency (Excess)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
 City's Covered Payroll	 \$3,364,225	 \$3,091,017	 \$3,140,174	 \$2,824,017
Contributions as a Percentage of Covered Payroll	16.2%	16.2%	16.2%	15.3%
 Owatonna Firefighters Relief Association	 <u>2017</u>	 <u>2016</u>	 <u>2015</u>	 <u>2014</u>
Statutorily Required Contribution	\$-	\$-	\$ -	\$ -
Contributions in Relation to the Statutorily Required Contribution	-	-	-	-
Contribution Deficiency (Excess)	<u>\$-</u>	<u>\$-</u>	<u>\$ -</u>	<u>\$ -</u>
 Association's Covered Payroll	 N/A	 N/A	 N/A	 N/A
Contributions as a Percentage of Covered Payroll	N/A	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, 2016	Measurement Date December 31, 2015	Measurement Date December 31, 2014
Total Pension Liability			
Service Cost	\$66,200	\$53,176	\$51,753
Interest	140,109	130,326	135,178
Differences between expected and actual experience	(121,874)	-	-
Changes of assumptions	20,753	-	-
Changes of benefit terms	107,406	-	-
Benefit Payments, Including member refunds	(25,640)	-	(506,107)
Net Change in Total Pension Liability	<u>186,954</u>	<u>183,502</u>	<u>(319,176)</u>
Total Pension Liability – Beginning	<u>1,814,825</u>	<u>1,684,499</u>	<u>2,003,675</u>
Total Pension Liability – Ending (a)	<u>\$2,135,124</u>	<u>\$1,814,825</u>	<u>\$1,684,499</u>
Plan Fiduciary Net Position			
State Contributions	\$164,223	\$169,227	\$154,878
Net Investment Income	200,390	9,916	260,890
Benefit Payments	(25,640)	-	(506,107)
Administrative Expenses	(6,311)	(6,291)	(6,218)
Net Change in Fiduciary Net Position	<u>332,662</u>	<u>172,852</u>	<u>(96,557)</u>
Fiduciary Net Position – Beginning	<u>3,007,237</u>	<u>2,834,385</u>	<u>2,930,942</u>
Fiduciary Net Position – Ending (b)	<u>\$3,339,899</u>	<u>\$3,007,237</u>	<u>\$2,834,385</u>
Association’s Net Pension Liability/(Asset) – Ending (a) – (b)	<u><u>\$(1,204,775)</u></u>	<u><u>\$(1,059,067)</u></u>	<u><u>\$(1,149,886)</u></u>
Fiduciary Net Position as a Percentage of the Total Pension Liability	156.43%	165.70%	168.26%
Covered Payroll	N/A	N/A	N/A
Net Pension Liability/(Asset) as a Percentage of Covered Payroll	N/A	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

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, 2017

	Library Reserve & Memorial Fund	Small Cities Development Program Fund	Special Revenue MIF Fund
ASSETS			
Cash and cash equivalents	\$9,074	\$437	\$21
Investments			
Accounts receivable		1,566	
Total assets	<u>\$9,074</u>	<u>\$2,003</u>	<u>\$21</u>
LIABILITIES			
Accounts payable	\$89	\$2,003	
Due to other funds			
Advance from other funds			
Total liabilities	<u>89</u>	<u>2,003</u>	
FUND BALANCES			
Restricted for:			
Hunewill	16,500		
Grant projects			\$21
Capital projects			
Economic development			
Unassigned	<u>(7,515)</u>		
Total fund balances	<u>8,985</u>		<u>21</u>
Total liabilities and fund balances	<u>\$9,074</u>	<u>\$2,003</u>	<u>\$21</u>

<u>Funds</u>	Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
<u>Total</u>		
\$9,532	\$258,438	\$267,970
	1,700,000	1,700,000
1,566		1,566
<u>\$11,098</u>	<u>\$1,958,438</u>	<u>\$1,969,536</u>
\$2,092	\$56,213	\$58,305
	20,970	20,970
	161,883	161,883
<u>2,092</u>	<u>239,066</u>	<u>241,158</u>
16,500		16,500
21		21
	1,895,487	1,895,487
	6,221	6,221
(7,515)	(182,336)	(189,851)
<u>9,006</u>	<u>1,719,372</u>	<u>1,728,378</u>
<u>\$11,098</u>	<u>\$1,958,438</u>	<u>\$1,969,536</u>

CITY OF OWATONNA, MINNESOTA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the year ended December 31, 2017

	Library Reserve & Memorial Fund	Special Revenue Small Cities Development Program Fund
REVENUES		
Taxes		
Intergovernmental revenue		
Interest on investments	\$748	
Miscellaneous	111,822	\$2,278
Total revenues	112,570	2,278
EXPENDITURES		
Current:		
Housing & economic development		
Miscellaneous	84,626	
Capital outlay		
Total expenditures	84,626	
Excess of revenues over (under) expenditures	27,944	2,278
OTHER FINANCING SOURCES (USES)		
Transfers out		
Total other financing sources (uses)		
Net change in fund balances	27,944	2,278
Fund balances – beginning	(18,959)	(2,278)
Fund balances – ending	\$8,985	\$0

Funds		Nonmajor Capital Projects Funds	Total Nonmajor Governmental Funds
MIF Fund	Total		
		\$689,947	\$689,947
		(678)	(678)
	\$748	23,635	24,383
	114,100		114,100
	<u>114,848</u>	<u>712,904</u>	<u>827,752</u>
		504,079	504,079
	84,626		84,626
		172,315	172,315
	<u>84,626</u>	<u>676,394</u>	<u>761,020</u>
	30,222	36,510	66,732
		(148,190)	(148,190)
		<u>(148,190)</u>	<u>(148,190)</u>
	30,222	(111,680)	(81,458)
\$21	(21,216)	1,831,052	1,809,836
<u>\$21</u>	<u>\$9,006</u>	<u>\$1,719,372</u>	<u>\$1,728,378</u>

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Nonmajor Capital Projects Funds

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 3-7 Kerry 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 3-8 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.

TIF 7-1 Gateway #2 Redevelopment Fund – was established to account for tax increment financing activities relative to property acquisition and site improvements to assist with redevelopment within the district.

CITY OF OWATONNA, MINNESOTA
Combining Balance Sheet
Nonmajor Capital Projects Funds
December 31, 2017

	Sales Tax Capital Projects Fund	TIF 1-1 Metro Plains Cedar Run Fund	TIF 1-6 Northgate Fund	TIF 3-2 Cybex Inc. Fund
ASSETS				
Cash and cash equivalents	\$251,700		\$1,261	\$4,915
Investments	1,700,000			
Total assets	<u>\$1,951,700</u>	<u>\$0</u>	<u>\$1,261</u>	<u>\$4,915</u>
LIABILITIES				
Accounts payable	\$56,213			
Due to other funds				
Advance from other funds				
Total liabilities	<u>56,213</u>			
FUND BALANCES				
Restricted for:				
Capital projects	1,895,487			
Economic development			\$1,261	\$4,915
Unassigned				
Total fund balances	<u>1,895,487</u>		<u>1,261</u>	<u>4,915</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$1,951,700</u>	<u>\$0</u>	<u>\$1,261</u>	<u>\$4,915</u>

	TIF 3-7 Kerry Fund	TIF 3-8 Daikin Fund	TIF 7-1 Gateway #2 Fund	Total Nonmajor Capital Projects Funds
ASSETS				
Cash and cash equivalents		\$(40)		\$258,438
Investments				1,700,000
Total assets	<u>\$0</u>	<u>\$(40)</u>	<u>\$0</u>	<u>\$1,958,438</u>
LIABILITIES				
Accounts payable				\$56,213
Due to other funds				20,970
Advance from other funds		\$111,870		161,883
Total liabilities		<u>111,870</u>		<u>239,066</u>
FUND BALANCES				
Restricted for:				
Capital projects				1,895,487
Economic development				6,221
Unassigned		(111,910)		(182,336)
Total fund balances		<u>(111,910)</u>		<u>1,719,372</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$0</u>	<u>\$(40)</u>	<u>\$0</u>	<u>\$1,958,438</u>

TIF 3-3 Gopher Sport Fund	TIF 3-4 Rayven Fund	TIF 3-5 Sputtering Fund	TIF 3-6 Viracon Fund	TIF 4-1 Hospital Redevelop Fund	TIF 5-1 Tailwind Fund
	\$43	\$2	\$557		
\$0	\$43	\$2	\$557	\$0	\$0
			\$20,970		
			50,013		
			70,983		
	\$43	\$2	(70,426)		
	43	2	(70,426)		
\$0	\$43	\$2	\$557	\$0	\$0

CITY OF OWATONNA, MINNESOTA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Capital Projects Funds

For the year ended December 31, 2017

	Sales Tax Capital Projects Fund	TIF 1-1 Metro Plains Cedar Run Fund	TIF 1-6 Northgate Fund	TIF 3-2 Cybex, Inc Fund
REVENUES				
Taxes	\$17,819	\$13,172	\$51,782	
Intergovernmental revenue				
Interest on investments	23,530		14	\$55
Total revenues	<u>41,349</u>	<u>13,172</u>	<u>51,796</u>	<u>55</u>
EXPENDITURES				
Current				
Housing & economic development		13,172	51,782	
Capital outlay	172,315			
Total expenditures	<u>172,315</u>	<u>13,172</u>	<u>51,782</u>	
Excess of revenues over (under) expenditures	(130,966)		14	55
OTHER FINANCING SOURCES (USES)				
Transfers out				
Total other financing sources (uses)				
Net change in fund balances	(130,966)		14	55
Fund balances- beginning	<u>2,026,453</u>		<u>1,247</u>	<u>4,860</u>
Fund balances – ending	<u>\$1,895,487</u>	<u>\$0</u>	<u>\$1,261</u>	<u>\$4,915</u>

	TIF 3-7 Kerry Fund	TIF 3-8 Daikin Fund	TIF 7-1 Gateway #2 Fund	Total Nonmajor Capital Projects Funds
REVENUES				
Taxes	\$22,349	\$175,578	\$6,856	\$689,947
Intergovernmental revenue		(678)		(678)
Interest on investments		30		23,635
Total revenues	<u>22,349</u>	<u>174,930</u>	<u>6,856</u>	<u>712,904</u>
EXPENDITURES				
Current				
Housing & economic development	22,349	166,635	6,856	504,079
Capital outlay				172,315
Total expenditures	<u>22,349</u>	<u>166,635</u>	<u>6,856</u>	<u>676,394</u>
Excess of revenues over (under) expenditures		8,295		36,510
OTHER FINANCING SOURCES (USES)				
Transfers out				(148,190)
Total other financing sources (uses)				<u>(148,190)</u>
Net change in fund balances		8,295		(111,680)
Fund balances- beginning		<u>(120,205)</u>		<u>1,831,052</u>
Fund balances – ending	<u>\$0</u>	<u>\$(111,910)</u>	<u>\$0</u>	<u>\$1,719,372</u>

TIF 3-3 Gopher Sport Fund	TIF 3-4 Rayven Fund	TIF 3-5 Sputtering Fund	TIF 3-6 Viracon Fund	TIF 4-1 Hospital Redevelop Fund	TIF 5-1 Tailwind Fund
\$102,273	\$18,120	\$22,751	\$190,010	\$56,302	\$12,935
<u>102,273</u>	<u>18,120</u>	<u>22,751</u>	<u>190,016</u>	<u>56,302</u>	<u>12,935</u>
102,273	18,096	22,751	31,544	56,302	12,319
<u>102,273</u>	<u>18,096</u>	<u>22,751</u>	<u>31,544</u>	<u>56,302</u>	<u>12,319</u>
	24		158,472		616
			(148,190)		
			<u>(148,190)</u>		
	24		10,282		616
	19	2	(80,708)		
<u>\$0</u>	<u>\$43</u>	<u>\$2</u>	<u>\$(70,426)</u>	<u>\$0</u>	<u>\$0</u>

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Nonmajor Discretely Presented Component Unit

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, 2017

	<u>EDA Administration Fund</u>	<u>EDA Loan Fund</u>	<u>EDA Land Fund</u>	<u>Total EDA Funds</u>
ASSETS				
Cash and cash equivalents	\$57,622	\$347,362	\$219,328	\$624,312
Investments		800,000	200,000	1,000,000
Interest receivable		45		45
Accounts receivable	21,616		1,495	23,111
Loans receivable		234,460	1,408,150	1,642,610
Land held for resale			2,261,055	2,261,055
Total assets	<u>\$79,238</u>	<u>\$1,381,867</u>	<u>\$4,090,028</u>	<u>\$5,551,133</u>
LIABILITIES				
Accounts payable	<u>\$41,454</u>		<u>\$61,500</u>	<u>\$102,954</u>
Total liabilities	<u>41,454</u>		<u>61,500</u>	<u>102,954</u>
DEFERRED INFLOW OF RESOURCES				
Unavailable revenue			<u>362,975</u>	<u>362,975</u>
Total deferred inflows of resources			<u>362,975</u>	<u>362,975</u>
FUND BALANCES				
Restricted for:				
Economic development	37,784	\$1,381,867	3,665,553	5,085,204
Unassigned				
Total fund balances	<u>37,784</u>	<u>1,381,867</u>	<u>3,665,553</u>	<u>5,085,204</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$79,238</u>	<u>\$1,381,867</u>	<u>\$4,090,028</u>	<u>\$5,551,133</u>

Fund balances – component unit \$5,085,204

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 \$5,698,487

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, 2017

	EDA Administration Fund	EDA Loan Fund	EDA Land Fund	Total EDA Funds
REVENUES				
Taxes	\$452,303			\$452,303
Intergovernmental revenue	1,000,000		\$678	1,000,678
Interest on investments	453	\$12,152	6,495	19,100
Interest on loans		3,347		3,347
Miscellaneous	32,072		102,663	134,735
Total revenues	<u>1,484,828</u>	<u>15,499</u>	<u>109,836</u>	<u>1,610,163</u>
EXPENDITURES				
Current – miscellaneous	<u>1,454,353</u>	<u>23,913</u>	<u>42,627</u>	<u>1,520,893</u>
Total expenditures	<u>1,454,353</u>	<u>23,913</u>	<u>42,627</u>	<u>1,520,893</u>
Excess of revenues over (under) Expenditures	30,475	(8,414)	67,209	89,270
Fund balance - beginning	<u>7,309</u>	<u>1,390,281</u>	<u>3,598,344</u>	<u>4,995,934</u>
Fund balance – ending	<u><u>\$37,784</u></u>	<u><u>\$1,381,867</u></u>	<u><u>\$3,665,553</u></u>	<u><u>\$5,085,204</u></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, 2017

	Land	Buildings	Improv. Other than Buildings	Equipment
General Government				
Administrative Services	\$1,586,880	\$2,731,656		\$1,037,658
Government Buildings		4,162,975	\$29,349	51,361
Total General Government	<u>1,586,880</u>	<u>6,894,631</u>	<u>29,349</u>	<u>1,089,019</u>
Public Safety				
Police	21,549	963,405		371,234
Fire	248,982	2,394,648		1,126,060
Building Inspection				37,097
Total Public Safety	<u>270,531</u>	<u>3,358,053</u>		<u>1,534,391</u>
Public Works				
Engineering				81,914
Street Maintenance	405,756	1,461,479	55,367	728,868
Airport	4,399,281	1,867,447		539,021
Total Public Works	<u>4,805,037</u>	<u>3,328,926</u>	<u>55,367</u>	<u>1,349,803</u>
Culture and Recreation				
Library	244,940	2,713,603	7,253	433,735
Park & Recreation	1,466,905	1,388,814	750,031	711,290
Tennis & Fitness Center		818,739		39,732
Senior Center		366,033		35,207
Brooktree Golf Course	198,117	362,378	189,436	105,617
Aquatic Center		3,518,447		89,953
Total Culture and Recreation	<u>1,909,962</u>	<u>9,168,014</u>	<u>946,720</u>	<u>1,415,534</u>
Construction in Progress				
Subtotal	<u>8,572,410</u>	<u>22,749,624</u>	<u>1,031,436</u>	<u>5,388,747</u>
Internal Service Funds				<u>8,963,739</u>
Total governmental fund capital assets	<u>\$8,572,410</u>	<u>\$22,749,624</u>	<u>\$1,031,436</u>	<u>\$14,352,486</u>

<u>Infrastructure</u>	<u>Construction In Progress</u>	<u>Total</u>
		\$5,356,194
		4,243,685
		<u>9,599,879</u>
		1,356,188
		3,769,690
		37,097
		<u>5,162,975</u>
		81,914
\$107,390,907		110,042,377
5,406,712		12,212,461
<u>112,797,619</u>		<u>122,336,752</u>
		3,399,531
537,257		4,854,297
		858,471
		401,240
408,899		1,264,447
		3,608,400
<u>946,156</u>		<u>14,386,386</u>
	\$108,209	108,209
113,743,775	108,209	151,594,201
		8,963,739
<u>\$113,743,775</u>	<u>\$108,209</u>	<u>\$160,557,940</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, 2017

	Beginning Balances	Additions	Deletions	Ending Balances
General Government				
Administrative Services	\$5,248,949	\$107,245		\$5,356,194
Government Buildings	4,095,789	147,896		4,243,685
Total General Government	<u>9,344,738</u>	<u>255,141</u>		<u>9,599,879</u>
Public Safety				
Police	1,333,744	36,394	\$13,950	1,356,188
Fire	3,755,140	14,550		3,769,690
Building Inspection	37,097			37,097
Total Public Safety	<u>5,125,981</u>	<u>50,944</u>	<u>13,950</u>	<u>5,162,975</u>
Public Works				
Engineering	81,914			81,914
Street Maintenance	106,770,285	3,272,092		110,042,377
Airport	12,118,696	93,765		12,212,461
Total Public Works	<u>118,970,895</u>	<u>3,365,857</u>		<u>122,336,752</u>
Culture and Recreation				
Library	3,384,044	15,487		3,399,531
Park & Recreation	3,748,746	1,105,551		4,854,297
Tennis & Fitness Center	858,471			858,471
Senior Center	393,912	7,328		401,240
Brooktree Golf Course	1,255,322	17,125	8,000	1,264,447
Aquatic Center	3,608,400			3,608,400
Total Culture & Recreation	<u>13,248,895</u>	<u>1,145,491</u>	<u>8,000</u>	<u>14,386,386</u>
Construction in Progress	5,920	250,185	147,896	108,209
Subtotal	146,696,429	5,067,618	169,846	151,594,201
Internal Service Funds	8,759,972	859,263	655,496	8,963,739
Total governmental fund capital assets	<u>\$155,456,401</u>	<u>\$5,926,881</u>	<u>\$825,342</u>	<u>\$160,557,940</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.

Contents	Page
Financial Trends 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
Revenue Capacity These schedules contain information to help the reader assess the City's most significant local revenue source, property taxes.	124-128
Debt Capacity These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	129-134
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	135-136
Operating Information 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>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Governmental activities				
Net investment in capital assets	\$81,046,952	\$80,110,407	\$75,953,125	\$75,256,663
Restricted	10,837,315	10,411,098	11,942,498	12,177,716
Unrestricted	6,993,466	7,877,023	9,427,621	15,929,892
Total governmental activities	<u>\$98,877,733</u>	<u>\$98,398,528</u>	<u>\$97,323,244</u>	<u>\$103,364,271</u>
Business-type activities				
Net investment in capital assets	\$90,321,448	\$88,935,574	\$90,824,949	\$86,780,807
Restricted				910,766
Unrestricted	41,691,305	38,745,124	36,259,217	40,178,245
Total business-type activities	<u>\$132,012,753</u>	<u>\$127,680,698</u>	<u>\$127,084,166</u>	<u>\$127,869,818</u>
Primary government				
Net investment in capital assets	\$171,368,400	\$169,045,981	\$166,778,074	\$162,037,470
Restricted	10,837,315	10,411,098	11,942,498	13,088,482
Unrestricted	48,684,771	46,622,147	45,686,838	56,108,137
Total primary government net assets	<u>\$230,890,486</u>	<u>\$226,079,226</u>	<u>\$224,407,410</u>	<u>\$231,234,089</u>

Note: In 2015 GASB 68 was implemented

2013	2012	2011	2010	2009	2008
\$75,121,100	\$76,286,230	\$73,223,353	\$71,148,324	\$64,771,533	\$57,430,717
12,189,560	13,584,152	12,010,707	1,758,332	5,338,162	3,586,636
15,409,299	11,575,794	15,319,157	26,151,601	27,342,921	29,369,502
<u>\$102,719,959</u>	<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>
\$77,397,242	\$70,537,639	\$68,259,836	\$65,941,057	\$70,989,086	\$61,033,066
876,365	866,194	829,580	1,077,453	1,195,898	1,161,106
45,231,887	44,381,688	43,050,203	41,050,837	32,907,465	34,952,820
<u>\$123,505,494</u>	<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>
\$152,518,342	\$146,823,868	\$141,483,189	\$137,089,381	\$135,760,619	\$118,463,783
13,065,925	14,450,347	12,840,287	2,835,785	6,534,060	4,747,742
60,641,186	55,957,482	58,369,360	67,202,438	60,250,386	64,322,322
<u>\$226,225,453</u>	<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>

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Program Revenues				
Governmental activities:				
Charges for services:				
General government	\$321,021	\$354,171	\$325,810	\$353,387
Public safety	778,822	821,115	646,479	704,699
Public works	673,815	658,045	583,402	433,409
Culture and recreation	1,321,495	1,308,683	1,167,819	1,147,686
Other activities	19,208	19,528	9,640	13,121
Operating grants & contributions	1,562,720	1,499,973	1,411,675	1,692,420
Capital grants & contributions	3,749,360	1,985,442	3,351,342	2,596,415
Total governmental activities	<u>8,426,441</u>	<u>6,646,957</u>	<u>7,496,167</u>	<u>6,941,137</u>
Business-type activities:				
Charges for services:				
Sewer	3,416,993	3,322,407	3,106,003	2,995,373
Storm water	923,459	784,774	397,464	399,983
Electric	39,025,342	38,219,579	35,805,919	35,756,468
Water	3,948,324	3,804,917	3,489,771	3,433,348
Gas	14,019,597	13,266,847	13,795,668	21,471,393
Aquatic center			195,018	174,787
Operating grants and contributions				
Capital grants and contributions	135,032	188,135	50,000	25,688
Total business-type activities	<u>61,468,747</u>	<u>59,586,659</u>	<u>56,839,843</u>	<u>64,257,040</u>
Total primary government	<u>\$69,895,188</u>	<u>\$66,233,616</u>	<u>\$64,336,010</u>	<u>\$71,198,177</u>
Expenses				
Governmental activities:				
General government	\$3,243,404	\$3,099,636	\$2,856,561	\$2,680,256
Public safety	7,652,397	8,377,228	6,348,914	6,310,828
Public works	7,072,006	6,691,503	7,270,857	6,925,355
Culture and recreation	5,201,248	5,040,588	4,652,758	4,279,720
Other activities	791,706	1,063,892	747,447	570,317
Interest on long-term debt	234,573	287,028	288,678	300,765
Total governmental activities	<u>24,195,334</u>	<u>24,559,875</u>	<u>22,165,215</u>	<u>21,067,241</u>
Business-type activities:				
Sewer	2,847,495	3,006,694	2,492,185	2,452,577
Storm water	591,835	682,131	516,915	508,608
Electric	37,610,225	37,738,830	34,612,064	34,319,736
Water	3,250,860	3,046,878	3,159,786	2,734,692
Gas	13,730,892	11,789,863	13,066,535	20,613,979
Aquatic center			291,201	249,672
Total business-type activities	<u>58,031,307</u>	<u>56,264,396</u>	<u>54,138,686</u>	<u>60,879,264</u>
Total primary government	<u>\$82,226,641</u>	<u>\$80,824,271</u>	<u>\$76,303,901</u>	<u>\$81,946,505</u>

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

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$343,280	\$277,682	\$190,330	\$132,361	\$222,588	\$273,331
778,934	672,500	806,155	744,927	584,890	807,735
849,117	675,880	561,208	502,500	203,771	310,690
1,108,691	1,136,581	1,082,618	1,182,280	1,344,399	1,412,107
12,794	8,579	15,442	9,179	125,554	80,032
1,253,133	1,095,946	1,058,672	1,333,288	1,015,913	908,405
5,401,249	3,305,708	4,209,760	3,676,916	5,431,043	5,053,373
<u>9,747,198</u>	<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>
2,467,088	2,022,730	2,163,278	2,237,337	2,169,847	2,152,952
344,831	397,888	339,905	330,000	301,712	253,814
34,586,900	34,651,139	34,252,624	34,486,785	31,884,063	31,880,134
3,509,578	3,602,180	3,413,443	3,695,706	3,318,519	3,247,419
15,776,954	13,008,829	15,727,297	17,369,887	19,090,971	24,133,450
164,532	198,191	173,984	183,781	171,217	
<u>4,449,193</u>	<u>749,465</u>	<u>205,115</u>	<u>563,437</u>	<u>3,761,930</u>	<u>74,000</u>
<u>61,299,076</u>	<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>\$71,046,274</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>
\$2,496,706	\$2,190,496	\$2,214,779	\$2,584,345	\$2,350,230	\$2,671,970
5,999,244	5,770,904	5,760,579	5,656,846	5,898,353	6,011,315
7,301,740	6,640,567	6,905,658	7,006,584	4,949,913	5,758,426
4,229,251	4,051,046	4,020,572	4,193,364	4,416,540	4,817,582
627,951	627,678	840,271	1,230,376	695,768	453,832
409,891	307,253	447,757	660,324	852,329	994,414
<u>21,064,783</u>	<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>
2,191,955	2,479,096	2,408,860	2,319,607	1,817,628	1,855,646
457,454	367,752	333,266	338,878	239,802	72,103
34,455,128	33,341,909	32,751,288	34,139,463	31,599,411	31,673,356
2,767,320	2,531,144	2,441,081	2,857,315	2,458,048	2,466,784
14,962,607	12,513,597	14,532,831	16,670,867	17,201,803	22,432,645
268,532	264,385	232,096	244,399	297,848	
<u>55,102,996</u>	<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>\$76,167,779</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>

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

	2017	2016	2015	2014
Net (Expense)/Revenue				
Governmental activities	\$(15,768,893)	\$(17,912,918)	\$(14,669,968)	\$(14,126,104)
Business-type activities	3,437,440	3,322,263	2,701,157	3,377,776
Total primary government	\$(12,331,453)	\$(14,590,655)	\$(11,968,811)	\$(10,748,328)
General Revenues and Other				
Changes in Net Position				
Governmental activities:				
Taxes				
Property taxes, (general purposes)	\$10,407,798	\$9,864,056	\$9,148,313	\$8,620,566
Property taxes, (debt service)	991,067	1,134,938	1,150,319	1,096,471
Sales & excise tax				
Franchise tax	348,769	346,777	339,322	342,607
Lodging tax				
Unrestricted grants and contributions	4,341,397	4,201,348	4,103,313	4,253,144
Investment earnings	240,752	134,961	190,031	511,958
Other				195,095
Transfers	(81,685)	3,306,122	90,441	(249,425)
Total governmental activities	16,248,098	18,988,202	15,021,739	14,770,416
Business-type activities:				
Property taxes, (debt service)	322,411	247,970	248,410	251,775
Unrestricted grants and contributions				
Investment earnings	490,519	332,421	284,548	485,348
Other				
Transfers	81,685	(3,306,122)	(90,441)	249,425
Total business-type activities	894,615	(2,725,731)	442,517	986,548
Total primary government	\$17,142,713	\$16,262,471	\$15,464,256	\$15,756,964
Change in Net Position				
Governmental activities	\$479,205	\$1,075,284	\$352,691	\$644,312
Business-type activities	4,332,055	596,532	3,143,674	4,364,324
Total primary government	\$4,811,260	\$1,671,816	\$3,496,365	\$5,008,636

2013	2012	2011	2010	2009	2008
\$(11,317,585)	\$(12,415,068)	\$(12,265,431)	\$(13,750,388)	\$(10,234,975)	\$(11,861,866)
6,196,080	3,132,539	3,577,556	2,296,404	7,083,719	3,241,235
<u>\$(5,121,505)</u>	<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>
\$8,753,451	\$8,436,179	\$7,517,394	\$7,181,958	\$7,058,666	\$6,876,626
923,671	1,037,055	1,308,435	1,549,154	1,663,077	1,610,922
		888,740	1,878,549	1,934,293	1,941,014
324,401	307,594	303,642	303,946	295,786	294,382
3,357,405	3,428,021	3,624,122	4,224,944	4,498,163	4,308,299
(308,037)	137,539	360,304	377,409	654,023	1,229,733
					760
<u>(1,351,736)</u>	<u>(38,361)</u>	<u>212,002</u>	<u>(159,931)</u>	<u>264,121</u>	<u>506,600</u>
<u>11,699,155</u>	<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>
253,885	252,521	233,499	238,628	232,808	
				17,460	
(81,728)	222,481	421,654	281,935	764,205	1,141,828
					50,000
<u>1,351,736</u>	<u>38,361</u>	<u>(212,002)</u>	<u>159,931</u>	<u>(264,121)</u>	<u>(506,600)</u>
<u>1,523,893</u>	<u>513,363</u>	<u>443,151</u>	<u>680,494</u>	<u>750,352</u>	<u>685,228</u>
<u>\$13,223,048</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>
\$381,570	\$892,959	\$1,949,208	\$1,605,641	\$6,133,154	\$4,906,470
7,719,973	3,645,902	4,020,707	2,976,898	7,834,071	3,926,463
<u>\$8,101,543</u>	<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>

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
General Fund				
Reserved				
Unreserved				
Nonspendable	\$169,529	\$200,044	\$283,764	\$224,489
Restricted	44,198	43,717	43,432	43,058
Committed				
Assigned	2,216,436	2,066,020	2,050,503	1,912,882
Unassigned	8,245,075	8,088,843	8,075,845	7,851,566
Total general fund	<u>10,675,238</u>	<u>10,398,624</u>	<u>10,453,544</u>	<u>10,031,995</u>
All Other Governmental Funds				
Reserved				
Unreserved, reported in:				
Special revenue funds				
Debt service funds				
Capital projects funds				
Nonspendable				74,064
Restricted	7,199,761	7,282,461	9,414,768	8,953,592
Committed	1,036,672	1,114,534	1,114,534	1,528,371
Assigned	5,438,542	5,240,474	3,905,230	4,360,834
Unassigned	(189,851)	(239,266)	(216,589)	(219,861)
Total all other governmental funds	<u>13,485,124</u>	<u>13,398,203</u>	<u>14,217,943</u>	<u>14,697,000</u>
Total governmental funds	<u>\$24,160,362</u>	<u>\$23,796,827</u>	<u>\$24,671,487</u>	<u>\$24,728,995</u>

Note: GASB Statement No. 54 was adopted in 2011

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$78,276	\$86,340	\$122,709	\$100,103	\$6,173	\$52,936
42,066	42,066	41,791	8,373,093	5,718,264	5,405,100
1,843,366	2,164,701	2,145,826			
7,731,961	7,348,001	6,620,420			
<u>9,695,669</u>	<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>
			7,859,383	13,072,081	12,252,765
			397,564	(132,268)	(121,136)
			5,571,539	5,167,651	6,349,032
549,915					
8,312,438	9,084,236	11,734,213			
2,644,186					
2,446,348	2,324,410	4,167,721			
<u>13,952,887</u>	<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>\$23,648,556</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>

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Revenues				
Taxes	\$11,762,834	\$11,315,685	\$10,658,545	\$10,089,188
Licenses and permits	445,702	428,138	292,628	349,311
Intergovernmental revenue	8,199,031	6,869,605	7,290,973	7,755,657
Charges for service	2,122,977	2,132,546	1,857,471	1,704,610
Fines and forfeits	157,683	142,447	157,719	172,951
Special assessments	839,631	936,065	1,137,312	1,099,194
Interest on investments	240,752	134,961	190,031	511,958
Miscellaneous	624,897	621,632	1,452,189	853,621
Total revenues	<u>24,393,507</u>	<u>22,581,079</u>	<u>23,036,868</u>	<u>22,536,490</u>
Expenditures				
Current operating				
General government	2,815,113	2,674,639	2,528,782	2,338,333
Public safety	6,841,352	6,605,121	6,200,216	6,094,080
Public works	4,031,989	3,850,262	3,681,956	3,444,217
Culture and recreation	4,634,202	4,495,841	4,035,671	3,796,924
Housing & economic development	773,449	1,028,038	734,410	462,086
Miscellaneous	100,110	146,547	127,580	294,163
Capital outlay	5,632,005	3,613,361	5,905,097	4,615,949
Debt service:				
Principal retired	1,615,000	1,765,000	1,890,000	1,845,000
Interest and service charges	257,834	330,154	293,620	313,028
Payment to refunding escrow agent		810,000		
Total all other governmental funds	<u>26,701,054</u>	<u>25,318,963</u>	<u>25,397,332</u>	<u>23,203,780</u>
Excess of revenues over (under) expenditures	<u>(2,307,547)</u>	<u>(2,737,884)</u>	<u>(2,360,464)</u>	<u>(667,290)</u>
Other finance sources (uses)				
Bond issuance	2,015,000	1,300,000	1,685,000	1,135,000
Premium(Discount) on bonds	108,582	99,109	98,893	32,211
Other			110,979	
Sale of capital assets			5,584	215,518
Transfers out	(148,190)	(658,975)	(128,000)	(564,000)
Transfers in	695,690	1,123,090	530,500	929,000
Total other financing sources (uses)	<u>2,671,082</u>	<u>1,863,224</u>	<u>2,302,956</u>	<u>1,747,729</u>
Net change in fund balance	<u>\$363,535</u>	<u>\$(874,660)</u>	<u>\$(57,508)</u>	<u>\$1,080,439</u>
Debt service as a percentage of noncapital expenditures	8.63%	13.18%	10.55%	10.84%

2013	2012	2011	2010	2009	2008
\$9,999,651	\$9,820,395	\$9,981,547	\$10,977,977	\$10,720,490	\$10,477,266
350,707	279,645	374,415	328,385	334,968	558,158
7,562,657	6,434,010	7,617,353	7,569,590	10,354,028	8,654,117
2,084,835	1,899,600	2,167,578	1,747,190	1,646,622	1,840,757
172,778	206,517	231,901	251,339	255,549	290,100
1,361,391	1,444,022	1,467,016	1,720,604	1,870,284	2,000,535
(308,037)	137,539	360,304	377,401	654,023	1,229,733
667,413	332,307	443,774	809,623	483,842	431,412
<u>21,891,395</u>	<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>
2,131,704	2,086,672	2,065,066	2,337,400	2,380,507	2,380,529
5,645,420	5,566,365	5,604,482	5,427,133	5,630,424	5,661,694
3,091,860	3,267,360	3,151,255	3,384,887	2,747,184	3,349,834
3,770,340	3,813,868	3,976,416	3,902,203	4,142,220	4,442,696
453,050	405,640	494,299	655,547	226,572	62,279
380,217	359,119	532,355	702,863	257,405	193,267
7,234,554	4,145,253	4,758,793	4,351,521	7,068,675	8,695,416
2,175,000	4,720,000	3,085,000	7,100,000	3,360,337	5,592,826
302,980	339,625	512,999	666,210	873,063	945,023
<u>25,185,125</u>	<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>(3,293,730)</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>
3,845,000		3,325,000			3,585,000
71,433		(14,963)			
1,858,593	46,941				(30,939)
(2,963,221)	(50,000)	(1,403,508)	(6,649,225)	(1,199,781)	(708,105)
3,278,221	370,000	1,663,508	9,349,779	1,561,781	1,214,705
6,090,026	366,941	3,570,037	2,700,554	362,000	4,060,661
<u>\$2,796,296</u>	<u>\$(3,782,926)</u>	<u>\$2,033,230</u>	<u>\$(2,045,101)</u>	<u>\$(4,581)</u>	<u>\$(1,780,825)</u>
11.87%	23.99%	17.99%	30.34%	21.82%	28.86%

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Program Revenues				
Governmental activities:				
Charges for services:				
General government	\$321,021	\$354,171	\$325,810	\$353,387
Public safety	778,822	821,115	646,479	704,699
Public works	673,815	658,045	583,402	433,409
Culture and recreation	1,321,495	1,308,683	1,167,819	1,147,686
Other activities	19,208	19,528	9,640	13,121
Operating grants & contributions	1,562,720	1,499,973	1,411,675	1,692,420
Capital grants & contributions	3,749,360	1,985,442	3,351,342	2,596,415
Total governmental activities	<u>8,426,441</u>	<u>6,646,957</u>	<u>7,496,167</u>	<u>6,941,137</u>
Business-type activities:				
Charges for services:				
Sewer	3,416,993	3,322,407	3,106,003	2,995,373
Storm water	923,459	784,774	397,464	399,983
Electric	39,025,342	38,219,579	35,805,919	35,756,468
Water	3,948,324	3,804,917	3,489,771	3,433,348
Gas	14,019,597	13,266,847	13,795,668	21,471,393
Aquatic center			195,018	174,787
Operating grants and contributions				
Capital grants and contributions	135,032	188,135	50,000	25,688
Total business-type activities	<u>61,468,747</u>	<u>59,586,659</u>	<u>56,839,843</u>	<u>64,257,040</u>
Total primary government	<u>\$69,895,188</u>	<u>\$66,233,616</u>	<u>\$64,336,010</u>	<u>\$71,198,177</u>
Expenses				
Governmental activities:				
General government	\$3,243,404	\$3,099,636	\$2,856,561	\$2,680,256
Public safety	7,652,397	8,377,228	6,348,914	6,310,828
Public works	7,072,006	6,691,503	7,270,857	6,925,355
Culture and recreation	5,201,248	5,040,588	4,652,758	4,279,720
Other activities	791,706	1,063,892	747,447	570,317
Interest on long-term debt	234,573	287,028	288,678	300,765
Total governmental activities	<u>24,195,334</u>	<u>24,559,875</u>	<u>22,165,215</u>	<u>21,067,241</u>
Business-type activities:				
Sewer	2,847,495	3,006,694	2,492,185	2,452,577
Storm water	591,835	682,131	516,915	508,608
Electric	37,610,225	37,738,830	34,612,064	34,319,736
Water	3,250,860	3,046,878	3,159,786	2,734,692
Gas	13,730,892	11,789,863	13,066,535	20,613,979
Aquatic center			291,201	249,672
Housing and economic development				
Total business-type activities	<u>58,031,307</u>	<u>56,264,396</u>	<u>54,138,686</u>	<u>60,879,264</u>
Total primary government	<u>\$82,226,641</u>	<u>\$80,824,271</u>	<u>\$76,303,901</u>	<u>\$81,946,505</u>

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$343,280	\$277,682	\$190,330	\$132,361	\$222,588	\$273,331
778,934	672,500	806,155	744,927	584,890	807,735
849,117	675,880	561,208	502,500	203,771	310,690
1,108,691	1,136,581	1,082,618	1,182,280	1,344,399	1,412,107
12,794	8,579	15,442	9,179	125,554	80,032
1,253,133	1,095,946	1,058,672	1,333,288	1,015,913	908,405
5,401,249	3,305,708	4,209,760	3,676,916	5,431,043	5,053,373
<u>9,747,198</u>	<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>
2,467,088	2,022,730	2,163,278	2,237,337	2,169,847	2,152,952
344,831	397,888	339,905	330,000	301,712	253,814
34,586,900	34,651,139	34,252,624	34,486,785	31,884,063	31,880,134
3,509,578	3,602,180	3,413,443	3,695,706	3,318,519	3,247,419
15,776,954	13,008,829	15,727,297	17,369,887	19,090,971	24,133,450
164,532	198,191	173,984	183,781	171,217	
<u>4,449,193</u>	<u>749,465</u>	<u>205,115</u>	<u>563,437</u>	<u>3,761,930</u>	<u>74,000</u>
<u>61,299,076</u>	<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>\$71,046,274</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>
\$2,496,706	\$2,190,496	\$2,214,779	\$2,584,345	\$2,350,230	\$2,671,970
5,999,244	5,770,904	5,760,579	5,656,846	5,898,353	6,011,315
7,301,740	6,640,567	6,905,658	7,006,584	4,949,913	5,758,426
4,229,251	4,051,046	4,020,572	4,193,364	4,416,540	4,817,582
627,951	627,678	840,271	1,230,376	695,768	453,832
409,891	307,253	447,757	660,324	852,329	994,414
<u>21,064,783</u>	<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>
2,191,955	2,479,096	2,408,860	2,319,607	1,817,628	1,855,646
457,454	367,752	333,266	338,878	239,802	72,103
34,455,128	33,341,909	32,751,288	34,139,463	31,599,411	31,673,356
2,767,320	2,531,144	2,441,081	2,857,315	2,458,048	2,466,784
14,962,607	12,513,597	14,532,831	16,670,867	17,201,803	22,432,645
268,532	264,385	232,096	244,399	297,848	
<u>55,102,996</u>	<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>\$76,167,779</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>

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

Fiscal Year	Property Taxes	Franchise Fees	Sales/Excise Tax ¹	Other Taxes ²	Total Taxes
2017	\$10,708,918	\$348,769	\$17,189	\$672,758	\$11,747,634
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

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

¹ 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. The City received an additional payment for subsequent year's collections of delinquent sales tax in 2017.

² 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
2017	\$11,200,666	\$11,121,534	99.29%	\$19,650	\$11,141,184	99.47%
2016	10,620,130	10,510,986	98.97%	103,228	10,614,214	99.94%
2015	10,140,627	10,062,832	99.23%	56,122	10,118,954	99.79%
2014	9,739,414	9,648,527	99.07%	77,755	9,726,282	99.87%
2013	9,742,984	9,627,589	98.82%	101,064	9,728,653	99.85%
2012	9,559,080	9,400,793	98.34%	156,397	9,557,190	99.98%
2011	8,818,938	8,665,892	98.26%	149,880	8,815,772	99.96%
2010	8,765,557	8,619,692	98.34%	145,863	8,765,555	100.00%
2009	8,793,278	8,650,062	98.37%	143,216	8,793,278	100.00%
2008	8,342,435	8,219,803	98.53%	122,318	8,342,121	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		
2017	\$18,836,226	\$1,714,832,600	\$89,226	\$5,462,900	\$18,925,452	\$1,720,295,500	.0110:1	61.513
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

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	
2017	51.376	7.122	2.172	.842	61.513	30.708	59.890	90.598	152.111
2016	50.294	7.811	1.727	.821	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

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

Taxpayer	Business type	2017			2007		
		Tax Capacity	Rank	Percentage of Total Tax Capacity	Tax Capacity	Rank	Percentage of Total Tax Capacity
Viracon, Inc	Glass Products	\$519,692	1	2.75%	\$212,430	2	1.09%
Cybex	Manufacturing	218,588	2	1.16%			
Federated Mutual Insurance	Insurance	206,310	3	1.09%	190,048	3	.98%
Owatonna Clinic – Mayo	Health System	159,120	4	.84%	114,261	10	.59%
Daikin, Inc.	Manufacturing	157,934	5	.83%			
Mills Properties	Retail	153,516	6	.81%	171,574	4	.88%
Cabela’s Retail	Retail	141,810	7	.75%	213,942	1	1.10%
Wenger Corp (JAS)	Musical Equip	127,988	8	.68%	137,936	5	.71%
Lakeside Foods	Manufacturing	117,900	9	.62%	119,304	9	.61%
Wal-Mart	Retail	114,316	10	.60%	133,904	6	.69%
J R Holdings LLC	Commercial				130,766	7	.67%
Lowes Home Stores	Retail				128,946	8	.66%
		<u>\$1,917,174</u>		<u>10.13%</u>	<u>\$1,553,111</u>		<u>7.98%</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 ³	Lease Revenue Bonds	Capital Leases	Revenue Bonds	G.O. Revenue Bonds			
2017	\$1,345,000	\$7,202,352	\$905,000	\$0	\$68,664	\$4,434,928	\$4,608,839	\$18,564,783	N/A	N/A
2016	1,635,000	6,317,016	1,025,000	0	90,157	4,954,928	4,639,255	18,661,356	1.66%	721.57
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

*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

³ Other Bonds consisted of TIF bonds in 2013-2017 and temporary sales tax revenue bonds in 2008-2009.

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
2017	\$1,345,000	\$457,935	\$887,065	.0469:1	N/A
2016	1,635,000	535,675	1,099,325	.0599:1	42.51
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

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Debt Limit	\$51,609	\$50,240	\$48,836	\$47,451	\$47,006	\$47,980	\$49,792	\$52,643	\$54,079	\$53,088
Total net debt applicable to limit	887	1,099	1,333	1,256	664	639	765	486	976	1,259
Legal debt margin	50,722	49,141	47,503	46,195	46,342	47,341	49,027	52,157	53,103	51,829
Total net debt applicable to the limit as a % of debt limit	1.72%	2.19%	2.73%	2.65%	1.41%	1.33%	1.54%	0.92%	1.80%	2.37%

Legal Debt Margin Calculation for Current Fiscal Year

Market Value of Taxable Property	\$1,674,650
Debt limit (3% of market value)	51,609
Debt applicable to limit:	
General obligation bonds	1,345
Less: Amount set aside for repayment of general obligation debt	458
Total net debt applicable to limit	<u>887</u>
Legal debt margin	<u><u>\$50,722</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 2017

Jurisdiction	Net Debt Outstanding	Percentage Applicable to City of Owatonna	City of Owatonna's Share of Debt
Direct:			
City of Owatonna	\$9,452,352	100.00%	\$9,452,352
Overlapping:			
School District	74,160,000	65.70%	48,723,120
Steele County	10,320,000	48.62%	5,017,584
Total overlapping debt			<u>53,740,704</u>
Total direct and overlapping debt			<u>\$63,193,056</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		
2017	\$56,993,263	\$51,408,993	\$5,584,270	\$0	\$0	\$0	N/A
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

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		
2017	\$1,245,870	\$229,467	\$1,016,403	\$0	\$61,244	\$61,244	16.60
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 ¹	Personal Income ²	Per Capita Personal Income ³	School Enrollment ⁴	Average Annual Unemployment Rate ⁵
2017	N/A	N/A	N/A	5,075	3.4%
2016	25,862	\$1,124,221,140	\$43,470	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%

¹ State demographer estimate. 2010 Census

² Estimation; Calculated (population multiplied by per capita personal income)

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

⁴ Owatonna School District #761 – regular average daily membership

⁵ 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>	<u>2017</u>			<u>2007</u>		
		<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	1,557	1	8.89%	1,700	1	9.39%
Federated Mutual Insurance	Insurance	1,375	2	7.85%	1,470	2	8.12%
Owatonna ISD# 761	Education	750	4	4.28%	580	5	3.20%
Truth Hardware Corp	Window hardware	696	3	3.98%	735	4	4.06%
Bosch	Specialty tools	518	5	2.96%	780	3	4.31%
Josten's Inc.	Recognition products	428	6	2.45%	450	8	2.49%
Wenger Corp	Musical equipment	419	7	2.39%	500	7	2.76%
Daikin	HVAC manufacturing	400	8	2.29%			
Cybox International	Exercise Equip manufacturer	335	9	1.91%			
Steele County	County government	326	10	1.86%	506	6	2.80%
Owatonna Hospital-Allina	Healthcare						
Cabela's	Outfitters/sporting goods				350	10	1.93%
Owatonna Clinic	Healthcare/pharmacy				360	9	1.99%
Total		6,804		38.86%	7,431		41.05%

Source: 2007 – Minnesota State Business Directory and Minnesota Manufacturers Register; and written and phone interview February & March 2007
 2017 – City of Owatonna phone interview.
 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)

Function	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
General government										
Admin services	10.0	9.5	9.5	8.0	8.0	7.0	7.0	7.0	7.0	7.0
Govt buildings	9.1	10.1	10.1	10.1	10.4	8.0	8.0	8.0	9.0	9.0
Public safety										
Police	42.8	42.8	42.8	43.1	40.6	38.0	38.0	36.0	38.0	38.0
Fire	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Inspection	4.0	3.7	3.7	4.0	4.0	4.0	4.0	5.0	6.0	6.0
Public works										
Engineering	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	8.0	8.0
Street maintenance	17.0	17.0	17.0	17.0	17.0	17.0	18.0	18.0	18.5	18.5
Airport	1.5	1.5	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Culture & recreation										
Library	14.1	13.9	12.5	11.4	11.9	10.0	10.0	10.0	10.0	10.0
Recreation – admin	4.9	4.2	4.0	3.5	3.8	2.0	2.0	2.0	2.0	2.0
Park maintenance	11.2	11.2	11.2	11.2	11.4	8.0	8.0	8.0	10.5	10.5
Adult recreation	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Youth recreation	.9	.9	1.9	2.0	1.9	1.0	1.0	1.0	1.0	1.0
Tennis & fitness	1.7	1.7	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	3.5	2.8	3.7	3.6	1.0	1.0	1.0	1.0	1.0
Housing & econ develop										
Planning & zoning	4.0	4.0	4.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Total	<u>143.7</u>	<u>143.0</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>

Source: Adopted 2008-2017 Budgets

Note: Years 2008 – 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

Function	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units – marked	13	13	13	13	13	14	15	18	N/A	N/A
Patrol units – unmarked	8	8	8	8	8	8	8	8	N/A	N/A
Police reserve unit - marked	3	2	2	2	4	2	3	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	1	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)	162.3	161.9	161.9	161.9	161.9	161.9	161.9	161.1	161.1	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	3,000	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	2	1
Tennis courts	16	16	16	16	16	16	16	16	16	16
Parks acreage	1,000	1000	997	997	997	995	955	955	955	955
Parks	36	36	36	36	36	36	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	1,240	1,232	1,234	1,319	1,319	1,319	1,319	1,303	1,302	1,300
Electric										
Number of customers	12,075	11,994	11,907	11,916	11,903	11,795	11,673	11,414	11,416	11,348
Gas										
Number of customers	10,482	10,447	10,385	10,411	10,339	10,263	10,229	10,185	10,124	10,084
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

Function	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Police										
Events	41,602	28,856	30,868	43,622	42,721	41,380	37,782	40,838	38,387	24,743
Part I crimes	428	608	739	665	720	646	530	519	539	475
Part II crimes	527	743	895	864	894	916	801	864	904	962
Traffic citations	1,614	1,249	1,436	2,130	2,807	2,829	2,462	3,673	4,090	6,555
Fire										
Number of calls	495	441	444	467	493	426	494	490	444	451
Aquatic Center										
Admissions *	23,485	23,414 ⁴	30,306	26,455	26,807	28,392	24,393	26,133	19,967	N/A
Library										
Circulation	256,732	271,978	283,172	293,025	316,171	336,171	337,641	349,984	363,028	346,322
Registered Users	26,775	26,442	28,720	26,959	28,854	28,145	27,873	29,564	30,024	27,509
Water										
Avg daily consumption (thousands of cubic ft)	477	477	482	488	477	515	486	494	501	597
Electric										
Avg daily consumption (thousands of KWh)	1,039	1,039	1,018	1,019	995	981	983	999	983	1,068
Gas										
Avg daily consumption (thousands of cubic ft)	4,865	4,865	5,353	6,189	5,937	4,648	5,125	5,123	5,408	5,728
Wastewater										
Avg daily sewage treatment (millions of gallons)	4.17	4.01	3.94	4.09	4.04	3.53	4.32	3.87	2.69	3.32

Source: Various government departments

* Aquatic Center opened in 2009