

An aerial photograph of a golf course. A winding stream flows through the center, crossed by a small stone bridge. The green fairways are interspersed with sand traps and clusters of trees, some showing autumn foliage. The overall scene is lush and well-maintained.

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED DECEMBER 31, 2018

City of Owatonna, Minnesota

CITY OF OWATONNA, MINNESOTA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2018

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, 2018

TABLE OF CONTENTS

	PAGE
INTRODUCTORY SECTION	
Letter of Transmittal	1-6
GFOA Certificate of Achievement	7
Organization Chart	9
Elected and Appointed Officials	10
 FINANCIAL SECTION	
Independent Auditors' Report	11-13
Management's Discussion and Analysis	14-24
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	26-27
Statement of Activities	28-29
Fund Financial Statements	
Governmental Funds:	
Balance Sheet	32-33
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	35
Statement of Revenues, Expenditures, and Changes in Fund Balances	36-37
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	39
Statement of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual – General Fund	40-41
Proprietary Funds:	
Statement of Net Position	42-43
Statement of Revenues, Expenses, and Changes in Net Position	44-45
Statement of Cash Flows	46-47
Notes to the Basic Financial Statements	49-83
Required Supplementary Information	
Schedule of Changes in the Total OPEB Liability and Related Ratios	84
Schedule of Proportionate Share of the Net Pension Liability	85
Schedule of City Contributions	86
Schedule of Changes in Net Pension Asset and Related Ratios – Relief Association	87
Combining Statements	
Nonmajor Governmental Funds:	
Combining Balance Sheet	90-91
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	92-93
Combining Balance Sheet – Nonmajor Capital Projects Funds	96-97
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Capital Projects Funds	98-99
Discretely Presented Component Unit:	
Combining Balance Sheet – Economic Development Authority	102
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Economic Development Authority	103

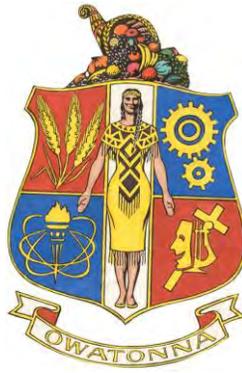
CITY OF OWATONNA, MINNESOTA
Comprehensive Annual Financial Report
For the year ended December 31, 2018

TABLE OF CONTENTS
(CONTINUED)

	PAGE
Capital Assets Used in the Operation of Governmental Funds	
Schedule by Function and Activity	106-107
Schedule of Changes by Function and Activity	108
STATISTICAL SECTION	
Net Position by Component	110-111
Changes in Net Position	112-115
Fund Balance - Governmental Funds	116-117
Changes in Fund Balances of Governmental Funds	118-119
Program Revenues and Expenses by Function	120-121
General Governmental Tax Revenue by Source	122
Property Tax Levies and Collections	123
Tax Capacity and Estimated Value of Taxable Property	124
Property Tax Rates and Tax Levies – Direct and Overlapping Governments	125
Principal Property Taxpayers	126
Ratios of Outstanding Debt by Type	127
Ratios of Net General Bonded Debt Outstanding	128
Legal Debt Margin Information	129
Computation of Direct and Overlapping Debt	130
Schedule of (OPU) Revenue Bond Coverage	131
Schedule of Storm Water Fund Bond Coverage	132
Demographic and Economic Statistics	133
Principal Employers	134
Full-time Equivalent City Employees by Function	135
Capital Asset Statistics by Function	136
Operating Indicators by Function	137

INTRODUCTORY SECTION

THE CITY OF



OWATONNA

Kris Busse
City Administrator

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

May 13, 2019

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, 2018.

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, 2018. 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.

The city is still feeling the positive impacts of growth. Due to plant expansions and additional jobs added, the housing market continues to grow. Owatonna had the most new home construction permits issued (44) when compared to our neighboring communities of Faribault, Northfield, Albert Lea, Austin, New Ulm and Winona. Commercial permits increased to 228 with a valuation of \$18.8 million as compared to 195 permits valued at \$8.6 million in 2017. Industrial permits remained consistent with 60 permits as compared to 59 permits in 2017. Overall construction numbers are still strong. The total number of permits issued in 2017 was 2,512 with a total valuation of \$48,482,633 as compared to 2018 total permits of 2,250 and valuation of \$55,291,343. Although the total number of permits is down slightly, the valuation is up considerably. This is due to the greater number of residential additions/alterations permits in 2017.

The city did receive a much-needed increase in Local Government Aid (LGA) in 2018. The city received \$163,000 additional Local Government Aid (LGA). 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 and upgrades, SCBA (self-contained Breathing Apparatus) for fire fighters, replacement of the fire station roof-top AC units, phone system improvements, replacement of the lower 9 irrigation system at Brooktree, and a new play apparatus at River Springs Water Park. Key vehicles or equipment purchased through the VRF include: squad cars, unmarked police cars, mowers, street sweeper, pick-ups and a road grader. New in 2018 was the establishment of a building maintenance fund. The City owns a significant number of buildings and this fund will allow the city to address critical building maintenance needs in a timely manner.

Major capital projects completed in 2018 include: bituminous pavement reconstruction of Hemlock from 16th Street to 20th Street, Caleta Place NE, and Mill Street from Oak Avenue to Cedar Avenue. The downtown also received upgrades to its infrastructure. Downtown alleys and parking lots were

reconstructed and two storm water-holding cells were installed downtown. The holding cells will provide relief from localized flooding during heavy rains. Concrete pavement reconstruction of St. John Drive from 24th Avenue to 32nd Avenue was substantially completed in 2018. A small portion of the road will be done in 2019. Concrete pavement rehabilitation was finished on 18th Street SW along with a trail extension on the south side. Lake Kohlmier Drive was reconstructed and the parking lot was resurfaced. A retaining wall that was in disrepair was removed and the area regraded and a pollinator mix planted.

Highway 14, a key component of Owatonna's economic development success, received long awaited funding from the Corridors of Commerce program. This \$160 million of funding will allow the expansion from two to four lanes from Owatonna to Dodge Center. Preliminary plans call for initial work to begin fall of 2019 with construction completed by 2022. This critical expansion project will elevate safety, infrastructure and the movement of freight and people. This will only add to Owatonna's economic growth.

The City of Owatonna had another strong year in terms of economic development. Progress was made in all areas of industrial, commercial and residential development. Pro-Pet completed an 18,000 square foot office and warehouse space expansion. Pro-Pet was also acquired by Cargill, a significant global food and agricultural company. Additional commercial properties were also developed. Tralo Trucking, after annexing their property into the city, constructed a 5,000 square foot office building. HomeTown Credit Union is constructing a new 5,000 square foot bank/office on 18th Street SE. The city experienced reinvestment and redevelopment in its downtown area too. A five-story 54-unit luxury apartment complex is under construction with plans to be completed in June of 2019. The complex offers a beautiful walkout rooftop terrace, large community room, fitness center and upgraded appliances and a parking garage.

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. Key focus areas were reviewed and confirmed for the next three-year period. The strategic objectives for 2017-2019 include infrastructure, economic vitality, quality of life and 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: The city council set infrastructure as a high priority in 2018. Council felt strongly the need to "catch up" on infrastructure investments and the levy and CIP were adjusted accordingly. Projects included all areas of the city. \$1.2 million was invested in bituminous pavement reconstruction in the residential areas, \$575,000 was spent on improvements in the downtown parking lots and alleys and storm sewer reconstruction. In the industrial park area, a major concrete pavement reconstruction project was implemented at a cost of \$3.9

million. An important area for trail extension was also included with the 18th Street SW concrete pavement reconstruction. Also completed was the trail connection at Kaplan's woods. Improvements at the airport included a new bi-fold door in the main hangar, enhancements to the customer waiting area, and phase one of signage improvements to both the interior and exterior.

The city has continued its sanitary sewer-lining program implemented in 2013. 13,000 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 has completed the modeling phase of the facility plan. Effluent limits will be established as a part of the Facility Plan. The plan will evaluate current and future needs, identify preliminary projects, and schedule.

The City also continued with flood mitigation efforts. The City updated its all hazard mitigation plan for 2018- 2023 and received approval by the Minnesota Homeland Security Emergency Management and FEMA. Plans were prepared for the Kaplan's Woods ravine stabilization project. A flooding study was also completed for Cardinal Drive and Buecksler Park Areas. Another home on Mineral Springs Road was 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.

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. The City hosted an informational meeting on Opportunity Zones. This new Federal economic development tool offers Owatonna some unique development opportunities in both the downtown and industrial areas. This seminar was well attended and well received by area bankers, developers and agents; City staff again collaborated with United Properties and held a metro broker event attended by 30 industrial real estate brokers. The city, in collaboration with the Chamber of Commerce, commissioned a streetscape improvements planning study for downtown. The downtown is a unique and valuable asset to the community and the study will ensure a cohesive direction for the area. In addition, the study allows a strategic approach incorporating value for money designs that can be rolled out over time. The framework developed by this study will give a clear standard of expectations for developers, local businesses and the city to follow over the short, medium and long term.

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 progress in this area. A consultant was retained to complete a Master Park and Trail plan. This Master Plan will provide the city with a creative and realistic plan to guide improvements in the short term and for future generations. The River Springs Water Park celebrated its ten year anniversary in 2018 with the addition of a new play apparatus in the zero depth entry area. A deteriorating tennis court was transformed into two new tile tennis courts and a new outdoor game space for bean bags, bocce ball and ping-pong. The City has a strong history of partnerships that continue to expand amenities for our citizens. Through a collaboration with the Soccer Association, money was donated to purchase land for a future soccer complex. The Soccer Association is currently fund raising to construct five fields, install an irrigation system and a parking lot. Plans are to

begin construction in late 2019. Other enhancements include on-line tee times at Brooktree and a lease agreement with Club Car for golf carts. This lease provides a cost effective way to provide updated carts without ongoing maintenance and storage issues. Other notable partnerships include; Tennis association remodeling of the tennis center lobby, Ecuman sponsorships with Senior Place, Public Health with promotion and programming. The Park and Recreation department developed several new and successful programs. They included the following: Farm Camp, Ramped up Rec on the Go and themed birthday party rental packages

The city strives to increase communication of quality of life opportunities. To assist in this effort, the city website was replaced with a new updated version with additional features for the public. The new website offers options for the public to be notified of upcoming meetings, events and projects. It provides an easy way to request various services from reporting a pothole to making a nuisance complaint. All departments will be utilizing this important tool to increase access for the public on various topics. Another critical component of quality of life has to be safety and security. Over the last five years, the city has enjoyed a historically low crime rate. A new focus this year has been to increase the number and variety of community engagements both large and small for public safety personnel, from stopping at a lemonade stand to teaching seniors about the different types of fire extinguishers and demonstrating their use.

Efficient Effective Government

This key focus area seeks to provide an innovative, efficient 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 “DISC training” and a working styles assessment. Supervisory training for new supervisors and first-line supervisors was provided. Staff continues to receive MMUA Executive Leadership Training and effective performance review training. In order to encourage innovation and customer focus, departments are encouraged to conduct a LEAN process improvement projects. In 2018, the Human Resource Department and Parks and Recreation Department completed a LEAN event for onboarding of seasonal /temporary workers. The city hires about 340 seasonal/temporary employees each year so any improvement in this area would have a major impact. Through utilizing LEAN principles, workflows were improved and efficiencies achieved. Ultipro was implemented in 2018. This Human Capital Management software also provided many opportunities to improve efficiencies in various processes. The software allowed the city to automate many paper processes such as vacation requests and time sheet approvals. Supervisors have real time information available to them for improved planning as well.

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, 2017. This was the seventh 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,

A handwritten signature in cursive script that reads "Kris M. Busse".

Kris M. Busse
City Administrator



Government Finance Officers Association

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

Presented to

**City of Owatonna
Minnesota**

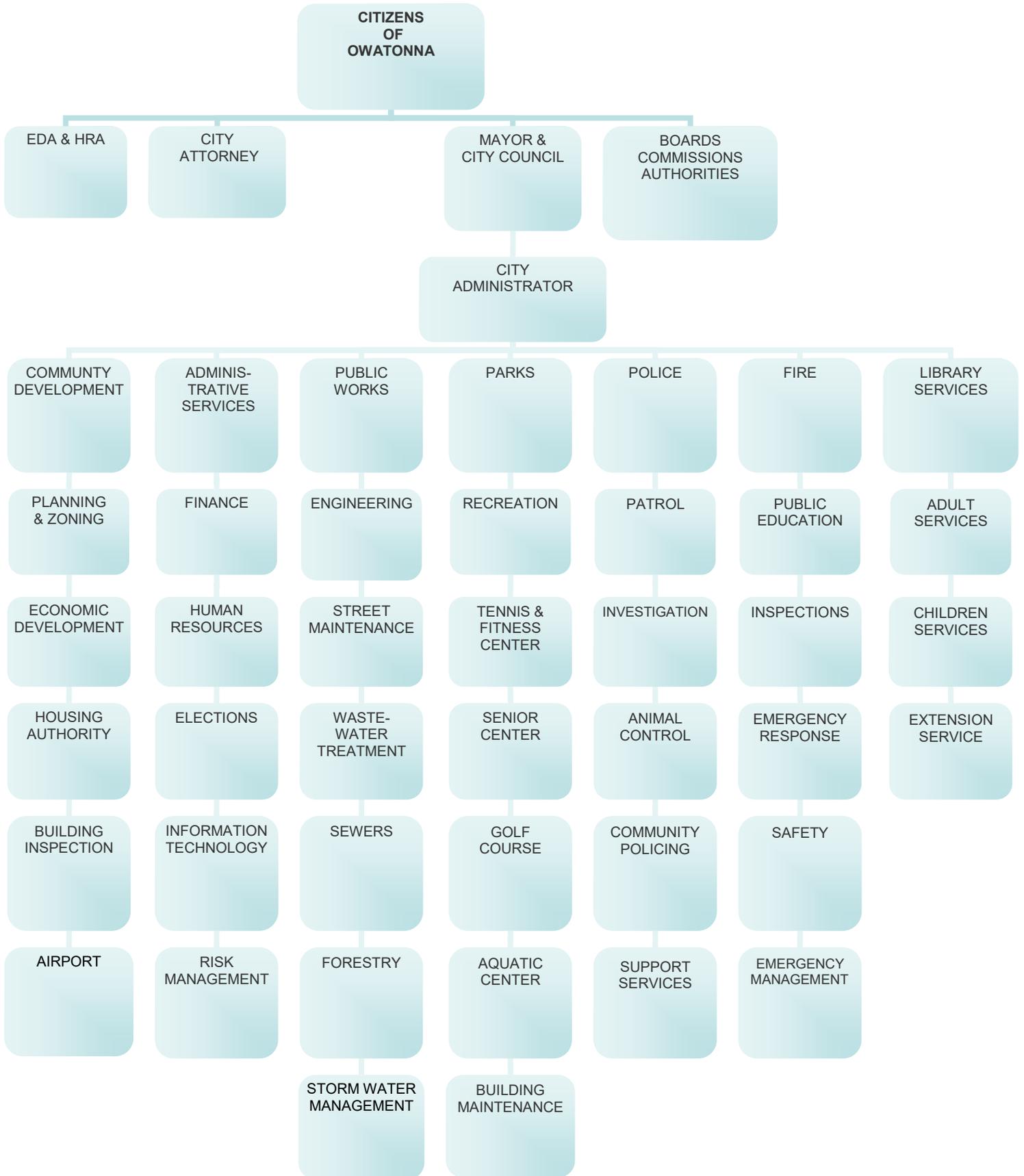
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2017

Christopher P. Morrill

Executive Director/CEO

City of Owatonna, Minnesota Organization Chart



City of Owatonna, Minnesota

Elected and Appointed Officials

December 31, 2018

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
Troy Klecker	Interim 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, 2018, 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, 2018, and the respective changes in financial position and, where applicable, cash flows, and budgetary comparison for the General Fund, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

During the year ended December 31, 2018, the City adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. As a result of the implementation of this standard, the City reported a restatement for a change in accounting principle (see Note I, D, 16). Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Changes in OPEB Liability and Related Ratios, 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 13, 2019, 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 13, 2019

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 \$235,374,887 (net position). Of this amount, \$51,653,783 (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 \$5,338,309.
- As of the end of the current fiscal year, the City of Owatonna's governmental funds reported combined ending fund balances of \$26,467,942, an increase of \$2,307,580 from the previous year. Over 67% of this amount, \$17,776,695, 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 \$10,749,575, or 55.9% of total general fund expenditures for 2018.
- The City of Owatonna's long-term liabilities remained unchanged. Although, the City issued bonds in 2018, this was offset by a decrease in the pension liability from the previous year. The pension liability for governmental activities decreased \$1,996,982 and for business-type activities increased \$696,892.

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 20 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 17 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 49-83 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 \$235.4 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 (\$171.6 million, or 72.9%). 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 (\$12.1 million or 5.1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$51.7 million or 22.0%) 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 2018 with their net position increasing by \$5.3 million from \$230.0 million to \$235.3 million.

A condensed version of the Statement of Net Position at December 31, 2018 follows:

Net Position at Year-end
(in millions)

	Governmental Activities		Business-type Activities		Total Government
	2018	2017	2018	2017	2018
Cash and investments	\$27.3	\$23.8	\$47.9	\$45.2	\$75.2
Other assets	7.0	8.4	9.9	9.8	16.9
Capital assets	92.3	90.6	100.6	99.4	192.9
Total assets	<u>126.6</u>	<u>122.8</u>	<u>158.4</u>	<u>154.4</u>	<u>285.0</u>
Deferred outflows of resources	<u>5.9</u>	<u>8.2</u>	<u>.8</u>	<u>1.4</u>	<u>6.7</u>
Other liabilities	3.8	3.8	9.1	9.1	12.9
Long term outstanding	24.5	19.7	13.1	13.6	37.6
Total liabilities	<u>26.0</u>	<u>23.5</u>	<u>20.5</u>	<u>22.7</u>	<u>46.5</u>
Deferred inflows of resources	<u>8.5</u>	<u>8.6</u>	<u>1.3</u>	<u>1.1</u>	<u>9.8</u>
Net position:					
Net investment in capital assets	79.0	81.1	92.6	90.3	171.6
Restricted	12.1	10.8			12.1
Unrestricted	6.8	7.0	44.9	41.7	51.7
Total net position	<u>\$97.9</u>	<u>\$98.9</u>	<u>\$137.5</u>	<u>\$132.0</u>	<u>\$235.4</u>

Governmental activities. Governmental activities provided a \$.2 million decrease to the City's net position.

A condensed version of the Statement of Activities follows:

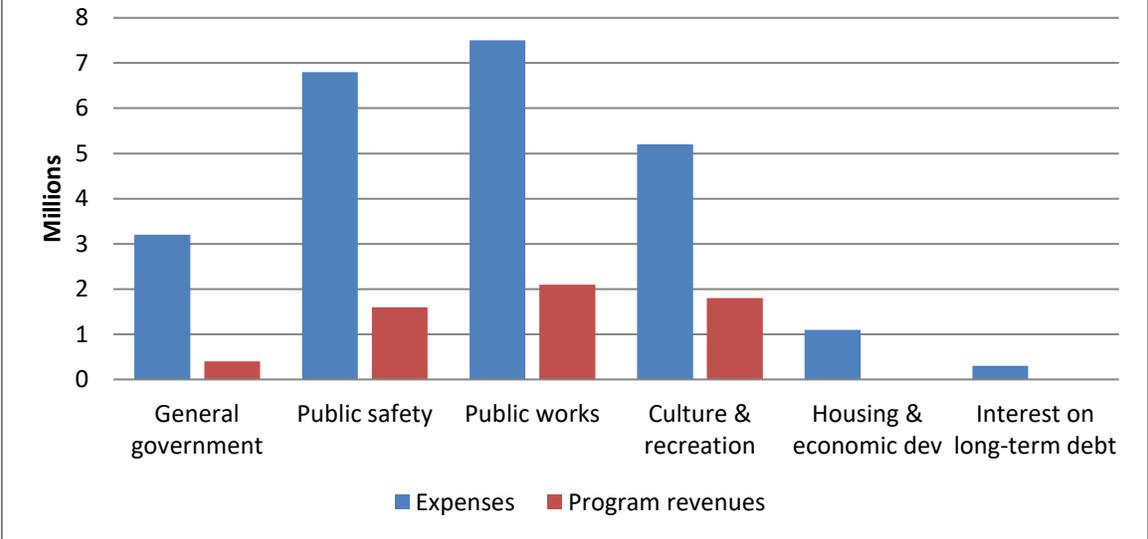
Governmental and Proprietary Activities
For the year ended December 31, 2018
(in millions)

	Governmental Activities		Business-type Activities		Total Government
	2018	2017	2018	2017	2018
Revenues					
Program revenues					
Charges for services	\$3.1	\$3.1	\$64.4	\$61.3	\$67.5
Grants and contributions					
Operating	1.5	1.6			1.5
Capital	1.3	3.7		.1	1.3
General revenues					
Taxes	13.2	11.8	.3	.3	13.5
Interest	.4	.2	.7	.5	1.1
Sale of capital assets					
Grants and contributions	4.4	4.4			4.4
Total revenues	23.9	24.8	65.4	62.2	89.3
Expenses					
General government	3.2	3.2			3.2
Public safety	6.8	7.7			6.8
Public works	7.5	7.1			7.5
Culture and recreation	5.2	5.2			5.2
Housing & economic dev	1.1	.8			1.1
Miscellaneous					
Interest on long-term debt	.3	.2			.3
Sewer			2.8	2.8	2.8
Storm water			.7	.6	.7
Electric			39.3	37.6	39.3
Water			3.4	3.3	3.4
Gas			13.7	13.7	13.7
Total expenses	24.1	24.2	59.9	58.0	84.0
Excess (deficiency) before transfers	(.2)	.6	5.5	4.2	5.3
Transfers		(.1)		.1	
Change in net position	(.2)	.5	5.5	4.3	5.3
Beginning net position	98.9	98.4	132.0	127.7	230.9
Restatement	(.8)				(.8)
Ending net position	\$97.9	\$98.9	\$137.5	\$132.0	\$235.4

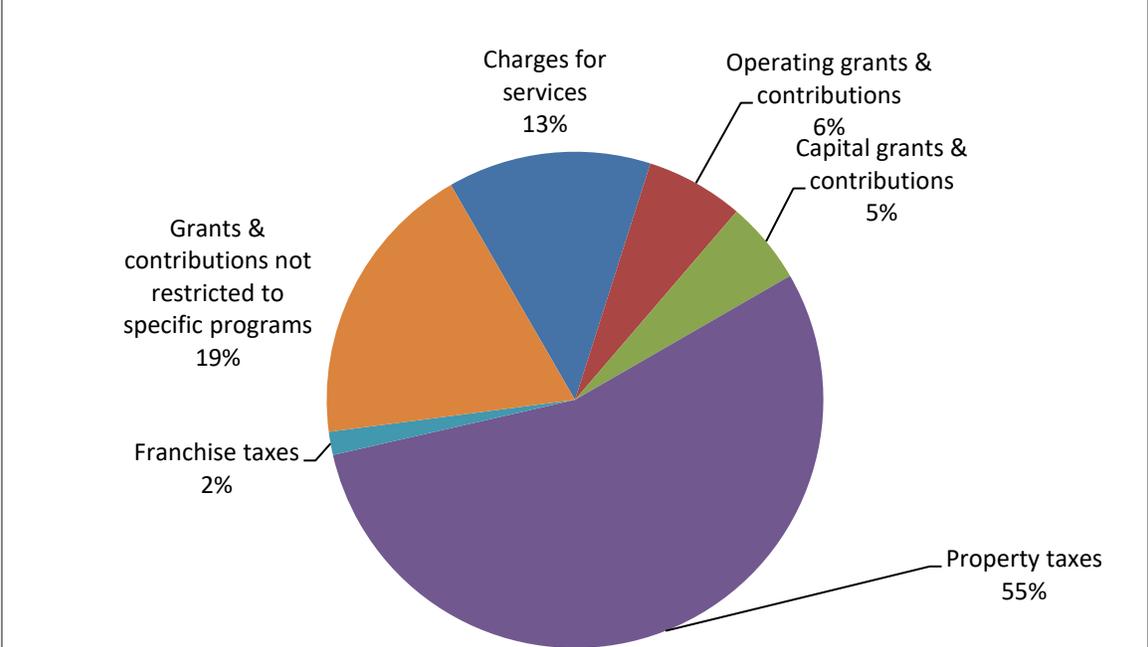
Business-type activities. Business-type activities provided a \$5.5 million increase to the City's total net position. Key elements of this increase are as follows:

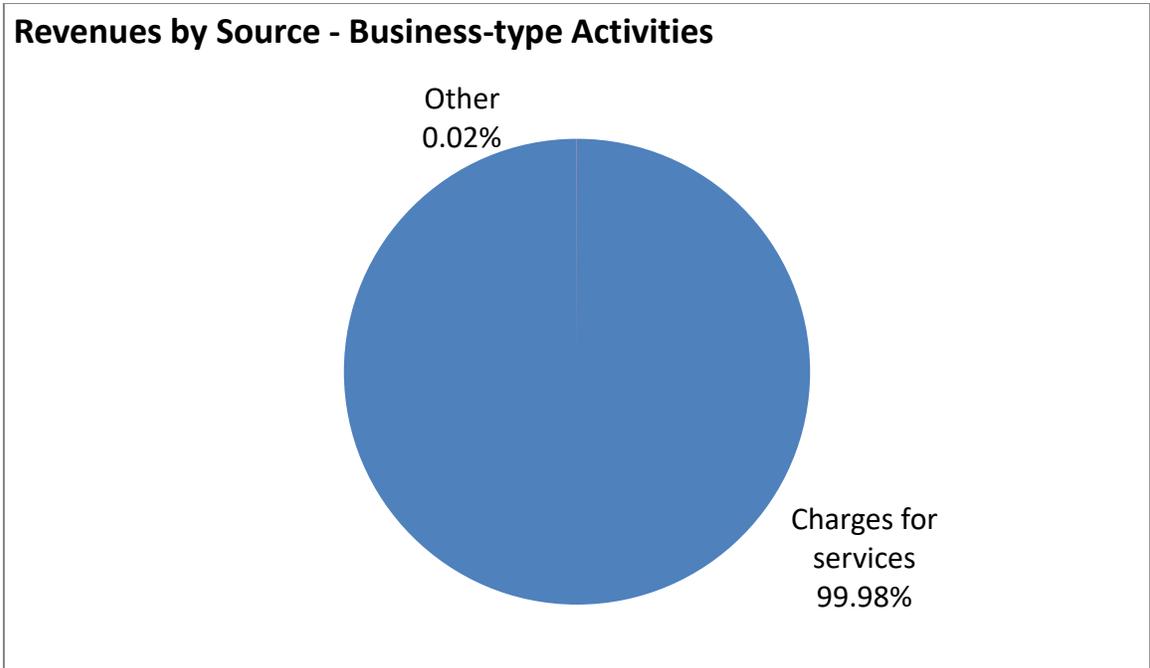
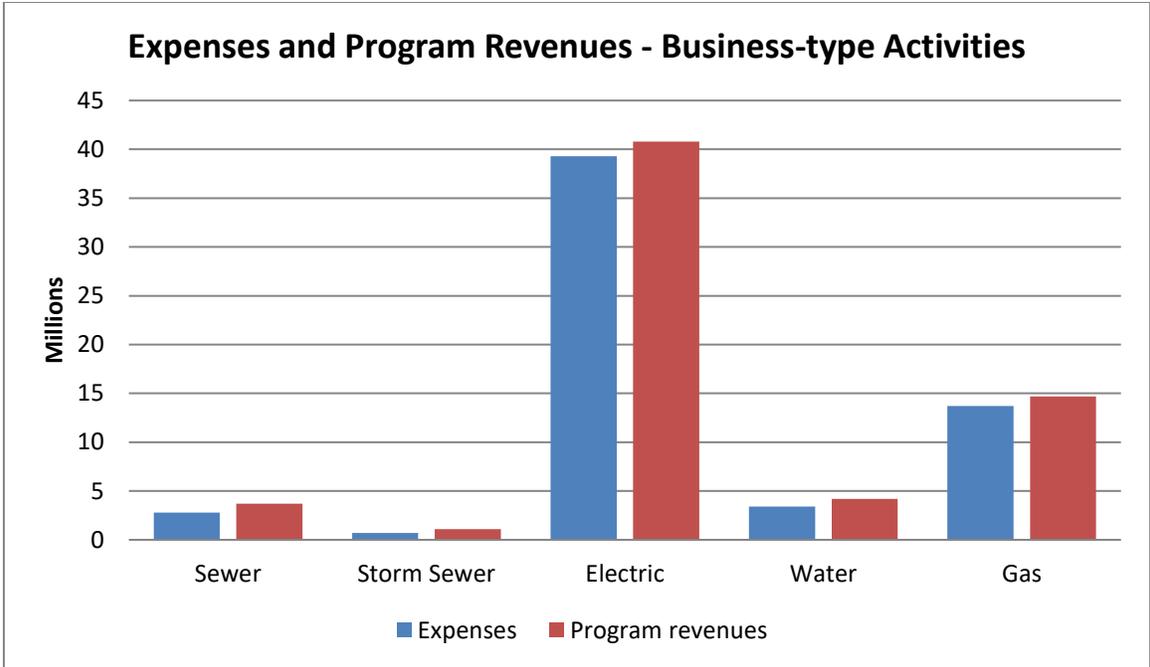
- \$3.6 million increase is attributable to the operations of the municipal electric, gas, and water utilities.
- The Sewer fund had a gain from operations of \$0.7 million.
- The storm water fund continued to implement its new rate structure following the completion of a rate study. \$1.2 million increase 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 \$26.5 million, a \$2.3 million increase from the prior year. Over half of this total amount (\$17.8 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 (\$3.5 million), or 2) debt service (\$5.0 million), or 3) a variety of other restricted purposes (\$73,598).

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 \$10.7 million, while total fund balance was \$11.0 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 2018. Assigned and unassigned fund balance represents 55.9% of total general fund expenditures, while total fund balance represents 57.0% 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 \$5.0 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 \$0.5 million in assessments. \$1.3 million in debt was retired in 2018 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 \$8.8 million, of which \$1.6 million is restricted for specific capital projects, \$6.1 million has been assigned for future capital projects and the council has committed \$1.1 million for specific capital projects. There was an increase of \$1.8 million in fund balance during the current year. The capital projects fund received improvement bond proceeds, including premium, of \$5.2 million in 2018.

There were no significant changes in fund balance for the nonmajor governmental funds in 2018.

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 \$16.1 million for the sewer fund, \$2.1 million for the storm water fund, \$26.9 million for the municipal electric, water and gas utilities. The total change in net position was \$0.7 million for the sewer fund, \$1.2 million for the storm water fund, \$3.6 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 \$0.3 million over budget due to an increase in licenses and permits, interest earnings and grant funds related to the 2018 tornado damage.

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, 2018, amounts to \$193.0 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 1.6% (a 2.0% increase for governmental activities and a 1.3% increase for business-type activities).

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

- Replacement of the fuel tanks at the public works building along with the addition of a canopy over the tanks (\$0.2 million).
- Vehicle acquisitions of \$1.1 million.
- Street reconstruction projects including 18th Street SW with the addition of a trail, downtown alley and parking lot project, Hemlock Avenue, and the 2018 Street and Utility project for \$2.1 million.
- Two significant street projects were still in process at year end. These include the reconstruction of Park Drive and the Lake Kohlmier Drive project for \$2.1 million.
- There were \$0.5 million in storm water improvements completed as part of the current year street improvement projects. This was in addition to the completion of the downtown storm water project for \$0.2 million.
- Various system improvements were completed for the municipal water, electric and gas utilities at cost of \$4.8 million.

Capital Assets at Year-end

(in millions)

	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
	Land and other rights	\$8.8	\$8.6	\$3.0	\$2.9	\$11.8
Buildings	22.8	22.8	48.4	48.0	71.2	70.8
Improvements	1.1	1.0			1.1	1.0
Equipment	15.3	14.4	17.9	17.8	33.2	32.2
Infrastructure	115.9	113.7	99.2	95.2	215.1	208.9
Construction in Progress	2.3	.1	4.1	4.3	6.4	4.4
Subtotal	166.2	160.6	172.6	168.2	338.8	328.8
Accumulated depreciation	73.8	70.0	72.0	68.9	145.8	138.9
Capital assets, net	<u>\$92.4</u>	<u>\$90.6</u>	<u>\$100.6</u>	<u>\$99.3</u>	<u>\$193.0</u>	<u>\$189.9</u>

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

Long-term Debt. At year-end, the City had \$20.5 million in bonds and notes outstanding. There was \$4.8 million of debt issued in 2018. There was a total of \$2.2 million in debt retired during the year.

Debt Outstanding at Year-end

(in millions)

	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
	G.O. Bonds	\$5.8	\$1.3			\$5.8
G.O. Improvement Bonds	6.0	6.9			6.0	6.9
G.O. Tax Increment Bonds	.8	.9			.8	.9
G.O. Revenue Bonds			\$4.0	\$4.3	4.0	4.3
Revenue Bonds			3.9	4.5	3.9	4.5
Total bonds payable	<u>\$12.6</u>	<u>\$9.1</u>	<u>\$7.9</u>	<u>\$8.8</u>	<u>\$20.5</u>	<u>\$17.9</u>

The City's bond rating is Aa2 from Moody's Investor Services. Other obligations include compensated absences. More detailed information on the City's long-term liabilities is presented in note IV.G. on pages 66-69 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 began 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 53.6% 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

This page intentionally left blank.

CITY OF OWATONNA, MINNESOTA
Statement of Net Position
December 31, 2018

	<u>Primary Government</u>			<u>Component Units</u>	
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Housing & Redevelopment Activities</u>	<u>Economic Development Activities</u>
ASSETS					
Cash and cash equivalents	\$5,574,825	\$11,457,623	\$17,032,448	\$125,729	\$562,222
Investments	21,759,373	36,491,320	58,250,693		1,000,000
Interest receivable	165,263		165,263		209
Taxes receivable - delinquent	128,210		128,210	1,656	
Accounts receivable	180,464	6,969,032	7,149,496	23,145	24,785
Assessments receivable	2,820,257	43,151	2,863,408		
Due from other governments	1,217,402		1,217,402	89,241	
Due from component units	1,848		1,848		
Inventories	48,285	925,704	973,989		
Other current assets		1,652,202	1,652,202	184,208	2,466,016
Loans receivable	58,085		58,085	6,170	1,532,834
Prepaid items	216,770		216,770		
Internal balances	419,933	(419,933)			
Restricted assets:					
Cash and cash equivalents				18,702	
Other assets		660,266	660,266		
Net Pension Asset	1,638,277		1,638,277		
Capital assets:					
Land and land rights	8,793,067	3,022,902	11,815,969		252,156
Buildings	22,774,411	48,419,522	71,193,933	52,000	
Improvements other than buildings	1,087,313		1,087,313		
Equipment	15,283,052	17,868,751	33,151,803		
Infrastructure	115,904,414	99,218,349	215,122,763		
Construction in progress	2,296,251	4,105,081	6,401,332		
Less: accumulated depreciation	(73,786,590)	(72,001,749)	(145,788,339)	(15,798)	
Total assets	<u>126,580,910</u>	<u>158,412,221</u>	<u>284,993,131</u>	<u>485,053</u>	<u>5,838,222</u>
DEFERRED OUTFLOWS OF RESOURCES					
Pension related	5,788,668	829,042	6,617,710		
Other post-empl benefits related	87,320	19,405	106,725		
	<u>5,875,988</u>	<u>848,447</u>	<u>6,724,435</u>		

LIABILITIES					
Accounts payable	\$955,174	\$6,784,498	\$7,739,672	\$1,492	\$99,121
Accrued wages	290,876	286,242	577,118		
Accrued interest payable	162,701	56,207	218,908		
Deposits	51,050		51,050	18,702	
Surcharges payable	7,157		7,157		
Unearned revenue	31,102	317,733	348,835	2,427	
Due to other governments				26,041	
Due to primary government					1,848
Noncurrent liabilities:					
Accrued OPEB liability	1,057,984	281,826	1,339,810		
Net pension liability	8,196,389	4,581,600	12,777,989		
Due within one year	2,151,881	980,000	3,131,881		
Due in more than one year	13,147,275	7,234,328	20,381,603		
Total liabilities	26,051,589	20,522,434	46,574,023	48,662	100,969
DEFERRED INFLOWS OF RESOURCES					
Pension related	8,357,196	1,184,858	9,542,054		
Other post-empl benefits related	161,343	10,299	171,642		
Gain on bond refunding		54,960	54,960		
	<u>8,518,539</u>	<u>1,250,117</u>	<u>9,768,656</u>		
NET POSITION					
Net investment in capital assets	79,004,771	92,586,465	171,591,236	36,202	252,156
Restricted for:					
Library Hunewill	16,500		16,500		
Library memorials	5,788		5,788		
Net pension asset	1,638,277		1,638,277		
Debt service	6,965,922		6,965,922		
Dam repair	44,068		44,068		
Grant projects	21		21		
Capital projects	3,452,946		3,452,946		
Economic development	6,346		6,346		5,412,996
Unrestricted	6,752,131	44,901,652	51,653,783	400,189	72,101
Total Net Position	\$97,886,770	\$137,488,117	\$235,374,887	\$436,391	\$5,737,253

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, 2018

<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	\$3,205,461	\$348,509	\$13,997	
Public safety	6,812,922	833,619	798,830	
Public works	7,474,091	543,571	333,926	\$1,210,456
Culture and recreation	5,165,302	1,356,050	346,399	51,601
Housing & economic development	1,111,126	21,072		
Interest on long-term debt	335,781			
Total governmental activities	<u>24,104,684</u>	<u>3,102,821</u>	<u>1,493,152</u>	<u>1,262,057</u>
Business-type activities:				
Sewer	2,798,229	3,675,717		9,262
Storm water	660,873	1,068,692	5,000	
Electric	39,303,834	40,814,286		
Water	3,420,096	4,169,129		
Gas	13,740,097	14,762,244		
Total business-type activities	<u>59,923,129</u>	<u>64,490,068</u>	<u>5,000</u>	<u>9,262</u>
Total primary government	<u>\$84,027,813</u>	<u>\$67,592,889</u>	<u>\$1,498,152</u>	<u>\$1,271,319</u>
Component Units:				
Housing & redevelopment authority	\$1,250,951	\$39,887	\$1,065,135	
Economic development authority	571,392	147,333		
Component Unit	<u>\$1,822,343</u>	<u>\$187,220</u>	<u>\$1,065,135</u>	

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

Change in net position

Net position – beginning
As previously reported
Restatement
As restated

Net position – ending

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

This page intentionally left blank.

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, 2018

	General Fund	Debt Service Fund	Capital Projects Fund
ASSETS			
Cash	\$415,099	\$2,937,985	\$1,198,969
Investments	10,429,373	2,000,000	6,850,000
Interest receivable	165,263		
Taxes receivable – delinquent	123,876		
Accounts receivable	151,115		27,000
Assessments receivable		2,195,327	624,930
Due from other funds	6,616		269,515
Due from other governments	436,606		780,796
Inventories	48,285		
Advance to other funds	121,136		140,529
Loans receivable			58,085
	\$11,897,369	\$7,133,312	\$9,949,824
LIABILITIES			
Accounts payable	\$477,159		\$391,600
Accrued wages	290,876		
Surcharges payable	7,157		
Deposits	51,050		
Unearned revenue	30,102		1,000
Due to other funds	12,413	\$4,689	
Advance from other funds			121,136
Total liabilities	868,757	4,689	513,736
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	64,673	2,132,466	666,521
Total deferred inflows of resources	64,673	2,132,466	666,521
FUND BALANCES			
Fund Balances			
Nonspendable:			
Inventories	48,285		
Advance to other funds	121,136		
Restricted for:			
Library Hunewill			
Library memorial			
Debt service		4,996,157	
Dam repair	44,068		
Airport programs	875		
Grant projects			
Capital projects			1,584,895
Economic development			
Committed for:			
Capital projects			1,112,446
Assigned for:			
Capital projects			6,072,226
Compensated absences/OPEB	3,084,017		
Unassigned	7,665,558		
Total fund balances	10,963,939	4,996,157	8,769,567
Total liabilities, deferred inflows of resources and fund balances	\$11,879,369	\$7,133,312	\$9,949,824

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

Nonmajor Governmental Funds	Total Governmental Funds
\$248,197	\$4,800,250
1,700,000	20,979,373
	165,263
4,334	128,210
	178,115
	2,820,257
	276,131
	1,217,402
	48,285
	261,665
	58,085
<u>\$1,952,531</u>	<u>\$30,933,036</u>
\$51,578	\$920,337
	290,876
	7,157
	51,050
	31,102
17,811	34,913
140,529	261,665
<u>209,918</u>	<u>1,597,100</u>
<u>4,334</u>	<u>2,867,994</u>
<u>4,334</u>	<u>2,867,994</u>
	48,285
	121,136
16,500	16,500
5,788	5,788
	4,996,157
	44,068
	875
21	21
1,867,176	3,452,071
6,346	6,346
	1,112,446
	6,072,226
	3,084,017
(157,552)	7,508,006
<u>1,738,279</u>	<u>26,467,942</u>
<u>\$1,952,531</u>	<u>\$30,933,036</u>

This page left blank intentionally

CITY OF OWATONNA, MINNESOTA
Reconciliation of the Balance Sheet of
Governmental Funds to the
Statement of Net Position
December 31, 2018

Fund balance – total governmental funds	\$26,467,942
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.	88,661,675
Net Pension Asset is included in the Statement of Net Position.	1,638,277
Deferred pension outflows of \$5,788,668 and inflows of \$(8,357,196) are included in the Statement of Net Position.	(2,568,528)
Deferred other post-employment benefits outflows of \$87,320 and inflows of \$(161,343) are included in the Statement of Net Position	(74,023)
Long-term liabilities, including bonds payable, are not due and payable in the current period and are therefore not reported in the funds.	(24,716,230)
Internal service fund assets and liabilities are included in governmental activities in the Statement of Net Position.	5,609,663
Other long-term assets are not available to pay for current-period expenditures and therefore are unavailable in the funds.	2,867,994
Net Position of Governmental Activities	<hr style="border: 0.5px solid black;"/> <u>\$97,886,770</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, 2018

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>
REVENUES			
Taxes	\$10,138,721	\$1,018,307	\$1,064,325
Licenses and permits	449,857		
Intergovernmental revenue	5,694,968		904,736
Charges for service	2,042,584		
Fines and forfeits	156,847		
Special assessments		536,069	141,434
Interest on investments	150,034	69,468	187,080
Miscellaneous	329,305		98,771
Total revenues	<u>18,962,316</u>	<u>1,623,844</u>	<u>2,396,346</u>
EXPENDITURES			
Current:			
General government	2,902,381		
Public safety	6,909,832		
Public works	4,345,785		
Culture and recreation	4,659,725		
Housing & economic development	259,678		
Miscellaneous		9,250	
Capital outlay	162,214		5,767,564
Debt service:			
Principal retired		1,335,000	
Interest and service charges		220,591	77,287
Total expenditures	<u>19,239,615</u>	<u>1,564,841</u>	<u>5,844,851</u>
Excess of revenues over (under) expenditures	<u>(277,299)</u>	<u>59,003</u>	<u>(3,448,505)</u>
OTHER FINANCING SOURCES (USES)			
Bond issuance			4,825,000
Premium on bonds			402,560
Transfers out	(20,000)		
Transfers in	586,000	150,920	20,000
Total other financing sources (uses)	<u>566,000</u>	<u>150,920</u>	<u>5,247,560</u>
Net change in fund balance	288,701	209,923	1,799,055
Fund balance - beginning	<u>10,675,238</u>	<u>4,786,234</u>	<u>6,970,512</u>
Fund balance – ending	<u>\$10,963,939</u>	<u>\$4,996,157</u>	<u>\$8,769,567</u>

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

Non-major Governmental Funds	Total Governmental Funds
\$1,009,470	\$13,230,823
	449,857
	6,599,704
	2,042,584
	156,847
	677,503
33,752	440,334
86,765	514,841
<u>1,129,987</u>	<u>24,112,493</u>
	2,902,381
	6,909,832
	4,345,785
	4,659,725
834,081	1,093,759
74,207	83,457
60,878	5,990,656
	1,335,000
	297,878
<u>969,166</u>	<u>27,618,473</u>
<u>160,821</u>	<u>(3,505,980)</u>
	4,825,000
	402,560
(150,920)	(170,920)
	756,920
<u>(150,920)</u>	<u>5,813,560</u>
9,901	2,307,580
<u>1,728,378</u>	<u>24,160,362</u>
<u>\$1,738,279</u>	<u>\$26,467,942</u>

This page left blank intentionally

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, 2018

Net change in fund balances – total governmental funds \$2,307,580

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 (\$5,253,664) exceeded depreciation (\$3,839,895) in the current period. 1,413,769

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. (368,489)

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. (3,870,384)

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. 311,864

Net changes in the net other post-employment benefits liability and the additions and amortization of deferred inflows and outflows related to other post-employment in the Statement of Activities. (64,742)

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. (38,067)

The net revenue (expense) of the internal service funds is reported with governmental activities. 120,180

Change in Net Position of Governmental Activities \$ (188,289)

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, 2018

	<u>Budget</u>		(Budgetary Basis) Actual	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$10,014,143	\$10,014,143	\$10,138,721	\$124,578
Licenses and permits	389,575	389,575	449,857	60,282
Intergovernmental revenue	5,609,476	5,609,476	5,694,968	85,492
Charges for service	2,048,254	2,048,254	2,042,584	(5,670)
Fines and forfeits	154,400	154,400	156,847	2,447
Interest on investments	90,000	90,000	150,034	60,034
Miscellaneous	300,541	300,541	329,305	28,764
	<u>18,606,389</u>	<u>18,606,389</u>	<u>18,962,316</u>	<u>355,927</u>
EXPENDITURES				
Current:				
General government				
Mayor & council	405,382	405,382	230,683	174,699
Administrative services	1,578,007	1,578,007	1,576,755	1,252
City attorney	250,739	250,739	240,358	10,381
Government buildings	894,650	894,650	854,585	40,065
Total general government	<u>3,128,778</u>	<u>3,128,778</u>	<u>2,902,381</u>	<u>226,397</u>
Public safety				
Police	4,960,486	4,960,486	4,870,976	89,510
Fire	1,635,884	1,635,884	1,626,978	8,906
Building inspection	409,153	409,153	411,878	(2,725)
Total public safety	<u>7,005,523</u>	<u>7,005,523</u>	<u>6,909,832</u>	<u>95,691</u>
Public works				
Engineering	882,216	882,216	891,633	(9,417)
Street maintenance	2,973,975	2,973,975	3,036,064	(62,089)
Airport	424,991	424,991	418,088	6,903
Total public works	<u>4,281,182</u>	<u>4,281,182</u>	<u>4,345,785</u>	<u>(64,603)</u>
Culture and recreation				
Library	1,300,523	1,300,523	1,328,306	(27,783)
Park & rec administration	322,843	322,843	315,981	6,862
Park maintenance	1,277,011	1,277,011	1,297,387	(20,376)
Recreation – adult	78,100	78,100	79,710	(1,610)
Recreation – youth	306,136	306,136	347,943	(41,807)
Tennis & fitness center	299,760	299,760	330,788	(31,028)
Senior center	109,865	109,865	118,326	(8,461)
Aquatic center	243,092	243,092	226,422	16,670
Brooktree golf course	581,440	581,440	614,862	(33,422)
Total culture and recreation	<u>4,518,770</u>	<u>4,518,770</u>	<u>4,659,725</u>	<u>(140,955)</u>
Housing & economic development				
Planning & zoning	258,136	258,136	259,678	(1,542)
Total housing & economic develop	<u>258,136</u>	<u>258,136</u>	<u>259,678</u>	<u>(1,542)</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, 2018

	<u>Budget</u>		<u>(Budgetary Basis) Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Capital outlay	\$0	\$0	\$162,214	\$(162,214)
Total expenditures	<u>19,192,389</u>	<u>19,192,389</u>	<u>19,239,615</u>	<u>(47,226)</u>
Excess of revenues over (under) expenditures	(586,000)	(586,000)	(277,299)	308,701
OTHER FINANCING SOURCES (USES)				
Transfers out			(20,000)	20,000
Transfers in	<u>586,000</u>	<u>586,000</u>	<u>586,000</u>	
Total other financing sources and uses	<u>586,000</u>	<u>586,000</u>	<u>566,000</u>	<u>20,000</u>
Net change in fund balance			288,701	288,701
Fund balance – beginning	<u>10,675,238</u>	<u>10,675,238</u>	<u>10,675,238</u>	
Fund balance – ending	<u><u>10,675,238</u></u>	<u><u>10,675,238</u></u>	<u><u>10,963,939</u></u>	<u><u>288,701</u></u>

CITY OF OWATONNA, MINNESOTA
Statement of Net Position
Proprietary Funds
December 31, 2018

	Business-type Activities		
	Sewer Fund	Storm Water Fund	Electric Fund
ASSETS			
Current assets:			
Cash and cash equivalents	\$484,225	\$930,692	\$5,076,607
Investments	15,700,000	1,450,000	4,901,131
Accounts receivable	14,617		3,740,336
Assessments receivable	43,151		
Due from other funds	653,276		34,913
Inventories at cost			652,848
Other assets			1,135,352
Total current assets	16,895,269	2,380,692	15,541,187
Noncurrent assets:			
Capital assets – net	23,483,846	11,281,992	37,949,363
Land held for future use			
Total noncurrent assets	23,483,846	11,281,992	37,949,363
Total assets	40,379,115	13,662,684	53,490,550
DEFERRED OUTFLOWS OF RESOURCES			
Pension related	109,886	16,753	330,353
Other post-employment benefits related	5,573		6,224
Total deferred outflows of resources	115,459	16,753	336,577
LIABILITIES			
Current liabilities:			
Accounts payable	88,089	30,682	3,876,602
Accrued wages	15,460	2,436	120,908
Accrued interest payable	20,545	35,662	
Due to other funds			563,092
Unearned revenue			210,186
Accrued compensated absences	60,000		
Notes and bonds payable – net	535,000	385,000	
Total current liabilities	719,094	453,780	4,770,788
Noncurrent liabilities:			
Notes and bonds payable – net	3,372,928	3,808,423	
Net pension liability	442,243	67,426	1,855,388
Accrued compensated absences	50,038	2,939	
Accrued OPEB liability	67,530		96,433
Total noncurrent liabilities	3,932,739	3,878,788	1,951,821
Total liabilities	4,651,833	4,332,568	6,722,609
DEFERRED INLFOWS OF RESOURCES			
Pension related	125,363	19,113	474,053
Other post-employment benefits related	10,299		
Gain on refunding		54,960	
Total deferred inflows of resources	135,662	74,073	474,053
NET POSITION			
Net investment in capital assets	19,575,919	7,143,529	37,949,363
Unrestricted	16,111,543	2,126,276	8,681,102
Total net position	\$35,687,462	\$9,269,805	\$46,630,465

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
\$975,487	\$3,990,612	\$11,457,623	\$774,575
6,019,617	8,420,572	36,491,320	780,000
490,910	2,723,169	6,969,032	2,349
		43,151	
		688,189	
45,734	227,122	925,704	
124,929	391,921	1,652,202	216,770
<u>7,656,677</u>	<u>15,753,396</u>	<u>58,227,221</u>	<u>1,773,694</u>
16,016,714	11,900,941	100,632,856	3,690,243
	660,266	660,266	
<u>16,016,714</u>	<u>12,561,207</u>	<u>101,293,122</u>	<u>3,690,243</u>
<u>23,673,391</u>	<u>28,314,603</u>	<u>159,520,343</u>	<u>5,463,937</u>
178,259	216,399	851,650	
3,043	4,565	19,405	
<u>181,302</u>	<u>220,964</u>	<u>871,055</u>	
446,880	2,342,245	6,784,498	34,837
58,806	88,632	286,242	
		56,207	
366,315		929,407	
81,871	25,676	317,733	
		60,000	
		920,000	
<u>953,872</u>	<u>2,456,553</u>	<u>9,354,087</u>	<u>34,837</u>
1,001,167	1,215,376	7,181,351	
		4,581,600	
		52,977	
47,145	70,718	281,826	
<u>1,048,312</u>	<u>1,286,094</u>	<u>12,097,754</u>	
<u>2,002,184</u>	<u>3,742,647</u>	<u>21,451,841</u>	<u>34,837</u>
255,799	310,530	1,184,858	
		10,299	
		54,960	
<u>255,799</u>	<u>310,530</u>	<u>1,250,117</u>	
16,016,714	11,900,941	92,586,465	3,690,243
5,579,996	12,581,449	45,080,367	1,738,857
<u>\$21,596,710</u>	<u>\$24,482,390</u>	<u>137,666,832</u>	<u>\$5,429,100</u>
		(178,715)	
		<u>\$137,488,117</u>	

CITY OF OWATONNA, MINNESOTA
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the year ended December 31, 2018

	Business-type Activities		
	Sewer Fund	Storm Water Fund	Electric Fund
OPERATING REVENUES:			
Charges for service	\$3,674,259	\$1,068,692	\$40,814,286
Miscellaneous	1,458		
Total operating revenues	3,675,717	1,068,692	40,814,286
OPERATING EXPENSES:			
Operation and maintenance	1,467,562	291,921	32,836,301
Depreciation	1,018,416	300,367	2,109,889
Utility service contributed to city			1,079,403
Capitalized internal costs			(251,763)
Administrative costs	226,198		3,530,004
Total operating expenses	2,712,176	592,288	39,303,834
Operating income (loss)	963,541	476,404	1,510,452
Non-operating revenues (expenses)			
Property taxes		314,930	
Intergovernmental revenue		5,000	
Income (loss) on investments	274,708	36,489	125,188
Sale of capital assets			
Interest expense and fiscal charges	(63,109)	(67,859)	
Total non-operating revenues (expenses)	211,599	288,560	125,188
Income (loss) before contributions & transfers	1,175,140	764,964	1,635,640
Capital contributions	9,262	537,838	
Transfer out	(507,700)	(78,300)	
Total contributions & transfers	(498,438)	459,538	
Change in net position	676,702	1,224,502	1,635,640
Total net position – beginning			
As previously reported	35,061,994	8,045,303	44,994,825
Restatement	(51,234)		
As restated	35,010,760	8,045,303	44,994,825
Total net position – ending	\$35,687,462	\$9,269,805	\$46,630,465
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
\$4,169,129	\$14,762,244	\$64,488,610	\$3,034,852
		1,458	
<u>4,169,129</u>	<u>14,762,244</u>	<u>64,490,068</u>	<u>3,034,852</u>
1,455,228	10,649,091	46,700,103	2,371,009
482,182	586,557	4,497,411	697,853
121,301	268,034	1,468,738	
(57,567)	(86,449)	(395,779)	
<u>1,418,952</u>	<u>2,322,864</u>	<u>7,498,018</u>	
<u>3,420,096</u>	<u>13,740,097</u>	<u>59,768,491</u>	<u>3,068,862</u>
<u>749,033</u>	<u>1,022,147</u>	<u>4,721,577</u>	<u>(34,010)</u>
		314,930	
		5,000	
91,201	151,042	678,628	
			130,521
		<u>(130,968)</u>	
<u>91,201</u>	<u>151,042</u>	<u>867,590</u>	<u>130,521</u>
840,234	1,173,189	5,589,167	96,511
		547,100	39,665
		<u>(586,000)</u>	
		<u>(38,900)</u>	<u>39,665</u>
840,234	1,173,189	5,550,267	136,176
20,756,476	23,309,201		5,292,924
<u>20,756,476</u>	<u>23,309,201</u>		<u>5,292,924</u>
<u>\$21,596,710</u>	<u>\$24,482,390</u>		<u>\$5,429,100</u>
		<u>(23,669)</u>	
		<u>\$5,526,598</u>	

CITY OF OWATONNA, MINNESOTA
Statement of Cash Flows
Proprietary Funds
For the year ended December 31, 2018

	Sewer Fund	Storm Water Fund	Electric Fund
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$3,408,937	\$1,068,692	\$38,542,040
Cash payments to suppliers for goods and services	(1,010,466)	(227,040)	(34,270,947)
Cash payments to employees for services	(775,006)	(102,452)	(2,561,998)
Other cash receipts			1,970,539
	<u>1,623,465</u>	<u>739,200</u>	<u>3,679,634</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfer to other funds	(507,700)	(78,300)	
	<u>(507,700)</u>	<u>(78,300)</u>	
CASH FLOWS FROM CAPITAL AND REL. FIN. ACTIVITIES			
Acquisition of capital assets	(202,471)	(293,489)	(2,447,948)
Cost of removal, net of salvage			1,956
Capital contribution— customer	9,262		
Intergovernmental	108	5,000	
Taxes levied for debt service		314,930	
Principal paid on revenue bonds/notes payable	(527,000)	(385,000)	
Interest expense and fiscal charges	(65,879)	(112,763)	
	<u>(785,980)</u>	<u>(471,322)</u>	<u>(2,445,992)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investment securities	(300,000)	(150,000)	(2,172,613)
Proceeds from sale of investment securities			1,604,265
Interest on investments	274,708	36,489	129,195
	<u>(25,292)</u>	<u>(113,511)</u>	<u>(439,153)</u>
Net increase (decrease) in cash and cash equivalents	304,493	76,067	794,489
Cash and cash equivalents – beginning of the year	179,732	854,625	4,282,118
Cash and Cash Equivalents – end of the year	<u>\$484,225</u>	<u>\$930,692</u>	<u>\$5,076,607</u>
RECONCILIATION OF OPERATING INCOME(LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income(loss)	\$963,541	\$476,404	\$1,510,452
Adjustments			
Depreciation	1,018,416	300,367	2,109,889
Net changes in assets and deferred outflows and liabilities and deferred inflows:			
Accounts receivable	(14,617)		(123,602)
Assessments receivable	6,735		
Inventories at cost			(42,135)
Other current assets	(258,898)		(141,629)
Deferred outflows	35,381	6,547	239,271
Accounts payable and accrued expenses	(107,802)	(38,171)	465,844
Unearned revenue		(1,250)	(12,403)
Net pension liability	(82,197)	(13,586)	(387,416)
OPEB and compensated absences	51,851	1,149	23,127
Deferred inflows	11,055	7,740	38,236
	<u>\$1,623,465</u>	<u>\$739,200</u>	<u>\$3,679,634</u>
Noncash investing, capital, and financing activities:			
Amortization of gain on refunding		\$(10,637)	
Amortization of bond premium		(30,416)	
Capital Contribution		537,838	

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
\$3,554,557	\$14,574,437	\$61,148,663	\$3,043,543
(1,503,974)	(12,393,698)	(49,406,125)	(2,353,589)
(1,143,636)	(1,567,375)	(6,150,467)	
387,262	681,575	3,039,376	
<u>1,294,209</u>	<u>1,294,939</u>	<u>8,631,447</u>	<u>689,954</u>
		(586,000)	
		(586,000)	
(1,402,665)	(904,997)	(5,251,570)	(1,080,302)
10,800	11,600	24,356	142,789
		5,108	
		9,262	
		314,930	
		(912,000)	
		(178,642)	
<u>(1,391,865)</u>	<u>(893,397)</u>	<u>(5,988,556)</u>	<u>(937,513)</u>
(2,479,000)	(1,541,485)	(6,643,098)	(500,000)
1,475,380	1,516,272	4,595,917	
63,449	97,183	601,024	
<u>(940,171)</u>	<u>71,970</u>	<u>(1,446,157)</u>	<u>(500,000)</u>
(1,037,827)	473,512	610,734	(747,559)
<u>2,013,314</u>	<u>3,517,100</u>	<u>10,846,889</u>	<u>1,522,134</u>
<u>\$975,487</u>	<u>\$3,990,612</u>	<u>\$11,457,623</u>	<u>\$774,575</u>
\$749,033	\$1,022,147	\$4,721,577	\$(34,010)
482,182	586,557	4,497,411	697,853
(79,003)	(548,529)	(765,751)	8,691
(2,624)	(29,416)	6,735	
(78,999)	1,068,996	(74,175)	
84,507	137,199	589,470	7,908
163,889	(832,128)	502,905	
(56,610)	13,282	(348,368)	9,512
(34,101)	(179,592)	(56,981)	
11,307	16,960	(696,892)	
54,628	39,463	104,394	
		151,122	
<u>\$1,294,209</u>	<u>\$1,294,939</u>	<u>\$8,631,447</u>	<u>\$689,954</u>
		\$(10,637)	
		(30,416)	
		537,838	\$39,665

This page left blank intentionally

CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
December 31, 2018

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, 2018

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, 2018

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, 2018

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, 2018

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 repayment 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, 2018

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, 2018 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, 2018

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 four 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. Other postemployment benefits (OPEB) 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 and OPEB 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, 2018

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, 2018

15. Use of Estimates

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

16. Restatement Due to a Change in Accounting Principle

During the year ended December 31, 2018, the City adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement requires the restatement of the December 31, 2017 net position in the Proprietary Fund statements and the government-wide statements as follows:

Net Position, December 31, 2017, as Previously Reported	Sewer \$35,061,994
Cumulative Affect of Application of GASB 75, Net OPEB Liability	(53,504)
Cumulative Affect of Application of GASB 75, Deferred Outflow of Resources	<u>2,270</u>
Net Position, December 31, 2017, as Restated	<u>\$35,010,760</u>

	Governmental	Business-type
Net Position, December 31, 2017, as Previously Reported	\$98,877,733	\$132,012,753
Cumulative Affect of Application of GASB 75, Net OPEB Liability	(838,245)	(53,504)
Cumulative Affect of Application of GASB 75, Deferred Outflows of Resources	<u>35,571</u>	<u>2,270</u>
Net Position, December 31, 2017, as Restated	<u>\$98,075,059</u>	<u>\$131,961,519</u>

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 (\$24,716,230) difference are as follows:

Bonds and notes payable	\$(13,347,147)
Net Pension liability	(8,196,389)
Accrued OPEB liability	(1,057,984)
Accrued compensated absences	(1,952,009)
Accrued interest payable	<u>(162,701)</u>
Total difference	<u>\$ (24,716,230)</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

CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
December 31, 2018

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 \$(368,489) difference are as follows:

Delinquent taxes rec. unavailable revenue:	
At December 31, 2017	\$(117,314)
At December 31, 2018	69,007
Special assessments/development receivable unavailable revenue:	
At December 31, 2017	(3,119,169)
At December 31, 2018	<u>2,798,987</u>
	<u><u>\$(368,489)</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 \$(38,067) difference are as follows:

Amortization of bond premium	\$44,253
Change in accrued interest	(82,156)
Change in accrued compensated absences	<u>(164)</u>
	<u><u>\$(38,067)</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.

In the General Fund expenditures exceeded appropriations during the year ended December 31, 2018. The overages were considered by the City’s management to be the result of necessary expenditures critical to operations and were approved by the City Council or City Administrator as appropriate.

CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
December 31, 2018

B. Deficit Fund Balance

At year-end 2018, 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 2018 in the amounts indicated:

TIF 3-6 Viracon Economic Development Fund	\$59,567
TIF 3-8 Daikin Applied Economic Development Fund	97,985

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

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

Deposits

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

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

The City's deposits in banks at December 31, 2018 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.

CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
December 31, 2018

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

The City’s investments as of December 31, 2018 are as follows:

Type of Investment	Credit Quality Rating	Amount	Investment Maturity in Years			
			< 1 Year	1-5 Years	6-10 Years	> 10 years
US Govt Agencies	AAA	\$14,695,079	\$2,629,165	\$11,816,159	\$249,755	
US Govt Agencies	N/R	8,880,745	8,463,795	398,504		\$18,446
Local Govt Obligations	AAA	866,466	565,701		300,765	
Local Govt Obligations	AA2	1,099,923	1,099,923			
Local Govt Obligations	AA3	3,294,523	2,491,240	803,283		
Local Govt Obligations	AA+	2,468,289		687,414	877,608	903,267
Pooled Investments	N/A	7,280		60	1,779	5,441
MN Municipal MM	N/A	6,652,197	6,652,197			
Wells Fargo Adv MM	N/A	189,157	189,157			
Bremer Bank MM	N/A	1,023,405	1,023,405			
Profinium	N/A	29,075	29,075			
Wells Fargo Govt Fund	AAA	13,481	13,481			
Negotiable CDs	N/A	27,563,300	24,175,821	3,387,479		
		<u>\$66,782,920</u>	<u>\$47,332,960</u>	<u>\$17,092,899</u>	<u>\$1,429,907</u>	<u>\$927,154</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	9,496,585	\$562,222	\$144,431	10,203,238
Investments	65,782,920	1,000,000		66,782,920
Total deposits and investments	<u>\$75,283,140</u>	<u>\$1,562,222</u>	<u>\$144,431</u>	<u>\$76,989,793</u>
<u>Per Statement of Net Position:</u>				
Cash and cash equivalents	\$17,032,447	\$562,222	\$125,729	\$17,720,398
Investments	58,250,693	1,000,000		59,250,693
Restricted cash & cash equivalents			18,702	18,702
Total cash and investments	<u>\$75,283,140</u>	<u>\$1,562,222</u>	<u>\$144,431</u>	<u>\$76,989,793</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.

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.

CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
December 31, 2018

The underlying agency's rating is considered to pass through to the "stripped" bond. The Local Government Obligations carry a AA2 credit rating.

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

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

The City follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the City has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used 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. These inputs include bonds valued by a pricing service that uses matrix pricing and valuation multiples.

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:

	Level 1	Level 2	Level 3	Total
US Govt Agencies		\$23,575,824		\$23,575,824
Local Govt Obligations		7,729,201		7,729,201
Negotiable CDs		27,563,300		27,563,300
US Govt Agency pools		7,280		7,280
Total		\$58,875,605		\$58,875,605

Assets of the City measured at amortized cost:

4M Fund Liquid Asset Fund	\$5,425,730
4M Fund PLUS Fund	1,226,467
Wells Fargo Advisors Money Market Fund	189,157
Bremer Bank Money Market Fund	1,023,405
Profinium Money Market Fund	29,075
Wells Fargo Government Fund	13,481
Total	\$7,907,315

CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
December 31, 2018

The 4M Fund is a brokered money market account that is valued at amortized cost with maturities of investments of one year or less. Funds in the 4M Fund PLUS fund require thirty day deposit period before funds can be withdrawn.

The Wells Fargo Government 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 \$69,007; special assessments receivable not yet available (debt service fund and capital projects fund) of \$2,740,902; and a development receivable not yet available (capital projects fund) of \$58,085.

C. Loans Receivable

The Capital Projects Fund has made a loan to a local business. The balance of this loan at December 31, 2018 was \$58,085 and is offset by an unavailable revenue. This loan matures in twelve 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, 2018 was \$185,100 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, 2018. The balance of these forgivable loans was \$211,980 at December 31, 2018.

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, 2018 was \$1,347,734 which consists of loans maturing in 24 to 25 years all with interest rates of 3 percent.

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, 2018 is \$9,000.

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, 2018 is \$6,170.

CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
December 31, 2018

D. Capital Assets

Capital asset activity for governmental activities for the year ended December 31, 2018 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Land	\$8,572,410	\$220,657		\$8,793,067
Construction in Progress	108,209	3,488,628	\$1,300,586	2,296,251
Total Non-depreciable	<u>8,680,619</u>	<u>3,709,285</u>	<u>1,300,586</u>	<u>11,089,318</u>
Depreciable capital assets:				
Buildings	22,749,624	24,787		22,774,411
Improvements Other than Bldgs	1,031,436	55,877		1,087,313
Equipment	14,352,486	1,683,964	753,398	15,283,052
Infrastructure	113,743,775	2,160,639		115,904,414
Total depreciable	<u>151,877,321</u>	<u>3,925,267</u>	<u>753,398</u>	<u>155,049,190</u>
Accumulated Depreciation				
Buildings	11,068,839	504,357		11,573,196
Improvements Other than Bldgs	349,921	57,297		407,218
Equipment	9,006,000	1,056,843	741,130	9,321,713
Infrastructure	49,565,212	2,919,251		52,484,463
Total accumulated depreciation	<u>69,989,972</u>	<u>4,537,748</u>	<u>741,130</u>	<u>73,786,590</u>
Govtl activities capital assets, net	<u>\$90,567,968</u>	<u>\$3,096,804</u>	<u>\$1,312,854</u>	<u>\$92,351,918</u>

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

General government	\$185,289
Public safety	244,167
Public works	3,035,297
Culture and recreation	375,142
Internal service funds	697,853
Total depreciation for governmental activities	<u>\$4,537,748</u>

Capital asset activity for business-type activities for the year ended December 31, 2018 was as follows:

	Beginning Balances	Adjustments	Increases	Decreases	Ending Balances
Land and other rights	\$2,964,619		\$58,283		\$3,022,902
Construction in Progress	4,309,542		6,073,089	\$6,277,550	4,105,081
Total Non-depreciable	<u>7,274,161</u>		<u>6,131,372</u>	<u>6,277,550</u>	<u>7,127,983</u>
Depreciable capital assets:					
Buildings	48,007,017	\$(78,143)	538,118	47,470	48,419,522
Equipment	17,816,894	78,143	1,177,904	1,204,190	17,868,751
Infrastructure	95,213,687		4,255,284	250,622	99,218,349
Total depreciable	<u>161,037,598</u>		<u>5,971,306</u>	<u>1,502,282</u>	<u>165,506,622</u>
Accumulated Depreciation					
Buildings	14,664,653		973,738	47,470	15,512,778
Equipment	13,820,320		895,478	1,146,072	13,647,869
Infrastructure	40,461,571		2,628,195	248,664	42,841,102
Total accumulated depreciation	<u>68,946,544</u>		<u>4,497,411</u>	<u>1,442,206</u>	<u>72,001,749</u>
Business-type activities capital assets, net	<u>\$99,365,215</u>		<u>\$7,605,267</u>	<u>\$6,337,626</u>	<u>\$100,632,856</u>

CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
December 31, 2018

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

Sewer	\$1,018,416
Storm water	300,367
Electric	2,109,889
Water	482,182
Gas	586,557
Total depreciation for business-type activities	\$4,497,411

Discretely Presented Component Units

Capital asset activity for the component units was as follows:

Economic Development Authority

	Beginning Balances	Increases	Decreases	Ending Balances
Land	\$252,156			\$252,156

Housing and Redevelopment Authority

	Beginning Balances	Increases	Decreases	Ending Balances
Buildings	\$95,362		\$43,362	\$52,000
Accumulated Depreciation	17,317	\$1,932	3,451	15,798
Capital assets, net	\$78,045	\$1,932	\$39,911	\$36,202

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

Housing & economic development	\$1,932
--------------------------------	---------

E. Interfund Balances and Transfers

The composition of interfund balances as of December 31, 2018 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.

	General Fund	Capital Projects Fund	Sewer Fund	Electric Fund	Total
Due from:					
General Fund				\$12,413	\$12,413
Debt Service Fund				4,689	4,689
Nonmajor Govtl Funds				17,811	17,811
Electric Fund	\$6,616		\$556,476		563,092
Water Fund		\$269,515	96,800		366,315
Total Due to:	\$6,616	\$269,515	\$653,276	\$34,913	\$964,320

CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
December 31, 2018

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”.

	General Fund	Capital Projects Fund	Total
Due from:			
Capital Projects Fund	\$121,136		\$121,136
Nonmajor Govtl Funds		\$140,529	140,529
Total Due to:	<u>\$121,136</u>	<u>\$140,529</u>	<u>\$261,665</u>

Due to/from primary government and component units

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

Interfund transfers

	General Fund	Nonmajor Govtl Funds	Sewer Fund	Storm Water Fund	Total
Transfers In:					
General Fund			\$507,700	\$78,300	\$586,000
Debt Service Fund		\$150,920			150,920
Capital Projects Fund	\$20,000				20,000
Total Transfers Out	<u>\$20,000</u>	<u>\$150,920</u>	<u>\$507,700</u>	<u>\$78,300</u>	<u>\$756,920</u>

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 \$537,838 in 2018.

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:

CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
December 31, 2018

	Governmental Activities
Asset:	
Equipment	\$110,979
Less: Accumulated depreciation	<u>(43,954)</u>
Total	<u>\$67,025</u>

The lease currently outstanding is as follows:

Welch State Bank	2019-2020	3.17%	\$46,488
------------------	-----------	-------	----------

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2018, were as follows:

<u>Year ending December 31</u>	<u>Governmental Activities</u>
2019	\$24,359
2020	<u>24,360</u>
Total minimum lease payments	48,719
Less: amount representing interest	<u>(2,231)</u>
Present value of minimum lease payments	<u>\$46,488</u>

G. Long-term Debt

General Obligation Bonds

General obligation bonds are issued to provide for the acquisition of major capital equipment. These bonds are direct obligations and are backed by the full faith and credit of the City. Six general obligation bonds with an original issue amount of \$6,695,000 are currently outstanding as follows:

G.O. Equipment Certificates Series 2013A	2019	2.00%	\$40,000
G.O. Equipment Certificates Series 2014A	2019-2020	2.00%	335,000
G.O. Equipment Certificates Series 2015A	2019-2021	3.00%	290,000
G.O. Equipment Certificates Series 2016A	2019-2022	3.00%	195,000
G.O. Equipment Certificates Series 2017A	2019-2025	3.00%	145,000
G.O. Street Reconstruction Series 2018A	2019-2029	3.00-5.00%	<u>4,825,000</u>
			<u>\$5,830,000</u>

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

<u>Year</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$365,000	\$254,384
2020	735,000	211,475
2021	585,000	184,375
2022	500,000	159,650
2023	470,000	136,300
2024-2028	2,610,000	330,000
2029	<u>565,000</u>	<u>8,475</u>
	<u>\$5,830,000</u>	<u>\$1,284,659</u>

CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
December 31, 2018

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. Six bond issues with a total original issue amount of \$9,635,000 are currently outstanding as follows:

G.O. Improvement Series 2011A	2019-2022	1.75-2.200%	\$310,000
G.O. Improvement Series 2013A	2019-2024	2.00-2.750%	1,590,000
G.O. Improvement Series 2014A	2019-2021	2.000%	240,000
G.O. Improvement Series 2015A	2019-2026	2.50-3.000%	1,025,000
G.O. Improvement Series 2016A	2019-2027	2.00-3.000%	960,000
G.O. Improvement Series 2017A	2019-2028	2.00-3.000%	1,870,000
			\$5,995,000

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

Year	Governmental Activities	
	Principal	Interest
2019	\$760,000	\$147,865
2020	765,000	128,748
2021	915,000	107,546
2022	755,000	85,626
2023	695,000	65,174
2024-2028	2,105,000	99,971
	\$5,995,000	\$634,930

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.

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

Governmental Activities			
Tax Increment Bonds Series 2013A	2019-2024	2.00-2.75%	\$785,000

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

Year	Business-type Activities	
	Principal	Interest
2019	\$125,000	\$17,487
2020	125,000	14,987
2021	130,000	12,274
2022	130,000	9,187
2023	135,000	5,707
2024	140,000	1,925
Total	\$785,000	\$61,567

CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
December 31, 2018

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 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 and are fully payable from the revenues of the sewer fund. The Storm Water Fund is currently carrying bonds payable for storm water improvements. These bonds had an original issue amount of \$4,360,000. The Series 2016A refunding bonds have a \$100,000 annual pledge of revenue. The second Series 2016A have a revenue pledge equal to 50% of the required debt service payment. These bonds are all backed by the full faith and credit of the City.

The general obligation revenue bonds currently outstanding are as follows:

Business-type Activities			
MPFA Revenue Bonds Series 2011	2019-2025	1.423%	\$3,907,928
Revenue Bonds Series 2016A	2019-2032	2.00-3.00%	2,380,000
Revenue Bonds Series 2016A – Refunding	2019-2024	3.00%	1,595,000
			\$7,882,928

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

Year	Business-type Activities	
	Principal	Interest
2019	\$920,000	\$156,823
2020	938,000	137,509
2021	960,000	117,708
2022	988,000	97,282
2023	1,001,000	76,366
2024-2028	2,305,928	156,034
2029-2032	770,000	33,444
Total	\$7,882,928	\$775,166

Change in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2018 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Governmental Activities					
Bonds Payable					
G.O. Bonds	\$1,345,000	\$4,825,000	\$340,000	\$5,830,000	\$365,000
G.O Tax Increment Bonds	905,000		120,000	785,000	125,000
G.O. Improvement Bonds	6,870,000		875,000	5,995,000	760,000
Less: bond discount	(6,087)		(1,496)	(4,591)	
Plus: bond premium	338,439	402,560	45,749	695,250	
Total bonds payable	9,452,352	5,227,560	1,379,253	13,300,659	1,250,000
Capital Leases Payable	68,664		22,176	46,488	22,881
Accrued Compensated Absences	1,951,845	1,028,343	1,028,179	1,952,009	879,000
Governmental Activity Long-term liabilities	\$11,472,861	\$6,255,903	\$2,429,608	\$15,299,156	\$2,151,881

CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
December 31, 2018

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Business-type Activities					
Bonds Payable					
G.O. Revenue Bonds	\$4,360,000		\$385,000	\$3,975,000	385,000
Revenue Bonds	4,434,928		527,000	3,907,928	535,000
Plus: bond premium	248,839		30,416	218,423	
Total notes & bonds payable	<u>9,043,767</u>		<u>942,416</u>	<u>8,101,351</u>	<u>920,000</u>
Accrued Compensated Absences	110,618	\$68,123	65,764	112,977	60,000
Business-type Activity					
Long-term liabilities	<u>\$9,154,385</u>	<u>\$68,123</u>	<u>\$1,008,180</u>	<u>\$8,214,328</u>	<u>\$980,000</u>

For the governmental activities, accrued compensated absences, net pension liability 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, 2018, there were nine outstanding bond issues with an original issue amount of \$31,218,139 and a balance of \$26,073,216.

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 90-99% of the property tax increments collected to be paid to reimburse development costs less administrative fees. The City currently has nineteen tax increment financing districts which includes nine economic development districts which end between December 31, 2018-December 31, 2028; two housing and redevelopment district which end between December 31, 2023-December 31, 2042; and eight redevelopment districts which end between December 31, 2026-December 31, 2045. For the year ended December 31, 2018, the City paid tax increment in the amount of \$1,009,470. No other commitments were made by the City as part of these agreements.

V. OTHER INFORMATION

A. Risk Management

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

CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
December 31, 2018

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 \$870,913 at December 31, 2018.

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

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.

CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
December 31, 2018

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 4,285,000 cubic feet of natural gas through December 2023 for a total commitment of \$13,528,308 at December 31, 2018.

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, 2018 was \$8,122.

Minimum lease commitments in effect at December 31, 2018 are as follows:

Year ending December 31	Business-type Activities
2019	\$4,042
2020	3,369
	\$7,411

D. Tax Increment Districts

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

E. Deferred Compensation Plan

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

F. Other Postemployment Benefits

1. Plan Description

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, 10 retired participants and zero inactive employees entitled to but not yet receiving benefits. 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.

CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
December 31, 2018

2. Funding Policy

The City has no assets accumulated in a trust that meets the criteria in GASB 75. Contribution requirements are negotiated between the City and union representatives. The eligibility for, amount of, duration of, and City's contribution to the cost of the benefits provided varies by contract and date of retirement. The City is funding this liability on a pay-as-you-go basis. For plan year 2018, the City contributed \$47,432 to the plan.

3. Total OPEB Liability

The City's total OPEB liability was measured as of December 31, 2017, and was determined by an actuarial valuation as of December 31, 2016.

Actuarial Assumptions

The total OPEB liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75%
Health Care Trend Rates	Gradually decreasing over several decades to 4% in 2076 and later

For general employees, mortality rates were based on the RP-2014 mortality tables with projected mortality improvements based on scale MP-2015, and other adjustments. For police and fire, mortality rates were based on the RP-2000 mortality tables with projected mortality improvements based on scale AA, and other adjustments.

The discount rate used to measure the total OPEB liability was 3.3%. The discount rate is based on the estimated yield of 20-year AA rated municipal bonds.

Since the most recent GASB 45 valuation, the discount rate was changed from 3.5% to 3.3%.

4. Changes in Total OPEB Liability

Balances at January 1, 2018	\$1,379,060
Changes for the Year:	
Service Cost	85,987
Interest	53,819
Change in Assumptions	62,955
Difference between expected and actual experience	(193,904)
Benefit Payments	(48,107)
Net change in Total OPEB Liability	<u>(39,250)</u>
Balances at December 31, 2018	<u>\$1,339,810</u>

5. Total OPEB Liability Sensitivity

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or on percentage point higher than the current discount rate:

	1% Decrease <u>(2.3%)</u>	Discount Rate <u>(3.3%)</u>	1% Increase <u>(4.3%)</u>
Total OPEB Liability	<u>\$1,496,362</u>	<u>\$1,339,810</u>	<u>\$1,207,257</u>

CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
December 31, 2018

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current healthcare cost trend rate:

	1% Decrease In trend rate	Current Trend rate	1% Increase In trend rate
Total OPEB Liability	\$1,160,060	\$1,339,810	\$1,557,910

For the year ended December 31, 2018, the City recognized OPEB expense of \$124,773.

At December 31, 2018, the City's deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience Assumption Changes		\$171,642
City Contributions Made Subsequent to Measurement Date	\$55,727	
Total	\$106,725	\$171,642

\$50,998 reported as deferred outflow of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended December 31,	Pension Expense Amount
2019	\$(15,034)
2020	(15,034)
2021	(15,034)
2022	(15,034)
2023	(15,034)
Thereafter	(40,745)

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

CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
December 31, 2018

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 the Coordinated Plan. Coordinated Plan members are covered by Social Security.

B. Public Employees 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. 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.

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 Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% of average salary for all years 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.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90 percent funded for two consecutive years, benefit recipients are given a 2.5 percent increase. If the plan has not exceeded 90 percent funded, or have fallen below 80 percent, benefit recipients are given a one percent increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

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. A full, unreduced pension is earned when members are age 55 and vested, or for members who were first hired prior to July 1, 1989, when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. Police and Fire Plan benefit recipients receive a future annual 1.0% increase. An annual adjustment will equal 2.5% any time the plan exceeds a 90% funded ratio for two consecutive years. If the adjustment is increased to 2.5% and the funded ratio falls below 80% for one year or 85% for two consecutive years, the post-retirement benefit increase will be lowered to 1.0%. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase. For retirements after May 31, 2014, the first increase will be delayed two years.

CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
December 31, 2018

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

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in calendar year 2018 and the City was required to contribute 7.50% for Coordinated Plan members. The City contributions to the GEP for the year ended December 31, 2018, were \$863,494. 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 2018 and the City was required to contribute 16.20% of pay for members in calendar year 2018. The City contributions to the P&FP for the year ended December 31, 2018, were \$545,388. The City contributions were equal to the required contributions as set by state statute.

4. Pension Costs

A. General Employees Fund Pension Costs

At December 31, 2018, the City reported a liability of \$9,380,975 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 \$16 million to the fund in 2018. 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 \$307,610. The net pension liability was measured as of June 30, 2018, 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the City proportion was 0.1691% which was a decrease of .0041% from its proportion measured as of June 30, 2017.

City's proportionate share of the net pension liability	\$9,380,975
State of Minnesota's proportionate share of the net pension liability associated with the City	307,610
Total	\$9,688,585

For the year ended December 31, 2018, the City recognized pension expense of \$921,514 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$71,738 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2018, 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:

CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
December 31, 2018

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	\$248,299	\$273,603
Assumption Changes	896,121	1,054,053
Net Difference between Projected and Actual Earnings on Pension Plan Investments		958,587
Change in Proportion	224,403	259,101
City Contributions Made Subsequent to Measurement Date	439,839	
Total	<u>\$1,808,662</u>	<u>\$2,545,344</u>

\$439,839 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, 2019. 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
2019	\$342,764
2020	(499,540)
2021	(823,948)
2022	(195,797)

B. Police and Fire Fund Pension Costs

At December 31, 2018, the City reported a liability of \$3,397,014 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the City proportion was 0.3187% which was a decrease of .0083% from its proportion measured as of June 30, 2017. The City also recognized \$28,683 for the year ended December 31, 2018 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, 2018, the City recognized pension expense of \$372,957 for its proportionate share of the P&FP's pension expense.

At December 31, 2018, 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:

CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
December 31, 2018

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	\$136,918	\$833,373
Change of Assumptions	4,223,333	5,000,849
Net Difference between Projected and Actual Earnings on Pension Plan Investments		711,514
Change in Proportion	133,034	168,488
City Contributions Made Subsequent to Measurement Date	285,448	
Total	\$4,778,733	\$6,714,224

\$285,448 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, 2019. 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
2019	\$(92,087)
2020	(249,819)
2021	(480,431)
2022	(1,362,345)
2023	(36,258)

The City's total pension expense for all plans for the year ended December 31, 2018, was \$1,366,209.

5. Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using an individual entry-age actuarial cost method and 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 1.25 percent per year for the General Employees Plan, and 1.00 percent for the Police and Fire Plan.

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015. The most recent four-year experience study for Police and Fire Plan was completed in 2016. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2018:

CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
December 31, 2018

General Employees Fund

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

Police and Fire Fund

- The mortality projection scale was changed from MP-2016 to MP-2017.
- As set by statute, the assumed post-retirement benefit increase was changed from 1.0% per year through 2064 and 2.5% per year, thereafter, to 1.0% for all years, with no trigger.

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

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Domestic Stocks	36%	5.10%
International Stocks	17%	5.30%
Bonds	20%	.75%
Alternative Assets	25%	5.90%
Cash	2%	0.00%
Totals	<u>100%</u>	

6. Discount Rate

The discount rate used to measure the total pension liability in 2018 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%	\$15,245,285	6.5%	\$7,283,410
Current Discount Rate	7.5%	9,380,975	7.5%	3,397,014
1% Higher	8.5%	4,540,154	8.5%	183,125

CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
December 31, 2018

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.

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 2018 were:

Contribution Amount		Percentage of Covered Payroll		Required Rates
Employee	Employer	Employee	Employer	
\$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, 2017, 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 \$6,450 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 \$6,800 in 2018 and \$7,150 in 2019.

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

If a member of the Association shall become permanently or totally disabled, the Association shall pay the sum \$6,450 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 \$164,842 in fire state aid paid by the City to the Relief Association for the year ended December 31, 2017. 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, 2017 was \$0.

4. Pension Costs

At December 31, 2018, the City reported an asset of \$1,638,277 for the Association's net pension asset. The net pension asset was measured as of December 31, 2017, 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 \$15,088 for the year ended December 31, 2018. At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources from the following sources:

CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
December 31, 2018

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Economic Experience		\$97,228
Changes of Actuarial Assumptions	\$30,315	7,605
Net Difference between Projected and Actual Earnings on Pension Plan Investments		177,653
City Contributions Subsequent to Measurement Date		
Total	\$30,315	\$282,486

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

<u>Year Ended December 31,</u>	<u>Pension Expense Amount</u>
2019	\$(41,763)
2020	(30,001)
2021	(70,670)
2022	(72,783)
2023	(9,391)
Thereafter	(27,563)

5. Actuarial Assumptions

The actuarial total pension asset was determined as of December 31, 2017, 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	Straight-line Closed
Actuarial Assumptions:	
Discount Rate	6.75%
Investment Rate of Return	6.75%
20-Year Municipal Bond Yield	3.31%
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.

CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
December 31, 2018

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, 2017	Long-Term Expected Real Rate of Return	Long-Term Expected Nominal Rate of Return
Domestic Equity	45.00%	5.39%	8.14%
International Equity	15.85%	5.20%	7.95%
Fixed Income	12.88%	1.98%	4.73%
Real Estate	0.30%	4.25%	7.00%
Cash Equivalents	25.97%	.79%	3.54%
Total	100.00%		6.85%
Reduced for assumed investment expense			(0.15%)
Net assumed investment return (rounded to ¼%)			<u>6.75%</u>

The following changes in actuarial assumptions occurred since the prior valuation:

- The expected investment return and discount rate increased from 6.50% to 6.75% to reflect updated capital market assumptions.

6. Discount Rate

The discount rate used to measure the total pension liability was 6.75%. 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 6.75%, 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 (5.75%) or one percentage point higher (7.75%) than the current rate:

	1% Decrease	Selected Discount Rate	1% Increase
Net Pension Asset	\$1,601,120	\$1,638,277	\$1,673,304
Discount Rate	5.5%	6.5%	7.5%

CITY OF OWATONNA, MINNESOTA
Notes to the Basic Financial Statements
December 31, 2018

8. Plan's Fiduciary Net Position

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

	2017
Assets	
Cash and Investments	\$3,861,112
Total Assets	\$3,861,112
Net Position	
Unrestricted	\$3,861,112
Revenues	
Fire State Aid	\$164,842
Interest	528,546
Total Revenues	693,388
Expenses	
Benefit Payments	165,835
Administrative	6,340
Total Expenses	172,175
Change in Net Position	521,213
Beginning Net Position	3,339,899
Ending Net Position	\$3,861,112

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

	Measurement Date December 31, 2017
<u>Total Pension Liability</u>	
Service Cost	\$61,804
Interest	137,411
Difference between expected and actual experience	
Changes of assumptions	(8,549)
Changes of benefit terms	62,880
Benefit payments, including member contribution refunds	(165,835)
Net Change in Total Pension Liability	87,711
Total Pension Liability – Beginning	2,135,124
Total Pension Liability – Ending (a)	\$2,222,835
<u>Plan Fiduciary Net Position</u>	
State Contributions	\$164,842
Net Investment Income	528,546
Benefit Payments	(165,835)
Administrative Expenses	(6,340)
Net Change in Fiduciary Net Position	521,213
Fiduciary Net Position – Beginning	3,339,899
Fiduciary Net Position – Ending (b)	\$3,861,112
Association's Net Pension Liability/(Asset) – Ending (a) – (b)	\$(1,638,277)

CITY OF OWATONNA, MINNESOTA
Required Supplementary Information
Schedule of Changes in the Total OPEB Liability and Related Ratios

Measurement Date	December 31, 2017
Total OPEB Liability	
Service Cost	\$85,987
Interest	53,819
Change in Assumptions	62,955
Difference between expected and actual experience	(193,904)
Benefit Payments	(48,107)
Net Change in Total OPEB Liability	(39,250)
Total OPEB Liability – Beginning	1,379,060
Total OPEB Liability - Ending	\$1,339,810
Covered-Employee Payroll	\$13,295,097
City's Total OPEB Liability as a Percentage of Covered-Employee Payroll	10%

Note: Information is presented prospectively and an accumulation of ten years will be provided.
No assets are accumulated in a trust that meets the criteria of GASB 75.

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

PERA General Employees Retirement Fund (GEP)

Measurement Date	6/30/18	6/30/17	6/30/16	6/30/15
Proportion of the Net Pension Liability	0.1691%	0.1732%	0.1682%	0.1672%
Proportionate Share of the Net Pension Liability	\$9,380,975	\$11,056,974	\$13,657,005	\$8,665,171
State's Proportionate Share of the Net Pension Liability Associated with the City	<u>307,610</u>	<u>139,018</u>	<u>178,369</u>	<u>8,665,171</u>
Total State and City's proportionate share of the Net Pension Liability	<u>\$9,688,585</u>	<u>\$11,195,995</u>	<u>\$13,835,374</u>	<u>\$8,665,171</u>
Covered Payroll	\$11,372,604	\$11,313,906	\$10,443,843	\$9,826,867
Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered Payroll	82.49%	97.73%	130.77%	88.18%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.53%	75.90%	68.91%	78.20%

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

Measurement Date	6/30/18	6/30/17	6/30/16	6/30/15
Proportion of the Net Pension Liability	0.3187%	0.327%	0.319%	0.311%
Proportionate Share of the Net Pension Liability	\$3,397,014	\$4,414,889	\$12,802,025	\$3,533,688
Covered Payroll	\$3,358,796	\$3,361,271	\$3,070,825	\$2,853,462
Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered Payroll	101.14%	131.35%	416.89%	123.84%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	88.84%	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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
PERA General Employees Retirement Fund (GEP)					
Contractually Required Contribution	\$863,494	\$836,385	\$804,270	\$778,475	\$695,645
Contributions in Relation to the Contractually Required Contribution	<u>(863,494)</u>	<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>	<u>0</u>
City's Covered Payroll	\$11,513,238	\$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%	7.50%	7.25%
PERA Public Employees Police & Fire Fund (P&FP)					
Contractually Required Contribution	\$545,388	\$544,997	\$500,744	\$508,708	\$432,074
Contributions in Relation to the Contractually Required Contribution	<u>(545,388)</u>	<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>	<u>0</u>
City's Covered Payroll	\$3,366,594	\$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%	16.2%	15.3%
Owatonna Firefighters Relief Association					
Statutorily Required Contribution	\$-	\$-	\$-	\$ -	\$ -
Contributions in Relation to the Statutorily Required Contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution Deficiency (Excess)	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$ -</u>	<u>\$ -</u>
Association's Covered Payroll	N/A	N/A	N/A	N/A	N/A
Contributions as a Percentage of Covered Payroll	N/A	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	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Total Pension Liability				
Service Cost	\$61,804	\$66,200	\$53,176	\$51,753
Interest	137,411	140,109	130,326	135,178
Differences between expected and actual experience		(121,874)	-	-
Changes of assumptions	(8,549)	20,753	-	-
Changes of benefit terms	62,880	107,406	-	-
Benefit Payments, Including member refunds	<u>(165,835)</u>	<u>(25,640)</u>	<u>-</u>	<u>(506,107)</u>
Net Change in Total Pension Liability	87,711	186,954	183,502	(319,176)
Total Pension Liability – Beginning	<u>2,135,124</u>	<u>1,814,825</u>	<u>1,684,499</u>	<u>2,003,675</u>
Total Pension Liability – Ending (a)	\$2,222,835	\$2,135,124	\$1,814,825	\$1,684,499
Plan Fiduciary Net Position				
State Contributions	\$164,842	\$164,223	\$169,227	\$154,878
Net Investment Income	528,546	200,390	9,916	260,890
Benefit Payments	(165,835)	(25,640)	-	(506,107)
Administrative Expenses	<u>(6,340)</u>	<u>(6,311)</u>	<u>(6,291)</u>	<u>(6,218)</u>
Net Change in Fiduciary Net Position	521,213	332,662	172,852	(96,557)
Fiduciary Net Position – Beginning	<u>3,339,899</u>	<u>3,007,237</u>	<u>2,834,385</u>	<u>2,930,942</u>
Fiduciary Net Position – Ending (b)	3,861,112	\$3,339,899	\$3,007,237	\$2,834,385
Association's Net Pension Liability/(Asset) – Ending (a) – (b)	<u><u>\$(1,638,277)</u></u>	<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	173.70%	156.43%	165.70%	168.26%
Covered Payroll	N/A	N/A	N/A	N/A
Net Pension Liability/(Asset) 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.

This page intentionally left blank.

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.

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

Capital Projects Funds – see fund definitions on page 95

CITY OF OWATONNA, MINNESOTA
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2018

	Library Reserve & Memorial Fund	Special Revenue MIF Fund
ASSETS		
Cash and cash equivalents	\$23,190	\$21
Investments		
Taxes receivable - delinquent		
Total assets	\$23,190	\$21
LIABILITIES		
Accounts payable	\$902	
Due to other funds		
Advance from other funds		
Total liabilities	902	
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue		
Total deferred inflows of resources		
FUND BALANCES		
Restricted for:		
Hunewill	16,500	
Memorials	5,788	
Grant projects		\$21
Capital projects		
Economic development		
Unassigned		
Total fund balances	22,288	21
Total liabilities and fund balances	\$23,190	\$21

<u>Funds</u>	<u>Nonmajor Capital Project Funds</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Total</u>		
\$23,211	\$224,986 1,700,000 4,334	\$248,197 1,700,000 4,334
<u>\$23,211</u>	<u>\$1,929,320</u>	<u>\$1,952,531</u>
\$902	\$50,676 17,811 140,529	\$51,578 17,811 140,529
<u>902</u>	<u>209,016</u>	<u>209,918</u>
	4,334	4,334
	<u>4,334</u>	<u>4,334</u>
16,500 5,788 21	1,867,176 6,346 (157,552)	16,500 5,788 21 1,867,176 6,346 (157,552)
<u>22,309</u>	<u>1,715,970</u>	<u>1,738,279</u>
<u>\$23,211</u>	<u>\$1,929,320</u>	<u>\$1,952,531</u>

CITY OF OWATONNA, MINNESOTA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the year ended December 31, 2018

	<u>Library Reserve & Memorial Fund</u>	<u>Special Revenue MIF Fund</u>
REVENUES		
Taxes		
Interest on investments	\$745	
Miscellaneous	86,765	
Total revenues	<u>87,510</u>	
EXPENDITURES		
Current:		
Housing & economic development		
Miscellaneous	74,207	
Capital outlay		
Total expenditures	<u>74,207</u>	
Excess of revenues over (under) expenditures	13,303	
OTHER FINANCING SOURCES (USES)		
Transfers out		
Total other financing sources (uses)		
Net change in fund balances	27,944	
Fund balances – beginning	<u>8,985</u>	<u>\$21</u>
Fund balances – ending	<u>\$22,288</u>	<u>\$21</u>

<u>Funds</u>	Nonmajor Capital Projects Funds	Total Nonmajor Governmental Funds
<u>Total</u>		
	\$1,009,470	\$1,009,470
\$745	33,007	33,752
86,765		86,765
<u>87,510</u>	<u>1,042,477</u>	<u>1,129,987</u>
	834,081	834,081
74,207		74,207
	60,878	60,878
<u>74,207</u>	<u>894,959</u>	<u>969,166</u>
13,303	147,518	160,821
	<u>(150,920)</u>	<u>(150,920)</u>
	<u>(150,920)</u>	<u>(150,920)</u>
13,303	(3,402)	(3,402)
9,006	1,719,372	1,728,378
<u>9,006</u>	<u>1,719,372</u>	<u>1,728,378</u>
<u>\$22,309</u>	<u>\$1,715,970</u>	<u>\$1,738,279</u>

This page left blank intentionally

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 3-9 Cybex 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 3-10 ProPet 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, 2018

	<u>Sales Tax Capital Projects Fund</u>	<u>TIF 1-1 Metro Plains Cedar Run Fund</u>	<u>TIF 1-6 Northgate Fund</u>	<u>TIF 3-2 Cybex Inc. Fund</u>
ASSETS				
Cash and cash equivalents	\$217,852		\$1,290	\$4,999
Investments	1,700,000			
Taxes receivable - delinquent				
Total assets	<u>\$1,917,852</u>	<u>\$0</u>	<u>\$1,290</u>	<u>\$4,999</u>
LIABILITIES				
Accounts payable	\$50,676			
Due to other funds				
Advance from other funds				
Total liabilities	<u>50,676</u>			
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue				
Total deferred inflows of resources				
FUND BALANCES				
Restricted for:				
Capital projects	1,867,176			
Economic development			\$1,290	\$4,999
Unassigned				
Total fund balances	<u>1,867,176</u>		<u>1,290</u>	<u>4,999</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$1,917,852</u>	<u>\$0</u>	<u>\$1,290</u>	<u>\$4,999</u>

	<u>TIF 3-7 Kerry Fund</u>	<u>TIF 3-8 Daikin Fund</u>	<u>TIF 3-9 Cybex Fund</u>	<u>TIF 3-10 ProPet Funds</u>
ASSETS				
Cash and cash equivalents		\$63		
Investments				
Taxes receivable - delinquent				
Total assets	<u>\$0</u>	<u>\$63</u>	<u>\$0</u>	<u>\$0</u>
LIABILITIES				
Accounts payable				
Due to other funds				
Advance from other funds		\$98,048		
Total liabilities		<u>98,048</u>		
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue				
Total deferred inflows of resources				
FUND BALANCES				
Restricted for:				
Capital projects				
Economic development				
Unassigned		(97,985)		
Total fund balances		<u>(97,985)</u>		
Total liabilities, deferred inflows of resources and fund balances	<u>\$0</u>	<u>\$63</u>	<u>\$0</u>	<u>\$0</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
		\$18	\$725	\$39	
					\$4,334
<u>\$0</u>	<u>\$0</u>	<u>\$18</u>	<u>\$725</u>	<u>\$39</u>	<u>\$4,334</u>
			\$17,811		
			42,481		
			<u>60,292</u>		
					\$4,334
					<u>4,334</u>
		\$18		\$39	
		18	(59,567)	39	
		<u>18</u>	<u>(59,567)</u>	<u>39</u>	
<u>\$0</u>	<u>\$0</u>	<u>\$18</u>	<u>\$725</u>	<u>\$39</u>	<u>\$4,334</u>

TIF 7-1 Gateway #2 Fund	Total Nonmajor Capital Projects Funds
	\$224,986
	1,700,000
	4,334
<u>\$0</u>	<u>\$1,929,320</u>
	\$50,676
	17,811
	140,529
	<u>209,016</u>
	4,334
	<u>4,334</u>
	1,867,176
	6,346
	<u>(157,552)</u>
	<u>1,715,970</u>
<u>\$0</u>	<u>\$1,929,320</u>

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

For the year ended December 31, 2018

	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		\$13,172	\$50,777	
Interest on investments	\$32,567		29	\$84
Total revenues	<u>32,567</u>	<u>13,172</u>	<u>50,806</u>	<u>84</u>
EXPENDITURES				
Current				
Housing & economic development		13,172	50,777	
Capital outlay	60,878			
Total expenditures	<u>60,878</u>	<u>13,172</u>	<u>50,777</u>	
Excess of revenues over (under) expenditures	(28,311)		29	84
OTHER FINANCING SOURCES (USES)				
Transfers out				
Total other financing sources (uses)				
Net change in fund balances	(28,311)		29	84
Fund balances- beginning	1,895,487		1,261	4,915
Fund balances – ending	<u>\$1,867,176</u>	<u>\$0</u>	<u>\$1,290</u>	<u>\$4,999</u>

	TIF 3-7 Kerry Fund	TIF 3-8 Daikin Fund	TIF 3-9 Cybex Fund	TIF 3-10 ProPet Fund
REVENUES				
Taxes	\$30,627	\$178,885	\$135,205	\$19,224
Interest on investments		104		
Total revenues	<u>30,627</u>	<u>178,989</u>	<u>135,205</u>	<u>19,224</u>
EXPENDITURES				
Current				
Housing & economic development	30,627	165,064	135,205	19,224
Capital outlay				
Total expenditures	<u>30,627</u>	<u>165,064</u>	<u>135,205</u>	<u>19,224</u>
Excess of revenues over (under) expenditures		13,925		,
OTHER FINANCING SOURCES (USES)				
Transfers out				
Total other financing sources (uses)				
Net change in fund balances		13,925		,
Fund balances- beginning		(111,910)		
Fund balances – ending	<u>\$0</u>	<u>\$(97,985)</u>	<u>\$0</u>	<u>\$0</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
\$58,610	\$18,897	\$24,438	\$393,316	\$60,362	\$4,334
		16	168	39	
<u>58,610</u>	<u>18,897</u>	<u>24,454</u>	<u>393,484</u>	<u>60,401</u>	<u>4,334</u>
58,610	18,940	24,438	231,705	60,362	4,334
<u>58,610</u>	<u>18,940</u>	<u>24,438</u>	<u>231,705</u>	<u>60,362</u>	<u>4,334</u>
	(43)	16	161,779	39	
			(150,920)		
			<u>(150,920)</u>		
	(43)		10,859	39	
	43	2	(70,426)		
<u>\$0</u>	<u>\$0</u>	<u>\$18</u>	<u>\$(59,567)</u>	<u>\$39</u>	<u>\$0</u>

TIF 7-1 Gateway #2 Fund	Total Nonmajor Capital Projects Funds
\$21,623	\$1,009,470
	33,007
<u>21,623</u>	<u>1,042,477</u>
21,623	834,081
<u>21,623</u>	<u>60,878</u>
	894,959
	147,518
	(150,920)
	<u>(150,920)</u>
	(3,402)
	1,719,372
<u>\$0</u>	<u>\$1,715,970</u>

This page left blank intentionally

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, 2018

	<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	\$91,314	\$123,936	\$346,972	\$562,222
Investments		800,000	200,000	1,000,000
Interest receivable		209		209
Accounts receivable	24,785			24,785
Loans receivable		185,100	1,347,734	1,532,834
Land held for resale			2,466,016	2,466,016
Total assets	<u>\$116,099</u>	<u>\$1,109,245</u>	<u>\$4,360,722</u>	<u>\$5,586,066</u>
LIABILITIES				
Accounts payable	<u>\$43,998</u>		<u>\$55,123</u>	<u>\$99,121</u>
Total liabilities	<u>43,998</u>		<u>55,123</u>	<u>99,121</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	<u>72,101</u>	<u>\$1,109,245</u>	<u>3,942,624</u>	<u>5,123,970</u>
Total fund balances	<u>72,101</u>	<u>1,109,245</u>	<u>3,942,624</u>	<u>5,123,970</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$116,099</u>	<u>\$1,109,245</u>	<u>\$4,360,722</u>	<u>\$5,586,066</u>

Fund balances – component unit \$5,123,970

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 \$5,737,253

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, 2018

	<u>EDA Administration Fund</u>	<u>EDA Loan Fund</u>	<u>EDA Land Fund</u>	<u>Total EDA Funds</u>
REVENUES				
Taxes	\$436,419			\$436,419
Interest on investments	717	\$17,587	\$8,102	26,406
Interest on loans		2,365	20,542	20,542
Miscellaneous	44,119		80,307	124,426
Total revenues	<u>481,255</u>	<u>19,952</u>	<u>108,951</u>	<u>610,158</u>
EXPENDITURES				
Current – miscellaneous	<u>466,938</u>	<u>58,515</u>	<u>65,939</u>	<u>571,392</u>
Total expenditures	<u>466,938</u>	<u>58,515</u>	<u>65,939</u>	<u>571,392</u>
Excess of revenues over (under) Expenditures	34,317	(38,563)	43,012	38,766
OTHER FINANCING SOURCES				
Transfers out		(234,059)		(234,059)
Transfers in			234,059	234,059
Total other financing sources		<u>(234,059)</u>	<u>234,059</u>	
Net change in fund balance	34,317	(272,622)	277,071	38,766
Fund balance - beginning	<u>37,784</u>	<u>1,381,867</u>	<u>3,665,553</u>	<u>5,085,204</u>
Fund balance – ending	<u>\$72,101</u>	<u>\$1,109,245</u>	<u>\$3,942,624</u>	<u>\$5,123,970</u>

This page intentionally left blank.

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, 2018

	Land	Buildings	Improv. Other than Buildings	Equipment
General Government				
Administrative Services	\$1,723,370	\$2,731,656		\$1,116,702
Government Buildings		4,180,358	\$29,349	51,361
Total General Government	<u>1,723,370</u>	<u>6,912,014</u>	<u>29,349</u>	<u>1,168,063</u>
Public Safety				
Police	80,472	963,405		371,696
Fire	248,982	2,394,648		1,286,928
Building Inspection				37,097
Total Public Safety	<u>329,454</u>	<u>3,358,053</u>		<u>1,695,721</u>
Public Works				
Engineering				66,213
Street Maintenance	405,756	1,461,479	55,367	904,661
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>1,509,895</u>
Culture and Recreation				
Library	244,940	2,713,603	7,253	462,420
Park & Recreation	1,492,149	1,388,814	761,313	698,290
Tennis & Fitness Center		826,143		39,732
Senior Center		366,033		35,207
Brooktree Golf Course	198,117	362,378	234,031	105,617
Aquatic Center		3,518,447		184,953
Total Culture and Recreation	<u>1,935,206</u>	<u>9,175,418</u>	<u>1,002,597</u>	<u>1,526,219</u>
Construction in Progress				
Subtotal	<u>8,793,067</u>	<u>22,774,411</u>	<u>1,087,313</u>	<u>5,899,898</u>
Internal Service Funds				<u>9,383,154</u>
Total governmental fund capital assets	<u>\$8,793,067</u>	<u>\$22,774,411</u>	<u>\$1,087,313</u>	<u>\$15,283,052</u>

<u>Infrastructure</u>	<u>Construction In Progress</u>	<u>Total</u>
		\$5,571,728
		4,261,068
		<u>9,832,796</u>
		1,415,573
		3,930,558
		37,097
		<u>5,383,228</u>
		66,213
\$109,551,546		112,378,809
5,406,712		12,212,461
<u>114,958,258</u>		<u>124,657,483</u>
		3,428,216
537,257		4,877,823
		865,875
		401,240
408,899		1,309,042
		3,703,400
<u>946,156</u>		<u>14,585,596</u>
	<u>\$2,296,251</u>	<u>2,296,251</u>
115,904,414	2,296,251	156,755,354
		9,383,154
<u>\$115,904,414</u>	<u>\$2,296,251</u>	<u>\$166,138,508</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, 2018

	Beginning Balances	Additions	Deletions	Ending Balances
General Government				
Administrative Services	\$5,356,194	\$215,534		\$5,571,728
Government Buildings	4,243,685	17,383		4,261,068
Total General Government	<u>9,599,879</u>	<u>232,917</u>		<u>9,832,796</u>
Public Safety				
Police	1,356,188	71,935	\$12,550	1,415,573
Fire	3,769,690	160,868		3,930,558
Building Inspection	37,097			37,097
Total Public Safety	<u>5,162,975</u>	<u>232,803</u>	<u>12,550</u>	<u>5,383,228</u>
Public Works				
Engineering	81,914	11,595	27,296	66,213
Street Maintenance	110,042,377	2,336,432		112,378,809
Airport	12,212,461			12,212,461
Total Public Works	<u>122,336,752</u>	<u>2,348,027</u>	<u>27,296</u>	<u>124,657,483</u>
Culture and Recreation				
Library	3,399,531	28,685		3,428,216
Park & Recreation	4,854,297	36,526	13,000	4,877,823
Tennis & Fitness Center	858,471	7,404		865,875
Senior Center	401,240			401,240
Brooktree Golf Course	1,264,447	44,595		1,309,042
Aquatic Center	3,608,400	95,000		3,703,400
Total Culture & Recreation	<u>14,386,386</u>	<u>212,210</u>	<u>13,000</u>	<u>14,585,596</u>
Construction in Progress	<u>108,209</u>	<u>3,488,629</u>	<u>1,300,587</u>	<u>2,296,251</u>
Subtotal	151,594,201	6,514,586	1,353,433	156,755,354
Internal Service Funds	<u>8,963,739</u>	<u>1,119,968</u>	<u>700,553</u>	<u>9,383,154</u>
Total governmental fund capital assets	<u>\$160,557,940</u>	<u>\$7,634,554</u>	<u>\$2,053,986</u>	<u>\$166,138,508</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.	110-121
Revenue Capacity These schedules contain information to help the reader assess the City's most significant local revenue source, property taxes.	122-126
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.	127-132
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.	133-134
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.	135-137

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>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Governmental activities				
Net investment in capital assets	\$79,004,771	\$81,046,952	\$80,110,407	\$75,953,125
Restricted	12,129,868	10,837,315	10,411,098	11,942,498
Unrestricted	6,752,131	6,993,466	7,877,023	9,427,621
Total governmental activities	<u>\$97,886,770</u>	<u>\$98,877,733</u>	<u>\$98,398,528</u>	<u>\$97,323,244</u>
Business-type activities				
Net investment in capital assets	\$92,586,465	\$90,321,448	\$88,935,574	\$90,824,949
Restricted				
Unrestricted	44,901,652	41,691,305	38,745,124	36,259,217
Total business-type activities	<u>\$137,488,117</u>	<u>\$132,012,753</u>	<u>\$127,680,698</u>	<u>\$127,084,166</u>
Primary government				
Net investment in capital assets	\$171,591,236	\$171,368,400	\$169,045,981	\$166,778,074
Restricted	12,129,868	10,837,315	10,411,098	11,942,498
Unrestricted	51,653,783	48,684,771	46,622,147	45,686,838
Total primary government net assets	<u>\$235,374,887</u>	<u>\$230,890,486</u>	<u>\$226,079,226</u>	<u>\$224,407,410</u>

Note: In 2015 GASB 68 was implemented

2014	2013	2012	2011	2010	2009
\$75,256,663	\$75,121,100	\$76,286,230	\$73,223,353	\$71,148,324	\$64,771,533
12,177,716	12,189,560	13,584,152	12,010,707	1,758,332	5,338,162
15,929,892	15,409,299	11,575,794	15,319,157	26,151,601	27,342,921
<u>\$103,364,271</u>	<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>
\$86,780,807	\$77,397,242	\$70,537,639	\$68,259,836	\$65,941,057	\$70,989,086
910,766	876,365	866,194	829,580	1,077,453	1,195,898
40,178,245	45,231,887	44,381,688	43,050,203	41,050,837	32,907,465
<u>\$127,869,818</u>	<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>
\$162,037,470	\$152,518,342	\$146,823,868	\$141,483,189	\$137,089,381	\$135,760,619
13,088,482	13,065,925	14,450,347	12,840,287	2,835,785	6,534,060
56,108,137	60,641,186	55,957,482	58,369,360	67,202,438	60,250,386
<u>\$231,234,089</u>	<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>

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Program Revenues				
Governmental activities:				
Charges for services:				
General government	\$348,509	\$321,021	\$354,171	\$325,810
Public safety	833,619	778,822	821,115	646,479
Public works	543,571	673,815	658,045	583,402
Culture and recreation	1,356,050	1,321,495	1,308,683	1,167,819
Other activities	21,072	19,208	19,528	9,640
Operating grants & contributions	1,493,152	1,562,720	1,499,973	1,411,675
Capital grants & contributions	1,262,057	3,749,360	1,985,442	3,351,342
Total governmental activities	<u>5,858,030</u>	<u>8,426,441</u>	<u>6,646,957</u>	<u>7,496,167</u>
Business-type activities:				
Charges for services:				
Sewer	3,675,717	3,416,993	3,322,407	3,106,003
Storm water	1,068,692	923,459	784,774	397,464
Electric	40,814,286	39,025,342	38,219,579	35,805,919
Water	4,169,129	3,948,324	3,804,917	3,489,771
Gas	14,762,244	14,019,597	13,266,847	13,795,668
Aquatic center				195,018
Operating grants and contributions	5,000			
Capital grants and contributions	9,262	135,032	188,135	50,000
Total business-type activities	<u>64,504,330</u>	<u>61,468,747</u>	<u>59,586,659</u>	<u>56,839,843</u>
Total primary government	<u>\$70,362,360</u>	<u>\$69,895,188</u>	<u>\$66,233,616</u>	<u>\$64,336,010</u>
Expenses				
Governmental activities:				
General government	\$3,205,461	\$3,243,404	\$3,099,636	\$2,856,561
Public safety	6,812,922	7,652,397	8,377,228	6,348,914
Public works	7,474,091	7,072,006	6,691,503	7,270,857
Culture and recreation	5,165,302	5,201,248	5,040,588	4,652,758
Other activities	1,111,126	791,706	1,063,892	747,447
Interest on long-term debt	335,781	234,573	287,028	288,678
Total governmental activities	<u>24,104,683</u>	<u>24,195,334</u>	<u>24,559,875</u>	<u>22,165,215</u>
Business-type activities:				
Sewer	2,798,229	2,847,495	3,006,694	2,492,185
Storm water	660,873	591,835	682,131	516,915
Electric	39,303,834	37,610,225	37,738,830	34,612,064
Water	3,420,096	3,250,860	3,046,878	3,159,786
Gas	13,740,097	13,730,892	11,789,863	13,066,535
Aquatic center				291,201
Total business-type activities	<u>59,923,129</u>	<u>58,031,307</u>	<u>56,264,396</u>	<u>54,138,686</u>
Total primary government	<u>\$84,027,812</u>	<u>\$82,226,641</u>	<u>\$80,824,271</u>	<u>\$76,303,901</u>

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

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$353,387	\$343,280	\$277,682	\$190,330	\$132,361	\$222,588
704,699	778,934	672,500	806,155	744,927	584,890
433,409	849,117	675,880	561,208	502,500	203,771
1,147,686	1,108,691	1,136,581	1,082,618	1,182,280	1,344,399
13,121	12,794	8,579	15,442	9,179	125,554
1,692,420	1,253,133	1,095,946	1,058,672	1,333,288	1,015,913
2,596,415	5,401,249	3,305,708	4,209,760	3,676,916	5,431,043
<u>6,941,137</u>	<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>
2,995,373	2,467,088	2,022,730	2,163,278	2,237,337	2,169,847
399,983	344,831	397,888	339,905	330,000	301,712
35,756,468	34,586,900	34,651,139	34,252,624	34,486,785	31,884,063
3,433,348	3,509,578	3,602,180	3,413,443	3,695,706	3,318,519
21,471,393	15,776,954	13,008,829	15,727,297	17,369,887	19,090,971
174,787	164,532	198,191	173,984	183,781	171,217
<u>25,688</u>	<u>4,449,193</u>	<u>749,465</u>	<u>205,115</u>	<u>563,437</u>	<u>3,761,930</u>
<u>64,257,040</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>\$71,198,177</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>
\$2,680,256	\$2,496,706	\$2,190,496	\$2,214,779	\$2,584,345	\$2,350,230
6,310,828	5,999,244	5,770,904	5,760,579	5,656,846	5,898,353
6,925,355	7,301,740	6,640,567	6,905,658	7,006,584	4,949,913
4,279,720	4,229,251	4,051,046	4,020,572	4,193,364	4,416,540
570,317	627,951	627,678	840,271	1,230,376	695,768
300,765	409,891	307,253	447,757	660,324	852,329
<u>21,067,241</u>	<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>
2,452,577	2,191,955	2,479,096	2,408,860	2,319,607	1,817,628
508,608	457,454	367,752	333,266	338,878	239,802
34,319,736	34,455,128	33,341,909	32,751,288	34,139,463	31,599,411
2,734,692	2,767,320	2,531,144	2,441,081	2,857,315	2,458,048
20,613,979	14,962,607	12,513,597	14,532,831	16,670,867	17,201,803
249,672	268,532	264,385	232,096	244,399	297,848
<u>60,879,264</u>	<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>\$81,946,505</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>

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Net (Expense)/Revenue				
Governmental activities	\$(18,246,653)	\$(15,768,893)	\$(17,912,918)	\$(14,669,968)
Business-type activities	4,581,201	3,437,440	3,322,263	2,701,157
Total primary government	<u>\$(13,665,452)</u>	<u>\$(12,331,453)</u>	<u>\$(14,590,655)</u>	<u>\$(11,968,811)</u>
General Revenues and Other				
Changes in Net Position				
Governmental activities:				
Taxes				
Property taxes, (general purposes)	\$11,810,733	\$10,407,798	\$9,864,056	\$9,148,313
Property taxes, (debt service)	1,018,307	991,067	1,134,938	1,150,319
Sales & excise tax				
Franchise tax	353,476	348,769	346,777	339,322
Lodging tax				
Unrestricted grants and contributions	4,387,352	4,341,397	4,201,348	4,103,313
Investment earnings	440,334	240,752	134,961	190,031
Other				
Transfers	48,162	(81,685)	3,306,122	90,441
Total governmental activities	<u>18,058,364</u>	<u>16,248,098</u>	<u>18,988,202</u>	<u>15,021,739</u>
Business-type activities:				
Property taxes, (debt service)	314,930	322,411	247,970	248,410
Unrestricted grants and contributions				
Investment earnings	678,629	490,519	332,421	284,548
Other				
Transfers	(48,162)	81,685	(3,306,122)	(90,441)
Total business-type activities	<u>945,397</u>	<u>894,615</u>	<u>(2,725,731)</u>	<u>442,517</u>
Total primary government	<u>\$19,003,761</u>	<u>\$17,142,713</u>	<u>\$16,262,471</u>	<u>\$15,464,256</u>
Change in Net Position				
Governmental activities	\$(188,289)	\$479,205	\$1,075,284	\$352,691
Business-type activities	5,526,598	4,332,055	596,532	3,143,674
Total primary government	<u>\$5,338,309</u>	<u>\$4,811,260</u>	<u>\$1,671,816</u>	<u>\$3,496,365</u>

2014	2013	2012	2011	2010	2009
\$(14,126,104)	\$(11,317,585)	\$(12,415,068)	\$(12,265,431)	\$(13,750,388)	\$(10,234,975)
3,377,776	6,196,080	3,132,539	3,577,556	2,296,404	7,083,719
<u>\$(10,748,328)</u>	<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>
\$8,620,566	\$8,753,451	\$8,436,179	\$7,517,394	\$7,181,958	\$7,058,666
1,096,471	923,671	1,037,055	1,308,435	1,549,154	1,663,077
			888,740	1,878,549	1,934,293
342,607	324,401	307,594	303,642	303,946	295,786
4,253,144	3,357,405	3,428,021	3,624,122	4,224,944	4,498,163
511,958	(308,037)	137,539	360,304	377,409	654,023
195,095					
(249,425)	(1,351,736)	(38,361)	212,002	(159,931)	264,121
<u>14,770,416</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>
251,775	253,885	252,521	233,499	238,628	232,808
					17,460
485,348	(81,728)	222,481	421,654	281,935	764,205
249,425	1,351,736	38,361	(212,002)	159,931	(264,121)
<u>986,548</u>	<u>1,523,893</u>	<u>513,363</u>	<u>443,151</u>	<u>680,494</u>	<u>750,352</u>
<u>\$15,756,964</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>
\$644,312	\$381,570	\$892,959	\$1,949,208	\$1,605,641	\$6,133,154
4,364,324	7,719,973	3,645,902	4,020,707	2,976,898	7,834,071
<u>\$5,008,636</u>	<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>

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
General Fund				
Reserved				
Unreserved				
Nonspendable	\$169,421	\$169,529	\$200,044	\$283,764
Restricted	44,943	44,198	43,717	43,432
Committed				
Assigned	3,084,017	2,216,436	2,066,020	2,050,503
Unassigned	7,665,558	8,245,075	8,088,843	8,075,845
Total general fund	<u>10,963,939</u>	<u>10,675,238</u>	<u>10,398,624</u>	<u>10,453,544</u>
All Other Governmental Funds				
Reserved				
Unreserved, reported in:				
Special revenue funds				
Debt service funds				
Capital projects funds				
Nonspendable				
Restricted	8,476,883	7,199,761	7,282,461	9,414,768
Committed	1,112,446	1,036,672	1,114,534	1,114,534
Assigned	6,072,226	5,438,542	5,240,474	3,905,230
Unassigned	(157,552)	(189,851)	(239,266)	(216,589)
Total all other governmental funds	<u>15,504,003</u>	<u>13,485,124</u>	<u>13,398,203</u>	<u>14,217,943</u>
Total governmental funds	<u>\$26,467,942</u>	<u>\$24,160,362</u>	<u>\$23,796,827</u>	<u>\$24,671,487</u>

Note: GASB Statement No. 54 was adopted in 2011

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$224,489	\$78,276	\$86,340	\$122,709	\$100,103	\$6,173
43,058	42,066	42,066	41,791	8,373,093	5,718,264
1,912,882	1,843,366	2,164,701	2,145,826		
7,851,566	7,731,961	7,348,001	6,620,420		
<u>10,031,995</u>	<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>
				7,859,383	13,072,081
				397,564	(132,268)
				5,571,539	5,167,651
74,064	549,915				
8,953,592	8,312,438	9,084,236	11,734,213		
1,528,371	2,644,186				
4,360,834	2,446,348	2,324,410	4,167,721		
(219,861)					
<u>14,697,000</u>	<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>\$24,728,995</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>

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Revenues				
Taxes	\$13,230,823	\$11,762,834	\$11,315,685	\$10,658,545
Licenses and permits	449,857	445,702	428,138	292,628
Intergovernmental revenue	6,599,704	8,199,031	6,869,605	7,290,973
Charges for service	2,042,584	2,122,977	2,132,546	1,857,471
Fines and forfeits	156,847	157,683	142,447	157,719
Special assessments	677,503	839,631	936,065	1,137,312
Interest on investments	440,334	240,752	134,961	190,031
Miscellaneous	514,841	624,897	621,632	1,452,189
Total revenues	<u>24,112,493</u>	<u>24,393,507</u>	<u>22,581,079</u>	<u>23,036,868</u>
Expenditures				
Current operating				
General government	2,902,381	2,815,113	2,674,639	2,528,782
Public safety	6,909,832	6,841,352	6,605,121	6,200,216
Public works	4,345,785	4,031,989	3,850,262	3,681,956
Culture and recreation	4,659,725	4,634,202	4,495,841	4,035,671
Housing & economic development	1,093,759	773,449	1,028,038	734,410
Miscellaneous	83,457	100,110	146,547	127,580
Capital outlay	5,990,656	5,632,005	3,613,361	5,905,097
Debt service:				
Principal retired	1,335,000	1,615,000	1,765,000	1,890,000
Interest and service charges	297,878	257,834	330,154	293,620
Payment to refunding escrow agent			810,000	
Total all other governmental funds	<u>27,618,473</u>	<u>26,701,054</u>	<u>25,318,963</u>	<u>25,397,332</u>
Excess of revenues over (under) expenditures	<u>(3,505,980)</u>	<u>(2,307,547)</u>	<u>(2,737,884)</u>	<u>(2,360,464)</u>
Other finance sources (uses)				
Bond issuance	4,825,000	2,015,000	1,300,000	1,685,000
Premium(Discount) on bonds	402,560	108,582	99,109	98,893
Other				110,979
Sale of capital assets				5,584
Transfers out	(170,920)	(148,190)	(658,975)	(128,000)
Transfers in	756,920	695,690	1,123,090	530,500
Total other financing sources (uses)	<u>5,813,560</u>	<u>2,671,082</u>	<u>1,863,224</u>	<u>2,302,956</u>
Net change in fund balance	<u>\$2,307,580</u>	<u>\$363,535</u>	<u>\$(874,660)</u>	<u>\$(57,508)</u>
Debt service as a percentage of noncapital expenditures	7.30%	8.63%	13.18%	10.55%

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$10,089,188	\$9,999,651	\$9,820,395	\$9,981,547	\$10,977,977	\$10,720,490
349,311	350,707	279,645	374,415	328,385	334,968
7,755,657	7,562,657	6,434,010	7,617,353	7,569,590	10,354,028
1,704,610	2,084,835	1,899,600	2,167,578	1,747,190	1,646,622
172,951	172,778	206,517	231,901	251,339	255,549
1,099,194	1,361,391	1,444,022	1,467,016	1,720,604	1,870,284
511,958	(308,037)	137,539	360,304	377,401	654,023
853,621	667,413	332,307	443,774	809,623	483,842
<u>22,536,490</u>	<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>
2,338,333	2,131,704	2,086,672	2,065,066	2,337,400	2,380,507
6,094,080	5,645,420	5,566,365	5,604,482	5,427,133	5,630,424
3,444,217	3,091,860	3,267,360	3,151,255	3,384,887	2,747,184
3,796,924	3,770,340	3,813,868	3,976,416	3,902,203	4,142,220
462,086	453,050	405,640	494,299	655,547	226,572
294,163	380,217	359,119	532,355	702,863	257,405
4,615,949	7,234,554	4,145,253	4,758,793	4,351,521	7,068,675
1,845,000	2,175,000	4,720,000	3,085,000	7,100,000	3,360,337
313,028	302,980	339,625	512,999	666,210	873,063
<u>23,203,780</u>	<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>(667,290)</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>
1,135,000	3,845,000		3,325,000		
32,211	71,433		(14,963)		
	1,858,593	46,941			
215,518					
(564,000)	(2,963,221)	(50,000)	(1,403,508)	(6,649,225)	(1,199,781)
929,000	3,278,221	370,000	1,663,508	9,349,779	1,561,781
<u>1,747,729</u>	<u>6,090,026</u>	<u>366,941</u>	<u>3,570,037</u>	<u>2,700,554</u>	<u>362,000</u>
<u>\$1,080,439</u>	<u>\$2,796,296</u>	<u>\$(3,782,926)</u>	<u>\$2,033,230</u>	<u>\$(2,045,101)</u>	<u>\$(4,581)</u>
10.84%	11.87%	23.99%	17.99%	30.34%	21.82%

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Program Revenues				
Governmental activities:				
Charges for services:				
General government	\$348,509	\$321,021	\$354,171	\$325,810
Public safety	833,619	778,822	821,115	646,479
Public works	543,571	673,815	658,045	583,402
Culture and recreation	1,356,050	1,321,495	1,308,683	1,167,819
Other activities	21,072	19,208	19,528	9,640
Operating grants & contributions	1,493,152	1,562,720	1,499,973	1,411,675
Capital grants & contributions	<u>1,262,057</u>	<u>3,749,360</u>	<u>1,985,442</u>	<u>3,351,342</u>
Total governmental activities	<u>5,858,030</u>	<u>8,426,441</u>	<u>6,646,957</u>	<u>7,496,167</u>
Business-type activities:				
Charges for services:				
Sewer	3,675,717	3,416,993	3,322,407	3,106,003
Storm water	1,068,692	923,459	784,774	397,464
Electric	40,814,286	39,025,342	38,219,579	35,805,919
Water	4,169,129	3,948,324	3,804,917	3,489,771
Gas	14,762,244	14,019,597	13,266,847	13,795,668
Aquatic center				195,018
Operating grants and contributions	5,000			
Capital grants and contributions	<u>9,262</u>	<u>135,032</u>	<u>188,135</u>	<u>50,000</u>
Total business-type activities	<u>64,504,330</u>	<u>61,468,747</u>	<u>59,586,659</u>	<u>56,839,843</u>
Total primary government	<u>\$70,362,360</u>	<u>\$69,895,188</u>	<u>\$66,233,616</u>	<u>\$64,336,010</u>
Expenses				
Governmental activities:				
General government	\$3,205,461	\$3,243,404	\$3,099,636	\$2,856,561
Public safety	6,812,922	7,652,397	8,377,228	6,348,914
Public works	7,474,091	7,072,006	6,691,503	7,270,857
Culture and recreation	5,165,302	5,201,248	5,040,588	4,652,758
Other activities	1,111,126	791,706	1,063,892	747,447
Interest on long-term debt	335,781	234,573	287,028	288,678
Total governmental activities	<u>24,104,683</u>	<u>24,195,334</u>	<u>24,559,875</u>	<u>22,165,215</u>
Business-type activities:				
Sewer	2,798,229	2,847,495	3,006,694	2,492,185
Storm water	660,873	591,835	682,131	516,915
Electric	39,303,834	37,610,225	37,738,830	34,612,064
Water	3,420,096	3,250,860	3,046,878	3,159,786
Gas	13,740,097	13,730,892	11,789,863	13,066,535
Aquatic center				291,201
Housing and economic development				
Total business-type activities	<u>59,923,129</u>	<u>58,031,307</u>	<u>56,264,396</u>	<u>54,138,686</u>
Total primary government	<u>\$84,027,812</u>	<u>\$82,226,641</u>	<u>\$80,824,271</u>	<u>\$76,303,901</u>

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$353,387	\$343,280	\$277,682	\$190,330	\$132,361	\$222,588
704,699	778,934	672,500	806,155	744,927	584,890
433,409	849,117	675,880	561,208	502,500	203,771
1,147,686	1,108,691	1,136,581	1,082,618	1,182,280	1,344,399
13,121	12,794	8,579	15,442	9,179	125,554
1,692,420	1,253,133	1,095,946	1,058,672	1,333,288	1,015,913
2,596,415	5,401,249	3,305,708	4,209,760	3,676,916	5,431,043
<u>6,941,137</u>	<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>
2,995,373	2,467,088	2,022,730	2,163,278	2,237,337	2,169,847
399,983	344,831	397,888	339,905	330,000	301,712
35,756,468	34,586,900	34,651,139	34,252,624	34,486,785	31,884,063
3,433,348	3,509,578	3,602,180	3,413,443	3,695,706	3,318,519
21,471,393	15,776,954	13,008,829	15,727,297	17,369,887	19,090,971
174,787	164,532	198,191	173,984	183,781	171,217
25,688	4,449,193	749,465	205,115	563,437	3,761,930
<u>64,257,040</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>\$71,198,177</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>
\$2,680,256	\$2,496,706	\$2,190,496	\$2,214,779	\$2,584,345	\$2,350,230
6,310,828	5,999,244	5,770,904	5,760,579	5,656,846	5,898,353
6,925,355	7,301,740	6,640,567	6,905,658	7,006,584	4,949,913
4,279,720	4,229,251	4,051,046	4,020,572	4,193,364	4,416,540
570,317	627,951	627,678	840,271	1,230,376	695,768
300,765	409,891	307,253	447,757	660,324	852,329
<u>21,067,241</u>	<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>
2,452,577	2,191,955	2,479,096	2,408,860	2,319,607	1,817,628
508,608	457,454	367,752	333,266	338,878	239,802
34,319,736	34,455,128	33,341,909	32,751,288	34,139,463	31,599,411
2,734,692	2,767,320	2,531,144	2,441,081	2,857,315	2,458,048
20,613,979	14,962,607	12,513,597	14,532,831	16,670,867	17,201,803
249,672	268,532	264,385	232,096	244,399	297,848
<u>60,879,264</u>	<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>\$81,946,505</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>

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	Total Taxes
2018	\$11,819,570	\$353,476		\$1,009,470	\$13,182,516
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

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.

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
2018	\$12,271,685	\$12,184,513	99.29%	\$33,166	\$12,217,679	99.56%
2017	11,200,666	11,121,534	99.29%	61,082	11,182,616	99.84%
2016	10,620,130	10,510,986	98.97%	109,144	10,620,130	100.00%
2015	10,140,627	10,062,832	99.23%	63,058	10,125,890	99.85%
2014	9,739,414	9,648,527	99.07%	80,512	9,729,039	99.89%
2013	9,742,984	9,627,589	98.82%	101,397	9,728,986	99.86%
2012	9,559,080	9,400,793	98.34%	156,550	9,557,343	99.98%
2011	8,818,938	8,665,892	98.26%	150,734	8,816,626	99.97%
2010	8,765,557	8,619,692	98.34%	145,865	8,765,557	100.00%
2009	8,793,278	8,650,062	98.37%	143,216	8,793,278	100.00%

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		
2018	\$20,178,290	\$1,819,179,300	\$89,005	\$5,472,300	\$20,267,295	\$1,824,651,600	.0111:1	63.768
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

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	
2018	50.637	6.801	5.480	.850	63.768	30.078	61.627	91.705	155.473
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

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

Source: Steele County Auditor and Steele County Assessor

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

<u>Taxpayer</u>	<u>Business type</u>	<u>2018</u>			<u>2009</u>		
		<u>Tax Capacity</u>	<u>Rank</u>	<u>Percentage of Total Tax Capacity</u>	<u>Tax Capacity</u>	<u>Rank</u>	<u>Percentage of Total Tax Capacity</u>
Viracon, Inc	Glass Products	\$551,872	1	2.72%	\$227,980	2	1.07%
Cybex	Manufacturing	257,428	2	1.27%	132,038	10	.62%
Federated Mutual Insurance	Insurance	211,038	3	1.04%	158,084	4	.74%
Cabela's Retail	Retail	177,432	4	.88%	230,510	1	1.08%
Daikin, Inc.	Manufacturing	161,348	5	.80%			
Owatonna Clinic – Mayo	Health System	156,386	6	.77%	133,040	9	.62%
Mills Properties	Retail	155,968	7	.77%	193,807	3	.91%
Wenger Corp (JAS)	Musical Equip	134,038	8	.66%	143,356	5	.67%
Lakeside Foods	Manufacturing	117,668	9	.58%			
Wal-Mart	Retail	116,082	10	.57%	142,984	6	.67%
Owatonna Hospitality	Commercial				138,108	7	.65%
Lowes Home Stores	Retail				137,762	8	.65%
		<u>\$2,039,260</u>		<u>10.06%</u>	<u>\$1,637,669</u>		<u>7.68%</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 ²	Lease Revenue Bonds	Capital Leases	Revenue Bonds	G.O. Revenue Bonds			
2018	\$6,232,560	\$6,283,099	\$785,000	\$0	\$46,488	\$0	\$8,101,351	\$21,448,498	N/A	N/A
2017	1,345,000	7,202,352	905,000	0	68,664	0	9,043,767	18,564,783	1.64%	716.18
2016	1,635,000	6,317,016	1,025,000	0	90,157	0	9,594,183	18,661,356	1.66%	721.57
2015	1,735,000	7,304,657	1,140,000	0	110,979	0	7,897,209	18,187,845	1.65%	705.45
2014	1,465,000	7,695,348	1,140,000	0	16,261	885,000	8,629,369	19,830,978	1.83%	772.83
2013	805,000	9,021,992	1,140,000	0	31,900	1,737,584	9,348,529	22,085,005	2.06%	863.57
2012	765,000	8,475,000	0	0	46,941	2,515,000	10,037,928	21,839,869	2.00%	857.51
2011	765,000	13,095,000	0	100,000	21,942	3,260,000	10,727,928	27,969,870	2.77%	1,093.77
2010	500,000	13,020,000	0	200,000	69,510	3,980,000	11,409,333	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

*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

² Other Bonds consisted of TIF bonds in 2013-2017 and temporary sales tax revenue bonds in 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
2018	\$6,232,560	\$524,364	\$5,708,196	.2816:1	N/A
2017	1,345,000	457,935	887,065	.0469:1	34.22
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

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Debt Limit	\$54,740	\$51,609	\$50,240	\$48,836	\$47,451	\$47,006	\$47,980	\$49,792	\$52,643	\$54,079
Total net debt applicable to limit	5,709	887	1,099	1,333	1,256	664	639	765	486	976
Legal debt margin	49,031	50,722	49,141	47,503	46,195	46,342	47,341	49,027	52,157	53,103
Total net debt applicable to the limit as a % of debt limit	10.43%	1.72%	2.19%	2.73%	2.65%	1.41%	1.33%	1.54%	0.92%	1.80%

Legal Debt Margin Calculation for Current Fiscal Year

Market Value of Taxable Property	\$1,824,651
Debt limit (3% of market value)	54,740
Debt applicable to limit:	
General obligation bonds	6,233
Less: Amount set aside for repayment of general obligation debt	<u>524</u>
Total net debt applicable to limit	<u>5,709</u>
Legal debt margin	<u><u>\$49,031</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 2018

Jurisdiction	Net Debt Outstanding	Percentage Applicable to City of Owatonna	City of Owatonna's Share of Debt
Direct:			
City of Owatonna	\$13,300,659	100.00%	\$13,300,659
Overlapping:			
School District	70,570,000	67.63%	47,726,491
Steele County	12,295,000	50.54%	6,213,893
Total overlapping debt			<u>53,940,384</u>
Total direct and overlapping debt			<u>\$67,241,043</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		
2018	\$60,113,090	\$53,285,399	\$6,827,691	\$0	\$0	\$0	N/A
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

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		
2018	\$1,105,181	\$291,921	\$813,260	\$385,000	\$112,763	\$497,763	1.63
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

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
2018	N/A	N/A	N/A	5,060	2.9%
2017	25,922	1,128,877,178	43,549	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%

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 Eight Years Ago

<u>Employer</u>	<u>Business type</u>	2018			2011		
		<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	1,550	1	8.77%	1,700	1	9.59%
Federated Mutual Insurance	Insurance	1,400	2	7.92%	1,520	2	8.57%
Owatonna ISD# 761	Education	750	3	4.24%	719	4	4.05%
Truth Hardware Corp	Window hardware	660	4	3.73%	800	3	4.51%
Bosch	Specialty tools	540	5	3.06%	700	5	3.95%
Wenger Corp	Musical equipment	420	6	2.38%	500	7	2.82%
Daikin	HVAC manufacturing	415	7	2.35%			
Josten's Inc.	Recognition products	405	8	2.29%	500	6	2.82%
Mayo Clinic Health System	Healthcare	350	9	1.98%			
Steele County	County government	343	10	1.94%	402	9	2.27%
Cabela's	Outfitters/sporting goods				416	8	2.35%
Walmart	Retail				300	10	1.69%
Total		6,833		38.66%	7,557		42.62%

Source: 2011 – Infogroup, written and phone interview August 2011 (data unavailable for 2009 or 2010).
 2018 – 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	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
General government										
Admin services	10.0	10.0	9.5	9.5	8.0	8.0	7.0	7.0	7.0	7.0
Govt buildings	9.1	9.1	10.1	10.1	10.1	10.4	8.0	8.0	8.0	9.0
Public safety										
Police	42.8	42.8	42.8	42.8	43.1	40.6	38.0	38.0	36.0	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	4.0	3.7	3.7	4.0	4.0	4.0	4.0	5.0	6.0
Public works										
Engineering	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	8.0
Street maintenance	18.0	17.0	17.0	17.0	17.0	17.0	17.0	18.0	18.0	18.5
Airport	1.5	1.5	1.5	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Culture & recreation										
Library	14.1	14.1	13.9	12.5	11.4	11.9	10.0	10.0	10.0	10.0
Recreation – admin	5.2	4.9	4.2	4.0	3.5	3.8	2.0	2.0	2.0	2.0
Park maintenance	10.6	11.2	11.2	11.2	11.2	11.4	8.0	8.0	8.0	10.5
Adult recreation		1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Youth recreation	1.0	.9	.9	1.9	2.0	1.9	1.0	1.0	1.0	1.0
Tennis & fitness	1.7	1.7	1.7	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	3.1	3.5	3.5	2.8	3.7	3.6	1.0	1.0	1.0	1.0
Housing & econ develop										
Planning & zoning	4.0	4.0	4.0	4.0	3.0	3.0	3.0	3.0	3.0	3.0
Total	<u>143.1</u>	<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>

Source: Adopted 2009-2018 Budgets

Note: Years 2009 – 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	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units – marked	12	13	13	13	13	13	14	15	18	N/A
Patrol units – unmarked	9	8	8	8	8	8	8	8	8	N/A
Police reserve unit - marked	3	3	2	2	2	4	2	3	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	1	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	162.3	161.9	161.9	161.9	161.9	161.9	161.9	161.1	161.1
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	3,000
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	2
Tennis courts	13	16	16	16	16	16	16	16	16	16
Parks acreage	1,000	1000	1000	997	997	997	995	955	955	955
Parks	36	36	36	36	36	36	36	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	1,229	1,240	1,232	1,234	1,319	1,319	1,319	1,319	1,303	1,302
Electric										
Number of customers	12,075	12,075	11,994	11,907	11,916	11,903	11,795	11,673	11,414	11,416
Gas										
Number of customers	10,497	10,487	10,447	10,385	10,411	10,339	10,263	10,229	10,185	10,124
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	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Police										
Events	41,853	41,602	28,856	30,868	43,622	42,721	41,380	37,782	40,838	38,387
Part I crimes	462	428	608	739	665	720	646	530	519	539
Part II crimes	596	527	743	895	864	894	916	801	864	904
Traffic citations	1,656	1,614	1,249	1,436	2,130	2,807	2,829	2,462	3,673	4,090
Fire										
Number of calls	476	495	441	444	467	493	426	494	490	444
Aquatic Center										
Admissions	25,837	23,485	23,414	30,306	26,455	26,807	28,392	24,393	26,133	19,967
Library										
Circulation	259,075	256,732	271,978	283,172	293,025	316,171	336,171	337,641	349,984	363,028
Registered Users	26,734	26,775	26,442	28,720	26,959	28,854	28,145	27,873	29,564	30,024
Water										
Avg daily consumption (thousands of cubic ft)	497	497	477	482	488	477	515	486	494	501
Electric										
Avg daily consumption (thousands of KWh)	1,079	1,043	1,039	1,018	1,019	995	981	983	999	983
Gas										
Avg daily consumption (thousands of cubic ft)	5,940	5,350	4,860	5,353	6,189	5,937	4,648	5,125	5,123	5,408
Wastewater										
Avg daily sewage treatment (millions of gallons)	4.14	4.17	4.01	3.94	4.09	4.04	3.53	4.32	3.87	2.69

Source: Various government departments