

PERSONNEL

Finance

		<u>Empl Date</u>
Finance Director	Steven B. Okins	9/06/1986
Payroll Clerk	Diane Jones	5/01/1973
Accounting Clerk	Shannon Strei	10/01/1993
Accounting Clerk	Carol Gluth	8/21/2000

City Council Committees – Staff Assignments

Finance

Chairman	Denis Anderson	Ward 1
Vice Chairman	Rick Fagerlie	Ward 3
	Jim Dokken	Ward 4
	Steven Gardner	Ward 2

Labor Relations

Chairman	Rick Fagerlie	Ward 3
Vice Chairman	Denis Anderson	Ward 1
	Doug Reese	Ward 4
	Steven Gardner	Ward 2

ANNUAL BUDGET

CITY OF WILLMAR, MINNESOTA

2008

CITY COUNCIL

LESTER HEITKE, MAYOR

COUNCIL MEMBER DENNIS ANDERSON

COUNCIL MEMBER BRUCE DEBLIECK

COUNCIL MEMBER RONALD CHRISTIANSON

COUNCIL MEMBER STEVE GARDNER

COUNCIL MEMBER JAMES DOKKEN

COUNCIL MEMBER RICK FAGERLIE

COUNCIL MEMBER DOUG REESE

COUNCIL MEMBER CINDY SWENSON

FINANCE DIRECTOR

STEVEN B. OKINS

CITY ADMINISTRATOR

MICHAEL C. SCHMIT

BUDGET CALENDAR

CALENDAR

PROPOSED ACTION

APRIL

Mayor, City Administrator and Finance Director to meet on establishing the Budget Calendar.

Finance Committee to adopt Budget Calendar.

MAY

Finance Director to compile information on budget forms pertaining to prior and current year expenditures, prepare preliminary revenue estimates. Send out forms and instructions for annual budget preparation to Department Heads.

JULY

Completed Department Heads estimates must be returned to the Finance Director.

AUGUST

Mayor shall have prepared and submitted the Capital Improvement Program to the City Council. Mayor meets with the City Administrator and Finance Director to prepare the Mayor's Proposed Budget.

Publish notice in the paper telling the public both the proposed Operating and Capital Improvement Budgets are on file and are open for inspection.

SEPTEMBER

Mayor presents Proposed Budget to Finance Committee.

Adopt and Certify Proposed Levy to the County Auditor for the Truth in Taxation Requirements.

OCTOBER – NOVEMBER GATHER CITIZEN INPUT

Live W.R.A.C. – 8 Broadcast
Public Informational Meeting
Publish notice in the paper telling the public both the Operating and Capital Improvement Budgets will be discussed at the Truth in Taxation Hearing.

DECEMBER

City Council shall hold Truth in Taxation hearing to study the Proposed Budget. Date determined by County and School District Hearings. Adoption of the Budget.

DECEMBER 31st (no later)

Certification of the Tax Levy to the County.

April 20, 2009

SEE FINANCIAL STATEMENTS INTRO LETTER TO MAYOR COUNCIL

Honorable Mayor and
Members of the City Council

Ladies and Gentlemen:

The Comprehensive Annual Financial Report of the City of Willmar for the fiscal year ended December 31, 2008, is submitted herewith.

The organization, form and content of the report and the accompanying financial statements, supplemental schedules and statistical tables were prepared in accordance with standards set forth by:

1. The Government Accounting Standards Board-GASB
2. The Governmental Finance Officers Association of the
United States and Canada-GFOA
3. The American Institute of Certified Public
Accountants-AICPA
4. The National Council of Governmental Accounting-NCGA
5. The Minnesota State Auditor
6. The Willmar City Charter

The format also conforms to the audit guide for “Audits of State and Local Government Units” and the latest edition of “Governmental Accounting, Auditing and Financial Reporting”.

The report is prepared by the City’s finance staff and consists of three sections:

Section I is the Introductory Section and contains the letter of transmittal and other appropriate materials.

Section II is the Financial Section and contains the Auditor’s opinion, the combined financial statements, notes to the financial statement, the combining and individual fund statements, account group statements, and supplemental schedules.

Section III is the Statistical Section which includes previous year’s financial and non-financial data.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation including all disclosures rests with the City. We believe the data as presented is accurate in all material respects, that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds, and that all disclosures necessary to enable the public to gain the maximum understanding of the City’s financial activities have been included.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

The accounting system provides for a complete self-balancing account group for each fund of the City. Accounting records are maintained on the modified accrual basis for the governmental fund types, and the accrual basis of accounting is utilized for the proprietary fund types, as defined in the notes to the financial statement.

In developing and improving the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition and the reliability of financial reports for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognized that the cost of a control should not exceed the benefit likely to be derived and the evaluation of costs and benefits requires estimates and judgements by management.

All internal control evaluations occur within the above framework. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of the proper recording of financial transactions.

A complete budgetary system of accounts is maintained for the General and Special Revenue Funds. Budgetary control is maintained by a review system, whereby purchases are pre-audited as to authorization and availability of funds by Department Directors prior to their release to vendors.

Occasionally various City funds have had deficit cash balances during the year as a result of delayed tax remittances from the County or payment of improvement project costs prior to the sale of the bonds financing the improvements.

The City Charter provides that the budget's fiscal year shall be the calendar year. The Mayor is charged with the responsibility of submitting the budget for all funds, the ensuing fiscal year to the Council by the first meeting of September. Upon adoption of the annual budget resolution by the Council it becomes the formal appropriation budget for City operations. After the budget resolution is adopted, the Council can increase the budget only by appropriating unreserved, undesignated, and designated fund balances or if actual revenues are in excess of estimated revenues.

The financial activities of the City for the Year Ended December 31, 2008, are accounted for in the following fund types and account groups:

Governmental Fund Types

- General
- Special Revenue
- General Debt Service
- Capital Projects

Fiduciary Fund Types

- Trust and Agency

Proprietary Fund Types

- Enterprise
- Internal Service
- General Fixed Asset Group
- General Long-Term Debt Group

The City provides a full range of municipal services, including these:

A. GENERAL GOVERNMENT

1. City Administrator
2. Mayor & Council
3. City/Industrial Dev.
4. City Clerk/Treasurer
5. Assessing
6. Finance
7. City Attorney
8. Planning & Zoning
9. City Hall
10. Data Processing
11. Elections/Voter's Reg.

B. PUBLIC SAFETY

1. Police Protection
2. Fire Protection/Inspection

C. PUBLIC WORKS

1. Engineering
2. Street Maintenance
3. Snow & Ice Removal
4. Signs & Traffic Control
5. Tree Maintenance
6. Waterlines & Hydrants
7. Storm Sewer Mtce.
8. Buildings & Grounds Maintenance

D. CULTURE AND RECREATION

1. Library Services
2. Auditorium
3. Community Theater
4. W.R.A.C. -8
5. Convention and Visitors Bureau
6. Buildings & Grounds Planning
7. Leisure Services
8. Civic Center
9. Sr. Citizens Center

E. UTILITIES

1. Waste Water Treatment
2. Water
3. Electrical
4. Hot Water Heat

F. HEALTH

1. Rice Memorial Hospital
2. Rice Care Center
3. Rice Home Health Care
4. Rice Rehabilitation Center

G. TRANSPORTATION

1. Willmar Airport
2. Kandiyohi Area Transit

CASH MANAGEMENT

The City's policy is to invest all available monies at competitive interest rates, in accordance with the City's overall investment policy coordinated with operating needs projected monthly.

During the year the City's investment in idle cash ranged from a minimum of 98% to 100% of the total deposits for all funds.

GENERAL PURPOSE FINANCIAL SECTION)

The General Purpose Financial Section will contain financial statements applicable to all City funds. It is intended to give an overview of the financial condition of the City as of December 31, 2008.

FINANCIAL STATEMENTS OF INDIVIDUAL FUNDS

GENERAL FUND

The General Fund was established for the payment of such expenses of the City, as the Council may deem proper.

As of December 31, 2008, the fund balance of the General Fund totaled **\$15,419,845**

Estimated and actual revenues and other financing sources for 2008 are presented in Exhibit B-3 and a comparison of actual revenues with the previous year summarized as follows:

Council Reserve Policies have established levels for:

A.) Emergency Appropriations for 2 Years 2009/1010	\$ 2,600,000
B.) Self Insurance Reserve	\$ 1,000,000
C.) Cash Flow Reserve	\$ 3,000,000
D.) Capital Expenditures (3 years)	\$ 4,209,906
E.) Operating Budget 2009	\$ 1,148,319
F.) Operating Budget 2010 Avail	\$ 209,834
G.) Uncompensated Absence	\$ 3,249,486
H.) Petty Cash	\$ 2,300

(B-3)	2007		2008		Increase
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>(Decrease)</u>
General Property Taxes	\$ 2,804,690	21.16	\$ 3,354,241	24.99	\$ 549,551
Licenses & Permits	452,348	3.41	600,924	4.48	148,576
Fines & Forfeitures	259,560	1.96	236,775	1.76	(22,785)
Intergovernmental	5,411,261	40.83	4,884,359	36.38	(526,902)
Charges for Services	825,015	6.22	856,515	6.38	31,500
Special Assessments	1,513	.01	1,831	.01	318
Miscellaneous	1,220,383	9.21	1,317,107	9.81	96,724
Transfer In	<u>2,278,686</u>	<u>17.20</u>	<u>2,173,147</u>	<u>16.19</u>	<u>(105,539)</u>
TOTAL	<u>\$13,253,456</u>	<u>100.00</u>	<u>\$13,424,899</u>	<u>100.00</u>	<u>\$ 171,443</u>

GENERAL FUND (CONTINUED)

Expenditures compared with the budget are shown in the Exhibit B-4 by activity, and a comparison of actual expenditures and other financing uses by function with the previous year, is summarized as follows:

(B-4)	2007		2008		Increase
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>(Decrease)</u>
General Government	\$ 2,946,854	22.79	\$ 3,708,635	26.72	761,781
Public Safety	4,226,787	32.70	4,432,002	31.93	205,215
Public Works	3,332,478	25.78	3,410,765	24.57	78,287
Culture & Recreation	1,991,796	15.41	1,927,018	13.88	(64,778)
Social Services	20,000	.15	-0-	.00	(20,000)
Non Dept	<u>410,000</u>	<u>3.17</u>	<u>402,610</u>	<u>2.90</u>	<u>(7,390)</u>
TOTAL	<u>\$ 12,927,915</u>	<u>100.00</u>	<u>\$ 13,881,030</u>	<u>100.00</u>	<u>\$ 953,115</u>

SPECIAL REVENUE FUNDS

INDUSTRIAL DEVELOPMENT FUND

This fund was established in 1973 for the purpose of purchasing, improving and selling land for industrial purposes. Starting in 1997 it was decided to use this fund to relocate the present Airport for the future expansion of said Industrial Park. Going forward, combined with the Willmar Fabrication Grant and the Local Option Sales Tax Funds will redevelop the additional land acquired with the Airport relocation.

LOCAL OPTION SALES TAX

This fund was established in 2006 for the purpose of connecting the Willmar Civic Center, complete the City Walking and Bike path system and the Development of the Land acquired thru the relocation of the Willmar Airport.

As of December 31, 2008, this fund had a balance of **\$1,490,555**, all of which is designated and restricted to complete the projects listed above. To date **\$1,072,825** has been used for the Civic Center/Blue Line connection, **\$60,188** has been used for partial improvements to the Bike Path System and **\$2,736,958** has been used for improvements to the New Airport & Industrial Park (former Airport Site).

SPECIAL REVENUE FUNDS (CONTINUED)

W.R.A.C. – 8 FUND

This fund was established in 1985 for the purpose of Local Access Programming through the City of Willmar.

As of December 31, 2008, this fund had a balance of **\$384,625**; of this amount, **\$39,650** is reserved for 2008 Payables, **\$ -0-** was designated for the 2009 Budget and **\$ 344,975** was designated for future expenditures.

CONVENTION & VISITOR'S BUREAU

This fund was established in 1990 for the purpose of promoting the City of Willmar as a convention and visitors center for West Central Minnesota. This account is funded through the collection of a three- percent lodging tax.

As of December 31, 2008 this fund had a balance of **\$298,921** of which **\$ 19,816** is reserved for 2008 Payables, **\$ 66,000** is designated for the 2009 Budget, and **\$ 212,505** is designated for future expenditures.

COMMUNITY DEVELOPMENT FUND

The Community Development Fund was established in 1975 to account for activities of the Community Development Block Grant Program, which provides communities with financial assistance so they can provide better housing, improve living conditions and encourage economic opportunities primarily for persons of low and moderate income. These grants are forwarded on, and administered through the Willmar HRA.

TRANSIT SYSTEM FUND

Since this program was never intended to generate a profit from operations a reclassification was completed at the end of 1989. This fund was reclassified to a Special Revenue Fund from an Enterprise Fund. Starting in July of 1999 it was made a department of the General Fund with the signing of a Joint Powers Agreement with Kandiyohi County.

This fund is being administrated by the Joint Powers Board, as of December 31, 2001.

SPECIAL REVENUE FUNDS (CONTINUED)

COMMUNITY INVESTMENT FUND

This fund was created at the end of 1990 solely to pay the capital cost of projects of general benefit to the City of Willmar. This fund is funded by special assessments collected after the improvement costs have been fully paid, investment earnings generated by fund balances and all other monies appropriated by the Council or donated for the purpose of the fund.

Expenditures from the fund for competing projects shall be granted in the following order of preference:

- A. First Priority: projects, which can be funded within the amount of available investment earnings.
- B. Second Priority: projects using principal funds, which have the capacity to repay the amount, borrowed.
- C. Third Priority: projects using principal funds which have no other reasonable funding source, is non-revenue producing, require significant funding, and provide otherwise unattainable community benefit.

Project Expenditures from the fund may be made only after compliance with the following procedures:

- A. The Project must have been included in the City's formally adopted capital improvement program.
- B. The City Council must hold a public hearing on whether the proposed project should be funded.
- C. The City Council must make the following findings:
 1. Project has sufficient community wide benefit.
 2. Project could not occur but for the use of the Community Investment Fund.
 3. Community Investment Fund is not replacing funding from another source.
 4. Project has the ability to reasonable repay the funds.
 5. Estimate of ongoing annual operating and maintenance costs has been made, and source for paying costs identified

As of December 31, 2008, this fund had a balance of **\$ 9,252,048**. Of this amount **\$ 775,580** is reserved for 2008 Payables, **\$141,392** is designated for the 2009 Budget, **\$ 3,835,076** is designated for future projects, and **\$ 4,500,000** is reserved to reduce Bonding Requirements.

GENERAL DEBT SERVICE FUND

This fund was created for the purpose of the retirement of all general obligation debt by means of ad valorem taxes, tax increment levies and special assessments.

The City is allowed a Legal Debt Limit of General Obligation Bonds of 2% of the Estimated Market Value, and as of December 31, 2008, there was no Debt applicable to this requirement.

The balance of Tax Increment Debt as of December 31, 2008 amounted to **\$375,559** of which **\$ 290,025** yet needs to be provided.

The balance of Special Assessment Debt as of December 31, 2008, amounted to **\$ 16,025,000** of which **\$ 13,071,194** yet needs to be provided from Special Assessments, Tax Levies or transfers from earnings of the Community Investment Fund.

CAPITAL PROJECT FUNDS

STREET/WATER & SEWER FUND

This is the accumulation of all uncompleted improvement projects. As of December 31, 2008, Work in Progress amounted to **\$ 10,024,581**.

TREATMENT PLANT EXPANSION FUND

This fund was established in 1983 to record receipts and disbursements relative to the expansion of the Waste Treatment Plant.

Expansion of the plant was done in three phases and was funded in the following manner: Federal 75%, State 15% and Local 10%. During 1983 the City sold bonds for \$1,290,000 to finance the local share, repayment to be made from sewer receipts.

Due to the plant odor problem, additional construction of an odor control facility was started in 1988 and completed as of December 31, 1990. To finance the odor control facility the City sold \$3,250,000 worth of General Obligation Revenue Bonds with an increase in sewer rates to repay them.

There was no activity in 1991, 1992, 1993 and 1994, but this fund began to show activity again in 1995, due to plans for a new Waste Treatment/Sludge Storage facility west of Willmar, in St. John's Township. And a new plant estimated to cost \$ 88.2 million is to be finished by 2011.

Work in Progress for 2008 amounted to **\$ 83,515,752**

CAPITAL PROJECT FUNDS (CONTINUED)

SURFACE WATER

This fund was established in 1997 to record costs associated in studying the drainage of the Surface Water for the City. This also includes costs associated with the study of Grass Lake. As of December 31, 2008, Capitalized Costs amounted to **\$ 74,955.**

AIRPORT EXPANSION

This fund was established in 1996 to record costs associated with the expansion and possible relocation of the Municipal Airport. As of December 31, 2008, Work in Progress amounted to **\$ 21,413,561.**

Funding for the project to date consisted of 33 Grants, 10 Federal in the amount of **\$12,440,618**, 23 State amounting to **\$4,232,721** and the remaining **\$4,740,222** came from local funds of the Industrial Park Reserve, 2004C G.O. Airport Improvement Revenue Bond and the Local Option Sales Tax.

Six Grants remain open and are scheduled to be closed in 2009, thus closing the project for a final report in the 2009 report.

CIVIC CENTER ANNEX

This fund was established in 1998 to account for the costs associated with the City's portion of the Blue Line Association Building. As of December 31, 2008, Work in Progress amounted to **\$1,072,825.**

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ENTERPRISE FUNDS

WASTE TREATMENT PLANT

Net profit for 2008 amounted to **\$ 923,271**, compared with a net income of **\$ 722,068** in 2007, a increase in income of **\$ 201,203** from the previous year.

A comparison of the major items of income and expense of the Waste Treatment Plant for the past five years as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Income:					
Service Charges -					
Residential/Comm.	\$ 2,774,178	2,648,505	\$ 2,509,567	\$ 2,391,729	\$ 2,217,956
State Hospital	-0-	-0-	-0-	-0-	6,699
Kandiyohi County	-0-	81	107	727	107
Eagle Lake -					
Residential/Comm.	120,300	112,485	104,910	98,640	90,999
Administration/Acct.	158,076	148,278	138,620	128,997	118,983
Non-Operating	<u>796,160</u>	<u>624,636</u>	<u>496,845</u>	<u>436,946</u>	<u>295,901</u>
Total Income	<u>\$ 3,848,764</u>	<u>\$ 3,533,985</u>	<u>\$ 3,250,049</u>	<u>\$ 3,057,039</u>	<u>\$ 2,730,645</u>
Expenses (Incl. Transfers):					
Personal Services	\$ 862,375	\$ 820,045	\$ 771,387	\$ 756,422	\$ 683,259
Supplies	177,450	156,086	162,923	144,195	147,932
Other Services & Chgs	1,060,022	1,069,795	691,144	877,516	684,494
Administration & General	200,000	125,000	125,000	125,000	115,000
Depreciation	<u>625,646</u>	<u>640,991</u>	<u>602,616</u>	<u>642,009</u>	<u>639,341</u>
Total Expenses	<u>\$ 2,925,493</u>	<u>\$ 2,811,917</u>	<u>\$ 2,353,070</u>	<u>\$ 2,545,142</u>	<u>\$ 2,270,026</u>
Net Income (Loss)	<u>\$ 923,271</u>	<u>\$ 722,068</u>	<u>\$ 896,979</u>	<u>\$ 511,897</u>	<u>\$ 460,619</u>

ENTERPRISE FUNDS (CONTINUED)**RICE MEMORIAL HOSPITAL**

	<u>2007</u>	<u>2008</u>
Operating Revenues		
Net Patient Service	\$ 74,540,510	\$ 64,138,523
Net Equipment Sales and Rents	6,694,009	8,265,347
Other Operating	<u>8,085,016</u>	<u>15,248,942</u>
Total Revenues	\$ 89,319,535	\$ 87,652,812
Operating Expenses		
Salaries and Wages	\$ 40,120,208	\$ 42,755,887
Employee Benefits	11,220,397	12,264,483
Supplies and Drugs	12,317,106	13,298,515
Purchased Services	6,562,118	6,350,669
Repairs and Maintenance	3,044,117	3,056,695
Utilities	1,378,822	1,488,849
Other	2,282,744	2,161,055
Depreciation and Amortization	8,436,345	7,995,662
Interest	2,618,181	2,524,619
Taxes and Surcharges	<u>1,458,672</u>	<u>1,705,814</u>
Total Expenses	\$ 89,438,710	\$ 93,602,248
Less: Willmar Medical Services		(5,436,282)
Total Operating Income (Loss)	<u>\$ (119,175)</u>	<u>\$ (513,154)</u>
Unrestricted Donations	149,226	-0-
Investment Income	841,319	648,646
Unrealized Gain on Investment	29,678	60,096
Gain (Loss) on Disposal of Equipment	(75,761)	(3,199)
Gain on Investment in Shared Health Resources	25,000	7,759
Gain on Investment in Willmar Surgery Center	<u>1,004,768</u>	<u>-0-</u>
Total Nonoperating Revenue	\$ 1,974,230	\$ 713,302
Deficit of Revenue Over Expenses	<u>\$ 1,855,055</u>	<u>\$ 200,148</u>
Restricted Gifts, Bequests, and Grants	471,177	1,823,832
Expended for Operations	(497,600)	(105,288)
Income From Investments	77,409	103,665
Realized Gain on Investments	121,776	15,484
Unrealized Loss on Investments	12,938	(491,249)
Payments for Charity Care	(60,581)	(110,873)
Trustee and Administrative Fees	<u>(24,392)</u>	<u>(35,174)</u>
Net Income (Loss)	<u>\$ 2,477,262</u>	<u>\$ 360,306</u>

ENTERPRISE FUNDS (CONTINUED)

RICE MEMORIAL HOSPITAL (CONTINUED)

Nature of Organization – Rice Memorial Hospital is an operating unit (department) of the City of Willmar, and is governed by a seven member Board of Directors appointed by the Mayor and approved by the City Council.

Part of the operation includes a long-term care facility, the Rice Care Center (formerly known as the Christian Nursing Center) which was purchased by the Hospital (City) during 1994; Rice Home Health Care, which provides health care services to clients in their home, and was purchased from Kandiyohi County in October of 1997 and discontinued operations in Fiscal 2001; and Rice Rehab Center, a provider of rehabilitation services which was purchased during 1998, with the program starting January 1999.

Other Related Party transactions include Shared Health Resources where in May 1994, the Hospital made a contribution of land in exchange for a 50% investment in Shared Health Resources (SHR), a limited liability corporation formed by the Hospital (City) and Willmar Properties. SHR was established for the construction and operation of a medical office building located adjacent to the Hospital. The Hospital is accounting for this investment on the equity method.

The Willmar Surgery Center partnership was transferred to Rice Hospital on January 1, 1996 by the Rice Health Foundation. The Surgery Center is a limited liability partnership jointly owned by Affiliated Community Medical Centers, P.A. and the Hospital (City). In consideration for the Foundation transferring its partnership interest in the Surgery Center to the Hospital, the Hospital will pay a percentage (25% in 2000; zero percent thereafter) of the future distributed earnings of the Surgery Center to the Foundation. The Hospital accounts for this investment with the equity method as well.

The Rice Home Medical was formed effective December 31, 1997. This was done when Rice Health Services, previously a wholly owned for profit subsidiary of the Rice Health Foundation, was restructured and renamed as Rice Home Medical, LLC, a limited liability company. On January 2, 1998 per terms of the restructuring, 50% of the new entity was purchased by the Hospital for \$995,000. This investment is also recorded using the equity method.

The Hospital is affiliated, due to its ability to appoint all the members of the Board of Directors, with the Foundation, a non-profit corporation organized to raise funds primarily for the benefit of the Hospital.

ENTERPRISE FUNDS (CONTINUED)

WILLMAR MUNICIPAL UTILITIES

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Operating Revenues			
Electric Energy	\$ 18,189,539	\$ 20,001,533	\$ 20,240,883
Water	1,716,359	1,860,534	1,809,394
Heating	732,966	800,633	934,995
Penalties	153,781	172,819	186,485
Other Operating	395,172	252,672	1,271,238
Non-Operating	<u>474,337</u>	<u>1,012,230</u>	<u>381,999</u>
Total Revenues	\$ 21,662,154	\$ 24,100,421	\$ 24,824,994
Operating Expenses			
Production	\$ 3,474,716	\$ 3,594,454	\$ 3,903,276
Purchased Power	9,533,424	10,250,949	11,920,316
Transmission	113,200	166,109	166,102
Distribution	1,089,025	1,174,049	1,200,514
Customer Accounts	514,917	527,493	550,887
Admin & General	2,391,088	2,671,161	2,808,934
Depreciation	1,932,539	1,949,754	1,949,546
Operating Transfers	<u>1,644,600</u>	<u>1,686,400</u>	<u>1,703,292</u>
Total Expenses	\$ 20,693,329	\$ 22,020,369	\$ 24,202,867
Net Income	<u>\$ 968,825</u>	<u>\$ 2,080,052</u>	<u>\$ 622,127</u>

Nature of the Organization – Willmar Municipal Utilities is an operating unit (department) of the City of Willmar, and is governed by a seven member commission appointed by the Mayor and approved by the Council.

The primary purpose of the Willmar Municipal Utilities is to provide Electric, Water and Hot Water Heating to the residents of Willmar.

Other Related Party transactions include the Utilities (City) participation in the establishment of a Limited Liability Company with Kandiyohi Power Cooperative named Allied Power, LLC. Allied Power was formed to undertake projects and services, which should provide benefits to the customers of both utilities. The investment is recorded on the equity method wherein the Municipal Utilities recognizes its pro-rata share of income or loss annually.

Allied Powers' investment in Entel Corporation will only be reflected by the Municipal Utilities by this method of recognizing Allied Powers profits or losses.

INTERNAL SERVICE FUNDS

OFFICE SERVICE FUND

The purpose of this fund is to account for revenues and expenses of the department that provides office supplies and services to all other departments. Charges are made to various activities of the City utilizing the service of the Office Service Fund, to produce the revenue for this fund. This fund had a net gain of **\$ 14,200** compared to a net gain of **\$ 10,642** for 2007.

PERMANENT IMPROVEMENT REVOLVING FUND

This fund was established to provide financing to other City funds when needed. These loans have to be repaid within five years.

As of December 31, 2008, the fund balance amount totaled **\$ 975,276**, of which **\$ -0-** was designated for future expenditures and which, **\$ 480,187** was on loan to other funds.

TRUST AND AGENCY FUNDS (EXHIBIT H)

This group of funds was established in 1989 to account for donations to the City in memorial of certain individuals, but no usage designated for any grant activity. The primary one administered annually is the **\$30,000** trust for the maintenance of Selvig Park.

GENERAL FIXED ASSETS (EXHIBIT I)

General Fixed Assets is recorded at actual acquisition cost. The allocation of the "Investment in General Fixed Assets" to the different functions was originally done on an estimated basis from the various sources of information available at that time with subsequent changes allocated on an actual cost basis. The total of all General Fixed Assets is **\$ 64,060,437**. This does not include Enterprise Assets.

GENERAL LONG-TERM DEBT ACCOUNT GROUP (EXHIBIT J)

The total of all Long-Term Debt is **\$ 16,401,559**. This does not include Enterprise Debt.

INDEPENDENT AUDIT

Section 2.09 of the City Charter requires an annual audit to be made of the account books, financial record, and transactions of all administrative departments of the City by a certified public accountant or the State Auditor's department of the State of Minnesota. This requirement will be met, and the report will be audited by the firm Westberg & Eischens Certified Public Accountants. The Rice Memorial Hospital and Willmar Municipal Utilities financial statements were audited by other auditors whose reports thereon have been furnished to my office. Amounts included for the Hospital and Utilities in the Component Unit Column on the City of Willmar's financial statements are based solely on the reports of the other auditors.

CLAIMS AND LITIGATION

There are a small number of lawsuits pending against the city in which the City is named as defendant or co-defendant. After discussions with the City Attorney, it is my opinion that the claims against the city represented by these lawsuits, not covered by insurance would not materially affect the financial statements to the City.

CITY FINANCIAL PROSPECTS FOR PAST AND FUTURE YEARS

The City has been working very closely with the overlapping taxing districts of Kandiyohi County and, so the area as a region can continue to prosper and grow. Some examples of cooperation are the Airport and Law Enforcement Projects and the Kandiyohi Area Transit system.

The following were goals of the City Council.

High-Priority Goals

- *Complete needs analysis for city facilities (Space needs)
- *Complete Wastewater Treatment Plant design
- *Build quiet zone crossings and railroad loop by 2010
- *Complete first phase of Industrial Park and initiate planning for subsequent phases
- *Appoint a task force to review current housing standards and make recommendations to the City Council for any changes required to policies and enforcement codes

Lower-Priority Goals

- *Complete analysis and adopt an action plan to meet projected city staffing needs, requirements, and capacities.
- *Reconstruct seven miles of city street rated at 20 or less
- *Bring into the community at least two additional orthopedic and two additional heart doctors
- *Continue to explore different avenues of Central Business District development (including all stakeholders in the process)
- *Adopt plan for power plant replacement and ensuring the provision of district heat to the plant's customers

ACKNOWLEDGMENTS

The preparation of this report could not be accomplished without the efficient and dedicated services of the entire Finance Department staff, as well as, all other City personnel who either reviewed the material in this report, or supplied essential information.

Respectfully submitted,

Steven B. Okins
Finance Director

PAYROLL

The Payroll function, as I mentioned, deals with six (6) employee contracts and all the benefits and withholdings that are required, such as: Federal and State withholdings, Social Security, Medicare, P.E.R.A., Deferred Compensation, Flexible spending accounts, Health, Life, Workers Compensation and Disability Insurance, as well as, all the monthly and quarterly reporting that is required.