

CITY OF LAKE CITY, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2008

CITY OF LAKE CITY, MINNESOTA

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CITY OF LAKE CITY, MINNESOTA

INTRODUCTORY SECTION

DECEMBER 31, 2008

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205 West Center Street
Lake City, Minnesota 55041
(651) 345-5383
Fax: (651) 345-3208
www.ci.lake-city.mn.us

June 8, 2009

To the Honorable Mayor, Members of the City Council and Citizens of Lake City;

The City of Lake City's Annual Financial Report for the fiscal year ended December 31, 2008 is submitted in accordance with Generally Accepted Accounting Principles (GAAP). The purpose of this report is to provide the Mayor, City Council and other interested parties with useful information regarding the City's operations and financial position.

Minnesota Statute 471.697 requires cities the size of Lake City to:

- Prepare a financial report covering the city's operations during the preceding fiscal year after the close of the fiscal year. The report shall contain financial statements and disclosures which present the city's financial position and the results of the city operations in conformity with generally accepted accounting principles.
- File the financial report in the clerk's or financial officer's office for public inspection and present it to the city council after the close of the fiscal year. One copy of the financial report shall be furnished to the state auditor after the close of the fiscal year,
- Submit to the state auditor audited financial statements which have been attested to by a certified public accountant, public accountant, or the state auditor within 180 days after the close of the fiscal year. A copy of the audited financial statement along with any management letter or other written findings or comments by the auditor must be provided to each city council member and the mayor no later than 30 days after the report is required to be submitted to the state auditor.

The accompanying independent auditor's report, management's discussion and analysis, basic financial statements and supplemental information and schedules are designed to meet the requirements of the statute.

The City assumes responsibility for both the accuracy of data and the completeness and fairness of the presentation, including all disclosures. To the best of our knowledge, this financial report is complete and reliable in all material respects.

Smith Schafer & Associates, LTD, Certified Public Accountants, have issued an unqualified ("clean") opinion on the City of Lake City's financial statements for the year ended December 31, 2008. The independent auditor's report is located on page one of this report.

The City's financial statements include all funds of the City and its component units. The statements represent all funds under the ultimate control of the Mayor and City Council. The Economic Development Authority is legally separate but the City is financially accountable, therefore the EDA is reported separately as a component unit in the City of Lake City's financial statements.

The preparation of the 2008 Annual Financial Report was accomplished through the combined efforts of the Clerk/Finance Department, various department staff and the firm of Smith Schafer and Associates, LTD.

Respectfully submitted;

A handwritten signature in cursive script that reads "Barbara I. Pratt".

Barbara I. Pratt
Finance Director/Treasurer

**CITY OF LAKE CITY, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2008**

ELECTED

<u>Title</u>	<u>Name</u>	<u>Term Expires</u>
Mayor	Katie Himanga	January 12, 2009
Council	Marylou Waltman	January 12, 2009
Council	Ray St. Martin	January 11, 2011
Council	Matt Powers	January 11, 2011
Council	Keith Draz	January 12, 2009
Council	Joel Beckman	January 11, 2011
Council	Dawn Heitman	January 12, 2009

APPOINTED

City Administrator	Ron Johnson
City Clerk	Cindy Gosse
Finance Director/Treasurer	Barbara Pratt
Executive Assistant/ Deputy Clerk	Rojean Becker

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CITY OF LAKE CITY, MINNESOTA

FINANCIAL SECTION

DECEMBER 31, 2008

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Council
City of Lake City, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lake City, Minnesota as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the City's 2007 financial statements and, in our report dated May 30, 2008, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lake City, Minnesota as of December 31, 2008, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Audit Standards*, we have also issued our report dated May 29, 2009, on our consideration of the City of Lake City, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting and compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Honorable Mayor and Members
of the City Council
City of Lake City, Minnesota
Page 2

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lake City, Minnesota's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and schedules listed in the Financial Section of the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in cursive script that reads "Smith, Schafen and Associates, Ltd.".

Rochester, Minnesota
May 29, 2009

CITY OF LAKE CITY, MINNESOTA MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Lake City, Minnesota, we offer readers of the City of Lake City's financial statements this narrative overview and analysis of the financial activities of the City of Lake City for the fiscal year ended December 31, 2008. We encourage readers to consider the information presented here in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the City of Lake City exceeded its liabilities at the close of the most recent fiscal year by \$37,320,406 (*net assets*). Of this amount, \$9,911,342 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designations and fiscal policies.
- The City's total net assets increased by \$898,876.
- As of the close of the current fiscal year, the City of Lake City's governmental funds reported combined ending fund balances of \$2,982,892. Approximately 92 percent of this total amount, or \$2,741,540 is available for use within the City's designations and policies.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,423,142 or 35 percent of total general fund expenditures.
- The City of Lake City total outstanding debt increased by \$643,286 during the current fiscal year. Principal payments are made as scheduled and continue to reduce outstanding debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

1. Government-wide financial statements, providing information for the City as a whole.
2. Fund financial statements, providing detailed information for the City's significant funds.
3. Notes to the financial statements, providing additional information that is essential to understanding the government-wide and fund statements.

This report also contains other supplementary information in addition to the basic financial statements themselves. Additional explanation of these sections of the financial statements follows.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Lake City's finances, in a manner similar to a private-sector business. All departments operated by the City are presented in the financial statements including enterprise funds such as the electric utility and marina.

The *statement of net assets* presents information on all of the City of Lake City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases in net assets may serve as a useful indicator of whether the financial position of the City of Lake City is improving. Conversely, decreases in net assets may indicate the financial position is deteriorating.

**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of the related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned, but not used, compensated absences).

Both of the government-wide financial statements distinguish functions of the City of Lake City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Lake City include general government, public safety, streets and highways, culture and recreation, and economic development. The business-type activities of the City of Lake City include the electric, water, sewer, storm water and garbage utilities as well as the operations of the City owned marina. The government-wide financial statements can be found on pages 14-16 of this report.

Additional financial information for the Economic Development Authority (EDA) can be found on page 70. The EDA is reported as a component unit which is legally separate from the City but the City is financially accountable.

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 Lake City, 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 Lake City 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 fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

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

The City of Lake City maintains twenty-eight 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 which is considered to be a major fund. Data from the other twenty-seven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* on pages 61-69 in this report.

**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City of Lake City adopts an annual appropriated budget for its general fund and library fund. Budgetary comparison statements have been provided for the general fund (pages 21-25) and the library fund (page 69) to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 17 and 19 of this report.

Proprietary funds. The City of Lake City maintains two types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Lake City uses enterprise funds to account for its electric, water, sewer, storm water, and garbage utilities and its marina activity. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the City of Lake City's various functions. The City of Lake City uses an internal service fund to account for the City's fuel purchases. This service was discontinued in 2008 and land on which the fuel pumps were located is in the final process of remediation.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the electric, water, sewer, storm water, and garbage utilities and its marina activity, all of which are considered to be major funds of the City of Lake City.

The basic proprietary fund financial statements can be found on pages 26-33 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 34-60 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds can be found on pages 61-70 of this report.

IMPORTANT REMINDERS:

Infrastructure Assets. The City of Lake City first implemented GASB Statement #34 for its fiscal year ended December 31, 2003. Historically, governmental fixed assets, particularly infrastructure assets, have only been accounted for using the current financial resources (budgeted resources) method, and have not been expensed annually through depreciation or accounted for otherwise. Additionally, significant infrastructure assets have been constructed by developers and contributed to the City over the years but have never been recorded on its financial recorded prior to January 1, 2003. The valuations of infrastructure assets acquired prior to January 1, 2003 were completed during 2005 and are included in the December 31, 2005 financial statement. All acquisitions of infrastructure assets since 2003 have been recorded under the new reporting model.

**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Lake City, assets exceeded liabilities by \$37,320,406 at the close of the most recent fiscal year.

By far the largest portion of the City of Lake City's net assets (70 percent) reflects its investment in capital assets (e.g. land, buildings, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Lake City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Lake City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Lake City's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 4,585,648	\$ 3,935,986	\$ 8,940,067	\$ 9,070,826	\$ 13,525,715	\$ 13,006,812
Capital assets	13,593,573	12,286,629	22,077,113	22,205,149	35,670,686	34,491,778
Total assets	<u>18,179,221</u>	<u>16,222,615</u>	<u>31,017,180</u>	<u>31,275,975</u>	<u>49,196,401</u>	<u>47,498,590</u>
Long-term liabilities						
outstanding	2,215,054	1,283,480	7,936,534	8,224,822	10,151,588	9,508,302
Other liabilities	605,488	476,866	1,118,919	1,091,892	1,724,407	1,568,758
Total liabilities	<u>2,820,542</u>	<u>1,760,346</u>	<u>9,055,453</u>	<u>9,316,714</u>	<u>11,875,995</u>	<u>11,077,060</u>
Net assets:						
Invested in capital assets, net of related debt	11,705,525	11,300,629	14,333,863	14,131,035	26,039,388	25,431,664
Restricted	1,369,676	1,369,547			1,369,676	1,369,547
Unrestricted	2,283,478	1,792,093	7,627,864	7,828,226	9,911,342	9,620,319
Total net assets	<u>\$ 15,358,679</u>	<u>\$ 14,462,269</u>	<u>\$ 21,961,727</u>	<u>\$ 21,959,261</u>	<u>\$ 37,320,406</u>	<u>\$ 36,421,530</u>

A portion of the City of Lake City's net assets (4 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$9,911,342) 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 Lake City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its business-type activities.

Governmental activities. Governmental activities increased the City of Lake City's net assets by \$896,410.

**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Business-type activities. Business-type activities increased the City of Lake City's net assets by \$2,466.

A condensed version of the Statement of Activities follows:

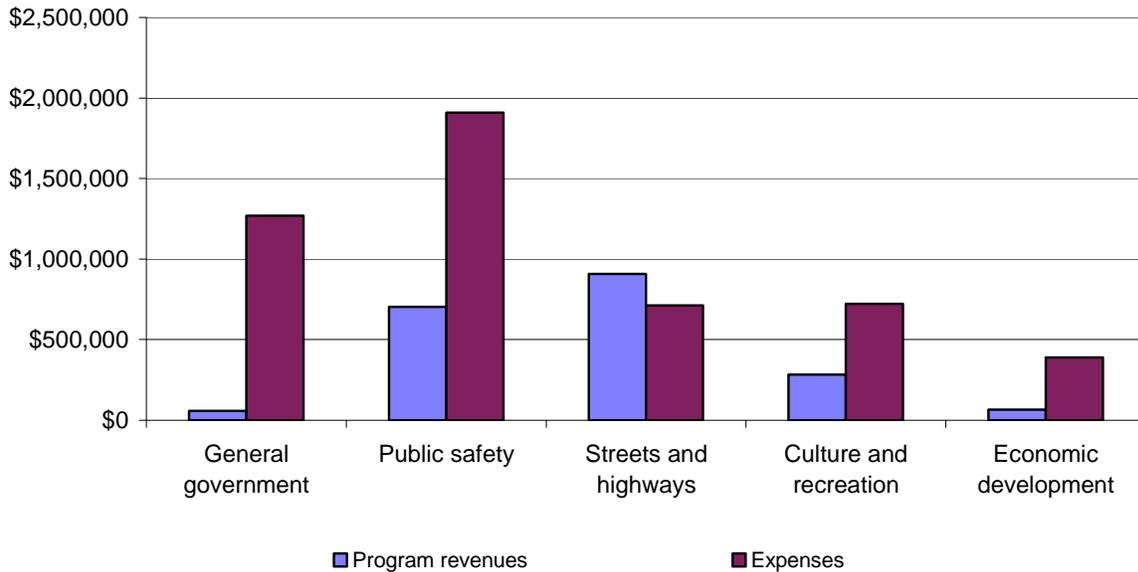
City of Lake City's Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenue:						
Program revenues:						
Charges for services	\$ 772,009	\$ 707,727	\$ 13,847,052	\$ 13,939,769	\$ 14,619,061	\$ 14,647,496
Operating grants and contributions	335,182	322,704			335,182	322,704
Capital grants and contributions	911,265	208,022	579,554	132,998	1,490,819	341,020
General revenues:						
Property taxes	2,195,215	2,064,789			2,195,215	2,064,789
Tax increments	143,141	140,848			143,141	140,848
Grants and contributions not restricted to specific programs	807,758	990,534			807,758	990,534
Other	293,215	318,476	301,939	451,876	595,154	770,352
Total revenues	<u>5,457,785</u>	<u>4,753,100</u>	<u>14,728,545</u>	<u>14,524,643</u>	<u>20,186,330</u>	<u>19,277,743</u>
Expenses:						
General government	1,269,522	1,264,458			1,269,522	1,264,458
Public safety	1,909,244	1,760,677			1,909,244	1,760,677
Streets and highways	712,959	706,462			712,959	706,462
Culture and recreation	722,612	614,785			722,612	614,785
Economic development	390,461	80,109			390,461	80,109
Interest on long-term debt	61,577	79,990			61,577	79,990
Electric			10,622,160	10,302,366	10,622,160	10,302,366
Water			705,086	561,306	705,086	561,306
Sewer			1,347,912	1,439,744	1,347,912	1,439,744
Storm water			84,027	61,446	84,027	61,446
Marina			271,371	275,313	271,371	275,313
Garbage			1,190,523	1,115,542	1,190,523	1,115,542
Total expenses	<u>5,066,375</u>	<u>4,506,481</u>	<u>14,221,079</u>	<u>13,755,717</u>	<u>19,287,454</u>	<u>18,262,198</u>
Increase in net assets before transfers and other	391,410	246,619	507,466	768,926	898,876	1,015,545
Transfers	505,000	281,000	(505,000)	(281,000)		
Increase in net assets	896,410	527,619	2,466	487,926	898,876	1,015,545
Net assets, beginning of year	14,462,269	13,934,650	21,959,261	21,471,335	36,421,530	35,405,985
Net assets, end of year	<u>\$ 15,358,679</u>	<u>\$ 14,462,269</u>	<u>\$ 21,961,727</u>	<u>\$ 21,959,261</u>	<u>\$ 37,320,406</u>	<u>\$ 36,421,530</u>

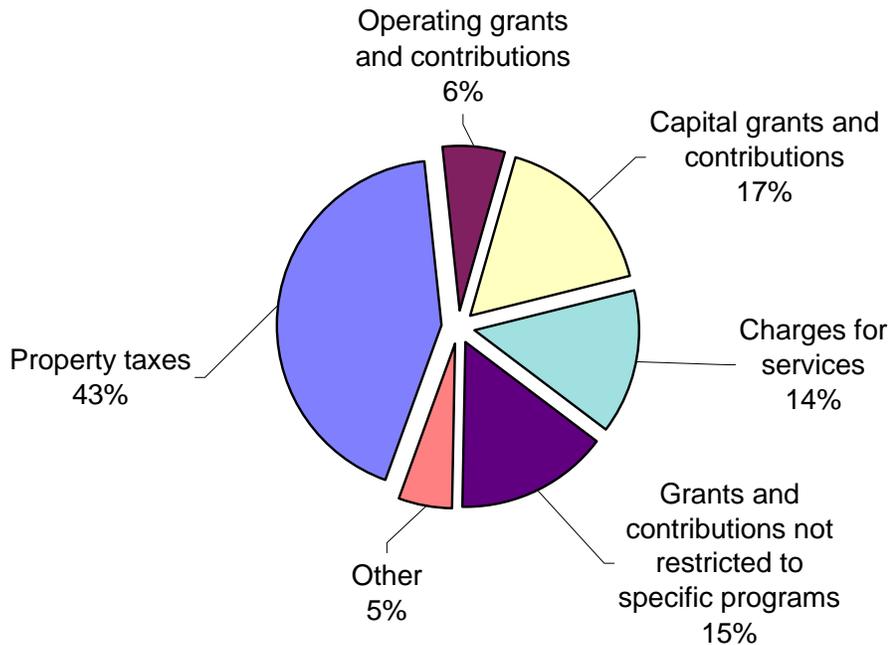
**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Below are specific graphs that provide comparisons of the governmental activities direct program revenues with their expenditures. Any shortfalls in direct revenues are primarily supported by property tax levy or general state aid.

Expenses and Program Revenues - Governmental Activities



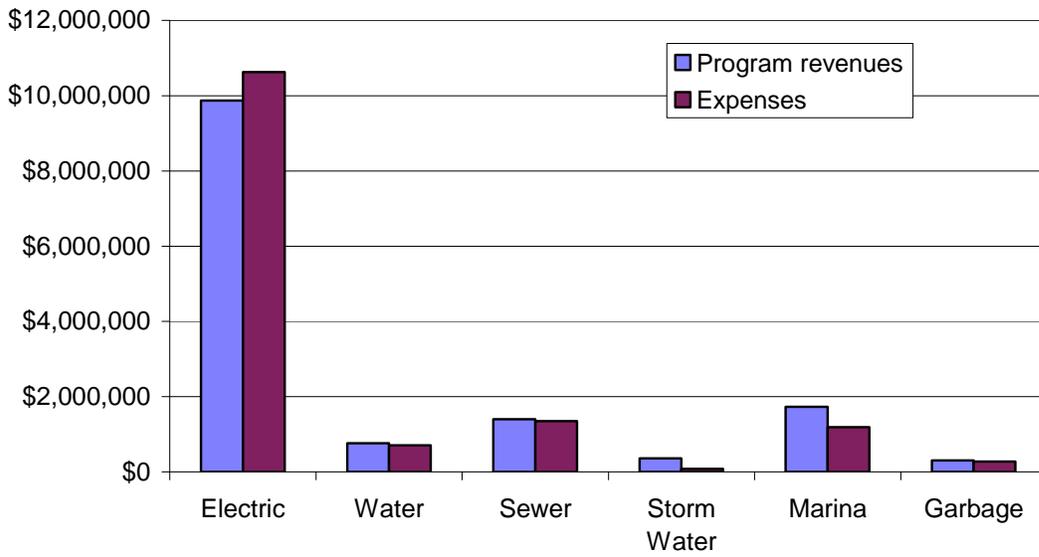
Revenues by Source - Governmental Activities



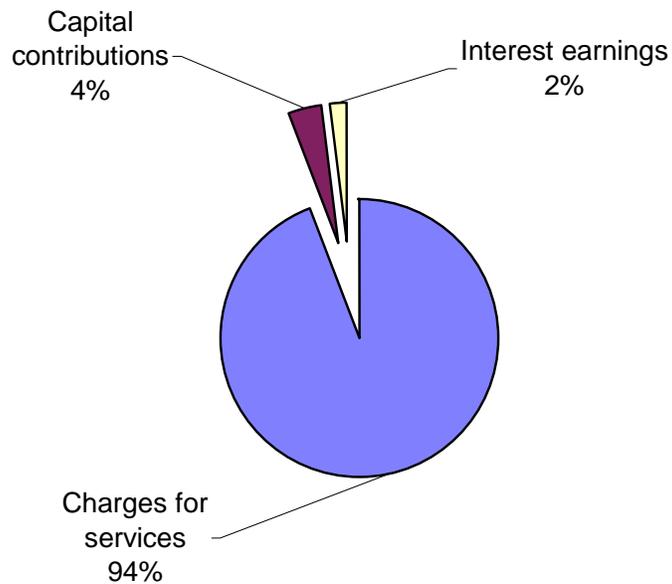
**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following graphs relate the various business-type activities' program revenues with their expenditures. Since these activities generally require significant physical assets to operate, any excess revenues are held for planned capital expenditures to keep pace with growing demand for services.

Expenses and Program Revenues - Business-Type Activities



Revenues by Source - Business-Type Activities



**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the City of Lake City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Lake City's financing requirements. In particular, *unreserved 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 Lake City's governmental funds reported combined ending fund balances of \$2,982,892, an increase of \$514,646. Approximately 92 percent of this total amount, or \$2,741,540, constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of this fund balance (\$241,352) is *reserved* to indicate that it is not available for new spending because it has already been committed to repay long-term debt.

The general fund is the chief operating fund of the City of Lake City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,423,142. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 35 percent of total general fund expenditures.

The general fund's total fund balance increased by \$390,132 during the current fiscal year. This year's increase was primarily due to reduced personnel costs in the planning and zoning department associated with only having personnel for a partial year and not spending the full budgeted amount of contractual service for council, supplies for government building, and the full budgeted amount of capital outlay for streets and highways. The net budgeted change in fund balance (revenues in excess of expenditures) was \$406,232 less than actual results. Revenues met or exceeded budget projections in most all cases (total actual revenues excluding transfers exceeded the budgeted amount by \$228,695), except transfers in were \$30,000 more than budgeted. Total actual expenditures excluding transfers out were under budgeted expenditures by \$147,537.

The City continues to computerize transactions including upgrading the network server which improved software application performance.

The street improvement project began in 2008 with mill and overlay amounting to \$1.1 million. The five year project was approved in 2008.

The Marina beach cabana was leased and provided additional services to the beach area with bike and canoe rentals and access to restrooms.

**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The library fund increased its fund balance by \$32,371 for the year which was primarily a result of actual expenditures being under budget and an operating transfer/contribution from the marina fund.

The debt service funds have a total fund balance of \$241,352 all of which is reserved for the payment of debt service. These fund balances increased by \$2,445 for the year, which represented bond pay offs prior to the final payments of the special assessment.

Proprietary funds. The City of Lake City's proprietary funds statements found on pages 26-33 provide the same type of information found in the government-wide financial statements, but in more detail.

The unrestricted net assets in the respective proprietary funds are Electric - \$2,165,706, Water - \$1,184,131, Sewer - \$203,316, Storm Water - \$372,493, Marina - \$3,436,970, and Garbage - \$265,248. All but the electric utility fund had increases in total net assets for the year. The electric utility fund's decrease of \$777,900 was primarily due to an increase in purchase power cost without an increase in customer electric rates.

General Fund Budgetary Highlights

- The City approved the 2008 general fund budget anticipating an increase in general fund reserves of \$137,460. All differences between the original and final budgets in the general fund for the City in 2008 were approved by resolution amending the original budget. Significant changes in the budget were for a compensated absence payout of a long time employee, additional use of contracted services for planning and zoning, and increase in police salary and health insurance. In addition, the Minnesota State Government reduced the amount of local government aid to Lake City by \$122,000.

Capital Asset and Debt Administration

Capital assets. The City of Lake City's investment in capital assets for its governmental and business-type activities as of December 31, 2008, amounts to \$35,670,686 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City of Lake City's reported investment in capital assets for the current fiscal year was \$1,178,908, or 3 percent.

**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

City of Lake City's Capital Assets
(net of depreciation)

	Governmental		Business-Type		Total	
	Activities		Activities			
	2008	2007	2008	2007	2008	2007
Land	\$ 1,303,791	\$ 1,303,791	\$ 723,363	\$ 723,363	\$ 2,027,154	\$ 2,027,154
Construction in progress			293,894	119,755	293,894	119,755
Buildings and improvements	5,188,852	5,323,480	10,052,600	10,353,700	15,241,452	15,677,180
Machinery and equipment	1,274,600	1,413,989	1,041,016	1,094,097	2,315,616	2,508,086
Infrastructure	5,826,330	4,245,369			5,826,330	4,245,369
Distribution and collection system			9,966,240	9,914,234	9,966,240	9,914,234
Total	<u>\$ 13,593,573</u>	<u>\$ 12,286,629</u>	<u>\$ 22,077,113</u>	<u>\$ 22,205,149</u>	<u>\$ 35,670,686</u>	<u>\$ 34,491,778</u>

Additional information on the City of Lake City's capital assets can be found in Note 4 on pages 45-47 of this report.

Long-term debt. At the end of the current fiscal year, the City of Lake City had \$9,631,297 in bonds and notes outstanding. Of this amount, \$8,805,097 comprises debt backed by the full faith and credit of the government and \$826,200 represents bonds secured solely by specified revenue sources.

City of Lake City's Outstanding Debt

	Governmental		Business-Type		Total	
	Activities		Activities			
	2008	2007	2008	2007	2008	2007
General obligation bonds	\$ 1,888,048	\$ 986,000	\$ 340,000	\$	\$ 2,228,048	\$ 986,000
General obligation revenue loans			5,999,249	6,413,613	5,999,249	6,413,613
General obligation revenue bonds			577,800	750,400	577,800	750,400
Revenue bonds			826,200	910,100	826,200	910,100
Compensated absences	327,006	297,480	193,285	150,709	520,291	448,189
Total	<u>\$ 2,215,054</u>	<u>\$ 1,283,480</u>	<u>\$ 7,936,534</u>	<u>\$ 8,224,822</u>	<u>\$ 10,151,588</u>	<u>\$ 9,508,302</u>

The City of Lake City's total outstanding debt increased by \$643,286 during the current year. New debt issued during 2008 included \$1,100,000 for street improvements and \$340,000 for water line improvements. A total of \$850,364 in bonds and notes payable was retired during 2008. A more detailed breakdown of these obligations can be found in Note 6, beginning on page 50.

The City of Lake City maintains an A2 bond rating on its general obligation bonds from Moody's Investors Service.

**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Requests for Information

This financial report is designed to provide a general overview of the City of Lake City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance Director, City Hall, 205 West Center, Lake City, MN 55041.

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CITY OF LAKE CITY, MINNESOTA
BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008

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CITY OF LAKE CITY, MINNESOTA
STATEMENT OF NET ASSETS
December 31, 2008
With Comparative Totals for December 31, 2007

	Primary Government				Component Unit	
	Governmental Activities	Business-Type Activities	Totals		Economic Development Authority	
			2008	2007	2008	2007
Assets						
Cash and investments	\$ 3,653,709	\$ 6,419,218	\$ 10,072,927	\$ 9,698,533	\$ 54,899	\$
Receivables	933,798	1,295,566	2,229,364	1,912,743		
Internal balances	(358,675)	358,675				
Due from other governmental units	356,803		356,803	363,268	26,150	1,145
Due from primary government					79,344	83,693
Due from component unit	13		13	311,613		
Prepaid expenses		57,791	57,791	65,342		
Inventories		808,817	808,817	655,313		
Capital assets:						
Nondepreciable	1,303,791	1,017,257	2,321,048	2,146,909		
Depreciable, net	12,289,782	21,059,856	33,349,638	32,344,869	2,052,353	2,113,293
Total Assets	18,179,221	31,017,180	49,196,401	47,498,590	2,212,746	2,198,131
Liabilities						
Accounts and contracts payable	166,511	953,298	1,119,809	964,288	1,485	
Accrued liabilities	96,008	93,716	189,724	174,774	14,462	
Deposits payable	263,625	71,905	335,530	346,003		
Due to primary government					13	311,613
Due to component unit	79,344		79,344	83,693		
Noncurrent liabilities						
Due within one year	205,000	702,941	907,941	808,364	187,044	90,128
Due in more than one year	2,010,054	7,233,593	9,243,647	8,699,938	509,917	696,961
Total Liabilities	2,820,542	9,055,453	11,875,995	11,077,060	712,921	1,098,702
Net Assets						
Invested in capital assets, net of related debt	11,705,525	14,333,863	26,039,388	25,431,664	1,340,930	1,326,204
Restricted for:						
Grants and contracts	696,953		696,953	764,762		
Debt service	241,352		241,352	238,907		
Tax increment purposes and loan covenants	431,371		431,371	365,878		
Unrestricted	2,283,478	7,627,864	9,911,342	9,620,319	158,895	(226,775)
Total Net Assets	\$ 15,358,679	\$ 21,961,727	\$ 37,320,406	\$ 36,421,530	\$ 1,499,825	\$ 1,099,429

See Notes to Financial Statements

CITY OF LAKE CITY, MINNESOTA
STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2008
 With Comparative Totals for the Year Ended December 31, 2007

<u>Functions/Programs</u>	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 1,269,522	\$ 53,492	\$ 4,904	\$
Public safety	1,909,244	553,222	150,986	
Streets and highways	712,959	7,267	53,457	846,265
Culture and recreation	722,612	158,028	125,835	
Economic development	390,461			65,000
Interest on long-term debt	61,577			
Total governmental activities	<u>5,066,375</u>	<u>772,009</u>	<u>335,182</u>	<u>911,265</u>
Business-Type activities:				
Electric utility	10,622,160	9,868,915		
Water utility	705,086	612,576		151,084
Sewer utility	1,347,912	1,252,674		148,622
Storm water utility	84,027	83,653		279,848
Garbage	271,371	301,653		
Marina	1,190,523	1,727,581		
Total business-type activities	<u>14,221,079</u>	<u>13,847,052</u>		<u>579,554</u>
Total Primary Government	<u>\$ 19,287,454</u>	<u>\$ 14,619,061</u>	<u>\$ 335,182</u>	<u>\$ 1,490,819</u>
Component Unit:				
Economic Development Authority	<u>\$ 157,909</u>	<u>\$</u>	<u>\$ 556,013</u>	<u>\$</u>

General revenues:
 General property taxes
 Tax increments
 Grants and contributions not restricted to specific programs
 Investment earnings
 Miscellaneous
 Transfers
 Total general revenues and transfers

Change in net assets

Net assets - beginning

Net assets - ending

See Notes to Financial Statements

Net (Expense) Revenue and Changes in Net Assets					
Primary Government				Component Unit	
Governmental Activities	Business-Type Activities	Totals		Economic Development Authority	
		2008	2007	2008	2007
\$ (1,211,126)	\$	\$ (1,211,126)	\$ (1,219,943)	\$	\$
(1,205,036)		(1,205,036)	(1,100,919)		
194,030		194,030	(440,499)		
(438,749)		(438,749)	(346,568)		
(325,461)		(325,461)	(80,109)		
(61,577)		(61,577)	(79,990)		
<u>(3,047,919)</u>		<u>(3,047,919)</u>	<u>(3,268,028)</u>		
	(753,245)	(753,245)	(266,006)		
	58,574	58,574	47,436		
	53,384	53,384	(78,378)		
	279,474	279,474	68,155		
	30,282	30,282	13,495		
	<u>537,058</u>	<u>537,058</u>	<u>532,348</u>		
	<u>205,527</u>	<u>205,527</u>	<u>317,050</u>		
<u>(3,047,919)</u>	<u>205,527</u>	<u>(2,842,392)</u>	<u>(2,950,978)</u>		
				<u>398,104</u>	<u>143,677</u>
2,195,215		2,195,215	2,064,789		
143,141		143,141	140,848		
807,758		807,758	990,534		
246,925	284,909	531,834	657,393	2,292	3,547
46,290	17,030	63,320	112,959		
505,000	(505,000)				
<u>3,944,329</u>	<u>(203,061)</u>	<u>3,741,268</u>	<u>3,966,523</u>	<u>2,292</u>	<u>3,547</u>
896,410	2,466	898,876	1,015,545	400,396	147,224
<u>14,462,269</u>	<u>21,959,261</u>	<u>36,421,530</u>	<u>35,405,985</u>	<u>1,099,429</u>	<u>952,205</u>
<u>\$ 15,358,679</u>	<u>\$ 21,961,727</u>	<u>\$ 37,320,406</u>	<u>\$ 36,421,530</u>	<u>\$ 1,499,825</u>	<u>\$ 1,099,429</u>

CITY OF LAKE CITY, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS

December 31, 2008

With Comparative Totals for December 31, 2007

	General Fund	Other Governmental Funds	Total Governmental Funds	
			2008	2007
Assets				
Cash and investments	\$ 1,389,299	\$ 2,264,410	\$ 3,653,709	\$ 2,804,827
Interest receivable	98,115		98,115	59,631
Accounts receivable	110,720	8,175	118,895	180,114
Taxes receivable delinquent	147,044	9,392	156,436	67,278
Special assessments receivable:				
Delinquent		1,252	1,252	1,595
Deferred	1,170	237,958	239,128	286,842
Advances to other funds	55,000		55,000	55,000
Interfund receivable	357,135		357,135	492,689
Loans receivable		319,972	319,972	263,682
Due from other governmental units	351,061	5,742	356,803	363,268
Due from component unit	13		13	311,613
TOTAL ASSETS	\$ 2,509,557	\$ 2,846,901	\$ 5,356,458	\$ 4,886,539
Liabilities and Fund Balance				
Liabilities				
Accounts payable	\$ 47,868	\$ 117,229	\$ 165,097	\$ 53,945
Accrued liabilities	75,955	1,767	77,722	47,291
Deposits payable	3,708	259,917	263,625	284,804
Advances from other funds	413,675		413,675	457,864
Interfund payable		339,666	339,666	486,594
Due to component unit	79,344		79,344	83,693
Deferred revenue	465,865	568,572	1,034,437	1,004,102
Total Liabilities	<u>1,086,415</u>	<u>1,287,151</u>	<u>2,373,566</u>	<u>2,418,293</u>
Fund Balance				
Reserved for:				
Debt service		241,352	241,352	238,907
Unreserved, designated reported in:				
General fund	1,423,142		1,423,142	1,033,010
Unreserved, undesignated reported in:				
General fund				
Special revenue funds		992,052	992,052	1,017,740
Capital projects funds		326,346	326,346	178,589
Total Fund Balance	<u>1,423,142</u>	<u>1,559,750</u>	<u>2,982,892</u>	<u>2,468,246</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ 2,509,557	\$ 2,846,901	\$ 5,356,458	\$ 4,886,539

See Notes to Financial Statements

**CITY OF LAKE CITY, MINNESOTA
RECONCILIATION OF NET ASSETS IN THE
GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND BALANCES
IN THE FUND BASIS FINANCIAL STATEMENTS**

December 31, 2008

Amounts reported for governmental activities in the statement of net assets are different because:

Total governmental fund balances (page 17)	\$ 2,982,892
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Governmental funds - capital assets	\$ 27,529,703
Less: Accumulated depreciation	<u>(13,936,130)</u>
	13,593,573
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	
Delinquent property taxes and special assessments	\$ 157,688
Deferred special assessments	239,128
Due from other governments	317,650
Loans receivable	<u>319,972</u>
	1,034,438
Internal service funds are used by management to charge the costs of fuel to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets	(18,884)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Bonds and notes payable	\$ (1,888,048)
Compensated absences	(327,006)
Accrued interest	<u>(18,286)</u>
	<u>(2,233,340)</u>
Net assets of governmental activities (page 14)	<u><u>\$ 15,358,679</u></u>

**CITY OF LAKE CITY, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS**

For the Year Ended December 31, 2008
With Comparative Totals for the Year Ended December 31, 2007

	General Fund	Other Governmental Funds	Total Governmental Funds	
			2008	2007
Revenues				
Taxes	\$ 1,941,262	\$ 307,936	\$ 2,249,198	\$ 2,194,929
Special assessments	374	64,991	65,365	100,625
Licenses and permits	54,933		54,933	33,557
Intergovernmental revenues	988,264	63,211	1,051,475	1,226,471
Charges for services	670,970	1,777	672,747	628,486
Fines and forfeits	41,188	5,760	46,948	45,684
Investment income	99,662	147,263	246,925	222,957
Miscellaneous revenues	154,746	126,655	281,401	245,890
Total Revenues	3,951,399	717,593	4,668,992	4,698,599
Expenditures				
General government	1,040,139		1,040,139	1,061,388
Public safety	1,810,861		1,810,861	1,667,798
Streets and highways	459,346		459,346	609,319
Culture and recreation	567,024	176,512	743,536	662,207
Economic development	138,897	322,064	460,961	160,109
Capital outlay		996,127	996,127	170,502
Bond principal retirement		176,000	176,000	504,000
Interest and fiscal charges		67,472	67,472	95,859
Total Expenditures	4,016,267	1,738,175	5,754,442	4,931,182
Excess (Deficiency) of Revenues Over (Under) Expenditures	(64,868)	(1,020,582)	(1,085,450)	(232,583)
Other Financing Sources (Uses)				
Bond proceeds		1,095,096	1,095,096	
Transfers in	455,000	50,000	505,000	1,162,533
Transfers out				(881,533)
Total other financing sources (uses)	455,000	1,145,096	1,600,096	281,000
Net change in fund balances	390,132	124,514	514,646	48,417
FUND BALANCE, beginning	1,033,010	1,435,236	2,468,246	2,419,829
FUND BALANCE, ending	\$ 1,423,142	\$ 1,559,750	\$ 2,982,892	\$ 2,468,246

See Notes to Financial Statements

CITY OF LAKE CITY, 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, 2008

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds (page 19)		\$	514,646
Governmental funds reported capital outlays as expenditures.			
However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.			
Capital outlay		\$	996,127
Capital outlay-other governmental funds			164,686
Depreciation expense			<u>(682,826)</u>
			477,987
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.			
			828,957
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.			
Deferred revenue, December 31, 2008		\$	1,034,438
Deferred revenue, December 31, 2007			<u>(1,004,102)</u>
			30,336
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 governmental funds.			
Compensated absences			(29,526)
Internal service funds are used by management to charge the costs of fuel to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities			
			(12,789)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.			
Proceeds from issuance of long-term debt		\$	(1,100,000)
Principal retirement on long-term debt			176,000
Long-term debt discount and issuance costs			21,952
Change in accrued interest			<u>(11,153)</u>
			<u>(913,201)</u>
Change in net assets of governmental activities (pages 15 and 16)		\$	<u><u>896,410</u></u>

See Notes to Financial Statements

CITY OF LAKE CITY, MINNESOTA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended December 31, 2008
With Comparative Totals for the Year Ended December 31, 2007

	Budgeted Amounts		2008 Actual Amounts	Variance with Final Budget Positive (Negative)	2007 Actual Amounts
	Original	Final			
Taxes					
Property taxes	\$ 1,806,892	\$ 1,806,892	\$ 1,782,537	\$ (24,355)	\$ 1,726,026
Special assessments			374	374	
Franchise tax	90,000	90,000	106,877	16,877	107,179
Lodging tax			51,848	51,848	40,483
Total Taxes	1,896,892	1,896,892	1,941,636	44,744	1,873,688
Licenses and Permits					
Business licenses	18,800	18,800	17,373	(1,427)	17,409
Non-Business licenses	44,250	44,250	37,560	(6,690)	16,148
Total Licenses and Permits	63,050	63,050	54,933	(8,117)	33,557
Intergovernmental Revenues					
Federal:					
Cops in school grant	25,000	25,000	28,729	3,729	24,640
State:					
Local government aid	784,069	784,069	661,923	(122,146)	823,503
Market value credit	139,450	139,450	139,450		157,393
MSA street maintenance	45,000	45,000	46,064	1,064	45,404
Fire aid			36,752	36,752	43,179
Police aid	52,000	52,000	67,953	15,953	60,116
Other state aids	7,393	7,393	7,393		7,393
Total Intergovernmental	1,052,912	1,052,912	988,264	(64,648)	1,161,628
Charges for Services					
General government	1,000	1,000	2,289	1,289	2,395
Public safety	450,950	451,950	512,034	60,084	472,030
Streets and highways	2,500	2,500	6,762	4,262	5,144
Park fees	119,500	119,500	149,885	30,385	147,072
Total Charges for Services	573,950	574,950	670,970	96,020	626,641
Fines and forfeits	33,000	33,000	41,188	8,188	39,285
Investment Income	20,000	20,000	99,662	79,662	42,121
Miscellaneous Revenues					
Other	7,200	6,900	61,616	54,716	59,721
Refunds and reimbursements	75,000	75,000	93,130	18,130	71,311
Total Miscellaneous Revenues	82,200	81,900	154,746	72,846	131,032
TOTAL REVENUES	\$ 3,722,004	\$ 3,722,704	\$ 3,951,399	\$ 228,695	\$ 3,907,952

See Notes to Financial Statements

CITY OF LAKE CITY, MINNESOTA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended December 31, 2008
With Comparative Totals for the Year Ended December 31, 2007

	Budgeted Amounts		2008 Actual Amounts	Variance with Final Budget Positive (Negative)	2007 Actual Amounts
	Original	Final			
EXPENDITURES					
General Government					
Mayor and City Council:					
Personnel services	\$ 50,050	\$ 50,050	\$ 42,805	\$ 7,245	\$ 46,110
Supplies	2,850	2,877	2,670	207	2,773
Other services and charges	121,090	125,962	71,314	54,648	77,982
Total Mayor and City Council	173,990	178,889	116,789	62,100	126,865
City Administrator:					
Personnel services	123,992	123,992	123,659	333	116,637
Supplies	1,050	1,050	1,042	8	269
Other services and charges	16,960	17,960	14,778	3,182	7,030
Total City Administrator	142,002	143,002	139,479	3,523	123,936
City Clerk/Finance Director:					
Personnel services	263,165	296,250	282,684	13,566	256,314
Supplies	13,350	13,350	8,730	4,620	8,398
Other services and charges	51,200	51,140	45,250	5,890	54,062
Capital outlay					30,500
Total City Clerk/Finance Director	327,715	360,740	336,664	24,076	349,274
Audit:					
Other services and charges	40,100	40,160	29,588	10,572	36,083
Legal:					
Other services and charges	74,300	78,847	78,847		73,151
Planning and Zoning:					
Personnel services	231,870	196,539	173,907	22,632	246,195
Supplies	5,800	5,800	1,395	4,405	3,595
Other services and charges	12,600	72,826	65,012	7,814	38,489
Total Planning and Zoning	250,270	275,165	240,314	34,851	288,279
Elections:					
Personnel services	11,000	12,724	12,724		
Supplies	2,500	5,404	5,404		256
Other services and charges	2,200	2,071	2,071		660
Total Elections	15,700	20,199	20,199		916
General Government Buildings:					
Personnel services	5,910	5,910	2,282	3,628	3,094
Supplies	21,600	22,555	6,276	16,279	17,884
Other services and charges	52,475	52,580	47,018	5,562	41,906
Capital outlay	25,800	25,800	22,683	3,117	
Total General Government Buildings	105,785	106,845	78,259	28,586	62,884
Total General Government	\$ 1,129,862	\$ 1,203,847	\$ 1,040,139	\$ 163,708	\$ 1,061,388

See Notes to Financial Statements

CITY OF LAKE CITY, MINNESOTA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended December 31, 2008
With Comparative Totals for the Year Ended December 31, 2007

	Budgeted Amounts		2008 Actual Amounts	Variance with Final Budget Positive (Negative)	2007 Actual Amounts
	Original	Final			
EXPENDITURES					
Public Safety					
Police:					
Personnel services	\$ 841,753	\$ 879,023	\$ 881,243	\$ (2,220)	\$ 808,572
Supplies	70,575	68,226	67,797	429	60,925
Other services and charges	83,500	83,500	82,279	1,221	77,769
Capital outlay	25,000	27,449	27,449		10,081
Total Police	1,020,828	1,058,198	1,058,768	(570)	957,347
Fire:					
Personnel services	91,510	88,149	83,414	4,735	80,948
Supplies	29,900	31,073	30,173	900	35,137
Other services and charges	94,364	96,552	105,504	(8,952)	104,271
Capital outlay	7,500	23,500	21,401	2,099	12,387
Total Fire	223,274	239,274	240,492	(1,218)	232,743
Ambulance:					
Personnel services	361,230	354,340	347,227	7,113	306,696
Supplies	37,900	42,400	39,313	3,087	49,473
Other services and charges	74,500	85,890	86,261	(371)	79,402
Capital outlay	15,500	15,568	13,000	2,568	15,208
Total Ambulance	489,130	498,198	485,801	12,397	450,779
Civil Defense:					
Personnel services	7,168	7,168	6,997	171	5,383
Supplies	7,900	8,900	8,398	502	6,591
Other services and charges	2,800	2,800	4,577	(1,777)	2,569
Capital outlay	3,000	3,000		3,000	6,289
Total Civil Defense	20,868	21,868	19,972	1,896	20,832
Animal Control:					
Personnel services	4,365	4,365	4,112	253	4,252
Supplies	763	763	320	443	212
Other services and charges	1,875	1,875	1,396	479	1,633
Total Animal Control	7,003	7,003	5,828	1,175	6,097
Total Public Safety	\$ 1,761,103	\$ 1,824,541	\$ 1,810,861	\$ 13,680	\$ 1,667,798

See Notes to Financial Statements

CITY OF LAKE CITY, MINNESOTA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended December 31, 2008
With Comparative Totals for the Year Ended December 31, 2007

	Budgeted Amounts		2008 Actual Amounts	Variance with Final Budget Positive (Negative)	2007 Actual Amounts
	Original	Final			
EXPENDITURES					
Streets and Highways					
Personnel services	\$ 284,683	\$ 284,683	\$ 254,631	\$ 30,052	\$ 251,658
Supplies	93,350	93,350	88,120	5,230	73,267
Other services and charges	126,200	126,200	90,180	36,020	100,886
Capital outlay	96,000	86,000	26,415	59,585	183,508
Total Streets and Highways	600,233	590,233	459,346	130,887	609,319
Culture and Recreation					
Tourism:					
Other services and charges			55,232	(55,232)	40,371
Total Tourism			55,232	(55,232)	40,371
Participant Recreation:					
Personnel services	17,762	17,762	17,762		18,025
Supplies	600	387	349	38	593
Other services and charges	2,700	3,149	2,947	202	1,044
Total Participant Recreation	21,062	21,298	21,058	240	19,662
Swimming Pool:					
Personnel services	55,335	53,521	52,367	1,154	45,686
Supplies	14,500	14,500	14,500		5,576
Other services and charges	22,375	23,953	23,786	167	23,338
Total Swimming Pool	92,210	91,974	90,653	1,321	74,600
Hok-Si-La Park:					
Personnel services	87,355	88,628	87,709	919	87,170
Supplies	20,750	14,844	12,956	1,888	19,737
Other services and charges	54,868	51,802	51,705	97	64,329
Capital outlay	6,500	6,500	3,700	2,800	
Total Hok-Si-La Park	\$ 169,473	\$ 161,774	\$ 156,070	\$ 5,704	\$ 171,236

See Notes to Financial Statements

CITY OF LAKE CITY, MINNESOTA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended December 31, 2008
With Comparative Totals for the Year Ended December 31, 2007

	Budgeted Amounts		2008 Actual Amounts	Variance with Final Budget Positive (Negative)	2007 Actual Amounts
	Original	Final			
Culture and Recreation (continued)					
Other Parks:					
Personnel services	\$ 119,101	\$ 122,275	\$ 121,589	\$ 686	\$ 105,804
Supplies	38,200	35,027	29,038	5,989	20,079
Other services and charges	27,300	39,835	43,346	(3,511)	36,080
Capital outlay	51,000	73,000	50,038	22,962	44,031
Total Other Parks	235,601	270,137	244,011	26,126	205,994
Total Culture and Recreation	518,346	545,183	567,024	(21,841)	511,863
Economic Development					
Other services and charges			138,897	(138,897)	
TOTAL EXPENDITURES	4,009,544	4,163,804	4,016,267	147,537	3,850,368
Excess (deficiency) of revenues over (under) expenditures	(287,540)	(441,100)	(64,868)	376,232	57,584
OTHER FINANCING SOURCES (USES)					
Transfers in	425,000	425,000	455,000	30,000	315,000
NET CHANGE IN FUND BALANCE	137,460	(16,100)	390,132	406,232	372,584
FUND BALANCE, beginning	1,033,010	1,033,010	1,033,010		660,426
FUND BALANCE, ending	\$ 1,170,470	\$ 1,016,910	\$ 1,423,142	\$ 406,232	\$ 1,033,010

See Notes to Financial Statements

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CITY OF LAKE CITY, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
December 31, 2008
With Comparative Totals for December 31, 2007

	Business-Type Activities - Enterprise Funds			
	701 Electric Fund	702 Water Fund	703 Sewer Fund	706 Storm Water Fund
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 1,267,235	\$ 1,330,944	\$ 224,579	\$ 370,503
Accounts receivable	898,085		25,267	1,952
Advances to other funds	104,999			
Inventories	789,508			
Prepaid expense	15,031	3,856	10,525	38
Total Current Assets	3,074,858	1,334,800	260,371	372,493
Noncurrent Assets				
Capital Assets				
Nondepreciable	13,501	147,108	762	238,159
Depreciable	13,238,152	3,097,595	11,930,758	1,673,846
Less: Accumulated depreciation	(6,830,647)	(1,288,210)	(4,049,638)	(220,177)
Net Capital Assets	6,421,006	1,956,493	7,881,882	1,691,828
Special Assessments		11,982	84,124	
Total Noncurrent Assets	6,421,006	1,968,475	7,966,006	1,691,828
Total Assets	9,495,864	3,303,275	8,226,377	2,064,321
LIABILITIES				
Current Liabilities				
Current maturities of bonds payable	185,000		427,941	
Accounts payable	736,191	123,956	58,732	
Accrued liabilities	14,969	4,692	68,690	
Interfund payable				
Advances from other funds				
Customer deposits	71,905			
Total Current Liabilities	1,008,065	128,648	555,363	
Noncurrent Liabilities				
Bonds payable, net of current maturities and discount	392,800	340,000	5,571,308	
Compensated absences payable	86,087	34,003	13,757	
Total Liabilities	1,486,952	502,651	6,140,428	
NET ASSETS				
Invested in capital assets, net of related debt	5,843,206	1,616,493	1,882,633	1,691,828
Unrestricted:				
Designated				
Undesignated	2,165,706	1,184,131	203,316	372,493
Total Net Assets	\$ 8,008,912	\$ 2,800,624	\$ 2,085,949	\$ 2,064,321

See Notes to Financial Statements

710 Marina Fund	720 Garbage Fund	TOTALS		Governmental Activities - Internal Service Fund	
		2008	2007	2008	2007
\$ 2,942,767	\$ 283,190	\$ 6,419,218	\$ 6,893,706	\$	\$
268,419	5,737	1,199,460	959,411		
308,676		413,675	457,864		
19,309		808,817	655,313		
28,207	134	57,791	65,342		
<u>3,567,378</u>	<u>289,061</u>	<u>8,898,961</u>	<u>9,031,636</u>		
613,727	4,000	1,017,257	843,118		
6,772,572		36,712,923	35,747,228		
(3,264,396)		(15,653,068)	(14,385,197)		
<u>4,121,903</u>	<u>4,000</u>	<u>22,077,112</u>	<u>22,205,149</u>		
		96,106	94,190		
<u>4,121,903</u>	<u>4,000</u>	<u>22,173,218</u>	<u>22,299,339</u>		
7,689,281	293,061	31,072,179	31,330,975		
90,000		702,941	674,364		
10,605	23,813	953,297	910,343	1,415	
5,365		93,716	120,350		
55,000		55,000	55,000	17,469	6,095
		71,905	61,199		
<u>160,970</u>	<u>23,813</u>	<u>1,876,859</u>	<u>1,821,256</u>	<u>18,884</u>	<u>6,095</u>
736,200		7,040,308	7,399,750		
59,438		193,285	150,708		
<u>956,608</u>	<u>23,813</u>	<u>9,110,452</u>	<u>9,371,714</u>	<u>18,884</u>	<u>6,095</u>
3,295,703	4,000	14,333,863	14,131,035		
670,000		670,000	520,000		
2,766,970	265,248	6,957,864	7,308,226	(18,884)	(6,095)
<u>\$ 6,732,673</u>	<u>\$ 269,248</u>	<u>\$ 21,961,727</u>	<u>\$ 21,959,261</u>	<u>\$ (18,884)</u>	<u>\$ (6,095)</u>

**CITY OF LAKE CITY, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN FUND NET ASSETS
 For the Year Ended December 31, 2008
 With Comparative Totals for the Year Ended December 31, 2007**

	Business-Type Activities - Enterprise Funds			
	701 Electric Fund	702 Water Fund	703 Sewer Fund	706 Storm Water Fund
Operating Revenue	\$ 9,868,915	\$ 612,576	\$ 1,252,674	\$ 83,653
Operating Expenses				
Salaries and benefits	718,199	326,278	121,014	3,191
Supplies	41,749	28,239	44,601	10,438
Other services and charges	9,177,369	225,977	480,773	12,949
Insurance	59,931	20,291	27,034	
Depreciation	434,124	103,023	482,527	57,449
Total Operating Expenses	10,431,372	703,808	1,155,949	84,027
Operating Income (Loss)	(562,457)	(91,232)	96,725	(374)
Nonoperating Income (Expense)				
Miscellaneous income	5,310			72
Investment income	128,187	76,280	9,764	23,216
Cable TV revenues	6,848			
Special assessments		6,830	19,328	
Intergovernmental revenues				29,870
Contributions - Federal Mogul	(131,349)			
Loss on asset disposal				
Interest expense	(33,539)	(1,278)	(191,963)	
Payment to component unit	(25,900)			
Total Nonoperating Income (Expense)	(50,443)	81,832	(162,871)	53,158
Income (Loss) Before Transfers and Contributions	(612,900)	(9,400)	(66,146)	52,784
Capital contributions		144,254	129,294	249,978
Transfers in				
Transfers out	(165,000)	(70,000)		
Change in net assets	(777,900)	64,854	63,148	302,762
Net Assets, beginning	8,786,812	2,735,770	2,022,801	1,761,559
Net Assets, ending	\$ 8,008,912	\$ 2,800,624	\$ 2,085,949	\$ 2,064,321

710 Marina Fund	720 Garbage Fund	TOTALS		Governmental Activities - Internal Service Fund	
		2008	2007	2008	2007
\$ 1,727,581	\$ 301,653	\$ 13,847,052	\$ 13,939,769	\$ 211	\$ 54,388
371,198		1,539,880	1,403,824		
210,674	1,646	337,347	367,638		61,253
65,557	269,725	10,232,350	10,091,495	20,013	8,192
87,707		194,963	149,660		
190,748		1,267,871	1,203,971		859
925,884	271,371	13,572,411	13,216,588	20,013	70,304
801,697	30,282	274,641	723,181	(19,802)	(15,916)
2,500	2,300	10,182	12,875		
30,151	17,311	284,909	434,436		
		6,848	4,565		
		26,158	87,449		
		29,870	45,549	7,013	
		(131,349)			(11,580)
(40,186)		(266,966)	(288,776)		
(224,453)		(250,353)	(250,353)		
(231,988)	19,611	(290,701)	45,745	7,013	(11,580)
569,709	49,893	(16,060)	768,926	(12,789)	(27,496)
		523,526			
(270,000)		(505,000)	75,000		
299,709	49,893	2,466	487,926	(12,789)	(27,496)
6,432,964	219,355	21,959,261	21,471,335	(6,095)	21,401
\$ 6,732,673	\$ 269,248	\$ 21,961,727	\$ 21,959,261	\$ (18,884)	\$ (6,095)

CITY OF LAKE CITY, MINNESOTA
ENTERPRISE FUNDS
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2008
With Comparative Totals for the Year Ended December 31, 2007

	Business-Type Activities - Enterprise Funds			
	Electric Fund	Water Fund	Sewer Fund	Storm Water Fund
Cash Flows From Operating Activities				
Cash received from customers	\$ 9,901,321	\$ 613,047	\$ 1,240,698	\$ 82,252
Cash payments to suppliers and employees	(10,324,897)	(466,335)	(708,014)	(32,947)
Net Cash Provided By (Used In) Operating Activities	(423,576)	146,712	532,684	49,305
Cash Flows From Noncapital Financing Activities				
Advances from/ (to) other funds	32,981			
Operating transfers in				
Operating transfers out	(165,000)	(70,000)		
Net Cash (Used In) Noncapital Financing Activities	(132,019)	(70,000)		
Cash Flows From Capital and Related Financing Activities				
Principal received on special assessments		2,183	22,058	
Acquisition of capital assets	(268,776)	(184,557)		(31,303)
Bond proceeds		340,000		
Intergovernmental revenues				29,870
Interest paid on debt	(36,894)		(196,762)	
Principal paid on debt	(175,000)		(414,364)	
Net Cash Provided By (Used In) Capital and Related Financing Activities	(480,670)	157,626	(589,068)	(1,433)
Cash Flows From Investing Activities				
Investment income	128,187	76,280	9,764	23,216
Increase (Decrease) in Cash and Cash Equivalents	(908,078)	310,618	(46,620)	71,088
Cash and Cash Equivalents, beginning	2,175,313	1,020,326	271,199	299,415
Cash and Cash Equivalents, ending	\$ 1,267,235	\$ 1,330,944	\$ 224,579	\$ 370,503

See Notes to Financial Statements

Marina Fund	Garbage Fund	TOTALS		Governmental Activities - Internal Service Fund	
		2008	2007	2008	2007
\$ 1,494,722	\$ 302,699	\$ 13,634,739	\$ 13,969,183	\$ 211	\$ 54,388
(956,815)	(270,643)	(12,759,651)	(12,453,330)	(18,598)	(48,775)
537,907	32,056	875,088	1,515,853	(18,387)	5,613
11,208		44,189	4,113	11,374	(5,613)
(270,000)		(505,000)	75,000		
(258,792)		(460,811)	(356,000)	11,374	(5,613)
(131,672)		24,241	4,088		
		(616,308)	(2,354,133)		
		340,000			
		29,870	45,549	7,013	
(43,457)		(277,113)	(293,462)		
(85,000)		(674,364)	(646,980)		
(260,129)		(1,173,674)	(3,244,938)	7,013	
30,151	17,311	284,909	434,436		
49,137	49,367	(474,488)	(1,571,536)		
2,893,630	233,823	6,893,706	8,465,242		
\$ 2,942,767	\$ 283,190	\$ 6,419,218	\$ 6,893,706	\$	\$

CITY OF LAKE CITY, MINNESOTA
ENTERPRISE FUNDS
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2008
With Comparative Totals for the Year Ended December 31, 2007

**RECONCILIATION OF OPERATING INCOME
TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

	Business-Type Activities - Enterprise Funds			
	Electric Fund	Water Fund	Sewer Fund	Storm Water Fund
Operating Income (Loss)	\$ (562,457)	\$ (91,232)	\$ 96,725	\$ (374)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation and amortization	436,524	103,023	482,527	57,449
Other	(145,091)			72
(Increase) Decrease In:				
Accounts receivable	9,542	471	(11,976)	(1,473)
Inventories	(153,504)			
Prepaid expenses	3,304	2,680	809	22
Increase (Decrease) In:				
Accounts payable	(18,781)	117,507	(42,022)	(6,391)
Accrued liabilities	(20,162)	233	161	
Compensated absences	16,343	14,030	6,460	
Customer deposits	10,706			
Net Cash Provided By (Used In) Operating Activities	\$ (423,576)	\$ 146,712	\$ 532,684	\$ 49,305

Non Cash Transactions:

Capital assets contributed to Enterprise Funds from Developers	\$ 144,254	\$ 129,294	\$ 249,978
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See Notes to Financial Statements

Marina Fund	Garbage Fund	TOTALS		Governmental Activities - Internal Service Fund	
		2008	2007	2008	2007
\$ 801,697	\$ 30,282	\$ 274,641	\$ 723,181	\$ (19,802)	\$ (15,916)
191,848		1,271,371	1,207,471		859
(221,953)	2,300	(364,672)	(232,913)		
(235,359)	(1,254)	(240,049)	21,898		
752	(16)	(153,504)	81,223		20,698
		7,551	4,371		
(9,584)	2,225	42,954	(267,816)	1,415	(28)
4,762	(1,481)	(16,487)	(2,936)		
5,744		42,577	(8,702)		
		10,706	(9,924)		
<u>\$ 537,907</u>	<u>\$ 32,056</u>	<u>\$ 875,088</u>	<u>\$ 1,515,853</u>	<u>\$ (18,387)</u>	<u>\$ 5,613</u>

\$ 523,526

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CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The accounting policies of the City of Lake City, Minnesota conform to generally accepted accounting principles applicable to governmental units. The following is a summary of the more significant accounting policies:

Reporting Entity

In accordance with Statement No. 14 of the Governmental Accounting Standards Board, The Financial Reporting Entity, the City's financial statements include the primary government and the component units of the City of Lake City, defined as follows:

Primary Government - Includes all funds, account groups, organizations, institutions, agencies, departments, or offices which are not legally separate from the City of Lake City.

Component Units - Component units are legally separate organizations for which the elected officials of the City of Lake City are financially accountable or for which the nature or significance of their relationship with the City of Lake City would cause the general purpose financial statements to be misleading or incomplete. The component unit's columns in the combined financial statements include the financial data of the Economic Development Authority (EDA) of Lake City. This component unit is presented in a separate column to emphasize that it is legally separate from the City.

The Lake City Economic Development Authority (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 City Council. The seven-member board consists of two Council members and five other Council approved members. The EDA may not exercise any of the powers enumerated by the authorizing statutes without prior approval of the City Council. The EDA is reported as a discretely presented governmental fund type. Separate financial statements are not issued for this component unit.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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 segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

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 related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, special assessments, intergovernmental revenues, charges for services, 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The City reports the following major governmental funds:

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

The City reports the following major proprietary funds:

The *electric utility fund* accounts for the operation of the City owned electric utility system.

The *water utility fund* accounts for the operation of the City owned water utility system.

The *sewer utility fund* accounts for the operation of the City owned sewer utility system.

The *storm water utility fund* accounts for the operations of the City owned storm water system.

The *marina fund* accounts for the operation of the City owned marina.

The *garbage fund* accounts for the operation of the City provided garbage collection system.

Additionally, the government reports the following fund type:

Internal Service Funds are used to provide services to other departments of the City on a cost reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's enterprise funds 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 of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are legally adopted by Council resolution for the General Fund and Library Special Revenue Fund. The City does not use encumbrance accounting.

The City follows these legal compliance procedures in establishing the budgetary data reflected in the financial statements:

1. The City Clerk submits a proposed operating budget to the City Council prior to the end of each year for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through the passage of a budget resolution.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting (continued)

4. Formal budgetary integration is employed as a management control device during the year for the General Fund and Library Special Revenue Fund.
5. The City's department heads may make transfers of appropriations within a category within the department. Transfers of appropriations between categories require approval of the City Council. The legal level of budgetary control (i.e. the level at which expenditures may not legally exceed appropriations) is at the department level.

All budget amounts presented in the accompanying supplementary information reflect the original budget and the final budget.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments

Except where otherwise required, the City maintains all deposits in bank accounts in the name of the City. The deposits needed for day to day operations are invested on a short-term basis. Deposits not needed for short-term cash flow are invested according to the City's investment policy. Interest income is allocated to each fund based upon their relative cash balance. The balances shown in each fund represents an equity interest in the commingled pool of cash and investments, which is under the management of the City.

The City has designated cash and cash equivalents as demand deposits and all investments.

Property Taxes

Property tax levies are set by the City Council and are certified to the County in December of each year for collection in the following year. In Minnesota, counties act as collection agents for all property taxes. Taxes which remain unpaid at December 31 are classified as delinquent taxes receivable. Delinquent taxes receivable are fully offset by deferred revenue in the governmental fund types because they are not known to be available to finance current expenditures.

The County spreads all levies over taxable property. Such taxes become a lien on January 1, following, and are recorded as receivables by the City at that date. Revenues from property taxes are accrued and recognized in the year collectable, net of delinquencies.

Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to cities and other taxing districts normally during the months of July and December.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity (continued)

Special Assessments

Assessments are levied at various times by City resolution for property owner improvements made by the City. Assessment collections are deferred over periods ranging from one to twenty five years with interest charges of 6.0% to 8.0%. Assessment revenue is recognized as the annual installments become collectible. Annual installments not collected as of each December 31 are classified as delinquent assessments receivable. Delinquent assessments receivable are fully offset by deferred revenue in the Governmental Fund Types because they are not known to be available to finance current expenditures.

Short-Term Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds. These receivables and payables are classified as "interfund receivables" or "interfund payables" on the balance sheet. Short-term interfund loans are classified as "advances from other funds" or "advances to other funds".

Inventories

Inventories are valued at cost, which approximates market, on a first-in, first-out basis in the Proprietary Fund types. For governmental funds, the original cost of materials and supplies has been recorded as expenditures at the time of purchase.

Property, Plant and Equipment

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, net of interest earned on the invested debt proceeds over the same period.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity (continued)

Property, Plant and Equipment (continued)

Property, plant and equipment are capitalized when acquired, and depreciation is provided using the straight-line method applied over the following estimated useful lives of the assets.

	Useful Life in Years
Buildings and improvements	10 – 33
Distribution and collection system	25
Infrastructure	5 - 50
Other Improvements	5 - 50
Machinery and Equipment	5 - 15

Market Value Credit (MVC)

Property taxes on homestead property (as defined by State Statutes) are partially reduced by MVC. This credit is paid to the City by the State in lieu of taxes levied against homestead property. The State remits this credit through installments each year. The intergovernmental revenue is recognized as revenue by the City at the time of reclassification.

Compensated Absences

It is the City's policy to permit employees to accumulate a limited amount of earned but unused vacation which is paid to the employees upon separation. Vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirement.

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 assets.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity (continued)

Long-term Obligations (continued)

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported separately and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses or revenues/income initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses or revenues/income in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Comparative Data

Comparative data for the prior year has been presented in certain of the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. However, complete comparative data has not been presented since their inclusion would not provide meaningful comparisons. Certain amounts in the December 31, 2007 totals column have been reclassified to conform with the current year presentation.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Use of Estimates

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

Concentration of Credit Risk

Financial instruments which expose the City to a concentration of credit risk consist primarily of cash investments and accounts and loans receivable. Credit risk associated with cash and investments are discussed in Note 2. The City's accounts and loans receivable are concentrated geographically, as for the most part, amounts are due from individuals residing in and businesses located in the City of Lake City.

2. Cash and Investments

Summary of Cash and Investments

As of December 31, 2008, the City's investments consisted of the following items, all of which are held in an internal investment pool:

Deposits	\$ 1,271,062
Investments	<u>8,801,865</u>
Cash and Investments Per Statement of Net Assets	<u><u>\$ 10,072,927</u></u>

<u>Investment</u>	<u>Maturities</u>	<u>Ratings</u>	<u>Fair Value</u>
Money Market Mutual Funds	None	Unrated	\$ 1,404,097
Negotiable CD's	January 2009 - August 2018	Unrated	3,827,055
US Treasury Notes	May 2013 - May 2015	N/A	58,110
US Treasury Bonds	November 2024 - February 2029	N/A	69,358
Federal National Mortgage Assn	September 2009-January 2018	AAA	1,106,792
Federal Home Loan Bank	February 2018	AAA	300,093
Federal Home Loan Mortgage Corp	January 2012 - August 2020	AAA	<u>2,036,360</u>
			<u><u>\$ 8,801,865</u></u>

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Cash and Investments (Continued)

Investments Authorized by Minnesota Statutes

The City is authorized by Minnesota Statutes Chapter 118A to invest idle funds 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 whose only investments are in securities described in (a) above.
- (c) General obligations of the State of Minnesota or its municipalities.
- (d) Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System.
- (e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.
- (f) Repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a reporting dealer to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
- (g) Money market funds with institutions that have portfolios consisting exclusively of United States Treasury obligations and Federal Agency issues.

The City's established investment policy complies with Minnesota Statutes Chapter 118A and investment transactions are executed in accordance with the authorized investment policy.

Collateralization of Cash Deposits

In accordance with Minnesota Statutes Chapter 118A, the City maintains deposits at financial institutions authorized by the city council. The City's deposits are entirely covered by federal depository insurance or by collateral held by the City's custodial banks in the City's name at third party institutions.

Minnesota Statutes further require that all City deposits be insured, secured by surety bonds or be collateralized. Except for notes secured by first mortgages of future maturity, the market value of collateral pledged by the custodial bank must equal 110% of the deposits not covered by insurance or surety bonds.

Authorized collateral includes certain state or local government obligations and legal investments. Minnesota Statutes also require that securities pledged as collateral be held in safekeeping by the Treasurer, or in a financial institution other than the institution furnishing the collateral.

Interest Rate Risk

The City's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Cash and Investments (Continued)

Credit Risk

The City's investment policy limits its investment choices to those authorized by Minnesota Statute. The City's investment policy further limits investment choices by excluding reverse repurchase agreements and futures and options contract which are allowed under Minnesota Statute. In addition, the City's investment policy does not allow trading securities for speculation or realization of short-term gain or contract providing for compensation of an agent or fiduciary based upon the performance of the investment. Investment credit ratings are from Moody's and Standard and Poor's.

Concentration of Credit Risk

The City's investment policy places limits on the amount the city may invest in any one issuer. U.S. government obligations and obligations explicitly guaranteed by the U.S. government offer minimal risk and the 5% requirement does not apply to concentrations in those particular types of investments. Investments that are more than 5 percent of the City's total investments are as follows:

<u>Investment</u>	<u>Ratings</u>	<u>Percent of Total</u>
Money Market Mutual Funds	Unrated	16%
Negotiable CD's	Unrated	43%
Federal National Mortgage Assn	AAA	13%
Federal Home Loan Mortgage Corp	AAA	23%

3. Loans Receivables

Business Development Revolving Loan Fund

The City originally entered into an economic development loan agreement with a local manufacturer. The loan was paid off during the year ended December 31, 2005. Repayment proceeds from the loan were used to provide for various commercial rehabilitation loans as part of the City's downtown redevelopment. A portion of the rehabilitation loans are forgivable provided certain conditions are met. The outstanding balance on these loans as of December 31, 2008 totaled \$126,643.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Loans Receivables (Continued)

Community Development Revolving Loan Fund

As part of the City's community development block grant program, the City has issued commercial rehabilitation loans to various individual businesses to be repaid in monthly installments with interest at 6 to 8% over a period of three to five years with a balloon payment required at maturity. Aggregate outstanding balances on these loans as of December 31, 2008 totaled \$193,329.

4. Capital Assets

Capital asset activity for the year ended December 31, 2008 was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 1,303,791	\$	\$	\$ 1,303,791
Total capital assets, not being depreciated	1,303,791			1,303,791
Capital assets, being depreciated:				
Buildings	9,705,744	11,300		9,717,044
Improvements other than buildings	269,623	63,970		333,593
Infrastructure	9,683,963	1,796,131		11,480,094
Machinery and equipment	4,617,016	125,211	47,046	4,695,181
Total capital assets, being depreciated	24,276,346	1,996,612	47,046	26,225,912
Less accumulated depreciation for:				
Buildings	4,618,484	200,287		4,818,771
Improvements other than buildings	33,403	9,611		43,014
Infrastructure	5,438,594	215,170		5,653,764
Machinery and equipment	3,203,027	257,758	40,204	3,420,581
Total accumulated depreciation	13,293,508	682,826	40,204	13,936,130
Total capital assets, being depreciated, net	10,982,838	1,313,786	6,842	12,289,782
Governmental activities capital assets, net	\$ 12,286,629	\$ 1,313,786	\$ 6,842	\$ 13,593,573

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. Capital Assets (continued)

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 723,363	\$	\$	\$ 723,363
Construction in progress	119,755	174,139		293,894
Total capital assets, not being depreciated	843,118	174,139		1,017,257
Capital assets, being depreciated:				
Buildings and improvements	14,720,456	184,923		14,905,379
Distribution and collection system	17,263,247	630,825		17,894,072
Machinery and equipment	3,763,525	149,947		3,913,472
Total capital assets, being depreciated	35,747,228	965,695		36,712,923
Less accumulated depreciation for:				
Buildings and improvements	4,366,756	486,023		4,852,779
Distribution and collection system	7,349,013	578,819		7,927,832
Machinery and equipment	2,669,428	203,028		2,872,456
Total accumulated depreciation	14,385,197	1,267,870		15,653,067
Total capital assets, being depreciated, net	21,362,031	(302,175)		21,059,856
Business-type activities capital assets, net	\$ 22,205,149	\$ (128,036)	\$	\$ 22,077,113

<u>Discretely Presented Component Unit</u> <u>Economic Development Authority</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 2,308,416	\$	\$	\$ 2,308,416
Machinery and equipment	63,380			63,380
Total capital assets, being depreciated	2,371,796			2,371,796
Less accumulated depreciation for:				
Buildings and improvements	210,968	57,710		268,678
Machinery and equipment	47,535	3,230		50,765
Total accumulated depreciation	258,503	60,940		319,443
Total capital assets, being depreciated, net	\$ 2,113,293	\$ (60,940)	\$	\$ 2,052,353

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. Capital Assets (continued)

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General government	\$ 237,988
Public safety	142,356
Streets and highways	273,463
Culture and recreation	<u>29,019</u>
Total depreciation expense - governmental activities	<u>\$ 682,826</u>
Business-Type Activities:	
Electric	\$ 434,124
Water	103,023
Sewer	482,527
Storm water	57,449
Marina	<u>190,747</u>
Total depreciation expense - business-type activities	<u>\$ 1,267,870</u>

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Interfund Balances and Transfers

Balances of interfund receivables and payables as of December 31, 2008 at the individual fund level are as follows:

	Interfund Receivable	Interfund Payable
General Fund	\$ 357,135	\$
Internal Service Fund		
Gas		17,469
Special Revenue Funds:		
Block 25 Redev TIF #13		1,845
Pepin Manufacturing TIF #14		5,075
HNT Expansion #3 TIF #15		1,415
Debt Service Funds:		
Peters 4th and 5th Street Improvement		13,586
1997 GO Improvement Bonds		58,387
Goodhue County #5 Project		259,358
	<u>\$ 357,135</u>	<u>\$ 357,135</u>

The amounts advanced to and advanced from other funds as of December 31, 2008 at the individual fund level are summarized below:

	Advances to Other Funds	Advances from Other Funds
General Fund	\$ 55,000	\$ 413,675
Enterprise Fund:		
Electric	104,999	
Marina	308,676	55,000
	<u>\$ 468,675</u>	<u>\$ 468,675</u>

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Interfund Balances and Transfers (Continued)

Operating transfers during the year ended December 31, 2008 were as follows:

Funds	Transfers In	Transfers Out
General Fund	\$ 455,000	\$
Special Revenue:		
Library	50,000	
Enterprise:		
Electric		165,000
Water		70,000
Marina		270,000
	\$ 505,000	\$ 505,000

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Long-Term Debt

A summary of long-term debt obligations outstanding at December 31, 2008 is as follows:

	Range of Interest Rates	Final Maturity	Balance December 31, 2008
<u>Governmental Activities</u>			
G.O. Improvement Bonds:			
G.O. Improvement Bonds of 1993	3.00%-5.25%	2009	\$ 40,000
G.O. Improvement Bonds of 1999	5.56%	2010	80,000
G.O. Improvement Bonds of 2003	3.88%	2010	200,000
G.O. Improvement Bonds of 2006A	3.55%-4.05%	2022	490,000
G.O. Improvement Bonds of 2008A	4.00%-4.60%	2024	1,100,000
Compensated Absences			327,006
<u>Business-Type Activities</u>			
G.O. Improvement Bonds:			
G.O. Improvement Bonds of 2008A	4.00%-4.60%	2024	340,000
Revenue Bonds:			
Marina Revenue Bonds of 2006	4.05%-4.45%	2016	835,000
General Obligation Revenue Bonds:			
GO Utility Revenue Bonds of 2001A	4.00%-4.90%	2011	585,000
GO Revenue Loans:			
Public Facilities Loan of 1993	3.74%	2014	549,142
Public Facilities Loan of 1996	3.32%	2017	759,107
Public Facilities Loan of 1999	2.86%	2020	799,000
Public Facilities Loan of 2002	2.99%	2023	3,892,000
Compensated Absences			193,285
Sub-total			10,189,540
Less: Unamortized discount and issuance costs			(37,952)
Total			<u>\$ 10,151,588</u>

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Long-Term Debt (Continued)

Discretely Presented Component Unit Economic Development Authority	Range of Interest Rates	Final Maturity	Balance December 31, 2008
EDA Revenue Bonds:			
Public Project Lease Revenue Bond Series 2001	4.98%	2012	<u>\$ 696,961</u>

The following is a summary of changes in long-term debt obligations for the year ended December 31, 2008:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds and Notes Payable:					
General Obligation Bonds:					
G.O. Improvement Bonds of 1993	\$ 75,000	\$	\$ 35,000	\$ 40,000	\$ 40,000
G.O. Improvement Bonds of 1995B	56,000		56,000		
G.O. Improvement Bonds of 1998	50,000		50,000		
G.O. Improvement Bonds of 1999	115,000		35,000	80,000	40,000
G.O. Improvement Bonds of 2003	200,000			200,000	100,000
G.O. Improvement Bonds of 2006A	490,000			490,000	25,000
G.O. Improvement Bonds of 2008A		1,100,000		1,100,000	
Less: Unamortized Discount and Issue Costs		(21,952)		(21,952)	
Other liabilities:					
Compensated Absences	297,480	29,526		327,006	
Governmental Activities					
Long-term Liabilities	<u>1,283,480</u>	<u>1,107,574</u>	<u>176,000</u>	<u>2,215,054</u>	<u>205,000</u>
BUSINESS-TYPE ACTIVITIES					
Bonds and Notes Payable:					
Revenue Bonds:					
Marina Revenue Bonds of 2006	920,000		85,000	835,000	90,000
Less: Unamortized Discount	(9,900)		(1,100)	(8,800)	
General Obligation Revenue Bonds:					
GO Utility Revenue Bonds of 2001A	760,000		175,000	585,000	185,000
Less: Unamortized Discount	(9,600)		(2,400)	(7,200)	
General Obligation Bonds:					
G.O. Improvement Bonds of 2008A		340,000		340,000	
GO Revenue Loans:					
Public Facilities Loan of 1993	629,375		80,233	549,142	83,261
Public Facilities Loan of 1996	835,238		76,131	759,107	78,680
Public Facilities Loan of 1999	854,000		55,000	799,000	57,000
Public Facilities Loan of 2002	4,095,000		203,000	3,892,000	209,000
Other liabilities:					
Compensated Absences	150,709	42,576		193,285	
Business-type Activities					
Long-term Liabilities	<u>8,224,822</u>	<u>382,576</u>	<u>670,864</u>	<u>7,936,534</u>	<u>702,941</u>
Total	<u>\$ 9,508,302</u>	<u>\$ 1,490,150</u>	<u>\$ 846,864</u>	<u>\$ 10,151,588</u>	<u>\$ 907,941</u>
COMPONENT UNIT					
EDA Revenue Bonds:					
Public Project Lease Revenue Bond Series 2001	<u>\$ 787,089</u>	<u>\$</u>	<u>\$ 90,128</u>	<u>\$ 696,961</u>	<u>\$ 187,044</u>

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Long-Term Debt (Continued)

The annual requirements to amortize long-term debt obligations outstanding at December 31, 2008, excluding accrued compensated absences are summarized below.

Years	General Obligation Bonds		General Obligation Revenue Loans		General Obligation Revenue Bonds		Revenue Bonds		Other		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
<u>Governmental Activities</u>											
2009	\$ 205,000	\$ 28,525							\$ 187,044	\$ 32,408	\$ 452,977
2010	210,000	77,302							196,474	22,978	506,754
2011	90,000	58,047							206,382	13,071	367,500
2012	90,000	55,339							107,061	2,667	255,067
2013	95,000	52,481									147,481
2014-2018	525,000	208,920									733,920
2019-2023	600,000	95,088									695,088
2024-2028	95,000	4,414									99,414
Totals	<u>\$1,910,000</u>	<u>\$580,116</u>							<u>\$696,961</u>	<u>\$71,124</u>	<u>\$3,258,201</u>
<u>Business-Type Activities</u>											
2009	\$	\$	\$ 427,941	\$ 183,543	\$185,000	\$23,752	\$ 90,000	\$ 35,810			\$ 946,046
2010	15,000	17,480	441,718	169,888	195,000	14,725	95,000	32,098			980,909
2011	20,000	12,773	455,702	155,787	205,000	5,023	95,000	28,155			977,440
2012	20,000	12,233	470,900	141,233			100,000	24,165			768,531
2013	20,000	11,643	486,302	126,194			110,000	19,915			774,054
2014-2018	105,000	47,925	2,071,686	418,547			345,000	30,925			3,019,083
2019-2023	130,000	24,676	1,645,000	143,039							1,942,715
2024-2028	30,000	1,390									31,390
Totals	<u>\$ 340,000</u>	<u>\$128,120</u>	<u>\$5,999,249</u>	<u>\$1,338,231</u>	<u>\$585,000</u>	<u>\$43,500</u>	<u>\$835,000</u>	<u>\$171,068</u>			<u>\$9,440,168</u>

Legal Debt Margin

The City's statutory debt limit is two percent of estimated market value of taxable property within the City, or \$461,046,252. The City currently has no general obligation debt subject to this limit leaving a debt margin of \$9,220,925. Debt financed partially or entirely by special assessments or by operations of enterprise funds is excluded from this computation by Minnesota Statutes.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Tax Increment Districts

The City of Lake City is the administering authority for the following Tax Increment Districts with information available as of December 31, 2007:

	Tax Increment District #1 Imperial Clevite	Tax Increment District #2 Lighthouse	Tax Increment District #4 Downtown	Tax Increment District #14 Pepin Manufacturing	Tax Increment District #15 Hearth and Home Tech.	Tax Increment District #1 Riverside Township	Tax Increment District #9 Heat-n-Glo	Tax Increment District #12 Pepin Heights	Tax Increment District #13 Block 25 Redev.
Type of District	Redevelopment	Redevelopment	Redevelopment	Economic	Economic	Housing	Economic	Economic	Redevelopment
Year Established	1983	1984	1989	2007	2007	1998	2000	2003	2004
Duration of District	26 Years	26 Years	27 Years	9 Years	10 Years	17 Years	11 Years	11 Years	27 Years
Tax Capacity:									
Original	\$	\$ 962	\$ 19,921	\$	\$	\$ 113	\$ 168	\$ 3,884	\$ 3,766
Current		4,818	92,184			10,466	26,704	7,678	3,766
Captured - retained	\$	\$ 3,856	\$ 72,263	\$	\$	\$ 10,353	\$ 26,536	\$ 3,794	\$
Total General Obligation Tax Increment Bonds Issued	\$	\$	\$	\$	\$	\$	\$	\$	\$
Principal payments									
Outstanding at 12/31/07	\$	\$	\$	\$	\$	\$	\$	\$	\$

8. Commitments and Contingencies

Litigation

The City attorney has indicated that existing and pending lawsuits, claims and other actions in which the City is a defendant are either covered by insurance, of an immaterial amount, or, in the judgment of the City attorney, remotely recoverable by plaintiffs.

Federal and State Funds

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Commitments and Contingencies (Continued)

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.

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 carries insurance for liability, property, and automotive insurance through the League of Minnesota Cities Insurance Trust (LMCIT). The City provides employee health insurance through a private insurance carrier. Settled claims resulting from these risks have not exceeded the insurance coverage in any of the past three years. There were no reductions in insurance coverage in 2008.

The City participates in a group workers' compensation plan of the LMCIT, which is a public entity risk pool currently operating as a common risk management and insurance program for member Minnesota Cities. All cities participating in the plan are jointly and severally liable for all claims and expenses of the plan. The LMCIT workers' compensation plan is self-sustaining based on the premiums charged, so that total contributions plus compounded earnings on those contributions will be sufficient to satisfy claims, liabilities and other expenses of the plan. The LMCIT plan participates in the Workers' Compensation Reinsurance Association with coverage of \$1,000,000 per claim for plan year 2008. The amount of any liability in excess of plan assets may be assessed to participating Cities in a method and amount determined by the LMCIT.

Contingencies

The City has pledged its full faith and credit for the payment of principal and interest on the \$2,530,000 Housing Development Refunding bonds issued by the Southeastern Minnesota Multi-County Housing and Redevelopment Authority (SEMMCHRA) used to finance the Lake City Senior Apartments Project. The remaining balance of these bonds at December 31, 2008 was \$2,170,000.

Purchase Power Agreement

The City purchases power from the Southern Minnesota Municipal Power Agency (SMMPA) under a power sales contract dated April 1, 1981. Under the terms of the contract, the City is obligated to buy all the electrical power and energy needed to operate the electric utilities through the term of the contract.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Fund Equity

The City has designated and reserved portions of its various fund equities though legal restriction and City Council authorization. Major fund equity appropriations are shown on the various balance sheets as segregations of the fund equity. A summary is as follows:

	2008	2007
General Fund		
Designated for cash flow	\$ 1,170,470	\$ 1,033,010
Designated for emergency expenditures	252,672	
Debt Service Funds		
Reserved for debt retirement	241,352	238,907
Proprietary Funds - Marina Fund		
Lift replacement	170,000	170,000
Beach/Point improvement	300,000	250,000
Docks	200,000	100,000

At December 31, 2008, individual funds with deficit fund balances/net assets were as follows:

Special Revenue Funds:		
Block 25 Redevelopment TIF #13		\$ (1,845)
Pepin Manufacturing TIF #14		(6,968)
HNT Expansion #3 TIF #15		(1,415)
Highway Coalition 61		(16,584)
Debt Service Fund:		
Peters 4th and 5th Street Improvement		(13,586)
1997 GO Improvement Bonds		(58,387)
Goodhue County #5 Project		(258,357)
Internal Service Fund-Gas		(18,884)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. Defined Benefit Pension Plans - Statewide

Plan Description

All full-time and certain part-time employees of the City of Lake City are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF) and the Public Employees Police and Fire Fund (PEPFF), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356.

PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, fire-fighters and peace officers who qualify for membership by statute are covered by the PEPFF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF members and PERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age for unreduced Social security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree - no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. Defined Benefit Pension Plans – Statewide (Continued)

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF and PEPFF. That report may be obtained on the internet at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.0% respectively, of their annual covered salary in 2008. PEPFF members were required to contribute 8.6% of their annual covered salary in 2008. That rate will increase to 9.4% in 2009. The City of Lake City is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 6.5% for Coordinated Plan PERF members, and 12.9% for PEPFF members. Employer contribution rates for the Coordinated Plan and PEPFF will increase to 6.75% and 14.1% respectively, effective January 1, 2009. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2008, 2007, and 2006 were \$142,220, \$132,160, and \$117,727, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2008, 2007, and 2006 were \$97,551, \$62,272, and \$74,317, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

11. Defined Benefit Pension Plan - Volunteer Fire Relief Association

Plan Description

All members of the Lake City Fire Department are covered by a defined benefit plan administered by the Lake City Firefighters' Relief Association. The plan is a single employer retirement plan and is established and administered in accordance with Minnesota Statute, Chapter 69. The Association is comprised of volunteers and therefore there is no covered payroll.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. **Defined Benefit Pension Plan - Volunteer Fire Relief Association (Continued)**

Plan Description (Continued)

The relief association provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established in accordance with State Statute, and vest after ten years of credited service. The defined retirement benefits are based on a member's years of service. Benefit provisions can be amended by the Relief Association within parameters provided by State Statutes.

The Relief Association issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Lake City Firefighters' Relief Association, Lake City, MN 55041.

Funding Policy

Minnesota Statutes Chapter 69.772 sets the minimum contribution requirement for the City of Lake City and State Aid on an annual basis. These statutes are established and amended by the state legislature. The Association is comprised of volunteers; therefore, members have no contribution requirements. The City's annual pension cost and related information for the most recent year available (2007) is as follows:

Annual pension cost - total	\$60,500
Contributions made	
City	17,113
State Aid - pass-through	43,387
Actuarial valuation date	12/31/07
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Remaining amortization period:	
Normal Cost	20 Years
Prior service cost	10 Years
Asset valuation method	Market
Actuarial assumptions:	
Investment rate of return	5%
Projected salary increases	N/A
Inflation rate	N/A
Cost of living adjustments	None

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Defined Benefit Pension Plan - Volunteer Fire Relief Association (Continued)

Three Year Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/02	\$ 38,767	100%	\$
12/31/03	50,746	100%	
12/31/04	61,538	100%	
12/31/05	67,600	100%	
12/31/06	68,471	100%	
12/31/07	60,500	100%	

Required Supplementary Information

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	(Unfunded)/ Assets in Excess of AAL (UAAL)	Funded Ratio
12/31/02	\$ 296,544	\$ 473,660	\$ (177,116)	63%
12/31/03	397,150	517,894	(120,744)	77%
12/31/04	425,616	558,071	(132,455)	76%
12/31/05	457,186	661,640	(204,454)	69%
12/31/06	532,844	674,095	(141,251)	79%
12/31/07	538,447	648,160	(109,713)	83%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

12. Pronouncements Issued Not Yet Implemented

The Governmental Accounting Standards Board (GASB) has issued several pronouncements that have future effective dates that may impact financial presentations. Management has not currently determined what, if any, impact implementation of the following statement may have on the financial statements of the City. GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, issued in July 2004, will be effective for the City beginning with its year ending December 31, 2009. This Statement establishes standards for the measurement, recognition, and display of other postemployment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. OPEB are part of an exchange of salaries and benefits for employee services rendered. From an accrual accounting perspective, the cost of OPEB, like the cost of pensions benefits, generally should be associated with the periods in which the exchange occurs, rather than with the periods (often many years later) when benefits are paid or provided.

CITY OF LAKE CITY, MINNESOTA
COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES
DECEMBER 31, 2008

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CITY OF LAKE CITY, MINNESOTA

NONMAJOR FUNDS

DECEMBER 31, 2008

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources requiring separate accounting because of legal, regulatory or grant provisions or administrative action.

Debt Service Funds

Debt service funds are used to account for the accumulation of resources for, and the payment of, bond principal, interest and related fiscal changes.

Capital Projects Funds

Capital project funds are used to account for the acquisition and construction of major capital facilities other than those financed by the enterprise fund.

**CITY OF LAKE CITY, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2008
With Comparative Totals for December 31, 2007**

	Special Revenue Funds							
	210 Library	270 Community Development Revolving Loan Fund	271 Business Development Revolving Loan Fund	410 TIF #1 Imperial Clevite	412 Increment #2 Lighthouse Mall	451 Heat 'N Glo TIF #9	480 Tax Increment #4 Downtown	490 Valley Craft TIF #8
ASSETS								
Cash and investments	\$ 124,410	\$ 232,409	\$ 141,821	\$ 148,000	\$ 69,744	\$ 24,397	\$ 178,857	\$ 23,850
Accounts receivable	5,215	2,960						
Loans receivable		193,329	126,643					
Taxes receivable delinquent	9,392							
Special assessments delinquent								
Special assessments deferred								
Due from component unit								
Due from other governmental units	1,518						2,365	
TOTAL ASSETS	\$ 140,535	\$ 428,698	\$ 268,464	\$ 148,000	\$ 69,744	\$ 24,397	\$ 181,222	\$ 23,850
LIABILITIES AND FUND BALANCE								
Liabilities								
Accounts payable	\$ 2,684	\$ 209				\$ 12,782		\$
Accrued liabilities	1,767							
Deposits payable								
Interfund payables								
Deferred revenue	9,392	193,329	126,643					
Total Liabilities	13,843	193,538	126,643			12,782		
Fund Balance								
Reserved								
Unreserved								
Undesignated	126,692	235,160	141,821	148,000	69,744	11,615	181,222	23,850
Total Fund Balance	126,692	235,160	141,821	148,000	69,744	11,615	181,222	23,850
TOTAL LIABILITIES AND FUND BALANCE	\$ 140,535	\$ 428,698	\$ 268,464	\$ 148,000	\$ 69,744	\$ 24,397	\$ 181,222	\$ 23,850

Special Revenue Funds

491 Pepin Heights TIF #12	492 Block 25 Redev TIF #13	493 Pepin Manufacturing TIF #14	470 Bergstad Housing TIF #1	494 HNT Expansion #3 TIF #15	250 New Highway 61 Coalition	801 Wells Trust Scholarship	820 Pepin Plaza Apartments	Developer Escrow
\$ 2,326	\$	\$	\$ 17,059	\$	\$ 4,760	\$ 3,897	\$ 209,204	\$ 99,064
<hr/>								
\$ 2,326	\$	\$	\$ 17,059	\$	\$ 4,760	\$ 3,897	\$ 209,204	\$ 99,064
<hr/>								
\$ 1,674	\$	\$ 1,893	\$ 10,543	\$	\$	\$	\$	\$
	1,845	5,075		1,415	21,344		209,204	29,369
1,674	1,845	6,968	10,543	1,415	21,344		209,204	29,369
<hr/>								
652	(1,845)	(6,968)	6,516	(1,415)	(16,584)	3,897		69,695
652	(1,845)	(6,968)	6,516	(1,415)	(16,584)	3,897		69,695
<hr/>								
\$ 2,326	\$	\$	\$ 17,059	\$	\$ 4,760	\$ 3,897	\$ 209,204	\$ 99,064

**CITY OF LAKE CITY, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2008
With Comparative Totals for December 31, 2007**

	Debt Service Funds						
	338 Central Point Sanitary Sewer/Water Bonds	342 Borners Sewer and Water	316 Peters 4th and 5th Street Improvement	347 1997 G.O. Improvement Bonds	351 Goodhue County #5 Project	352 1998 G.O. Improvement Bonds	354 1999 G.O. Improvement Bonds
ASSETS							
Cash and investments	\$ 166,141	\$ 77,332	\$	\$	\$	\$ 192,124	\$ 127,359
Accounts receivable							
Loans receivable							
Taxes receivable delinquent							
Special assessments delinquent							1,252
Special assessments deferred	1,937	17,814	27,338		7,722		7,341
Due from component unit							
Due from other governmental units					1,001		281
TOTAL ASSETS	\$ 168,078	\$ 95,146	\$ 27,338	\$	\$ 8,723	\$ 192,124	\$ 136,233
LIABILITIES AND FUND BALANCE							
Liabilities							
Accounts payable	\$	\$	\$	\$	\$	\$	\$
Accrued liabilities							
Deposits payable							
Interfund payables			13,586	58,387	259,358		
Deferred revenue	1,936	17,814	27,338		7,722		8,592
Total Liabilities	1,936	17,814	40,924	58,387	267,080		8,592
Fund Balance							
Reserved	166,142	77,332	(13,586)	(58,387)	(258,357)	192,124	127,641
Unreserved							
Undesignated							
Total Fund Balance	166,142	77,332	(13,586)	(58,387)	(258,357)	192,124	127,641
TOTAL LIABILITIES AND FUND BALANCE	\$ 168,078	\$ 95,146	\$ 27,338	\$	\$ 8,723	\$ 192,124	\$ 136,233

FORM D-1

Capital Projects Funds				
357 2006 Street Improvement	400 Capital Projects	358 2008 Street Improvement	Totals	
			2008	2007
\$ 7,866	\$ 221,121	\$ 192,669	\$ 2,264,410	\$ 2,100,166
			8,175	13,367
			319,972	263,682
			9,392	
			1,252	1,595
142,100	33,706		237,958	286,842
				100,000
577			5,742	3,595
<u>\$ 150,543</u>	<u>\$ 254,827</u>	<u>\$ 192,669</u>	<u>\$ 2,846,901</u>	<u>\$ 2,769,247</u>
\$	\$	\$ 87,444	\$ 117,229	\$ 9,734
			1,767	760
			259,917	284,804
			339,666	486,594
142,100	33,706		568,572	552,119
<u>142,100</u>	<u>33,706</u>	<u>87,444</u>	<u>1,287,151</u>	<u>1,334,011</u>
8,443			241,352	238,907
	221,121	105,225	1,318,398	1,196,329
<u>8,443</u>	<u>221,121</u>	<u>105,225</u>	<u>1,559,750</u>	<u>1,435,236</u>
<u>\$ 150,543</u>	<u>\$ 254,827</u>	<u>\$ 192,669</u>	<u>\$ 2,846,901</u>	<u>\$ 2,769,247</u>

CITY OF LAKE CITY, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
Combining Statement of Revenues, Expenditures
and Changes in Fund Balance
For the Year Ended December 31, 2008
With Comparative Totals for December 31, 2007

	Special Revenue Funds						
	210 Library	270 Community Development Revolving Loan Fund	271 Business Development Revolving Loan Fund	410 TIF #1 Imperial Clevite	412 Increment #2 Lighthouse Mall	451 Heat 'N Glo TIF #9	480 Tax Increment #4 Downtown
REVENUES							
Taxes:							
Property taxes	\$ 82,103						
Tax increments					4,673	28,403	82,989
Special assessments							
Intergovernmental revenues	56,826						
Charges for services	1,777						
Fines and forfeits	5,760						
Investment income	4,576	16,982	9,428	9,890	4,474	1,273	8,339
Miscellaneous revenues	36,793	24,862					
TOTAL REVENUES	187,835	41,844	9,428	9,890	9,147	29,676	91,328
EXPENDITURES							
Culture and recreation:							
Library	176,512						
Economic development		175,371		1,267	1,403	39,481	1,420
Debt service:							
Principal retirement							
Interest and fiscal charges							
Capital outlay	28,952						
TOTAL EXPENDITURES	205,464	175,371		1,267	1,403	39,481	1,420
Excess (deficiency) of revenues over (under) expenditures	(17,629)	(133,527)	9,428	8,623	7,744	(9,805)	89,908
OTHER FINANCING SOURCES (USES)							
Bond proceeds							
Transfers in	50,000						
Transfers out							
Total Other Financing Sources (Uses)	50,000						
Net change in fund balances	32,371	(133,527)	9,428	8,623	7,744	(9,805)	89,908
FUND BALANCE, beginning	94,321	368,687	132,393	139,377	62,000	21,420	91,314
FUND BALANCE, ending	\$ 126,692	\$ 235,160	\$ 141,821	\$ 148,000	\$ 69,744	\$ 11,615	\$ 181,222

Special Revenue Funds

490 Valley Craft TIF #8	491 Pepin Heights TIF #12	492 Block 25 Redev TIF #13	493 Pepin Manufacturing TIF #14	470 Bergstad Housing TIF #1	494 HNT Expansion #3 TIF #15	250 New Highway 61 Coalition	801 Wells Trust Scholarship	820 Pepin Plaza Apart	Developer Escrow
\$ 10,408	\$ 3,719	\$ 804	\$ 2,104	\$ 10,041	\$	\$	\$	\$	\$
1,835	106			1,886		317	323	36,735	
12,243	3,825	804	2,104	11,927		317	323	36,735	
21,575	5,199	327	2,495	30,869	110		1,000	36,735	398
21,575	5,199	327	2,495	30,869	110		1,000	36,735	398
(9,332)	(1,374)	477	(391)	(18,942)	(110)	317	(677)		(398)
(9,332)	(1,374)	477	(391)	(18,942)	(110)	317	(677)		(398)
33,182	2,026	(2,322)	(6,577)	25,458	(1,305)	(16,901)	4,574		70,093
\$ 23,850	\$ 652	\$ (1,845)	\$ (6,968)	\$ 6,516	\$ (1,415)	\$ (16,584)	\$ 3,897	\$	\$ 69,695

**CITY OF LAKE CITY, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
Combining Statement of Revenues, Expenditures
and Changes in Fund Balance
For the Year Ended December 31, 2008
With Comparative Totals for December 31, 2007**

	Debt Service Funds						
	338 Central Point Sanitary Sewer/Water Bonds	342 Borners Sewer and Water	316 Peters 4th and 5th Street Improvement	347 1997 G.O. Improvement Bonds	351 Goodhue County #5 Project	352 1998 G.O. Improvement Bonds	354 1999 G.O. Improvement Bonds
REVENUES							
Taxes:							
Property taxes	\$	\$	\$	\$	\$ 52,459	\$	\$
Tax increments							
Special assessments	2,247	9,032	7,131		9,112	88	8,069
Intergovernmental revenues					4,051		
Charges for services							
Fines and forfeits							
Investment income	11,301	5,801	14,196	(3,884)		13,032	8,397
Miscellaneous revenues			65,000				
TOTAL REVENUES	13,548	14,833	86,327	(3,884)	65,622	13,120	16,466
EXPENDITURES							
Culture and recreation:							
Library							
Economic development			322				
Debt service:							
Principal retirement	35,000	56,000				50,000	35,000
Interest and fiscal charges	3,479	1,450			24,017	1,227	5,535
Capital outlay							
TOTAL EXPENDITURES	38,479	57,450	322		24,017	51,227	40,535
Excess (deficiency) of revenues over (under) expenditures	(24,931)	(42,617)	86,005	(3,884)	41,605	(38,107)	(24,069)
OTHER FINANCING SOURCES (USES)							
Bond proceeds							
Transfers in							
Transfers out							
Total Other Financing Sources (Uses)							
Net change in fund balances	(24,931)	(42,617)	86,005	(3,884)	41,605	(38,107)	(24,069)
FUND BALANCE, beginning	191,073	119,949	(99,591)	(54,503)	(299,962)	230,231	151,710
FUND BALANCE, ending	\$ 166,142	\$ 77,332	\$ (13,586)	\$ (58,387)	\$ (258,357)	\$ 192,124	\$ 127,641

FORM D-2

Capital Projects Funds				
357 2006 Street Improvement	400 Capital Projects	358 2008 Street Improvement	Totals	
			2008	2007
\$ 30,233	\$	\$	\$ 164,795	\$ 180,393
			143,141	140,848
8,026	21,286		64,991	100,625
2,334			63,211	64,843
			1,777	1,845
			5,760	6,399
		2,256	147,263	180,836
			126,655	114,858
<u>40,593</u>	<u>21,286</u>	<u>2,256</u>	<u>717,593</u>	<u>790,647</u>
			176,512	150,344
1,092		3,000	322,064	160,109
			176,000	504,000
9,812		21,952	67,472	95,859
		967,175	996,127	170,502
<u>10,904</u>		<u>992,127</u>	<u>1,738,175</u>	<u>1,080,814</u>
<u>29,689</u>	<u>21,286</u>	<u>(989,871)</u>	<u>(1,020,582)</u>	<u>(290,167)</u>
		1,095,096	1,095,096	
			50,000	847,533
				<u>(881,533)</u>
		1,095,096	1,145,096	(34,000)
29,689	21,286	105,225	124,514	(324,167)
<u>(21,246)</u>	<u>199,835</u>		<u>1,435,236</u>	<u>1,759,403</u>
<u>\$ 8,443</u>	<u>\$ 221,121</u>	<u>\$ 105,225</u>	<u>\$ 1,559,750</u>	<u>\$ 1,435,236</u>

CITY OF LAKE CITY, MINNESOTA
LIBRARY FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2008
With Comparative Totals for the Year Ended December 31, 2007

	Budgeted Amounts		2008 Actual Amount	Variance With Budget Positive (Negative)	2007 Actual Amount
	Original	Final			
REVENUES					
Property Tax Levy					
Property tax collected	\$ 83,604	\$ 83,604	\$ 82,103	\$ (1,501)	\$ 73,622
Intergovernmental Revenues					
State - property tax credits and aids	6,396	6,396	6,396		6,641
County - library grants	45,000	45,000	50,430	5,430	48,564
Total Intergovernmental Revenues	51,396	51,396	56,826	5,430	55,205
Charges For Services					
Fines and forfeits	4,000	4,000	5,760	1,760	6,399
Other	1,500	1,500	1,777	277	1,845
Total Charges For Services	5,500	5,500	7,537	2,037	8,244
Investment Income					
			4,576	4,576	1,715
Miscellaneous					
Donations	41,000	41,000	36,793	(4,207)	55,981
Total Revenues	181,500	181,500	187,835	6,335	194,767
EXPENDITURES					
Library Services	178,939	187,323	176,512	10,811	150,344
Capital outlay	48,500	48,500	28,952	19,548	26,361
Total Expenditures	227,439	235,823	205,464	30,359	176,705
Excess (deficiency) of revenues over (under) expenditures	(45,939)	(54,323)	(17,629)	36,694	18,062
OTHER FINANCING SOURCES					
Transfers in	50,000	50,000	50,000		41,000
Net Change in Fund Balance	4,061	(4,323)	32,371	36,694	59,062
Fund Balance, beginning	94,321	94,321	94,321		35,259
Fund Balance, ending	\$ 98,382	\$ 89,998	\$ 126,692	\$ 36,694	\$ 94,321

CITY OF LAKE CITY, MINNESOTA
ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT
Combining Statement of Revenues, Expenditures
and Changes in Fund Balance
For the Year Ended December 31, 2008
With Comparative Totals for the Year Ended December 31, 2007

	575 Economic Development	401 City Hall Project	2008	2007
REVENUES				
Property tax	\$ 61,623	\$	\$ 61,623	\$ 60,782
Intergovernmental revenues	4,799		4,799	5,508
Investment income	2,292		2,292	3,547
Payment from primary government	269,797	219,453	489,250	269,353
Miscellaneous		341	341	10,040
Total Revenues	338,511	219,794	558,305	349,230
EXPENDITURES				
Economic Development	62,908		62,908	81,470
Debt Service:				
Principal		90,128	90,128	257,458
Interest		19,599	19,599	71,822
Total Expenditures	62,908	109,727	172,635	410,750
Excess (Deficiency) of Revenues Over (Under) Expenditures	275,603	110,067	385,670	(61,520)
Fund Balance, beginning	(31,580)	(195,195)	(226,775)	(165,255)
Fund Balance, ending	\$ 244,023	\$ (85,128)	\$ 158,895	\$ (226,775)