

CITY OF LAKE CITY, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2007

CITY OF LAKE CITY, MINNESOTA

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CITY OF LAKE CITY, MINNESOTA

INTRODUCTORY SECTION

DECEMBER 31, 2007

June 23, 2008

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, 2007 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, 2007. 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 2007 Comprehensive 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 Pratt".

Barbara I. Pratt
Finance Director/Treasurer

**CITY OF LAKE CITY, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2007**

ELECTED

<u>Title</u>	<u>Name</u>	<u>Term Expires</u>
Mayor	Katie Himanga	January 12,2009
Council	Marylou Waltman	November 3, 2008
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

CITY OF LAKE CITY, MINNESOTA

FINANCIAL SECTION

DECEMBER 31, 2007



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, 2007, 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.

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, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Audit Standards*, we have also issued a report dated May 30, 2008, on our consideration of the City of Lake City, Minnesota's internal control over financial reporting and 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 conjunction with this report in considering 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, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion thereon.

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 has 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.

Smith, Schafer and Associates, Ltd.

Rochester, Minnesota
May 30, 2008

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, 2007. 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 \$36,421,530 (*net assets*). Of this amount, \$9,620,319 (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 \$1,015,545.
- As of the close of the current fiscal year, the City of Lake City's governmental funds reported combined ending fund balances of \$2,468,246. Approximately 90 percent of this total amount, or \$2,229,339 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 \$1,033,010 or 27 percent of total general fund expenditures.
- The City of Lake City decreased total outstanding debt obligations by \$1,166,048 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 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 forty-three 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 forty-two 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* elsewhere 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 17-20 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. Because this service predominately benefits governmental rather than business-type functions, the internal service fund has been included within governmental activities in the government-wide financial statements.

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 \$36,421,530 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	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 3,935,986	\$ 3,664,971	\$ 9,070,826	\$ 10,670,606	\$ 13,006,812	\$ 14,335,577
Capital assets	12,286,629	12,476,168	22,205,149	21,054,986	34,491,778	33,531,154
Total assets	<u>16,222,615</u>	<u>16,141,139</u>	<u>31,275,975</u>	<u>31,725,592</u>	<u>47,498,590</u>	<u>47,866,731</u>
Long-term liabilities						
outstanding	1,283,480	1,797,347	8,224,822	8,877,003	9,508,302	10,674,350
Other liabilities	476,866	409,142	1,091,892	1,377,254	1,568,758	1,786,396
Total liabilities	<u>1,760,346</u>	<u>2,206,489</u>	<u>9,316,714</u>	<u>10,254,257</u>	<u>11,077,060</u>	<u>12,460,746</u>
Net assets:						
Invested in capital assets,						
net of related debt	11,300,629	10,986,168	14,131,035	12,337,393	25,431,664	23,323,561
Restricted	1,369,547	2,058,897			1,369,547	2,058,897
Unrestricted	1,792,093	889,585	7,828,226	9,133,942	9,620,319	10,023,527
Total net assets	<u>\$ 14,462,269</u>	<u>\$ 13,934,650</u>	<u>\$ 21,959,261</u>	<u>\$ 21,471,335</u>	<u>\$ 36,421,530</u>	<u>\$ 35,405,985</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* (\$9,620,319) 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 \$527,619.

**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 \$487,926.

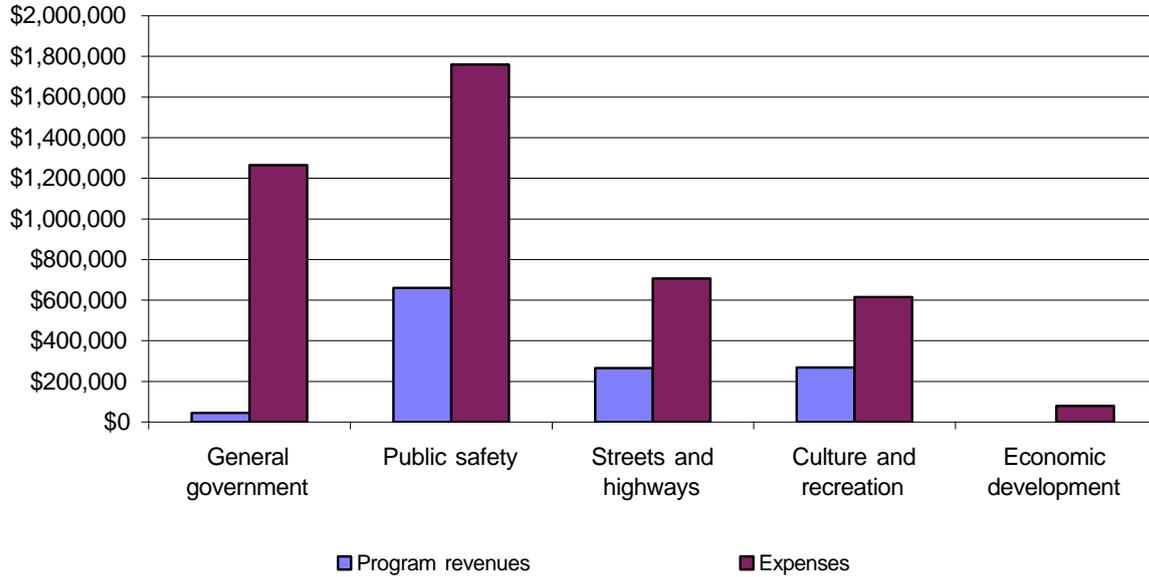
A condensed version of the Statement of Activities follows:

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenue:						
Program revenues:						
Charges for services	\$ 707,727	\$ 785,496	\$ 13,939,769	\$ 12,535,761	\$ 14,647,496	\$ 13,321,257
Operating grants and contributions	322,704	229,496			322,704	229,496
Capital grants and contributions	208,022	126,195	132,998		341,020	126,195
General revenues:						
Property taxes	2,064,789	1,639,731			2,064,789	1,639,731
Tax increments	140,848	132,828			140,848	132,828
Grants and contributions not restricted to specific programs						
Other	990,534	1,159,914			990,534	1,159,914
	318,476	360,555	451,876	755,827	770,352	1,116,382
Total revenues	4,753,100	4,434,215	14,524,643	13,291,588	19,277,743	17,725,803
Expenses:						
General government	1,264,458	1,259,376			1,264,458	1,259,376
Public safety	1,760,677	1,640,309			1,760,677	1,640,309
Streets and highways	706,462	649,545			706,462	649,545
Culture and recreation	614,785	604,148			614,785	604,148
Economic development	80,109	194,313			80,109	194,313
Interest on long-term debt	79,990	90,933			79,990	90,933
Electric			10,302,366	9,126,419	10,302,366	9,126,419
Water			561,306	607,138	561,306	607,138
Sewer			1,439,744	1,422,118	1,439,744	1,422,118
Storm water			61,446	64,491	61,446	64,491
Marina			275,313	282,176	275,313	282,176
Garbage			1,115,542	1,090,694	1,115,542	1,090,694
Total expenses	4,506,481	4,438,624	13,755,717	12,593,036	18,262,198	17,031,660
Increase in net assets before transfers	246,619	(4,409)	768,926	698,552	1,015,545	694,143
Transfers	281,000	71,000	(281,000)	(71,000)		
Increase in net assets	527,619	66,591	487,926	627,552	1,015,545	694,143
Net assets, beginning of year	13,934,650	13,868,059	21,471,335	20,843,783	35,405,985	34,711,842
Net assets, end of year	\$ 14,462,269	\$ 13,934,650	\$ 21,959,261	\$ 21,471,335	\$ 36,421,530	\$ 35,405,985

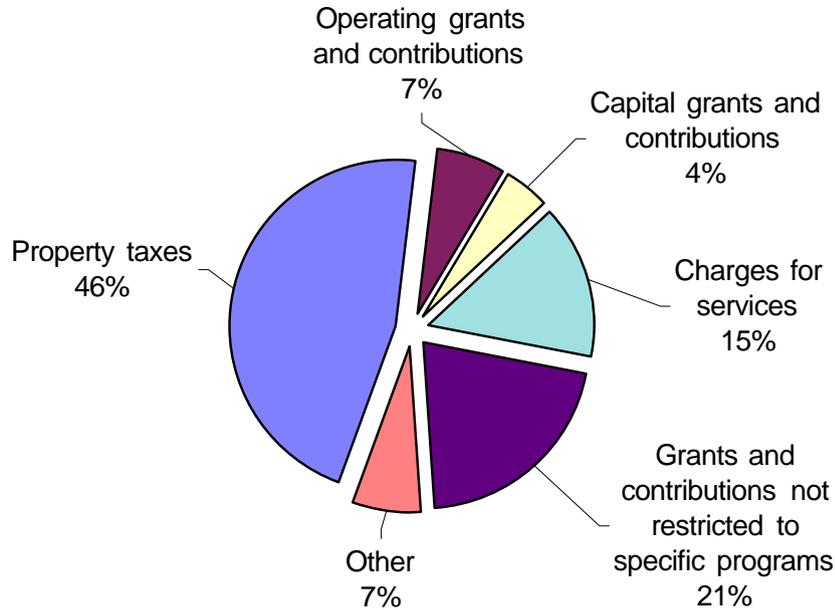
**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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



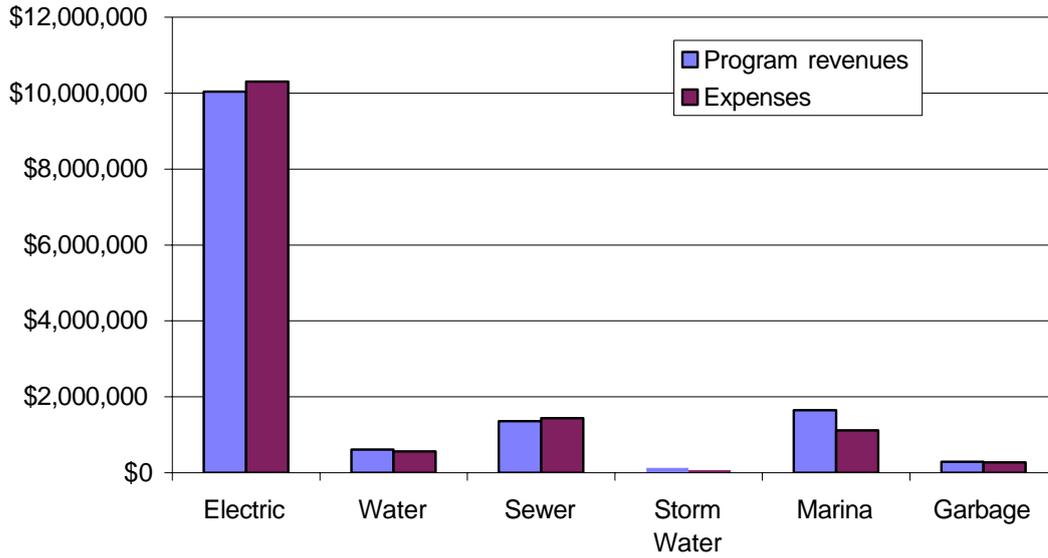
Revenues by Source - Governmental Activities



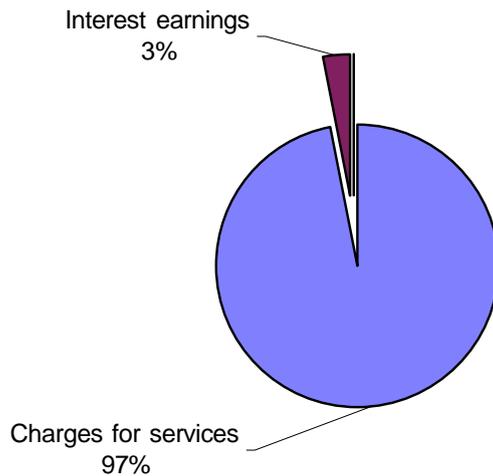
**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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 \$2,468,246, an increase of \$48,417. Approximately 90 percent of this total amount, or \$2,229,339, constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of this fund balance (\$238,907) 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 \$1,033,010. 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 27 percent of total general fund expenditures.

The general fund's total fund balance increased by \$372,584 during the current fiscal year. This year's increase was primarily due to less personnel costs in the ambulance department associated with only having personnel for a partial year and not spending the full budgeted amount of capital outlay for streets and highways. The net budgeted change in fund balance (revenues in excess of expenditures) was \$588,654 less than actual results. Revenues met or exceeded budget projections in most all cases (total actual revenues excluding transfers exceeded the budgeted amount by \$164,725), except transfers in were \$15,000 more than budgeted. Total actual expenditures excluding transfers out were under budgeted expenditures by \$408,929.

The City continues to computerize transactions including adding an accounts receivable module to track revolving loans and miscellaneous billing for services, upgrades to the network server which improved software application performance and implementing a document imaging system.

The new Marina administration building was completed in 2007 and construction began on Underwood Park which will include soccer fields and ice hockey rinks.

Major repairs were completed on the underground sewer and water infrastructure at the intersection of Lakeshore and Center. Final street paving was completed in Peters 4th and 5th addition.

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

The library fund increased its fund balance by \$59,062 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 \$238,907 all of which is reserved for the payment of debt service. These fund balances decreased by \$799,377 for the year, which represented a spend down of the previous years reserves no longer needed and payments on some of the next year payments due.

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 - \$2,950,858, Water - \$1,005,065, Sewer - \$201,300, Storm Water - \$293,563, Marina - \$3,162,085, and Garbage - \$215,355. All but the electric utility fund had increases in total net assets for the year. The electric utility fund's decrease of \$202,547 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 2007 general fund budget anticipating an increase in general fund reserves of \$3,113. All differences between the original and final budgets in the general fund for the City in 2007 were approved by resolution amending the original budget. Significant changes in the budget were for additional amounts owed in the amount of \$26,723 as the result of a sales tax audit, increase in the capital outlay budget for the Streets and Highway department to purchase a dump truck, and an increase of workers compensation insurance of \$20,687.

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, 2007, amounts to \$34,491,778 (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 \$960,624, 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			
	2007	2006	2007	2006	2007	2006
Land	\$ 1,303,791	\$ 1,303,791	\$ 723,363	\$ 723,363	\$ 2,027,154	\$ 2,027,154
Construction in progress			119,755	\$ 789,051	119,755	\$ 789,051
Buildings and improvements	5,323,480	5,491,913	10,353,700	8,111,345	15,677,180	13,603,258
Machinery and equipment	1,413,989	1,348,205	1,094,097	1,427,582	2,508,086	2,775,787
Infrastructure	4,245,369	4,332,259			4,245,369	4,332,259
Distribution and collection system			9,914,234	10,003,645	9,914,234	10,003,645
Total	\$ 12,286,629	\$ 12,476,168	\$ 22,205,149	\$ 21,054,986	\$ 34,491,778	\$ 33,531,154

Additional information on the City of Lake City's capital assets can be found in Note 5 on pages 45-47 of this report.

Long-term debt. At the end of the current fiscal year, the City of Lake City had \$9,060,113 in bonds and notes outstanding. Of this amount, \$8,150,013 comprises debt backed by the full faith and credit of the government and \$910,100 represents bonds secured solely by specified revenue sources.

City of Lake City's Outstanding Debt

	Governmental		Business-Type		Total	
	Activities		Activities			
	2007	2006	2007	2006	2007	2006
General obligation bonds	\$ 986,000	\$ 1,490,000	\$	\$	\$ 986,000	\$ 1,490,000
General obligation revenue loans			6,413,613	6,815,593	6,413,613	6,815,593
General obligation revenue bonds			750,400	913,000	750,400	913,000
Revenue bonds			910,100	989,000	910,100	989,000
Compensated absences	297,480	307,347	150,709	159,410	448,189	466,757
Total	\$ 1,283,480	\$ 1,797,347	\$ 8,224,822	\$ 8,877,003	\$ 9,508,302	\$ 10,674,350

The City of Lake City's total debt decreased by \$1,166,048 during the current fiscal year. No new debt was issued during 2007. A total of \$1,147,480 in bonds and notes payable was retired during 2007. A more detailed breakdown of these obligations can be found in Note 7, 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.

CITY OF LAKE CITY, MINNESOTA
BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

CITY OF LAKE CITY, MINNESOTA
STATEMENT OF NET ASSETS
December 31, 2007
With Comparative Totals for December 31, 2006

	Primary Government				Component Unit	
	Governmental Activities	Business-Type Activities	Totals		Economic Development Authority	
			2007	2006	2007	2006
Assets						
Cash and investments	\$ 2,804,827	\$ 6,893,706	\$ 9,698,533	\$ 11,167,318	\$	\$ 21,031
Receivables	859,142	1,053,601	1,912,743	1,736,994		1,006
Internal balances	(402,864)	402,864				
Due from other governmental units	363,268		363,268	380,357	1,145	
Due from primary government					83,693	36,670
Due from component unit	311,613		311,613	223,961		
Prepaid expenses		65,342	65,342	69,713		
Inventories		655,313	655,313	757,234		
Capital assets:						
Nondepreciable	1,303,791	843,118	2,146,909	2,816,205		
Depreciable, net	10,982,838	21,362,031	32,344,869	30,714,949	2,113,293	2,183,680
Total Assets	16,222,615	31,275,975	47,498,590	47,866,731	2,198,131	2,242,387
Liabilities						
Accounts and contracts payable	53,945	910,343	964,288	1,228,741		
Accrued liabilities	54,424	120,350	174,774	196,968		21,674
Deposits payable	284,804	61,199	346,003	324,017		
Due to primary government					311,613	223,961
Due to component unit	83,693		83,693	36,670		
Noncurrent liabilities						
Due within one year	134,000	674,364	808,364	950,979	90,128	169,519
Due in more than one year	1,149,480	7,550,458	8,699,938	9,723,371	696,961	875,028
Total Liabilities	1,760,346	9,316,714	11,077,060	12,460,746	1,098,702	1,290,182
Net Assets						
Invested in capital assets, net of related debt	11,300,629	14,131,035	25,431,664	23,323,561	1,326,204	1,117,459
Restricted for:						
Grants and contracts	764,762		764,762	719,796		
Debt service	238,907		238,907	1,038,284		
Tax increment purposes and loan covenants	365,878		365,878	300,817		
Unrestricted	1,792,093	7,828,226	9,620,319	10,023,527	(226,775)	(165,254)
Total Net Assets	\$ 14,462,269	\$ 21,959,261	\$ 36,421,530	\$ 35,405,985	\$ 1,099,429	\$ 952,205

See Notes to Financial Statements

**CITY OF LAKE CITY, MINNESOTA
STATEMENT OF ACTIVITIES**

For the Year Ended December 31, 2007
With Comparative Totals for the Year Ended December 31, 2006

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 1,264,458	\$ 35,952	\$ 8,563	\$
Public safety	1,760,677	511,315	148,443	
Streets and highways	706,462	5,144	52,797	208,022
Culture and recreation	614,785	155,316	112,901	
Economic development	80,109			
Interest on long-term debt	79,990			
Total governmental activities	<u>4,506,481</u>	<u>707,727</u>	<u>322,704</u>	<u>208,022</u>
Business-Type activities:				
Electric utility	10,302,366	10,036,360		
Water utility	561,306	608,742		
Sewer utility	1,439,744	1,273,917		87,449
Storm water utility	61,446	84,052		45,549
Garbage	275,313	288,808		
Marina	1,115,542	1,647,890		
Total business-type activities	<u>13,755,717</u>	<u>13,939,769</u>		<u>132,998</u>
Total Primary Government	<u>\$ 18,262,198</u>	<u>\$ 14,647,496</u>	<u>\$ 322,704</u>	<u>\$ 341,020</u>
Component Unit:				
Economic Development Authority	<u>\$ 202,005</u>	<u>\$</u>	<u>\$ 345,682</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	
		2007	2006	2007	2006
\$ (1,219,943)	\$	\$ (1,219,943)	\$ (1,209,562)	\$	\$
(1,100,919)		(1,100,919)	(1,015,412)		
(440,499)		(440,499)	(432,712)		
(346,568)		(346,568)	(354,505)		
(80,109)		(80,109)	(194,313)		
(79,990)		(79,990)	(90,933)		
<u>(3,268,028)</u>		<u>(3,268,028)</u>	<u>(3,297,437)</u>		
	(266,006)	(266,006)	(423,700)		
	47,436	47,436	(37,247)		
	(78,378)	(78,378)	(130,746)		
	68,155	68,155	17,537		
	13,495	13,495	3,638		
	<u>532,348</u>	<u>532,348</u>	<u>513,243</u>		
	317,050	317,050	(57,275)		
<u>(3,268,028)</u>	<u>317,050</u>	<u>(2,950,978)</u>	<u>(3,354,712)</u>		
				<u>143,677</u>	<u>138,563</u>
2,064,789		2,064,789	1,639,731		
140,848		140,848	132,828		
990,534		990,534	1,459,914		
222,957	434,436	657,393	442,557	3,547	2,293
95,519	17,440	112,959	373,825		
281,000	(281,000)				
<u>3,795,647</u>	<u>170,876</u>	<u>3,966,523</u>	<u>4,048,855</u>	<u>3,547</u>	<u>2,293</u>
527,619	487,926	1,015,545	694,143	147,224	140,856
<u>13,934,650</u>	<u>21,471,335</u>	<u>35,405,985</u>	<u>34,711,842</u>	<u>952,205</u>	<u>811,349</u>
<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>

CITY OF LAKE CITY, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2007
With Comparative Totals for December 31, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds	
			2007	2006
Assets				
Cash and investments	\$ 704,661	\$ 2,100,166	\$ 2,804,827	\$ 2,702,076
Interest receivable	59,631		59,631	71,576
Accounts receivable	166,747	13,367	180,114	225,039
Taxes receivable delinquent	67,278		67,278	56,570
Special assessments receivable:				
Delinquent		1,595	1,595	18,874
Deferred		286,842	286,842	162,166
Advances to other funds	55,000		55,000	55,000
Interfund receivable	492,689		492,689	729,097
Loans receivable		263,682	263,682	210,631
Due from other governmental units	359,673	3,595	363,268	380,357
Due from component unit	211,613	100,000	311,613	223,961
TOTAL ASSETS	\$ 2,117,292	\$ 2,769,247	\$ 4,886,539	\$ 4,835,347
Liabilities and Fund Balance				
Liabilities				
Accounts payable	\$ 44,211	\$ 9,734	\$ 53,945	\$ 50,554
Accrued liabilities	46,531	760	47,291	45,994
Deposits payable		284,804	284,804	252,894
Advances from other funds	457,864		457,864	461,977
Interfund payable		486,594	486,594	717,389
Due to component unit	83,693		83,693	36,670
Deferred revenue	451,983	552,119	1,004,102	850,040
Total Liabilities	<u>1,084,282</u>	<u>1,334,011</u>	<u>2,418,293</u>	<u>2,415,518</u>
Fund Balance				
Reserved for:				
Debt service		238,907	238,907	1,038,284
Unreserved, designated reported in:				
General fund	1,033,010		1,033,010	660,426
Unreserved, undesignated reported in:				
General fund				
Special revenue funds		1,017,740	1,017,740	900,574
Capital projects funds		178,589	178,589	(179,455)
Total Fund Balance	<u>1,033,010</u>	<u>1,435,236</u>	<u>2,468,246</u>	<u>2,419,829</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ 2,117,292	\$ 2,769,247	\$ 4,886,539	\$ 4,835,347

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, 2007

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

Total governmental fund balances (page 17)		\$ 2,468,246
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 25,580,137	
Less: Accumulated depreciation	<u>(13,293,508)</u>	12,286,629
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	\$ 68,873	
Deferred special assessments	286,842	
Due from other governments	329,705	
Loans receivable	<u>318,682</u>	1,004,102
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		(6,095)
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	\$ (986,000)	
Compensated absences	(297,480)	
Accrued interest	<u>(7,133)</u>	<u>(1,290,613)</u>
Net assets of governmental activities (page 14)		<u>\$ 14,462,269</u>

See Notes to Financial Statements

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

For the Year Ended December 31, 2007
With Comparative Totals for the Year Ended December 31, 2006

	General Fund	Other Governmental Funds	<u>Total Governmental Funds</u>	
			2007	2006
Revenues				
Taxes	\$ 1,873,688	\$ 321,241	\$ 2,194,929	\$ 1,758,975
Special assessments		100,625	100,625	340,238
Licenses and permits	33,557		33,557	48,300
Intergovernmental revenues	1,161,628	64,843	1,226,471	1,389,410
Charges for services	626,641	1,845	628,486	693,005
Fines and forfeits	39,285	6,399	45,684	44,191
Investment income	42,121	180,836	222,957	145,030
Miscellaneous revenues	131,032	114,858	245,890	209,828
Total Revenues	3,907,952	790,647	4,698,599	4,628,977
Expenditures				
General government	1,061,388		1,061,388	974,313
Public safety	1,667,798		1,667,798	1,690,152
Streets and highways	609,319		609,319	412,336
Culture and recreation	511,863	150,344	662,207	672,180
Economic development		160,109	160,109	194,313
Capital outlay		170,502	170,502	895,682
Bond principal retirement		504,000	504,000	388,000
Interest and fiscal charges		95,859	95,859	87,859
Total Expenditures	3,850,368	1,080,814	4,931,182	5,314,835
Excess (Deficiency) of Revenues Over (Under) Expenditures	57,584	(290,167)	(232,583)	(685,858)
Other Financing Sources (Uses)				
Bond proceeds				510,000
Transfers in	315,000	847,533	1,162,533	305,150
Transfers out		(881,533)	(881,533)	(234,150)
Total other financing sources (uses)	315,000	(34,000)	281,000	581,000
Net change in fund balances	372,584	(324,167)	48,417	(104,858)
FUND BALANCE, beginning	660,426	1,759,403	2,419,829	2,524,687
FUND BALANCE, ending	\$ 1,033,010	\$ 1,435,236	\$ 2,468,246	\$ 2,419,829

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, 2007

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

Net change in fund balances - total governmental funds (page 19)	\$	48,417
<p>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.</p>		
Capital outlay	\$	170,502
Capital outlay-other governmental funds		302,004
Depreciation expense		<u>(630,045)</u>
		(157,539)
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.</p>		
		(19,561)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Deferred revenue, December 31, 2007	\$	1,004,102
Deferred revenue, December 31, 2006		<u>(850,040)</u>
		154,062
<p>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.</p>		
Compensated absences		9,867
<p>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</p>		
		(27,496)
<p>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.</p>		
Principal retirement on long-term debt	\$	504,000
Change in accrued interest		<u>15,869</u>
		<u>519,869</u>
Change in net assets of governmental activities (pages 15 and 16)	\$	<u><u>527,619</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, 2007
With Comparative Totals for the Year Ended December 31, 2006

	Budgeted Amounts		2007 Actual Amounts	Variance with Final Budget Positive (Negative)	2006 Actual Amounts
	Original	Final			
Taxes					
Property taxes	\$ 1,738,543	\$ 1,738,543	\$ 1,726,026	\$ (12,517)	\$ 1,380,101
Franchise tax	90,000	90,000	107,179	17,179	98,300
Lodging tax			40,483	40,483	40,002
Total Taxes	1,828,543	1,828,543	1,873,688	45,145	1,518,403
Licenses and Permits					
Business licenses	19,100	19,100	17,409	(1,691)	20,971
Non-Business licenses	44,250	44,250	16,148	(28,102)	27,329
Total Licenses and Permits	63,350	63,350	33,557	(29,793)	48,300
Intergovernmental Revenues					
Federal:					
Cops in school grant	23,500	23,500	24,640	1,140	21,526
State:					
Local government aid	823,503	823,503	823,503		997,909
Market value credit	157,393	157,393	157,393		158,877
MSA street maintenance	45,000	45,000	45,404	404	45,924
Fire aid			43,179	792	48,591
Police aid	52,000	54,000	60,116	6,116	51,208
Other state aids	7,393	7,393	7,393		9,268
Total Intergovernmental	1,108,789	1,153,176	1,161,628	8,452	1,333,303
Charges for Services					
General government	3,200	3,200	2,395	(805)	3,484
Public safety	424,400	424,400	472,030	47,630	463,795
Streets and highways	2,500	2,500	5,144	2,644	35,446
Park fees	116,600	116,600	147,072	30,472	128,867
Total Charges for Services	546,700	546,700	626,641	79,941	631,592
Fines and forfeits					
	33,000	33,000	39,285	6,285	39,777
Investment Income					
	20,000	20,000	42,121	22,121	12,299
Miscellaneous Revenues					
Other	7,210	18,537	59,721	41,184	120,608
Refunds and reimbursements	75,000	79,921	71,311	(8,610)	37,326
Total Miscellaneous Revenues	82,210	98,458	131,032	32,574	157,934
TOTAL REVENUES	\$ 3,682,592	\$ 3,743,227	\$ 3,907,952	\$ 164,725	\$ 3,741,608

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, 2007
With Comparative Totals for the Year Ended December 31, 2006

	Budgeted Amounts		2007 Actual Amounts	Variance with Final Budget Positive (Negative)	2006 Actual Amounts
	Original	Final			
EXPENDITURES					
General Government					
Mayor and City Council:					
Personnel services	\$ 51,819	\$ 51,819	\$ 46,110	\$ 5,709	\$ 31,185
Supplies	3,050	3,050	2,773	277	2,243
Other services and charges	96,150	82,633	77,982	4,651	98,345
Total Mayor and City Council	151,019	137,502	126,865	10,637	131,773
City Administrator:					
Personnel services	119,135	118,044	116,637	1,407	108,978
Supplies	600	600	269	331	258
Other services and charges	16,850	15,850	7,030	8,820	26,297
Total City Administrator	136,585	134,494	123,936	10,558	135,533
City Clerk/Finance Director:					
Personnel services	255,468	257,410	256,314	1,096	236,604
Supplies	14,475	8,642	8,398	244	13,892
Other services and charges	50,450	57,182	54,062	3,120	57,294
Capital outlay	28,000	30,500	30,500		
Total City Clerk/Finance Director	348,393	353,734	349,274	4,460	307,790
Audit:					
Other services and charges	41,300	39,919	36,083	3,836	34,650
Legal:					
Other services and charges	71,770	73,151	73,151		57,352
Planning and Zoning:					
Personnel services	231,154	246,320	246,195	125	192,075
Supplies	5,800	5,597	3,595	2,002	5,899
Other services and charges	97,100	38,613	38,489	124	28,328
Total Planning and Zoning	334,054	290,530	288,279	2,251	226,302
Elections:					
Personnel services					9,919
Supplies		256	256		4,627
Other services and charges	2,500	2,500	660	1,840	1,693
Total Elections	2,500	2,756	916	1,840	16,239
General Government Buildings:					
Personnel services	17,086	17,086	3,094	13,992	8,559
Supplies	30,700	20,700	17,884	2,816	7,506
Other services and charges	48,550	48,755	41,906	6,849	43,409
Capital outlay					5,200
Total General Government Buildings	96,336	86,541	62,884	23,657	64,674
Total General Government	\$ 1,181,957	\$ 1,118,627	\$ 1,061,388	\$ 57,239	\$ 974,313

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, 2007
With Comparative Totals for the Year Ended December 31, 2006

	Budgeted Amounts		2007 Actual Amounts	Variance with Final Budget Positive (Negative)	2006 Actual Amounts
	Original	Final			
EXPENDITURES					
Public Safety					
Police:					
Personnel services	\$ 805,726	\$ 808,573	\$ 808,572	\$ 1	\$ 742,001
Supplies	68,287	69,287	60,925	8,362	54,073
Other services and charges	81,100	84,160	77,769	6,391	85,636
Capital outlay	8,000	12,500	10,081	2,419	23,490
Total Police	963,113	974,520	957,347	17,173	905,200
Fire:					
Personnel services	91,510	107,435	98,061	9,374	83,613
Supplies	29,900	29,300	35,137	(5,837)	22,877
Other services and charges	56,812	86,701	87,158	(457)	109,458
Capital outlay	140,000	150,000	12,387	137,613	69,706
Total Fire	318,222	373,436	232,743	140,693	285,654
Ambulance:					
Personnel services	371,534	360,614	306,696	53,918	278,479
Supplies	52,950	52,150	49,473	2,677	35,249
Other services and charges	74,100	92,107	79,402	12,705	75,152
Capital outlay	15,800	15,800	15,208	592	92,203
Total Ambulance	514,384	520,671	450,779	69,892	481,083
Civil Defense:					
Personnel services	5,014	5,383	5,383		4,306
Supplies	7,400	7,400	6,591	809	2,303
Other services and charges	2,800	2,431	2,569	(138)	6,722
Capital outlay	7,500	7,500	6,289	1,211	
Total Civil Defense	22,714	22,714	20,832	1,882	13,331
Animal Control:					
Personnel services	4,113	4,254	4,252	2	3,577
Supplies	858	717	212	505	126
Other services and charges	2,125	2,125	1,633	492	1,181
Total Animal Control	7,096	7,096	6,097	999	4,884
Total Public Safety	\$ 1,825,529	\$ 1,898,437	\$ 1,667,798	\$ 230,639	\$ 1,690,152

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, 2007
With Comparative Totals for the Year Ended December 31, 2006

	Budgeted Amounts		2007 Actual Amounts	Variance with Final Budget Positive (Negative)	2006 Actual Amounts
	Original	Final			
EXPENDITURES					
Streets and Highways					
Personnel services	\$ 272,782	\$ 272,065	\$ 251,658	\$ 20,407	\$ 237,986
Supplies	74,400	74,749	73,267	1,482	53,414
Other services and charges	99,600	103,038	100,886	2,152	102,112
Capital outlay	65,000	245,500	183,508	61,992	18,824
Total Streets and Highways	511,782	695,352	609,319	86,033	412,336
Culture and Recreation					
Tourism:					
Other services and charges			40,371	(40,371)	41,090
Total Tourism			40,371	(40,371)	41,090
Participant Recreation:					
Personnel services	17,762	18,037	18,025	12	15,934
Supplies	600	600	593	7	578
Other services and charges	2,450	2,450	1,044	1,406	2,295
Total Participant Recreation	20,812	21,087	19,662	1,425	18,807
Swimming Pool:					
Personnel services	50,500	50,500	45,686	4,814	44,682
Supplies	14,500	13,815	5,576	8,239	7,559
Other services and charges	20,975	24,745	23,338	1,407	22,263
Total Swimming Pool	85,975	89,060	74,600	14,460	74,504
Hok-Si-La Park:					
Personnel services	67,135	88,262	87,170	1,092	67,666
Supplies	24,750	25,950	19,737	6,213	11,439
Other services and charges	54,400	68,955	64,329	4,626	49,050
Capital outlay					14,229
Total Hok-Si-La Park	\$ 146,285	\$ 183,167	\$ 171,236	\$ 11,931	\$ 142,384

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, 2007
With Comparative Totals for the Year Ended December 31, 2006

	Budgeted Amounts		2007 Actual Amounts	Variance with Final Budget Positive (Negative)	2006 Actual Amounts
	Original	Final			
Culture and Recreation (continued)					
Other Parks:					
Personnel services	\$ 107,839	\$ 105,844	\$ 105,804	\$ 40	\$ 128,071
Supplies	41,200	37,810	20,079	17,731	21,546
Other services and charges	48,100	43,465	36,080	7,385	41,439
Capital outlay	10,000	66,448	44,031	22,417	68,601
Total Other Parks	207,139	253,567	205,994	47,573	259,657
Total Culture and Recreation	460,211	546,881	511,863	35,018	536,442
TOTAL EXPENDITURES	3,979,479	4,259,297	3,850,368	408,929	3,613,243
Excess (deficiency) of revenues over (under) expenditures	(296,887)	(516,070)	57,584	573,654	128,365
OTHER FINANCING SOURCES (USES)					
Transfers in	300,000	300,000	315,000	15,000	252,639
Transfers out					(9,150)
Total Other Financing Sources (Uses)	300,000	300,000	315,000	15,000	243,489
NET CHANGE IN FUND BALANCE	3,113	(216,070)	372,584	588,654	371,854
FUND BALANCE, beginning	660,426	660,426	660,426		288,572
FUND BALANCE, ending	\$ 663,539	\$ 444,356	\$ 1,033,010	\$ 588,654	\$ 660,426

See Notes to Financial Statements

**CITY OF LAKE CITY, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 December 31, 2007**

With Comparative Totals for December 31, 2006

	Business-Type Activities - Enterprise Funds			
	701 Electric Fund	702 Water Fund	703 Sewer Fund	Storm Water Fund
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 2,175,313	\$ 1,020,326	\$ 271,199	\$ 299,415
Accounts receivable	907,627	471	13,291	479
Advances to other funds	137,980			
Inventories	636,004			
Prepaid expense	18,335	6,536	11,334	60
Total Current Assets	3,875,259	1,027,333	295,824	299,954
Noncurrent Assets				
Capital Assets				
Nondepreciable	13,501	4,273	762	206,855
Depreciable	12,969,376	2,911,619	11,801,464	1,423,869
Less: Accumulated depreciation	(6,396,523)	(1,185,187)	(3,567,111)	(162,728)
Net Capital Assets	6,586,354	1,730,705	8,235,115	1,467,996
Special Assessments		7,335	86,855	
Total Noncurrent Assets	6,586,354	1,738,040	8,321,970	1,467,996
Total Assets	10,461,613	2,765,373	8,617,794	1,767,950
LIABILITIES				
Current Liabilities				
Current maturities of bonds payable	175,000		414,364	
Accounts payable	754,972	6,449	100,754	6,391
Accrued liabilities	38,486	3,181	73,328	
Interfund payable				
Advances from other funds				
Customer deposits	61,199			
Total Current Liabilities	1,029,657	9,630	588,446	6,391
Noncurrent Liabilities				
Bonds payable, net of current maturities and discount	575,400		5,999,250	
Compensated absences payable	69,744	19,973	7,297	
Total Liabilities	1,674,801	29,603	6,594,993	6,391
NET ASSETS				
Invested in capital assets, net of related debt	5,835,954	1,730,705	1,821,501	1,467,996
Unrestricted:				
Designated				
Undesignated	2,950,858	1,005,065	201,300	293,563
Total Net Assets	\$ 8,786,812	\$ 2,735,770	\$ 2,022,801	\$ 1,761,559

See Notes to Financial Statements

FORM C-1

710 Marina Fund	720 Garbage Fund	TOTALS		Governmental Activities - Internal Service Fund	
		2007	2006	2007	2006
\$ 2,893,630	\$ 233,823	\$ 6,893,706	\$ 8,465,242	\$	\$
33,060	4,483	959,411	981,309		
319,884		457,864	461,977		
19,309		655,313	736,536		20,698
28,959	118	65,342	69,713		
<u>3,294,842</u>	<u>238,424</u>	<u>9,031,636</u>	<u>10,714,777</u>		<u>20,698</u>
613,727	4,000	843,118	723,363		
6,640,900		35,747,228	33,512,848		41,049
<u>(3,073,648)</u>		<u>(14,385,197)</u>	<u>(13,181,225)</u>		<u>(28,610)</u>
4,180,979	4,000	22,205,149	21,054,986		12,439
		94,190	10,829		
<u>4,180,979</u>	<u>4,000</u>	<u>22,299,339</u>	<u>21,065,815</u>		<u>12,439</u>
7,475,821	242,424	31,330,975	31,780,592		33,137
85,000		674,364	646,979		
20,189	21,588	910,343	1,178,159		28
3,874	1,481	120,350	127,972		
				6,095	11,708
55,000		55,000	55,000		
		61,199	71,123		
<u>164,063</u>	<u>23,069</u>	<u>1,821,256</u>	<u>2,079,233</u>	<u>6,095</u>	<u>11,736</u>
825,100		7,399,750	8,070,614		
53,694		150,708	159,410		
<u>1,042,857</u>	<u>23,069</u>	<u>9,371,714</u>	<u>10,309,257</u>	<u>6,095</u>	<u>11,736</u>
3,270,879	4,000	14,131,035	12,337,393		12,439
420,000		420,000	1,920,000		
<u>2,742,085</u>	<u>215,355</u>	<u>7,408,226</u>	<u>7,213,942</u>	<u>(6,095)</u>	<u>8,962</u>
<u>\$ 6,432,964</u>	<u>\$ 219,355</u>	<u>\$ 21,959,261</u>	<u>\$ 21,471,335</u>	<u>\$ (6,095)</u>	<u>\$ 21,401</u>

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

With Comparative Totals for the Year Ended December 31, 2006

	Business-Type Activities - Enterprise Funds			
	701 Electric Fund	702 Water Fund	703 Sewer Fund	Storm Water Fund
Operating Revenue	\$ 10,036,360	\$ 608,742	\$ 1,273,917	\$ 84,052
Operating Expenses				
Salaries and benefits	626,096	237,401	184,574	5,181
Supplies	40,043	27,950	60,071	5,969
Other services and charges	9,094,317	183,609	490,983	2,833
Insurance	48,248	10,500	24,057	
Depreciation	427,284	101,846	475,129	47,463
Total Operating Expenses	10,235,988	561,306	1,234,814	61,446
Operating Income (Loss)	(199,628)	47,436	39,103	22,606
Nonoperating Income (Expense)				
Miscellaneous income (expense)	3,041			45,549
Investment income	210,853	89,961	39,954	23,233
Cable TV revenues	4,565			
Special assessments		1,119	86,330	
Contributions and donations				
Intergovernmental revenues				
Contributions - Federal Mogul				
Loss on asset disposal				
Interest expense	(40,478)		(204,930)	
Payment to component unit	(25,900)			
Total Nonoperating Income (Expense)	152,081	91,080	(78,646)	68,782
Income (Loss) Before Transfers and Contributions	(47,547)	138,516	(39,543)	91,388
Capital contributions				
Transfers in			75,000	
Transfers out	(155,000)	(65,000)		
Change in net assets	(202,547)	73,516	35,457	91,388
Net Assets, beginning	8,989,359	2,662,254	1,987,344	1,670,171
Net Assets, ending	\$ 8,786,812	\$ 2,735,770	\$ 2,022,801	\$ 1,761,559

FORM C-2

710 Marina Fund	720 Garbage Fund	TOTALS		Governmental Activities - Internal Service Fund	
		2007	2006	2007	2006
\$ 1,647,890	\$ 288,808	\$ 13,939,769	\$ 12,535,761	\$ 54,388	\$ 65,533
350,572		1,403,824	1,332,544		
232,770	835	367,638	426,672	61,253	65,364
45,275	274,478	10,091,495	8,699,164	8,192	2,610
66,855		149,660	131,335		
152,249		1,203,971	1,179,215	859	983
847,721	275,313	13,216,588	11,768,930	70,304	68,957
800,169	13,495	723,181	766,831	(15,916)	(3,424)
2,750	7,084	58,424	58,682		
48,778	21,657	434,436	297,527		
		4,565	2,282		
		87,449	10,236		
			87,100		
			300,000		
			(300,000)	(11,580)	
(43,368)		(288,776)	(273,754)		(1,159)
(224,453)		(250,353)	(250,352)		
(216,293)	28,741	45,745	(68,279)	(11,580)	(1,159)
583,876	42,236	768,926	698,552	(27,496)	(4,583)
		75,000	225,000		
(136,000)		(356,000)	(296,000)		
447,876	42,236	487,926	627,552	(27,496)	(4,583)
5,985,088	177,119	21,471,335	20,843,783	21,401	25,984
\$ 6,432,964	\$ 219,355	\$ 21,959,261	\$ 21,471,335	\$ (6,095)	\$ 21,401

**CITY OF LAKE CITY, MINNESOTA
ENTERPRISE FUNDS
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2007**

With Comparative Totals for the Year Ended December 31, 2006

	Business-Type Activities - Enterprise Funds			
	Electric Fund	Water Fund	Sewer Fund	Storm Water Fund
Cash Flows From Operating Activities				
Cash received from customers	\$ 10,052,896	\$ 611,005	\$ 1,275,470	\$ 129,412
Cash payments to suppliers and employees	(9,676,438)	(484,561)	(772,545)	(10,417)
Net Cash Provided By Operating Activities	<u>376,458</u>	<u>126,444</u>	<u>502,925</u>	<u>118,995</u>
Cash Flows From Noncapital Financing Activities				
Advances from/ (to) other funds	(137,980)			
Operating transfers in			75,000	
Operating transfers out	(155,000)	(65,000)		
Net Cash (Used In) Noncapital Financing Activities	<u>(292,980)</u>	<u>(65,000)</u>	<u>75,000</u>	
Cash Flows From Capital and Related Financing Activities				
Principal received on special assessments		3,958	130	
Acquisition of capital assets	(257,536)	(21,461)	(137,234)	(51,273)
Loan proceeds, net of discount				
Interest paid on debt	(43,572)		(209,584)	
Principal paid on debt	(165,000)		(401,980)	
Net Cash (Used In) Capital and Related Financing Activities	<u>(466,108)</u>	<u>(17,503)</u>	<u>(748,668)</u>	<u>(51,273)</u>
Cash Flows From Investing Activities				
Investment income	<u>210,853</u>	<u>89,961</u>	<u>39,954</u>	<u>23,233</u>
Increase (Decrease) in Cash and Cash Equivalents	<u>(171,777)</u>	<u>133,902</u>	<u>(130,789)</u>	<u>90,955</u>
Cash and Cash Equivalents, beginning	<u>2,347,090</u>	<u>886,424</u>	<u>401,988</u>	<u>208,460</u>
Cash and Cash Equivalents, ending	<u>\$ 2,175,313</u>	<u>\$ 1,020,326</u>	<u>\$ 271,199</u>	<u>\$ 299,415</u>

See Notes to Financial Statements

FORM C-3

Marina Fund	Garbage Fund	TOTALS		Governmental Activities - Internal Service Fund	
		2007	2006	2007	2006
\$ 1,652,991	\$ 292,958	\$ 14,014,732	\$ 12,767,170	\$ 54,388	\$ 65,533
(1,233,209)	(276,160)	(12,453,330)	(10,701,712)	(48,775)	(71,781)
419,782	16,798	1,561,402	2,065,458	5,613	(6,248)
142,093		4,113	141,391	(5,613)	7,407
		75,000	225,000		
(136,000)		(356,000)	(296,000)		
6,093		(276,887)	70,391	(5,613)	7,407
		4,088	3,509		
(1,886,629)		(2,354,133)	(1,453,846)		
			1,039,550		
(40,306)		(293,462)	(278,162)		(1,159)
(80,000)		(646,980)	(619,798)		
(2,006,935)		(3,290,487)	(1,308,747)		(1,159)
48,778	21,657	434,436	297,527		
(1,532,282)	38,455	(1,571,536)	1,124,629		
4,425,912	195,368	8,465,242	7,340,613		
\$ 2,893,630	\$ 233,823	\$ 6,893,706	\$ 8,465,242	\$	\$

**CITY OF LAKE CITY, MINNESOTA
ENTERPRISE FUNDS
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2007**

With Comparative Totals for the Year Ended December 31, 2006

**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)	\$ (199,628)	\$ 47,436	\$ 39,103	\$ 22,606
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation and amortization	429,684	101,846	475,129	47,463
Loss on property and equipment disposals				
Other	(18,294)			45,549
(Increase) Decrease In:				
Accounts receivable	18,854	2,263	1,553	(189)
Inventories	81,223			
Prepaid expenses	6,211	(154)	(1,327)	(60)
Increase (Decrease) In:				
Accounts payable	67,779	(20,650)	(8,962)	3,626
Accrued liabilities	802	(23)	(528)	
Compensated absences	(249)	(4,274)	(2,043)	
Customer deposits	(9,924)			
Net Cash Provided By (Used In) Operating Activities	\$ 376,458	\$ 126,444	\$ 502,925	\$ 118,995

See Notes to Financial Statements

FORM C-3

Marina Fund	Garbage Fund	TOTALS		Governmental Activities - Internal Service Fund	
		2007	2006	2007	2006
\$ 800,169	\$ 13,495	\$ 723,181	\$ 766,831	\$ (15,916)	\$ (3,424)
153,349		1,207,471	1,179,215	859	983
(221,703)	7,084	(187,364)	13,196		
2,351	(2,934)	21,898	(153,041)		
(181)	(118)	4,371	(39,567)	20,698	(3,808)
(308,727)	(882)	(267,816)	498,658	(28)	1
(3,340)	153	(2,936)	4,130		
(2,136)		(8,702)	(7,861)		
		(9,924)	10,290		
<u>\$ 419,782</u>	<u>\$ 16,798</u>	<u>\$ 1,561,402</u>	<u>\$ 2,065,458</u>	<u>\$ 5,613</u>	<u>\$ (6,248)</u>

CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

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.

CITY OF LAKE CITY, MINNESOTA

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.

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)

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 \$5,000. 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 <u>in Years</u>
Buildings and improvements	10 – 33
Distribution and collection system	25
Infrastructure	5 - 50
Other Improvements	5 - 50
Machinery and Equipment	5 - 15

The retroactive reporting of infrastructure is subject to an extended implementation period and is first effective for the fiscal year ending in 2007. The City capitalized the remaining retroactive infrastructure networks during the year ended December 31, 2005.

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.

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.

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)

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/expense s 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, 2006 totals column have been reclassified to conform with the current year presentation.

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.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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, 2007, the City's investments consisted of the following items, all of which are held in an internal investment pool:

Deposits	\$ 250,135
Investments	<u>9,448,398</u>
Cash and Investments Per Statement of Net Assets	<u>\$ 9,698,533</u>

<u>Investment</u>	<u>Maturities</u>	<u>Ratings</u>	<u>Fair Value</u>
Money Markey Mutual Funds	None	Unrated	\$ 1,784,496
Negotiable CD's	January 2008 - December 2014	Unrated	1,700,794
US Treasury Notes	May 2008 - February 2014	N/A	80,936
US Treasury Bonds	November 2024 - February 2029	N/A	58,242
Federal National Mortgage Assn	February 2008-April 2015	AAA	912,401
Federal Home Loan Bank	July 2008 - July 2018	AAA	3,154,238
Federal Home Loan Mortgage Corp	June 2011 - July 2018	AAA	<u>1,757,291</u>
			<u>\$ 9,448,398</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 of 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 Markey Mutual Funds	Unrated	19%
Negotiable CD's	Unrated	18%
Federal National Mortgage Assn	AAA	10%
Federal Home Loan Bank	AAA	33%
Federal Home Loan Mortgage Corp	AAA	19%

3. Loans Receivable s

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, 2007 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, 2007 totaled \$137,039.

4. Activity with Component Unit

The amount due from the component unit consists of a \$123,974 loan from the General Fund \$100,000 loan from the Marina Fund to fund certain economic development activities. The component unit also is owed \$253,000 from Tax Increment District #13 for the reimbursement of costs associated with the Block 25 property which was sold in 2005. This receivable in the Component Unit and payable by Tax Increment District #13 has not been recorded since the generation and collection of tax increments is not known as of December 31, 2007. The future obligation is limited to the amount of available tax increment collections.

5. Capital Assets

Capital asset activity for the year ended December 31, 2007 was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 1,303,791		\$	\$ 1,303,791
Total capital assets, not being depreciated	<u>1,303,791</u>			<u>1,303,791</u>
Capital assets, being depreciated:				
Buildings	9,705,744			9,705,744
Improvements other than buildings	236,640	32,983		269,623
Infrastructure	9,559,383	144,141	19,561	9,683,963
Machinery and equipment	4,362,682	295,383	41,049	4,617,016
Total capital assets, being depreciated	<u>23,864,449</u>	<u>472,507</u>	<u>60,610</u>	<u>24,276,346</u>
Less accumulated depreciation for:				
Buildings	4,425,430	193,054		4,618,484
Improvements other than buildings	25,041	8,362		33,403
Infrastructure	5,227,124	211,470		5,438,594
Machinery and equipment	3,014,477	218,018	29,468	3,203,027
Total accumulated depreciation	<u>12,692,072</u>	<u>630,904</u>	<u>29,468</u>	<u>13,293,508</u>
Total capital assets, being depreciated, net	<u>11,172,377</u>	<u>(158,397)</u>	<u>31,142</u>	<u>10,982,838</u>
Governmental activities capital assets, net	<u>\$ 12,476,168</u>	<u>\$ (158,397)</u>	<u>\$ 31,142</u>	<u>\$ 12,286,629</u>

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. 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	789,051	51,272	720,568	119,755
Total capital assets, not being depreciated	1,512,414	51,272	720,568	843,118
Capital assets, being depreciated:				
Buildings and improvements	12,115,965	2,604,491		14,720,456
Distribution and collection system	16,981,887	281,360		17,263,247
Machinery and equipment	3,625,946	137,579		3,763,525
Total capital assets, being depreciated	32,723,798	3,023,430		35,747,228
Less accumulated depreciation for:				
Buildings and improvements	3,919,065	447,691		4,366,756
Distribution and collection system	6,802,980	546,033		7,349,013
Machinery and equipment	2,459,181	210,247		2,669,428
Total accumulated depreciation	13,181,226	1,203,971		14,385,197
Total capital assets, being depreciated, net	19,542,572	1,819,459		21,362,031
Business-type activities capital assets, net	\$ 21,054,986	\$ 1,870,731	\$ 720,568	\$ 22,205,149
Discretely Presented Component Unit				
Economic Development Authority	<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	153,257	57,711		210,968
Machinery and equipment	34,859	12,676		47,535
Total accumulated depreciation	188,116	70,387		258,503
Total capital assets, being depreciated, net	\$ 2,183,680	\$ (70,387)	\$	\$ 2,113,293

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Capital Assets (continued)

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General government	\$ 227,735
Public safety	127,654
Streets and highways	249,322
Culture and recreation	25,334
Internal service fund	<u>859</u>
Total depreciation expense - governmental activities	<u>\$ 630,904</u>
Business-Type Activities:	
Electric	\$ 427,284
Water	101,846
Sewer	475,129
Storm water	47,463
Marina	<u>152,249</u>
Total depreciation expense - business-type activities	<u>\$ 1,203,971</u>

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Interfund Balances and Transfers

Balances of interfund receivables and payables as of December 31, 2007 at the individual fund level are as follows:

	Interfund Receivable	Interfund Payable
General Fund	\$ 492,689	\$
Internal Service Fund		
Gas		6,095
Special Revenue Funds:		
Block 25 Redev TIF #13		2,322
Pepin Manufacturing TIF #14		6,577
HNT Expansion #3 TIF #15		1,305
Debt Service Funds:		
Peters 4th and 5th Street Improvement		99,591
1997 GO Improvement Bonds		55,028
Goodhue County #5 Project		300,868
Capital Project Funds:		
2006 Street Improvement		20,903
	<u>\$ 492,689</u>	<u>\$ 492,689</u>

The amounts advanced to and advanced from other funds as of December 31, 2007 at the individual fund level are summarized below:

	Advances to Other Funds	Advances from Other Funds
General Fund	\$ 55,000	\$ 457,864
Enterprise Fund:		
Electric	137,980	
Marina	319,884	55,000
	<u>\$ 512,864</u>	<u>\$ 512,864</u>

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Interfund Balances and Transfers (Continued)

Operating transfers during the year ended December 31, 2007 were as follows:

Funds	Transfers In	Transfers Out
General Fund	\$ 315,000	\$
Special Revenue:		
Library	41,000	
Cable TV	1,352	
Emergency services	9,667	
Tax Increment #4		75,000
Debt Service:		
South Lakeshore		23,329
1992 G.O. Improvement		46,671
NW Area Sanitary Sewer		270,751
1995 Street Project		26,162
Peters 4th and 5th Street Improvement		85,810
North 7th Street Sewer and Water		28,621
Capital Projects:		
Capital Projects	243,428	
Hillwood Overlay Project	49,500	
Downtown Streetscape Project	35,668	
Wabasha County #5	318,763	
NW Area Sanitary Sewer		325,189
Monroe Street Railroad Crossing	62,345	
2006 Street Improvement	85,810	
Enterprise:		
Electric		155,000
Water		65,000
Sewer	75,000	
Marina		136,000
	\$ 1,237,533	\$ 1,237,533

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Long-Term Debt

A summary of long-term debt obligations outstanding at December 31, 2007 is as follows:

	Range of Interest Rates	Final Maturity	Balance December 31, 2007
<u>Governmental Activities</u>			
G.O. Improvement Bonds:			
G.O. Improvement Bonds of 1993	3.00%-5.25%	2009	\$ 75,000
G.O. Improvement Bonds of 1995B	4.20%-5.80%	2011	56,000
G.O. Improvement Bonds of 1998	4.70%	2008	50,000
G.O. Improvement Bonds of 1999	5.56%	2010	115,000
G.O. Improvement Bonds of 2003	3.88%	2010	200,000
G.O. Improvement Bonds of 2006A	3.55%-4.05%	2022	490,000
Compensated Absences			
<u>Business-Type Activities</u>			
Revenue Bonds:			
Marina Revenue Bonds of 2006	4.05%-4.45%	2016	920,000
General Obligation Revenue Bonds:			
GO Utility Revenue Bonds of 2001A	4.00%-4.90%	2011	760,000
GO Revenue Loans:			
Public Facilities Loan of 1993	3.74%	2014	629,375
Public Facilities Loan of 1996	3.32%	2017	835,238
Public Facilities Loan of 1999	2.86%	2020	854,000
Public Facilities Loan of 2002	2.99%	2023	4,095,000
Compensated Absences			
			448,189
Sub-total			9,527,802
Less: Unamortized discount			(19,500)
Total			\$ 9,508,302

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Long-Term Debt (Continued)

Discretely Presented Component Unit Economic Development Authority	Range of Interest Rates	Final Maturity	Balance December 31, 2007
EDA Revenue Bonds:			
Public Project Lease Revenue Bond Series 2001	4.98%	2012	<u>\$ 787,089</u>

The following is a summary of changes in long-term debt obligations for the year ended December 31, 2007:

	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	\$ 105,000		\$ 30,000	\$ 75,000	\$ 35,000
G.O. Improvement Bonds of 1994	75,000		75,000		
G.O. Improvement Bonds of 1995B	70,000		14,000	56,000	14,000
G.O. Improvement Bonds of 1997B	80,000		80,000		
G.O. Improvement Bonds of 1998	100,000		50,000	50,000	50,000
G.O. Improvement Bonds of 1999	150,000		35,000	115,000	35,000
G.O. Improvement Bonds of 2003	400,000		200,000	200,000	
G.O. Improvement Bonds of 2006A	510,000		20,000	490,000	
Other liabilities:					
Compensated Absences	307,347		9,867	297,480	
Governmental Activities					
Long-term Liabilities	<u>1,797,347</u>		<u>513,867</u>	<u>1,283,480</u>	<u>134,000</u>
BUSINESS-TYPE ACTIVITIES					
Bonds and Notes Payable:					
Revenue Bonds:					
Marina Revenue Bonds of 2006	1,000,000		80,000	920,000	85,000
Less: Unamortized Discount	(11,000)		(1,100)	(9,900)	
General Obligation Revenue Bonds:					
GO Utility Revenue Bonds of 2001A	925,000		165,000	760,000	175,000
Less: Unamortized Discount	(12,000)		(2,400)	(9,600)	
GO Revenue Loans:					
Public Facilities Loan of 1993	706,689		77,314	629,375	80,233
Public Facilities Loan of 1996	908,904		73,666	835,238	76,131
Public Facilities Loan of 1999	908,000		54,000	854,000	55,000
Public Facilities Loan of 2002	4,292,000		197,000	4,095,000	203,000
Other liabilities:					
Compensated Absences	159,410		8,701	150,709	
Business-type Activities					
Long-term Liabilities	<u>8,877,003</u>		<u>652,181</u>	<u>8,224,822</u>	<u>674,364</u>
Total					
	<u>\$ 10,674,350</u>	<u>\$</u>	<u>\$ 1,166,048</u>	<u>\$ 9,508,302</u>	<u>\$ 808,364</u>
COMPONENT UNIT					
EDA Revenue Bonds:					
Public Project Lease Revenue Bond Series 2001	<u>\$ 1,044,547</u>		<u>\$ 257,458</u>	<u>\$ 787,089</u>	<u>\$ 90,128</u>

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Long-Term Debt (Continued)

The annual requirements to amortize long-term debt obligations outstanding at December 31, 2007, 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>											
2008	\$ 134,000	\$ 25,655							\$ 90,128	\$ 19,599	\$ 269,382
2009	219,000	30,527							187,043	32,408	468,978
2010	184,000	21,606							196,475	22,978	425,059
2011	44,000	16,673							206,382	13,071	280,126
2012	30,000	15,179							107,061	2,666	154,906
2013-2017	170,000	57,745									227,745
2018-2022	205,000	21,691									226,691
Totals	<u>\$986,000</u>	<u>\$ 189,076</u>							<u>\$787,089</u>	<u>\$ 90,722</u>	<u>\$2,052,887</u>

Business-Type Activities

2008		\$ 414,364	\$ 196,762	\$ 175,000	\$ 32,125	\$ 85,000	\$ 39,295			\$ 942,546
2009		427,941	183,543	185,000	23,752	90,000	35,810			946,046
2010		441,718	169,888	195,000	14,725	95,000	32,098			948,429
2011		455,702	155,787	205,000	5,022	95,000	28,155			944,666
2012		470,900	141,233			100,000	24,165			736,298
2013-2017		2,211,988	485,504			455,000	50,840			3,203,332
2018-2022		1,675,000	192,830							1,867,830
2023-2027		316,000	9,449							325,449
Totals		<u>\$6,413,613</u>	<u>\$1,534,996</u>	<u>\$760,000</u>	<u>\$75,624</u>	<u>\$920,000</u>	<u>\$210,363</u>			<u>\$9,914,596</u>

Legal Debt Margin

The City's statutory debt limit is two percent of estimated market value of taxable property within the City, or \$413,218,673. The City currently has no general obligation debt subject to this limit leaving a debt margin of \$8,264,373. 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)

8. 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, 2006:

	Tax Increment District #1 Imperial Clevite	Tax Increment District #2 Lighthouse	Tax Increment District #4 Downtown	Tax Increment District #8 Valley Craft	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	Housing	Economic	Economic	Redevelopment
Year Established	1983	1984	1989	1996	1998	2000	2003	2004
Duration of District	26 Years	26 Years	27 Years	11 Years	17 Years	11 Years	11 Years	27 Years
Tax Capacity:								
Original	\$	\$ 962	\$ 19,657	\$ 657	\$ 113	\$ 168	\$ 3,884	\$
Current		4,818	89,920	19,456	10,466	25,664	7,212	3,766
Captured - retained	\$	\$ 3,856	\$ 70,263	\$ 18,799	\$ 10,353	\$ 25,496	\$ 3,328	\$ 3,766
Total General Obligation Tax Increment Bonds Issued	\$ 300,000	\$	\$	\$	\$	\$	\$	\$
Principal payments	300,000							
Outstanding at 12/31/06	\$	\$	\$	\$	\$	\$	\$	\$

9. 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.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. 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 2007.

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 2007. 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, 2007 was \$2,270,000.

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)

10. 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:

	2007	2006
General Fund		
Designated for cash flow	\$ 1,033,010	\$ 660,426
Debt Service Funds		
Reserved for debt retirement	238,907	1,038,284
Proprietary Funds - Marina Fund		
Building		1,500,000
Lift replacement	170,000	170,000
Beach/Point improvement	200,000	200,000
Docks	50,000	50,000

At December 31, 2007, individual funds with deficit fund balances/net assets were as follows:

Special Revenue Funds:	
Block 25 Redevelopment TIF #13	\$ (2,322)
Pepin Manufacturing TIF #14	(6,577)
HNT Expansion #3 TIF #15	(1,305)
Highway Coalition 61	(16,901)
Debt Service Fund:	
Peters 4th and 5th Street Improvement	(99,591)
1997 GO Improvement Bonds	(54,503)
Goodhue County #5 Project	(299,962)
Capital Projects Funds:	
2006 Street Improvement	(21,246)
Internal Service Fund-Gas	(6,095)

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. 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. 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.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. 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. That report may be obtained on the web 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 are required to contribute 9.10% and 5.75% respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan will increase in 2008 to 6.0%. PEPFF members are required to contribute 7.8% of their annual covered salary in 2007. That rate will increase to 8.6% in 2008. The City of Lake City is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 6.25% for Coordinated Plan PERF members, and 11.7% for PEPFF members. Employer contribution rates for the Coordinated Plan and PEPFF will increase to 6.5% and 12.9% respectively, effective January 1, 2008. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2007, 2006, and 2005 were \$132,160, \$117,727, and \$118,643, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2007, 2006, and 2005 were \$62,272, \$74,317, and \$50,825, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

12. 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)

12. 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
Remainining 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)

12. 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%

13. 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, 2007

CITY OF LAKE CITY, MINNESOTA

NONMAJOR FUNDS

DECEMBER 31, 2007

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, 2007**

With Comparative Totals for December 31, 2006

	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 Various	490 Valley Craft TIF #8
ASSETS								
Cash and investments	\$ 85,248	\$ 268,687	\$ 132,393	\$ 139,377	\$ 62,000	\$ 21,420	\$ 91,314	\$ 33,182
Accounts receivable	13,367							
Loans receivable		137,039	126,643					
Special assessments delinquent								
Special assessments deferred								
Due from component unit		100,000						
Due from other governmental units	1,381							
TOTAL ASSETS	\$ 99,996	\$ 505,726	\$ 259,036	\$ 139,377	\$ 62,000	\$ 21,420	\$ 91,314	\$ 33,182
LIABILITIES AND FUND BALANCE								
Liabilities								
Accounts payable	\$ 4,915	\$	\$	\$	\$	\$	\$	\$
Accrued liabilities	760							
Deposits payable								
Interfund payables								
Deferred revenue		137,039	126,643					
Total Liabilities	5,675	137,039	126,643					
Fund Balance								
Reserved								
Unreserved								
Undesignated	94,321	368,687	132,393	139,377	62,000	21,420	91,314	33,182
Total Fund Balance	94,321	368,687	132,393	139,377	62,000	21,420	91,314	33,182
TOTAL LIABILITIES AND FUND BALANCE	\$ 99,996	\$ 505,726	\$ 259,036	\$ 139,377	\$ 62,000	\$ 21,420	\$ 91,314	\$ 33,182

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
\$ 2,026	\$	\$	\$ 29,053	\$	\$ 4,443	\$ 5,074	\$ 231,468	\$ 102,085
\$ 2,026	\$	\$	\$ 29,053	\$	\$ 4,443	\$ 5,074	\$ 231,468	\$ 102,085
\$	\$	\$	\$ 3,595	\$	\$	\$ 500	\$	\$
	2,322	6,577		1,305	21,344		231,468	31,992
	2,322	6,577	3,595	1,305	21,344	500	231,468	31,992
2,026	(2,322)	(6,577)	25,458	(1,305)	(16,901)	4,574		70,093
2,026	(2,322)	(6,577)	25,458	(1,305)	(16,901)	4,574		70,093
\$ 2,026	\$	\$	\$ 29,053	\$ -	\$ 4,443	\$ 5,074	\$ 231,468	\$ 102,085

**CITY OF LAKE CITY, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2007**

With Comparative Totals for December 31, 2006

	Debt Service Funds							
	338	340	342	316	344	347	351	352
	Central Point Sanitary Sewer/Water Bonds	NW Area Sanitary Sewer Bonds	Borners Sewer and Water	Peters 4th and 5th Street Improvement	North 7th Street Sewer and Water	1997 G.O. Improvement Bonds	Goodhue County #5 Project	1998 G.O. Improvement Bonds
ASSETS								
Cash and investments	\$ 190,671	\$	\$ 119,949	\$	\$	\$	\$	\$ 230,231
Accounts receivable								
Loans receivable								
Special assessments delinquent			850					240
Special assessments deferred	3,874		26,721	32,737			15,443	
Due from component unit								
Due from other governmental units	402					525	906	
TOTAL ASSETS	\$ 194,947	\$ -	\$ 147,520	\$ 32,737	\$	\$ 525	\$ 16,349	\$ 230,471
LIABILITIES AND FUND BALANCE								
Liabilities								
Accounts payable	\$	\$	\$	\$	\$	\$	\$	\$
Accrued liabilities								
Deposits payable								
Interfund payables				99,591		55,028	300,868	
Deferred revenue	3,874		27,571	32,737			15,443	240
Total Liabilities	3,874		27,571	132,328		55,028	316,311	240
Fund Balance								
Reserved	191,073		119,949	(99,591)		(54,503)	(299,962)	230,231
Unreserved								
Undesignated								
Total Fund Balance	191,073		119,949	(99,591)		(54,503)	(299,962)	230,231
TOTAL LIABILITIES AND FUND BALANCE	\$ 194,947	\$	\$ 147,520	\$ 32,737	\$	\$ 525	\$ 16,349	\$ 230,471

FORM D-1

Capital Projects Funds						
354 1999 G.O. Improvement Bonds	400 Capital Projects	337 Hillwood Overlay Project	355 NW Area Sanitary Sewer	357 2006 Street Improvement	Totals	
					2007	2006
\$ 151,710	\$ 199,835	\$	\$	\$	\$ 2,100,166	\$ 2,574,116
					13,367	54,767
					263,682	210,631
					1,595	18,874
505 15,244	43,623			149,200	286,842	162,166
					100,000	100,000
				381	3,595	5,324
<u>\$ 167,459</u>	<u>\$ 243,458</u>	<u>\$</u>	<u>\$</u>	<u>149,581</u>	<u>\$ 2,769,247</u>	<u>\$ 3,125,878</u>
\$	\$	\$	\$	724	\$ 9,734	\$ 3,737
					760	784
					284,804	252,894
				20,903	486,594	717,389
15,749	43,623			149,200	552,119	391,671
<u>15,749</u>	<u>43,623</u>			<u>170,827</u>	<u>1,334,011</u>	<u>1,366,475</u>
151,710					238,907	1,038,284
	199,835			(21,246)	1,196,329	721,119
<u>151,710</u>	<u>199,835</u>			<u>(21,246)</u>	<u>1,435,236</u>	<u>1,759,403</u>
<u>\$ 167,459</u>	<u>\$ 243,458</u>	<u>\$</u>	<u>\$</u>	<u>149,581</u>	<u>\$ 2,769,247</u>	<u>\$ 3,125,878</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, 2007
With Comparative Totals for December 31, 2006**

	Special Revenue Funds									
	210 Library	260 Cable TV	270 Community Development Revolving Loan Fund	271 Business Development Revolving Loan Fund	410 TIF #1 Imperial Clevite	412 Increment #2 Lighthouse Mall	430 Pepin Manufacturing TIF #7-1	440 Schleicher TIF #7-2	445 Courtier TIF #6	450 Heat 'N Glo TIF #5
REVENUES										
Taxes:										
Property taxes	\$ 73,622	\$	\$		\$	\$	\$	\$	\$	\$
Tax increments						4,036				
Special assessments										
Intergovernmental revenues	55,205									
Charges for services	1,845									
Fines and forfeits	6,399									
Investment income			24,420	11,749	12,386	5,269		219		
Miscellaneous revenues	57,696		36,977						624	
TOTAL REVENUES	194,767		61,397	11,749	12,386	9,305		219	624	
EXPENDITURES										
Culture and recreation:										
Library	150,344									
Economic development			81,231		125	783	789			277
Debt service:										
Principal retirement										
Interest and fiscal charges										
Capital outlay	26,361									
TOTAL EXPENDITURES	176,705		81,231		125	783	789			277
Excess (deficiency) of revenues over (under) expenditures	18,062		(19,834)	11,749	12,261	8,522	(789)	219	624	(277)
OTHER FINANCING SOURCES (USES)										
Transfers in	41,000	1,352								
Transfers out										
Total Other Financing Sources (Uses)	41,000	1,352								
Net change in fund balances	59,062	1,352	(19,834)	11,749	12,261	8,522	(789)	219	624	(277)
FUND BALANCE, beginning	35,259	(1,352)	388,521	120,644	127,116	53,478	789	(219)	(624)	277
FUND BALANCE, ending	\$ 94,321	\$	\$ 368,687	\$ 132,393	\$ 139,377	\$ 62,000	\$	\$	\$	\$

Special Revenue Funds												
451 Heat 'N Glo TIF #9	460 Emergency Services	480 Tax Increment #4 Various	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
\$ 27,773		\$ 74,557	\$ 20,155	\$ 3,804			\$ 10,523					
1,073		9,464	2,354	98			1,866		394	457		
28,846		84,021	22,509	3,902			12,389		394	457		
13,280		783	9,853	2,524	944	545	4,237	1,305		500		8,937
13,280		783	9,853	2,524	944	545	4,237	1,305		500		8,937
15,566		83,238	12,656	1,378	(944)	(545)	8,152	(1,305)	394	(43)		(8,937)
	9,667											
		(75,000)										
	9,667	(75,000)										
15,566	9,667	8,238	12,656	1,378	(944)	(545)	8,152	(1,305)	394	(43)		(8,937)
5,854	(9,667)	83,076	20,526	648	(1,378)	(6,032)	17,306		(17,295)	4,617		79,030
\$ 21,420	\$	\$ 91,314	\$ 33,182	\$ 2,026	\$ (2,322)	\$ (6,577)	\$ 25,458	\$ (1,305)	\$ (16,901)	\$ 4,574	\$	\$ 70,093

CITY OF LAKE CITY, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
Combining Statement of Revenues, Expenditures
and Changes in Fund Balance
For the Year Ended December 31, 2007
With Comparative Totals for December 31, 2006

	Debt Service Funds											
	335	336	338	340	341	342	316	344	347	351	352	
	South	1992 G.O.	Central Point	NW Area	1995	Borners	Peters	North 7th	1997 G.O.	Goodhue	1998 G.O.	
	Lakeshore	Improvement	Sanitary	Sanitary	Street	Sewer and	4th and 5th	Street	Sewer and	County #5	Improvement	
	Bonds	Bonds	Sewer/Water	Sewer	Project	Water	Street	Water	Improvement	Project	Bonds	
REVENUES												
Taxes:												
Property taxes	\$	\$	\$	\$	\$	\$	\$	\$	\$	31,061	53,618	\$
Tax increments												
Special assessments			9,769	833		11,401	7,073	221	6,316	9,575	21,769	
Intergovernmental revenues									2,789	4,815		
Charges for services												
Fines and forfeits												
Investment income			16,833			10,164						20,192
Miscellaneous revenues												
TOTAL REVENUES			26,602	833		21,565	7,073	221	40,166	68,008	41,961	
EXPENDITURES												
Culture and recreation:												
Library												
Economic development							3,685					
Debt service:												
Principal retirement			30,000	75,000		14,000			80,000	200,000	50,000	
Interest and fiscal charges			5,278	2,721		3,637	2,540		4,548	39,920	3,634	
Capital outlay												
TOTAL EXPENDITURES			35,278	77,721		17,637	6,225		84,548	239,920	53,634	
Excess (deficiency) of revenues over (under) expenditures			(8,676)	(76,888)		3,928	848	221	(44,382)	(171,912)	(11,673)	
OTHER FINANCING SOURCES (USES)												
Bond proceeds												
Transfers in												
Transfers out	(23,329)	(46,671)		(270,751)	(26,162)		(85,810)	(28,621)				
Total Other Financing Sources (Uses)	(23,329)	(46,671)		(270,751)	(26,162)		(85,810)	(28,621)				
Net change in fund balances	(23,329)	(46,671)	(8,676)	(347,639)	(26,162)	3,928	(84,962)	(28,400)	(44,382)	(171,912)	(11,673)	
FUND BALANCE, beginning	23,329	46,671	199,749	347,639	26,162	116,021	(14,629)	28,400	(10,121)	(128,050)	241,904	
FUND BALANCE, ending	\$	\$	\$ 191,073	\$	\$	\$ 119,949	\$ (99,591)	\$	\$ (54,503)	\$ (299,962)	\$ 230,231	

Capital Projects Funds									Totals	
354 1999 G.O. Improvement Bonds	400 Capital Projects	337 Hillwood Overlay Project	349 Downtown Streetscape Project	350 Wabasha County #5 Project	355 NW Area Sanitary Sewer	356 Monroe Street RR Crossing	357 2006 Street Improvement	2007	2006	
\$	\$	\$	\$	\$	\$	\$	\$	22,092	\$ 180,393	\$ 107,744
20,362	7,080				6,226		-	100,625	140,848	132,828
							2,034	64,843	64,843	56,107
								1,845	1,845	1,866
								6,399	6,399	4,414
12,757	51,141							180,836	180,836	132,731
								19,561	114,858	111,441
33,119	58,221				6,226		43,687	790,647	887,369	
									150,344	135,738
	25,589							4,722	160,109	194,313
35,000								20,000	504,000	388,000
7,618								25,963	95,859	87,859
	(1)							144,142	170,502	895,682
42,618	25,588							194,827	1,080,814	1,701,592
(9,499)	32,633				6,226		(151,140)	(290,167)	(814,223)	
	243,428	49,500	35,668	318,763	(325,189)	62,345	85,810	847,533	510,000	52,511
								(881,533)	(881,533)	(225,000)
	243,428	49,500	35,668	318,763	(325,189)	62,345	85,810	(34,000)	337,511	
(9,499)	276,061	49,500	35,668	318,763	(318,963)	62,345	(65,330)	(324,167)	(476,712)	
161,209	(76,226)	(49,500)	(35,668)	(318,763)	318,963	(62,345)	44,084	1,759,403	2,236,115	
\$ 151,710	\$ 199,835	\$	\$	\$	\$	\$	\$ (21,246)	\$ 1,435,236	\$ 1,759,403	

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, 2007

With Comparative Totals for the Year Ended December 31, 2006

	Budgeted Amounts		2007 Actual Amount	Variance With Budget Positive (Negative)	2006 Actual Amount
	Original	Final			
REVENUES					
Property Tax Levy					
Property tax collected	\$ 73,359	\$ 73,359	\$ 73,622	\$ 263	\$ 73,431
Intergovernmental Revenues					
State - property tax credits and aids	6,641	6,641	6,641		8,073
County - library grants	45,000	45,000	48,564	3,564	44,906
Total Intergovernmental Revenues	51,641	51,641	55,205	3,564	52,979
Charges For Services					
Fines and forfeits	3,500	3,500	6,399	2,899	4,414
Other	1,200	1,200	1,845	645	1,866
Total Charges For Services	4,700	4,700	8,244	3,544	6,280
Miscellaneous					
Donations	30,000	30,000	57,696	27,696	37,848
Total Revenues	159,700	159,700	194,767	35,067	170,538
EXPENDITURES					
Library Services	162,839	162,839	150,344	12,495	135,738
Capital outlay	30,500	30,500	26,361	4,139	30,926
Total Expenditures	193,339	193,339	176,705	16,634	166,664
Excess (deficiency) of revenues over (under) expenditures	(33,639)	(33,639)	18,062	51,701	3,874
OTHER FINANCING SOURCES					
Transfers in	41,000	41,000	41,000		43,361
Net Change in Fund Balance	7,361	7,361	59,062	51,701	47,235
Fund Balance, beginning	35,259	35,259	35,259		(11,976)
Fund Balance, ending	\$ 42,620	\$ 42,620	\$ 94,321	\$ 51,701	\$ 35,259

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, 2007

With Comparative Totals for the Year Ended December 31, 2006

	575 Economic Development	401 City Hall Project	2007	2006
REVENUES				
Property tax	\$ 60,782	\$	\$ 60,782	\$ 58,718
Intergovernmental revenues	5,508		5,508	
Investment income	3,547		3,547	2,293
Payment from primary government	49,900	219,453	269,353	267,852
Miscellaneous	10,040		10,040	11,388
Total Revenues	129,777	219,453	349,230	340,251
EXPENDITURES				
Economic Development	81,470		81,470	65,718
Debt Service:				
Principal		257,458	257,458	161,382
Interest		71,822	71,822	67,409
Total Expenditures	81,470	329,280	410,750	294,509
Excess (Deficiency) of Revenues Over (Under) Expenditures	48,307	(109,827)	(61,520)	45,742
Fund Balance, beginning	(134,968)	(76,029)	(165,255)	(210,997)
Fund Balance, ending	\$ (86,661)	\$ (185,856)	\$ (226,775)	\$ (165,255)