

**CITY OF LAKE CITY, MINNESOTA**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2011**



# CITY OF LAKE CITY, MINNESOTA

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**CITY OF LAKE CITY, MINNESOTA**

**INTRODUCTORY SECTION**

**DECEMBER 31, 2011**

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Lake City, Minnesota 55041  
(651) 345-5383  
Fax: (651) 345-3208  
[www.ci.lake-city.mn.us](http://www.ci.lake-city.mn.us)

June 11, 2012

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, 2011 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.

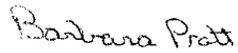
The City assumes responsibility for both the accuracy of data and the completeness and fairness of the presentation, including all disclosures. To the best of our knowledge, this financial report is complete and reliable in all material respects.

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, 2011. The independent auditor's report is located on page one of this report.

The City's financial statements include all funds and component units 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 2011 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;



Barbara I. Pratt  
Finance Director/Treasurer

**CITY OF LAKE CITY, MINNESOTA  
ELECTED AND APPOINTED OFFICIALS  
DECEMBER 31, 2011**

**ELECTED**

<u>Title</u>	<u>Name</u>	<u>Term Expires</u>
Mayor	Jerry Dunbar	January 14, 2013
Council	Marylou Waltman	January 14, 2013
Council	Phil Gartner	January 10, 2015
Council	Matt Powers	January 10, 2015
Council	Mark Spence	January 14, 2013
Council	Joel Beckman	January 10, 2015
Council	Andru Peters	January 14, 2013

**APPOINTED**

City Administrator	Ron Johnson
City Clerk	Kari Schreck
Finance Director/Treasurer	Barbara Pratt

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**CITY OF LAKE CITY, MINNESOTA**

**FINANCIAL SECTION**

**DECEMBER 31, 2011**

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lake City, Minnesota as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the City's 2010 financial statements and, in our report dated May 24, 2011, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lake City, Minnesota as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the financial statements, the City of Lake City adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of and for the year ended December 31, 2011. This statement results in the City reporting nonspendable, restricted, committed, assigned and unassigned fund balances in its governmental funds.

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

In accordance with *Government Audit Standards*, we have also issued our report dated June 01, 2012, on our consideration of the City of Lake City, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting and compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

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

Rochester, Minnesota  
June 01, 2012

## **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, 2011. 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 \$40,540,348 (*net assets*). Of this amount, \$12,592,650 (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 \$1,845,637 primarily due to the addition of an electrical substation and additional investments in capital assets.
- As of the close of the current fiscal year, the City of Lake City's governmental funds reported combined ending fund balances of \$4,570,327. Approximately 88 percent of this total amount, or \$4,021,503, is available for use within the City's designations and policies.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,195,266 or 24 percent of total general fund expenditures.
- The City of Lake City total outstanding debt decreased by \$855,279 during the current fiscal year. Principal payments are made as scheduled and continue to reduce outstanding debt.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

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

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

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.

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 71. 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*.

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

The City of Lake City maintains twenty-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 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* on pages 62-69 in this report.

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 70) to demonstrate compliance with the budget.

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

***Proprietary funds.*** The City of Lake City maintains two types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Lake City uses enterprise funds to account for its electric, water, sewer, storm water, 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 insurance, utilities, repairs and maintenance expenditures of the General and Library funds.

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, garbage utilities, marina activity, and its internal service fund, 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 62-71 of this report.

**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 \$40,540,348 at the close of the most recent fiscal year.

By far the largest portion of the City of Lake City's net assets (67 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	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 6,026,363	\$ 5,025,057	\$ 10,249,398	\$ 10,661,991	\$ 16,275,761	\$ 15,687,048
Capital assets	13,860,748	14,157,308	24,112,933	23,237,974	37,973,681	37,395,282
Total assets	<u>19,887,111</u>	<u>19,182,365</u>	<u>34,362,331</u>	<u>33,899,965</u>	<u>54,249,442</u>	<u>53,082,330</u>
Long-term liabilities						
outstanding	1,698,748	1,799,513	9,772,756	10,527,270	11,471,504	12,326,783
Other liabilities	833,587	477,656	1,404,003	1,583,180	2,237,590	2,060,836
Total liabilities	<u>2,532,335</u>	<u>2,277,169</u>	<u>11,176,759</u>	<u>12,110,450</u>	<u>13,709,094</u>	<u>14,387,619</u>
Net assets:						
Invested in capital assets, net of related debt	12,476,438	12,683,349	14,577,283	14,965,199	27,053,721	27,648,548
Restricted	893,977	1,032,878			893,977	1,032,878
Unrestricted	3,984,361	3,188,969	8,608,289	6,824,316	12,592,650	10,013,285
Total net assets	<u>\$ 17,354,776</u>	<u>\$ 16,905,196</u>	<u>\$ 23,185,572</u>	<u>\$ 21,789,515</u>	<u>\$ 40,540,348</u>	<u>\$ 38,694,711</u>

A portion of the City of Lake City's net assets (2 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$12,592,650) 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 \$449,580.

**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 \$1,396,057.

A condensed version of the Statement of Activities follows:

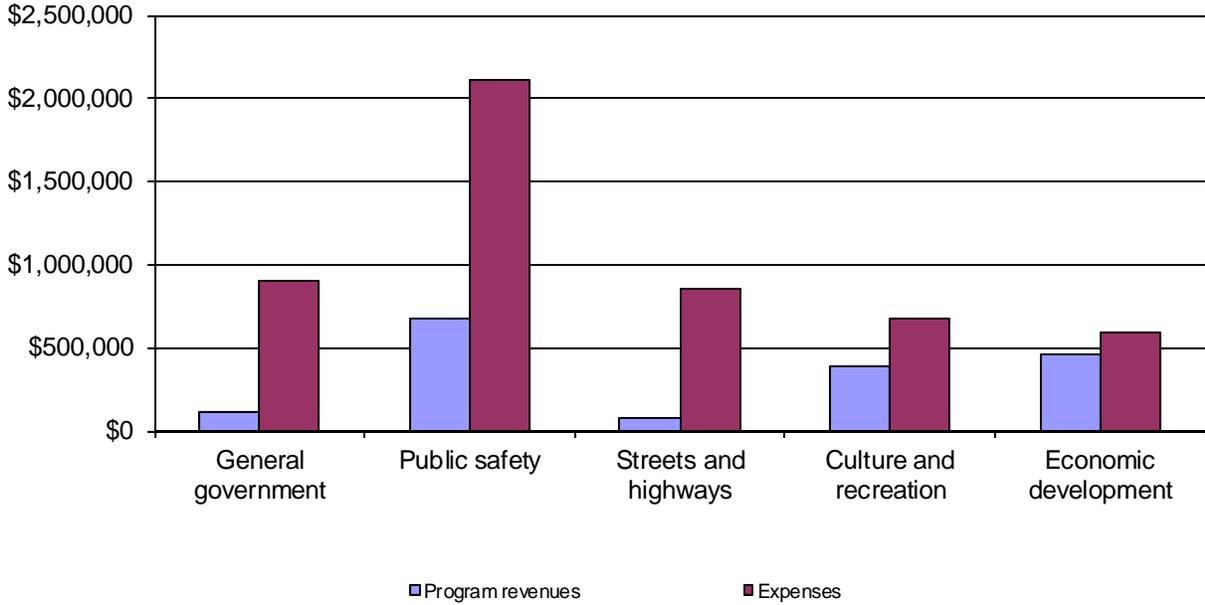
**City of Lake City's Change in Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenue:						
Program revenues:						
Charges for services	\$ 899,324	\$ 1,151,282	\$ 17,258,319	\$ 15,558,652	\$ 18,157,643	\$ 16,709,934
Operating grants and contributions	1,203,058	1,056,970			1,203,058	1,056,970
Capital grants and contributions	4,651		77,160	6,062	81,811	6,062
General revenues:						
Property taxes	2,803,628	2,660,729			2,803,628	2,660,729
Tax increments	189,502	198,471			189,502	198,471
Grants and contributions not restricted to specific programs	648,777	647,973			648,777	647,973
Other	245,479	213,218	180,500	108,682	425,979	321,900
Total revenues	<u>5,994,419</u>	<u>5,928,643</u>	<u>17,515,979</u>	<u>15,673,396</u>	<u>23,510,398</u>	<u>21,602,039</u>
Expenses:						
General government	906,961	1,161,766			906,961	1,161,766
Public safety	2,105,622	1,932,384			2,105,622	1,932,384
Streets and highways	860,470	738,582			860,470	738,582
Culture and recreation	676,225	638,298			676,225	638,298
Economic development	591,962	288,557			591,962	288,557
Interest on long-term debt	60,231	62,471			60,231	62,471
Unallocated utilities and insurance	669,298	317,389			669,298	317,389
Electric			11,921,796	10,898,315	11,921,796	10,898,315
Water			740,332	625,956	740,332	625,956
Sewer			1,309,746	1,361,469	1,309,746	1,361,469
Storm water			187,511	163,374	187,511	163,374
Marina			384,952	379,555	384,952	379,555
Garbage			1,249,655	1,268,999	1,249,655	1,268,999
Total expenses	<u>5,870,769</u>	<u>5,139,447</u>	<u>15,793,992</u>	<u>14,697,668</u>	<u>21,664,761</u>	<u>19,837,115</u>
Increase in net assets before transfers and other	123,650	789,196	1,721,987	975,728	1,845,637	1,764,924
Transfers	325,930	420,000	(325,930)	(420,000)		
Increase in net assets	449,580	1,209,196	1,396,057	555,728	1,845,637	1,764,924
Net assets, beginning of year	16,905,196	15,696,000	21,789,515	21,233,787	38,694,711	36,929,787
Net assets, end of year	<u>\$ 17,354,776</u>	<u>\$ 16,905,196</u>	<u>\$ 23,185,572</u>	<u>\$ 21,789,515</u>	<u>\$ 40,540,348</u>	<u>\$ 38,694,711</u>

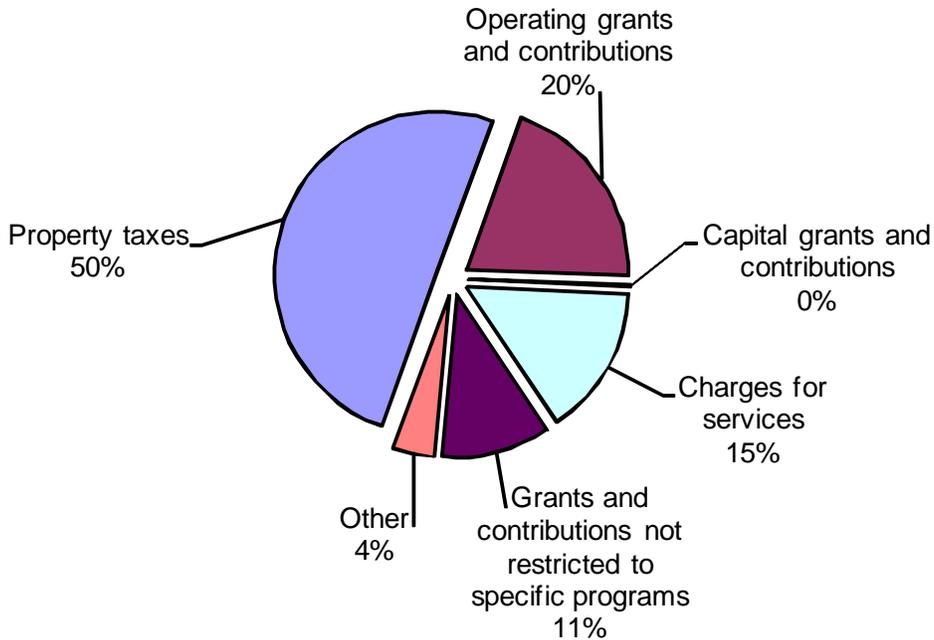
**CITY OF LAKE CITY, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

**Expenses and Program Revenues - Governmental Activities**



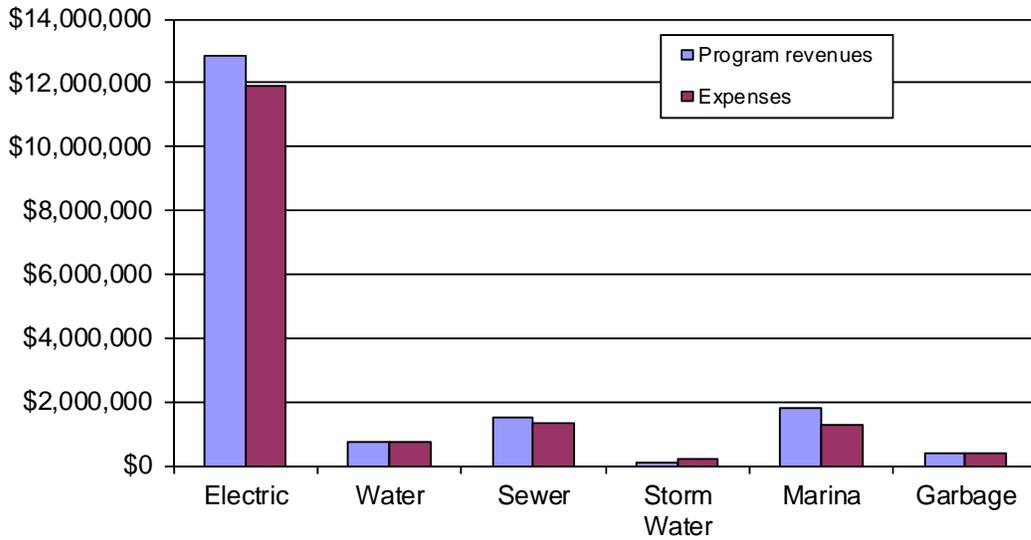
**Revenues by Source - Governmental Activities**



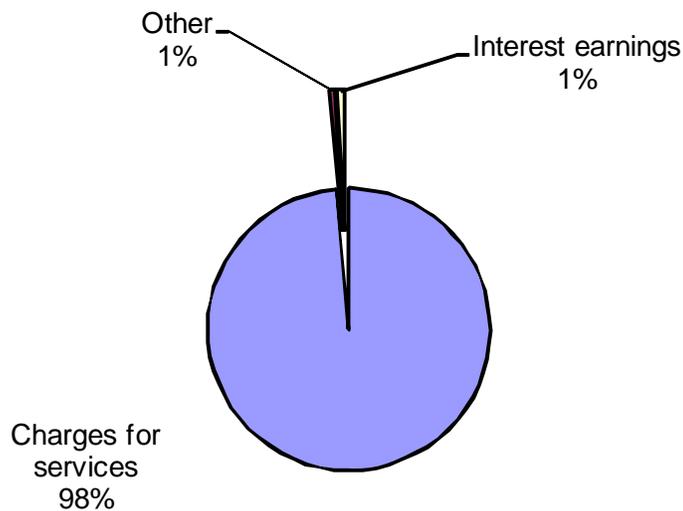
**CITY OF LAKE CITY, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following graphs relate the various business-type activities' program revenues with their expenses. Since these activities generally require significant physical assets to operate, any excess revenues are held for planned capital expenses 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, *unassigned and assigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, implemented this year have redefined the fund balance classifications. Fund balance is now classified as non-spendable, restricted, committed, assigned or unassigned according to the following definitions:

Nonspendable – representing that portion of fund balance that is not in a spendable form. Included in this category are advances to other funds, prepaid items and inventory.

Restricted – reports resources that have external constraints placed upon their use.

Committed – reports those resources for a specific purpose by Council action. The constraints cannot be changed or removed without Council action.

Assigned – represents the portion of fund balance that reflects the amounts the City intends to use for a specific purpose.

Unassigned – comparable to the old unreserved, undesignated classification of fund balance, this represents the amount available for any purpose. However, only the General Fund may report a positive fund balance. Fund balance in other governmental funds will fall into one or more of the categories listed above, unless a fund has a negative fund balance.

Detailed information regarding the fund balance classifications are found in Note 10 in the Notes to Financial Statements.

As of the end of the current fiscal year, the City of Lake City's governmental funds reported combined ending fund balances of \$4,570,327, an increase of \$796,801. Approximately 88 percent of this total amount, or \$4,021,503, constitutes *unassigned or assigned fund balance*, which is available for spending at the government's discretion. The remainder of the total fund balance (\$548,824) is *nonspendable or restricted* 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, unassigned fund balance of the general fund was \$1,195,266. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 24 percent of total general fund expenditures.

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

The general fund's total fund balance increased by \$894,355 during the current fiscal year. This year's increase was primarily due to an increase in the collection of property taxes, additional funding for street projects from the state, and a decrease in capital expenditures for park.

The library fund increased its fund balance by \$77,039 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 \$221,210 all of which is reserved for the payment of debt service. These fund balances increased by \$8,213 for the year which represented an increase in prepaid special assessments..

**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 - \$2,480,204, Water - \$1,199,238, Sewer - \$394,765, Storm Water - \$77,008 , Marina - \$3,513,610, and Garbage - \$293,464. All funds, except the storm water funds, had increases in total net assets for the year. The storm water utility fund's decrease of \$101,513 was primarily due to the purchase of a street sweeper.

### **General Fund Budgetary Highlights**

The original 2011 general fund budget approved by the City anticipated an increase in general fund reserves of \$104,438. All differences between the original and final budgets in the general fund for the City in 2011 were approved by resolution amending the original budget. Select unspent budgeted amounts from 2010 were carried over to the 2011 budget by resolution. During 2011, the primary changes from the original budget to the final were for the acceptance of donations and additional street construction funds of approximately \$175,000 available from the state and Canadian Pacific which not all of the amount was needed to complete the project.

### **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, 2011, amounts to \$37,973,681 (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 \$578,399, or 2 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			
	2011	2010	2011	2010	2011	2010
Land	\$ 1,303,791	\$ 1,303,791	\$ 723,363	\$ 723,363	\$ 2,027,154	\$ 2,027,154
Construction in progress	21,048	451,729		1,434,275	21,048	1,886,004
Buildings and improvements	4,785,299	4,956,087	8,889,316	9,120,288	13,674,615	14,076,375
Machinery and equipment	1,016,857	1,054,088	1,250,409	1,216,698	2,267,266	2,270,786
Infrastructure	6,733,753	6,391,613			6,733,753	6,391,613
Distribution and collection system			13,249,845	10,743,350	13,249,845	10,743,350
<b>Total</b>	<b>\$ 13,860,748</b>	<b>\$ 14,157,308</b>	<b>\$ 24,112,933</b>	<b>\$ 23,237,974</b>	<b>\$ 37,973,681</b>	<b>\$ 37,395,282</b>

Additional information on the City of Lake City's capital assets can be found in Note 4 on pages 46-48 of this report.

**Long-term debt.** At the end of the current fiscal year, the City of Lake City had \$10,960,455 in bonds and notes outstanding. Of this amount, \$7,493,386 comprises debt backed by the full faith and credit of the government and \$3,467,069 represents bonds secured solely by specified revenue sources.

**City of Lake City's Outstanding Debt**

	Governmental		Business-Type		Total	
	Activities		Activities			
	2011	2010	2011	2010	2011	2010
General obligation bonds	\$ 1,384,310	\$ 1,473,959	\$ 308,126	\$ 327,014	\$ 1,692,436	\$ 1,800,973
General obligation revenue loans			4,673,890	5,129,591	4,673,890	5,129,591
General obligation revenue bonds			1,127,060	1,327,220	1,127,060	1,327,220
Revenue bonds			3,467,069	3,555,438	3,467,069	3,555,438
Compensated absences	314,438	325,554	196,611	188,007	511,049	513,561
<b>Total</b>	<b>\$ 1,698,748</b>	<b>\$ 1,799,513</b>	<b>\$ 9,772,756</b>	<b>\$ 10,527,270</b>	<b>\$ 11,471,504</b>	<b>\$ 12,326,783</b>

The City of Lake City's total outstanding debt decreased by \$855,279 during the current year. A total of \$865,701 in bonds and notes payable were retired during 2010. A more detailed breakdown of these obligations can be found in Note 7, beginning on page 51.

The City of Lake City maintains an AA- rating on its general obligation bonds from Standard and Poor's Ratings Services.

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

**Requests for Information**

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

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**CITY OF LAKE CITY, MINNESOTA**  
**BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011**

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**CITY OF LAKE CITY, MINNESOTA**  
**STATEMENT OF NET ASSETS**  
December 31, 2011  
With Comparative Totals as of December 31, 2010

	Primary Government				Component Unit	
	Governmental Activities	Business-Type Activities	Totals		Economic Development Authority	
			2011	2010	2011	2010
<b>Assets</b>						
Cash and investments	\$ 5,099,608	\$ 7,773,139	\$ 12,872,747	\$ 11,018,928	\$ 116,861	\$ 81,658
Restricted cash		40,496	40,496	1,504,178		
Receivables	849,106	1,507,644	2,356,750	1,944,405		
Internal balances	(134,713)	134,713				
Due from other governmental units	212,083		212,083	491,198	30,978	48,923
Due from primary government					16,860	402
Due from component unit	279		279	857		
Prepaid expenses		74,780	74,780	72,613		
Inventories		718,626	718,626	654,869		
Capital assets:						
Nondepreciable	1,324,839	723,363	2,048,202	3,913,158		
Depreciable, net	12,535,909	23,389,570	35,925,479	33,482,124	1,866,606	1,924,317
<b>Total Assets</b>	<b>19,887,111</b>	<b>34,362,331</b>	<b>54,249,442</b>	<b>53,082,330</b>	<b>2,031,305</b>	<b>2,055,300</b>
<b>Liabilities</b>						
Accounts and contracts payable	546,491	1,183,786	1,730,277	1,637,113	61	2,796
Accrued liabilities	77,573	146,861	224,434	163,619	6,504	6,504
Deposits payable	192,663	73,356	266,019	259,702		
Due to primary government					279	857
Due to component unit	16,860		16,860	402		
Noncurrent liabilities						
Due within one year	91,112	784,787	875,899	865,701	107,061	206,381
Due in more than one year	1,607,636	8,987,969	10,595,605	11,461,082		107,061
<b>Total Liabilities</b>	<b>2,532,335</b>	<b>11,176,759</b>	<b>13,709,094</b>	<b>14,387,619</b>	<b>113,905</b>	<b>323,599</b>
<b>Net Assets</b>						
Invested in capital assets, net of related debt	12,476,438	14,577,283	27,053,721	27,648,548	1,753,041	1,604,371
Restricted for:						
Grants and contracts	672,767		672,767	648,740		
Debt service	221,210		221,210	212,997		
Tax increment purposes and loan covenants				171,141		
Unrestricted	3,984,361	8,608,289	12,592,650	10,013,285	164,359	127,330
<b>Total Net Assets</b>	<b>\$ 17,354,776</b>	<b>\$ 23,185,572</b>	<b>\$ 40,540,348</b>	<b>\$ 38,694,711</b>	<b>\$ 1,917,400</b>	<b>\$ 1,731,701</b>

**See Notes to Financial Statements**

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

For the Year Ended December 31, 2011  
With Comparative Totals for the Year Ended December 31, 2010

<u>Functions/Programs</u>	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 906,961	\$ 106,238	\$ 12,027	\$
Public safety	2,105,622	553,560	119,323	
Streets and highways	860,470	25,514	48,882	
Culture and recreation	676,225	214,012	174,641	
Economic development	591,962		455,000	
Interest on long-term debt	60,231			
Unallocated	669,298		393,185	4,651
Total governmental activities	<u>5,870,769</u>	<u>899,324</u>	<u>1,203,058</u>	<u>4,651</u>
Business-Type activities:				
Electric utility	11,921,796	12,820,161		
Water utility	740,332	690,191		69,413
Sewer utility	1,309,746	1,490,901		7,747
Storm water utility	187,511	81,958		
Garbage	384,952	378,055		
Marina	1,249,655	1,797,053		
Total business-type activities	<u>15,793,992</u>	<u>17,258,319</u>		<u>77,160</u>
Total Primary Government	<u>\$ 21,664,761</u>	<u>\$ 18,157,643</u>	<u>\$ 1,203,058</u>	<u>\$ 81,811</u>
Component Unit:				
Economic Development Authority	<u>\$ 151,233</u>	<u>\$</u>	<u>\$ 336,263</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	
		2011	2010	2011	2010
\$ (788,696)	\$	\$ (788,696)	\$ (1,062,550)	\$	\$
(1,432,739)		(1,432,739)	(1,347,943)		
(786,074)		(786,074)	464,794		
(287,572)		(287,572)	(317,079)		
(136,962)		(136,962)	(288,557)		
(60,231)		(60,231)	(62,471)		
(271,462)		(271,462)	(317,389)		
<u>(3,763,736)</u>		<u>(3,763,736)</u>	<u>(2,931,195)</u>		
	898,365	898,365	487,914		
	19,272	19,272	54,307		
	188,902	188,902	(121,184)		
	(105,553)	(105,553)	(81,433)		
	(6,897)	(6,897)	(2,795)		
	<u>547,398</u>	<u>547,398</u>	<u>530,237</u>		
	<u>1,541,487</u>	<u>1,541,487</u>	<u>867,046</u>		
<u>(3,763,736)</u>	<u>1,541,487</u>	<u>(2,222,249)</u>	<u>(2,064,149)</u>		
				<u>185,030</u>	<u>205,869</u>
2,803,628		2,803,628	2,660,729		
189,502		189,502	198,471		
648,777		648,777	647,973		
110,321	157,797	268,118	122,749	669	176
135,158	22,703	157,861	199,151		
325,930	(325,930)				
<u>4,213,316</u>	<u>(145,430)</u>	<u>4,067,886</u>	<u>3,829,073</u>	<u>669</u>	<u>176</u>
449,580	1,396,057	1,845,637	1,764,924	185,699	206,045
<u>16,905,196</u>	<u>21,789,515</u>	<u>38,694,711</u>	<u>36,929,787</u>	<u>1,731,701</u>	<u>1,525,656</u>
<u>\$ 17,354,776</u>	<u>\$ 23,185,572</u>	<u>\$ 40,540,348</u>	<u>\$ 38,694,711</u>	<u>\$ 1,917,400</u>	<u>\$ 1,731,701</u>

**CITY OF LAKE CITY, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS**

For the Year Ended December 31, 2011  
With Comparative Totals as of December 31, 2010

	General Fund	Other Governmental Funds	Total Governmental Funds	
			2011	2010
<b>Assets</b>				
Cash and investments	\$ 3,499,306	\$ 1,537,358	\$ 5,036,664	\$ 3,994,475
Interest receivable	49,560		49,560	41,433
Accounts receivable	110,953	300	111,253	121,024
Taxes receivable delinquent	46,686	1,839	48,525	70,965
Special assessments receivable:				
Delinquent	83	1,038	1,121	4,805
Deferred		123,877	123,877	148,235
Advances to other funds	55,000		55,000	55,000
Interfund receivable	7,256		7,256	12,224
Loans receivable	254,800	216,001	470,801	247,902
Due from other governmental units	255,424		255,424	491,198
Due from component unit	279		279	857
<b>TOTAL ASSETS</b>	<b>\$ 4,279,347</b>	<b>\$ 1,880,413</b>	<b>\$ 6,159,760</b>	<b>\$ 5,188,118</b>
<b>Liabilities and Fund Balance</b>				
<b>Liabilities</b>				
Accounts payable	\$ 155,811	\$ 126,387	\$ 282,198	\$ 226,636
Accrued liabilities	51,493	1,686	53,179	29,352
Deposits payable	13,901	178,764	192,665	191,116
Advances from other funds	189,713		189,713	255,009
Interfund payable		7,256	7,256	12,224
Due to other governmental units	259,350		259,350	
Due to component unit	16,859		16,859	402
Deferred revenue	245,458	342,755	588,213	699,853
Total Liabilities	932,585	656,848	1,589,433	1,414,592
<b>Fund Balance</b>				
Nonspendable:				
Advances to other funds	55,000		55,000	55,000
Restricted:				
Creditors (debt covenants)		221,210	221,210	212,997
Regulations		163,651	163,651	179,117
Other purposes	108,963		108,963	105,599
Assigned:	1,987,533	866,532	2,854,065	3,086,958
Unassigned:	1,195,266	(27,828)	1,167,438	133,855
Total Fund Balance	3,346,762	1,223,565	4,570,327	3,773,526
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 4,279,347</b>	<b>\$ 1,880,413</b>	<b>\$ 6,159,760</b>	<b>\$ 5,188,118</b>

**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**

For the Year Ended December 31, 2011

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

Total governmental fund balances (page 17)		\$ 4,570,327
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 29,762,627	
Less: Accumulated depreciation	<u>(15,901,879)</u>	
		13,860,748
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	\$ 49,646	
Deferred special assessments	123,877	
Due from other governments	198,689	
Loans receivable	<u>216,001</u>	
		588,213
Internal service funds are used by management to charge the costs of utilities and insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets		
		58,629
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Bonds and notes payable	\$ (1,384,310)	
Compensated absences	(314,438)	
Accrued interest	<u>(24,393)</u>	
		<u>(1,723,141)</u>
Net assets of governmental activities (page 14)		<u>\$ 17,354,776</u>

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

For the Year Ended December 31, 2011  
*With Comparative Totals for the Year Ended December 31, 2010*

	General Fund	Other Governmental Funds	Total Governmental Funds	
			2011	2010
<b>Revenues</b>				
Taxes	\$ 2,582,052	\$ 410,391	\$ 2,992,443	\$ 2,858,378
Special assessments	1,174	42,119	43,293	40,705
Licenses and permits	106,111		106,111	85,662
Intergovernmental revenues	1,673,924	61,703	1,735,627	1,985,724
Charges for services	752,343	1,838	754,181	674,774
Fines and forfeits	39,281	3,443	42,724	32,687
Investment income	65,271	40,728	105,999	52,688
Miscellaneous revenues	136,582	148,981	285,563	296,177
<b>Total Revenues</b>	<b>5,356,738</b>	<b>709,203</b>	<b>6,065,941</b>	<b>6,026,795</b>
<b>Expenditures</b>				
General government	743,092		743,092	948,604
Public safety	2,111,278		2,111,278	1,844,724
Streets and highways	459,835		459,835	822,622
Culture and recreation	510,228	188,360	698,588	657,518
Economic development	465,000	81,968	546,968	205,863
Capital outlay		284,041	284,041	851,573
Bond principal retirement		91,112	91,112	212,015
Interest and fiscal charges		61,276	61,276	66,670
Unallocated utilities and insurance	598,880		598,880	360,000
<b>Total Expenditures</b>	<b>4,888,313</b>	<b>706,757</b>	<b>5,595,070</b>	<b>5,969,589</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>468,425</b>	<b>2,446</b>	<b>470,871</b>	<b>57,206</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	425,930	50,000	475,930	1,296,783
Transfers out		(150,000)	(150,000)	(879,594)
Total other financing sources (uses)	425,930	(100,000)	325,930	417,189
Net change in fund balances	894,355	(97,554)	796,801	474,395
<b>FUND BALANCE, beginning</b>	<b>2,452,407</b>	<b>1,321,119</b>	<b>3,773,526</b>	<b>3,299,131</b>
<b>FUND BALANCE, ending</b>	<b>\$ 3,346,762</b>	<b>\$ 1,223,565</b>	<b>\$ 4,570,327</b>	<b>\$ 3,773,526</b>

**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**

December 31, 2011

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

Net change in fund balances - total governmental funds (page 19)		\$ 796,801
<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	\$ 499,143	
Depreciation expense	<u>(771,087)</u>	(271,944)
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, etc.) is to decrease net assets</p>		
		(24,616)
<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, 2011	\$ 588,213	
Deferred revenue, December 31, 2010	<u>(699,853)</u>	(111,640)
<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		11,116
<p>Internal service funds are used by management to charge the costs of utilities and insurance to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities</p>		
		(41,258)
<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	\$ 91,112	
Long-term debt discount and issuance costs	(1,463)	
Change in accrued interest	<u>1,472</u>	<u>91,121</u>
Change in net assets of governmental activities (pages 15 and 16)		<u>\$ 449,580</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, 2011  
With Comparative Totals for the Year Ended December 31, 2010

	Budgeted Amounts		2011 Actual Amounts	Variance with Final Budget Positive (Negative)	2010 Actual Amounts
	Original	Final			
<b>Taxes</b>					
Property taxes	\$ 2,396,673	\$ 2,396,673	\$ 2,439,489	\$ 42,816	\$ 2,312,587
Special assessments			1,174	1,174	2,762
Franchise tax	104,000	104,000	87,696	(16,304)	84,485
Lodging tax	2,000	2,000	54,867	52,867	41,761
Total Taxes	<u>2,502,673</u>	<u>2,502,673</u>	<u>2,583,226</u>	<u>80,553</u>	<u>2,441,595</u>
<b>Licenses and Permits</b>					
Business licenses	18,050	22,050	29,800	7,750	18,766
Non-Business licenses	32,250	72,250	76,311	4,061	66,896
Total Licenses and Permits	<u>50,300</u>	<u>94,300</u>	<u>106,111</u>	<u>11,811</u>	<u>85,662</u>
<b>Intergovernmental Revenues</b>					
Federal:					
Cops in school grant	29,000	29,000	36,595	7,595	33,452
Other federal grants			393,185	393,185	
State:					
Local government aid	427,562	427,562	610,347	182,785	610,347
Market value credit	142,277	142,277	36,438	(105,839)	36,451
MSA street maintenance	50,000	50,000	56,577	6,577	75,665
MSA street construction					364,356
Fire aid			34,696	34,696	34,182
Police aid	65,000	65,000	73,642	8,642	71,560
Other state aids	7,393	7,393	432,444	425,051	7,393
Total Intergovernmental	<u>721,232</u>	<u>721,232</u>	<u>1,673,924</u>	<u>952,692</u>	<u>1,233,406</u>
<b>Charges for Services</b>					
General government	1,100	1,100	3,569	2,469	619
Public safety	488,400	537,700	514,279	(23,421)	416,233
Streets and highways	2,700	198,643	25,764	(172,879)	68,142
Park fees	163,350	191,121	208,731	17,610	187,675
Total Charges for Services	<u>655,550</u>	<u>928,564</u>	<u>752,343</u>	<u>(176,221)</u>	<u>672,669</u>
<b>Fines and forfeits</b>					
	<u>30,500</u>	<u>30,500</u>	<u>39,281</u>	<u>8,781</u>	<u>26,914</u>
<b>Investment Income</b>					
	<u>65,000</u>	<u>65,000</u>	<u>65,271</u>	<u>271</u>	<u>12,032</u>
<b>Miscellaneous Revenues</b>					
Other	24,700	27,400	54,984	27,584	21,675
Refunds and reimbursements	50,000	50,000	81,598	31,598	95,013
Total Miscellaneous Revenues	<u>74,700</u>	<u>77,400</u>	<u>136,582</u>	<u>59,182</u>	<u>116,688</u>
<b>TOTAL REVENUES</b>	<b>\$ 4,099,955</b>	<b>\$ 4,419,669</b>	<b>\$ 5,356,738</b>	<b>\$ 937,069</b>	<b>\$ 4,588,966</b>

**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, 2011  
With Comparative Totals for the Year Ended December 31, 2010

	Budgeted Amounts		2011 Actual Amounts	Variance with Final Budget Positive (Negative)	2010 Actual Amounts
	Original	Final			
<b>EXPENDITURES</b>					
<b>General Government</b>					
<b>Mayor and City Council:</b>					
Personnel services	\$ 52,210	\$ 52,210	\$ 42,070	\$ 10,140	\$ 42,473
Supplies	3,000	6,600	5,832	768	2,587
Other services and charges	39,000	49,000	23,739	25,261	27,410
Capital outlay	13,600	13,600	13,130		
Total Mayor and City Council	107,810	121,410	84,771	36,639	72,470
<b>City Administrator:</b>					
Personnel services	137,053	137,053	134,784	2,269	132,760
Supplies	200	200	196	4	502
Other services and charges	8,150	8,150	5,010	3,140	5,499
Total City Administrator	145,403	145,403	139,990	5,413	138,761
<b>City Clerk/Finance Director:</b>					
Personnel services	262,763	262,763	219,025	43,738	252,530
Supplies	9,250	5,380	4,570	810	5,988
Other services and charges	35,580	39,450	37,090	2,360	36,056
Capital outlay	14,000	14,000	14,000		
Total City Clerk/Finance Director	321,593	321,593	274,685	46,908	294,574
<b>Audit:</b>					
Other services and charges	40,050	40,050	37,854	2,196	33,553
<b>Legal:</b>					
Other services and charges	82,920	94,400	93,033	1,367	71,063
<b>Planning and Zoning:</b>					
Personnel services	214,123	226,129	228,355	(2,226)	231,850
Supplies	4,000	2,085	1,791	294	2,913
Other services and charges	47,200	84,556	81,798	2,758	87,633
Total Planning and Zoning	265,323	312,770	311,944	826	322,396
<b>Elections:</b>					
Personnel services					9,062
Supplies					1,343
Other services and charges	660	1,360	1,259	101	2,706
Total Elections	660	1,360	1,259	101	13,111
<b>General Government Buildings:</b>					
Supplies			1,650	(1,650)	418
Other services and charges					2,258
Total General Government Buildings			1,650	(1,650)	2,676
Less charges to Enterprise Funds			(202,094)	202,094	
Total General Government	\$ 963,759	\$ 1,036,986	\$ 743,092	\$ 293,894	\$ 948,604

**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, 2011  
With Comparative Totals for the Year Ended December 31, 2010

	Budgeted Amounts		2011 Actual Amounts	Variance with Final Budget Positive (Negative)	2010 Actual Amounts
	Original	Final			
<b>EXPENDITURES</b>					
<b>Public Safety</b>					
<b>Police:</b>					
Personnel services	\$ 1,005,966	\$ 1,025,809	\$ 1,039,855	\$ (14,046)	\$ 971,144
Supplies	56,200	61,022	60,757	265	59,345
Other services and charges	39,600	30,767	31,902	(1,135)	35,608
Capital outlay	38,000	28,954	28,426	528	23,753
Total Police	1,139,766	1,146,552	1,160,940	(14,388)	1,089,850
<b>Fire:</b>					
Personnel services	107,176	100,453	100,906	(453)	91,812
Supplies	32,400	38,376	38,373	3	44,932
Other services and charges	37,125	140,541	136,147	4,394	33,352
Capital outlay	123,300	80,631	80,888	(257)	58,962
Total Fire	300,001	360,001	356,314	3,687	229,058
<b>Ambulance:</b>					
Personnel services	441,814	441,814	434,190	7,624	425,733
Supplies	51,800	53,558	53,147	411	38,480
Other services and charges	41,600	39,842	37,840	2,002	39,639
Capital outlay	40,000	41,000	46,162	(5,162)	
Total Ambulance	575,214	576,214	571,339	4,875	503,852
<b>Civil Defense:</b>					
Personnel services	7,492	7,492	7,243	249	7,243
Supplies	7,900	7,900	7,396	504	7,782
Other services and charges	2,450	2,450	2,255	195	1,460
Total Civil Defense	17,842	17,842	16,894	948	16,485
<b>Animal Control:</b>					
Personnel services	5,482	5,569	5,569		5,311
Supplies	450	264	222	42	108
Other services and charges	800	175		175	60
Total Animal Control	6,732	6,008	5,791	217	5,479
Total Public Safety	\$ 2,039,555	\$ 2,106,617	\$ 2,111,278	\$ (4,661)	\$ 1,844,724

**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, 2011  
With Comparative Totals for the Year Ended December 31, 2010

	Budgeted Amounts		2011 Actual Amounts	Variance with Final Budget Positive (Negative)	2010 Actual Amounts
	Original	Final			
<b>EXPENDITURES</b>					
<b>Streets and Highways</b>					
Personnel services	\$ 282,527	\$ 286,493	\$ 274,321	\$ 12,172	\$ 247,789
Supplies	125,600	129,405	91,172	38,233	71,428
Other services and charges	91,300	112,243	45,869	66,374	33,873
Capital outlay	399,020	324,020	48,473	275,547	469,532
Total Streets and Highways	898,447	852,161	459,835	392,326	822,622
<b>Culture and Recreation</b>					
<b>Tourism:</b>					
Other services and charges			51,577	(51,577)	48,347
Total Tourism			51,577	(51,577)	48,347
<b>Participant Recreation:</b>					
Personnel services	17,762	35,512	34,872	640	33,722
Supplies	1,000	1,000	483	517	2,272
Other services and charges	1,850	1,850	1,593	257	1,744
Total Participant Recreation	20,612	38,362	36,948	1,414	37,738
<b>Swimming Pool:</b>					
Personnel services	58,131	58,131	39,785	18,346	48,790
Supplies	17,000	17,000	8,369	8,631	6,376
Other services and charges	2,775	2,775	2,333	442	3,427
Capital outlay					1,011
Total Swimming Pool	77,906	77,906	50,487	27,419	59,604
<b>Hok-Si-La Park:</b>					
Personnel services	103,693	103,693	102,230	1,463	99,247
Supplies	19,800	22,834	21,130	1,704	14,282
Other services and charges	35,950	32,916	30,436	2,480	38,801
Capital outlay	32,500	32,500	31,814	686	13,800
Total Hok-Si-La Park	\$ 191,943	\$ 191,943	\$ 185,610	\$ 6,333	\$ 166,130

**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, 2011  
With Comparative Totals for the Year Ended December 31, 2010

	Budgeted Amounts		2011 Actual Amounts	Variance with Final Budget Positive (Negative)	2010 Actual Amounts
	Original	Final			
<b>Culture and Recreation (continued)</b>					
<b>Other Parks:</b>					
Personnel services	\$ 129,497	\$ 129,497	\$ 91,519	\$ 37,978	\$ 95,842
Supplies	40,700	40,700	41,512	(812)	16,377
Other services and charges	12,100	12,100	9,902	2,198	7,185
Capital outlay	46,000	46,000	42,673	3,327	9,733
Total Other Parks	228,297	228,297	185,606	42,691	129,137
Total Culture and Recreation	518,758	536,508	510,228	26,280	440,956
<b>Economic Development</b>			465,000	(465,000)	
<b>Unallocated Expenses</b>					
Utilities, insurance, and maintenance		250,000	250,000		360,000
Grants to other governments			348,880	(348,880)	
Total Unallocated Expenses		250,000	598,880	(348,880)	360,000
<b>TOTAL EXPENDITURES</b>	4,420,519	4,782,272	4,888,313	(106,041)	4,416,906
Excess (deficiency) of revenues over (under) expenditures	(320,564)	(362,603)	468,425	831,028	172,060
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	425,000	425,000	425,930	930	445,000
<b>NET CHANGE IN FUND BALANCE</b>	104,436	62,397	894,355	831,958	617,060
<b>FUND BALANCE, beginning</b>	2,452,407	2,452,407	2,452,407		1,835,347
<b>FUND BALANCE, ending</b>	\$ 2,556,843	\$ 2,514,804	\$ 3,346,762	\$ 831,958	\$ 2,452,407

**See Notes to Financial Statements**

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**CITY OF LAKE CITY, MINNESOTA**  
**PROPRIETARY FUNDS**  
**STATEMENT OF NET ASSETS**  
**December 31, 2011**  
*With Comparative Totals as of December 31, 2010*

	Business-Type Activities - Enterprise Funds			
	701 Electric Fund	702 Water Fund	703 Sewer Fund	706 Storm Water Fund
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 1,640,748	\$ 1,190,293	\$ 458,645	\$ 83,847
Restricted cash	40,496			
Accounts receivable	1,313,009	17,748	54,622	1,284
Advances to other funds				
Inventories	699,317			
Prepaid expense	34,416	6,099	10,995	544
<b>Total Current Assets</b>	<b>3,727,986</b>	<b>1,214,140</b>	<b>524,262</b>	<b>85,675</b>
<b>Noncurrent Assets</b>				
<b>Capital Assets</b>				
Nondepreciable	13,501	4,273	762	87,100
Depreciable	16,697,982	3,983,945	12,145,004	2,607,931
Less: Accumulated depreciation	(8,008,719)	(1,618,395)	(5,457,941)	(460,593)
<b>Net Capital Assets</b>	<b>8,702,764</b>	<b>2,369,823</b>	<b>6,687,825</b>	<b>2,234,438</b>
Special Assessments		69,307	5,785	
<b>Total Noncurrent Assets</b>	<b>8,702,764</b>	<b>2,439,130</b>	<b>6,693,610</b>	<b>2,234,438</b>
<b>Total Assets</b>	<b>12,430,750</b>	<b>3,653,270</b>	<b>7,217,872</b>	<b>2,320,113</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Current maturities of bonds payable	130,000	83,888	470,899	
Accounts payable	1,004,674	31,197	60,329	1,639
Accrued liabilities	63,508	15,644	53,913	7,028
Advances from other funds				
Customer deposits	73,356			
<b>Total Current Liabilities</b>	<b>1,271,538</b>	<b>130,729</b>	<b>585,141</b>	<b>8,667</b>
<b>Noncurrent Liabilities</b>				
Bonds payable, net of current maturities and discount	2,787,569	787,769	4,202,991	563,530
Compensated absences payable	65,748	37,368	21,040	
<b>Total Liabilities</b>	<b>4,124,855</b>	<b>955,866</b>	<b>4,809,172</b>	<b>572,197</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	5,825,691	1,498,166	2,013,935	1,670,908
Unrestricted:				
Designated				
Undesignated	2,480,204	1,199,238	394,765	77,008
<b>Total Net Assets</b>	<b>\$ 8,305,895</b>	<b>\$ 2,697,404</b>	<b>\$ 2,408,700</b>	<b>\$ 1,747,916</b>

**See Notes to Financial Statements**

710 Marina Fund	720 Garbage Fund	TOTALS		Governmental Activities - Internal Service Fund	
		2011	2010	2011	2010
\$ 4,066,909	\$ 332,697	\$ 7,773,139	\$ 6,920,281	\$ 62,944	\$ 104,172
		40,496	1,504,178		
31,631	14,258	1,432,552	1,285,905		
189,713		189,713	255,009		
19,309		718,626	654,869		
21,637	1,089	74,780	72,613		
<u>4,329,199</u>	<u>348,044</u>	<u>10,229,306</u>	<u>10,692,855</u>	<u>62,944</u>	<u>104,172</u>
613,727	4,000	723,363	2,157,638		
7,198,586		42,633,448	39,173,110		
(3,698,230)		(19,243,878)	(18,092,774)		
<u>4,114,083</u>	<u>4,000</u>	<u>24,112,933</u>	<u>23,237,974</u>		
		75,092	24,136		
<u>4,114,083</u>	<u>4,000</u>	<u>24,188,025</u>	<u>23,262,110</u>		
<u>8,443,282</u>	<u>352,044</u>	<u>34,417,331</u>	<u>33,954,965</u>	<u>62,944</u>	<u>104,172</u>
100,000		784,787	774,589		
32,650	53,297	1,183,786	1,406,192	4,315	4,285
5,485	1,283	146,861	108,402		
55,000		55,000	55,000		
		73,356	68,586		
<u>193,135</u>	<u>54,580</u>	<u>2,243,790</u>	<u>2,412,769</u>	<u>4,315</u>	<u>4,285</u>
449,500		8,791,359	9,564,674		
72,454		196,610	188,007		
<u>715,089</u>	<u>54,580</u>	<u>11,231,759</u>	<u>12,165,450</u>	<u>4,315</u>	<u>4,285</u>
3,564,583	4,000	14,577,283	14,965,199		
650,000		650,000	650,000		
<u>3,513,610</u>	<u>293,464</u>	<u>7,958,289</u>	<u>6,174,316</u>	<u>58,629</u>	<u>99,887</u>
<u>\$ 7,728,193</u>	<u>\$ 297,464</u>	<u>\$ 23,185,572</u>	<u>\$ 21,789,515</u>	<u>\$ 58,629</u>	<u>\$ 99,887</u>

**CITY OF LAKE CITY, MINNESOTA  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUES, EXPENSES AND  
 CHANGES IN FUND NET ASSETS  
 For the Year Ended December 31, 2011  
 With Comparative Totals for the Year Ended December 31, 2010**

	Business-Type Activities - Enterprise Funds			
	701 Electric Fund	702 Water Fund	703 Sewer Fund	706 Storm Water Fund
<b>Operating Revenue</b>	\$ 12,820,161	\$ 690,191	\$ 1,490,901	\$ 81,958
<b>Operating Expenses</b>				
Salaries and benefits	612,640	260,455	131,143	21,224
Supplies	29,030	20,630	29,954	18,952
Other services and charges	10,677,403	283,034	494,716	20,694
Insurance	42,004	18,626	26,030	
Depreciation	388,394	127,393	477,143	109,959
Total Operating Expenses	<u>11,749,471</u>	<u>710,138</u>	<u>1,158,986</u>	<u>170,829</u>
<b>Operating Income (Loss)</b>	<u>1,070,690</u>	<u>(19,947)</u>	<u>331,915</u>	<u>(88,871)</u>
<b>Nonoperating Income (Expense)</b>				
Miscellaneous income	13,570			
Investment income	50,218	31,228	4,730	4,040
Cable TV revenues				
Intergovernmental revenues				
Contributions - Federal Mogul				
Interest expense	(120,525)	(30,194)	(150,760)	(16,682)
Payment to component unit	(51,800)			
Total Nonoperating Income (Expense)	<u>(108,537)</u>	<u>1,034</u>	<u>(146,030)</u>	<u>(12,642)</u>
<b>Income (Loss) Before Transfers and Contributions</b>	962,153	(18,913)	185,885	(101,513)
Capital contributions		69,413	7,747	
Transfers in			150,000	
Transfers out	(157,310)	(47,310)	(1,310)	
Change in net assets	804,843	3,190	342,322	(101,513)
<b>Net Assets, beginning</b>	<u>7,501,052</u>	<u>2,694,214</u>	<u>2,066,378</u>	<u>1,849,429</u>
<b>Net Assets, ending</b>	<u>\$ 8,305,895</u>	<u>\$ 2,697,404</u>	<u>\$ 2,408,700</u>	<u>\$ 1,747,916</u>

710 Marina Fund	720 Garbage Fund	TOTALS		Governmental Activities - Internal Service Funds	
		2011	2010	2011	2010
\$ 1,797,053	\$ 378,055	\$ 17,258,319	\$ 15,558,652	270,000	\$ 381,000
389,354	4,046	1,418,862	1,519,984		
272,997	1,741	373,304	313,916	4,200	3,576
88,271	379,165	11,943,283	10,885,073	316,218	313,813
68,504		155,164	203,563		
172,153		1,275,042	1,221,423		
991,279	384,952	15,165,655	14,143,959	320,418	317,389
805,774	(6,897)	2,092,664	1,414,693	(50,418)	63,611
2,000	7,133	22,703	35,481	3,895	32,415
59,056	8,525	157,797	68,636	5,265	3,861
			4,565		
			927		10,977
(28,923)		(347,084)	(236,498)		
(229,453)		(281,253)	(317,211)		
(197,320)	15,658	(447,837)	(444,100)	9,160	47,253
608,454	8,761	1,644,827	970,593	(41,258)	110,864
		77,160	5,135		
		150,000	300,000		2,811
(270,000)		(475,930)	(720,000)		
338,454	8,761	1,396,057	555,728	(41,258)	113,675
7,389,739	288,703	21,789,515	21,233,787	99,887	(13,788)
\$ 7,728,193	\$ 297,464	\$ 23,185,572	\$ 21,789,515	\$ 58,629	\$ 99,887

**CITY OF LAKE CITY, MINNESOTA**  
**ENTERPRISE FUNDS**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2011**  
*With Comparative Totals for the Year Ended December 31, 2010*

	Business-Type Activities - Enterprise Funds			
	Electric Fund	Water Fund	Sewer Fund	Storm Water Fund
<b>Cash Flows From Operating Activities</b>				
Cash received from customers	\$ 12,707,028	\$ 689,134	\$ 1,483,086	\$ 82,937
Cash payments to suppliers and employees	(11,671,509)	(551,017)	(784,569)	(58,402)
Net Cash Provided By (Used In) Operating Activities	<u>1,035,519</u>	<u>138,117</u>	<u>698,517</u>	<u>24,535</u>
<b>Cash Flows From Noncapital Financing Activities</b>				
Advances from/ (to) other funds	36,039			
Operating transfers in			150,000	
Operating transfers out	(157,310)	(47,310)	(1,310)	
Net Cash (Used In) Noncapital Financing Activities	<u>(121,271)</u>	<u>(47,310)</u>	<u>148,690</u>	
<b>Cash Flows From Capital and Related Financing Activities</b>				
Principal received on special assessments		1,867	24,338	
Acquisition of capital assets	(1,723,968)	(39,999)	(22,365)	(138,733)
Bond proceeds				
Intergovernmental revenues				
Interest paid on debt	(79,703)	(29,288)	(156,001)	(15,462)
Principal paid on debt	(205,000)	(18,888)	(455,701)	
Net Cash Provided By (Used In) Capital and Related Financing Activities	<u>(2,008,671)</u>	<u>(86,308)</u>	<u>(609,729)</u>	<u>(154,195)</u>
<b>Cash Flows From Investing Activities</b>				
Investment income	50,218	31,228	4,730	4,040
<b>Increase (Decrease) in Cash and Cash Equivalents</b>				
	(1,044,205)	35,727	242,208	(125,620)
<b>Cash and Cash Equivalents, beginning</b>				
	<u>2,725,449</u>	<u>1,154,566</u>	<u>216,437</u>	<u>209,467</u>
<b>Cash and Cash Equivalents, ending</b>				
	<u>\$ 1,681,244</u>	<u>\$ 1,190,293</u>	<u>\$ 458,645</u>	<u>\$ 83,847</u>
Classified as:				
Cash and cash equivalents	\$ 1,640,748	\$ 1,190,293	\$ 458,645	\$ 83,847
Restricted cash	40,496			
Total Cash and Cash Equivalents, End of Year	<u>\$ 1,681,244</u>	<u>\$ 1,190,293</u>	<u>\$ 458,645</u>	<u>\$ 83,847</u>

**See Notes to Financial Statements**

Marina Fund	Garbage Fund	TOTALS		Governmental Activities - Internal Service Fund	
		2011	2010	2011	2010
\$ 1,788,828	\$ 388,132	\$ 17,139,145	\$ 15,297,337	\$ 270,000	\$ 381,000
(1,010,729)	(361,566)	(14,437,792)	(12,602,537)	(316,493)	(280,689)
778,099	26,566	2,701,353	2,694,800	(46,493)	100,311
29,257		65,296	91,268		(13,788)
		150,000	300,000		2,811
(270,000)		(475,930)	(720,000)		
(240,743)		(260,634)	(328,732)		(10,977)
		26,205	35,342		
(224,936)		(2,150,001)	(2,888,734)		
			4,036,658		
(30,501)		(310,955)	(237,561)	5,265	10,977
(95,000)		(774,589)	(744,704)		3,861
(350,437)		(3,209,340)	201,001	5,265	14,838
59,056	8,525	157,797	68,636		
245,975	35,091	(610,824)	2,635,705	(41,228)	104,172
3,820,934	297,606	8,424,459	5,788,754	104,172	
\$ 4,066,909	\$ 332,697	\$ 7,813,635	\$ 8,424,459	\$ 62,944	\$ 104,172
\$ 4,066,909	\$ 332,697	\$ 7,773,139	\$ 6,920,281	\$ 62,944	\$ 104,172
		40,496	1,504,178		
\$ 4,066,909	\$ 332,697	\$ 7,813,635	\$ 8,424,459	\$ 62,944	\$ 104,172

**CITY OF LAKE CITY, MINNESOTA**  
**ENTERPRISE FUNDS**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2011**  
*With Comparative Totals for the Year Ended December 31, 2010*

**RECONCILIATION OF OPERATING INCOME (LOSS)**  
**TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES**

	Business-Type Activities - Enterprise Funds			
	Electric Fund	Water Fund	Sewer Fund	Storm Water Fund
<b>Operating Income (Loss)</b>	\$ 1,070,690	\$ (19,947)	\$ 331,915	\$ (88,871)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	388,394	127,393	477,143	109,959
Payment to component unit				
Other	(38,230)			
(Increase) Decrease In:				
Accounts receivable	(131,473)	(1,057)	(7,815)	979
Inventories	(63,757)			
Prepaid expenses	(13,745)	252	894	946
Increase (Decrease) In:				
Accounts payable	(181,957)	20,904	(105,922)	(5,506)
Accrued liabilities	(3,644)	8,043	(434)	7,028
Compensated absences	4,471	2,529	2,736	
Customer deposits	4,770			
<b>Net Cash Provided By (Used In) Operating Activities</b>	<b>\$ 1,035,519</b>	<b>\$ 138,117</b>	<b>\$ 698,517</b>	<b>\$ 24,535</b>

**See Notes to Financial Statements**

FORM C-3

Marina Fund	Garbage Fund	TOTALS		Governmental Activities - Internal Service Fund	
		2011	2010	2011	2010
\$ 805,774	\$ (6,897)	\$ 2,092,664	\$ 1,414,693	\$ (50,418)	\$ 63,611
172,153		1,275,042	1,221,423		
(229,453)		(229,453)	(317,211)		
2,000	7,133	(29,097)	40,973	3,895	32,415
(10,225)	2,944	(146,647)	(308,308)		
		(63,757)	71,755		
10,280	(794)	(2,167)	3,145		
24,991	25,084	(222,406)	567,307	30	4,285
3,712	(904)	13,801	5,769		
(1,133)		8,603	(10,766)		
		4,770	6,020		
<u>\$ 778,099</u>	<u>\$ 26,566</u>	<u>\$ 2,701,353</u>	<u>\$ 2,694,800</u>	<u>\$ (46,493)</u>	<u>\$ 100,311</u>

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**CITY OF LAKE CITY, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011**

# CITY OF LAKE CITY, MINNESOTA

## NOTES TO FINANCIAL STATEMENTS

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### 1. Summary of Significant Accounting Policies

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The City of Lake City, Minnesota was incorporated in 1872 and operates under a Mayor-Council form of government. The governing body is the City Council which consists of five elected Council Members and a Mayor.

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

#### Reporting Entity

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

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

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

The Lake City Economic Development Authority (EDA) was created pursuant to Minnesota Statutes 469.090 through 469.108 to carry out economic and industrial development and redevelopment within the City in accordance with policies established by the City Council. The seven-member board consists of two Council members and five other Council approved members. The EDA may not exercise any of the powers enumerated by the authorizing statutes without prior approval of the City Council. The EDA is reported as a discretely presented governmental fund type. Separate financial statements are not issued for this component unit.

#### Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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1. Summary of Significant Accounting Policies (Continued)

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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)

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1. Summary of Significant Accounting Policies (Continued)

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

The City reports the following major governmental funds:

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

The City reports the following major proprietary funds:

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

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

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

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

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

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

Additionally, the government reports the following fund type:

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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1. Summary of Significant Accounting Policies (Continued)

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*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)**

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**1. Summary of Significant Accounting Policies (Continued)**

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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. Investments are stated at fair value, based upon quoted market prices as of the balance sheet date.

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)**

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**1. Summary of Significant Accounting Policies (Continued)**

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

Special Assessments

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

Short-Term Interfund Receivables and Payables

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

Inventories

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

Property, Plant and Equipment

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

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

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

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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1. Summary of Significant Accounting Policies (Continued)

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

Property, Plant and Equipment (continued)

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

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

Market Value Credit (MVC)

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

Compensated Absences

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

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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1. Summary of Significant Accounting Policies (Continued)

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

Long-term Obligations (continued)

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

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

Net Assets / Fund Balance

In the government-wide and proprietary financial statements, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the City classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual restraints.

Restricted – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the City Council through formal action and remain binding unless removed by the City Council by subsequent formal action.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. The City Council, by majority vote, may assign fund balances to be used for specific purposes when appropriate.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

Interfund Transactions

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

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

Comparative Data

Comparative data for the prior year has been presented in certain of the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. However, complete comparative data has not been presented since their inclusion would not provide meaningful comparisons. Certain amounts in the December 31, 2010 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)

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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.

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2. Cash and Investments

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Summary of Cash and Investments

As of December 31, 2011, the City's investments consisted of the following items, all of which are held in an internal investment pool:

Deposits	\$ 3,068,918
Investments	<u>9,844,325</u>
Cash and Investments Per Statement of Net Assets	<u><u>\$ 12,913,243</u></u>

<u>Investment</u>	<u>Maturities</u>	<u>Ratings</u>	<u>Fair Value</u>
Money Market Mutual Funds	None	Unrated	\$ 411,276
Negotiable CD's	March 2011 - June 2024	Unrated	2,334,029
US Treasury Notes	May 2013 - May 2015	N/A	46,587
US Treasury Bonds	November 2024 - February 2029	N/A	78,958
Federal National Mortgage Assn	March 2012 - July 2024	AA-	2,906,544
Federal Home Loan Bank	December 2015 - October 2016	AA-	1,495,768
Federal Home Loan Mortgage Corp	June 2013 - December 2014	AA-	<u>2,571,163</u>
			<u><u>\$ 9,844,325</u></u>

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## CITY OF LAKE CITY, MINNESOTA

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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#### 2. Cash and Investments (Continued)

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##### Investments Authorized by Minnesota Statutes

The City is authorized by Minnesota Statutes Chapter 118A to invest idle funds as follows:

- (a) Direct obligations or obligations guaranteed by the United States or its agencies.
- (b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- (c) General obligations of the State of Minnesota or its municipalities.
- (d) Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System.
- (e) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality, and maturing in 270 days or less.
- (f) Repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a reporting dealer to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
- (g) Money market funds with institutions that have portfolios consisting exclusively of United States Treasury obligations and Federal Agency issues.

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

##### Collateralization of Cash Deposits

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

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

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

##### Interest Rate Risk

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

**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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**2. Cash and Investments (Continued)**

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*Credit Risk*

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

*Concentration of Credit Risk*

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

<u>Investment</u>	<u>Ratings</u>	<u>Percent of Total</u>
Money Market Mutual Funds	Unrated	4%
Negotiable CD's	Unrated	24%
Federal National Mortgage Assn	AA-	30%
Federal Home Loan Mortgage Corp	AA-	26%

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**3. Loans Receivables**

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*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, 2011 totaled \$14,255.

**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, 2011 totaled \$201,746.

MIF Loan

The City entered into an economic development loan agreement with a local manufacturer. The loan is noninterest bearing and is being repaid at \$4,550 per month. A portion of the loan was forgivable and the conditions have been met. The remaining portion receivable at December 31, 2011 is \$254,800. As part of the agreement with the Minnesota Investment Grant Fund, the amounts received on this loan must be remitted to the state. The amount due to the State of Minnesota at December 31, 2011 is \$259,350.

**4. Capital Assets**

Capital asset activity for the year ended December 31, 2011 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
Construction in progress	451,729	21,048	451,729	21,048
Total capital assets, not being depreciated	<u>1,755,520</u>	<u>21,048</u>	<u>451,729</u>	<u>1,324,839</u>
Capital assets, being depreciated:				
Buildings	9,826,825	3,960		9,830,785
Improvements other than buildings	387,093	13,432		400,525
Infrastructure	12,646,484	677,907		13,324,391
Machinery and equipment	4,881,769	234,525	234,207	4,882,087
Total capital assets, being depreciated	<u>27,742,171</u>	<u>929,824</u>	<u>234,207</u>	<u>28,437,788</u>
Less accumulated depreciation for:				
Buildings	5,183,814	170,730		5,354,544
Improvements other than buildings	74,017	17,450		91,467
Infrastructure	6,254,871	335,767		6,590,638
Machinery and equipment	3,827,681	247,140	209,591	3,865,230
Total accumulated depreciation	<u>15,340,383</u>	<u>771,087</u>	<u>209,591</u>	<u>15,901,879</u>
Total capital assets, being depreciated, net	<u>12,401,788</u>	<u>158,737</u>	<u>24,616</u>	<u>12,535,909</u>
Governmental activities capital assets, net	<u>\$ 14,157,308</u>	<u>\$ 179,785</u>	<u>\$ 476,345</u>	<u>\$ 13,860,748</u>

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. Capital Assets (continued)

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 723,363	\$	\$	\$ 723,363
Construction in progress	1,434,275		1,434,275	
Total capital assets, not being depreciated	<u>2,157,638</u>		<u>1,434,275</u>	<u>723,363</u>
Capital assets, being depreciated:				
Buildings and improvements	14,910,451	224,936	6,785	15,128,602
Distribution and collection system	19,814,489	3,136,308	4,360	22,946,437
Machinery and equipment	4,448,170	223,032	112,793	4,558,409
Total capital assets, being depreciated	<u>39,173,110</u>	<u>3,584,276</u>	<u>123,938</u>	<u>42,633,448</u>
Less accumulated depreciation for:				
Buildings and improvements	5,790,163	455,908	6,785	6,239,286
Distribution and collection system	9,071,139	629,813	4,360	9,696,592
Machinery and equipment	3,231,472	189,321	112,793	3,308,000
Total accumulated depreciation	<u>18,092,774</u>	<u>1,275,042</u>	<u>123,938</u>	<u>19,243,878</u>
Total capital assets, being depreciated, net	<u>21,080,336</u>	<u>2,309,234</u>		<u>23,389,570</u>
Business-type activities capital assets, net	<u>\$ 23,237,974</u>	<u>\$ 2,309,234</u>	<u>\$ 1,434,275</u>	<u>\$ 24,112,933</u>
<b>Discretely Presented Component Unit</b>				
<b>Economic Development Authority</b>	<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	<u>2,371,796</u>			<u>2,371,796</u>
Less accumulated depreciation for:				
Buildings and improvements	384,099	57,711		441,810
Machinery and equipment	63,380			63,380
Total accumulated depreciation	<u>447,479</u>	<u>57,711</u>		<u>505,190</u>
Total capital assets, being depreciated, net	<u>\$ 1,924,317</u>	<u>\$ (57,711)</u>	<u>\$</u>	<u>\$ 1,866,606</u>

**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**4. Capital Assets (continued)**

Depreciation expense was charged to functions/programs as follows:

<b>Governmental Activities:</b>	
General government	\$ 188,985
Public safety	126,212
Streets and highways	410,172
Culture and recreation	<u>45,718</u>
Total depreciation expense - governmental activities	<u>\$ 771,087</u>
 <b>Business-Type Activities:</b>	
Electric	\$ 388,394
Water	127,393
Sewer	477,143
Storm water	109,959
Marina	<u>172,153</u>
Total depreciation expense - business-type activities	<u>\$1,275,042</u>

**5. Due From Other Governmental Units**

Amounts due from other governmental units at December 31, 2011 are as follows:

Fund	Due from various Counties	Due from various Cities	Southeastern Minnesota Multi-County HRA	EDA	Total
General	\$ 13,326	\$ 43,341	\$ 198,689	\$ 68	<u>\$ 255,424</u>

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**6. Interfund Balances and Transfers**

The amounts advanced to and advanced from other funds as of December 31, 2011 at the individual fund level are summarized below:

	<u>Advances to Other Funds</u>	<u>Advances from Other Funds</u>
General Fund	\$ 55,000	\$ 189,713
Enterprise Fund:		
Marina	189,713	55,000
	<u>\$ 244,713</u>	<u>\$ 244,713</u>

Balances of interfund receivables and payables as of December 31, 2011 at the individual fund level for year end cash deficiencies are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 7,256	\$
Special Revenue Funds:		
Block 25 Redev TIF #13		38
Pepin Manufacturing TIF #14		630
Capital Project Funds		
Monroe Street Improvement		4,374
2012 Street Improvement		2,214
	<u>\$ 7,256</u>	<u>\$ 7,256</u>

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**6. Interfund Balances and Transfers (Continued)**

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Operating transfers primarily from payments in lieu of taxes during the year ended December 31, 2011 were as follows:

Funds	Transfers In	Transfers Out
General Fund	\$ 425,930	\$
Special Revenue:		
Library	50,000	
Tax Increment #4 Downtown		150,000
Enterprise:		
Electric		157,310
Water		47,310
Sewer	150,000	1,310
Marina		270,000
	\$ 625,930	\$ 625,930

**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, 2011 is as follows:

	Range of Interest Rates	Final Maturity	Balance December 31, 2011
<u>Governmental Activities</u>			
G.O. Improvement Bonds:			
G.O. Improvement Bonds of 2006A	3.55%-4.05%	2022	\$ 405,000
G.O. Improvement Bonds of 2008A	4.00%-4.60%	2024	996,873
Compensated Absences			314,438
<u>Business-Type Activities</u>			
G.O. Improvement Bonds:			
G.O. Improvement Bonds of 2008A	4.00%-4.60%	2024	308,126
Revenue Bonds:			
Marina Revenue Bonds of 2006	4.05%-4.45%	2016	555,000
Electric Revenue Bonds of 2010B	.85%-4.85%	2026	2,995,000
General Obligation Revenue Bonds:			
GO Utility Revenue Bonds of 2010A	2%-3.75%	2026	1,160,000
GO Revenue Loans:			
Public Facilities Loan of 1993	3.74%	2014	289,811
Public Facilities Loan of 1996	3.32%	2017	515,079
Public Facilities Loan of 1999	2.86%	2020	624,000
Public Facilities Loan of 2002	2.99%	2023	3,245,000
Compensated Absences			196,611
Sub-total			11,604,938
Less: Unamortized discount and issuance costs			(133,434)
Total			<u>\$ 11,471,504</u>

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, 2011
EDA Revenue Bonds:			
Public Project Lease Revenue Bond Series 2001	4.98%	2012	<u>\$ 107,061</u>

The following is a summary of changes in long-term debt obligations for the year ended December 31, 2011:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
Bonds and Notes Payable:					
General Obligation Bonds:					
G.O. Improvement Bonds of 2006A	\$ 435,000		\$ 30,000	\$ 405,000	\$ 30,000
G.O. Improvement Bonds of 2008A	1,057,985		61,112	996,873	61,112
Less: Unamortized Discount and Issue Costs	(19,026)		(1,463)	(17,563)	
Other liabilities:					
Compensated Absences	325,554		11,116	314,438	
Governmental Activities					
Long-term Liabilities	<u>1,799,513</u>		<u>100,765</u>	<u>1,698,748</u>	<u>91,112</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Bonds and Notes Payable:					
Revenue Bonds:					
Marina Revenue Bonds of 2006	650,000		95,000	555,000	100,000
Electric Revenue Bonds of 2010B	2,995,000			2,995,000	130,000
Less: Unamortized Discount	(89,562)		(6,631)	(82,931)	
General Obligation Revenue Bonds:					
G.O. Utility Revenue Bonds of 2001A	205,000		205,000		
G.O. Utility Revenue Bonds of 2010A	1,160,000			1,160,000	65,000
Less: Unamortized Discount	(37,780)		(4,840)	(32,940)	
General Obligation Bonds:					
G.O. Improvement Bonds of 2008A	327,014		18,888	308,126	18,888
General Obligation Revenue Loans:					
Public Facilities Loan of 1993	379,477		89,666	289,811	93,051
Public Facilities Loan of 1996	599,114		84,035	515,079	86,848
Public Facilities Loan of 1999	684,000		60,000	624,000	62,000
Public Facilities Loan of 2002	3,467,000		222,000	3,245,000	229,000
Other liabilities:					
Compensated Absences	188,007	8,604		196,611	
Business-type Activities					
Long-term Liabilities	<u>10,527,270</u>	<u>8,604</u>	<u>763,118</u>	<u>9,772,756</u>	<u>784,787</u>
Total	<u>\$ 12,326,783</u>	<u>\$ 8,604</u>	<u>\$ 863,883</u>	<u>\$ 11,471,504</u>	<u>\$ 875,899</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, 2011, 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>											
2012	\$ 91,112	\$ 56,778							\$ 107,061	\$ 2,666	\$ 257,617
2013	94,932	53,169									148,101
2014	99,932	49,372									149,304
2015	99,932	45,462									145,394
2016	103,751	41,476									145,227
2017-2021	588,410	137,921									726,331
2022-2024	323,804	20,465									344,269
Totals	<u>\$1,401,873</u>	<u>\$ 404,643</u>							<u>\$ 107,061</u>	<u>\$ 2,666</u>	<u>\$ 1,916,243</u>
<u>Business-Type Activities</u>											
2012	\$ 18,888	\$ 12,857	\$ 470,900	\$ 141,233	\$ 65,000	\$ 33,086	\$ 230,000	\$ 134,840			\$ 1,106,804
2013	20,069	12,078	486,320	126,194	65,000	31,786	265,000	128,798			1,135,245
2014	20,069	11,275	500,954	110,658	65,000	30,486	270,000	121,268			1,129,710
2015	20,069	10,472	412,865	95,609	65,000	29,186	280,000	112,860			1,026,061
2016	21,249	9,646	425,075	83,008	70,000	27,792	290,000	103,188			1,029,958
2017-2021	121,593	33,448	1,754,775	244,157	375,000	110,006	1,200,000	442,736			4,281,715
2022-2026	86,189	6,022	623,000	28,077	455,000	42,668	1,015,000	99,934			2,355,890
Totals	<u>\$ 308,126</u>	<u>\$ 95,798</u>	<u>\$ 4,673,889</u>	<u>\$ 828,936</u>	<u>\$ 1,160,000</u>	<u>\$ 305,010</u>	<u>\$ 3,550,000</u>	<u>\$ 1,143,624</u>			<u>\$ 12,065,383</u>

Legal Debt Margin

The City's statutory debt limit is three percent of estimated market value of taxable property within the City, or \$464,013,562. The City currently has no general obligation debt subject to this limit leaving a debt margin of \$13,920,406. 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, 2010:

	Tax Increment District #2 Lighthouse	Tax Increment District #4 Downtown	Tax Increment District #14 Pepin Manufacturing	Tax Increment District #15 Hearth and Home Tech.	Tax Increment District #1 Riverside Townhomes	Tax Increment District #9 Heat-n-Glo	Tax Increment District #12 Pepin Heights	Tax Increment District #13 Block 25 Redevel.
Type of District	Redevelopment	Redevelopment	Economic	Economic	Housing	Economic	Economic	Redevelopment
Year Established	1984	1989	2007	2007	1998	2000	2003	2004
Duration of District	26 Years	27 Years	9 Years	10 Years	17 Years	11 Years	11 Years	29 Years
Tax Capacity:								
Original	\$ 722	\$ 19,921	\$ 9,416	\$ 2,300	\$ 113	\$ 168	\$ 3,884	\$ 3,766
Current	5,362	108,300	21,316	39,456	10,466	28,764	7,953	5,189
Captured - retained	\$ 4,640	\$ 88,379	\$ 11,900	\$ 37,156	\$ 10,353	\$ 28,596	\$ 4,069	\$ 1,423

**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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**9. Commitments and Contingencies (Continued)**

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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 2011.

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 2011. 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, 2011 was \$1,855,000.

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)

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**10. Fund Equity**

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The City has assigned and restricted 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:

	<u>2011</u>	<u>2010</u>
General Fund - Assigned		
Cash flow	\$ 1,351,744	\$ 1,483,256
Emergency expenditures	635,789	663,078
Other Governmental Funds - Assigned		
Library	282,198	205,159
Revolving loans	456,766	400,838
Capital projects	125,418	331,536
Other projects	2,150	3,091
General Fund - Restricted		
Other projects	108,963	105,999
Other Governmental Funds - Restricted		
Debt retirement	221,210	212,997
Tax increment projects	163,651	179,117
Proprietary Funds - Marina Fund		
Beach/Point improvement	350,000	350,000
Docks	300,000	300,000

At December 31, 2011, individual funds with deficit fund balances/net assets were as follows:

Special Revenue Funds:	
Block 25 Redevelopment TIF #13	(38)
Pepin Manufacturing TIF #14	(6,176)
Capital Project Funds	
Monroe Street Improvement	(13,094)
2012 Street Improvement	(7,963)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**11. Defined Benefit Pension Plans - Statewide**

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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 General Employees Retirement Fund (GERF) 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.

GERF 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 GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age for unreduced Social security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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**11. Defined Benefit Pension Plans – Statewide (Continued)**

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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 GERS and PEPFF. That report may be obtained on the internet at [www.mnpera.org](http://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. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25% respectively, of their annual covered salary in 2011. PEPFF members are required to contribute 9.6% of their annual covered salary in 2011. In 2011, the City of Lake City is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.25% for Coordinated Plan members, and 14.1% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2011, 2010, and 2009 were \$149,410, \$152,690 and \$157,833, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2011, 2010, and 2009 were \$100,451, \$94,183, and \$88,439, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

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**12. Defined Benefit Pension Plan - Volunteer Fire Relief Association**

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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.

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CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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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 (2011) is as follows:

Annual pension cost - total	\$62,366
Contributions made	
City	28,690
State Aid - pass-through	33,676
Actuarial valuation date	12/31/11
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Remaining amortization period:	
Normal Cost	20 Years
Prior service cost	10 Years
Asset valuation method	Market
Actuarial assumptions:	
Investment rate of return	5%
Projected salary increases	N/A
Inflation rate	N/A
Cost of living adjustments	None

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/02	\$ 38,767	100%	\$ 473,660
12/31/03	50,746	100%	517,894
12/31/04	62,538	100%	558,071
12/31/05	61,244	100%	661,640
12/31/06	65,491	100%	674,095
12/31/07	60,500	100%	648,160
12/31/08	58,526	100%	630,457
12/31/09	66,937	100%	688,329
12/31/10	58,315	100%	747,967
12/31/11	62,366	100%	809,912

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%
12/31/08	415,529	630,457	(214,928)	66%
12/31/09	566,590	688,329	(121,739)	82%
12/31/10	694,734	747,967	(53,233)	93%
12/31/11	778,310	809,912	(31,602)	96%

**CITY OF LAKE CITY, MINNESOTA**  
**COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES**  
**DECEMBER 31, 2011**

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**CITY OF LAKE CITY, MINNESOTA**

**NONMAJOR FUNDS**

**DECEMBER 31, 2011**

**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, 2011  
With Comparative Totals as of December 31, 2010**

	Special Revenue Funds					
	210 Library	270 Community Development Revolving Loan Fund	271 Business Development Revolving Loan Fund	412 Increment #2 Lighthouse Mall	451 Heat 'N Glo TIF #9	480 Tax Increment #4 Downtown
<b>ASSETS</b>						
Cash and investments	\$ 286,786	\$ 303,173	\$ 153,293	\$ 2,253	\$ 60,655	\$ 128,158
Accounts receivable		300				
Loans receivable		201,746	14,255			
Taxes receivable delinquent	1,583					256
Special assessments delinquent						
Special assessments deferred						
<b>TOTAL ASSETS</b>	<b>\$ 288,369</b>	<b>\$ 505,219</b>	<b>\$ 167,548</b>	<b>\$ 2,253</b>	<b>\$ 60,655</b>	<b>\$ 128,414</b>
<b>LIABILITIES AND FUND BALANCE</b>						
<b>Liabilities</b>						
Accounts payable	\$ 2,902			\$ 2,253	\$ 43,070	
Accrued liabilities	1,686					
Deposits payable						
Interfund payables						
Deferred revenue	1,583	201,746	14,255			256
Total Liabilities	<u>6,171</u>	<u>201,746</u>	<u>14,255</u>	<u>2,253</u>	<u>43,070</u>	<u>256</u>
<b>Fund Balance</b>						
Restricted:						
Creditors (debt covenants)						
Regulations						
					17,585	128,158
Assigned:						
Fund assignments	282,198	303,473	153,293			
Unassigned:						
Total Fund Balance	<u>282,198</u>	<u>303,473</u>	<u>153,293</u>		<u>17,585</u>	<u>128,158</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 288,369</b>	<b>\$ 505,219</b>	<b>\$ 167,548</b>	<b>\$ 2,253</b>	<b>\$ 60,655</b>	<b>\$ 128,414</b>

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
\$ 1,231	\$	\$	\$ 13,870	\$ 24,801	\$ 5,144	\$ 2,150	\$ 171,738	\$ 1,882
\$ 1,231	\$	\$	\$ 13,870	\$ 24,801	\$ 5,144	\$ 2,150	\$ 171,738	\$ 1,882
\$ 1,788	\$	\$ 5,546	\$ 4,781	\$ 15,982	\$	\$	\$	\$
	38	630			5,144		171,738	1,882
1,788	38	6,176	4,781	15,982	5,144		171,738	1,882
			9,089	8,819				
(557)	(38)	(6,176)				2,150		
(557)	(38)	(6,176)	9,089	8,819		2,150		
\$ 1,231	\$	\$	\$ 13,870	\$ 24,801	\$ 5,144	\$ 2,150	\$ 171,738	\$ 1,882

**CITY OF LAKE CITY, MINNESOTA  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
December 31, 2011**

*With Comparative Totals as of December 31, 2010*

Debt Service Funds		
316		
Peters	358	357
4th and 5th Street	2008 Street	2006 Street
Improvement	Improvement	Improvement

**ASSETS**

Cash and investments	\$	77	\$	194,659	\$	26,899
Accounts receivable						
Loans receivable						
Taxes receivable delinquent						
Special assessments delinquent		78				
Special assessments deferred		14,699				109,178
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>14,854</b>	<b>\$</b>	<b>194,659</b>	<b>\$</b>	<b>136,077</b>

**LIABILITIES AND FUND BALANCE**

**Liabilities**

Accounts payable	\$		\$	425	\$	
Accrued liabilities						
Deposits payable						
Interfund payables						
Deferred revenue		14,777				109,178
<b>Total Liabilities</b>		<b>14,777</b>		<b>425</b>		<b>109,178</b>

**Fund Balance**

Restricted:						
Creditors (debt covenants)		77		194,234		26,899
Regulations						
Assigned:						
Fund assignments						
Unassigned:						
<b>Total Fund Balance</b>		<b>77</b>		<b>194,234</b>		<b>26,899</b>

**TOTAL LIABILITIES AND  
FUND BALANCE**

	<b>\$</b>	<b>14,854</b>	<b>\$</b>	<b>194,659</b>	<b>\$</b>	<b>136,077</b>
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FORM D-1

Capital Projects Funds				Totals	
400 Capital Projects	361 2009 7th Street Improvement	362 Monroe Street Improvement	363 2012 Street Improvement	2011	2010
\$ 129,449	\$ 31,140	\$	\$	\$ 1,537,358	\$ 1,671,444
				300	300
				216,001	247,902
				1,839	2,501
960				1,038	4,633
				123,877	147,628
<u>\$ 130,409</u>	<u>\$ 31,140</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,880,413</u>	<u>\$ 2,074,408</u>
\$ 17,432	\$ 17,739	\$ 8,720	\$ 5,749	\$ 126,387	\$ 148,577
				1,686	1,908
				178,764	187,916
		4,374	2,214	7,256	12,224
960				342,755	402,664
<u>18,392</u>	<u>17,739</u>	<u>13,094</u>	<u>7,963</u>	<u>656,848</u>	<u>753,289</u>
				221,210	217,245
				163,651	179,117
112,017	13,401			866,532	940,624
		(13,094)	(7,963)	(27,828)	(15,867)
<u>112,017</u>	<u>13,401</u>	<u>(13,094)</u>	<u>(7,963)</u>	<u>1,223,565</u>	<u>1,321,119</u>
<u>\$ 130,409</u>	<u>\$ 31,140</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,880,413</u>	<u>\$ 2,074,408</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, 2011**  
*With Comparative Totals for the Year Ended December 31, 2010*

	Special Revenue Funds					
	210 Library	270 Community Development Revolving Loan Fund	271 Business Development Revolving Loan Fund	412 Increment #2 Lighthouse Mall	451 Heat 'N Glo TIF #9	480 Tax Increment #4 Downtown
<b>REVENUES</b>						
Taxes:						
Property taxes	\$ 86,762					
Tax increments					16,761	108,493
Special assessments						
Intergovernmental revenues	59,530					181
Charges for services	1,838					
Fines and forfeits	3,443					
Investment income	4,777	7,438	3,933	118	1,538	5,200
Miscellaneous revenues	87,078	59,603				
<b>TOTAL REVENUES</b>	<b>243,428</b>	<b>67,041</b>	<b>3,933</b>	<b>118</b>	<b>18,299</b>	<b>113,874</b>
<b>EXPENDITURES</b>						
Culture and recreation:						
Library	188,360					
Economic development		15,046		118	714	714
Debt service:						
Principal retirement						
Interest and fiscal charges						
Capital outlay	28,029					
<b>TOTAL EXPENDITURES</b>	<b>216,389</b>	<b>15,046</b>		<b>118</b>	<b>714</b>	<b>714</b>
Excess (deficiency) of revenues over (under) expenditures	27,039	51,995	3,933		17,585	113,160
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers out						(150,000)
Transfers in	50,000					
Total Other Financing Sources (Uses)	50,000					(150,000)
<b>Net change in fund balances</b>	<b>77,039</b>	<b>51,995</b>	<b>3,933</b>		<b>17,585</b>	<b>(36,840)</b>
<b>FUND BALANCE, beginning</b>	<b>205,159</b>	<b>251,478</b>	<b>149,360</b>			<b>164,998</b>
<b>FUND BALANCE, ending</b>	<b>\$ 282,198</b>	<b>\$ 303,473</b>	<b>\$ 153,293</b>	<b>\$</b>	<b>\$ 17,585</b>	<b>\$ 128,158</b>

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 Apart	Developer Escrow
\$ 3,974	\$ 1,628	\$ 12,325	\$ 10,624	\$ 35,516				\$
18			267	336		59	4,682	
3,992	1,628	12,325	10,891	35,852		59	4,682	
4,291	705	11,744	10,276	32,678		1,000	4,682	
4,291	705	11,744	10,276	32,678		1,000	4,682	
(299)	923	581	615	3,174		(941)		
(299)	923	581	615	3,174		(941)		
(258)	(961)	(6,757)	8,474	5,645		3,091		
\$ (557)	\$ (38)	\$ (6,176)	\$ 9,089	\$ 8,819	\$	\$ 2,150	\$	\$

**CITY OF LAKE CITY, MINNESOTA  
NONMAJOR GOVERNMENTAL FUNDS  
Combining Statement of Revenues, Expenditures  
and Changes in Fund Balance  
For the Year Ended December 31, 2011  
With Comparative Totals for the Year Ended December 31, 2010**

	Debt Service Funds		
	316	358	357
	Peters	2008	2006
	4th and 5th	Street	Street
	Street	Improvement	Improvement
	Improvement	Improvement	Improvement
<b>REVENUES</b>			
Taxes:			
Property taxes	\$	\$ 102,536	\$ 31,772
Tax increments			
Special assessments	4,295		16,052
Intergovernmental revenues		1,521	471
Charges for services			
Fines and forfeits			
Investment income	33	3,912	
Miscellaneous revenues			
<b>TOTAL REVENUES</b>	<b>4,328</b>	<b>107,969</b>	<b>48,295</b>
<b>EXPENDITURES</b>			
Culture and recreation:			
Library			
Economic development			
Debt service:			
Principal retirement		61,112	30,000
Interest and fiscal charges	3	44,468	16,796
Capital outlay			
<b>TOTAL EXPENDITURES</b>	<b>3</b>	<b>105,580</b>	<b>46,796</b>
Excess (deficiency) of revenues over (under) expenditures	4,325	2,389	1,499
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers out			
Transfers in			
<b>Total Other Financing Sources (Uses)</b>			
<b>Net change in fund balances</b>	<b>4,325</b>	<b>2,389</b>	<b>1,499</b>
<b>FUND BALANCE, beginning</b>	<b>(4,248)</b>	<b>191,845</b>	<b>25,400</b>
<b>FUND BALANCE, ending</b>	<b>\$ 77</b>	<b>\$ 194,234</b>	<b>\$ 26,899</b>

FORM D-2

Capital Projects Funds					
400 Capital Projects	361 2009 7th Street Improvement	362 Monroe Street Improvement	363 2012 Street Improvement	Totals	
				2011	2010
\$	\$	\$	\$	\$ 221,070	\$ 221,255
				189,321	198,290
4,651	17,121			42,119	37,943
				61,703	752,318
				1,838	2,105
				3,443	5,773
7,846	571			40,728	40,656
2,300				148,981	179,489
14,797	17,692			709,203	1,437,829
				188,360	216,562
				81,968	205,863
				91,112	212,015
			9	61,276	66,670
234,316	648	13,094	7,954	284,041	851,573
234,316	648	13,094	7,963	706,757	1,552,683
(219,519)	17,044	(13,094)	(7,963)	2,446	(114,854)
				(150,000)	(879,594)
				50,000	851,783
				(100,000)	(27,811)
(219,519)	17,044	(13,094)	(7,963)	(97,554)	(142,665)
331,536	(3,643)			1,321,119	1,463,784
\$ 112,017	\$ 13,401	\$ (13,094)	\$ (7,963)	\$ 1,223,565	\$ 1,321,119

**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, 2011**  
*(With Comparative Totals for the Year Ended December 31, 2010)*

	Budgeted Amounts		2011 Actual Amount	Variance With Budget Positive (Negative)	2010 Actual Amount
	Original	Final			
<b>REVENUES</b>					
<b>Property Tax Levy</b>					
Property tax collected	\$ 84,705	\$ 84,705	\$ 86,762	\$ 2,057	86,772
<b>Intergovernmental Revenues</b>					
State - property tax credits and aids	5,295	5,295	1,292	(4,003)	1,362
County - library grants	50,000	50,000	58,238	8,238	55,247
Total Intergovernmental Revenues	55,295	55,295	59,530	4,235	56,609
<b>Charges For Services</b>					
Fines and forfeits	5,000	5,000	3,443	(1,557)	5,773
Other	1,800	1,800	1,838	38	2,105
Total Charges For Services	6,800	6,800	5,281	(1,519)	7,878
<b>Investment Income</b>					
	3,000	3,000	4,777	1,777	2,168
<b>Miscellaneous</b>					
Donations	44,000	44,000	87,078	43,078	62,335
<b>Total Revenues</b>	<b>193,800</b>	<b>193,800</b>	<b>243,428</b>	<b>49,628</b>	<b>215,762</b>
<b>EXPENDITURES</b>					
Library services	186,980	194,431	188,360	6,071	219,377
Capital outlay	31,500	31,500	28,029	3,471	21,260
<b>Total Expenditures</b>	<b>218,480</b>	<b>225,931</b>	<b>216,389</b>	<b>9,542</b>	<b>240,637</b>
Excess (deficiency) of revenues over (under) expenditures	(24,680)	(32,131)	27,039	59,170	(24,875)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	44,000	50,000	50,000		50,000
<b>Net Change in Fund Balance</b>	<b>19,320</b>	<b>17,869</b>	<b>77,039</b>	<b>59,170</b>	<b>25,125</b>
<b>Fund Balance, beginning</b>	<b>205,159</b>	<b>205,159</b>	<b>205,159</b>		<b>180,034</b>
<b>Fund Balance, ending</b>	<b>\$ 224,479</b>	<b>\$ 223,028</b>	<b>\$ 282,198</b>	<b>\$ 59,170</b>	<b>\$ 205,159</b>

**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, 2011**  
*(With Comparative Totals for the Year Ended December 31, 2010)*

	575 Economic Development	401 City Hall Project	2011	2010
<b>REVENUES</b>				
Property tax	\$ 44,706	\$	\$ 44,706	\$ 46,331
Intergovernmental revenues	659		659	402
Investment income	564	105	669	176
Payment from primary government	71,800	219,453	291,253	317,211
<b>Total Revenues</b>	<b>117,729</b>	<b>219,558</b>	<b>337,287</b>	<b>364,120</b>
<b>EXPENDITURES</b>				
Economic Development	80,450		80,450	80,976
Debt Service:				
Principal		206,381	206,381	196,475
Interest		13,072	13,072	22,978
<b>Total Expenditures</b>	<b>80,450</b>	<b>219,453</b>	<b>299,903</b>	<b>300,429</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>37,279</b>	<b>105</b>	<b>37,384</b>	<b>63,691</b>
<b>Fund Balance, beginning</b>	<b>122,022</b>	<b>4,015</b>	<b>126,037</b>	<b>62,346</b>
<b>Fund Balance, ending</b>	<b>\$ 159,301</b>	<b>\$ 4,120</b>	<b>\$ 163,421</b>	<b>\$ 126,037</b>