

**CITY OF LAKE CITY, MINNESOTA**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2012**



**CITY OF LAKE CITY, MINNESOTA**

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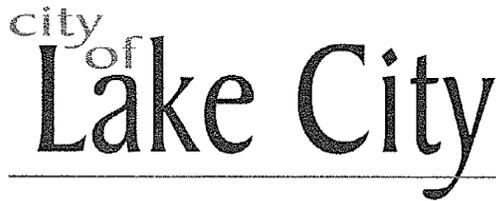


**CITY OF LAKE CITY, MINNESOTA**

**INTRODUCTORY SECTION**

**DECEMBER 31, 2012**

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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)

July 8, 2013

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, 2012 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.

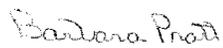
The City assumes responsibility for both the accuracy of data and the completeness and fairness of the presentation, including all disclosures. To the best of our knowledge, this financial report is complete and reliable in all material respects.

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, 2012. 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 2012 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, 2012**

**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, 2012**

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, 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, 2012, 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 opinions on these financial statements based on our audit.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lake City, Minnesota as of December 31, 2012, 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.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the The City of Lake City, Minnesota's basic financial statements. The introductory section and combining and individual non-major fund financial statements listed in 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 non-major funds 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 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on them.

*Report on Summarized Comparative Information*

The financial statements include partial prior year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's financial statement for the year ended December 31, 2011, from which such partial information was derived.

We have previously audited the City's 2011 financial statements and our report, dated June 1, 2012, expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2013, on our consideration of the 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 or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The City of Lake City, Minnesota's internal control over financial reporting and compliance.

*Smith, Schafu and Associates, Ltd.*

## 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, 2012. We encourage readers to consider the information presented here in conjunction with the City's financial statements.

**New Accounting Pronouncement.** The City implemented GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, in fiscal year 2012. This standard provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The reader will notice a change in terminology from "net assets" to "net position."

### FINANCIAL HIGHLIGHTS

- The assets of the City of Lake City exceeded its liabilities at the close of the most recent fiscal year by \$43,719,856 (*net position*). Of this amount, \$15,264,487 (unrestricted net position) 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 position increased by \$3,179,508 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 \$6,025,755. Approximately 89 percent of this total amount, or \$5,358,485, 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 \$2,005,873 or 52 percent of total general fund expenditures.
- The City of Lake City total outstanding debt increased by \$554,098 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 position* presents information on all of the City of Lake City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases in net position may serve as a useful indicator of whether the financial position of the City of Lake City is improving. Conversely, decreases in net position may indicate the financial position is deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of 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 73. 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, 2012 Improvement Fund, and the Monroe Street Improvement Fund which are considered to be major funds. 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 64-71 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 72) 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 34-62 of this report.

***Other information.*** The combining statements referred to earlier in connection with nonmajor governmental funds can be found on pages 64-71 of this report.

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position 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 \$43,719,856 at the close of the most recent fiscal year.

By far the largest portion of the City of Lake City's net position (63 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 Position**

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 7,271,754	\$ 6,026,363	\$ 11,300,828	\$ 10,249,398	\$ 18,572,582	\$ 16,275,761
Capital assets	15,649,136	13,860,748	23,352,770	24,112,933	39,001,906	37,973,681
Total assets	<u>22,920,890</u>	<u>19,887,111</u>	<u>34,653,598</u>	<u>34,362,331</u>	<u>57,574,488</u>	<u>54,249,442</u>
Long-term liabilities						
outstanding	3,026,492	1,698,748	8,999,110	9,772,756	12,025,602	11,471,504
Other liabilities	664,757	833,587	1,164,273	1,404,003	1,829,030	2,237,590
Total liabilities	<u>3,691,249</u>	<u>2,532,335</u>	<u>10,163,383</u>	<u>11,176,759</u>	<u>13,854,632</u>	<u>13,709,094</u>
Net position:						
Net investment in capital assets	12,942,285	12,476,438	14,584,923	14,577,283	27,527,208	27,053,721
Restricted	928,161	893,977			928,161	893,977
Unrestricted	5,359,195	3,984,361	9,905,292	8,608,289	15,264,487	12,592,650
Total net position	<u>\$ 19,229,641</u>	<u>\$ 17,354,776</u>	<u>\$ 24,490,215</u>	<u>\$ 23,185,572</u>	<u>\$ 43,719,856</u>	<u>\$ 40,540,348</u>

A portion of the City of Lake City's net position (2 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (\$15,264,487) 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 position, 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 position by \$1,874,865.

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

**Business-type activities.** Business-type activities increased the City of Lake City's net position by \$1,304,643.

A condensed version of the Statement of Activities follows:

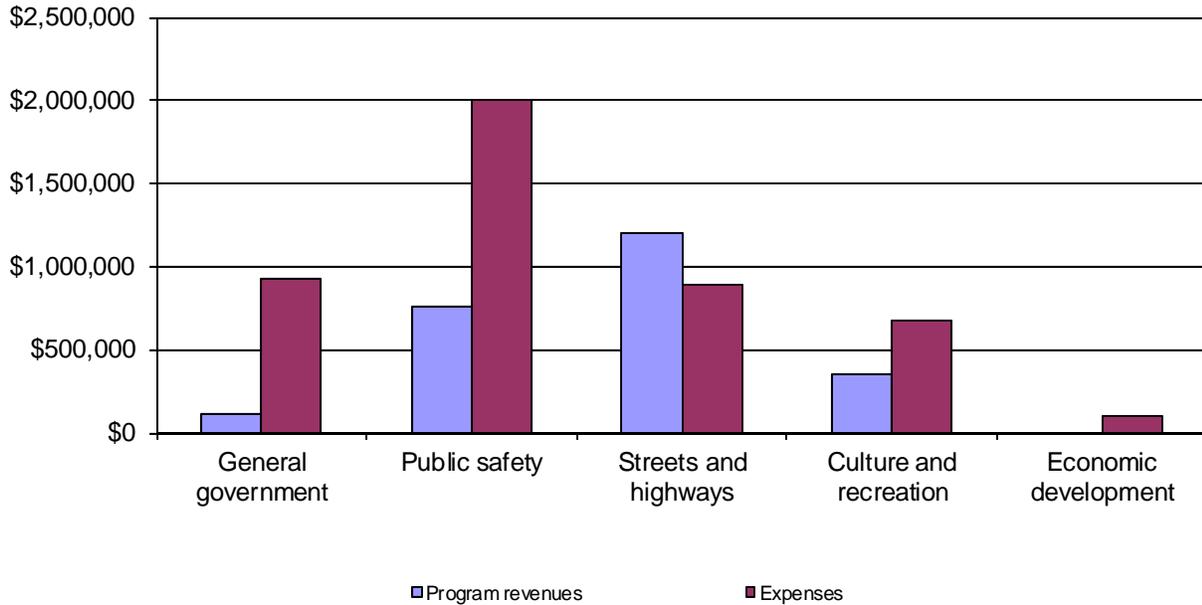
**City of Lake City's Change in Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenue:						
Program revenues:						
Charges for services	\$ 902,642	\$ 899,324	\$ 17,652,923	\$ 17,258,319	\$ 18,555,565	\$ 18,157,643
Operating grants and contributions	1,507,493	1,203,058			1,507,493	1,203,058
Capital grants and contributions	21,353	4,651	30,024	77,160	51,377	81,811
General revenues:						
Property taxes	2,888,083	2,803,628			2,888,083	2,803,628
Tax increments	178,448	189,502			178,448	189,502
Grants and contributions not restricted to specific programs	610,465	648,777			610,465	648,777
Other	168,337	245,479	99,592	180,500	267,929	425,979
Total revenues	<u>6,276,821</u>	<u>5,994,419</u>	<u>17,782,539</u>	<u>17,515,979</u>	<u>24,059,360</u>	<u>23,510,398</u>
Expenses:						
General government	928,497	906,961			928,497	906,961
Public safety	2,002,344	2,105,622			2,002,344	2,105,622
Streets and highways	891,333	860,470			891,333	860,470
Culture and recreation	678,370	676,225			678,370	676,225
Economic development	100,137	591,962			100,137	591,962
Interest on long-term debt	57,257	60,231			57,257	60,231
Unallocated utilities and insurance	334,489	669,298			334,489	669,298
Electric			12,081,830	11,921,796	12,081,830	11,921,796
Water			695,990	740,332	695,990	740,332
Sewer			1,303,824	1,309,746	1,303,824	1,309,746
Storm water			210,788	187,511	210,788	187,511
Marina			450,685	384,952	450,685	384,952
Garbage			1,144,308	1,249,655	1,144,308	1,249,655
Total expenses	<u>4,992,427</u>	<u>5,870,769</u>	<u>15,887,425</u>	<u>15,793,992</u>	<u>20,879,852</u>	<u>21,664,761</u>
Increase in net position before transfers and other	1,284,394	123,650	1,895,114	1,721,987	3,179,508	1,845,637
Transfers	590,471	325,930	(590,471)	(325,930)		
Increase in net position	<u>1,874,865</u>	<u>449,580</u>	<u>1,304,643</u>	<u>1,396,057</u>	<u>3,179,508</u>	<u>1,845,637</u>
Net position, beginning of year	17,354,776	16,905,196	23,185,572	21,789,515	40,540,348	38,694,711
Net position, end of year	<u>\$ 19,229,641</u>	<u>\$ 17,354,776</u>	<u>\$ 24,490,215</u>	<u>\$ 23,185,572</u>	<u>\$ 43,719,856</u>	<u>\$ 40,540,348</u>

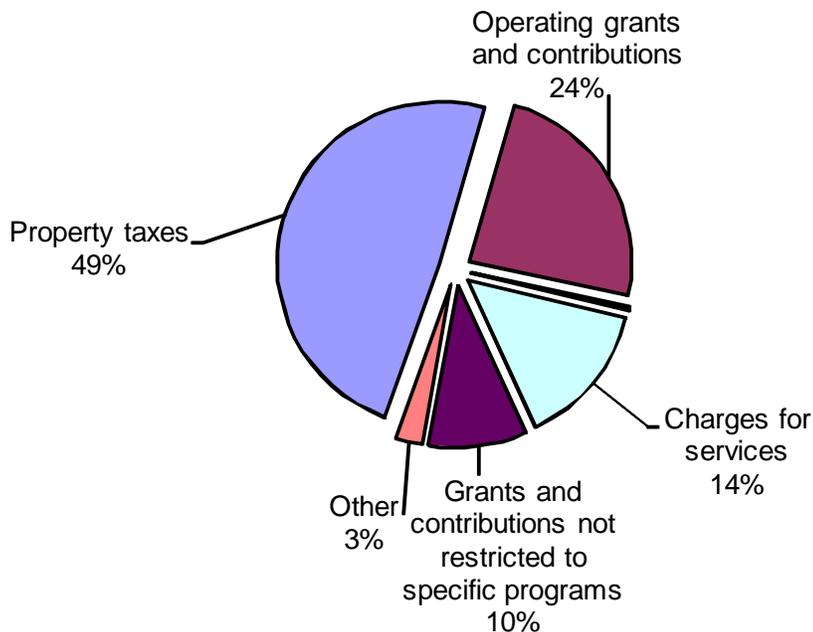
**CITY OF LAKE CITY, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**



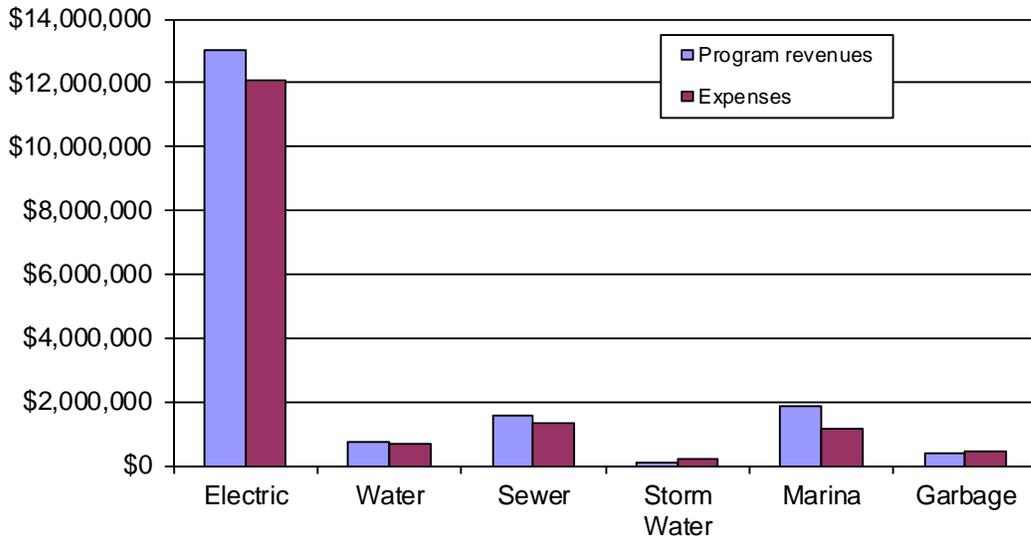
**Revenues by Source - Governmental Activities**



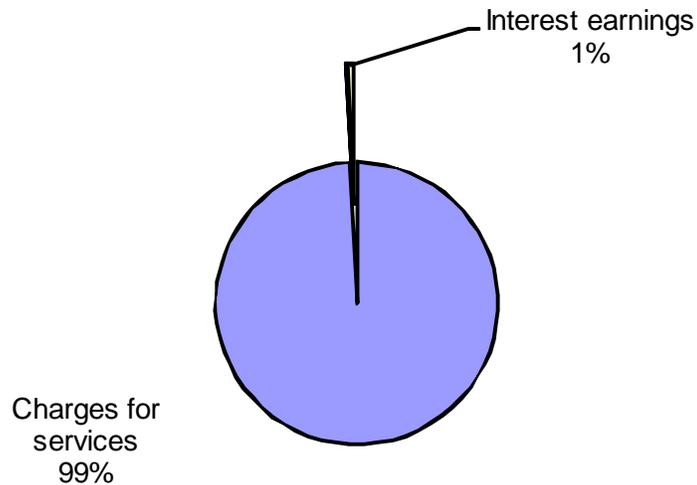
**CITY OF LAKE CITY, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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 in 2011 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 \$6,025,755, an increase of \$1,455,428. Approximately 89 percent of this total amount, or \$5,358,485, constitutes *unassigned or assigned fund balance*, which is available for spending at the government's discretion. The remainder of the total fund balance (\$667,270) 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 \$2,005,873. 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. Unassigned fund balance represents 52 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 \$896,694 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 \$75,417 for the year which was primarily a result of actual expenditures being under budget and an operating transfer/contribution from the marina fund.

The debt service funds have a total fund balance of \$238,870 all of which is reserved for the payment of debt service. These fund balances increased by \$17,660 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 position in the respective proprietary funds are Electric - \$3,471,849, Water - \$972,076, Sewer - \$554,245, Storm Water - (\$38,442), Marina - \$4,033,322, and Garbage - \$262,242. All funds, except the storm water funds, had increases in total net position for the year. The storm water utility fund's net loss for the year of \$117,176 was primarily due to depreciation which has not been factored in to the storm water fund user rates.

**General Fund Budgetary Highlights**

The original 2012 general fund budget approved by the City anticipated an increase in general fund reserves of \$305,734. All differences between the original and final budgets in the general fund for the City in 2012 were approved by resolution amending the original budget. Select unspent budgeted amounts from 2011 were carried over to the 2012 budget by resolution. During 2012, 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 included repayment of amounts spent in the previous year.

**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, 2012, amounts to \$39,001,906 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City of Lake City's reported investment in capital assets for the current fiscal year was \$1,028,225, or 3 percent.

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

**City of Lake City's capital Assets**

(net of depreciation)

	Governmental		Business-Type		Total	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
Land	\$ 1,303,791	\$ 1,303,791	\$ 742,801	\$ 723,363	\$ 2,046,592	\$ 2,027,154
Construction in progress		21,048				21,048
Buildings and improvements	4,596,216	4,785,299	8,481,488	8,889,316	13,077,704	13,674,615
Machinery and equipment	969,382	1,016,857	1,109,340	1,250,409	2,078,722	2,267,266
Infrastructure	8,779,747	6,733,753			8,779,747	6,733,753
Distribution and collection system			13,019,141	13,249,845	13,019,141	13,249,845
<b>Total</b>	<b>\$ 15,649,136</b>	<b>\$ 13,860,748</b>	<b>\$ 23,352,770</b>	<b>\$ 24,112,933</b>	<b>\$ 39,001,906</b>	<b>\$ 37,973,681</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 \$11,507,200 in bonds and notes outstanding. Of this amount, \$6,851,310 comprises debt backed by the full faith and credit of the government and \$3,243,700 represents bonds secured solely by specified revenue sources.

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

	Governmental		Business-Type		Total	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
General obligation bonds	\$ 2,706,851	\$ 1,384,310	\$ 289,238	\$ 308,126	\$ 2,996,089	\$ 1,692,436
General obligation revenue loans			4,202,991	4,673,890	4,202,991	4,673,890
General obligation revenue bonds			1,064,420	1,127,060	1,064,420	1,127,060
Revenue bonds			3,243,700	3,467,069	3,243,700	3,467,069
Compensated absences	319,641	314,438	198,761	196,611	518,402	511,049
<b>Total</b>	<b>\$ 3,026,492</b>	<b>\$ 1,698,748</b>	<b>\$ 8,999,110</b>	<b>\$ 9,772,756</b>	<b>\$ 12,025,602</b>	<b>\$ 11,471,504</b>

The City of Lake City's total outstanding debt increased by \$554,098 during the current year. A total of \$875,899 in bonds and notes payable were retired during 2012. 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, 2012**

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**CITY OF LAKE CITY, MINNESOTA**  
**STATEMENT OF NET POSITION**  
December 31, 2012  
With Comparative Totals as of December 31, 2011

	Primary Government				Component Unit	
	Governmental Activities	Business-Type Activities	Totals		Economic Development Authority	
			2012	2011	2012	2011
<b>Assets</b>						
Cash and investments	\$ 5,317,641	\$ 8,750,011	\$ 14,067,652	\$ 12,872,747	\$ 97,278	\$ 116,861
Restricted cash				40,496		
Receivables	692,270	1,673,413	2,365,683	2,356,750		
Internal balances	(84,660)	84,660				
Due from other governmental units	1,346,288		1,346,288	212,083	26,305	30,978
Due from primary government					30,926	16,860
Due from component unit	215		215	279		
Prepaid expenses		72,921	72,921	74,780		
Inventories		719,823	719,823	718,626		
Capital assets:						
Nondepreciable	1,303,791	742,801	2,046,592	2,048,202		
Depreciable, net	14,345,345	22,609,969	36,955,314	35,925,479	1,808,895	1,866,606
<b>Total Assets</b>	<b>22,920,890</b>	<b>34,653,598</b>	<b>57,574,488</b>	<b>54,249,442</b>	<b>1,963,404</b>	<b>2,031,305</b>
<b>Liabilities</b>						
Accounts and contracts payable	338,951	948,420	1,287,371	1,730,277	60	61
Accrued liabilities	103,007	139,276	242,283	224,434		6,504
Deposits payable	191,873	76,577	268,450	266,019		
Due to primary government					215	279
Due to component unit	30,926		30,926	16,860		
Noncurrent liabilities						
Due within one year	94,932	836,389	931,321	875,899		107,061
Due in more than one year	2,931,560	8,162,721	11,094,281	10,595,605		
<b>Total Liabilities</b>	<b>3,691,249</b>	<b>10,163,383</b>	<b>13,854,632</b>	<b>13,709,094</b>	<b>275</b>	<b>113,905</b>
<b>Net Position</b>						
Net investment in capital assets	12,942,285	14,584,923	27,527,208	27,053,721	1,808,895	1,753,041
Restricted for:						
Grants and contracts	689,291		689,291	672,767		
Debt service	238,870		238,870	221,210		
Unrestricted	5,359,195	9,905,292	15,264,487	12,592,650	154,234	164,359
<b>Total Net Position</b>	<b>\$ 19,229,641</b>	<b>\$ 24,490,215</b>	<b>\$ 43,719,856</b>	<b>\$ 40,540,348</b>	<b>\$ 1,963,129</b>	<b>\$ 1,917,400</b>

**See Notes to Financial Statements**

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

For the Year Ended December 31, 2012  
 With Comparative Totals for the Year Ended December 31, 2011

<b>Functions/Programs</b>	Program Revenues			
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:				
General government	\$ 928,497	\$ 65,854	\$ 45,961	\$
Public safety	2,002,344	609,888	155,289	
Streets and highways	891,333	4,042	1,181,144	21,296
Culture and recreation	678,370	222,858	125,099	
Economic development	100,137			
Interest on long-term debt	57,257			
Unallocated	334,489			57
	4,992,427	902,642	1,507,493	21,353
 Business-Type activities:				
Electric utility	12,081,830	13,018,756		
Water utility	695,990	743,760		10,000
Sewer utility	1,303,824	1,531,570		20,024
Storm water utility	210,788	82,381		
Garbage	450,685	407,351		
Marina	1,144,308	1,869,105		
	15,887,425	17,652,923		30,024
 Total Primary Government	\$ 20,879,852	\$ 18,555,565	\$ 1,507,493	\$ 51,377
 Component Unit:				
Economic Development Authority	\$ 146,887	\$	\$ 192,572	\$

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 position

Net position - beginning

Net position - ending

**See Notes to Financial Statements**

Net (Expense) Revenue  
and Changes in Net Position

Primary Government		Totals		Component Unit Economic Development Authority	
Governmental Activities	Business-Type Activities	2012	2011	2012	2011
\$ (816,682)	\$	\$ (816,682)	\$ (788,696)	\$	\$
(1,237,167)		(1,237,167)	(1,432,739)		
315,149		315,149	(786,074)		
(330,413)		(330,413)	(287,572)		
(100,137)		(100,137)	(136,962)		
(57,257)		(57,257)	(60,231)		
(334,432)		(334,432)	(271,462)		
<u>(2,560,939)</u>		<u>(2,560,939)</u>	<u>(3,763,736)</u>		
	936,926	936,926	898,365		
	57,770	57,770	19,272		
	247,770	247,770	188,902		
	(128,407)	(128,407)	(105,553)		
	(43,334)	(43,334)	(6,897)		
	<u>724,797</u>	<u>724,797</u>	<u>547,398</u>		
	<u>1,795,522</u>	<u>1,795,522</u>	<u>1,541,487</u>		
<u>(2,560,939)</u>	<u>1,795,522</u>	<u>(765,417)</u>	<u>(2,222,249)</u>		
				<u>45,685</u>	<u>185,030</u>
2,888,083		2,888,083	2,803,628		
178,448		178,448	189,502		
610,465		610,465	648,777		
88,505	136,907	225,412	268,118	44	669
79,832	(37,315)	42,517	157,861		
590,471	(590,471)				
<u>4,435,804</u>	<u>(490,879)</u>	<u>3,944,925</u>	<u>4,067,886</u>	<u>44</u>	<u>669</u>
1,874,865	1,304,643	3,179,508	1,845,637	45,729	185,699
<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>
<u>\$ 19,229,641</u>	<u>\$ 24,490,215</u>	<u>\$ 43,719,856</u>	<u>\$ 40,540,348</u>	<u>\$ 1,963,129</u>	<u>\$ 1,917,400</u>

**CITY OF LAKE CITY, MINNESOTA**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
For the Year Ended December 31, 2012  
*With Comparative Totals as of December 31, 2011*

	General Fund	2012 Improvement Fund	Monroe Street Improvement Fund	Other Governmental Funds	Total Governmental Funds	
					2012	2011
<b>Assets</b>						
Cash and investments	\$ 3,401,649	\$ 260,302	\$	\$ 1,628,937	\$ 5,290,888	\$ 5,036,664
Interest receivable	29,123				29,123	49,560
Accounts receivable	49,273			300	49,573	111,253
Taxes receivable delinquent	47,092			5,360	52,452	48,525
Special assessments receivable:						
Delinquent	1,318			960	2,278	1,121
Deferred				123,877	123,877	123,877
Advances to other funds	55,000				55,000	55,000
Interfund receivable	1,023,852				1,023,852	7,256
Loans receivable	204,750			230,217	434,967	470,801
Due from other governmental units	218,376		1,127,912		1,346,288	255,424
Due from component unit	215				215	279
<b>TOTAL ASSETS</b>	<b>\$ 5,030,648</b>	<b>\$ 260,302</b>	<b>\$ 1,127,912</b>	<b>\$ 1,989,651</b>	<b>\$ 8,408,513</b>	<b>\$ 6,159,760</b>
<b>Liabilities and Fund Balance</b>						
<b>Liabilities</b>						
Accounts payable	\$ 96,800	\$ 5,855	\$ 10,667	\$ 16,693	\$ 130,015	\$ 282,198
Accrued liabilities	69,390			2,221	71,611	53,179
Deposits payable	14,300			177,574	191,874	192,665
Advances from other funds	172,296				172,296	189,713
Interfund payable			1,014,990	7,152	1,022,142	7,256
Due to other governmental units	204,750				204,750	259,350
Due to component unit						16,859
Deferred revenue	229,656			360,414	590,070	588,213
<b>Total Liabilities</b>	<b>787,192</b>	<b>5,855</b>	<b>1,025,657</b>	<b>564,054</b>	<b>2,382,758</b>	<b>1,589,433</b>
<b>Fund Balance</b>						
Nonspendable:						
Advances to other funds	55,000				55,000	55,000
Restricted:						
Creditors (debt covenants)				238,870	238,870	221,210
Regulations				264,437	264,437	163,651
Other purposes	108,963				108,963	108,963
Assigned:	2,073,620	254,447	102,255	938,346	3,368,668	2,854,065
Unassigned:	2,005,873			(16,056)	1,989,817	1,167,438
<b>Total Fund Balance</b>	<b>4,243,456</b>	<b>254,447</b>	<b>102,255</b>	<b>1,425,597</b>	<b>6,025,755</b>	<b>4,570,327</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 5,030,648</b>	<b>\$ 260,302</b>	<b>\$ 1,127,912</b>	<b>\$ 1,989,651</b>	<b>\$ 8,408,513</b>	<b>\$ 6,159,760</b>

**See Notes to Financial Statements**

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

For the Year Ended December 31, 2012

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

Total governmental fund balances (page 17)		\$ 6,025,755
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 32,018,906	
Less: Accumulated depreciation	<u>(16,369,770)</u>	15,649,136
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	\$ 54,730	
Deferred special assessments	123,877	
Due from other governments	181,246	
Loans receivable	<u>230,217</u>	590,070
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 position		
		22,567
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	\$ (2,706,851)	
Compensated absences	(319,641)	
Accrued interest	<u>(31,395)</u>	<u>(3,057,887)</u>
Net position of governmental activities (page 14)		<u>\$ 19,229,641</u>

**See Notes to Financial Statements**

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

For the Year Ended December 31, 2012  
With Comparative Totals for the Year Ended December 31, 2011

	General Fund	2012 Improvement Fund	Monroe Street Improvement Fund	Other Governmental Funds	Total Governmental Funds	
					2012	2011
<b>Revenues</b>						
Taxes	\$ 2,633,456			\$ 412,356	\$ 3,045,812	\$ 2,992,443
Special assessments	3,367			33,383	36,750	43,293
Licenses and permits	65,473				65,473	106,111
Intergovernmental revenues	807,205		1,127,912	40,608	1,975,725	1,735,627
Charges for services	803,830			2,749	806,579	754,181
Fines and forfeits	26,861			5,335	32,196	42,724
Investment income	65,939	8,316		30,607	104,862	105,999
Miscellaneous revenues	98,943	13,859		96,910	209,712	285,563
<b>Total Revenues</b>	<b>4,505,074</b>	<b>22,175</b>	<b>1,127,912</b>	<b>621,948</b>	<b>6,277,109</b>	<b>6,065,941</b>
<b>Expenditures</b>						
General government	704,891				704,891	743,092
Public safety	1,996,771				1,996,771	2,111,278
Streets and highways	377,564				377,564	459,835
Culture and recreation	540,959			167,380	708,339	698,588
Economic development				114,373	114,373	546,968
Capital outlay		1,171,955	1,264,485	60,474	2,496,914	284,041
Bond principal retirement				91,112	91,112	91,112
Interest and fiscal charges			6,744	57,634	64,378	61,276
Unallocated utilities and insurance	270,000				270,000	598,880
<b>Total Expenditures</b>	<b>3,890,185</b>	<b>1,171,955</b>	<b>1,271,229</b>	<b>490,973</b>	<b>6,824,342</b>	<b>5,595,070</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>614,889</b>	<b>(1,149,780)</b>	<b>(143,317)</b>	<b>130,975</b>	<b>(547,233)</b>	<b>470,871</b>
<b>Other Financing Sources (Uses)</b>						
Bond proceeds		1,412,190			1,412,190	
Transfers in	406,805		258,666	50,724	716,195	475,930
Transfers out	(125,000)			(724)	(125,724)	(150,000)
Total other financing sources (uses)	281,805	1,412,190	258,666	50,000	2,002,661	325,930
Net change in fund balances	896,694	262,410	115,349	180,975	1,455,428	796,801
<b>FUND BALANCE, beginning</b>	<b>3,346,762</b>	<b>(7,963)</b>	<b>(13,094)</b>	<b>1,244,622</b>	<b>4,570,327</b>	<b>3,773,526</b>
<b>FUND BALANCE, ending</b>	<b>\$ 4,243,456</b>	<b>\$ 254,447</b>	<b>\$ 102,255</b>	<b>\$ 1,425,597</b>	<b>\$ 6,025,755</b>	<b>\$ 4,570,327</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, 2012

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

Net change in fund balances - total governmental funds (page 19)		\$ 1,455,428
<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	\$ 2,620,993	
Depreciation expense	<u>(780,505)</u>	1,840,488
<p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, etc.) is to decrease net assets</p>		
		(52,100)
<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, 2012	\$ 590,070	
Deferred revenue, December 31, 2011	<u>(588,213)</u>	1,857
<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		(5,203)
<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>		
		(36,062)
<p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>		
Principal retirement on long-term debt	\$ 91,112	
Proceeds from debt issuance	(1,412,190)	
Long-term debt discount and issuance costs	(1,463)	
Change in accrued interest	<u>(7,002)</u>	<u>(1,329,543)</u>
Change in net position of governmental activities (pages 15 and 16)		<u><u>\$ 1,874,865</u></u>

**See Notes to Financial Statements**

**CITY OF LAKE CITY, MINNESOTA**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
For the Year Ended December 31, 2012  
With Comparative Totals for the Year Ended December 31, 2011

	Budgeted Amounts		2012 Actual Amounts	Variance with Final Budget Positive (Negative)	2011 Actual Amounts
	Original	Final			
<b>Taxes</b>					
Property taxes	\$ 2,665,950	\$ 2,665,950	\$ 2,502,148	\$ (163,802)	\$ 2,439,489
Special assessments			3,367	3,367	1,174
Franchise tax	104,000	104,000	74,186	(29,814)	87,696
Lodging tax	2,000	19,000	57,122	38,122	54,867
Total Taxes	<u>2,771,950</u>	<u>2,788,950</u>	<u>2,636,823</u>	<u>(152,127)</u>	<u>2,583,226</u>
<b>Licenses and Permits</b>					
Business licenses	18,050	18,050	25,213	7,163	29,800
Non-Business licenses	39,250	39,250	40,260	1,010	76,311
Total Licenses and Permits	<u>57,300</u>	<u>57,300</u>	<u>65,473</u>	<u>8,173</u>	<u>106,111</u>
<b>Intergovernmental Revenues</b>					
Federal:					
Cops in school grant	30,000	30,000	34,092	4,092	36,595
Other federal grants					393,185
State:					
Local government aid	256,537	256,537	610,347	353,810	610,347
Market value credit			118	118	36,438
MSA street maintenance	50,000	50,000	53,232	3,232	56,577
Fire aid		34,630	35,406	776	34,696
Police aid	70,000	70,000	66,617	(3,383)	73,642
Other state aids	7,393	7,393	7,393		432,444
Total Intergovernmental	<u>413,930</u>	<u>448,560</u>	<u>807,205</u>	<u>358,645</u>	<u>1,673,924</u>
<b>Charges for Services</b>					
General government	1,100	1,100	2,239	1,139	3,569
Public safety	489,400	489,900	583,027	93,127	514,279
Streets and highways	3,100	3,100	4,012	912	25,764
Park fees	182,350	190,350	214,552	24,202	208,731
Total Charges for Services	<u>675,950</u>	<u>684,450</u>	<u>803,830</u>	<u>119,380</u>	<u>752,343</u>
<b>Fines and forfeits</b>					
	<u>25,500</u>	<u>25,500</u>	<u>26,861</u>	<u>1,361</u>	<u>39,281</u>
<b>Investment Income</b>					
	<u>65,000</u>	<u>65,000</u>	<u>65,939</u>	<u>939</u>	<u>65,271</u>
<b>Miscellaneous Revenues</b>					
Other	24,700	31,830	66,633	34,803	54,984
Refunds and reimbursements	85,000	85,000	32,310	(52,690)	81,598
Total Miscellaneous Revenues	<u>109,700</u>	<u>116,830</u>	<u>98,943</u>	<u>(17,887)</u>	<u>136,582</u>
<b>TOTAL REVENUES</b>	<u>\$ 4,119,330</u>	<u>\$ 4,186,590</u>	<u>\$ 4,505,074</u>	<u>\$ 318,484</u>	<u>\$ 5,356,738</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, 2012  
With Comparative Totals for the Year Ended December 31, 2011

	Budgeted Amounts		2012 Actual Amounts	Variance with Final Budget Positive (Negative)	2011 Actual Amounts
	Original	Final			
<b>EXPENDITURES</b>					
<b>General Government</b>					
<b>Mayor and City Council:</b>					
Personnel services	\$ 52,210	\$ 52,210	\$ 41,605	\$ 10,605	\$ 42,070
Supplies	3,000	3,000	1,012	1,988	5,832
Other services and charges	39,870	64,870	50,625	14,245	23,739
Capital outlay					13,130
Total Mayor and City Council	95,080	120,080	93,242	26,838	84,771
<b>City Administrator:</b>					
Personnel services	139,798	139,798	135,876	3,922	134,784
Supplies	200	200	136	64	196
Other services and charges	7,990	7,990	5,640	2,350	5,010
Total City Administrator	147,988	147,988	141,652	6,336	139,990
<b>City Clerk/Finance Director:</b>					
Personnel services	272,552	272,552	237,532	35,020	219,025
Supplies	9,250	9,250	4,617	4,633	4,570
Other services and charges	33,980	33,980	28,307	5,673	37,090
Capital outlay					14,000
Total City Clerk/Finance Director	315,782	315,782	270,456	45,326	274,685
<b>Audit:</b>					
Other services and charges	35,050	35,050	34,750	300	37,854
<b>Legal:</b>					
Other services and charges	82,920	87,020	86,930	90	93,033
<b>Planning and Zoning:</b>					
Personnel services	221,921	221,921	219,346	2,575	228,355
Supplies	4,000	4,000	2,778	1,222	1,791
Other services and charges	57,125	57,125	47,567	9,558	81,798
Total Planning and Zoning	283,046	283,046	269,691	13,355	311,944
<b>Elections:</b>					
Personnel services	10,000	10,000	8,093	1,907	
Supplies	4,500	4,500	1,575	2,925	
Other services and charges	4,100	4,100	672	3,428	1,259
Total Elections	18,600	18,600	10,340	8,260	1,259
<b>General Government Buildings:</b>					
Supplies					1,650
Total General Government Buildings					1,650
Less charges to Enterprise Funds			(202,170)	202,170	(202,094)
Total General Government	\$ 978,466	\$ 1,007,566	\$ 704,891	\$ 302,675	\$ 743,092

**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, 2012  
With Comparative Totals for the Year Ended December 31, 2011

	Budgeted Amounts		2012 Actual Amounts	Variance with Final Budget Positive (Negative)	2011 Actual Amounts
	Original	Final			
<b>EXPENDITURES</b>					
<b>Public Safety</b>					
<b>Police:</b>					
Personnel services	\$ 1,028,000	\$ 1,028,000	\$ 983,820	\$ 44,180	\$ 1,039,855
Supplies	65,175	70,305	63,087	7,218	60,757
Other services and charges	42,900	50,327	45,163	5,164	31,902
Capital outlay	41,000	50,046	49,397	649	28,426
Total Police	1,177,075	1,198,678	1,141,467	57,211	1,160,940
<b>Fire:</b>					
Personnel services	107,176	107,176	83,703	23,473	100,906
Supplies	32,400	36,400	37,329	(929)	38,373
Other services and charges	37,625	72,255	69,593	2,662	136,147
Capital outlay	64,000	65,000		65,000	80,888
Total Fire	241,201	280,831	190,625	90,206	356,314
<b>Ambulance:</b>					
Personnel services	481,214	476,629	471,444	5,185	434,190
Supplies	50,500	53,722	50,711	3,011	53,147
Other services and charges	41,600	44,985	42,579	2,406	37,840
Capital outlay	30,000	27,278	27,278		46,162
Total Ambulance	603,314	602,614	592,012	10,602	571,339
<b>Civil Defense:</b>					
Personnel services	14,320	14,320	14,320		7,243
Supplies	8,600	8,600	8,325	275	7,396
Other services and charges	2,600	2,600	1,626	974	2,255
Capital outlay	12,000	42,769	42,736	33	
Total Civil Defense	37,520	68,289	67,007	1,282	16,894
<b>Animal Control:</b>					
Personnel services	5,483	5,483	5,436	47	5,569
Supplies	400	400	224	176	222
Other services and charges	825	825		825	
Total Animal Control	6,708	6,708	5,660	1,048	5,791
Total Public Safety	\$ 2,065,818	\$ 2,157,120	\$ 1,996,771	\$ 160,349	\$ 2,111,278

**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, 2012  
With Comparative Totals for the Year Ended December 31, 2011

	Budgeted Amounts		2012 Actual Amounts	Variance with Final Budget Positive (Negative)	2011 Actual Amounts
	Original	Final			
<b>EXPENDITURES</b>					
<b>Streets and Highways</b>					
Personnel services	\$ 285,251	\$ 285,251	\$ 252,315	\$ 32,936	\$ 274,321
Supplies	111,600	111,600	54,418	57,182	91,172
Other services and charges	104,300	104,300	48,829	55,471	45,869
Capital outlay	67,000	50,000	22,002	27,998	48,473
Total Streets and Highways	568,151	551,151	377,564	173,587	459,835
<b>Culture and Recreation</b>					
<b>Tourism:</b>					
Other services and charges	38,000	55,000	55,000		51,577
Total Tourism	38,000	55,000	55,000		51,577
<b>Participant Recreation:</b>					
Personnel services	37,762	47,551	46,857	694	34,872
Supplies	1,000	175	172	3	483
Other services and charges	1,900	1,701	1,650	51	1,593
Total Participant Recreation	40,662	49,427	48,679	748	36,948
<b>Swimming Pool:</b>					
Personnel services	57,382	57,382	49,179	8,203	39,785
Supplies	17,000	17,000	15,484	1,516	8,369
Other services and charges	3,475	3,475	2,924	551	2,333
Total Swimming Pool	77,857	77,857	67,587	10,270	50,487
<b>Hok-Si-La Park:</b>					
Personnel services	107,768	107,768	106,327	1,441	102,230
Supplies	21,800	21,800	20,830	970	21,130
Other services and charges	35,950	35,950	33,780	2,170	30,436
Capital outlay	20,500	20,500	20,111	389	31,814
Total Hok-Si-La Park	\$ 186,018	\$ 186,018	\$ 181,048	\$ 4,970	\$ 185,610

**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, 2012  
With Comparative Totals for the Year Ended December 31, 2011

	Budgeted Amounts		2012 Actual Amounts	Variance with Final Budget Positive (Negative)	2011 Actual Amounts
	Original	Final			
<b>Culture and Recreation (continued)</b>					
<b>Other Parks:</b>					
Personnel services	\$ 120,324	\$ 120,324	\$ 99,325	\$ 20,999	\$ 91,519
Supplies	41,200	41,200	33,213	7,987	41,512
Other services and charges	11,100	11,100	2,091	9,009	9,902
Capital outlay	111,000	111,000	54,016	56,984	42,673
Total Other Parks	283,624	283,624	188,645	94,979	185,606
Total Culture and Recreation	626,161	651,926	540,959	110,967	510,228
<b>Economic Development</b>					465,000
<b>Unallocated Expenses</b>					
Utilities, insurance, and maintenance			270,000	(270,000)	250,000
Grants to other governments					348,880
Total Unallocated Expenses			270,000	(270,000)	598,880
<b>TOTAL EXPENDITURES</b>	4,238,596	4,367,763	3,890,185	477,578	4,888,313
Excess (deficiency) of revenues over (under) expenditures	(119,266)	(181,173)	614,889	796,062	468,425
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	425,000	425,000	406,805	(18,195)	425,930
Transfers out			(125,000)	(125,000)	
Total Other Financing Sources (Uses)	425,000	425,000	281,805	(143,195)	425,930
<b>NET CHANGE IN FUND BALANCE</b>	305,734	243,827	896,694	652,867	894,355
<b>FUND BALANCE, beginning</b>	3,346,762	3,346,762	3,346,762		2,452,407
<b>FUND BALANCE, ending</b>	\$ 3,652,496	\$ 3,590,589	\$ 4,243,456	\$ 652,867	\$ 3,346,762

**See Notes to Financial Statements**

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**CITY OF LAKE CITY, MINNESOTA  
 PROPRIETARY FUNDS  
 STATEMENT OF NET POSITION  
 December 31, 2012  
 With Comparative Totals as of December 31, 2011**

	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	\$ 2,681,044	\$ 923,361	\$ 606,162	\$ 17
Restricted cash				
Accounts receivable	1,142,500	17,262	53,511	1,488
Advances to other funds				
Inventories	700,514			
Prepaid expense	21,433	5,958	12,894	1,306
<b>Total Current Assets</b>	<b>4,545,491</b>	<b>946,581</b>	<b>672,567</b>	<b>2,811</b>
<b>Noncurrent Assets</b>				
Capital Assets				
Nondepreciable	23,401	4,273		97,400
Depreciable	15,971,133	3,976,857	12,066,493	2,651,415
Less: Accumulated depreciation	(7,517,482)	(1,529,632)	(5,822,274)	(579,923)
Net Capital Assets	8,477,052	2,451,498	6,244,219	2,168,892
Special Assessments		67,427	4,806	
<b>Total Noncurrent Assets</b>	<b>8,477,052</b>	<b>2,518,925</b>	<b>6,249,025</b>	<b>2,168,892</b>
<b>Total Assets</b>	<b>13,022,543</b>	<b>3,465,506</b>	<b>6,921,592</b>	<b>2,171,703</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Current maturities of bonds payable	155,000	52,569	486,320	32,500
Accounts payable	850,857	2,336	51,445	286
Accrued liabilities	58,995	15,534	49,516	6,757
Advances from other funds	25,900			
Interfund payables				1,710
Customer deposits	76,577			
<b>Total Current Liabilities</b>	<b>1,167,329</b>	<b>70,439</b>	<b>587,281</b>	<b>41,253</b>
<b>Noncurrent Liabilities</b>				
Bonds payable, net of current maturities and discount	2,638,099	768,879	3,716,670	499,710
Compensated absences payable	61,313	24,062	22,167	
<b>Total Liabilities</b>	<b>3,866,741</b>	<b>863,380</b>	<b>4,326,118</b>	<b>540,963</b>
<b>NET POSITION</b>				
Net investment in capital assets	5,683,953	1,630,050	2,041,229	1,669,182
Unrestricted:				
Designated				
Undesignated	3,471,849	972,076	554,245	(38,442)
<b>Total Net Position</b>	<b>\$ 9,155,802</b>	<b>\$ 2,602,126</b>	<b>\$ 2,595,474</b>	<b>\$ 1,630,740</b>

**See Notes to Financial Statements**

710 Marina Fund	720 Garbage Fund	TOTALS		Governmental Activities - Internal Service Fund	
		2012	2011	2012	2011
\$ 4,263,641	\$ 275,786	\$ 8,750,011	\$ 7,773,139	\$ 26,753	\$ 62,944
			40,496		
357,603	28,816	1,601,180	1,432,552		
172,270		172,270	189,713		
19,309		719,823	718,626		
31,031	299	72,921	74,780		
<u>4,843,854</u>	<u>304,901</u>	<u>11,316,205</u>	<u>10,229,306</u>	<u>26,753</u>	<u>62,944</u>
613,727	4,000	742,801	723,363		
7,265,228		41,931,126	42,633,448		
(3,871,846)		(19,321,157)	(19,243,878)		
<u>4,007,109</u>	<u>4,000</u>	<u>23,352,770</u>	<u>24,112,933</u>		
		72,233	75,092		
<u>4,007,109</u>	<u>4,000</u>	<u>23,425,003</u>	<u>24,188,025</u>		
<u>8,850,963</u>	<u>308,901</u>	<u>34,741,208</u>	<u>34,417,331</u>	<u>26,753</u>	<u>62,944</u>
110,000		836,389	784,787		
3,181	40,315	948,420	1,183,786	4,186	4,315
6,130	2,344	139,276	146,861		
60,000		85,900	55,000		
		1,710			
		<u>76,577</u>	<u>73,356</u>		
<u>179,311</u>	<u>42,659</u>	<u>2,088,272</u>	<u>2,243,790</u>	<u>4,186</u>	<u>4,315</u>
340,600		7,963,958	8,791,359		
91,221		198,763	196,610		
<u>611,132</u>	<u>42,659</u>	<u>10,250,993</u>	<u>11,231,759</u>	<u>4,186</u>	<u>4,315</u>
3,556,509	4,000	14,584,923	14,577,283		
650,000		650,000	650,000		
4,033,322	262,242	9,255,292	7,958,289	22,567	58,629
<u>\$ 8,239,831</u>	<u>\$ 266,242</u>	<u>\$ 24,490,215</u>	<u>\$ 23,185,572</u>	<u>\$ 22,567</u>	<u>\$ 58,629</u>

**CITY OF LAKE CITY, MINNESOTA**  
**PROPRIETARY FUNDS**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND NET ASSETS**  
**For the Year Ended December 31, 2012**  
*With Comparative Totals for the Year Ended December 31, 2011*

	Business-Type Activities - Enterprise Funds			
	701 Electric Fund	702 Water Fund	703 Sewer Fund	706 Storm Water Fund
<b>Operating Revenue</b>	\$ 13,018,756	\$ 743,760	\$ 1,531,570	\$ 82,381
<b>Operating Expenses</b>				
Salaries and benefits	604,487	252,376	163,371	34,282
Supplies	33,099	28,864	22,327	13,151
Other services and charges	10,716,069	248,171	474,514	26,572
Insurance	71,362	16,634	33,110	
Depreciation	509,173	119,950	473,820	119,330
Total Operating Expenses	<u>11,934,190</u>	<u>665,995</u>	<u>1,167,142</u>	<u>193,335</u>
<b>Operating Income (Loss)</b>	<u>1,084,566</u>	<u>77,765</u>	<u>364,428</u>	<u>(110,954)</u>
<b>Nonoperating Income (Expense)</b>				
Miscellaneous income	20,303			10,579
Investment income	44,008	21,335	9,791	652
Loss on disposal of capital assets	(22,720)	(49,355)	(3,954)	
Intergovernmental revenues		10,000		
Interest expense	(121,740)	(29,995)	(136,682)	(17,453)
Payment to component unit	(25,900)			
Total Nonoperating Income (Expense)	<u>(106,049)</u>	<u>(48,015)</u>	<u>(130,845)</u>	<u>(6,222)</u>
<b>Income (Loss) Before Transfers and Contributions</b>	978,517	29,750	233,583	(117,176)
Capital contributions			20,024	
Transfers in	26,390			
Transfers out	(155,000)	(125,028)	(66,833)	
Change in net position	849,907	(95,278)	186,774	(117,176)
<b>Net Position, beginning</b>	<u>8,305,895</u>	<u>2,697,404</u>	<u>2,408,700</u>	<u>1,747,916</u>
<b>Net Position, ending</b>	<u>\$ 9,155,802</u>	<u>\$ 2,602,126</u>	<u>\$ 2,595,474</u>	<u>\$ 1,630,740</u>

**See Notes to Financial Statements**

710 Marina Fund	720 Garbage Fund	TOTALS		Governmental Activities - Internal Service Funds	
		2012	2011	2012	2011
\$ 1,869,105	\$ 407,351	\$ 17,652,923	\$ 17,258,319	\$ 270,000	\$ 270,000
417,515	9,421	1,481,452	1,418,862		
263,667	471	361,579	373,304	2,824	4,200
77,919	440,793	11,984,038	11,943,283	331,665	316,218
71,523		192,629	155,164		
173,616		1,395,889	1,275,042		
1,004,240	450,685	15,415,587	15,165,655	334,489	320,418
864,865	(43,334)	2,237,336	2,092,664	(64,489)	(50,418)
2,250	5,582	38,714	22,703	28,427	3,895
54,591	6,530	136,907	157,797		5,265
		(76,029)			
		10,000			
(25,342)		(331,212)	(347,084)		
(114,726)		(140,626)	(281,253)		
(83,227)	12,112	(362,246)	(447,837)	28,427	9,160
781,638	(31,222)	1,875,090	1,644,827	(36,062)	(41,258)
		20,024	77,160		
		26,390	150,000		
(270,000)		(616,861)	(475,930)		
511,638	(31,222)	1,304,643	1,396,057	(36,062)	(41,258)
7,728,193	297,464	23,185,572	21,789,515	58,629	99,887
\$ 8,239,831	\$ 266,242	\$ 24,490,215	\$ 23,185,572	\$ 22,567	\$ 58,629

**CITY OF LAKE CITY, MINNESOTA**  
**ENTERPRISE FUNDS**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2012**  
*With Comparative Totals for the Year Ended December 31, 2011*

	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	\$ 13,212,789	\$ 744,246	\$ 1,532,681	\$ 92,756
Cash payments to suppliers and employees	(11,601,435)	(587,866)	(701,961)	(76,391)
Net Cash Provided By (Used In) Operating Activities	<u>1,611,354</u>	<u>156,380</u>	<u>830,720</u>	<u>16,365</u>
<b>Cash Flows From Noncapital Financing Activities</b>				
Advances from/ (to) other funds	25,900			1,710
Operating transfers in	26,390			
Operating transfers out	(155,000)	(125,028)	(66,833)	
Net Cash (Used In) Noncapital Financing Activities	<u>(102,710)</u>	<u>(125,028)</u>	<u>(66,833)</u>	<u>1,710</u>
<b>Cash Flows From Capital and Related Financing Activities</b>				
Principal received on special assessments		1,880	21,003	
Acquisition of capital assets	(306,182)	(250,980)	(34,169)	(53,784)
Intergovernmental revenues		10,000		
Interest paid on debt	(116,670)	(29,131)	(142,096)	(16,273)
Principal paid on debt	(130,000)	(51,388)	(470,899)	(32,500)
Net Cash Provided By (Used In) Capital and Related Financing Activities	<u>(552,852)</u>	<u>(319,619)</u>	<u>(626,161)</u>	<u>(102,557)</u>
<b>Cash Flows From Investing Activities</b>				
Investment income	44,008	21,335	9,791	652
<b>Increase (Decrease) in Cash and Cash Equivalents</b>				
	999,800	(266,932)	147,517	(83,830)
<b>Cash and Cash Equivalents, beginning</b>				
	<u>1,681,244</u>	<u>1,190,293</u>	<u>458,645</u>	<u>83,847</u>
<b>Cash and Cash Equivalents, ending</b>				
	<u>\$ 2,681,044</u>	<u>\$ 923,361</u>	<u>\$ 606,162</u>	<u>17</u>
Classified as:				
Cash and cash equivalents	\$ 2,681,044	\$ 923,361	\$ 606,162	17
Restricted cash				
Total Cash and Cash Equivalents, End of Year	<u>\$ 2,681,044</u>	<u>\$ 923,361</u>	<u>\$ 606,162</u>	<u>17</u>

**See Notes to Financial Statements**

Marina Fund	Garbage Fund	TOTALS		Governmental Activities - Internal Service Fund	
		2012	2011	2012	2011
\$ 1,545,383	\$ 398,375	\$ 17,526,230	\$ 17,139,145	\$ 270,000	\$ 270,000
(962,433)	(461,816)	(14,391,902)	(14,437,792)	(306,191)	(316,493)
582,950	(63,441)	3,134,328	2,701,353	(36,191)	(46,493)
22,443		50,053	65,296		
		26,390	150,000		
(270,000)		(616,861)	(475,930)		
(247,557)		(540,418)	(260,634)		
		22,883	26,205		
(66,642)		(711,757)	(2,150,001)		
		10,000			
(26,610)		(330,780)	(310,955)		5,265
(100,000)		(784,787)	(774,589)		
(193,252)		(1,794,441)	(3,209,340)		5,265
54,591	6,530	136,907	157,797		
196,732	(56,911)	936,376	(610,824)	(36,191)	(41,228)
4,066,909	332,697	7,813,635	8,424,459	62,944	104,172
\$ 4,263,641	\$ 275,786	\$ 8,750,011	\$ 7,813,635	\$ 26,753	\$ 62,944
\$ 4,263,641	\$ 275,786	\$ 8,750,011	\$ 7,773,139	\$ 26,753	\$ 62,944
			40,496		
\$ 4,263,641	\$ 275,786	\$ 8,750,011	\$ 7,813,635	\$ 26,753	\$ 62,944

**CITY OF LAKE CITY, MINNESOTA**  
**ENTERPRISE FUNDS**  
**STATEMENT OF CASH FLOWS**  
For the Year Ended December 31, 2012  
*With Comparative Totals for the Year Ended December 31, 2011*

**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>	\$ 1,084,566	\$ 77,765	\$ 364,428	\$ (110,954)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	509,173	119,950	473,820	119,330
Payment to component unit	(25,900)			
Other	20,303			10,579
(Increase) Decrease In:				
Accounts receivable	170,509	486	1,111	(204)
Inventories	(1,197)			
Prepaid expenses	12,983	141	(1,899)	(762)
Increase (Decrease) In:				
Accounts payable	(153,817)	(28,861)	(8,884)	(1,353)
Accrued liabilities	(4,052)	205	1,017	(271)
Compensated absences	(4,435)	(13,306)	1,127	
Customer deposits	3,221			
<b>Net Cash Provided By (Used In) Operating Activities</b>	<b>\$ 1,611,354</b>	<b>\$ 156,380</b>	<b>\$ 830,720</b>	<b>\$ 16,365</b>

**See Notes to Financial Statements**

Marina Fund	Garbage Fund	TOTALS		Governmental Activities - Internal Service Fund	
		2012	2011	2012	2011
\$ 864,865	\$ (43,334)	\$ 2,237,336	\$ 2,092,664	\$ (64,489)	\$ (50,418)
173,616		1,395,889	1,275,042		
(114,726)		(140,626)	(229,453)		
2,250	5,582	38,714	(29,097)	28,427	3,895
(325,972)	(14,558)	(168,628)	(146,647)		
(9,394)	790	(1,197)	(63,757)		
(29,469)	(12,982)	1,859	(2,167)		
(29,469)	(12,982)	(235,366)	(222,406)	(129)	30
3,013	1,061	973	13,801		
18,767		2,153	8,603		
		3,221	4,770		
<u>\$ 582,950</u>	<u>\$ (63,441)</u>	<u>\$ 3,134,328</u>	<u>\$ 2,701,353</u>	<u>\$ (36,191)</u>	<u>\$ (46,493)</u>

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**CITY OF LAKE CITY, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

# 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 six 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 position 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 *2012 improvement fund* accounts for the resources and costs for street improvement projects.

The *Monroe street improvement fund* accounts for the resources and costs for the Monroe street improvement project.

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 account for the City's insurance, utilities, repairs and maintenance expenditures of the General and Library funds.

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 Finance Director 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 transfer of appropriation with approval of the City Council.

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

*Assets, Liabilities, and Net Position 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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1. Summary of Significant Accounting Policies (Continued)

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

Property, Plant and Equipment (continued)

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

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

Market Value Credit and Homestead Market Value Exclusion

Property taxes on homestead property (as defined by State Statutes) are partially reduced by the Market Value Credit (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. In 2011 the Minnesota State Legislature eliminated the MVC enacted a Homestead Market Value Exclusion (HMVE) which provides homesteaded residential properties with an exclusion of a portion of the market value on which the tax rate is imposed. The net effect of the HMVE is that the taxable tax capacity of the City of Lake City is reduced.

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 position.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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1. Summary of Significant Accounting Policies (Continued)

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Assets, Liabilities, and Net Position 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 Position / Fund Balance

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

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

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

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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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, 2011 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)

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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, 2012, the City's investments consisted of the following items, all of which are held in an internal investment pool:

Deposits	\$ 3,732,369
Investments	<u>10,335,283</u>
Cash and Investments Per Statement of Net Position	<u><u>\$ 14,067,652</u></u>

<u>Investment</u>	<u>Maturities</u>	<u>Ratings</u>	<u>Fair Value</u>
Money Market Mutual Funds	None	Unrated	\$ 2,211,959
Negotiable CD's	March 2011 - June 2024	Unrated	2,850,851
US Treasury Notes	May 2013 - May 2015	N/A	45,068
US Treasury Bonds	November 2024 - February 2029	N/A	78,652
Federal Home Loan Bank	December 2015 - October 2016	AA-	3,673,150
Federal Home Loan Mortgage Corp	June 2013 - December 2014	AA-	<u>1,475,603</u>
			<u><u>\$10,335,283</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	21%
Negotiable CD's	Unrated	28%
Federal Home Loan Bank	AA-	36%
Federal Home Loan Mortgage Corp	AA-	14%

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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, 2012 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, 2012 totaled \$215,962.

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, 2012 is \$204,750. 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, 2012 is \$204,750.

**4. Capital Assets**

Capital asset activity for the year ended December 31, 2012 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	21,048		21,048	
Total capital assets, not being depreciated	<u>1,324,839</u>		<u>21,048</u>	<u>1,303,791</u>
Capital assets, being depreciated:				
Buildings	9,830,785			9,830,785
Improvements other than buildings	400,525			400,525
Infrastructure	13,324,391	2,409,601		15,733,992
Machinery and equipment	4,882,087	232,440	364,714	4,749,813
Total capital assets, being depreciated	<u>28,437,788</u>	<u>2,642,041</u>	<u>364,714</u>	<u>30,715,115</u>
Less accumulated depreciation for:				
Buildings	5,354,544	170,927		5,525,471
Improvements other than buildings	91,467	18,156		109,623
Infrastructure	6,590,638	363,607		6,954,245
Machinery and equipment	3,865,230	227,815	312,614	3,780,431
Total accumulated depreciation	<u>15,901,879</u>	<u>780,505</u>	<u>312,614</u>	<u>16,369,770</u>
Total capital assets, being depreciated, net	<u>12,535,909</u>	<u>1,861,536</u>	<u>52,100</u>	<u>14,345,345</u>
Governmental activities capital assets, net	<u>\$ 13,860,748</u>	<u>\$ 1,861,536</u>	<u>\$ 73,148</u>	<u>\$ 15,649,136</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	\$ 20,200	\$ 762	\$ 742,801
Total capital assets, not being depreciated	<u>723,363</u>	<u>20,200</u>	<u>762</u>	<u>742,801</u>
Capital assets, being depreciated:				
Buildings and improvements	15,128,602	66,642	292,261	14,902,983
Distribution and collection system	22,946,437	573,962	203,182	23,317,217
Machinery and equipment	4,558,409	51,014	898,497	3,710,926
Total capital assets, being depreciated	<u>42,633,448</u>	<u>691,618</u>	<u>1,393,940</u>	<u>41,931,126</u>
Less accumulated depreciation for:				
Buildings and improvements	6,239,286	459,166	276,957	6,421,495
Distribution and collection system	9,696,592	748,972	147,488	10,298,076
Machinery and equipment	3,308,000	187,751	894,165	2,601,586
Total accumulated depreciation	<u>19,243,878</u>	<u>1,395,889</u>	<u>1,318,610</u>	<u>19,321,157</u>
Total capital assets, being depreciated, net	<u>23,389,570</u>	<u>(704,271)</u>	<u>75,330</u>	<u>22,609,969</u>
Business-type activities capital assets, net	<u>\$ 24,112,933</u>	<u>\$ (684,071)</u>	<u>\$ 76,092</u>	<u>\$ 23,352,770</u>

<u>Discretely Presented Component Unit Economic Development Authority</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 2,308,416	\$	\$	\$ 2,308,416
Machinery and equipment	63,380			63,380
Total capital assets, being depreciated	<u>2,371,796</u>			<u>2,371,796</u>
Less accumulated depreciation for:				
Buildings and improvements	441,810	57,711		499,521
Machinery and equipment	63,380			63,380
Total accumulated depreciation	<u>505,190</u>	<u>57,711</u>		<u>562,901</u>
Total capital assets, being depreciated, net	<u>\$ 1,866,606</u>	<u>\$ (57,711)</u>	<u>\$</u>	<u>\$ 1,808,895</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	\$ 198,403
Public safety	126,212
Streets and highways	410,172
Culture and recreation	<u>45,718</u>
Total depreciation expense - governmental activities	<u><u>\$ 780,505</u></u>
 <b>Business-Type Activities:</b>	
Electric	\$ 509,173
Water	119,950
Sewer	473,820
Storm water	119,330
Marina	<u>173,616</u>
Total depreciation expense - business-type activities	<u><u>\$ 1,395,889</u></u>

**5. Due From Other Governmental Units**

Amounts due from other governmental units at December 31, 2012 are as follows:

Fund	Due from various Counties	Southeastern Minnesota Multi-County HRA	State of Minnesota	EDA	Total
General	\$ 37,062	\$ 181,246	\$	\$ 68	\$ 218,376
2012 Improvement			<u>1,127,912</u>		<u>1,127,912</u>
Total	<u>\$ 37,062</u>	<u>\$ 181,246</u>	<u>\$ 1,127,912</u>	<u>\$ 68</u>	<u>\$ 1,346,288</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, 2012 at the individual fund level are summarized below:

	Advances to Other Funds	Advances from Other Funds
General Fund	\$ 55,000	\$ 172,296
EDA Fund	30,926	
Enterprise Fund:		
Electric		25,900
Marina	172,270	60,000
	<u>\$ 258,196</u>	<u>\$ 258,196</u>

Balances of interfund receivables and payables as of December 31, 2012 at the individual fund level for year end cash deficiencies are as follows:

	Interfund Receivable	Interfund Payable
General Fund	\$ 1,023,852	\$
Special Revenue Funds:		
Block 25 Redev TIF #13		772
Pepin Manufacturing TIF #14		5,466
Pepin Heights TIF #12		914
Capital Project Funds		
Monroe Street Improvement		1,014,990
Enterprise Funds		
Storm Water		1,710
	<u>\$ 1,023,852</u>	<u>\$ 1,023,852</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, 2012 were as follows:

Funds	Transfers In	Transfers Out
General Fund	\$ 406,805	\$ 125,000
Special Revenue:		
Library	50,000	
Increment #2 Lighthouse Mall	724	
Capital Project Funds		
Capital Projects		724
Monroe Street Improvement	258,666	
Enterprise:		
Electric	26,390	155,000
Water		125,028
Sewer		66,833
Marina		270,000
	\$ 742,585	\$ 742,585

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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7. Long-Term Debt

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**General Obligation Improvement Bonds:**

The G.O Improvement Bonds were issued to finance the construction of various improvements. These bonds are payable primarily from tax levies and special assessments of the Debt Service Funds and are backed by the full faith and credit of the City.

**Revenue Bonds:**

The Marina Revenue Bonds are payable primarily from the revenues generated through charges to customers at the Marina. They are recorded as liabilities in the Marina Enterprise Fund and are backed by the full faith and credit of the City.

The Electric Revenue Bonds are payable primarily from the revenues generated through charges to customers for electric service. They are recorded as liabilities in the Electric Enterprise Fund and are backed by the full faith and credit of the City.

**General Obligation Revenue Bonds:**

The GO Utility Revenue Bonds of 2010A were issued to fund various improvements to the utility systems. The funds to repay this debt will come from user fees of the Water and Storm Water Enterprise Funds and are backed by the full faith and credit of the City.

**General Obligation Revenue Loans:**

The Public Facilities Loans of 1993, 1996, 1999, and 2002 were issued to finance various improvements of the City. The funds to repay this debt will come from user fees of the Sewer Enterprise Fund and are backed by the full faith and credit of the City.

**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**7. Long-Term Debt (Continued)**

A summary of long-term debt obligations outstanding at December 31, 2012 is as follows:

	Range of Interest Rates	Final Maturity	Balance December 31, 2012
<u>Governmental Activities</u>			
G.O. Improvement Bonds:			
G.O. Improvement Bonds of 2006A	3.55%-4.05%	2022	\$ 375,000
G.O. Improvement Bonds of 2008A	4.00%-4.60%	2024	935,761
G.O. Improvement Bonds of 2012A	0.4%-2.15%	2023	1,420,000
Compensated Absences			319,641
<u>Business-Type Activities</u>			
G.O. Improvement Bonds:			
G.O. Improvement Bonds of 2008A	4.00%-4.60%	2024	289,238
Revenue Bonds:			
Marina Revenue Bonds of 2006	4.05%-4.45%	2016	455,000
Electric Revenue Bonds of 2010B	.85%-4.85%	2026	2,865,000
General Obligation Revenue Bonds:			
GO Utility Revenue Bonds of 2010A	2%-3.75%	2026	1,095,000
GO Revenue Loans:			
Public Facilities Loan of 1993	3.74%	2014	196,760
Public Facilities Loan of 1996	3.32%	2017	428,231
Public Facilities Loan of 1999	2.86%	2020	562,000
Public Facilities Loan of 2002	2.99%	2023	3,016,000
Compensated Absences			198,761
Sub-total			12,156,392
Less: Unamortized discount and issuance costs			(130,790)
Total			<u>\$ 12,025,602</u>

**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**7. Long-Term Debt (Continued)**

The following is a summary of changes in long-term debt obligations for the year ended December 31, 2012:

	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	\$ 405,000		\$ 30,000	\$ 375,000	\$ 30,000
G.O. Improvement Bonds of 2008A	996,873		61,112	935,761	64,932
Less: Unamortized Discount and Issue Costs	(17,563)		(1,463)	(16,100)	
G.O. Improvement Bonds of 2012A		1,420,000		1,420,000	
Less: Unamortized Discount and Issue Costs		(7,810)		(7,810)	
Other liabilities:					
Compensated Absences	314,438	5,203		319,641	
Governmental Activities Long-term Liabilities	<u>1,698,748</u>	<u>1,417,393</u>	<u>89,649</u>	<u>3,026,492</u>	<u>94,932</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Bonds and Notes Payable:					
Revenue Bonds:					
Marina Revenue Bonds of 2006	555,000		100,000	455,000	110,000
Electric Revenue Bonds of 2010B	2,995,000		130,000	2,865,000	155,000
Less: Unamortized Discount	(82,931)		(6,631)	(76,300)	
General Obligation Revenue Bonds:					
G.O. Utility Revenue Bonds of 2010A	1,160,000		65,000	1,095,000	65,000
Less: Unamortized Discount	(32,940)		(2,360)	(30,580)	
General Obligation Bonds:					
G.O. Improvement Bonds of 2008A	308,126		18,888	289,238	20,069
General Obligation Revenue Loans:					
Public Facilities Loan of 1993	289,811		93,051	196,760	96,564
Public Facilities Loan of 1996	515,079		86,848	428,231	89,756
Public Facilities Loan of 1999	624,000		62,000	562,000	64,000
Public Facilities Loan of 2002	3,245,000		229,000	3,016,000	236,000
Other liabilities:					
Compensated Absences	196,611	2,150		198,761	
Business-type Activities Long-term Liabilities	<u>9,772,756</u>	<u>2,150</u>	<u>775,796</u>	<u>8,999,110</u>	<u>836,389</u>
Total	<u>\$ 11,471,504</u>	<u>\$ 1,419,543</u>	<u>\$ 865,445</u>	<u>\$ 12,025,602</u>	<u>\$ 931,321</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, 2012, excluding accrued compensated absences are summarized below.

Years	General Obligation Bonds		General Obligation Revenue Loans		General Obligation Revenue Bonds		Revenue Bonds		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
<u>Governmental Activities</u>									
2013	\$ 94,932	\$ 72,052							\$ 166,984
2014	234,932	66,532							301,464
2015	234,932	62,014							296,946
2016	243,751	57,271							301,022
2017	247,571	52,045							299,616
2018-2022	1,328,687	159,960							1,488,647
2023-2024	345,956	10,458							356,414
Totals	<u>\$2,730,761</u>	<u>\$ 480,332</u>							<u>\$ 3,211,093</u>

Business-Type Activities

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	22,430	8,750	386,777	83,009	70,000	26,173	180,000	92,373	869,512
2018-2022	126,314	28,024	1,675,000	192,830	390,000	98,554	1,020,000	350,361	3,881,083
2023-2026	59,038	2,696	316,000	9,449	370,000	27,947	1,015,000	99,933	1,900,063
Totals	<u>\$ 289,238</u>	<u>\$ 82,941</u>	<u>\$ 4,202,991</u>	<u>\$ 700,757</u>	<u>\$ 1,095,000</u>	<u>\$ 271,924</u>	<u>\$ 3,320,000</u>	<u>\$ 1,008,781</u>	<u>\$10,971,632</u>

Legal Debt Margin

The City's statutory debt limit is three percent of estimated market value of taxable property within the City, or \$414,049,009. The City currently has no general obligation debt subject to this limit leaving a debt margin of \$12,421,470. 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, 2011:

	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 #12 Pepin Heights	Tax Increment District #13 Block 25 Redev.
Type of District	Redevelopment	Economic	Economic	Housing	Economic	Redevelopment
Year Established	1989	2007	2007	1998	2003	2004
Duration of District	27 Years	9 Years	10 Years	17 Years	11 Years	29 Years
Tax Capacity:						
Original	\$ 19,921	\$ 9,416	\$ 2,300	\$ 113	\$ 3,884	\$ 3,766
Current	108,300	21,192	35,034	10,466	7,918	5,427
Captured - retained	\$ 88,379	\$ 11,776	\$ 32,734	\$ 10,353	\$ 4,034	\$ 1,661

**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 2012.

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 2012. 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, 2012 was \$1,745,000.

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:

	2012	2011
General Fund - Assigned		
Cash flow	\$ 1,374,974	\$ 1,351,744
Emergency expenditures	698,646	635,789
Other Governmental Funds - Assigned		
Library	357,615	282,198
Revolving loans	459,074	456,766
Capital projects	119,355	125,418
Other projects	2,302	2,150
General Fund - Restricted		
Other projects	108,963	108,963
Other Governmental Funds - Restricted		
Debt retirement	238,870	221,210
Tax increment projects	264,437	163,651
Proprietary Funds - Marina Fund		
Beach/Point improvement	350,000	350,000
Docks	300,000	300,000

At December 31, 2012, individual funds with deficit fund balances/net position were as follows:

Special Revenue Funds:	
Pepin Heights TIF #12	(914)
Block 25 Redevelopment TIF #13	(772)
Pepin Manufacturing TIF #14	(5,466)
Capital Project Funds	
2013 Street Improvement	(8,904)

All deficit fund balances are part of planned expenditures and will be corrected with transfers in future years.

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 GERP 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. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25% respectively, of their annual covered salary in 2012. PEPFF members are required to contribute 9.6% of their annual covered salary in 2012. In 2012, 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 14.4% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2012, 2011, and 2010 were \$154,647, \$149,410 and \$152,690, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2012, 2011, and 2010 were \$96,742, \$100,451, and \$94,183, 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	\$55,352
Contributions made	
City	20,725
State Aid - pass-through	34,627
Actuarial valuation date	12/31/12
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
12/31/12	55,352	100%	890,143

Required Supplementary Information

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial 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%
12/31/12	808,413	890,143	(81,730)	91%

**13. New Accounting Pronouncements**

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GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, implemented this year provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The Statement of Net Assets is renamed the Statement of Net Position and includes four components: assets, deferred outflows of resources, liabilities and deferred inflows of resources. The City has determined they have no deferred outflows or inflows as defined by this standard.

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the City.

GASB 65, *Items Previously Reported as Assets and Liabilities*, will be effective for the City beginning with its year ending December 31, 2013. This statement requires certain items that are currently reported as assets and liabilities to be reclassified as deferred outflows resources, deferred inflows of resources, or current-period outflows and inflows.

**CITY OF LAKE CITY, MINNESOTA**  
**COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES**  
**DECEMBER 31, 2012**

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**CITY OF LAKE CITY, MINNESOTA**

**NONMAJOR FUNDS**

**DECEMBER 31, 2012**

**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, 2012  
With Comparative Totals as of December 31, 2011**

	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	\$ 362,625	\$ 302,317	\$ 156,457	\$	\$ 1,735	\$ 246,340
Accounts receivable		300				
Loans receivable		215,962	14,255			
Taxes receivable delinquent	1,295					266
Special assessments delinquent						
Special assessments deferred						
<b>TOTAL ASSETS</b>	<b>\$ 363,920</b>	<b>\$ 518,579</b>	<b>\$ 170,712</b>	<b>\$</b>	<b>\$ 1,735</b>	<b>\$ 246,606</b>
<b>LIABILITIES AND FUND BALANCE</b>						
<b>Liabilities</b>						
Accounts payable	\$ 2,789	\$	\$	\$	\$	\$
Accrued liabilities	2,221					
Deposits payable						
Interfund payables						
Deferred revenue	1,295	215,962	14,255			266
Total Liabilities	6,305	215,962	14,255			266
<b>Fund Balance</b>						
Restricted:						
Creditors (debt covenants)						
Regulations					1,735	246,340
Assigned:						
Fund assignments	357,615	302,617	156,457			
Unassigned:						
Total Fund Balance	357,615	302,617	156,457		1,735	246,340
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 363,920</b>	<b>\$ 518,579</b>	<b>\$ 170,712</b>	<b>\$</b>	<b>\$ 1,735</b>	<b>\$ 246,606</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
\$	\$	\$	\$ 4,280	\$ 12,082	\$ 5,251	\$ 2,195	\$ 170,548	\$ 1,882
<hr/>								
\$	\$	\$	\$ 4,280	\$ 12,082	\$ 5,251	\$ 2,195	\$ 170,548	\$ 1,882
<hr/>								
\$	\$	\$	\$	\$	\$	\$	\$	\$
	914	772	5,466		5,144		170,548	1,882
	914	772	5,466		5,144		170,548	1,882
<hr/>								
			4,280	12,082				
	(914)	(772)	(5,466)		107	2,195		
	(914)	(772)	(5,466)	4,280	12,082	107	2,195	
<hr/>								
\$	\$	\$	\$ 4,280	\$ 12,082	\$ 5,251	\$ 2,195	\$ 170,548	\$ 1,882

**CITY OF LAKE CITY, MINNESOTA  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
December 31, 2012**

*With Comparative Totals as of December 31, 2011*

	Debt Service Funds		
	316		
	Peters	358	357
	4th and 5th	2008	2006
	Street	Street	Street
	Improvement	Improvement	Improvement
<b>ASSETS</b>			
Cash and investments	\$ 4,189	\$ 204,154	\$ 30,527
Accounts receivable			
Loans receivable			
Taxes receivable delinquent		2,925	874
Special assessments delinquent			
Special assessments deferred	14,699		109,178
<b>TOTAL ASSETS</b>	<b>\$ 18,888</b>	<b>\$ 207,079</b>	<b>\$ 140,579</b>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>Liabilities</b>			
Accounts payable	\$	\$	\$
Accrued liabilities			
Deposits payable			
Interfund payables			
Deferred revenue	14,699	2,925	110,052
Total Liabilities	14,699	2,925	110,052
<b>Fund Balance</b>			
Restricted:			
Creditors (debt covenants)	4,189	204,154	30,527
Regulations			
Assigned:			
Fund assignments			
Unassigned:			
Total Fund Balance	4,189	204,154	30,527
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 18,888</b>	<b>\$ 207,079</b>	<b>\$ 140,579</b>

<u>Capital Projects Funds</u>			
<u>400 Capital Projects</u>	<u>361 2009 7th Street Improvement</u>	<u>364 2013 Street Improvement</u>	<u>Totals</u>
\$ 94,336	\$ 30,019		\$ 1,628,937
			300
			230,217
			5,360
960			960
			<u>123,877</u>
<u>\$ 95,296</u>	<u>\$ 30,019</u>	<u>\$</u>	<u>\$ 1,989,651</u>
\$	\$ 5,000	8,904	\$ 16,693
			2,221
			177,574
			7,152
960			360,414
<u>960</u>	<u>5,000</u>	<u>8,904</u>	<u>564,054</u>
			238,870
			264,437
94,336	25,019		938,346
		(8,904)	(16,056)
<u>94,336</u>	<u>25,019</u>	<u>(8,904)</u>	<u>1,425,597</u>
<u>\$ 95,296</u>	<u>\$ 30,019</u>	<u>\$</u>	<u>\$ 1,989,651</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, 2012**  
*With Comparative Totals for the Year Ended December 31, 2011*

	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	\$ 91,082	\$	\$	\$	\$	\$
Tax increments						115,396
Special assessments						
Intergovernmental revenues	40,427					181
Charges for services	2,749					
Fines and forfeits	5,335					
Investment income	5,892	6,278	3,164	3	225	3,333
Miscellaneous revenues	77,290	19,620				
<b>TOTAL REVENUES</b>	<b>222,775</b>	<b>25,898</b>	<b>3,164</b>	<b>3</b>	<b>225</b>	<b>118,910</b>
<b>EXPENDITURES</b>						
Culture and recreation:						
Library	167,380					
Economic development		26,754		727	16,075	728
Debt service:						
Principal retirement						
Interest and fiscal charges						
Capital outlay	29,978					
<b>TOTAL EXPENDITURES</b>	<b>197,358</b>	<b>26,754</b>		<b>727</b>	<b>16,075</b>	<b>728</b>
Excess (deficiency) of revenues over (under) expenditures	25,417	(856)	3,164	(724)	(15,850)	118,182
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers out						
Transfers in	50,000			724		
Total Other Financing Sources (Uses)	50,000			724		
<b>Net change in fund balances</b>	<b>75,417</b>	<b>(856)</b>	<b>3,164</b>		<b>(15,850)</b>	<b>118,182</b>
<b>FUND BALANCE, beginning</b>	<b>282,198</b>	<b>303,473</b>	<b>153,293</b>		<b>17,585</b>	<b>128,158</b>
<b>FUND BALANCE, ending</b>	<b>\$ 357,615</b>	<b>\$ 302,617</b>	<b>\$ 156,457</b>	<b>\$</b>	<b>\$ 1,735</b>	<b>\$ 246,340</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
\$ 3,596		\$ 14,527	\$ 9,342	\$ 35,406				
12			146	451	107	45	4,682	
3,608		14,527	9,488	35,857	107	45	4,682	
3,965	734	13,817	14,297	32,594			4,682	
3,965	734	13,817	14,297	32,594			4,682	
(357)	(734)	710	(4,809)	3,263	107	45		
(357)	(734)	710	(4,809)	3,263	107	45		
(557)	(38)	(6,176)	9,089	8,819		2,150		
\$ (914)	\$ (772)	\$ (5,466)	\$ 4,280	\$ 12,082	\$ 107	\$ 2,195	\$	\$

**CITY OF LAKE CITY, MINNESOTA  
NONMAJOR GOVERNMENTAL FUNDS  
Combining Statement of Revenues, Expenditures  
and Changes in Fund Balance  
For the Year Ended December 31, 2012  
With Comparative Totals for the Year Ended December 31, 2011**

	Debt Service Funds		
	316		
	Peters	358	357
	4th and 5th	2008	2006
	Street	Street	Street
	Improvement	Improvement	Improvement
<b>REVENUES</b>			
Taxes:			
Property taxes	\$	\$ 109,786	\$ 33,221
Tax increments			
Special assessments	4,087		16,052
Intergovernmental revenues			
Charges for services			
Fines and forfeits			
Investment income	28	3,169	63
Miscellaneous revenues			
<b>TOTAL REVENUES</b>	<b>4,115</b>	<b>112,955</b>	<b>49,336</b>
<b>EXPENDITURES</b>			
Culture and recreation:			
Library			
Economic development			
Debt service:			
Principal retirement		61,112	30,000
Interest and fiscal charges	3	41,923	15,708
Capital outlay			
<b>TOTAL EXPENDITURES</b>	<b>3</b>	<b>103,035</b>	<b>45,708</b>
Excess (deficiency) of revenues over (under) expenditures	4,112	9,920	3,628
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers out			
Transfers in			
<b>Total Other Financing Sources (Uses)</b>	<b></b>	<b></b>	<b></b>
<b>Net change in fund balances</b>	<b>4,112</b>	<b>9,920</b>	<b>3,628</b>
<b>FUND BALANCE, beginning</b>	<b>77</b>	<b>194,234</b>	<b>26,899</b>
<b>FUND BALANCE, ending</b>	<b>\$ 4,189</b>	<b>\$ 204,154</b>	<b>\$ 30,527</b>

Capital Projects Funds

400 Capital Projects	361 2009 7th Street Improvement	364 2013 Street Improvement	Totals
\$	\$	\$	\$ 234,089
			178,267
1,772	11,472		33,383
			40,608
			2,749
			5,335
2,255	754		30,607
			96,910
4,027	12,226		621,948
			167,380
			114,373
			91,112
			57,634
20,984	608	8,904	60,474
20,984	608	8,904	490,973
(16,957)	11,618	(8,904)	130,975
(724)			(724)
			50,724
(724)			50,000
(17,681)	11,618	(8,904)	180,975
112,017	13,401		1,244,622
\$ 94,336	\$ 25,019	\$ (8,904)	\$ 1,425,597

**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, 2012**  
*(With Comparative Totals for the Year Ended December 31, 2011)*

	Budgeted Amounts		2012 Actual Amount	Variance With Budget Positive (Negative)	2011 Actual Amount
	Original	Final			
<b>REVENUES</b>					
<b>Property Tax Levy</b>					
Property tax collected	\$ 90,000	\$ 90,000	\$ 91,082	\$ 1,082	86,762
<b>Intergovernmental Revenues</b>					
State - property tax credits and aids					1,292
County - library grants	48,800	48,800	40,427	(8,373)	58,238
Total Intergovernmental Revenues	48,800	48,800	40,427	(8,373)	59,530
<b>Charges For Services</b>					
Fines and forfeits	5,000	5,000	5,335	335	3,443
Other	2,000	2,000	2,749	749	1,838
Total Charges For Services	7,000	7,000	8,084	1,084	5,281
<b>Investment Income</b>					
	3,000	3,000	5,892	2,892	4,777
<b>Miscellaneous</b>					
Donations	43,000	45,200	77,290	32,090	87,078
<b>Total Revenues</b>	<b>191,800</b>	<b>194,000</b>	<b>222,775</b>	<b>28,775</b>	<b>243,428</b>
<b>EXPENDITURES</b>					
Library services	202,058	204,058	167,380	36,678	191,175
Capital outlay	30,000	30,200	29,978	222	25,214
<b>Total Expenditures</b>	<b>232,058</b>	<b>234,258</b>	<b>197,358</b>	<b>36,900</b>	<b>216,389</b>
Excess (deficiency) of revenues over (under) expenditures	(40,258)	(40,258)	25,417	65,675	27,039
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	50,000	50,000	50,000		50,000
<b>Net Change in Fund Balance</b>	<b>9,742</b>	<b>9,742</b>	<b>75,417</b>	<b>65,675</b>	<b>77,039</b>
<b>Fund Balance, beginning</b>	<b>282,198</b>	<b>282,198</b>	<b>282,198</b>		<b>205,159</b>
<b>Fund Balance, ending</b>	<b>\$ 291,940</b>	<b>\$ 291,940</b>	<b>\$ 357,615</b>	<b>\$ 65,675</b>	<b>\$ 282,198</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, 2012**  
*(With Comparative Totals for the Year Ended December 31, 2011)*

	575	401	Totals	
	Economic Development	City Hall Project	2012	2011
<b>REVENUES</b>				
Property tax	\$ 52,117	\$	\$ 52,117	\$ 44,706
Intergovernmental revenues				659
Investment income	44		44	669
Payment from primary government	30,900	109,726	140,626	291,253
<b>Total Revenues</b>	<b>83,087</b>	<b>109,726</b>	<b>192,813</b>	<b>337,287</b>
<b>EXPENDITURES</b>				
Economic Development	93,015		93,015	80,450
Debt Service:				
Principal		107,061	107,061	206,381
Interest		2,665	2,665	13,072
<b>Total Expenditures</b>	<b>93,015</b>	<b>109,726</b>	<b>202,741</b>	<b>299,903</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>(9,928)</b>		<b>(9,928)</b>	<b>37,384</b>
<b>Fund Balance, beginning</b>	<b>159,301</b>	<b>4,120</b>	<b>163,421</b>	<b>126,037</b>
<b>Fund Balance, ending</b>	<b>\$ 149,373</b>	<b>\$ 4,120</b>	<b>\$ 153,493</b>	<b>\$ 163,421</b>