

**CITY OF LAKE CITY, MINNESOTA**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2020**



# CITY OF LAKE CITY, MINNESOTA

## FINANCIAL STATEMENTS For the Fiscal Year Ended December 31, 2020

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**CITY OF LAKE CITY, MINNESOTA**  
**FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended December 31, 2020**

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**CITY OF LAKE CITY, MINNESOTA**

**INTRODUCTORY SECTION**

**DECEMBER 31, 2020**

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**CITY OF LAKE CITY, MINNESOTA  
ELECTED AND APPOINTED OFFICIALS  
DECEMBER 31, 2020**

**ELECTED**

<u>Title</u>	<u>Name</u>	<u>Term Expires</u>
Mayor	Mark Nichols	December 31, 2020
Council	Russell Boe	December 31, 2022
Council	Faye Brown	December 31, 2022
Council	Amy Alkire	December 31, 2022
Council	Cindy McGrath	December 31, 2020
Council	Philip Gartner	December 31, 2020
Council	Jason DeVinny	December 31, 2020

**APPOINTED**

City Administrator	Rob Keehn
City Clerk	Kari Schreck
Finance Director/Treasurer	Jerome Illg

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**CITY OF LAKE CITY, MINNESOTA**

**FINANCIAL SECTION**

**DECEMBER 31, 2020**

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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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Lake City, Minnesota, as of and for the year ended December 31, 2020, and the related notes to financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### 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 audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lake City, Minnesota as of December 31, 2020, 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, and the required supplemental information as listed in the Table of Contents 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 inquires 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 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, 2019, from which such partial information was derived.

We have previously audited the City's 2019 financial statement and our reported dated June 24, 2020 expressed unmodified opinions on the respective financial statements of the governmental activities, business-type activities, the discretely presented component unit, 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, 2019, 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 March 25, 2021, on our consideration of the City of Lake City, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 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, 2020.

### FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City of Lake City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$61,379,289 (*net position*). Of this amount, \$19,679,868 (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 \$3,546,854 primarily due to the operations of the Electric and Marina Funds.
- As of the close of the current fiscal year, the City of Lake City's governmental funds reported combined ending fund balances of \$9,267,427. Approximately 59 percent of this total amount, or \$5,432,524 is available for use within the City's assignments and policies.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$5,278,386 or 84 percent of total general fund expenditures.
- The City of Lake City's total outstanding debt decreased by \$1,163,433 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, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between the four 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 pages 87 and 88. 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 thirteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund which is considered to be a major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* on pages 82-85 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 23-27) and the library fund (page 86) to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 17-18 and 20-21 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 28-35 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 36-77 of this report.

***Other information.*** The combining statements referred to earlier in connection with nonmajor governmental funds can be found on pages 82-85 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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$61,379,289 at the close of the most recent fiscal year.

By far the largest portion of the City of Lake City's net position (65 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	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 10,283,024	\$ 10,807,401	\$ 15,765,007	\$ 16,713,267	\$ 26,048,031	\$ 27,520,668
Capital assets	26,255,104	24,012,222	18,241,874	16,751,737	44,496,978	40,763,959
Total assets	<u>36,538,128</u>	<u>34,819,623</u>	<u>34,006,881</u>	<u>33,465,004</u>	<u>70,545,009</u>	<u>68,284,627</u>
Deferred outflows of resources	683,576	996,568	136,881	116,535	820,457	1,113,103
Long-term liabilities outstanding	5,549,568	5,900,994	2,949,307	3,279,933	8,498,875	9,180,927
Other liabilities	252,116	222,084	859,268	854,995	1,111,384	1,077,079
Total liabilities	<u>5,801,684</u>	<u>6,123,078</u>	<u>3,808,575</u>	<u>4,134,928</u>	<u>9,610,259</u>	<u>10,258,006</u>
Deferred inflows of resources	318,503	1,093,309	57,415	213,980	375,918	1,307,289
Net position:						
Net investment in capital assets	23,469,231	20,535,395	16,674,896	14,712,280	40,144,127	35,247,675
Restricted	1,555,294	1,464,672			1,555,294	1,464,672
Unrestricted	6,076,992	6,599,737	13,602,876	14,520,351	19,679,868	21,120,088
Total net position	<u>\$ 31,101,517</u>	<u>\$ 28,599,804</u>	<u>\$ 30,277,772</u>	<u>\$ 29,232,631</u>	<u>\$ 61,379,289</u>	<u>\$ 57,832,435</u>

A portion of the City of Lake City's net position (3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (\$19,679,868) 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 \$2,501,713.



**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 \$1,045,141.

A condensed version of the Statement of Activities follows:

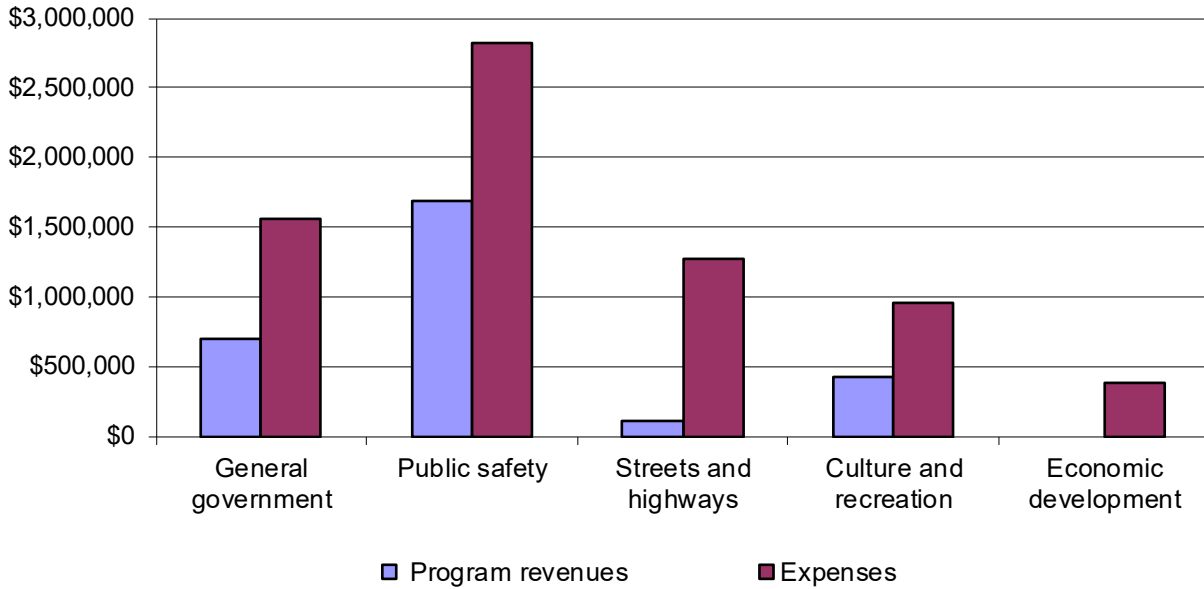
**City of Lake City's Change in Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenue:						
Program revenues:						
Charges for services	\$ 1,484,724	\$ 1,749,328	\$ 15,930,619	\$ 16,801,346	\$ 17,415,343	\$ 18,550,674
Operating grants and contributions	1,423,525	440,827	13,123		1,436,648	440,827
Capital grants and contributions	1,976	818	100,913	11,726	102,889	12,544
General revenues:						
Property taxes	3,650,854	3,566,368			3,650,854	3,566,368
Tax increments		2,222				2,222
Grants and contributions not restricted to specific programs	912,216	825,750			912,216	825,750
Other	963,833	545,795	339,022	1,035,246	1,302,855	1,581,041
Total revenues	<u>8,437,128</u>	<u>7,131,108</u>	<u>16,383,677</u>	<u>17,848,318</u>	<u>24,820,805</u>	<u>24,979,426</u>
Expenses:						
General government	1,553,942	1,589,195			1,553,942	1,589,195
Public safety	2,813,782	2,695,950			2,813,782	2,695,950
Streets and highways	1,268,643	1,255,115			1,268,643	1,255,115
Culture and recreation	958,337	1,054,741			958,337	1,054,741
Economic development	376,751	70,357			376,751	70,357
Interest on long-term debt	90,230	73,617			90,230	73,617
Electric			10,601,482	11,847,819	10,601,482	11,847,819
Water			778,210	636,584	778,210	636,584
Sewer			1,387,147	1,341,148	1,387,147	1,341,148
Storm water			199,522	164,547	199,522	164,547
Marina			219,636	602,451	219,636	602,451
Garbage			1,026,269	967,114	1,026,269	967,114
Total expenses	<u>7,061,685</u>	<u>6,738,975</u>	<u>14,212,266</u>	<u>15,559,663</u>	<u>21,273,951</u>	<u>22,298,638</u>
Increase (decrease) in net position before transfers and other	1,375,443	392,133	2,171,411	2,288,655	3,546,854	2,680,788
Transfers	1,126,270	870,000	(1,126,270)	(870,000)		
Increase (decrease) in net position	<u>2,501,713</u>	<u>1,262,133</u>	<u>1,045,141</u>	<u>1,418,655</u>	<u>3,546,854</u>	<u>2,680,788</u>
Net position, beginning of year	28,599,804	27,337,671	29,232,631	27,813,976	57,832,435	55,151,647
Net position, end of year	<u>\$ 31,101,517</u>	<u>\$ 28,599,804</u>	<u>\$ 30,277,772</u>	<u>\$ 29,232,631</u>	<u>\$ 61,379,289</u>	<u>\$ 57,832,435</u>

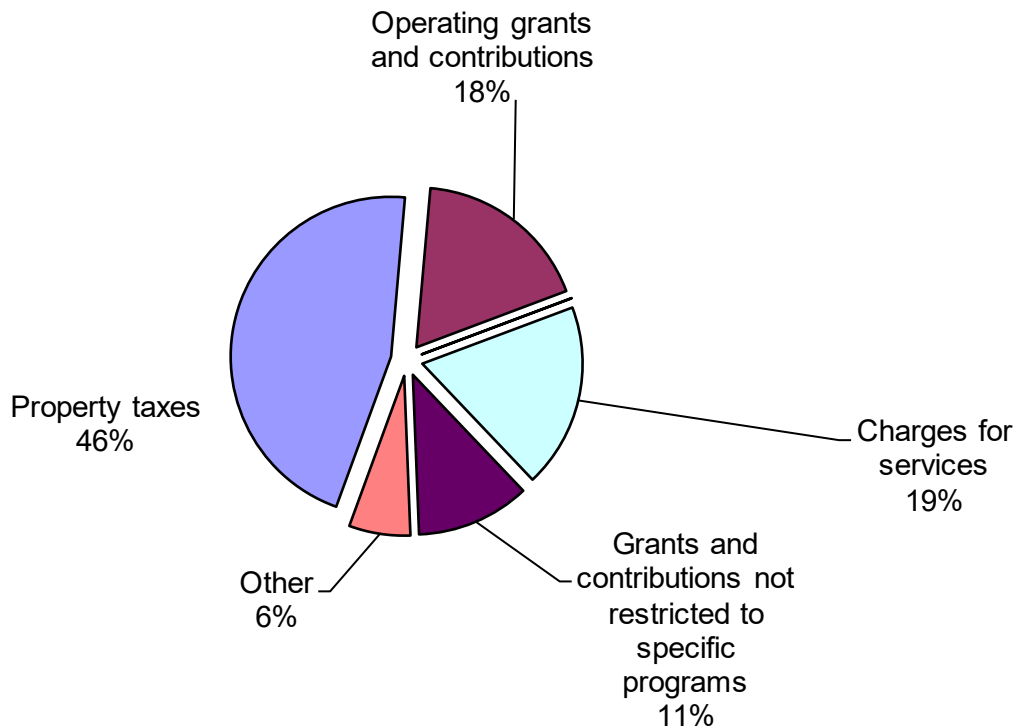
**CITY OF LAKE CITY, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**



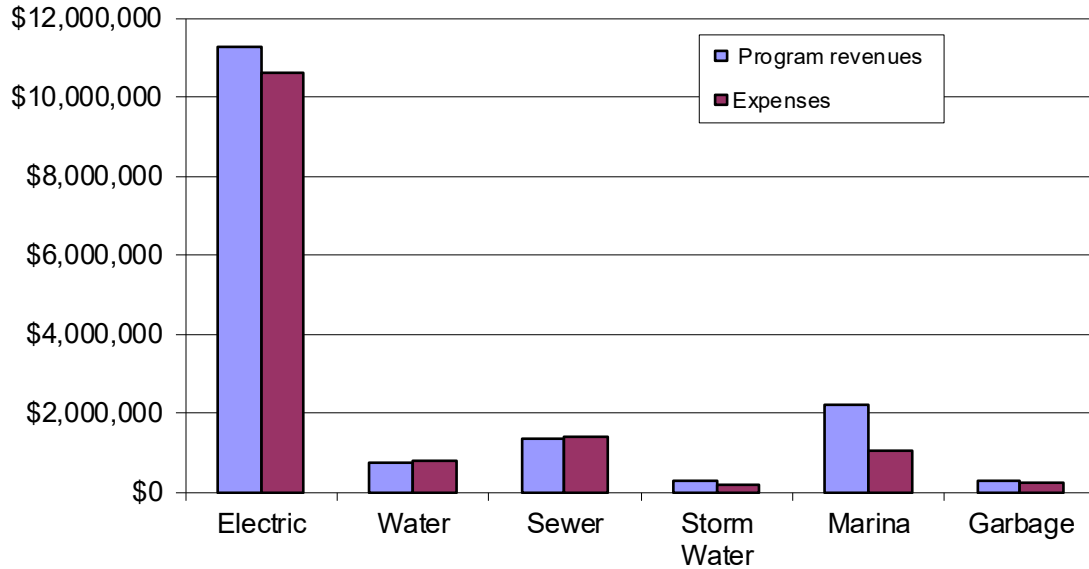
**Revenues by Source - Governmental Activities**



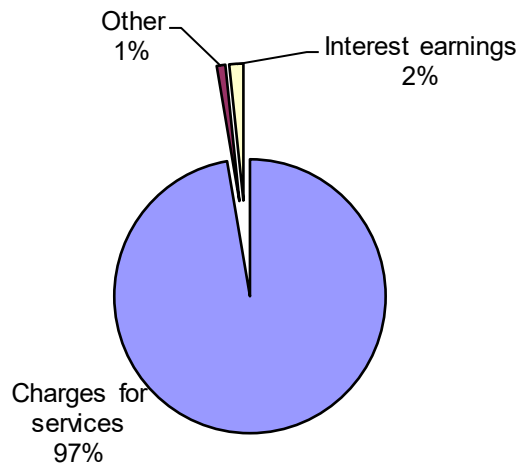
**CITY OF LAKE CITY, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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.

Fund balance is 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.

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

Detailed information regarding the fund balance classifications are found in Note 1 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 \$9,267,427, a decrease of \$1,055,762. Approximately 77 percent of this total amount, or \$7,174,699, constitutes *unassigned, assigned, or committed fund balance*, which is available for spending at the government's discretion. The remainder of the total fund balance (\$2,092,728) is *nonspendable or restricted* to indicate that it is not available for new spending because it is restricted to repay long-term debt, for use by the development loan programs, and other specific uses.

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 \$5,278,386. 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 84 percent of total general fund expenditures.

The general fund's total fund balance increased by \$417,464 during the current fiscal year. This year's increase was primarily FEMA revenue received for future projects and several park projects planned for 2020 that were not completed but are anticipated to be completed in 2021.

The debt service funds have a total fund balance of \$1,105,384 all of which is restricted for the payment of debt service.

**Proprietary funds.** The City of Lake City's proprietary funds statements found on pages 28-35 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 - \$7,139,240, Water - \$37,269, Sewer - \$49,065, Storm Water - (\$14,556), Marina - \$6,367,312, and Garbage - \$24,546. All funds, except the sewer fund and garbage fund, had increases in total net position for the year. The sewer utility fund's net loss was primarily due to transfers to water and storm water to support the Highway 61 construction project. The garbage fund's net loss was primarily due to transfer out of \$111,100 to assist in the purchase of a leaf vac truck.

### **General Fund Budgetary Highlights**

The original 2020 general fund budget approved by the City anticipated a decrease to general fund reserves. All differences between the original and final budgets in the general fund for the City in 2020 were approved by resolution amending the original budget. Select unspent budgeted amounts from 2019 were carried over to the 2020 budget by resolution. The City general fund budget adjustments were done for CARES act funding received during to the COVID-19 pandemic with which capital purchases were made.

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

**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, 2020, amounts to \$44,496,978 (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 \$3,886,035.

**City of Lake City's capital Assets**  
(net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Land	\$ 1,342,607	\$ 1,342,607	\$ 725,300	\$ 725,300	\$ 2,067,907	\$ 2,067,907
Construction in progress	273,256	867,967	98,090		371,346	867,967
Buildings and improvements	9,466,602	9,856,745	6,169,380	5,874,442	15,635,982	15,731,187
Machinery and equipment	3,533,507	3,149,341	1,221,537	960,254	4,755,044	4,109,595
Infrastructure	11,639,132	8,795,562			11,639,132	8,795,562
Distribution and collection system			10,027,567	9,038,725	10,027,567	9,038,725
<b>Total</b>	<b>\$ 26,255,104</b>	<b>\$ 24,012,222</b>	<b>\$ 18,241,874</b>	<b>\$ 16,598,721</b>	<b>\$ 44,496,978</b>	<b>\$ 40,610,943</b>

Additional information on the City of Lake City's capital assets can be found in Note 5 on pages 51-52 of this report.

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

**Long-term debt.** At the end of the current fiscal year, the City of Lake City had \$3,861,767 in bonds and notes outstanding, \$491,084 in equipment lease payable and \$544,570 in compensated absences.

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

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
General obligation bonds	\$ 2,294,789	\$ 2,791,645	\$ 116,776	\$ 142,221	\$ 2,411,565	\$ 2,933,866
General obligation revenue bonds			1,450,202	1,897,236	1,450,202	1,897,236
Equipment lease payable	491,084	685,182			491,084	685,182
Compensated absences	402,638	376,149	141,932	139,938	544,570	516,087
<b>Total</b>	<b>\$ 3,188,511</b>	<b>\$ 3,852,976</b>	<b>\$ 1,708,910</b>	<b>\$ 2,179,395</b>	<b>\$ 4,897,421</b>	<b>\$ 6,032,371</b>

The City of Lake City's total outstanding debt decreased by \$1,134,950 during the current fiscal year. The City paid \$1,163,433 in debt payments. A more detailed breakdown of these obligations can be found in Note 9, beginning on page 56.

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

**Future Factors**

The City saw an increase in building permits in 2020. The City anticipates that trend to continue due to ongoing development projects and the availability of residential lots for housing development. The City's Economic Development Authority has partnered with Three Rivers Community Action to develop workforce housing in Lake City on part of the former Cemstone property. As part of the project, the city has contracted with an engineer to conduct a general development plan for the entire 100+ acre site to develop the Economic Development Authority's project along with possible future residential, commercial, and industrial growth on the entire property.

The City is planning a major renovation of Ohuta Park with estimated construction of \$4,025,000, with major funding coming from Marina fund reserves and Electric Fund reserves.

The City was awarded matching State Bonding Funds for the installation of Water and Sewer to Hok-Si-La Park (\$587,000) and design and construction of a breakwater at Ohuta Beach (\$1,058,000) that will be constructed in future years.

**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, 2020**

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**CITY OF LAKE CITY, MINNESOTA**  
**STATEMENT OF NET POSITION**

December 31, 2020

With Comparative Totals as of December 31, 2019

	Primary Government				Component Unit	
	Governmental Activities	Business-Type Activities	Totals		Economic Development Authority	
			2020	2019	2020	2019
<b>Assets</b>						
Cash and investments	\$ 9,146,989	\$ 13,612,207	\$ 22,759,196	\$ 24,564,545	\$ 137,668	\$ 122,660
Accounts receivable	346,334	1,191,814	1,538,148	1,675,412		
Interest receivable	47,412		47,412	58,610		
Taxes receivable	18,445		18,445	20,844		
Special assessments receivable	23,927	27,136	51,063	71,876		
Loan receivable	329,194		329,194	39,849		
Internal balances	(155,807)	155,807				
Due from other governmental units	31,747		31,747	29,985	833	791
Due from primary government					66,890	66,890
Due from component unit	2,264		2,264	23		
Prepaid items	117,277	120,413	237,690	208,661	1,698	1,577
Property held for resale					235,000	235,000
Inventories		657,630	657,630	634,227		
Net pension asset	375,242		375,242	216,636		
Capital assets:						
Nondepreciable	1,615,863	823,390	2,439,253	3,088,890		
Depreciable, net	24,639,241	17,418,484	42,057,725	37,675,069		
Total Assets	<u>36,538,128</u>	<u>34,006,881</u>	<u>70,545,009</u>	<u>68,284,627</u>	<u>442,089</u>	<u>426,918</u>
<b>Deferred Outflows of Resources</b>						
Deferred outflows from pension activity	683,576	136,881	820,457	1,113,103		
<b>Liabilities</b>						
Accounts and contracts payable	108,125	734,445	842,570	727,026	6,681	8,279
Accrued liabilities	22,932	44,157	67,089	203,391		
Deposits payable		80,666	80,666	79,772		
Due to primary government					2,264	23
Due to component unit	66,890		66,890	66,890		
Noncurrent liabilities:						
Due within one year	717,852	403,000	1,120,852	1,162,098		
Due in more than one year	2,470,659	1,305,910	3,776,569	4,870,273		
Other postemployment benefits	54,169		54,169			
Net pension liability	2,361,057	1,240,397	3,601,454	3,148,556		
Total Liabilities	<u>5,801,684</u>	<u>3,808,575</u>	<u>9,610,259</u>	<u>10,258,006</u>	<u>8,945</u>	<u>8,302</u>
<b>Deferred Inflows of Resources</b>						
Deferred inflows from pension activity	318,503	57,415	375,918	1,307,289		
<b>Net Position</b>						
Net investment in capital assets	23,469,231	16,674,896	40,144,127	35,247,675		
Restricted for:						
Debt service	1,101,124		1,101,124	1,019,403		
Revolving loans	454,170		454,170	445,269		
Unrestricted	6,076,992	13,602,876	19,679,868	21,120,088	433,144	418,616
Total Net Position	<u>\$ 31,101,517</u>	<u>\$ 30,277,772</u>	<u>\$ 61,379,289</u>	<u>\$ 57,832,435</u>	<u>\$ 433,144</u>	<u>\$ 418,616</u>

**See Notes to Financial Statements**

**CITY OF LAKE CITY, MINNESOTA**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2020  
With Comparative Totals for the Year Ended December 31, 2019

<b>Functions/Programs</b>	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental activities:</b>				
General government	\$ 1,553,942	\$ 382,091	\$ 308,561	\$
Public safety	2,813,782	1,066,977	623,383	
Streets and highways	1,268,643	25,320	76,490	1,976
Culture and recreation	958,337	10,336	415,091	
Economic development	376,751			
Interest on long-term debt	90,230			
Total governmental activities	<u>7,061,685</u>	<u>1,484,724</u>	<u>1,423,525</u>	<u>1,976</u>
<b>Business-Type activities:</b>				
Electric utility	10,601,482	11,241,147	3,598	4,792
Water utility	778,210	744,716	963	807
Sewer utility	1,387,147	1,329,662	2,455	
Storm water utility	199,522	165,834	907	90,694
Garbage	219,636	249,267		4,620
Marina	1,026,269	2,199,993	5,200	
Total business-type activities	<u>14,212,266</u>	<u>15,930,619</u>	<u>13,123</u>	<u>100,913</u>
Total Primary Government	<u>\$ 21,273,951</u>	<u>\$ 17,415,343</u>	<u>\$ 1,436,648</u>	<u>\$ 102,889</u>
<b>Component Unit:</b>				
Economic Development Authority	<u>\$ 71,203</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

General revenues:  
General property taxes  
Tax increments  
Grants and contributions not restricted to specific programs  
Investment earnings  
Gain on sale of capital assets  
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	2020	2019	2020	2019
\$ (863,290)	\$	\$ (863,290)	\$ (1,171,627)	\$	\$
(1,123,422)		(1,123,422)	(1,376,437)		
(1,164,857)		(1,164,857)	(1,158,493)		
(532,910)		(532,910)	(697,471)		
(376,751)		(376,751)	(70,357)		
(90,230)		(90,230)	(73,617)		
<u>(4,151,460)</u>		<u>(4,151,460)</u>	<u>(4,548,002)</u>		
	648,055	648,055	76,497		
	(31,724)	(31,724)	124,172		
	(55,030)	(55,030)	43,543		
	57,913	57,913	(23,844)		
	34,251	34,251	(14,507)		
	<u>1,178,924</u>	<u>1,178,924</u>	<u>1,047,548</u>		
	<u>1,832,389</u>	<u>1,832,389</u>	<u>1,253,409</u>		
<u>(4,151,460)</u>	<u>1,832,389</u>	<u>(2,319,071)</u>	<u>(3,294,593)</u>		
				<u>(71,203)</u>	<u>(71,262)</u>
3,650,854		3,650,854	3,566,368	72,348	72,129
			2,222		
912,216		912,216	825,750	13,027	
169,843	273,684	443,527	955,954	356	778
471,946		471,946	182,600		
322,044	65,338	387,382	442,487		
1,126,270	(1,126,270)				
<u>6,653,173</u>	<u>(787,248)</u>	<u>5,865,925</u>	<u>5,975,381</u>	<u>85,731</u>	<u>72,907</u>
2,501,713	1,045,141	3,546,854	2,680,788	14,528	1,645
<u>28,599,804</u>	<u>29,232,631</u>	<u>57,832,435</u>	<u>55,151,647</u>	<u>418,616</u>	<u>416,971</u>
<u>\$ 31,101,517</u>	<u>\$ 30,277,772</u>	<u>\$ 61,379,289</u>	<u>\$ 57,832,435</u>	<u>\$ 433,144</u>	<u>\$ 418,616</u>

**CITY OF LAKE CITY, MINNESOTA**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
December 31, 2020  
*With Comparative Totals as of December 31, 2019*

	General Fund	2018 Small Cities Development Program Fund	Block 25 Redev TIF #13
<b>Assets</b>			
Cash and investments	\$ 7,136,192	\$ 199,233	\$
Interest receivable	47,412		
Accounts receivable	339,072	2,669	
Taxes receivable delinquent	14,858		
Special assessments receivable:			
Deferred	8,784		
Advances to other funds	201,185		
Interfund receivable	7,405		
Loans receivable		303,949	
Due from other governmental units	26,702		
Due from component unit	2,264		
Prepaid items	1,647		
<b>TOTAL ASSETS</b>	<b>\$ 7,785,521</b>	<b>\$ 505,851</b>	<b>\$</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balance</b>			
<b>Liabilities</b>			
Accounts payable	\$ 56,597	\$ 11,371	\$
Accrued liabilities	499		
Advances from other funds	88,917		239,642
Interfund payable			
Due to component unit	66,890		
<b>Total Liabilities</b>	<b>212,903</b>	<b>11,371</b>	<b>239,642</b>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue:			
Property taxes	14,858		
Special assessments	8,784		
Loans receivable		303,949	
<b>Total Deferred Inflows of Resources</b>	<b>23,642</b>	<b>303,949</b>	
<b>Fund Balance</b>			
Nonspendable:			
Advances to other funds	201,185		
Prepaid items	1,647		
Restricted:			
Creditors (debt covenants)			
Regulations		190,531	
Other purposes	165,056		
Committed	1,742,175		
Assigned	160,527		
Unassigned	5,278,386		(239,642)
<b>Total Fund Balance</b>	<b>7,548,976</b>	<b>190,531</b>	<b>(239,642)</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<b>\$ 7,785,521</b>	<b>\$ 505,851</b>	<b>\$</b>

**See Notes to Financial Statements**

Capital Projects	Other Governmental Funds	Total Governmental Funds	
		2020	2019
\$	\$ 1,811,564	\$ 9,146,989	\$ 10,215,334
		47,412	58,610
	4,593	346,334	300,729
	3,587	18,445	20,844
	15,143	23,927	39,970
		201,185	174,996
		7,405	133,443
	25,245	329,194	39,849
	5,045	31,747	29,985
		2,264	23
		1,647	
<u>\$</u>	<u>\$ 1,865,177</u>	<u>\$ 10,156,549</u>	<u>\$ 11,013,783</u>

\$	23,613	\$	1,594	\$	93,175	\$	5,247
					499		123,551
	28,433				356,992		152,357
							241,886
					66,890		66,890
	<u>52,046</u>		<u>1,594</u>		<u>517,556</u>		<u>589,931</u>

			3,587		18,445		20,844
			15,143		23,927		39,970
			25,245		329,194		39,849
			<u>43,975</u>		<u>371,566</u>		<u>100,663</u>

					201,185		174,996
					1,647		
			1,105,384		1,105,384		1,045,799
			428,925		619,456		671,313
					165,056		67,917
					1,742,175		1,776,392
			285,299		445,826		1,716,451
	(52,046)				4,986,698		4,870,321
	<u>(52,046)</u>		<u>1,819,608</u>		<u>9,267,427</u>		<u>10,323,189</u>

<u>\$</u>	<u>\$ 1,865,177</u>	<u>\$ 10,156,549</u>	<u>\$ 11,013,783</u>
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**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, 2020

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

Total governmental fund balances (page 17)		\$ 9,267,427
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 49,545,516	
Less: Accumulated depreciation	<u>(23,290,412)</u>	26,255,104
Some receivables are not available soon enough to pay for current period expenditures and therefore are unavailable in the funds.		
Delinquent property taxes	\$ 18,445	
Deferred special assessments	23,927	
Loans receivable	<u>329,194</u>	371,566
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		
		93,275
Long-term liabilities, including net pension liability, net pension pension asset and other post employment benefits, are not due and payable in the current period and therefore are not reported in the funds.		
Net pension liability	\$ (2,361,057)	
Net pension asset	375,242	
Other post employment benefits	(54,169)	
Deferred outflows from pension activity	683,576	
Deferred inflows from pension activity	<u>(318,503)</u>	(1,674,911)
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	\$ (2,785,873)	
Compensated absences	(402,638)	
Accrued interest	<u>(22,433)</u>	<u>(3,210,944)</u>
Net position of governmental activities (page 14)		<u>\$ 31,101,517</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, 2020

*With Comparative Totals for the Year Ended December 31, 2019*

	General Fund	2018 Small Cities Development Program Fund	Block 25 Redev TIF #13
<b>Revenues</b>			
Taxes	\$ 2,937,922	\$	\$
Special assessments	2,168		
Licenses and permits	83,276		
Intergovernmental revenues	1,862,768	252,417	
Charges for services	1,343,291		
Fines and forfeits	25,124		
Investment income	124,992	4,516	
Miscellaneous revenues	79,827	2,669	
<b>Total Revenues</b>	<u>6,459,368</u>	<u>259,602</u>	
<b>Expenditures</b>			
General government	1,197,409		
Public safety	3,488,512		
Streets and highways	657,607		
Culture and recreation	723,222		
Economic development	23,617	334,964	70
Capital outlay			
Bond principal retirement	194,098		
Interest and fiscal charges	30,902		
<b>Total Expenditures</b>	<u>6,315,367</u>	<u>334,964</u>	<u>70</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>144,001</u>	<u>(75,362)</u>	<u>(70)</u>
<b>Other Financing Sources (Uses)</b>			
Debt issuance			
Sale of property	36,500		
Transfers in	810,000		
Transfers out	(573,037)		
Total other financing sources (uses)	<u>273,463</u>		
Net change in fund balances	417,464	(75,362)	(70)
<b>FUND BALANCE, beginning</b>	<u>7,131,512</u>	<u>265,893</u>	<u>(239,572)</u>
<b>FUND BALANCE, ending</b>	<u>\$ 7,548,976</u>	<u>\$ 190,531</u>	<u>\$ (239,642)</u>

**See Notes to Financial Statements**

Capital Projects	Other Governmental Funds	Total Governmental Funds	
		2020	2019
\$	\$ 713,163	\$ 3,651,085	\$ 3,581,235
	16,719	18,887	20,597
		83,276	79,780
	62,372	2,177,557	1,128,672
	1,401	1,344,692	1,605,115
	421	25,545	36,592
2,446	26,870	158,824	375,022
	100,946	183,442	201,275
<u>2,446</u>	<u>921,892</u>	<u>7,643,308</u>	<u>7,028,288</u>
		1,197,409	1,166,280
		3,488,512	3,819,282
		657,607	866,440
	266,679	989,901	1,073,545
	70	358,721	29,502
2,779,259	32,122	2,811,381	384,239
	495,000	689,098	420,000
	63,309	94,211	73,508
<u>2,779,259</u>	<u>857,180</u>	<u>10,286,840</u>	<u>7,832,796</u>
<u>(2,776,813)</u>	<u>64,712</u>	<u>(2,643,532)</u>	<u>(804,508)</u>
			685,182
425,000		461,500	142,600
826,923	62,384	1,699,307	1,538,821
		(573,037)	(668,821)
<u>1,251,923</u>	<u>62,384</u>	<u>1,587,770</u>	<u>1,697,782</u>
<u>(1,524,890)</u>	<u>127,096</u>	<u>(1,055,762)</u>	<u>893,274</u>
1,472,844	1,692,512	10,323,189	9,429,915
<u>\$ (52,046)</u>	<u>\$ 1,819,608</u>	<u>\$ 9,267,427</u>	<u>\$10,323,189</u>

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**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, 2020

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

Net change in fund balances - total governmental funds (pages 20 and 21) \$ (1,055,762)

Governmental funds reported capital outlays as expenditures.  
However, in the statement of activities the cost of those assets  
is allocated over their estimated useful lives and reported as  
depreciation expense.

Capital outlay	\$ 3,547,022	
Depreciation expense	<u>(1,298,139)</u>	2,248,883

The net effect of various miscellaneous transactions involving  
capital assets (i.e., sales, trade-ins, etc.) is to decrease  
net position (6,001)

Certain revenues in the statement of activities do not provide current  
financial resources and are not reported as revenues in the funds.

Delinquent property taxes	\$ (2,399)	
Special assessments	(16,043)	
Notes receivable	<u>289,345</u>	270,903

The governmental funds report long-term debt proceeds as financing  
sources, while repayment of long-term debt principal is reported as an  
expenditure. In the statement of net position, however, issuing debt  
increases long-term liabilities and does not affect the statement of  
activities and repayment of principal reduces the liability. Also,  
interest is recognized as an expenditure in the governmental funds  
when it is due. In the statement of activities, however, interest expense  
is recognized as it accrues, regardless of when it is due. The net effect  
of these differences in the treatment of general obligations bonds and  
related items is as follows.

Principal retirement on long-term debt	\$ 727,206	
Long-term debt discount and premiums	1,856	
Change in accrued interest	<u>3,963</u>	733,025

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 122,050

In the statement of activities, certain operating expenses - net pension  
liability, net pension asset, and compensated absences - are measured  
by the amounts earned during the year. In the governmental funds,  
however, expenditures for these items are measured by the amount  
of financial resources used (essentially, the amounts actually paid).

Net pension liability	\$ 273,734	
Net pension asset	33,647	
Other postemployment benefits	(54,169)	
Compensated absences	<u>(64,597)</u>	<u>188,615</u>

Change in net position of governmental activities (pages 15 and 16) \$ 2,501,713

**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, 2020

With Comparative Totals for the Year Ended December 31, 2019

	Budgeted Amounts		2020 Actual Amounts	Variance with Final Budget Positive (Negative)	2019 Actual Amounts
	Original	Final			
<b>Taxes</b>					
Property taxes	\$ 2,807,545	\$ 2,807,545	\$ 2,831,654	\$ 24,109	\$ 2,759,936
Special assessments			2,168	2,168	4,545
Franchise tax	68,500	68,500	64,447	(4,053)	80,539
Lodging tax	63,158	63,158	41,821	(21,337)	67,304
Total Taxes	2,939,203	2,939,203	2,940,090	887	2,912,324
<b>Licenses and Permits</b>					
Business licenses	20,020	20,020	14,788	(5,232)	18,680
Non-Business licenses	65,000	65,000	68,488	3,488	61,100
Total Licenses and Permits	85,020	85,020	83,276	(1,744)	79,780
<b>Intergovernmental Revenues</b>					
Federal:					
CARES act funding		330,185	330,185		
Other federal aids		101,915	101,915		
State:					
Local government aid	908,843	908,843	912,216	3,373	825,641
Market value credit					109
MSA street maintenance	70,000	70,000	76,490	6,490	70,636
Fire aid	50,000	60,139	61,849	1,710	52,711
Police aid	105,500	105,500	110,323	4,823	105,571
Other state aids	368,000	266,085	21,790	(244,295)	17,393
County:					
CARES county aid		248,000	248,000		
Total Intergovernmental	1,502,343	2,090,667	1,862,768	(227,899)	1,072,061
<b>Charges for Services</b>					
General government	265,350	265,350	265,137	(213)	275,370
Public safety	1,182,778	1,186,297	1,044,414	(141,883)	1,111,118
Streets and highways	14,500	14,500	25,306	10,806	25,168
Park fees	177,850	177,850	8,434	(169,416)	190,749
Total Charges for Services	1,640,478	1,643,997	1,343,291	(300,706)	1,602,405
<b>Fines and forfeits</b>					
	32,000	32,000	25,124	(6,876)	35,276
<b>Investment Income</b>					
	40,000	40,000	124,992	84,992	263,199
<b>Miscellaneous Revenues</b>					
Gift and contributions	104,100	104,200	17,975	(86,225)	33,838
Other	45,200	47,940	50,989	3,049	44,261
Refunds and reimbursements	5,000	5,000	10,863	5,863	11,441
Total Miscellaneous Revenues	154,300	157,140	79,827	(77,313)	89,540
<b>TOTAL REVENUES</b>	<b>\$ 6,393,344</b>	<b>\$ 6,988,027</b>	<b>\$ 6,459,368</b>	<b>\$ (528,659)</b>	<b>\$ 6,054,585</b>

**See Notes to Financial Statements**

**CITY OF LAKE CITY, MINNESOTA**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

For the Year Ended December 31, 2020

With Comparative Totals for the Year Ended December 31, 2019

	Budgeted Amounts		2020 Actual Amounts	Variance with Final Budget Positive (Negative)	2019 Actual Amounts
	Original	Final			
<b>EXPENDITURES</b>					
<b>General Government</b>					
<b>Mayor and City Council:</b>					
Personnel services	\$ 43,000	\$ 43,000	\$ 40,872	\$ 2,128	\$ 40,933
Supplies	6,500	9,752	4,527	5,225	2,374
Other services and charges	47,525	47,525	42,421	5,104	48,430
Capital outlay	35,000	35,000		35,000	6,000
Total Mayor and City Council	132,025	135,277	87,820	47,457	97,737
<b>City Administrator:</b>					
Personnel services	159,100	159,100	153,732	5,368	147,560
Supplies	550	550	310	240	238
Other services and charges	10,700	10,700	7,436	3,264	7,125
Total City Administrator	170,350	170,350	161,478	8,872	154,923
<b>City Clerk/Finance Director:</b>					
Personnel services	414,166	400,166	379,531	20,635	395,895
Supplies	4,000	8,741	5,953	2,788	2,581
Other services and charges	50,900	70,400	51,670	18,730	41,996
Total City Clerk/Finance Director	469,066	479,307	437,154	42,153	440,472
<b>Audit:</b>					
Other services and charges	25,000	25,000	22,700	2,300	24,525
<b>Legal:</b>					
Other services and charges	107,300	107,300	89,409	17,891	88,588
<b>Planning and Zoning:</b>					
Personnel services	174,664	174,664	174,833	(169)	167,015
Supplies	1,500	3,175	2,589	586	3,177
Other services and charges	109,800	118,800	97,655	21,145	98,948
Total Planning and Zoning	285,964	296,639	275,077	21,562	269,140
<b>Elections:</b>					
Personnel services	15,000	15,000	11,497	3,503	
Supplies	2,600	6,400	5,745	655	
Other services and charges	3,600	3,600	2,186	1,414	1,493
Total Elections	21,200	25,000	19,428	5,572	1,493
<b>General Government Buildings:</b>					
Other services and charges	104,342	104,342	104,343	(1)	89,402
Total General Government Buildings	104,342	104,342	104,343	(1)	89,402
Total General Government	\$ 1,315,247	\$ 1,343,215	\$ 1,197,409	\$ 145,806	\$ 1,166,280

**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, 2020

With Comparative Totals for the Year Ended December 31, 2019

	Budgeted Amounts		2020 Actual Amounts	Variance with Final Budget Positive (Negative)	2019 Actual Amounts
	Original	Final			
<b>EXPENDITURES</b>					
<b>Public Safety</b>					
<b>Police:</b>					
Personnel services	\$ 1,265,907	\$ 1,265,907	\$ 1,223,898	\$ 42,009	\$ 1,212,526
Supplies	60,200	75,188	68,396	6,792	57,803
Other services and charges	98,916	100,546	96,930	3,616	79,319
Capital outlay	22,000	48,443	46,859	1,584	39,079
Total Police	1,447,023	1,490,084	1,436,083	54,001	1,388,727
<b>Fire:</b>					
Personnel services	91,950	91,950	88,637	3,313	97,989
Supplies	33,000	27,651	27,144	507	36,806
Other services and charges	91,020	121,898	121,081	817	95,471
Capital outlay		56,448	56,448		981,995
Debt service	225,000	225,000	225,000		
Total Fire	440,970	522,947	518,310	4,637	1,212,261
<b>Ambulance:</b>					
Personnel services	996,000	1,031,000	1,021,018	9,982	932,346
Supplies	68,600	86,916	89,063	(2,147)	74,653
Other services and charges	188,572	188,572	140,240	48,332	133,050
Capital outlay	29,000	422,930	456,932	(34,002)	40,570
Total Ambulance	1,282,172	1,729,418	1,707,253	22,165	1,180,619
<b>Civil Defense:</b>					
Personnel services	26,170	26,170	21,120	5,050	23,484
Supplies	9,500	30,371	29,063	1,308	10,406
Other services and charges	4,500	1,684	1,683	1	3,785
Total Civil Defense	40,170	58,225	51,866	6,359	37,675
Total Public Safety	\$ 3,210,335	\$ 3,800,674	\$ 3,713,512	\$ 87,162	\$ 3,819,282

**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, 2020

With Comparative Totals for the Year Ended December 31, 2019

	Budgeted Amounts		2020 Actual Amounts	Variance with Final Budget Positive (Negative)	2019 Actual Amounts
	Original	Final			
<b>EXPENDITURES</b>					
<b>Streets and Highways</b>					
Personnel services	\$ 382,371	\$ 366,901	\$ 341,754	\$ 25,147	\$ 388,597
Supplies	54,500	46,953	45,380	1,573	55,875
Other services and charges	274,965	306,365	270,473	35,892	242,065
Capital outlay		13,327		13,327	179,903
Total Streets and Highways	711,836	733,546	657,607	75,939	866,440
<b>Culture and Recreation</b>					
<b>Lodging Tax:</b>					
Other services and charges	60,000	60,000	40,244	19,756	70,456
Total Tourism	60,000	60,000	40,244	19,756	70,456
<b>Summer Recreation:</b>					
Personnel services	9,200	9,200	1,295	7,905	6,089
Supplies	750	750		750	137
Other services and charges	1,500	1,500		1,500	368
Total Summer Recreation	11,450	11,450	1,295	10,155	6,594
<b>Swimming Pool:</b>					
Supplies	11,000	11,000	7,324	3,676	29,157
Other services and charges	122,879	102,879	102,279	600	117,866
Capital outlay					18,986
Total Swimming Pool	133,879	113,879	109,603	4,276	166,009
<b>Hok-Si-La Park:</b>					
Personnel services	98,999	137,849	126,609	11,240	125,758
Supplies	27,800	28,577	16,659	11,918	44,679
Other services and charges	67,769	68,069	55,899	12,170	67,457
Capital outlay	6,000	6,300	6,254	46	9,052
Total Hok-Si-La Park	\$ 200,568	\$ 240,795	\$ 205,421	\$ 35,374	\$ 246,946

**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, 2020

With Comparative Totals for the Year Ended December 31, 2019

	Budgeted Amounts		2020 Actual Amounts	Variance with Final Budget Positive (Negative)	2019 Actual Amounts
	Original	Final			
<b>Culture and Recreation (continued)</b>					
<b>Other Parks:</b>					
Personnel services	\$ 212,196	\$ 155,816	\$ 149,092	\$ 6,724	\$ 142,446
Supplies	32,500	33,856	26,774	7,082	38,329
Other services and charges	69,911	69,911	64,571	5,340	55,124
Capital outlay	766,000	782,768	126,222	656,546	69,936
Total Other Parks	1,080,607	1,042,351	366,659	675,692	305,835
Total Culture and Recreation	1,486,504	1,468,475	723,222	745,253	795,840
<b>Economic Development</b>	25,000	25,000	23,617	1,383	24,147
<b>TOTAL EXPENDITURES</b>	6,748,922	7,370,910	6,315,367	1,055,543	6,671,989
Excess (deficiency) of revenues over (under) expenditures	(355,578)	(382,883)	144,001	526,884	(617,404)
<b>OTHER FINANCING SOURCES (USES)</b>					
Debt issuance					685,182
Sale of property			36,500	36,500	142,600
Transfers in	810,000	810,000	810,000		810,000
Transfers out	(568,967)	(568,967)	(573,037)	(4,070)	(412,821)
Total Other Financing Sources (Uses)	241,033	241,033	273,463	32,430	1,224,961
<b>NET CHANGE IN FUND BALANCE</b>	(114,545)	(141,850)	417,464	559,314	607,557
<b>FUND BALANCE, beginning</b>	7,131,512	7,131,512	7,131,512		6,523,955
<b>FUND BALANCE, ending</b>	\$ 7,016,967	\$ 6,989,662	\$ 7,548,976	\$ 559,314	\$ 7,131,512

**See Notes to Financial Statements**

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**CITY OF LAKE CITY, MINNESOTA**  
**PROPRIETARY FUNDS**  
**STATEMENT OF NET POSITION**  
**December 31, 2020**  
*With Comparative Totals as of December 31, 2019*

	Business-Type Activities - Enterprise Funds			
	701	702	703	706
	Electric Fund	Water Fund	Sewer Fund	Storm Water Fund
<b>ASSETS AND DEFERRED OUTFLOWS</b>				
<b>OF RESOURCES</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 6,740,759	\$ 154,494	\$ 160,011	\$ 33,881
Accounts receivable	961,627	68,665	111,247	15,749
Advances to other funds	123,820			
Inventories	629,982			
Prepaid items	47,877	7,113	22,195	1,400
<b>Total Current Assets</b>	<b>8,504,065</b>	<b>230,272</b>	<b>293,453</b>	<b>51,030</b>
<b>Noncurrent Assets</b>				
Capital Assets				
Nondepreciable	107,525	4,738		97,400
Depreciable	16,913,871	5,574,804	12,609,919	3,073,325
Less: Accumulated depreciation	(11,277,798)	(2,504,063)	(8,806,832)	(1,486,043)
<b>Net Capital Assets</b>	<b>5,743,598</b>	<b>3,075,479</b>	<b>3,803,087</b>	<b>1,684,682</b>
Special Assessments		13,568		13,568
<b>Total Noncurrent Assets</b>	<b>5,743,598</b>	<b>3,089,047</b>	<b>3,803,087</b>	<b>1,698,250</b>
<b>Deferred Outflows of Resources</b>				
Deferred outflows from pension activity	63,524	20,128	22,588	1,991
<b>TOTAL ASSETS AND DEFERRED</b>				
<b>OUTFLOWS OF RESOURCES</b>				
	<b>\$ 14,311,187</b>	<b>\$ 3,339,447</b>	<b>\$ 4,119,128</b>	<b>\$ 1,751,271</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Current maturities of bonds payable	\$	\$ 65,000	\$ 298,000	\$ 40,000
Accounts payable	689,261	20,270	14,895	6,523
Accrued liabilities	24,347	5,567	10,022	3,881
Advances from other funds				50,000
Interfund payables				
Customer deposits	80,666			
<b>Total Current Liabilities</b>	<b>794,274</b>	<b>90,837</b>	<b>322,917</b>	<b>100,404</b>
<b>Noncurrent Liabilities</b>				
Bonds payable, net of current maturities and discount		316,377	623,000	224,601
Compensated absences payable	31,570	27,979	27,979	
Net pension liability	575,848	165,237	204,608	19,825
<b>Total Liabilities</b>	<b>1,401,692</b>	<b>600,430</b>	<b>1,178,504</b>	<b>344,830</b>
<b>Deferred Inflows of Resources</b>				
Deferred inflows from pension activity	26,657	7,646	9,472	916
<b>NET POSITION</b>				
Net investment in capital assets	5,743,598	2,694,102	2,882,087	1,420,081
Unrestricted	7,139,240	37,269	49,065	(14,556)
<b>Total Net Position</b>	<b>12,882,838</b>	<b>2,731,371</b>	<b>2,931,152</b>	<b>1,405,525</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS</b>				
<b>OF RESOURCES AND NET PENSION</b>				
	<b>\$ 14,311,187</b>	<b>\$ 3,339,447</b>	<b>\$ 4,119,128</b>	<b>\$ 1,751,271</b>

**See Notes to Financial Statements**

710 Marina Fund	720 Garbage Fund	TOTALS		Governmental Activities - Internal Service Fund	
		2020	2019	2020	2019
\$ 6,494,203	\$ 28,859	\$ 13,612,207	\$ 14,349,211	\$	\$
25,503	9,023	1,191,814	1,374,683		
81,987		205,807	279,247		
27,648		657,630	634,227		
41,249	579	120,413	103,993	115,630	104,668
<u>6,670,590</u>	<u>38,461</u>	<u>15,787,871</u>	<u>16,741,361</u>	<u>115,630</u>	<u>104,668</u>
613,727		823,390	878,316		
7,511,537		45,683,456	42,872,815		
(4,190,236)		(28,264,972)	(26,999,394)		
<u>3,935,028</u>		<u>18,241,874</u>	<u>16,751,737</u>		
		27,136	31,906		
<u>3,935,028</u>		<u>18,269,010</u>	<u>16,783,643</u>		
26,982	1,668	136,881	116,535		
<u>\$ 10,632,600</u>	<u>\$ 40,129</u>	<u>\$ 34,193,762</u>	<u>\$ 33,641,539</u>	<u>\$ 115,630</u>	<u>\$ 104,668</u>
\$	\$	\$ 403,000	\$ 473,000	\$	\$
3,458	38	734,445	721,779	14,950	
18	322	44,157	53,444		
		50,000	60,000		
		80,666	79,772	7,405	133,443
<u>3,476</u>	<u>360</u>	<u>1,312,268</u>	<u>1,387,995</u>	<u>22,355</u>	<u>133,443</u>
54,404		1,163,978	1,566,457		
260,330	14,549	141,932	139,938		
318,210	14,909	1,240,397	1,100,538		
		3,858,575	4,194,928	22,355	133,443
<u>12,050</u>	<u>674</u>	<u>57,415</u>	<u>213,980</u>		
3,935,028		16,674,896	14,712,280		
6,367,312	24,546	13,602,876	14,520,351	93,275	(28,775)
<u>10,302,340</u>	<u>24,546</u>	<u>30,277,772</u>	<u>29,232,631</u>	<u>93,275</u>	<u>(28,775)</u>
<u>\$ 10,632,600</u>	<u>\$ 40,129</u>	<u>\$ 34,193,762</u>	<u>\$ 33,641,539</u>	<u>\$ 115,630</u>	<u>\$ 104,668</u>

**CITY OF LAKE CITY, MINNESOTA**  
**PROPRIETARY FUNDS**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND NET POSITION**  
**For the Year Ended December 31, 2020**  
*With Comparative Totals for the Year Ended December 31, 2019*

	Business-Type Activities - Enterprise Funds			
	701 Electric Fund	702 Water Fund	703 Sewer Fund	706 Storm Water Fund
<b>Operating Revenue</b>	\$ 11,241,147	\$ 744,716	\$ 1,329,662	\$ 165,834
<b>Operating Expenses</b>				
Salaries and benefits	850,545	292,715	284,051	22,433
Supplies	45,277	25,223	48,627	11,900
Other services and charges	9,171,386	296,435	595,222	56,322
Insurance	60,215	10,323	32,488	691
Depreciation	464,410	141,406	392,286	98,277
Total Operating Expenses	10,591,833	766,102	1,352,674	189,623
<b>Operating Income (Loss)</b>	649,314	(21,386)	(23,012)	(23,789)
<b>Nonoperating Income (Expense)</b>				
Miscellaneous income	9,681	759	2,680	4,468
Investment income	127,731	3,873	7,081	21
Special assessments		807		807
Intergovernmental revenues	3,598	963	2,455	907
Gain (loss) on disposal of capital assets	(9,649)			
Interest expense		(12,108)	(34,473)	(9,899)
Total Nonoperating Income (Expense)	131,361	(5,706)	(22,257)	(3,696)
<b>Income (Loss) Before Transfers and Capital Grant</b>	780,675	(27,092)	(45,269)	(27,485)
Transfers in		353,317		200,897
Transfers out	(717,884)	(22,500)	(184,000)	
Capital grant	4,792			89,887
Change in net position	67,583	303,725	(229,269)	263,299
<b>Net Position, beginning</b>	12,815,255	2,427,646	3,160,421	1,142,226
<b>Net Position, ending</b>	\$ 12,882,838	\$ 2,731,371	\$ 2,931,152	\$ 1,405,525

**See Notes to Financial Statements**

710 Marina Fund	720 Garbage Fund	TOTALS		Governmental Activities - Internal Service Funds	
		2020	2019	2020	2019
\$ 2,199,993	\$ 249,267	\$ 15,930,619	\$ 16,801,346	\$ 464,000	\$ 400,000
416,750	20,744	1,887,238	1,820,795		
190,399	264	321,690	319,078	30,815	38,114
188,817	198,628	10,506,810	11,957,130	171,383	225,612
61,104		164,821	142,927	201,830	195,378
169,199		1,265,578	1,248,459		
1,026,269	219,636	14,146,137	15,488,389	404,028	459,104
1,173,724	29,631	1,784,482	1,312,957	59,972	(59,104)
37,338	10,412	65,338	418,739	11,680	5,623
133,439	1,539	273,684	576,507		
		1,614	1,726		
5,200		13,123		50,398	
		(9,649)	38,884		
		(56,480)	(70,158)		
175,977	11,951	287,630	965,698	62,078	5,623
1,349,701	41,582	2,072,112	2,278,655	122,050	(53,481)
		554,214			
(645,000)	(111,100)	(1,680,484)	(870,000)		
	4,620	99,299	10,000		
704,701	(64,898)	1,045,141	1,418,655	122,050	(53,481)
9,597,639	89,444	29,232,631	27,813,976	(28,775)	24,706
\$ 10,302,340	\$ 24,546	\$ 30,277,772	\$ 29,232,631	\$ 93,275	\$ (28,775)

**CITY OF LAKE CITY, MINNESOTA**  
**ENTERPRISE FUNDS**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2020**  
*With Comparative Totals for the Year Ended December 31, 2019*

	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	\$ 11,488,760	\$ 714,901	\$ 1,279,829	\$ 161,633
Cash paid to suppliers	(9,366,421)	(313,676)	(662,694)	(63,061)
Cash paid to employees	(873,784)	(297,859)	(292,782)	(23,525)
Net Cash Provided By (Used In) Operating Activities	<u>1,248,555</u>	<u>103,366</u>	<u>324,353</u>	<u>75,047</u>
<b>Cash Flows From Noncapital Financing Activities</b>				
Advances from/ (to) other funds	33,649			(10,000)
Intergovernmental revenues	3,598	963	2,455	907
Operating transfers in		353,317		200,897
Operating transfers out	(717,884)	(22,500)	(184,000)	
Net Cash Provided By (Used In) Noncapital Financing Activities	<u>(680,637)</u>	<u>331,780</u>	<u>(181,545)</u>	<u>191,804</u>
<b>Cash Flows From Capital and Related Financing Activities</b>				
Principal received on special assessments		3,192		3,192
Acquisition of capital assets	(168,507)	(1,260,209)	(147,035)	(408,810)
Cash received from grant	4,792			89,887
Cash received for disposal of capital assets				
Interest paid on debt		(12,070)	(34,473)	(9,416)
Principal paid on debt		(65,000)	(368,000)	(40,000)
Net Cash Provided By (Used In) Capital and Related Financing Activities	<u>(163,715)</u>	<u>(1,334,087)</u>	<u>(549,508)</u>	<u>(365,147)</u>
<b>Cash Flows From Investing Activities</b>				
Investment income	127,731	3,873	7,081	21
Net Cash Provided By Investing Activities	<u>127,731</u>	<u>3,873</u>	<u>7,081</u>	<u>21</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>				
	531,934	(895,068)	(399,619)	(98,275)
<b>Cash and Cash Equivalents, beginning</b>	<u>6,208,825</u>	<u>1,049,562</u>	<u>559,630</u>	<u>132,156</u>
<b>Cash and Cash Equivalents, ending</b>	<u>\$ 6,740,759</u>	<u>\$ 154,494</u>	<u>\$ 160,011</u>	<u>\$ 33,881</u>

**See Notes to Financial Statements**



Marina Fund	Garbage Fund	TOTALS		Governmental Activities - Internal Service Fund	
		2020	2019	2020	2019
\$ 2,243,886	\$ 290,711	\$ 16,179,720	\$ 17,486,959	\$ 475,680	\$ 405,623
(426,205)	(198,070)	(11,030,127)	(12,641,090)	(400,040)	(507,362)
(418,658)	(24,975)	(1,931,583)	(1,793,042)		
1,399,023	67,666	3,218,010	3,052,827	75,640	(101,739)
39,791		63,440	38,318	(126,038)	101,739
5,200		13,123		50,398	
		554,214			
(645,000)	(111,100)	(1,680,484)	(870,000)		
(600,009)	(111,100)	(1,049,707)	(831,682)	(75,640)	101,739
		6,384	9,483		
(771,154)		(2,755,715)	(799,522)		
	4,620	99,299	10,000		
			40,000		
		(55,959)	(69,635)		
		(473,000)	(461,000)		
(771,154)	4,620	(3,178,991)	(1,270,674)		
133,439	1,539	273,684	576,507		
133,439	1,539	273,684	576,507		
161,299	(37,275)	(737,004)	1,526,978		
6,332,904	66,134	14,349,211	12,822,233		
\$ 6,494,203	\$ 28,859	\$ 13,612,207	\$ 14,349,211	\$	\$

**CITY OF LAKE CITY, MINNESOTA**  
**ENTERPRISE FUNDS**  
**STATEMENT OF CASH FLOWS**  
For the Year Ended December 31, 2020  
*With Comparative Totals for the Year Ended December 31, 2019*

**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>	\$ 649,314	\$ (21,386)	\$ (23,012)	\$ (23,789)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	464,410	141,406	392,286	98,277
Other	32	759	2,680	4,468
(Increase) Decrease In:				
Accounts receivable	237,038	(30,574)	(52,513)	(8,669)
Inventories	(39,466)			
Prepaid expenses	(10,565)	(1,965)	(1,252)	(671)
Increase (Decrease) In:				
Accounts payable	(29,863)	20,270	14,895	6,523
Accrued liabilities	(354)	(766)	(3,967)	(521)
Pension related	(16,317)	(5,872)	(6,259)	(571)
Compensated absences	(6,568)	1,494	1,495	
Customer deposits	894			
<b>Net Cash Provided By (Used In) Operating Activities</b>	<b>\$ 1,248,555</b>	<b>\$ 103,366</b>	<b>\$ 324,353</b>	<b>\$ 75,047</b>
<b>Noncash Investing, Capital and Financing Activities</b>				
Amortization of bond discount/premium	\$	\$ 38	\$	\$ 483

**See Notes to Financial Statements**

Marina Fund	Garbage Fund	TOTALS		Governmental Activities - Internal Service Fund	
		2020	2019	2020	2019
\$ 1,173,724	\$ 29,631	\$ 1,784,482	\$ 1,312,957	\$ 59,972	\$ (59,104)
169,199		1,265,578	1,248,459		
37,338	10,412	55,689	418,739	11,680	5,623
6,555	31,032	182,869	276,118		
16,063		(23,403)	(17,272)		
(2,751)	784	(16,420)	(43,296)	(10,962)	(48,258)
803	38	12,666	(161,387)	14,950	
18	(3,697)	(9,287)	(7,474)		
(7,499)	(534)	(37,052)	38,320		
5,573		1,994	(3,093)		
		894	(9,244)		
<u>\$ 1,399,023</u>	<u>\$ 67,666</u>	<u>\$ 3,218,010</u>	<u>\$ 3,052,827</u>	<u>\$ 75,640</u>	<u>\$ (101,739)</u>
\$	\$	\$ 521	\$ 523	\$	\$

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**CITY OF LAKE CITY, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

# 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

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities, boards, commissions, and other organization's which are not legally separate from the City. In addition, the City's financial statements are to include all component units – entities for which the City is financially accountable.

*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.

The Lake City Fire Department Relief Association is organized as a non-profit organization to provide pension and other benefits to its members in accordance with Minnesota statutes. The board of directors is appointed by the membership of the organization. All funding is conducted in accordance with Minnesota Statutes, whereby state aids flow to the association and the association pays benefits directly to its members. The entity is excluded from the financial statement presentation as it is not fiscally dependent on the City, the economic resources of the Relief are not held for the direct benefit of the City and the City is not entitled to nor does it have the ability to access the Relief's economic resources.

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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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.

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 *2018 Small Cities Development Program Fund* accounts for the financial resources to be used for rehabilitate commercial and mixed-use buildings.

The *Block 25 Redev TIF #13 fund* accounts for the accumulation of resources for TIF District #13.

The *capital project fund* accounts for the accumulation of resources for City capital projects.

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 Fund* are used to account for the City's insurance, utilities, repairs and maintenance expenditures of the General and Library funds.



**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)

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.
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.

**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, Deferred Outflows and Inflows of Resources, Liabilities, and Net Position or Fund Balance

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.

Prepaid Items

The City uses the consumption method to record certain payments to vendors that reflect costs applicable to future accounting periods and are recorded as prepaid expenses in both government-wide and fund financial statements.

Prepaid expenses in governmental funds are equally offset by a fund balance reserve which indicates that they do not constitute available spendable resources even though they are a component of net current assets.

**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

---

Assets, Deferred Outflows and Inflows of Resources, Liabilities, and Net Position or Fund Balance (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 2.0% to 6.0%. 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 acquisition value at the date of donation.

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

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

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

---

1. Summary of Significant Accounting Policies (Continued)

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Assets, Deferred Outflows and Inflows of Resources, Liabilities, and Net Position or Fund Balance (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

Property held for Resale

Property held for resale is reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Property held of resale is recorded at net realizable value. Donated property held for resale is recorded at estimated acquisition value on the date of donation.

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.

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, Deferred Outflows and Inflows of Resources, Liabilities, and Net Position or Fund Balance (Continued)

Long-term Obligations (continued)

Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the year of issuance.

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.

Deferred Outflows of Resources

In addition to assets, the financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The City has one type of deferred outflow which is pension related and reported on the statement of net position.

Deferred Inflows of Resources

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City recognized two types of deferred inflows. The first type occurs because governmental fund revenues are not recognized until available under the modified accrual basis of accounting. The second type is pension related and reported on the statement of net position.

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, 2019 totals column have been reclassified to conform with the current year presentation.

**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, Deferred Outflows and Inflows of Resources, Liabilities, and Net Position or Fund Balance (Continued)

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 “net investment in capital assets” 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.

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.

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, Deferred Outflows and Inflows of Resources, Liabilities, and Net Position or Fund Balance (Continued)

Interfund Transactions (Continued)

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.

Use of Estimates

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

Concentration of Credit Risk

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

Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments, and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

---

**2. Cash and Investments**

---

Summary of Cash and Investments

As of December 31, 2020, the City's investments consisted of the following items, all of which are held in an internal investment pool:

Deposits	\$ 2,083,940
Investments	<u>20,675,256</u>
Cash and Investments Per Statement of Net Position	<u><u>\$ 22,759,196</u></u>

Investment	Fair Value	Investment Rating	
		S&P	MOODY
Money Market Mutual Funds	\$ 1,853,592	N/A	N/A
Mutual Funds	52,068	N/A	N/A
Non-Negotiable CD's	8,472,463	N/A	N/A
US Treasury Bonds	60,090	AA+	AAA
Federal Home Loan Bank	500,000	AA+	AAA
Municipal Bonds	5,116,529	AA+	AAA
Federal Farm Credit Bank	2,119,780	AA+	AAA
Federal Home Loan Mortgage Corp	2,500,734	AA+	AAA
	<u>\$ 20,675,256</u>		

Collateralization of Cash Deposits

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

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

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



**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.

*Fair Value Measurements*

Fair value measurements are determined utilizing the framework established by the Governmental Accounting Standards Board. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

*Fair Value Measurements (continued)*

The three levels of the fair value hierarchy are as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the City has the ability to access.
- Level 2: Inputs to the valuation methodology include:
  - Quoted prices for similar assets or liabilities in active markets
  - Quoted prices for identical assets or liabilities in inactive markets
  - Inputs other than quoted prices that are observable for the asset or liability
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means

If the asset or liability has a specific (contractual) term, Level 2 input must be observable for substantially the full term of the asset or liability

- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The City's investment within the fair value hierarchy at December 31, 2020 and 2019 were as follows:

At December 31, 2020				
	Assets			
	Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Mutual Funds	\$ 52,068	\$	\$ 52,068	\$
Federal Home Loan Bank	500,000	500,000		
Municipal Bonds	5,116,529	5,116,529		
Federal Farm Credit Bank	2,119,780	2,119,780		
Federal Home Loan Mortgage Corp	2,500,734	2,500,734		
	<b>\$ 10,289,111</b>	<b>\$ 10,237,043</b>	<b>\$ 52,068</b>	<b>\$</b>

At December 31, 2019				
	Assets			
	Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Mutual Funds	\$ 260,814	\$	\$ 260,814	\$
Federal Home Loan Bank	1,256,493	1,256,493		
Federal Farm Credit Bank	1,497,045	1,497,045		
Federal Home Loan Mortgage Corp	2,249,698	2,249,698		
	<b>\$ 5,264,050</b>	<b>\$ 5,003,236</b>	<b>\$ 260,814</b>	<b>\$</b>

**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

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.

	Fair Value	12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months
Money Market Mutual Funds	\$ 1,853,592	\$ 1,853,592	\$	\$	\$
Mutual Funds	52,068	52,068			
Non-Negotiable CD's	8,472,463	4,669,704	2,011,688	1,545,748	245,323
US Treasury Bonds	60,090			38,411	21,679
Federal Home Loan Bank	500,000	500,000			
Municipal Bonds	5,116,529	5,116,529			
Federal Farm Credit Bank	2,119,780	2,119,780			
Federal Home Loan Mortgage Corp	2,500,734	2,500,734			
<b>Total</b>	<b>\$ 20,675,256</b>	<b>\$ 16,812,407</b>	<b>\$ 2,011,688</b>	<b>\$ 1,584,159</b>	<b>\$ 267,002</b>

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>Percent of Total</u>
Non-Negotiable CD's	41%
Federal Farm Credit Bank	10%
Municipal Bonds	25%
Federal Home Loan Mortgage Corp	12%

**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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**3. Loans Receivables**

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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 5 to 6% 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, 2020 totaled \$25,245.

Southeastern Minnesota Multi-County Housing and Redevelopment Authority

The City of Lake City through its 2018 Small Cities Development Program Fund participates in the federally funded Small City Grant Program. Repayments of single family, multi-family rental and commercial rehabilitation through this program are allowed to be used by the City for additional future rehab loans through the establishment Fund. The Fund has outstanding loan receivable totaling \$303,949.

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**4. Stewardship, Compliance, and Accountability**

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Certain funds had a deficit fund balance at December 31, 2020, as follows:

Special Revenue Funds:		
Tax increment TIF #13	\$	239,642
Capital Project Funds		
Capital Projects		52,046

These deficits will be eliminated through future tax levies.

**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**5. Capital Assets**

Capital asset activity for the year ended December 31, 2020 was as follows:

<b>Governmental Activities</b>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 1,342,607	\$	\$	\$ 1,342,607
Construction in progress	867,967	215,024	809,735	273,256
Total capital assets, not being depreciated	<u>2,210,574</u>	<u>215,024</u>	<u>809,735</u>	<u>1,615,863</u>
Capital assets, being depreciated:				
Buildings	17,660,696	8,525		17,669,221
Improvements other than buildings	474,901			474,901
Infrastructure	19,217,164	3,406,674		22,623,838
Machinery and equipment	6,672,643	726,534	237,484	7,161,693
Total capital assets, being depreciated	<u>44,025,404</u>	<u>4,141,733</u>	<u>237,484</u>	<u>47,929,653</u>
Less accumulated depreciation for:				
Buildings	8,024,256	377,934		8,402,190
Improvements other than buildings	254,596	20,734		275,330
Infrastructure	10,421,602	563,104		10,984,706
Machinery and equipment	3,523,302	336,367	231,483	3,628,186
Total accumulated depreciation	<u>22,223,756</u>	<u>1,298,139</u>	<u>231,483</u>	<u>23,290,412</u>
Total capital assets, being depreciated, net	<u>21,801,648</u>	<u>2,843,594</u>	<u>6,001</u>	<u>24,639,241</u>
Governmental activities capital assets, net	<u>\$ 24,012,222</u>	<u>\$ 3,058,618</u>	<u>\$ 815,736</u>	<u>\$ 26,255,104</u>

**Governmental Activities:**

General government	\$ 363,983
Public safety	172,726
Streets and highways	618,263
Culture and recreation	143,167
Total depreciation expense - governmental activities	<u>\$ 1,298,139</u>

**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**5. Capital Assets (Continued)**

<b>Business-Type Activities</b>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 725,300	\$	\$	\$ 725,300
Construction in progress	153,016	97,625	152,551	98,090
Total capital assets, not being depreciated	<u>878,316</u>	<u>97,625</u>	<u>152,551</u>	<u>823,390</u>
Capital assets, being depreciated:				
Buildings and improvements	14,590,410	736,737		15,327,147
Distribution and collection system	24,515,050	1,668,441		26,183,491
Machinery and equipment	3,767,355	405,463		4,172,818
Total capital assets, being depreciated	<u>42,872,815</u>	<u>2,810,641</u>		<u>45,683,456</u>
Less accumulated depreciation for:				
Buildings and improvements	8,715,968	441,799		9,157,767
Distribution and collection system	15,476,325	679,599		16,155,924
Machinery and equipment	2,807,101	144,180		2,951,281
Total accumulated depreciation	<u>26,999,394</u>	<u>1,265,578</u>		<u>28,264,972</u>
Total capital assets, being depreciated, net	<u>15,873,421</u>	<u>1,545,063</u>		<u>17,418,484</u>
Business-type activities capital assets, net	<u>\$ 16,751,737</u>	<u>\$ 1,642,688</u>	<u>\$ 152,551</u>	<u>\$ 18,241,874</u>

**Business-Type Activities:**

Electric	\$ 464,410
Water	141,406
Sewer	392,286
Stormwater	98,277
Marina	169,199
Total depreciation expense - business-type activities	<u>\$ 1,265,578</u>

**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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**6. Due From Other Governmental Units**

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Amounts due from other governmental units at December 31, 2020 are as follows:

Fund	Due from various Counties	State of Minnesota	Total
General	\$ 25,141	\$ 6,606	\$ 31,747
Economic development authority	514		514
Total	<u>\$ 25,655</u>	<u>\$ 6,606</u>	<u>\$ 32,261</u>

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**7. Tax Abatement**

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The City may enter into tax abatement agreements as authorized by Minnesota Abatement Laws under State Statutes Sections 469.1812, 469.1813 and 469.1815. Any parcel of property in the City qualifies for tax abatement. The City negotiates tax abatement agreements on an individual basis generally with the purpose of adding employment and or increasing the tax capacity of the parcel.

The City has made no commitments, other than tax abatement, under the agreements. The taxpayer submits property taxes annually and is reimbursed by the City for the abatement amount if the taxpayer has filed reports substantiating that it has met the employment levels stipulated in the agreement. The City had the following tax abatement agreements as of December 31, 2020.

Lake City Partners MN, LLC

The City entered into a tax abatement agreement in August 2014 for the purpose of construction of a market-rate housing for seniors. Under the agreement, the tax abatement is based on the property's tax capacity after development and the city's tax rate. The amount abated under this agreement may not exceed \$68,847 per year or \$600,000 over the nine-year term (payable 2017-2025). The amount abated in 2020 totaled \$23,617.

**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**8. Interfund Balances and Transfers**

The amounts advanced to and advanced from other funds as of December 31, 2020 at the individual fund level are summarized below:

	<u>Advances to Other Funds</u>	<u>Advances from Other Funds</u>
General Fund	\$ 201,185	\$ 88,917
Special Revenue Funds:		
Tax Increment TIF #13		239,642
Capital Project Funds:		
Capital Projects		28,433
Enterprise Fund:		
Electric	123,820	
Storm Water		50,000
Marina	81,987	
	<u>\$ 406,992</u>	<u>\$ 406,992</u>

Balances of interfund receivables and payables as of December 31, 2020 at the individual fund level for year-end cash deficiencies are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 7,405	\$
Internal Service Fund		7,405
	<u>\$ 7,405</u>	<u>\$ 7,405</u>



CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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8. Interfund Balances and Transfers (Continued)

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Operating transfers primarily from payments in lieu of taxes during the year ended December 31, 2020 were as follows:

Funds	Transfers In	Transfers Out
General Fund	\$ 810,000	\$ 573,037
Special Revenue:		
Library	60,000	
Tax increment TIF #16	2,384	
Capital Project Funds:		
Capital Projects	826,923	
Enterprise:		
Electric		717,884
Water	353,317	22,500
Sewer		184,000
Storm water	200,897	
Marina		645,000
Garbage		111,100
	\$ 2,253,521	\$ 2,253,521

**9. 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.

**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 Notes:**

The Public Facilities Notes of 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.

**General Obligation Crossover Refunding Bonds:**

General Obligation Crossover Refunding Bonds, Series 2015A were issued to crossover refund the City's General Obligation Bonds, Series 2008A on their first available call date, February 1, 2016. The refunding resulted in an economic savings of \$63,629 with a present value of \$58,697.

**Equipment Lease Payable:**

The Equipment Lease Payable was issued to fund the purchase of a ladder fire truck. It is a capital lease agreement with an annual interest rate of 4.51% and a final payment date of January 11, 2024.

**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

A summary of long-term debt obligations outstanding at December 31, 2020 is as follows:

	Range of Interest Rates	Final Maturity	Balance December 31, 2020
<u>Governmental Activities</u>			
G.O. Improvement Bonds:			
G.O. Improvement Bonds of 2012A	0.4%-2.15%	2023	\$ 450,000
G.O. Improvement Bonds of 2013A	1.00%-2.35%	2024	655,000
G.O. Refunding Bonds of 2013B	1.5%-2.5%	2022	90,000
G.O. Crossover Refunding Bonds of 2015A	2.00%	2024	360,000
G.O. Street Reconstruction Bonds of 2018A	3.00%	2029	725,000
Equipment lease payable	4.51%	2024	491,084
Compensated Absences			402,638
<u>Business-Type Activities</u>			
G.O. Improvement Bonds:			
G.O. Crossover Refunding Bonds of 2015A	2.00%	2024	115,000
General Obligation Revenue Bonds:			
G.O. Utility Revenue Bonds of 2010A	2%-3.75%	2026	535,000
Public Facilities Note of 2002	2.99%	2023	921,000
Compensated Absences			141,932
Sub-total			4,886,654
Less: Unamortized discount			(7,360)
Plus: Unamortized premiums			18,127
Total			\$ 4,897,421

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Long-Term Debt (Continued)

The following is a summary of changes in long-term debt obligations for the year ended December 31, 2020:

	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 2012A	\$ 590,000	\$	\$ 140,000	\$ 450,000	\$ 145,000
Less: Unamortized Discount	(2,343)		(781)	(1,562)	
G.O. Improvement Bonds of 2013A	815,000		160,000	655,000	160,000
G.O. Refunding Bonds of 2013B	130,000		40,000	90,000	45,000
G.O. Crossover Refunding Bonds of 2015A	445,000		85,000	360,000	90,000
Plus: Amortized Premium	7,371		1,475	5,896	
G.O. Street Reconstruction Bonds of 2018A	795,000		70,000	725,000	75,000
Plus: Amortized Premium	11,617		1,162	10,455	
Equipment lease payable	685,182		194,098	491,084	202,852
Subtotal	3,476,827		690,954	2,785,873	717,852
Other liabilities:					
Compensated Absences	376,149	64,597	38,108	402,638	
Governmental Activities					
Long-term Liabilities	3,852,976	64,597	729,062	3,188,511	717,852
<b>BUSINESS-TYPE ACTIVITIES</b>					
General Obligation Bonds:					
G.O. Crossover Refunding Bonds of 2015A	140,000		25,000	115,000	25,000
Plus: Amortized Premium	2,221		445	1,776	
General Obligation Revenue Bonds:					
G.O. Utility Revenue Bonds of 2010A	615,000		80,000	535,000	80,000
Less: Unamortized Discount	(6,764)		(966)	(5,798)	
Public Facilities Note of 1999	78,000		78,000		
Public Facilities Note of 2002	1,211,000		290,000	921,000	298,000
Subtotal	2,039,457		472,479	1,566,978	403,000
Other liabilities:					
Compensated Absences	139,938	3,988	1,994	141,932	
Business-type Activities					
Long-term Liabilities	2,179,395	3,988	474,473	1,708,910	403,000
Total	\$ 6,032,371	\$ 68,585	\$ 1,203,535	\$ 4,897,421	\$ 1,120,852

**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

The annual requirements to amortize long-term debt obligations outstanding at December 31, 2020, excluding accrued compensated absences are summarized below.

Years	General Obligation Bonds		General Obligation Revenue Bonds		Other	
	Principal	Interest	Principal	Interest	Principal	Interest
<u>Governmental Activities</u>						
2021	\$ 515,000	\$ 49,650			\$ 202,852	\$ 22,148
2022	520,000	38,706			212,001	12,999
2023	485,000	27,515			37,275	3,438
2024	340,000	17,915			38,956	1,757
2025	80,000	12,600				
2026-2029	340,000	25,950				
Totals	<u>\$ 2,280,000</u>	<u>\$ 172,336</u>			<u>\$ 491,084</u>	<u>\$ 40,342</u>

Business-Type Activities

2021	\$ 25,000	\$ 1,971	\$ 378,000	\$ 44,912
2022	25,000	1,428	392,000	33,349
2023	35,000	862	401,000	21,279
2024	30,000	283	90,000	8,769
2025			95,000	5,472
2026			100,000	1,875
Totals	<u>\$ 115,000</u>	<u>\$ 4,544</u>	<u>\$ 1,456,000</u>	<u>\$ 115,656</u>

**10. 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.

**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

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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.

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 2020.

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 2020. 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.

Purchase Power Agreement

The City purchases power from the Southern Minnesota Municipal Power Agency (SMMPA) under a power sales contract dated January 1, 2010. 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 April 1, 2050.

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

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Plan Description

The City of City of Lake City, Minnesota participates in the following cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

1. General Employees Retirement Plan - All full-time and certain part-time employees of the City are covered by General Employees Plan. General Employees Plan members belong to either the Coordinated Plan. Coordinated Plan members are covered by Social Security.
2. Public Employees Police and Fire Plan - The Police and Fire Plan, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the Police and Fire Plan also covers police officers and firefighters belonging to local relief associations that elected to merge with and transfer assets and administration to PERA.

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. Vested Terminated employees who are entitled to benefits, but not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

1. General Employees Plan Benefits

General Employees Plan 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 Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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11. Defined Benefit Pension Plans – Statewide (Continued)

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Benefits Provided (continued)

Benefit increases are provided to benefit recipients each January. Beginning in 2019, the postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

2. Police and Fire Plan Benefits

Benefits for Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3 percent of average salary for each year of service. A full, unreduced pension is earned when members are age 55 and vested, or for members who were first hired prior to July 1, 1989, when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. Beginning in 2019, the postretirement increase will be fixed at 1 percent. Recipients that have been receiving the annuity or benefit for at least 36 months as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

Contributions

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

1. General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2020 and the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2020, were \$240,129. The City's contributions were equal to the required contributions as set by state statute.



**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

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Contributions (continued)

2. Police and Fire Fund Contributions

Police and Fire member's contribution rates increased from 11.3 percent of pay to 11.8 percent and employer rates increased from 16.95 percent to 17.70 percent on January 1, 2020. The City's contributions to the Police and Fire Fund for the year ended December 31, 2020, were \$134,969. The City's contributions were equal to the required contributions as set by state statute.

Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2020, the City reported a liability of \$2,691,960 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$83,038. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2019 through June 30, 2020, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0449 percent at the end of the measurement period and 0.0432 percent for the beginning of the period.

City's proportionate share of net pension liability	\$ 2,691,960
State of Minnesota's proportionate share of the net pension liability associated with the City	\$ 83,038

For the year ended December 31, 2020, the City recognized pension expense of (\$39,065) for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$7,227 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

*Pension Costs (continued)*

At December 31, 2020, the City reported its proportionate share of the General Employees Plan’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 23,588	\$ 10,185
Difference between projected and actual investment earnings	57,647	
Changes in actuarial assumptions		96,870
Changes in proportion	103,771	17,555
Contributions paid to PERA subsequent to the measurement date	120,553	
Total	<u>\$ 305,559</u>	<u>\$ 124,610</u>

The \$120,553 reported as deferred outflows of resources related to pensions City contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability during the year ending December 31, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	Pension Expense Amount
2021	\$ (120,067)
2022	40,895
2023	74,527
2024	65,041

**2. Police and Fire Fund Pension Costs**

At December 31, 2020 the City reported a liability of \$909,494 for its proportionate share of the Police and Fire Fund’s net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City’s proportion of the net pension liability was based on the City’s contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2019 through June 30, 2020, relative to the total employer contributions received from all of PERA’s participating employers. The City’s proportion share was 0.0690 percent at the end of the measurement period and 0.0714 percent for the beginning of the period.

**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

*Pension Costs (continued)*

The State of Minnesota also contributed \$13.5 million to the Police and Fire Fund in the plan fiscal year ended June 30, 2020. The contribution consisted of \$4.5 million in direct state aid that does meet the definition of a special funding situation and \$9.0 million in fire state aid that does not meet the definition of a special funding situation. The \$4.5 million direct state was paid on October 1, 2019. Thereafter, by October 1 of each year, the state will pay \$9 million to the Police and Fire Fund until full funding is reached or July 1, 2048, whichever is earlier. The \$9 million in fire state aid will continue until the fund is 90 percent funded, or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90 percent funded, whichever occurs later.

As a result, the State of Minnesota is included as a non-employer contributing entity in the Police and Fire Retirement Plan Schedule of Employer Allocations and Schedule of Pension Amounts by Employer, Current Reporting Period Only (pension allocation schedules) for the \$4.5 million in direct state aid. Police and Fire Plan employers need to recognize their proportionate share of the State of Minnesota’s pension expense (and grant revenue) under GASB 68 special funding situation accounting and financial reporting requirements. For the year ended December 31, 2020, the City recognized pension expense of \$21,449 for its proportionate share of the Police and Fire Plan’s pension expense. In addition, the City recognized an additional \$6,599 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota’s contribution of \$4.5 million to the Police and Fire Fund.

The State of Minnesota is not included as a non-employer contributing entity in the Police and Fire Pension Plan pension allocation schedules for the \$9 million in fire state aid. The City also recognized (\$35,569) for the year ended December 31, 2020 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota’s on-behalf contributions to the Police and Fire Fund.

At December 31, 2020, the City reported its proportionate share of the Police and Fire Plan’s deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 27,440	\$ 45,069
Difference between projected and actual investment earnings	26,686	
Changes in actuarial assumptions	318,042	30,503
Changes in proportion	11,390	21,318
Contributions paid to PERA subsequent to the measurement date	73,263	
Total	<u>\$ 456,821</u>	<u>\$ 96,890</u>

The \$73,263 reported as deferred outflows of resources related to pensions from City contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability during the year ending December 31, 2021.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Defined Benefit Pension Plans – Statewide (Continued)

Pension Costs (continued)

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	Pension Expense Amount
2021	\$ 205,631
2022	5,803
2023	35,850
2024	39,384

Total Pension Expense

Pension expense recognized by the City for the year ended December 31, 2020 is as follows:

General Employees Fund	\$ (31,838)
Police and Fire Fund	(27,048)
Fire Relief	(33,647)
	<u>\$ (92,533)</u>

Actuarial Assumptions

The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions:

	General Employees Plan	Police & Fire Plan
<b>Inflation</b>	2.25% per year	2.50% per year
<b>Active Member Payroll Growth</b>	3.00% per year	3.25% per year
<b>Investment Rate of Return</b>	7.50%	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA’s experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the General Employees Plan and 1.0 percent per year for the Police and Fire Plan.

Actuarial assumptions used in the June 30, 2020 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and become effective with the July 1, 2020 actuarial valuation. The most recent four-year experience studies for the Police and Fire Plan was completed in 2020. The recommended assumptions for those plans were adopted by the Board and will be effective with the July 1, 2021 actuarial valuations if approved by the Legislature.

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

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Actuarial Assumptions (continued)

The following changes in actuarial assumptions and plan provisions occurred in 2020:

1. General Employees Fund

Changes in Actuarial Assumptions:

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB- 2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions:

- Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Defined Benefit Pension Plans – Statewide (Continued)

Actuarial Assumptions (continued)

2. Police and Fire Fund

Changes in Actuarial Assumptions:

- The morality projection scale was changed from MP-2018 to MP-2019.

Changes in Plan Provisions:

- There have been no changes since the prior valuation.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Domestic Stocks	35.5%	5.10%
International Stocks	17.5%	5.30%
Fixed Income	20.0%	0.75%
Private Markets	25.0%	5.90%
Cash	2.0%	0.00%
	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability in 2020 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund and the Police and Fire Fund, were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Defined Benefit Pension Plans – Statewide (Continued)

Pension Liability Sensitivity

The following presents the City’s proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

**Sensitivity Analysis**  
*Net Pension Liability (Asset) at Different Discount Rates*

	General Employees Fund		Police and Fire Fund	
1% Lower	6.50%	\$ 4,314,278	6.50%	\$ 1,812,752
Current Discount Rate	7.50%	\$ 2,691,960	7.50%	\$ 909,494
1% Higher	8.50%	\$ 1,353,678	8.50%	\$ 162,206

Pension Plan Fiduciary Net Position

Detailed information about each pension plan’s fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org).

**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

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Plan Description

Firefighters of the City of Lake City are members of the Lake City Fire Department Relief Association (Association). The Association is the administrator of the single-employer defined benefit pension plan available to firefighters. The plan is administrated pursuant to Minnesota Statutes Chapter 69, Chapter 424A, and the Association's by-laws. As of December 31, 2020, membership includes 22 active members and 8 terminated employees entitled to benefit but not yet receiving them. The plan issues a stand-alone financial statement. This is the most recent financial statement available.

Benefits Provided

Authority for payment of pension benefits is established in *Minnesota Statutes* 69.77 and may be amended only by the Minnesota State Legislature. Each member who is at least 50 years of age, has retired from the Fire Department, has served at least 20 years of active service with such department shall be entitled to a lump sum service pension in the amount of \$6,000 for each year of active Fire Department service (including each year over 20) but not exceeding the maximum amount per year of service allowed by law for the minimum average amount of available financing per firefighter as prescribed by law.

Pursuant to *Minnesota Statutes* 424A.02, Subds. 2 and 4, members who retire with 10 years of service and have reached the age of 50 years are eligible for a retirement benefit. Members who retire before full retirement age and years of service requirements are eligible for a reduced benefit, based on the vesting schedule as set forth in *Minnesota Statutes* 424A.02 Subd. 2(c). During the time a member is on early vested pension, they will not be eligible for disability benefits.

If a member of the Association shall become permanently or totally disabled, the Association shall pay the sum \$6,000 for each year the member was an active member of the Lake City Fire Department. If a member who received a disability pension subsequently recovers and returns to active duty, the disability pension is deducted from the service pension. A death benefit is also available, which is payable to a survivor.

*Minnesota Statutes* Section 424A.10 provides for the payment of a supplemental benefit equal to 20% of a regular lump sum distribution up to a maximum of \$2,000. The supplemental benefit is in lieu of state income tax exclusion for lump sum distributions and will no longer be available fi the state tax law is modified to exclude lump sum distributions from state income tax. The Association qualifies for these benefits.

Contributions

*Minnesota Statutes* Chapter 69.772 specifies minimum support rates required on an annual basis. The minimum support rates from the municipality are determined as the amount required to meet the normal cost plus amortizing any existing prior service costs over a 10-year period. The significant actuarial assumptions used to compute the municipal support are the same as those used to compute the accrued pension liability. The Association is comprised of volunteers; therefore, there are no payroll expenditures.



**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

Contributions (continued)

The minimum contribution from the City of Lake City and state aid is determined as follows:

	Normal Cost	
+	Amortization Payment on Unfunded Accrued Liability Prior to Any Change	
+	Amortization Contribution on Unfunded Accrued Liability Attributed to Any Change	
+	Administrative Expenses	
-	Anticipated State Aid	
-	Projected Investment Earnings	
=	<b>Total Contribution Required</b>	

The Plan is funded in part by fire state aid and, if necessary, City contributions. The State of Minnesota distributed \$52,711 in fire state aid paid by the City to the Relief Association for the year ended December 31, 2020. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contributions for the plan for the year ended December 31, 2020 was \$3,915.

Pension Costs

At December 31, 2020, the City reported a net pension asset of \$375,242 for the Association's plan. The net pension asset was measured as of December 31, 2019. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the fire department as of December 31, 2020. The following table presents the changes in net pension liability during the year.

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-b)
Beginning Balance 12/31/19	\$ 906,203	\$ 1,122,839	\$ (216,636)
Changes for the Year			
Service cost	55,510		55,510
Interest on pension liability	49,873		49,873
Net investment income		196,573	(196,573)
Contributions state and local		56,626	(56,626)
Other additions		10,790	(10,790)
Benefit payments	(261,000)	(261,000)	
Net Changes	(155,617)	2,989	(158,606)
Balance End of Year 12/31/20	\$ 750,586	\$ 1,125,828	\$ (375,242)

**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

Pension Costs (continued)

At December 31, 2020, the City reported deferred inflows of resources and deferred outflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$	\$ 117,581
Changes in actuarial assumptions		36,837
Difference between projected and actual investment earnings	58,077	
Total	<u>\$ 58,077</u>	<u>\$ 154,418</u>

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending December 31:</u>	<u>Pension Expense Amount</u>
2021	\$ (22,982)
2022	(22,982)
2023	(22,984)
2024	(27,393)

Actuarial Assumptions

The total pension liability at December 31, 2020, was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

- Retirement eligibility at the later of age 50 or 20 years of service
- Investment rate of return of 6.00%
- 20 -Year Municipal bond yield 2.75%
- Inflation rate of 2.50%

No changes in assumptions since prior valuation.

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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Discount Rate

The discount rate used to measure the total pension liability was 6.00%. Assets were projected using expected benefit payments and expected asset returns. Expected benefit payments were discounted by year using expected assets returns assumption for years in which the assets were sufficient to pay all benefit payments. Any remaining benefit payments after the trust fund is exhausted are discounted at the municipal bond rate of return. The equivalent single rate is the discount rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Pension Liability Sensitivity

The following presents the City's net pension asset for the Association's plan, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's net pension asset would be if it were calculated using a discount rate 1% lower or 1% higher than the current discount rate:

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
	5.00%	6.00%	7.00%
Net pension asset	\$ (333,189)	\$ (375,242)	\$ (414,943)

Plan Investments

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These asset class estimates are combined to produce the portfolio long-term expected rate of return by weighting the expected future real rates of return by the current asset allocation percentage (or target allocation, if available) and by adding expected inflation (2.50%). All results are then rounded to the nearest quarter percentage point.

The best-estimate of expected future asset class returns were published in the 2017 Survey of Capital Market Assumptions produced by Horizon Actuarial Services. These expected returns, along with expected asset class standard deviations and correlation coefficients, are based on Horizon's annual survey of investment advisory firms. The expected inflation assumption was developed based on an analysis of historical experience blended with forward-looking expectations available in market date.

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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*Asset Allocation:*

The long-term target asset allocation and long-term expected real rate of return is the following:

<u>Asset Class</u>	<u>Allocation at Measurement Date</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Long Term Expected Nominal Rate of Return</u>
Domestic equity	54.45%	4.76%	7.26%
International equity	0.00%	5.41%	7.91%
Fixed income	32.02%	2.01%	4.51%
Real estate and alternatives	0.00%	4.53%	7.03%
Cash and equivalents	13.53%	0.74%	3.24%
Total	100%		6.17%
Reduced for assumed investment expense			-0.05%
Net assumed investment return (rounded to 1/4%)			6.00%

The long-term return on assets has been set based on the plan's target investment allocation along with long-term return expectations by asset class. When there is sufficient historical evidence of market outperformance, historical average returns may be considered.

*Description of significant investment policy changes during the year:*

The Plan made no significant changes to their investment policy during the year.

*Pension Plan Fiduciary Net Position*

Detailed information about Caledonia Volunteer Fire Department Relief Association plan's fiduciary net position as of December 31, 2020, is available in a separately-issued financial report that includes financial statements and required supplementary information.

**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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**13. Other Post Employment Benefit Plan**

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The City engaged an actuary to determine the City’s liability for postemployment healthcare benefits other than pensions for the year ended December 31, 2020.

Plan Description

The City provides health insurance benefits for certain retired employees under a single-employer plan. The City provides benefits for retirees as required by state statute to active employees when eligible to receive a retirement benefit from the Public Employees Retirement Association (PERA) of Minnesota (or similar plan) and if they do not participate in any other health benefits program providing similar coverage.

Benefits Provided

These retirees will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the City’s health benefits program. Retirees are required to pay 100% of the total premium cost. Since the premium is a blended rate determined on the entire active retiree population, the retirees are receiving an implicit rate subsidy. As of December 31, 2020 there were approximately 45 active participants and 1 retired participant in the City’s group health plan.

Funding Policy

The required contribution is based on projected pay-as-you-go method under which contributions to the plan are generally made at the same time and in the same amount as retiree benefits and expenses become due.

Net OPEB Liability

The City’s net OPEB liability was measured as of December 31, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of date. The components of the net OPEB liability of the City at year-end were as follows:

Total OPEB Liability	<u>\$ 54,169</u>
Valuation Salary	<u>3,633,000</u>
Total OPEB liability as a percentage of payroll	<u>1.5%</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**13. Other Post Employment Benefit Plan (Continued)**

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

The total OPEB liability was determined by an actuarial valuation as of December 31, 2020, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

<b>Discount rate</b>	3.71%
<b>Long-term expected investment return</b>	N/A
<b>Inflation rate</b>	2.50%
<b>Mortality</b>	
General Employees	RP-2014 mortality tables with projected mortality improvements based on scale MP-2017, and other adjustments.
Police & Fire	RP-2014 mortality tables with projected mortality improvements based on scale MP-2017, and other adjustments.
<b>Healthcare cost trend rate</b>	6.9% for FY2018, gradually decreasing over several decades to an ultimate rate of 4.0% in FY2075 and later years.

The following changes in OPEB actuarial assumptions since the 2019 valuation:

- The discount rate was changed from 3.31% to 3.71%.
- The medical trend rates were updated to exclude the Affordable Care Act's Excise Tax on high-cost health insurance plan due to its repeal.

**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**13. Other Post Employment Benefit Plan (Continued)**

Changes in Net OPEB Liability

	Total OPEB Liability
Beginning Balance 1/1/2019	\$ 60,716
Changes for the Year	
Service cost	3,686
Interest	1,987
Difference between expected and actual experience	
Changes of assumptions	(3,465)
Changes of benefit terms	
Benefit payments	(8,755)
Net Changes	(6,547)
Ending Balance 12/31/2019	<u>\$ 54,169</u>

Net OPEB Liability Sensitivity to Discount and Health-Care Cost Trend Rate Changes

The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	1% decrease in Discount Rate (2.71%)	Current Discount Rate (3.71%)	1% increase in Discount Rate (4.71%)
Total OPEB Liability	\$ 58,547	\$ 54,169	\$ 50,165

The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current healthcare cost trend rate:

	1% decrease in Trend Rate	Current Trend Rate	1% increase in Trend Rate
Total OPEB Liability	\$ 48,232	\$ 54,169	\$ 61,199

**14. Subsequent Event**

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through March 25, 2021, the date the financial statements were available to be issued.

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**CITY OF LAKE CITY, MINNESOTA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2020**

**CITY OF LAKE CITY, MINNESOTA**

**Schedule of City Pension Contributions  
PERA General Employees Retirement Fund  
Last Ten Years (presented prospectively)**

Year Ended December 31	Statutorily Required Contribution (a)	Contributions in Relation to Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
2014	\$ 148,967	\$ 148,967	\$	\$ 2,054,717	7.25%
2015	166,453	166,453		2,219,373	7.50%
2016	191,166	191,166		2,548,880	7.50%
2017	208,434	208,434		2,779,120	7.50%
2018	211,509	211,509		2,820,120	7.50%
2019	229,380	229,380		3,058,400	7.50%
2020	240,129	240,129		3,201,720	7.50%
2021					
2022					
2023					

**Schedule of City Pension Contributions  
PERA Public Employees Police and Fire Fund Pension Plan  
Last Ten Years (presented prospectively)**

Year Ended December 31	Statutorily Required Contribution (a)	Contributions in Relation to Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
2014	\$ 99,525	\$ 99,525	\$	\$ 650,490	12.17%
2015	110,006	110,006		679,049	12.95%
2016	111,939	111,939		690,981	16.20%
2017	114,746	114,746		708,309	16.20%
2018	120,075	120,075		741,204	16.20%
2019	124,807	124,807		736,324	16.95%
2020	134,969	134,969		762,537	17.70%
2021					
2022					
2023					

**CITY OF LAKE CITY, MINNESOTA**

**Schedule of City's and Non-Employer Proportionate Share of Net Pension Liability  
PERA General Employees Retirement Fund  
Last Ten Years (presented prospectively)**

Fiscal Year Ended June 30	Employer's Proportionate Share (Percentage) of Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability (Asset) (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the City (a+b)	Covered Payroll (c)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0457%	\$ 2,146,757	\$	\$ 2,146,757	\$ 2,054,717	104.5%	78.7%
2015	0.0422%	2,187,023		2,187,023	2,478,070	88.3%	78.2%
2016	0.0411%	3,337,116	43,545	3,380,661	2,384,127	141.8%	68.9%
2017	0.0431%	2,751,476	34,629	2,786,105	2,664,000	104.6%	75.9%
2018	0.0420%	2,329,988	76,291	2,406,279	2,799,620	86.0%	79.5%
2019	0.0432%	2,388,431	74,330	2,462,761	2,939,260	83.8%	80.2%
2020	0.0449%	2,691,960	83,038	2,774,998	3,130,060	88.7%	79.1%
2021							
2022							
2023							

**Schedule of City's Proportionate Share of Net Pension Liability  
PERA Public Employees Police and Fire Fund Pension Plan  
Last Ten Years (presented prospectively)**

Fiscal Year Ended June 30	Employer's Proportionate Share (Percentage) of Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability (Asset) (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the City (a+b)	Covered Payroll (c)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0700%	\$ 756,029	\$	\$ 756,029	\$ 650,951	116.1%	87.1%
2015	0.0720%	818,089		818,089	662,842	123.4%	86.6%
2016	0.0720%	2,889,485		2,889,485	662,842	435.9%	68.9%
2017	0.0690%	931,582		931,582	699,645	133.2%	85.4%
2018	0.0703%	749,326		749,326	724,757	103.4%	88.8%
2019	0.0714%	760,125		760,125	738,764	102.9%	89.3%
2020	0.0690%	909,494	21,449	930,943	749,431	124.2%	87.2%
2021							
2022							
2023							

**CITY OF LAKE CITY, MINNESOTA**  
**Schedule of Changes in the Fire Relief Association Net Pension Asset and Related Ratios**  
**December 31, 2020**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Total Pension Liability</b>						
Service cost	\$ 55,510	\$ 55,068	\$ 53,594	\$ 49,074	\$ 37,963	\$ 36,947
Interest	49,873	63,622	68,168	68,819	52,105	49,328
Difference between expected and actual experience		(55,249)		(32,761)		
Changes of assumptions		34,279		6,511		
Changes of benefit terms				42,180	137,593	
Benefit payments	(261,000)	(158,000)	(223,150)			(95,250)
Net change in total pension liability	(155,617)	(60,280)	(101,388)	133,823	227,661	(8,975)
Total Pension Liability - beginning of year	906,203	966,483	1,067,871	934,048	706,387	715,362
Total Pension Liability - end of year	<u>\$ 750,586</u>	<u>\$ 906,203</u>	<u>\$ 966,483</u>	<u>\$ 1,067,871</u>	<u>\$ 934,048</u>	<u>\$ 706,387</u>
<b>Plan Fiduciary Net Position</b>						
Contributions - State and local	\$ 56,626	\$ 69,934	\$ 86,113	\$ 74,127	\$ 73,941	\$ 72,756
Net investment income	196,573	(27,614)	139,004	86,871	5,784	72,741
Other additions	10,790					
Benefit payments	(261,000)	(158,000)	(223,150)			(95,250)
Administrative expense			(31)			(20)
Net change in plan fiduciary net position	2,989	(115,680)	1,936	160,998	79,725	50,227
Plan Fiduciary Net Position - beginning of year	1,122,839	1,238,519	1,236,583	1,075,585	995,860	945,633
Plan Fiduciary Net Position - end of year	<u>\$ 1,125,828</u>	<u>\$ 1,122,839</u>	<u>\$ 1,238,519</u>	<u>\$ 1,236,583</u>	<u>\$ 1,075,585</u>	<u>\$ 995,860</u>
<b>Net Pension Liability (Asset) - End of Year</b>	\$ (375,242)	\$ (216,636)	\$ (272,036)	\$ (168,712)	\$ (141,537)	\$ (289,473)
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	149.99%	123.91%	128.15%	115.80%	115.15%	140.98%

**CITY OF LAKE CITY, MINNESOTA**  
**Schedule of Changes in the Other Postemployment Benefits and Related Ratios**  
**December 31, 2020**

	<u>2019</u>	<u>2018</u>
<b>Total OPEB Liability</b>		
Service cost	\$ 3,686	\$ 3,222
Interest	1,987	2,302
Difference between expected and actual experience		
Changes of assumptions	(3,465)	2,156
Changes of benefit terms		
Benefit payments	(8,755)	(8,317)
Net change in total pension liability	(6,547)	(637)
Total Pension Liability - beginning of year	60,716	61,353
Total Pension Liability - end of year	<u>\$ 54,169</u>	<u>\$ 60,716</u>
<b>OPEB-eligible payroll for the measurement period</b>	<b>\$ 3,633,000</b>	<b>\$ 3,537,000</b>
<b>Total OPEB Liability as a Percentage of Eligible Payroll</b>	<b>1.5%</b>	<b>1.7%</b>

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**CITY OF LAKE CITY, MINNESOTA**  
**COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES**  
**DECEMBER 31, 2020**

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**CITY OF LAKE CITY, MINNESOTA**

**NONMAJOR FUNDS**

**DECEMBER 31, 2020**

**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, 2020**

	Special Revenue Funds		
	210	270	
	Library	Community Development Revolving Loan Fund	495 Tax Increment TIF #16
<b>ASSETS</b>			
Cash and investments	\$ 149,485	\$ 428,925	\$
Accounts receivable	4,593		
Loans receivable		25,245	
Taxes receivable, delinquent	557		
Due from other governments	891		
Special assessments receivable:			
Deferred			
<b>TOTAL ASSETS</b>	<b>\$ 155,526</b>	<b>\$ 454,170</b>	<b>\$</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>			
<b>Liabilities</b>			
Accounts payable	\$ 1,594		\$
Total Liabilities	1,594		
<b>Deferred Inflows of Resources</b>			
Unavailable revenue:			
Property taxes	557		
Special assessments			
Loans receivable		25,245	
Total Deferred Inflows of Resources	557	25,245	
<b>Fund Balance</b>			
Restricted:			
Creditors (debt covenants)			
Regulations		428,925	
Assigned:			
Fund assignments	153,375		
Total Fund Balance	153,375	428,925	
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<b>\$ 155,526</b>	<b>\$ 454,170</b>	<b>\$</b>

Debt Service Funds					Capital	
					Projects	
357	358	366	365	368	405	Totals
2006	2008	2012	2013A	2018A	Mill	
Street	Street	Street	Improvement	Street	& Overlay	
Improvement	Improvement	Improvement	Bonds	Improvement		
\$ 70,564	\$ 279,100	\$ 296,934	\$ 357,882	\$ 96,750	\$ 131,924	\$ 1,811,564
						4,593
						25,245
181	531	840	950	528		3,587
248	728	1,152	1,301	725		5,045
15,143						15,143
<u>\$ 86,136</u>	<u>\$ 280,359</u>	<u>\$ 298,926</u>	<u>\$ 360,133</u>	<u>\$ 98,003</u>	<u>\$ 131,924</u>	<u>\$ 1,865,177</u>
\$	\$	\$	\$	\$	\$	\$ 1,594
						1,594
181	531	840	950	528		3,587
15,143						15,143
						25,245
<u>15,324</u>	<u>531</u>	<u>840</u>	<u>950</u>	<u>528</u>		<u>43,975</u>
70,812	279,828	298,086	359,183	97,475		1,105,384
						428,925
					131,924	285,299
<u>70,812</u>	<u>279,828</u>	<u>298,086</u>	<u>359,183</u>	<u>97,475</u>	<u>131,924</u>	<u>1,819,608</u>
<u>\$ 86,136</u>	<u>\$ 280,359</u>	<u>\$ 298,926</u>	<u>\$ 360,133</u>	<u>\$ 98,003</u>	<u>\$ 131,924</u>	<u>\$ 1,865,177</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, 2020**

	Special Revenue Funds		
	210 Library	270 Community Development Revolving Loan Fund	495 Tax Increment TIF #16
<b>REVENUES</b>			
Taxes:			
Property taxes	\$ 126,193	\$	\$
Special assessments			
Intergovernmental revenues	62,372		
Charges for services	1,401		
Fines and forfeits	421		
Investment income	1,837	8,231	
Miscellaneous revenues	85,672	15,274	
<b>TOTAL REVENUES</b>	<b>277,896</b>	<b>23,505</b>	
<b>EXPENDITURES</b>			
Culture and recreation:			
Library	266,679		
Economic development			70
Debt service:			
Principal retirement			
Interest and fiscal charges			
Capital outlay	32,122		
<b>TOTAL EXPENDITURES</b>	<b>298,801</b>		<b>70</b>
Excess (deficiency) of revenues over (under) expenditures	(20,905)	23,505	(70)
<b>OTHER FINANCING SOURCES</b>			
Transfers in	60,000		2,384
Total Other Financing Sources	60,000		2,384
<b>Net change in fund balances</b>	<b>39,095</b>	<b>23,505</b>	<b>2,314</b>
<b>FUND BALANCE, beginning</b>	<b>114,280</b>	<b>405,420</b>	<b>(2,314)</b>
<b>FUND BALANCE, ending</b>	<b>\$ 153,375</b>	<b>\$ 428,925</b>	<b>\$</b>

Debt Service Funds					Capital Projects Funds	Totals
357 2006 Street Improvement	358 2008 Street Improvement	366 2012 Street Improvement	365 2013A Improvement Bonds	368 2018A Street Improvement	405 Mill & Overlay	
\$ 35,053 16,719	\$ 102,863	\$ 162,756	\$ 183,910	\$ 102,388	\$	\$ 713,163 16,719 62,372 1,401 421
661	4,241	3,824	4,776	703	2,597	26,870 100,946
52,433	107,104	166,580	188,686	103,091	2,597	921,892
						266,679 70
40,000 3,784	85,000 8,845	140,000 10,858	160,000 16,044	70,000 23,778		495,000 63,309 32,122
43,784	93,845	150,858	176,044	93,778		857,180
8,649	13,259	15,722	12,642	9,313	2,597	64,712
						62,384
						62,384
8,649	13,259	15,722	12,642	9,313	2,597	127,096
62,163	266,569	282,364	346,541	88,162	129,327	1,692,512
\$ 70,812	\$ 279,828	\$ 298,086	\$ 359,183	\$ 97,475	\$ 131,924	\$ 1,819,608

**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, 2020**  
*(With Comparative Totals for the Year Ended December 31, 2019)*

	Budgeted Amounts		2020 Actual Amount	Variance With Budget Positive (Negative)	2019 Actual Amount
	Original	Final			
<b>REVENUES</b>					
<b>Property Tax Levy</b>					
Property tax collected	\$ 125,206	\$ 125,206	\$ 126,193	\$ 987	\$ 113,446
<b>Intergovernmental Revenues</b>					
CARES act funding		2,826	2,826		
County - library grants	59,546	59,546	59,546		54,331
Total Intergovernmental Revenues	59,546	62,372	62,372		54,331
<b>Charges For Services</b>					
Fines and forfeits	750	750	421	(329)	1,316
Other	2,000	2,000	1,401	(599)	2,710
Total Charges For Services	2,750	2,750	1,822	(928)	4,026
<b>Investment Income</b>	500	500	1,837	1,337	2,666
<b>Miscellaneous</b>					
Donations	2,000	9,160	7,452	(1,708)	12,783
Other	70,000	74,000	78,220	4,220	78,750
Total Miscellaneous	72,000	83,160	85,672	2,512	91,533
<b>Total Revenues</b>	260,002	273,988	277,896	3,908	266,002
<b>EXPENDITURES</b>					
Library services	287,002	300,913	266,679	34,234	277,705
Capital outlay	33,000	33,075	32,122	953	34,372
<b>Total Expenditures</b>	320,002	333,988	298,801	35,187	312,077
Excess (deficiency) of revenues over (under) expenditures	(60,000)	(60,000)	(20,905)	39,095	(46,075)
<b>OTHER FINANCING SOURCES</b>					
Transfers in	60,000	60,000	60,000		60,000
<b>Net Change in Fund Balance</b>			39,095	39,095	13,925
<b>Fund Balance, beginning</b>	114,280	114,280	114,280		100,355
<b>Fund Balance, ending</b>	\$ 114,280	\$ 114,280	\$ 153,375	\$ 39,095	\$ 114,280

**CITY OF LAKE CITY, MINNESOTA**  
**ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT**  
**BALANCE SHEET - COMPONENT UNIT**  
December 31, 2020 and 2019

	2020	2019
<b>Assets</b>		
Cash and investments	\$ 137,668	\$ 122,660
Taxes receivable delinquent	319	284
Due from other governmental units	514	507
Due from primary government	66,890	66,890
Prepaid items	1,698	1,577
Property held for resale	235,000	235,000
<b>TOTAL ASSETS</b>	<b><u>\$ 442,089</u></b>	<b><u>\$ 426,918</u></b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balance</b>		
<b>Liabilities</b>		
Accounts payable	\$ 6,681	\$ 8,279
Due to primary government	2,264	23
Total Liabilities	<u>8,945</u>	<u>8,302</u>
<b>Deferred Inflows of Resources</b>		
Unavailable revenue	<u>235,319</u>	<u>235,284</u>
<b>Fund Balance</b>		
Restricted:		
Economic development	<u>197,825</u>	<u>183,332</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<b><u>\$ 442,089</u></b>	<b><u>\$ 426,918</u></b>
Fund Balance - Component Unit	\$ 197,825	
Amounts reported for governmental activities in the statement of net position are different because:		
Property held for resale is not expected to be sold soon enough to provide available resources, and therefore, is a deferred inflow of resources in the funds	235,000	
Other long-term assets are not available to pay for current-period expenditures and, therefore are unavailable in the funds	<u>319</u>	
Net Position - Component Unit	<b><u>\$ 433,144</u></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, 2020**  
*(With Comparative Totals for the Year Ended December 31, 2019)*

	Totals	
	2020	2019
<b>REVENUES</b>		
Property tax	\$ 72,313	\$ 72,534
CARES act funding	13,027	
Investment income	356	778
Miscellaneous		13,640
<b>Total Revenues</b>	85,696	86,952
<b>EXPENDITURES</b>		
Economic Development	71,203	84,902
<b>Total Expenditures</b>	71,203	84,902
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	14,493	2,050
<b>Fund Balance, beginning</b>	183,332	181,282
<b>Fund Balance, ending</b>	\$ 197,825	\$ 183,332
 Net Change in Fund Balance - Component Unit	 \$ 14,493	 \$ 2,050
 Amounts reported for governmental activities in the statement of activities are different because:		
 Revenues in the statement of activities that do not provide current financial resources are not reported in the funds.	 35	 (405)
 Change in Net Position - Component Unit	 \$ 14,528	 \$ 1,645



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and Common Council  
**City of Lake City, Minnesota**

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Lake City, Minnesota, as of and for the year ended December 31, 2020 and the related notes to financial statements, which collectively comprise the City of Lake City, Minnesota's basic financial statements and have issued our report thereon dated March 25, 2021.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Lake City, Minnesota's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Lake City, Minnesota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Minnesota Legal Compliance**

In connection with our audit, nothing came to our attention that caused us to believe that the City of Lake City, Minnesota failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Smith, Schafu and Associates, Ltd.*

Red Wing, Minnesota  
March 25, 2021