

CITY OF LAKE CITY, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2021

CITY OF LAKE CITY, MINNESOTA

FINANCIAL STATEMENTS For the Fiscal Year Ended December 31, 2021

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CITY OF LAKE CITY, MINNESOTA
FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2021

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CITY OF LAKE CITY, MINNESOTA

INTRODUCTORY SECTION

DECEMBER 31, 2021

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**CITY OF LAKE CITY, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2021**

ELECTED

<u>Title</u>	<u>Name</u>	<u>Term Expires</u>
Mayor	Mark Nichols	December 31, 2024
Council	Russell Boe	December 31, 2022
Council	Faye Brown	December 31, 2022
Council	Amy Alkire	December 31, 2022
Council	Cindy McGrath	December 31, 2024
Council	Katie Novak	December 31, 2024
Council	Megan Kramer	December 31, 2024

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, 2021

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INDEPENDENT AUDITOR'S REPORT

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

Opinions

We have audited 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 City of Lake City, Minnesota, as of and for the year ended December 31, 2021, and the related notes to financial statements, which collectively comprise City of Lake City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements 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 City of Lake City as of December 31, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of City of Lake City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

City of Lake City's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about City of Lake City's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City of Lake City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about City of Lake City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 statements for the year ended December 31, 2020, from which such partial information was derived.

We have previously audited the City's 2020 financial statements and our report dated March 25, 2021, expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 4 through 14 and the required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Lake City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and supplementary information 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 nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare basic the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory section and supplementary information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2022 on our consideration of 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 solely 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.

Red Wing, Minnesota
March 15, 2022

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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, 2021.

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 \$64,002,388 (*net position*). Of this amount, \$18,383,415 (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 \$2,623,099 primarily due to the operations of the Electric and Marina Funds before transfers.
- As of the close of the current fiscal year, the City of Lake City's governmental funds reported combined ending fund balances of \$9,318,094. Approximately 63 percent of this total amount, or \$5,865,090 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 \$5,627,107 or 79 percent of total general fund expenditures.
- The City of Lake City's total outstanding debt decreased by \$510,534 during the current fiscal year. Principal payments are made as scheduled and continue to reduce outstanding debt. The City issued a 2021A G.O. Street Reconstruction Bond for \$943,000 in current year.

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 15-17 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 fourteen 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, 2018 Small Cities Development Program Fund and Capital Projects Fund which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* on pages 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 24-28) and the library fund (page 86) to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 18-19 and 21-22 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 29-36 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 37-77 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 \$64,002,388 at the close of the most recent fiscal year.

By far the largest portion of the City of Lake City's net position (69 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	
	2021	2020	2021	2020	2021	2020
Current and other assets	\$ 11,125,219	\$ 10,840,309	\$ 13,830,995	\$ 15,207,722	\$ 24,956,214	\$ 26,048,031
Capital assets	30,043,848	26,255,104	18,204,080	18,241,874	48,247,928	44,496,978
Total assets	<u>41,169,067</u>	<u>37,095,413</u>	<u>32,035,075</u>	<u>33,449,596</u>	<u>73,204,142</u>	<u>70,545,009</u>
Deferred outflows of resources	1,847,131	683,576	680,578	136,881	2,527,709	820,457
Long-term liabilities outstanding	4,766,953	5,549,568	2,134,079	3,279,933	6,901,032	8,829,501
Other liabilities	772,151	252,116	844,377	528,642	1,616,528	780,758
Total liabilities	<u>5,539,104</u>	<u>5,801,684</u>	<u>2,978,456</u>	<u>3,808,575</u>	<u>8,517,560</u>	<u>9,610,259</u>
Deferred inflows of resources	2,369,299	318,503	842,604	57,415	3,211,903	375,918
Net position:						
Net investment in capital assets	27,292,571	23,469,231	17,130,910	16,674,896	44,423,481	40,144,127
Restricted	1,195,492	1,555,294			1,195,492	1,555,294
Unrestricted	6,619,732	6,076,992	11,763,683	13,602,876	18,383,415	19,679,868
Total net position	<u>\$ 35,107,795</u>	<u>\$ 31,101,517</u>	<u>\$ 28,894,593</u>	<u>\$ 30,277,772</u>	<u>\$ 64,002,388</u>	<u>\$ 61,379,289</u>

A portion of the City of Lake City's net position (2 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (\$18,383,415) 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 \$4,006,278.

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

Business-type activities. Business-type activities decreased the City of Lake City's net position by \$1,383,179.

A condensed version of the Statement of Activities follows:

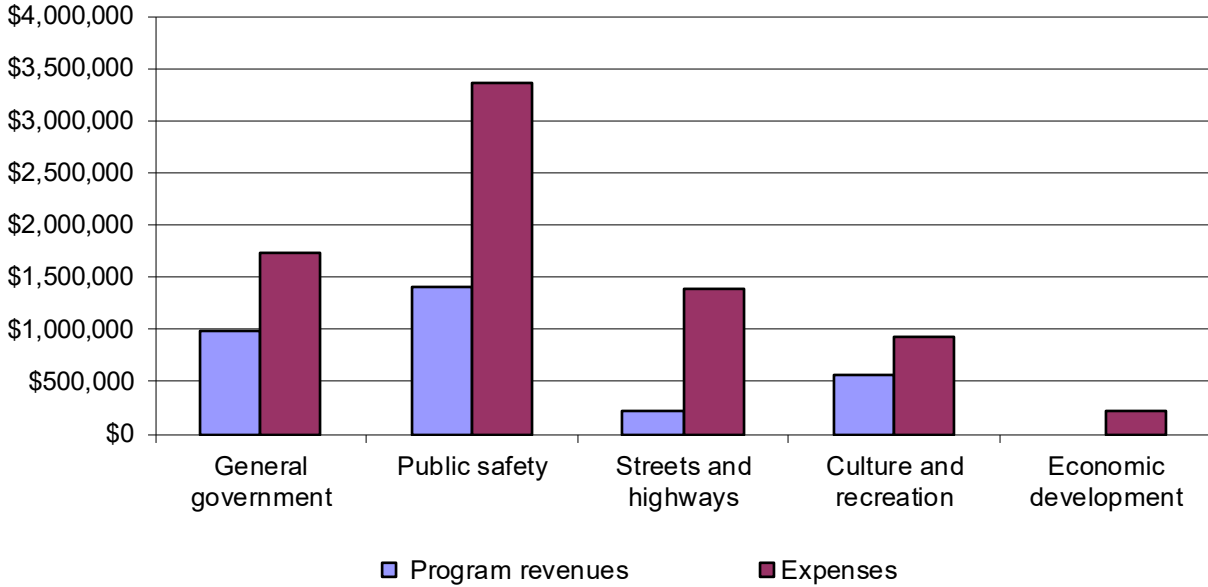
City of Lake City's Change in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Revenue:						
Program revenues:						
Charges for services	\$ 1,886,816	\$ 1,484,724	\$ 15,106,181	\$ 15,930,619	\$ 16,992,997	\$ 17,415,343
Operating grants and contributions	1,177,447	1,423,525	59,428	13,123	1,236,875	1,436,648
Capital grants and contributions	116,547	1,976	22,633	100,913	139,180	102,889
General revenues:						
Property taxes	3,817,012	3,650,854			3,817,012	3,650,854
Tax increments	549				549	
Grants and contributions not restricted to specific programs	942,578	912,216			942,578	912,216
Other	228,713	963,833	531,516	339,022	760,229	1,302,855
Total revenues	<u>8,169,662</u>	<u>8,437,128</u>	<u>15,719,758</u>	<u>16,383,677</u>	<u>23,889,420</u>	<u>24,820,805</u>
Expenses:						
General government	1,727,390	1,553,942			1,727,390	1,553,942
Public safety	3,356,742	2,813,782			3,356,742	2,813,782
Streets and highways	1,378,780	1,268,643			1,378,780	1,268,643
Culture and recreation	935,677	958,337			935,677	958,337
Economic development	222,226	376,751			222,226	376,751
Interest on long-term debt	76,238	90,230			76,238	90,230
Electric			10,010,464	10,601,482	10,010,464	10,601,482
Water			698,665	778,210	698,665	778,210
Sewer			1,422,986	1,387,147	1,422,986	1,387,147
Stormwater			224,640	199,522	224,640	199,522
Marina			90,185	219,636	90,185	219,636
Garbage			1,122,328	1,026,269	1,122,328	1,026,269
Total expenses	<u>7,697,053</u>	<u>7,061,685</u>	<u>13,569,268</u>	<u>14,212,266</u>	<u>21,266,321</u>	<u>21,273,951</u>
Increase (decrease) in net position before transfers and other	472,609	1,375,443	2,150,490	2,171,411	2,623,099	3,546,854
Transfers	3,533,669	1,126,270	(3,533,669)	(1,126,270)		
Increase (decrease) in net position	<u>4,006,278</u>	<u>2,501,713</u>	<u>(1,383,179)</u>	<u>1,045,141</u>	<u>2,623,099</u>	<u>3,546,854</u>
Net position, beginning of year	31,101,517	28,599,804	30,277,772	29,232,631	61,379,289	57,832,435
Net position, end of year	<u>\$ 35,107,795</u>	<u>\$ 31,101,517</u>	<u>\$ 28,894,593</u>	<u>\$ 30,277,772</u>	<u>\$ 64,002,388</u>	<u>\$ 61,379,289</u>

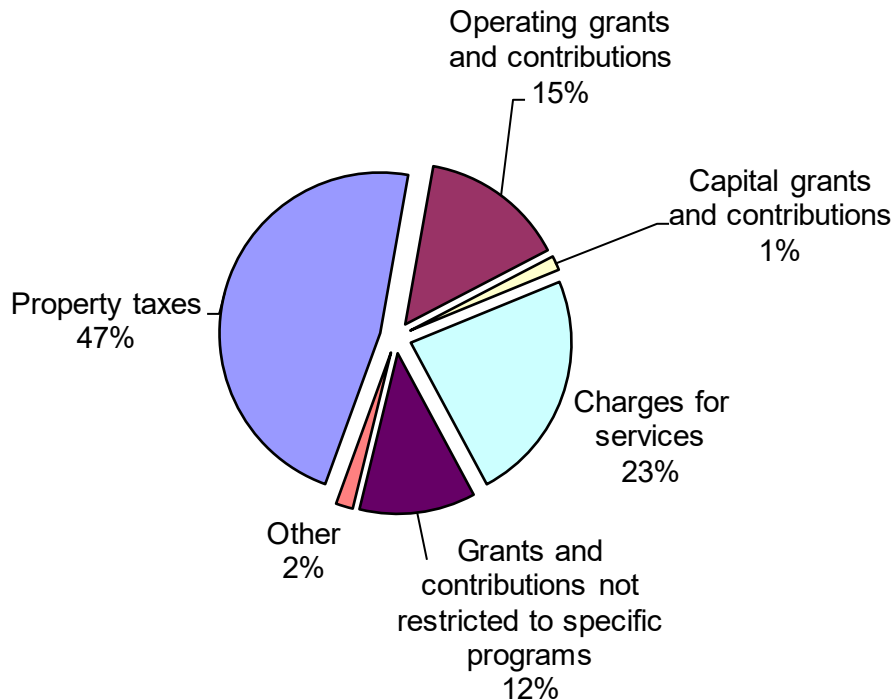
**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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



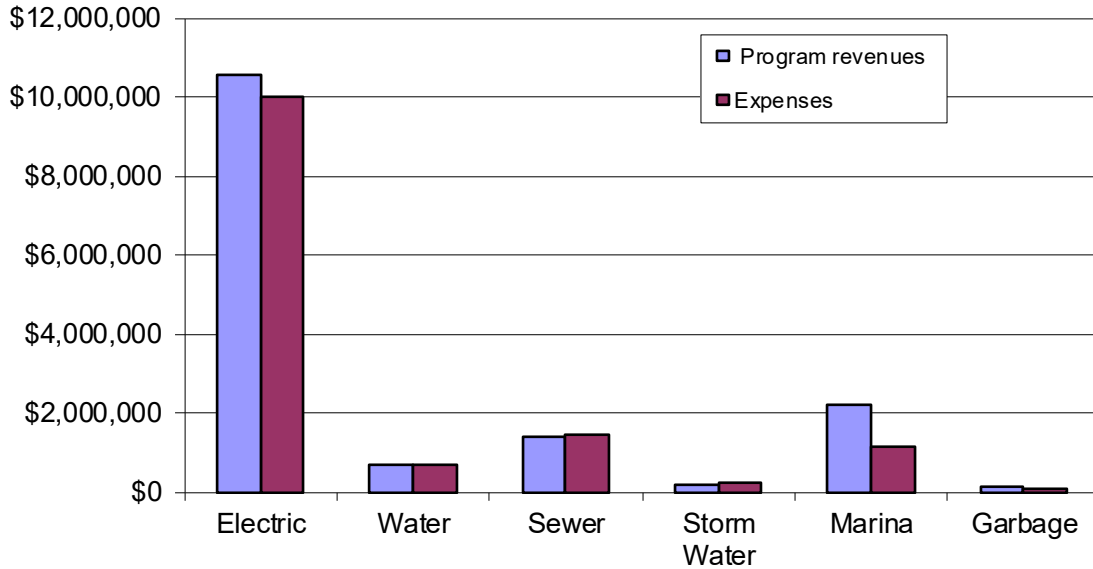
Revenues by Source - Governmental Activities



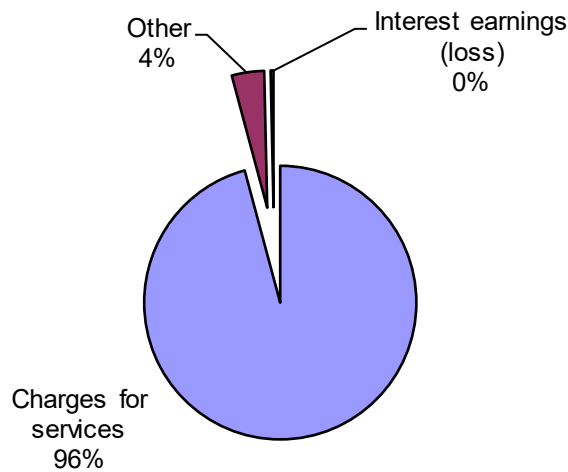
**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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 \$9,318,094, an increase of \$50,667. Approximately 82 percent of this total amount, or \$7,682,963, constitutes *unassigned, assigned, or committed fund balance*, which is available for spending at the government's discretion. The remainder of the total fund balance \$1,635,131 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 \$5,627,107. 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 79 percent of total general fund expenditures.

The general fund's total fund balance increased by \$212,786 during the current fiscal year. This year's increase was due to underbudgeted street state aid, several park projects planned to be completed in 2021 that were not completed but are anticipated to be completed in 2022.

The debt service funds have a total fund balance of \$761,381 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 29-36 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 - \$7,198,072, Water - \$7,744, Sewer - \$71,589, Storm Water - \$29,743, Marina - \$4,407,786, and Garbage - \$48,749. All funds, except the sewer fund, storm water fund and marina fund, had increases in total net position for the year. The sewer fund's net loss was primarily due to decrease in industrial revenue. The storm water fund's net loss was primarily due to increase in depreciation. The marina fund's net loss was primarily due to \$2 million transfer to capital projects fund for Ohuta Beach project.

General Fund Budgetary Highlights

The original 2021 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 2021 were approved by resolution amending the original budget. Select unspent budgeted amounts from 2020 were carried over to the 2021 budget by resolution. The City general fund budget adjustments were done for American Rescue Plan Act (ARPA) funding received due to the ongoing COVID-19 pandemic. In addition, the City transferred Capital Project Funds for the Hok-Si-La Trail project bid overage.

**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, 2021, amounts to \$48,247,928 (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 \$3,750,950.

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

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Land	\$ 1,342,607	\$ 1,342,607	\$ 725,300	\$ 725,300	\$ 2,067,907	\$ 2,067,907
Construction in progress	594,749	273,256	10,157	98,090	604,906	371,346
Buildings and improvements	12,000,997	9,466,602	6,304,956	6,169,380	18,305,953	15,635,982
Machinery and equipment	4,075,901	3,533,507	1,531,937	1,221,537	5,607,838	4,755,044
Infrastructure	12,029,594	11,639,132			12,029,594	11,639,132
Distribution and collection system			9,631,730	10,027,567	9,631,730	10,027,567
Total	\$ 30,043,848	\$ 26,255,104	\$ 18,204,080	\$ 18,241,874	\$ 48,247,928	\$ 44,496,978

Additional information on the City of Lake City's capital assets can be found in Note 5 on pages 52-53 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 \$3,536,215 in bonds and notes outstanding, \$288,232 in equipment lease payable and \$562,440 in compensated absences.

City of Lake City's Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
General obligation bonds	\$ 2,463,045	\$ 2,294,789	\$	\$ 116,776	\$ 2,463,045	\$ 2,411,565
General obligation revenue bonds			1,073,170	1,450,202	1,073,170	1,450,202
Equipment lease payable	288,232	491,084			288,232	491,084
Compensated absences	418,493	402,638	143,947	141,932	562,440	544,570
Total	\$ 3,169,770	\$ 3,188,511	\$ 1,217,117	\$ 1,708,910	\$ 4,386,887	\$ 4,897,421

The City of Lake City's total outstanding debt decreased by \$510,534 during the current fiscal year. The City paid \$1,471,404 in debt payments and issued a 2021A G.O. Street Reconstruction Bond for \$943,000. A more detailed breakdown of these obligations can be found in Note 9, beginning on page 57.

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 2021. 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 was recently approved to develop tax credit workforce housing in Lake City on part of the former Cemstone property in a partnership with Three Rivers Community Action. 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. Also, the City anticipates a private developer constructing 67 residential units of apartments and townhomes over the next few years.

The City is completing 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 anticipates completing the project in 2022 with the pavilion construction.

The City has awarded feasibility contracts with engineers and consultants late in 2021 for the awarded State Bonding Fund projects 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, 2021

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CITY OF LAKE CITY, MINNESOTA
STATEMENT OF NET POSITION

December 31, 2021

With Comparative Totals as of December 31, 2020

	Primary Government				Component Unit	
	Governmental Activities	Business-Type Activities	Totals		Economic Development Authority	
			2021	2020	2021	2020
Assets						
Cash and investments	\$ 9,625,944	\$ 11,894,220	\$ 21,520,164	\$ 22,759,196	\$ 140,086	\$ 137,668
Accounts receivable	416,049	1,096,420	1,512,469	1,538,148		
Interest receivable	48,932		48,932	47,412		
Taxes receivable	31,449		31,449	18,445	406	319
Special assessments receivable	25,473	22,160	47,633	51,063		
Loan receivable	401,363		401,363	329,194		
Internal balances	(86,969)	86,969				
Due from other governmental units	22,948		22,948	31,747	420	514
Due from primary government					71,019	66,890
Due from component unit				2,264		
Prepaid items	123,153	138,265	261,418	237,690	1,762	1,698
Property held for resale					235,000	235,000
Inventories		592,961	592,961	657,630		
Net pension asset	516,877		516,877	375,242		
Capital assets:						
Nondepreciable	1,937,356	735,457	2,672,813	2,439,253		
Depreciable, net	28,106,492	17,468,623	45,575,115	42,057,725		
Total Assets	<u>41,169,067</u>	<u>32,035,075</u>	<u>73,204,142</u>	<u>70,545,009</u>	<u>448,693</u>	<u>442,089</u>
Deferred Outflows of Resources						
Deferred outflow s from pension activity	1,847,131	680,578	2,527,709	820,457		
Liabilities						
Accounts and contracts payable	543,391	728,217	1,271,608	842,570	6,681	6,681
Accrued liabilities	21,599	37,201	58,800	67,089		
Deposits payable		78,959	78,959	80,666		
Due to primary government						2,264
Due to component unit	71,019		71,019	66,890		
Unearned revenue	91,207		91,207			
Noncurrent liabilities:						
Due w ithin one year	562,001	392,000	954,001	1,120,852		
Due in more than one year	2,607,769	825,117	3,432,886	3,776,569		
Other postemployment benefits	44,935		44,935	54,169		
Net pension liability	1,597,183	916,962	2,514,145	3,601,454		
Total Liabilities	<u>5,539,104</u>	<u>2,978,456</u>	<u>8,517,560</u>	<u>9,610,259</u>	<u>6,681</u>	<u>8,945</u>
Deferred Inflows of Resources						
Deferred inflow s from pension activity	2,369,299	842,604	3,211,903	375,918		
Net Position						
Net investment in capital assets	27,292,571	17,130,910	44,423,481	40,144,127		
Restricted for:						
Debt service	743,340		743,340	1,101,124		
Revolving loans	452,152		452,152	454,170		
Unrestricted	6,619,732	11,763,683	18,383,415	19,679,868	442,012	433,144
Total Net Position	<u>\$ 35,107,795</u>	<u>\$ 28,894,593</u>	<u>\$ 64,002,388</u>	<u>\$ 61,379,289</u>	<u>\$ 442,012</u>	<u>\$ 433,144</u>

See Notes to Financial Statements

CITY OF LAKE CITY, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2021
With Comparative Totals for the Year Ended December 31, 2020

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 1,727,390	\$ 437,479	\$ 555,434	\$
Public safety	3,356,742	1,212,860	191,334	
Streets and highways	1,378,780	37,880	69,465	116,547
Culture and recreation	935,677	198,597	361,214	
Economic development	222,226			
Interest on long-term debt	76,238			
Total governmental activities	7,697,053	1,886,816	1,177,447	116,547
Business-Type activities:				
Electric utility	10,010,464	10,514,467	52,453	
Water utility	698,665	705,474		745
Sewer utility	1,422,986	1,404,690		
Storm water utility	224,640	170,234		21,888
Garbage	90,185	107,126		
Marina	1,122,328	2,204,190	6,975	
Total business-type activities	13,569,268	15,106,181	59,428	22,633
Total Primary Government	\$ 21,266,321	\$ 16,992,997	\$ 1,236,875	\$ 139,180
Component Unit:				
Economic Development Authority	\$ 64,142	\$	\$	\$

General revenues:
General property taxes
Tax increments
Grants and contributions not restricted to specific programs
Investment earnings (loss)
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	2021	2020	2021	2020
\$ (734,477)	\$	\$ (734,477)	\$ (863,290)	\$	\$
(1,952,548)		(1,952,548)	(1,123,422)		
(1,154,888)		(1,154,888)	(1,164,857)		
(375,866)		(375,866)	(532,910)		
(222,226)		(222,226)	(376,751)		
(76,238)		(76,238)	(90,230)		
<u>(4,516,243)</u>		<u>(4,516,243)</u>	<u>(4,151,460)</u>		
	556,456	556,456	648,055		
	7,554	7,554	(31,724)		
	(18,296)	(18,296)	(55,030)		
	(32,518)	(32,518)	57,913		
	16,941	16,941	34,251		
	<u>1,088,837</u>	<u>1,088,837</u>	<u>1,178,924</u>		
	<u>1,618,974</u>	<u>1,618,974</u>	<u>1,832,389</u>		
<u>(4,516,243)</u>	<u>1,618,974</u>	<u>(2,897,269)</u>	<u>(2,319,071)</u>		
				<u>(64,142)</u>	<u>(71,203)</u>
3,817,012		3,817,012	3,650,854	72,851	72,348
549		549			
942,578		942,578	912,216		13,027
(10,614)	(54,522)	(65,136)	443,527	159	356
88,916		88,916	471,946		
150,411	586,038	736,449	387,382		
3,533,669	(3,533,669)				
<u>8,522,521</u>	<u>(3,002,153)</u>	<u>5,520,368</u>	<u>5,865,925</u>	<u>73,010</u>	<u>85,731</u>
4,006,278	(1,383,179)	2,623,099	3,546,854	8,868	14,528
<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>
<u>\$ 35,107,795</u>	<u>\$ 28,894,593</u>	<u>\$ 64,002,388</u>	<u>\$ 61,379,289</u>	<u>\$ 442,012</u>	<u>\$ 433,144</u>

CITY OF LAKE CITY, MINNESOTA

BALANCE SHEET

GOVERNMENTAL FUNDS

December 31, 2021

With Comparative Totals as of December 31, 2020

	General Fund	2018 Small Cities Development Program Fund
Assets		
Cash and investments	\$ 7,693,475	\$ 173,491
Interest receivable	48,932	
Accounts receivable	387,212	28,837
Taxes receivable delinquent	27,491	
Special assessments receivable:		
Delinquent	3,570	
Deferred	21,903	
Advances to other funds	173,493	
Interfund receivable		
Loans receivable		387,211
Due from other governmental units	18,817	
Due from component unit		
Prepaid items		
TOTAL ASSETS	\$ 8,374,893	\$ 589,539
Liabilities, Deferred Inflows of Resources and Fund Balance		
Liabilities		
Accounts payable	\$ 357,400	\$
Accrued liabilities	340	
Advances from other funds	20,079	
Interfund payable	20,122	
Due to component unit	71,019	
Unearned revenue	91,207	
Total Liabilities	560,167	
Deferred Inflows of Resources		
Unavailable revenue:		
Property taxes	27,491	
Special assessments	25,473	
Loans receivable		387,211
Total Deferred Inflows of Resources	52,964	387,211
Fund Balance		
Nonspendable:		
Advances to other funds	173,493	
Prepaid items		
Restricted:		
Creditors (debt covenants)		
Regulations		202,328
Other purposes	59,929	
Committed	1,817,873	
Assigned	83,360	
Unassigned	5,627,107	
Total Fund Balance	7,761,762	202,328
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 8,374,893	\$ 589,539

See Notes to Financial Statements

Capital Projects	Other Governmental Funds	Total Governmental Funds	
		2021	2020
\$ 321,465	\$ 1,437,513	\$ 9,625,944	\$ 9,146,989
		48,932	47,412
		416,049	346,334
	3,958	31,449	18,445
		3,570	
		21,903	23,927
		173,493	201,185
			7,405
	14,152	401,363	329,194
	4,131	22,948	31,747
			2,264
			1,647
\$ 321,465	\$ 1,459,754	\$ 10,745,651	\$ 10,156,549

\$ 117,848	\$ 50,874	\$ 526,122	\$ 93,175
		340	499
	240,383	260,462	356,992
		20,122	
		71,019	66,890
		91,207	
117,848	291,257	969,272	517,556

	3,958	31,449	18,445
		25,473	23,927
	14,152	401,363	329,194
	18,110	458,285	371,566

		173,493	201,185
			1,647
	761,381	761,381	1,105,384
	438,000	640,328	619,456
		59,929	165,056
		1,817,873	1,742,175
203,617	190,239	477,216	445,826
	(239,233)	5,387,874	4,986,698
203,617	1,150,387	9,318,094	9,267,427

\$ 321,465	\$ 1,459,754	\$ 10,745,651	\$ 10,156,549
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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, 2021

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

Total governmental fund balances (page 19)		\$ 9,318,094
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 54,504,986	
Less: Accumulated depreciation	<u>(24,461,138)</u>	30,043,848
Some receivables are not available soon enough to pay for current period expenditures and therefore are unavailable in the funds.		
Delinquent property taxes	\$ 31,449	
Deferred and delinquent special assessments	25,473	
Loans receivable	<u>401,363</u>	458,285
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		
		126,006
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	\$ (1,597,183)	
Net pension asset	516,877	
Other post employment benefits	(44,935)	
Deferred outflows from pension activity	1,847,131	
Deferred inflows from pension activity	<u>(2,369,299)</u>	(1,647,409)
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	\$ (2,751,277)	
Compensated absences	(418,493)	
Accrued interest	<u>(21,259)</u>	<u>(3,191,029)</u>
Net position of governmental activities (page 15)		<u>\$ 35,107,795</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, 2021

With Comparative Totals for the Year Ended December 31, 2020

		2018 Small Cities Development Program Fund
	General Fund	
Revenues		
Taxes	\$ 3,081,165	\$
Tax increments		
Special assessments	3,467	
Licenses and permits	129,464	
Intergovernmental revenues	1,732,687	150,734
Charges for services	1,692,501	
Fines and forfeits	29,330	
Investment income (loss)	(34,186)	(906)
Miscellaneous revenues	175,997	26,168
Total Revenues	6,810,425	175,996
Expenditures		
General government	1,299,169	
Public safety	3,341,403	
Streets and highways	878,278	
Culture and recreation	1,333,283	
Economic development	23,875	164,199
Capital outlay		
Bond principal retirement	202,852	
Interest and fiscal charges	22,148	
Total Expenditures	7,101,008	164,199
Excess (Deficiency) of Revenues Over (Under) Expenditures	(290,583)	11,797
Other Financing Sources (Uses)		
Debt issuance		
Sale of property	81,678	
Transfers in	950,774	
Transfers out	(529,083)	
Total other financing sources (uses)	503,369	
Net change in fund balances	212,786	11,797
FUND BALANCE, beginning	7,548,976	190,531
FUND BALANCE, ending	\$ 7,761,762	\$ 202,328

See Notes to Financial Statements

Capital Projects	Other Governmental Funds	Total Governmental Funds	
		2021	2020
\$	\$ 715,806	\$ 3,796,971	\$ 3,651,085
	549	549	
	16,052	19,519	18,887
		129,464	83,276
	63,667	1,947,088	2,177,557
	1,705	1,694,206	1,344,692
	349	29,679	25,545
(819)	(5,188)	(41,099)	158,824
77,663	99,170	378,998	183,442
<u>76,844</u>	<u>892,110</u>	<u>7,955,375</u>	<u>7,643,308</u>
		1,299,169	1,197,409
		3,341,403	3,488,512
		878,278	657,607
	269,385	1,602,668	989,901
	140	188,214	358,721
2,949,119	1,151,145	4,100,264	2,811,381
	860,000	1,062,852	689,098
	54,390	76,538	94,211
<u>2,949,119</u>	<u>2,335,060</u>	<u>12,549,386</u>	<u>10,286,840</u>
<u>(2,872,275)</u>	<u>(1,442,950)</u>	<u>(4,594,011)</u>	<u>(2,643,532)</u>
	943,000	943,000	
		81,678	461,500
3,237,222	233,785	4,421,781	1,699,307
(109,284)	(163,414)	(801,781)	(573,037)
<u>3,127,938</u>	<u>1,013,371</u>	<u>4,644,678</u>	<u>1,587,770</u>
255,663	(429,579)	50,667	(1,055,762)
(52,046)	1,579,966	9,267,427	10,323,189
<u>\$ 203,617</u>	<u>\$ 1,150,387</u>	<u>\$ 9,318,094</u>	<u>\$ 9,267,427</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, 2021

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

Net change in fund balances - total governmental funds (pages 21 and 22)	\$	50,667
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	\$	5,315,172
Depreciation expense		<u>(1,465,762)</u>
		3,849,410
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, etc.) is to decrease net position		(60,666)
Infrastructure is contributed from governmental activities to business-type activities. The amounts affect governmental net position but do not affect fund balance		(86,331)
Some revenues which will not be collected for several months after fiscal year ends are not considered "available" and are reported as deferred inflows of resources. Unavailable revenues increased by this amount this year		86,719
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	\$	1,062,852
Long-term debt discount and premiums		1,075
Issuance of debt		(943,000)
Change in accrued interest		<u>1,174</u>
		122,101
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		32,731
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	\$	22,995
Net pension asset		(4,727)
Other postemployment benefits		9,234
Compensated absences		<u>(15,855)</u>
		<u>11,647</u>
Change in net position of governmental activities (pages 16 and 17)	\$	<u>4,006,278</u>

See Notes to Financial Statements

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

For the Year Ended December 31, 2021
With Comparative Totals for the Year Ended December 31, 2020

	Budgeted Amounts		2021 Actual Amounts	Variance with Final Budget Positive (Negative)	2020 Actual Amounts
	Original	Final			
Taxes					
Property taxes	\$ 2,930,074	\$ 2,930,074	\$ 2,955,400	\$ 25,326	\$ 2,831,654
Special assessments			3,467	3,467	2,168
Franchise tax	75,000	75,000	65,596	(9,404)	64,447
Lodging tax	63,158	63,158	60,169	(2,989)	41,821
Total Taxes	3,068,232	3,068,232	3,084,632	16,400	2,940,090
Licenses and Permits					
Business licenses	19,900	19,900	20,005	105	14,788
Non-Business licenses	63,100	93,100	109,459	16,359	68,488
Total Licenses and Permits	83,000	113,000	129,464	16,464	83,276
Intergovernmental Revenues					
Federal:					
CARES act funding					330,185
Other federal aids		546,894	540,029	(6,865)	101,915
State:					
Local government aid	942,578	942,578	942,578		912,216
MSA street maintenance			69,465	69,465	76,490
Fire aid	228,112	62,621	62,621		61,849
Police aid	106,000	106,000	104,768	(1,232)	110,323
Other state aids	7,393	7,393		(7,393)	21,790
County:					
Federal county aid			13,226	13,226	248,000
Total Intergovernmental	1,284,083	1,665,486	1,732,687	67,201	1,862,768
Charges for Services					
General government	275,450	275,450	275,215	(235)	265,137
Public safety	1,205,650	1,213,020	1,183,438	(29,582)	1,044,414
Streets and highways	23,315	23,315	37,880	14,565	25,306
Park fees	185,050	205,550	195,968	(9,582)	8,434
Total Charges for Services	1,689,465	1,717,335	1,692,501	(24,834)	1,343,291
Fines and Forfeits					
	28,000	28,000	29,330	1,330	25,124
Investment Income (Loss)					
	25,000	25,000	(34,186)	(59,186)	124,992
Miscellaneous Revenues					
Gift and contributions	35,500	74,192	125,817	51,625	17,975
Other	45,750	51,310	44,094	(7,216)	50,989
Refunds and reimbursements	5,000	5,000	6,086	1,086	10,863
Total Miscellaneous Revenues	86,250	130,502	175,997	45,495	79,827
TOTAL REVENUES	\$ 6,264,030	\$ 6,747,555	\$ 6,810,425	\$ 62,870	\$ 6,459,368

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, 2021

With Comparative Totals for the Year Ended December 31, 2020

	Budgeted Amounts		2021 Actual Amounts	Variance with Final Budget Positive (Negative)	2020 Actual Amounts
	Original	Final			
EXPENDITURES					
General Government					
Mayor and City Council:					
Personnel services	\$ 43,000	\$ 43,000	\$ 41,182	\$ 1,818	\$ 40,872
Supplies	3,000	7,000	833	6,167	4,527
Other services and charges	48,500	48,500	43,031	5,469	42,421
Capital outlay	10,000	37,000	3,681	33,319	
Total Mayor and City Council	104,500	135,500	88,727	46,773	87,820
City Administrator:					
Personnel services	161,200	161,200	162,272	(1,072)	153,732
Supplies	550	550	110	440	310
Other services and charges	6,700	6,700	4,644	2,056	7,436
Total City Administrator	168,450	168,450	167,026	1,424	161,478
City Clerk/Finance Director:					
Personnel services	404,207	404,207	401,142	3,065	379,531
Supplies	5,500	2,100	517	1,583	5,953
Other services and charges	56,050	56,050	28,072	27,978	51,670
Total City Clerk/Finance Director	465,757	462,357	429,731	32,626	437,154
Audit:					
Other services and charges	22,600	27,600	29,200	(1,600)	22,700
Legal:					
Other services and charges	109,000	104,000	85,679	18,321	89,409
Planning and Zoning:					
Personnel services	183,750	183,750	185,581	(1,831)	174,833
Supplies	2,000	2,000	1,162	838	2,589
Other services and charges	109,550	158,050	113,709	44,341	97,655
Total Planning and Zoning	295,300	343,800	300,452	43,348	275,077
Elections:					
Personnel services	1,000	1,000		1,000	11,497
Supplies		3,400	3,386	14	5,745
Other services and charges	1,850	1,850	1,713	137	2,186
Total Elections	2,850	6,250	5,099	1,151	19,428
General Government Buildings:					
Other services and charges	107,188	107,188	193,255	(86,067)	104,343
Total General Government Buildings	107,188	107,188	193,255	(86,067)	104,343
Total General Government	\$ 1,275,645	\$ 1,355,145	\$ 1,299,169	\$ 55,976	\$ 1,197,409

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, 2021

With Comparative Totals for the Year Ended December 31, 2020

	Budgeted Amounts		2021 Actual Amounts	Variance with Final Budget Positive (Negative)	2020 Actual Amounts
	Original	Final			
EXPENDITURES					
Public Safety					
Police:					
Personnel services	\$ 1,267,823	\$ 1,267,823	\$ 1,284,938	\$ (17,115)	\$ 1,223,898
Supplies	59,200	66,060	61,304	4,756	68,396
Other services and charges	101,336	105,336	123,670	(18,334)	96,930
Capital outlay	30,000	52,672	41,251	11,421	46,859
Total Police	1,458,359	1,491,891	1,511,163	(19,272)	1,436,083
Fire:					
Personnel services	96,950	96,950	90,818	6,132	88,637
Supplies	35,000	27,500	26,564	936	27,144
Other services and charges	107,822	126,943	124,366	2,577	121,081
Capital outlay	231,612	237,112	235,214	1,898	56,448
Debt service	225,000	225,000	225,000		225,000
Total Fire	696,384	713,505	701,962	11,543	518,310
Ambulance:					
Personnel services	1,111,925	1,101,925	1,070,881	31,044	1,021,018
Supplies	65,000	89,270	90,912	(1,642)	89,063
Other services and charges	186,647	179,747	150,763	28,984	140,240
Capital outlay					456,932
Total Ambulance	1,363,572	1,370,942	1,312,556	58,386	1,707,253
Civil Defense:					
Personnel services	26,320	26,320	26,406	(86)	21,120
Supplies	11,000	12,200	11,752	448	29,063
Other services and charges	4,500	4,500	2,564	1,936	1,683
Total Civil Defense	41,820	43,020	40,722	2,298	51,866
Total Public Safety	\$ 3,560,135	\$ 3,619,358	\$ 3,566,403	\$ 52,955	\$ 3,713,512

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, 2021

With Comparative Totals for the Year Ended December 31, 2020

	Budgeted Amounts		2021 Actual Amounts	Variance with Final Budget Positive (Negative)	2020 Actual Amounts
	Original	Final			
EXPENDITURES					
Streets and Highways					
Personnel services	\$ 368,808	\$ 368,808	\$ 359,745	\$ 9,063	\$ 341,754
Supplies	57,500	57,000	54,686	2,314	45,380
Other services and charges	286,734	313,390	267,932	45,458	270,473
Capital outlay	160,000	168,000	195,915	(27,915)	
Total Streets and Highways	873,042	907,198	878,278	28,920	657,607
Culture and Recreation					
Lodging Tax:					
Other services and charges	60,000	60,000	56,970	3,030	40,244
Total Tourism	60,000	60,000	56,970	3,030	40,244
Summer Recreation:					
Personnel services		4,000	3,977	23	1,295
Other services and charges	8,000	350	257	93	
Total Summer Recreation	8,000	4,350	4,234	116	1,295
Swimming Pool:					
Personnel services		44,850	44,820	30	
Supplies	11,000	15,300	13,958	1,342	7,324
Other services and charges	130,819	121,319	19,131	102,188	102,279
Total Swimming Pool	141,819	181,469	77,909	103,560	109,603
Hok-Si-La Park:					
Personnel services	133,790	146,290	146,796	(506)	126,609
Supplies	28,300	29,500	21,735	7,765	16,659
Other services and charges	74,729	74,729	58,637	16,092	55,899
Capital outlay	6,000	6,000	11,008	(5,008)	6,254
Total Hok-Si-La Park	\$ 242,819	\$ 256,519	\$ 238,176	\$ 18,343	\$ 205,421

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, 2021

With Comparative Totals for the Year Ended December 31, 2020

	Budgeted Amounts		2021 Actual Amounts	Variance with Final Budget Positive (Negative)	2020 Actual Amounts
	Original	Final			
Culture and Recreation (continued)					
Other Parks:					
Personnel services	\$ 201,600	\$ 181,600	\$ 166,642	\$ 14,958	\$ 149,092
Supplies	41,000	41,336	35,791	5,545	26,774
Other services and charges	70,500	76,000	48,339	27,661	64,571
Capital outlay	74,000	749,923	705,222	44,701	126,222
Total Other Parks	387,100	1,048,859	955,994	92,865	366,659
 Total Culture and Recreation	 839,738	 1,551,197	 1,333,283	 217,914	 723,222
 Economic Development	 25,000	 25,000	 23,875	 1,125	 23,617
 TOTAL EXPENDITURES	 6,573,560	 7,457,898	 7,101,008	 356,890	 6,315,367
 Excess (deficiency) of revenues over (under) expenditures	 (309,530)	 (710,343)	 (290,583)	 419,760	 144,001
 OTHER FINANCING SOURCES					
Sale of property		22,672	81,678	59,006	36,500
Transfers in	810,000	919,284	950,774	31,490	810,000
Transfers out	(694,289)	(694,289)	(529,083)	165,206	(573,037)
Total Other Financing Sources	115,711	247,667	503,369	255,702	273,463
 NET CHANGE IN FUND BALANCE	 (193,819)	 (462,676)	 212,786	 675,462	 417,464
 FUND BALANCE, beginning	 7,548,976	 7,548,976	 7,548,976		 7,131,512
 FUND BALANCE, ending	 \$ 7,355,157	 \$ 7,086,300	 \$ 7,761,762	 \$ 675,462	 \$ 7,548,976

See Notes to Financial Statements

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CITY OF LAKE CITY, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
December 31, 2021
With Comparative Totals as of December 31, 2020

	Business-Type Activities - Enterprise Funds			
	701	702	703	706
	Electric Fund	Water Fund	Sewer Fund	Storm Water Fund
ASSETS AND DEFERRED OUTFLOWS				
OF RESOURCES				
Current Assets				
Cash and cash equivalents	\$ 6,907,938	\$ 137,074	\$ 166,706	\$ 68,811
Accounts receivable	887,716	49,210	102,847	14,510
Advances to other funds	89,699			
Interfund receivables				
Inventories	586,226			
Prepaid items	43,822	5,623	22,721	1,085
Total Current Assets	8,515,401	191,907	292,274	84,406
Noncurrent Assets				
Capital Assets				
Nondepreciable	9,900	4,738		97,400
Depreciable	17,404,189	5,711,573	12,639,098	3,073,325
Less: Accumulated depreciation	(11,586,942)	(2,695,268)	(9,191,828)	(1,601,206)
Net Capital Assets	5,827,147	3,021,043	3,447,270	1,569,519
Special Assessments		11,080		11,080
Total Noncurrent Assets	5,827,147	3,032,123	3,447,270	1,580,599
Deferred Outflows of Resources				
Deferred outflows from pension activity	313,612	92,241	113,973	10,565
TOTAL ASSETS AND DEFERRED				
OUTFLOWS OF RESOURCES				
	\$ 14,656,160	\$ 3,316,271	\$ 3,853,517	\$ 1,675,570
LIABILITIES				
Current Liabilities				
Current maturities of bonds payable	\$	\$ 42,500	\$ 307,000	\$ 42,500
Accounts payable	676,993	21,292	10,170	4,827
Accrued liabilities	22,333	4,339	6,779	3,360
Advances from other funds	4,129			40,000
Interfund payables				
Customer deposits	78,959			
Total Current Liabilities	782,414	68,131	323,949	90,687
Noncurrent Liabilities				
Bonds payable, net of current maturities and discount		182,585	316,000	182,585
Compensated absences payable	31,657	27,460	27,460	
Net pension liability	425,695	122,151	151,256	14,656
Total Liabilities	1,239,766	400,327	818,665	287,928
Deferred Inflows of Resources				
Deferred inflows from pension activity	391,175	112,242	138,993	13,465
NET POSITION				
Net investment in capital assets	5,827,147	2,795,958	2,824,270	1,344,434
Unrestricted	7,198,072	7,744	71,589	29,743
Total Net Position	13,025,219	2,803,702	2,895,859	1,374,177
TOTAL LIABILITIES, DEFERRED INFLOWS				
OF RESOURCES AND NET PENSION				
	\$ 14,656,160	\$ 3,316,271	\$ 3,853,517	\$ 1,675,570

See Notes to Financial Statements

710 Marina Fund	720 Garbage Fund	TOTALS		Governmental Activities - Internal Service Fund	
		2021	2020	2021	2020
\$ 4,562,355	\$ 51,336	\$ 11,894,220	\$ 13,612,207	\$	\$
32,640	9,497	1,096,420	1,191,814		
41,399		131,098	205,807		
6,735		592,961	657,630	20,122	
64,427	587	138,265	120,413	123,153	115,630
<u>4,707,556</u>	<u>61,420</u>	<u>13,852,964</u>	<u>15,787,871</u>	<u>143,275</u>	<u>115,630</u>
623,419		735,457	823,390		
8,082,909		46,911,094	45,683,456		
(4,367,227)		(29,442,471)	(28,264,972)		
<u>4,339,101</u>		<u>18,204,080</u>	<u>18,241,874</u>		
		22,160	27,136		
<u>4,339,101</u>		<u>18,226,240</u>	<u>18,269,010</u>		
141,784	8,403	680,578	136,881		
<u>\$ 9,188,441</u>	<u>\$ 69,823</u>	<u>\$ 32,759,782</u>	<u>\$ 34,193,762</u>	<u>\$ 143,275</u>	<u>\$ 115,630</u>
\$ 14,891	\$ 44	\$ 392,000	\$ 403,000	\$ 17,269	\$ 14,950
	390	728,217	734,445		
		37,201	44,157		
		44,129	50,000		
		78,959	80,666		7,405
<u>14,891</u>	<u>434</u>	<u>1,280,506</u>	<u>1,312,268</u>	<u>17,269</u>	<u>22,355</u>
57,370		681,170	1,163,978		
192,449	10,755	143,947	141,932		
<u>264,710</u>	<u>11,189</u>	<u>916,962</u>	<u>1,240,397</u>	<u>17,269</u>	<u>22,355</u>
176,844	9,885	842,604	57,415		
4,339,101		17,130,910	16,674,896		
4,407,786	48,749	11,763,683	13,602,876	126,006	93,275
<u>8,746,887</u>	<u>48,749</u>	<u>28,894,593</u>	<u>30,277,772</u>	<u>126,006</u>	<u>93,275</u>
<u>\$ 9,188,441</u>	<u>\$ 69,823</u>	<u>\$ 32,759,782</u>	<u>\$ 34,193,762</u>	<u>\$ 143,275</u>	<u>\$ 115,630</u>

CITY OF LAKE CITY, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
For the Year Ended December 31, 2021
With Comparative Totals for the Year Ended December 31, 2020

	Business-Type Activities - Enterprise Funds			
	701 Electric Fund	702 Water Fund	703 Sewer Fund	706 Storm Water Fund
Operating Revenue	\$ 10,514,467	\$ 705,474	\$ 1,404,690	\$ 170,234
Operating Expenses				
Salaries and benefits	718,855	277,939	336,037	16,644
Supplies	48,516	22,460	32,182	20,069
Other services and charges	8,695,862	185,013	596,637	62,352
Insurance	68,780	12,441	34,023	1,763
Depreciation	466,743	191,205	399,812	115,163
Total Operating Expenses	<u>9,998,756</u>	<u>689,058</u>	<u>1,398,691</u>	<u>215,991</u>
Operating Income (Loss)	<u>515,711</u>	<u>16,416</u>	<u>5,999</u>	<u>(45,757)</u>
Nonoperating Income (Expense)				
Miscellaneous income	548,292	1,374	6,544	1,336
Investment income (loss)	(32,367)	(428)	(1,041)	(166)
Special assessments		745		707
Intergovernmental revenues	52,453			
Gain (loss) on disposal of capital assets	(11,708)			
Interest expense		(9,607)	(24,295)	(8,649)
Total Nonoperating Income (Expense)	<u>556,670</u>	<u>(7,916)</u>	<u>(18,792)</u>	<u>(6,772)</u>
Income (Loss) Before Transfers, Capital Contributions and Capital Grant	<u>1,072,381</u>	<u>8,500</u>	<u>(12,793)</u>	<u>(52,529)</u>
Transfers in				
Transfers out	(930,000)	(22,500)	(22,500)	
Capital contributions		86,331		
Capital grant				21,181
Change in net position	<u>142,381</u>	<u>72,331</u>	<u>(35,293)</u>	<u>(31,348)</u>
Net Position, beginning	<u>12,882,838</u>	<u>2,731,371</u>	<u>2,931,152</u>	<u>1,405,525</u>
Net Position, ending	<u>\$ 13,025,219</u>	<u>\$ 2,803,702</u>	<u>\$ 2,895,859</u>	<u>\$ 1,374,177</u>

See Notes to Financial Statements

710 Marina Fund	720 Garbage Fund	TOTALS		Governmental Activities - Internal Service Funds	
		2021	2020	2021	2020
\$ 2,204,190	\$ 107,126	\$ 15,106,181	\$ 15,930,619	\$ 477,000	\$ 464,000
425,537	25,367	1,800,379	1,887,238		
237,043	2,013	362,283	321,690	25,147	30,815
152,777	62,805	9,755,446	10,506,810	234,049	171,383
71,713		188,720	164,821	230,963	201,830
226,746		1,399,669	1,265,578		
1,113,816	90,185	13,506,497	14,146,137	490,159	404,028
1,090,374	16,941	1,599,684	1,784,482	(13,159)	59,972
21,029	7,463	586,038	65,338	30,485	11,680
(20,319)	(201)	(54,522)	273,684		
		1,452	1,614		
6,975		59,428	13,123	15,405	50,398
(8,512)		(20,220)	(9,649)		
		(42,551)	(56,480)		
(827)	7,262	529,625	287,630	45,890	62,078
1,089,547	24,203	2,129,309	2,072,112	32,731	122,050
			554,214		
(2,645,000)		(3,620,000)	(1,680,484)		
		86,331			
		21,181	99,299		
(1,555,453)	24,203	(1,383,179)	1,045,141	32,731	122,050
10,302,340	24,546	30,277,772	29,232,631	93,275	(28,775)
\$ 8,746,887	\$ 48,749	\$ 28,894,593	\$ 30,277,772	\$ 126,006	\$ 93,275

CITY OF LAKE CITY, MINNESOTA
ENTERPRISE FUNDS
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2021
With Comparative Totals for the Year Ended December 31, 2020

	Business-Type Activities - Enterprise Funds			
	Electric Fund	Water Fund	Sewer Fund	Storm Water Fund
Cash Flows From Operating Activities				
Cash received from customers	\$ 11,097,628	\$ 722,503	\$ 1,419,634	\$ 172,809
Cash paid to suppliers	(8,789,323)	(217,402)	(668,093)	(85,565)
Cash paid to employees	(756,505)	(290,289)	(355,015)	(18,359)
Net Cash Provided By Operating Activities	<u>1,551,800</u>	<u>214,812</u>	<u>396,526</u>	<u>68,885</u>
Cash Flows From Noncapital Financing Activities				
Advances from/ (to) other funds	38,250			(10,000)
Intergovernmental revenues	52,453			
Operating transfers in				
Operating transfers out	(930,000)	(22,500)	(22,500)	
Net Cash Used In Noncapital Financing Activities	<u>(839,297)</u>	<u>(22,500)</u>	<u>(22,500)</u>	<u>(10,000)</u>
Cash Flows From Capital and Related Financing Activities				
Principal received on special assessments		3,233		3,195
Acquisition of capital assets	(550,292)	(136,769)	(43,995)	
Cash received for disposal of capital assets	37,335	3,800		
Cash received from grant				21,181
Interest paid on debt		(9,568)	(24,295)	(8,165)
Principal paid on debt		(70,000)	(298,000)	(40,000)
Net Cash Used In Capital and Related Financing Activities	<u>(512,957)</u>	<u>(209,304)</u>	<u>(366,290)</u>	<u>(23,789)</u>
Cash Flows From Investing Activities				
Investment income (loss)	(32,367)	(428)	(1,041)	(166)
Net Cash Provided By (Used In) Investing Activities	<u>(32,367)</u>	<u>(428)</u>	<u>(1,041)</u>	<u>(166)</u>
Increase (Decrease) in Cash and Cash Equivalents				
	167,179	(17,420)	6,695	34,930
Cash and Cash Equivalents, beginning	<u>6,740,759</u>	<u>154,494</u>	<u>160,011</u>	<u>33,881</u>
Cash and Cash Equivalents, ending	<u>\$ 6,907,938</u>	<u>\$ 137,074</u>	<u>\$ 166,706</u>	<u>\$ 68,811</u>

See Notes to Financial Statements

Marina Fund	Garbage Fund	TOTALS		Governmental Activities - Internal Service Fund	
		2021	2020	2021	2020
\$ 2,218,082	\$ 114,115	\$ 15,744,771	\$ 16,179,720	\$ 507,485	\$ 475,680
(454,783)	(64,820)	(10,279,986)	(11,030,127)	(495,363)	(400,040)
(440,478)	(26,617)	(1,887,263)	(1,931,583)		
1,322,821	22,678	3,577,522	3,218,010	12,122	75,640
40,588		68,838	63,440	(27,527)	(126,038)
6,975		59,428	13,123	15,405	50,398
			554,214		
(2,645,000)		(3,620,000)	(1,680,484)		
(2,597,437)		(3,491,734)	(1,049,707)	(12,122)	(75,640)
		6,428	6,384		
(636,913)		(1,367,969)	(2,755,715)		
		41,135			
		21,181	99,299		
		(42,028)	(55,959)		
		(408,000)	(473,000)		
(636,913)		(1,749,253)	(3,178,991)		
(20,319)	(201)	(54,522)	273,684		
(20,319)	(201)	(54,522)	273,684		
(1,931,848)	22,477	(1,717,987)	(737,004)		
6,494,203	28,859	13,612,207	14,349,211		
\$ 4,562,355	\$ 51,336	\$ 11,894,220	\$ 13,612,207	\$	\$

CITY OF LAKE CITY, MINNESOTA
ENTERPRISE FUNDS
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2021
With Comparative Totals for the Year Ended December 31, 2020

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

	Business-Type Activities - Enterprise Funds			
	Electric Fund	Water Fund	Sewer Fund	Storm Water Fund
Operating Income (Loss)	\$ 515,711	\$ 16,416	\$ 5,999	\$ (45,757)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	466,743	191,205	399,812	115,163
Other	499,249	(2,426)	6,544	1,336
(Increase) Decrease In:				
Accounts receivable	73,911	19,455	8,400	1,239
Inventories	43,756			
Prepaid items	4,055	1,490	(526)	315
Increase (Decrease) In:				
Accounts payable	(12,268)	1,022	(4,725)	(1,696)
Accrued liabilities	(2,014)	(1,228)	(3,243)	(521)
Pension related	(35,723)	(10,603)	(15,216)	(1,194)
Compensated absences	87	(519)	(519)	
Customer deposits	(1,707)			
Net Cash Provided By Operating Activities	\$ 1,551,800	\$ 214,812	\$ 396,526	\$ 68,885
Non Cash Transactions:				
Amortization of bond discount/premium	\$	\$ 39	\$	\$ 484
Capital assets in accounts payable at year end				
Receipt of contributed property		86,331		

See Notes to Financial Statements

Marina Fund	Garbage Fund	TOTALS		Governmental Activities - Internal Service Fund	
		2021	2020	2021	2020
\$ 1,090,374	\$ 16,941	\$ 1,599,684	\$ 1,784,482	\$ (13,159)	\$ 59,972
226,746		1,399,669	1,265,578		
21,029	7,463	533,195	55,689	30,485	11,680
(7,137)	(474)	95,394	182,869		
20,913		64,669	(23,403)		
(23,178)	(8)	(17,852)	(16,420)	(7,523)	(10,962)
9,015	6	(8,646)	12,666	2,319	14,950
(18)	68	(6,956)	(9,287)		
(17,889)	(1,318)	(81,943)	(37,052)		
2,966		2,015	1,994		
		(1,707)	894		
<u>\$ 1,322,821</u>	<u>\$ 22,678</u>	<u>\$ 3,577,522</u>	<u>\$ 3,218,010</u>	<u>\$ 12,122</u>	<u>\$ 75,640</u>
\$ 2,418		\$ 523	\$ 521	\$	\$
		2,418			
		86,331			

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CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

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)

1. Summary of Significant Accounting Policies (Continued)

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)

1. Summary of Significant Accounting Policies (Continued)

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

The City reports the following major governmental funds:

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

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

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 leaf vac, compost and clean-up days.

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)

1. Summary of Significant Accounting Policies (Continued)

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's enterprise funds and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgets and Budgetary Accounting

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

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

1. The 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)

1. Summary of Significant Accounting Policies (Continued)

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)

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)

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)

1. Summary of Significant Accounting Policies (Continued)

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, 2020** totals column have been reclassified to conform with the current year presentation.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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)

1. Summary of Significant Accounting Policies (Continued)

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, 2021, the City's investments consisted of the following items, all of which are held in an internal investment pool:

Deposits	\$ 1,610,526
Investments	<u>19,909,638</u>
Cash and Investments Per Statement of Net Position	<u><u>\$ 21,520,164</u></u>

<u>Investment</u>	<u>Fair Value</u>	<u>Investment Rating</u>	
		<u>S&P</u>	<u>MOODY</u>
Money Market Mutual Funds	\$ 2,377,264	N/A	N/A
Mutual Funds	70,435	N/A	N/A
Non-Negotiable CD's	4,362,818	N/A	N/A
US Treasury Bonds	55,777	AA+	AAA
Federal Home Loan Bank	4,597,583	AA+	AAA
Municipal Bonds	6,343,609	AA+	AAA
Federal Farm Credit Bank	1,607,202	AA+	AAA
Federal Home Loan Mortgage Corp	494,950	AA+	AAA
	<u>\$ 19,909,638</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)

2. Cash and Investments (Continued)

Investments Authorized by Minnesota Statutes

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

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

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

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: Observable market-based inputs or unobservable inputs that are corroborated by market data. 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, 2021 and 2020 were as follows:

At December 31, 2021				
	Assets			
	Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Mutual Funds	\$ 70,435	\$ 70,435	\$	\$
Federal Home Loan Bank	4,597,583		4,597,583	
Municipal Bonds	6,343,609		6,343,609	
Federal Farm Credit Bank	1,607,202		1,607,202	
Federal Home Loan Mortgage Corp	494,950		494,950	
	\$ 13,113,779	\$ 70,435	\$ 13,043,344	\$

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	
Federal Farm Credit Bank	2,119,780		2,119,780	
Federal Home Loan Mortgage Corp	2,500,734		2,500,734	
	\$ 10,289,111	\$ 52,068	\$ 10,237,043	\$

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	\$ 2,377,264	\$ 2,377,264	\$	\$	\$
Mutual Funds	70,435	70,435			
Non-Negotiable CD's	4,362,818	1,974,412	503,664	1,884,742	
US Treasury Bonds	55,777			35,625	20,152
Federal Home Loan Bank	4,597,583	4,597,583			
Municipal Bonds	6,343,609	6,343,609			
Federal Farm Credit Bank	1,607,202	1,607,202			
Federal Home Loan Mortgage Corp	494,950	494,950			
Total	\$ 19,909,638	\$ 17,465,455	\$ 503,664	\$ 1,920,367	\$ 20,152

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:

Investment	Percent of Total
Non-Negotiable CD's	22%
Federal Farm Credit Bank	8%
Municipal Bonds	32%

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Loans Receivables

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, 2021 totaled \$14,152.

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 \$387,211.

4. Stewardship, Compliance, and Accountability

Certain funds had a deficit fund balance at December 31, 2021, as follows:

Special Revenue Funds:		
Tax increment TIF #13	\$	239,233

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, 2021 was as follows:

<u>Governmental Activities</u>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 1,342,607	\$	\$	\$ 1,342,607
Construction in progress	273,256	517,345	195,852	594,749
Total capital assets, not being depreciated	<u>1,615,863</u>	<u>517,345</u>	<u>195,852</u>	<u>1,937,356</u>
Capital assets, being depreciated:				
Buildings	17,669,221	4,961		17,674,182
Improvements other than buildings	474,901	2,928,462		3,403,363
Infrastructure	22,623,838	1,094,746	103,298	23,615,286
Machinery and equipment	7,161,693	965,510	252,404	7,874,799
Total capital assets, being depreciated	<u>47,929,653</u>	<u>4,993,679</u>	<u>355,702</u>	<u>52,567,630</u>
Less accumulated depreciation for:				
Buildings	8,402,190	378,560		8,780,750
Improvements other than buildings	275,330	20,468		295,798
Infrastructure	10,984,706	653,888	52,902	11,585,692
Machinery and equipment	3,628,186	412,846	242,134	3,798,898
Total accumulated depreciation	<u>23,290,412</u>	<u>1,465,762</u>	<u>295,036</u>	<u>24,461,138</u>
Total capital assets, being depreciated, net	<u>24,639,241</u>	<u>3,527,917</u>	<u>60,666</u>	<u>28,106,492</u>
Governmental activities capital assets, net	<u>\$ 26,255,104</u>	<u>\$ 4,045,262</u>	<u>\$ 256,518</u>	<u>\$ 30,043,848</u>

Governmental Activities:

General government	\$ 365,547
Public safety	237,619
Streets and highways	709,868
Culture and recreation	152,728
Total depreciation expense - governmental activities	<u>\$ 1,465,762</u>

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Capital Assets (Continued)

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 725,300	\$	\$	\$ 725,300
Construction in progress	98,090	9,692	97,625	10,157
Total capital assets, not being depreciated	<u>823,390</u>	<u>9,692</u>	<u>97,625</u>	<u>735,457</u>
Capital assets, being depreciated:				
Buildings and improvements	15,327,147	642,489	58,268	15,911,368
Distribution and collection system	26,183,491	331,076		26,514,567
Machinery and equipment	4,172,818	484,755	172,414	4,485,159
Total capital assets, being depreciated	<u>45,683,456</u>	<u>1,458,320</u>	<u>230,682</u>	<u>46,911,094</u>
Less accumulated depreciation for:				
Buildings and improvements	9,157,767	498,401	49,756	9,606,412
Distribution and collection system	16,155,924	726,913		16,882,837
Machinery and equipment	2,951,281	174,355	172,414	2,953,222
Total accumulated depreciation	<u>28,264,972</u>	<u>1,399,669</u>	<u>222,170</u>	<u>29,442,471</u>
Total capital assets, being depreciated, net	<u>17,418,484</u>	<u>58,651</u>	<u>8,512</u>	<u>17,468,623</u>
Business-type activities capital assets, net	<u>\$ 18,241,874</u>	<u>\$ 68,343</u>	<u>\$ 106,137</u>	<u>\$ 18,204,080</u>

Business-Type Activities:

Electric	\$ 466,743
Water	191,205
Sewer	399,812
Stormwater	115,163
Marina	226,746
Total depreciation expense - business-type activities	<u>\$ 1,399,669</u>

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Due From Other Governmental Units

Amounts due from other governmental units at December 31, 2021 are as follows:

Fund	Due from various Counties	State of Minnesota	Total
General	\$ 17,041	\$ 1,776	\$ 18,817
Special revenue	777		777
Debt service	3,354		3,354
Economic development authority	420		420
Total	<u>\$ 21,592</u>	<u>\$ 1,776</u>	<u>\$ 23,368</u>

7. Tax Abatement

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, 2021.

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 2021 totaled \$23,875.

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, 2021 at the individual fund level are summarized below:

	<u>Advances to Other Funds</u>	<u>Advances from Other Funds</u>
General Fund	\$ 173,493	\$ 20,079
Special Revenue Funds:		
Tax Increment TIF #13		239,233
Debt Service Funds:		
2006 Street Improvement		195
2012 Street Improvement		955
Enterprise Fund:		
Electric	89,699	4,129
Storm Water		40,000
Marina	41,399	
	<u>\$ 304,591</u>	<u>\$ 304,591</u>

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Interfund Balances and Transfers (Continued)

Operating transfers primarily from payments in lieu of taxes during the year ended December 31, 2021 were as follows:

Funds	Transfers In	Transfers Out
General Fund	\$ 950,774	\$ 529,083
Special Revenue:		
Library	60,000	
Capital Project Funds:		
Capital Projects	3,237,222	109,284
Mill & Overlay		131,924
2021 Mill & Overlay	173,785	
Debt Service Funds:		
2006 Street Improvement		28,611
2012 Street Improvement		2,879
Enterprise:		
Electric		930,000
Water		22,500
Sewer		22,500
Marina		2,645,000
	\$ 4,421,781	\$ 4,421,781

In the government-wide statement of net position, transfers in/out are comprised of:

Governmental Funds:	
Transfer in	\$ 4,421,781
Transfer out	(801,781)
Capital assets transferred from Government-activities to Business-type activities	(86,331)
Government-wide Statement of Activities - Transfers in/out	\$ 3,533,669

9. Long-Term Debt

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, 2021 is as follows:

	Range of Interest Rates	Final Maturity	Balance December 31, 2021
<u>Governmental Activities</u>			
G.O. Improvement Bonds:			
G.O. Improvement Bonds of 2013A	1.00%-2.35%	2024	\$ 495,000
G.O. Crossover Refunding Bonds of 2015A	2.00%	2024	360,000
G.O. Street Reconstruction Bonds of 2018A	3.00%	2029	650,000
G.O. Street Reconstruction Bonds of 2021A	1.15%	2027	943,000
Equipment lease payable	4.51%	2024	288,232
Compensated Absences			418,493
<u>Business-Type Activities</u>			
General Obligation Revenue Bonds and Notes:			
G.O. Utility Revenue Bonds of 2010A	2%-3.75%	2026	455,000
Public Facilities Note of 2002	2.99%	2023	623,000
Compensated Absences			143,947
Sub-total			4,376,672
Less: Unamortized discount			(4,830)
Plus: Unamortized premiums			15,045
Total			\$ 4,386,887

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, 2021:

	Beginning Balance	Additions	Reductions	Reclassification of Debt	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES						
General Obligation Bonds:						
G.O. Improvement Bonds of 2012A	\$ 450,000	\$	\$ 450,000		\$	\$
Less: Unamortized Discount	(1,562)		(1,562)			
G.O. Improvement Bonds of 2013A	655,000		160,000		495,000	160,000
G.O. Refunding Bonds of 2013B	90,000		90,000			
G.O. Crossover Refunding						
Bonds of 2015A	360,000		85,000	85,000	360,000	115,000
Plus: Amortized Premium	5,896		1,475	1,331	5,752	
G.O. Street Reconstruction						
Bonds of 2018A	725,000		75,000		650,000	75,000
Plus: Amortized Premium	10,455		1,162		9,293	
G.O. Street Reconstruction Bonds of 2021A		943,000			943,000	
Equipment lease payable	491,084		202,852		288,232	212,001
Subtotal	2,785,873	943,000	1,063,927	86,331	2,751,277	562,001
Other liabilities:						
Compensated Absences	402,638	48,066	32,211		418,493	
Governmental Activities Long-term Liabilities	3,188,511	991,066	1,096,138	86,331	3,169,770	562,001
BUSINESS-TYPE ACTIVITIES						
General Obligation Bonds and Notes:						
G.O. Crossover Refunding						
Bonds of 2015A	115,000		30,000	(85,000)		
Plus: Amortized Premium	1,776		445	(1,331)		
General Obligation Revenue Bonds:						
G.O. Utility Revenue Bonds of 2010A	535,000		80,000		455,000	85,000
Less: Unamortized Discount	(5,798)		(968)		(4,830)	
Public Facilities Note of 2002	921,000		298,000		623,000	307,000
Subtotal	1,566,978		407,477	(86,331)	1,073,170	392,000
Other liabilities:						
Compensated Absences	141,932	3,053	1,038		143,947	
Business-type Activities Long-term Liabilities	1,708,910	3,053	408,515	(86,331)	1,217,117	392,000
Total	\$ 4,897,421	\$ 994,119	\$ 1,504,653	\$	\$ 4,386,887	\$ 954,001

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, 2021, excluding accrued compensated absences are summarized below.

Years	General Obligation Bonds		General Obligation Revenue Bonds and Notes		Other	
	Principal	Interest	Principal	Interest	Principal	Interest
<u>Governmental Activities</u>						
2022	\$ 350,000	\$ 42,006			\$ 212,001	\$ 12,999
2023	550,000	37,555			37,275	3,438
2024	556,000	26,914			38,956	1,757
2025	268,000	19,178				
2026	271,000	14,616				
2027-2029	453,000	17,971				
Totals	<u>\$ 2,448,000</u>	<u>\$ 158,240</u>			<u>\$ 288,232</u>	<u>\$ 18,194</u>

Business-Type Activities

2022	\$ 392,000	\$ 33,349
2023	401,000	21,279
2024	90,000	8,769
2025	95,000	5,472
2026	100,000	1,875
Totals	<u>\$ 1,078,000</u>	<u>\$ 70,744</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)

10. Commitments and Contingencies (Continued)

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 2021.

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 2021. 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.

Capital Improvements

<u>Project</u>	<u>Contract Amount</u>	<u>Remaining Commitment</u>
2021 Pierce Impel PUC Pumper Truck	\$ 743,456	\$ 743,456
Hok-Si-La Recreation Trail Project	525,045	46,843

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Defined Benefit Pension Plans – Statewide

Plan Description

The 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 for each of the first 10 years of service and 1.7 percent for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent 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.

Benefit increases are provided to benefit recipients each January. 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. 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.

11. Defined Benefit Pension Plans – Statewide (Continued)

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. For Police and Fire Plan members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. The postretirement increase is 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. 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 2021 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, 2021, were \$251,604. The City's contributions were equal to the required contributions as set by state statute.

2. Police and Fire Fund Contributions

Police and Fire Plan members were required to contribute 11.80 percent of their annual covered salary in fiscal year 2021 and the City was required to contribute 17.70 percent for Police and Fire Plan members. The City's contributions to the Police and Fire Fund for the year ended December 31, 2021, were \$142,019. 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, 2021, the City reported a liability of \$1,990,029 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 \$60,742. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Defined Benefit Pension Plans – Statewide (Continued)

The City's proportionate share 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, 2020 through June 30, 2021, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0466 percent at the end of the measurement period and 0.0449 percent for the beginning of the period.

City's proportionate share of net pension liability	\$ 1,990,029
State of Minnesota's proportionate share of the net pension liability associated with the City	\$ 60,742

For the year ended December 31, 2021, the City recognized pension expense of (\$100,963) for its proportionate share of the General Employee Plan's pension expense. In addition, the City recognized an additional \$4,901 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.

At December 31, 2021, the City reported its proportionate share of the General Employee 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	\$ 11,334	\$ 60,643
Difference between projected and actual investment earnings		1,726,115
Changes in actuarial assumptions	1,215,070	41,895
Changes in proportion	140,070	
Contributions paid to PERA subsequent to the measurement date	124,103	
Total	<u>\$ 1,490,577</u>	<u>\$ 1,828,653</u>

The \$124,103 reported as deferred outflows of resources related to pensions resulting from City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending December 31:	Pension Expense Amount
2022	\$ (16,627)
2023	17,005
2024	7,516
2025	(470,073)

11. Defined Benefit Pension Plans – Statewide (Continued)

2. Police and Fire Fund Pension Costs

At December 31, 2021, the City reported a liability of \$524,116 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2021, 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, 2020, through June 30, 2021, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0679 percent at the end of the measurement period and 0.0690 percent for the beginning of the period.

The State of Minnesota also contributed \$18 million to the Police and Fire Fund in the plan fiscal year ended June 30, 2021. The contribution consisted of \$9 million in direct state aid that does meet the definition of a special funding situation and \$9 million in supplemental state aid that does not meet the definition of a special funding situation. The \$9 million direct state was paid on October 1, 2020. 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 supplemental 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. Strong asset returns for the fiscal year ended 2021 will accelerate the phasing out of these state contributions, although we do not anticipate them to be phased out during the fiscal year ending 2022.

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 \$9 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 June 30, 2021, the City recognized pension expense of \$77,968 for its proportionate share of the Police and Fire Plan's pension expense. The City recognized \$4,288 as grant revenue for its proportionate share of the State of Minnesota's pension expense for the contribution of \$9 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 \$23,545 for the year ended December 31, 2021 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.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Defined Benefit Pension Plans – Statewide (Continued)

At December 31, 2021, the City reported its proportionate share of the Police and Fire 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	\$ 87,376	\$
Difference between projected and actual investment earnings		1,000,423
Changes in actuarial assumptions	770,313	13,447
Changes in proportion	3,257	26,295
Contributions paid to PERA subsequent to the measurement date	75,804	
Total	<u>\$ 936,750</u>	<u>\$ 1,040,165</u>

The \$75,804 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, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending December 31:	Pension Expense Amount
2022	\$ 9,997
2023	40,044
2024	43,578
2025	(272,838)

Total Pension Costs

The total pension expense for all plans recognized by the City for the year ended December 31, 2021 was:

General Employees Fund	\$ (96,062)
Police and Fire Fund	82,256
Fire Relief	4,727
	<u>\$ (9,079)</u>

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Defined Benefit Pension Plans – Statewide (Continued)

Long-Term Expected Return on Investment

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	33.5%	5.10%
International Equity	16.5%	5.30%
Fixed Income	25.0%	0.75%
Private Markets	25.0%	5.90%
	100%	

Actuarial Methods and Assumptions

The total pension liability in the June 30, 2021, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.5 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.5 percent was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25 percent for the General Employees Plan and 2.25 percent for the Police and Fire Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan. The Police and Fire Plan benefit increase is fixed at 1 percent per year and that increase was used in the valuation.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 29 years of service and 6.0 percent per year thereafter. In the Police and Fire Plan, salary growth assumptions range from 11.75 percent after one year of service to 3.0 percent after 24 years of service.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. Mortality rates for the Police and Fire Plan is based on the Pub-2010 Public Safety Employee Mortality tables. The tables are adjusted slightly to fit PERA's experience.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Defined Benefit Pension Plans – Statewide (Continued)

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020 actuarial valuation. The most recent four-year experience studies for the Police and Fire was completed in 2020 were adopted by the Board and became effective with the July 1, 2021 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2021:

1. General Employees Fund

Changes in Actuarial Assumptions:

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

Changes in Plan Provisions:

- There were no changes in plan provisions since the previous valuation.

2. Police and Fire Fund

Changes in Actuarial Assumptions:

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes.
- The inflation assumption was changed from 2.50 percent to 2.25 percent.
- The payroll growth assumption was changed from 3.25 percent to 3.00 percent.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from MP-2019 to MN-2020.
- The base mortality table for disabled annuitants was changed from the RP-2014 healthy annuitant mortality table (with future mortality improvement according to Scale MP-2019) to the Pub-2010 Public Safety disabled annuitant mortality table (with future mortality improvement according to Scale MP-2020).
- Assumed rates of salary increase were modified as recommended in the July 14, 2020 experience study. The overall impact is a decrease in gross salary increase rates.
- Assumed rates of retirement were changed as recommended in the July 14, 2020 experience study. The changes result in slightly more unreduced retirements and fewer assumed early retirements.
- Assumed rates of withdrawal were changed from select and ultimate rates to service-based rates. The changes result in more assumed terminations.
- Assumed rates of disability were increased for ages 25-44 and decreased for ages over 49. Overall, proposed rates result in more projected disabilities.
- Assumed percent married for active female members was changed from 60 percent to 70 percent. Minor changes to form of payment assumptions were applied.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Defined Benefit Pension Plans – Statewide (Continued)

Actuarial Methods and Assumptions (Continued)

Changes in Plan Provisions:

- There were no changes in plan provisions since the previous valuation.

Discount Rate

The discount rate used to measure the total pension liability in 2021 was 6.50 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, the Police and Fire Fund, and the Correctional 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.

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				
<i>Net Pension Liability (Asset) at Different Discount Rates</i>				
	General Employees Fund		Police and Fire Fund	
1% Lower	5.50%	\$ 4,058,643	5.50%	\$ 1,663,980
Current Discount Rate	6.50%	\$ 1,990,029	6.50%	\$ 524,116
1% Higher	7.50%	\$ 292,605	7.50%	\$ (410,290)

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.

12. Defined Benefit Pension Plan - Volunteer Fire Relief Association

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, 2021, membership includes 18 active members and 7 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
<hr/> = Total Contribution Required

The Plan is funded in part by fire state aid and, if necessary, City contributions. The State of Minnesota distributed \$60,139 in fire state aid paid by the City to the Relief Association for the year ended December 31, 2021. Required employer contributions are calculated annually based on statutory provisions. The City's voluntarily contributions for the plan for the year ended December 31, 2021 was \$20,000.

Pension Costs

At December 31, 2021, the City reported a net pension asset of \$516,877 for the Association's plan. The net pension asset was measured as of December 31, 2020. 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, 2021. 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 12/31/20	\$ 750,586	\$ 1,125,828	\$ (375,242)
Changes for the Year			
Service cost	56,898		56,898
Interest on pension liability	42,342		42,342
Actuarial experience (gains)/losses	(45,233)		(45,233)
Changes in assumptions	35,124		35,124
Net investment income		156,127	(156,127)
Contributions state and local		80,139	(80,139)
Benefit payments	(203,560)	(203,560)	
Administrative expense		(5,500)	5,500
Net Changes	(114,429)	27,206	(141,635)
Balance End of Year 12/31/21	<hr/> \$ 636,157	<hr/> \$ 1,153,034	<hr/> \$ (516,877)

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, 2021, 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	\$	\$ 178,903
Changes in actuarial assumptions		164,182
Difference between projected and actual investment earnings	100,382	
Total	<u>\$ 100,382</u>	<u>\$ 343,085</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>
2022	\$ (65,318)
2023	(65,320)
2024	(69,729)
2025	(42,336)

Actuarial Assumptions

The total pension liability at December 31, 2021, 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 5.25%
- 20 -Year Municipal bond yield 2.75%
- Inflation rate of 2.25%

Changes in Actuarial Assumptions since prior valuation:

- The expected investment return and discount rate decreased from 6.00% to 5.25% to reflect updated capital market assumptions.
- The mortality assumptions were updated from the rates used in the July 1, 2018 Minnesota PERA Police & Fire Plan actuarial valuation to the rates used in the July 1, 2020 Minnesota PERA Police & Fire Plan actuarial valuation.
- The inflation assumption decreased from 2.50% to 2.25%.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Discount Rate

The discount rate used to measure the total pension liability was 5.25%. 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>
	4.25%	5.25%	6.25%
Net pension asset	\$ (475,455)	\$ (516,877)	\$ (556,066)

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 (2.25%). 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)

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

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	55.00%	4.42%	6.67%
International equity	0.00%	4.91%	7.16%
Fixed income	31.00%	1.00%	3.25%
Real estate and alternatives	0.00%	6.21%	8.46%
Cash and equivalents	14.00%	1.90%	4.15%
Total	100%		5.26%
Reduced for assumed investment expense			-0.05%
Net assumed investment return (rounded to 1/4%)			5.25%

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 Lake City Volunteer Fire Department Relief Association plan's fiduciary net position as of December 31, 2021, 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)

13. Other Post Employment Benefit Plan

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	\$ 44,935
Valuation Salary	3,730,814
Total OPEB liability as a percentage of payroll	<u>1.2%</u>

CITY OF LAKE CITY, MINNESOTA

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:

Discount rate	2.75%
Long-term expected investment return	N/A
Inflation rate	2.25%
Mortality	
General Employees	Pub-2010 General mortality tables with projected mortality improvements based on scale MP-2019, and other adjustments.
Police & Fire	RP-2014 mortality tables with projected mortality improvements based on scale MP-2019, and other adjustments.
Healthcare cost trend rate	6.7% for FY2020, gradually decreasing over several decades to an ultimate rate of 3.8% in FY2075 and later years.

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

- The discount rate was changed from 3.71% to 2.75% based on updated 20-year municipal bond rates.
- Healthcare trend rates were reset to reflect updated cost increase expectations.
- Medical per capita claims costs were updated to reflect recent experience
- Withdrawal, mortality and salary increase were updated from the rates used in the 7/1/2018 PERA General Employees Plan and 7/1/2018 Police & Fire Plan valuations to rates used in the 7/1/2020 valuations.
- The inflation assumption was changed from 2.50% to 2.25% based on an updated historical analysis of inflation rates and forward-looking market expectations.

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 1/1/2020	\$ 54,169
Changes for the Year	
Service cost	3,457
Interest	2,078
Difference between expected and actual experience	(13,445)
Changes of assumptions	1,902
Benefit payments	(3,226)
Net Changes	(9,234)
Ending Balance 12/31/2020	\$ 44,935

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 (1.75%)	Current Discount Rate (2.75%)	1% increase in Discount Rate (3.75%)
Total OPEB Liability	\$ 49,344	\$ 44,935	\$ 40,884

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	\$ 39,312	\$ 44,935	\$ 51,525

CITY OF LAKE CITY, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2021

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	251,604	251,604		3,354,720	7.50%
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	142,019	142,019		802,367	17.70%
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	0.0466%	1,990,029	60,742	2,050,771	3,278,220	62.6%	87.0%
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	0.0679%	524,116	23,545	547,661	782,452	70.0%	93.7%
2022							
2023							

CITY OF LAKE CITY, MINNESOTA
Schedule of Changes in the Fire Relief Association Net Pension Asset and Related Ratios
December 31, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Pension Liability							
Service cost	\$ 56,898	\$ 55,510	\$ 55,068	\$ 53,594	\$ 49,074	\$ 37,963	\$ 36,947
Interest	42,342	49,873	63,622	68,168	68,819	52,105	49,328
Difference between expected and actual experience	(45,233)		(55,249)		(32,761)		
Changes of assumptions	35,124		34,279		6,511		
Changes of benefit terms					42,180	137,593	
Benefit payments	(203,560)	(261,000)	(158,000)	(223,150)			(95,250)
Net change in total pension liability	(114,429)	(155,617)	(60,280)	(101,388)	133,823	227,661	(8,975)
Total Pension Liability - beginning of year	750,586	906,203	966,483	1,067,871	934,048	706,387	715,362
Total Pension Liability - end of year	<u>\$ 636,157</u>	<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>
Plan Fiduciary Net Position							
Contributions - State and local	\$ 80,139	\$ 56,626	\$ 69,934	\$ 86,113	\$ 74,127	\$ 73,941	\$ 72,756
Net investment income	156,127	196,573	(27,614)	139,004	86,871	5,784	72,741
Other additions		10,790					
Benefit payments	(203,560)	(261,000)	(158,000)	(223,150)			(95,250)
Administrative expense	(5,500)			(31)			(20)
Net change in plan fiduciary net position	27,206	2,989	(115,680)	1,936	160,998	79,725	50,227
Plan Fiduciary Net Position - beginning of year	1,125,828	1,122,839	1,238,519	1,236,583	1,075,585	995,860	945,633
Plan Fiduciary Net Position - end of year	<u>\$ 1,153,034</u>	<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>
Net Pension Liability (Asset) - End of Year	\$ (516,877)	\$ (375,242)	\$ (216,636)	\$ (272,036)	\$ (168,712)	\$ (141,537)	\$ (289,473)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	181.25%	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, 2021

	<u>2020</u>	<u>2019</u>
Total OPEB Liability		
Service cost	\$ 3,457	\$ 3,686
Interest	2,078	1,987
Difference between expected and actual experience	(13,445)	
Changes of assumptions	1,902	(3,465)
Benefit payments	<u>(3,226)</u>	<u>(8,755)</u>
Net change in total pension liability	(9,234)	(6,547)
Total Pension Liability - beginning of year	<u>54,169</u>	<u>60,716</u>
Total Pension Liability - end of year	<u>\$ 44,935</u>	<u>\$ 54,169</u>
 OPEB-eligible payroll for the measurement period	 \$ 3,730,814	 \$ 3,633,000
 Total OPEB Liability as a Percentage of Eligible Payroll	 1.2%	 1.5%

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CITY OF LAKE CITY, MINNESOTA
COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES
DECEMBER 31, 2021

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CITY OF LAKE CITY, MINNESOTA

NONMAJOR FUNDS

DECEMBER 31, 2021

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, 2021**

	Special Revenue Funds			Debt Service Funds	
	270				
		492		357	358
		Development	Block 25	2006	2008
	210	Revolving	Redev	Street	Street
	Library	Loan Fund	TIF #13	Improvement	Improvement
ASSETS					
Cash and investments	\$ 191,258	\$ 438,000	\$	\$	\$ 287,067
Loans receivable		14,152			
Taxes receivable, delinquent	740				851
Due from other governments	777			195	583
TOTAL ASSETS	\$ 192,775	\$ 452,152	\$	\$ 195	\$ 288,501
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE					
Liabilities					
Accounts payable	\$ 1,796	\$	\$	\$	\$
Advances from other funds			239,233	195	
Total Liabilities	1,796		239,233	195	
Deferred Inflows of Resources					
Unavailable revenue:					
Property taxes	740				851
Loans receivable			14,152		
Total Deferred Inflows of Resources	740		14,152		851
Fund Balance					
Restricted:					
Creditors (debt covenants)					287,650
Regulations		438,000			
Assigned:					
Fund assignments	190,239				
Unassigned			(239,233)		
Total Fund Balance	190,239	438,000	(239,233)		287,650
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 192,775	\$ 452,152	\$	\$ 195	\$ 288,501

Debt Service Funds				Capital Project Funds		Totals
366 2012 Street Improvement	365 2013A Improvement Bonds	368 2018A Street Improvement	369 2021A Street Improvement	405 Mill & Overlay	406 2021 Mill & Overlay	
\$	\$ 364,695	\$ 100,206	\$ 7,209	\$	\$ 49,078	\$ 1,437,513
	1,524	843				14,152
955	1,044	577				3,958
						4,131
<u>\$ 955</u>	<u>\$ 367,263</u>	<u>\$ 101,626</u>	<u>\$ 7,209</u>	<u>\$</u>	<u>\$ 49,078</u>	<u>\$ 1,459,754</u>
\$	\$	\$	\$	\$	\$ 49,078	\$ 50,874
955						240,383
<u>955</u>					<u>49,078</u>	<u>291,257</u>
	1,524	843				3,958
						14,152
	<u>1,524</u>	<u>843</u>				<u>18,110</u>
	365,739	100,783	7,209			761,381
						438,000
						190,239
						(239,233)
	<u>365,739</u>	<u>100,783</u>	<u>7,209</u>			<u>1,150,387</u>
<u>\$ 955</u>	<u>\$ 367,263</u>	<u>\$ 101,626</u>	<u>\$ 7,209</u>	<u>\$</u>	<u>\$ 49,078</u>	<u>\$ 1,459,754</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, 2021

	Special Revenue Funds			Debt Service Funds	
	210 Library	270 Community Development Revolving Loan Fund	492 Block 25 Redev TIF #13	357 2006 Street Improvement	358 2008 Street Improvement
REVENUES					
Taxes:					
Property taxes	\$ 134,706		\$	\$ 33,869	\$ 100,982
Tax increments			549		
Special assessments				16,052	
Intergovernmental revenues	63,667				
Charges for services	1,705				
Fines and forfeits	349				
Investment income (loss)	(595)	(2,088)			(1,067)
Miscellaneous revenues	80,777	11,163			
TOTAL REVENUES	280,609	9,075	549	49,921	99,915
EXPENDITURES					
Culture and recreation:					
Library	269,385				
Economic development			140		
Debt service:					
Principal retirement				90,000	85,000
Interest and fiscal charges				2,122	7,093
Capital outlay	34,360				
TOTAL EXPENDITURES	303,745		140	92,122	92,093
Excess (deficiency) of revenues over (under) expenditures	(23,136)	9,075	409	(42,201)	7,822
OTHER FINANCING SOURCES					
Issuance of debt					
Transfers out				(28,611)	
Transfers in	60,000				
Total Other Financing Sources	60,000			(28,611)	
Net change in fund balances	36,864	9,075	409	(70,812)	7,822
FUND BALANCE, beginning	153,375	428,925	(239,642)	70,812	279,828
FUND BALANCE, ending	\$ 190,239	\$ 438,000	\$ (239,233)	\$	\$ 287,650

Debt Service Funds				Capital Project Funds		Totals
366 2012 Street Improvement	365 2013A Improvement Bonds	368 2018A Street Improvement	369 2021A Street Improvement	405 Mill & Overlay	406 2021 Mill & Overlay	
\$ 165,400	\$ 180,820	\$ 100,029	\$	\$	\$	\$ 715,806
						549
						16,052
						63,667
						1,705
						349
	(1,216)	(201)	(21)			(5,188)
			7,230			99,170
165,400	179,604	99,828	7,209			892,110
						269,385
						140
450,000	160,000	75,000				860,000
10,607	13,048	21,520				54,390
					1,116,785	1,151,145
460,607	173,048	96,520			1,116,785	2,335,060
(295,207)	6,556	3,308	7,209		(1,116,785)	(1,442,950)
					943,000	943,000
(2,879)				(131,924)		(163,414)
					173,785	233,785
(2,879)				(131,924)	1,116,785	1,013,371
(298,086)	6,556	3,308	7,209	(131,924)		(429,579)
298,086	359,183	97,475		131,924		1,579,966
\$	\$ 365,739	\$ 100,783	\$ 7,209	\$	\$	\$ 1,150,387

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, 2021
(With Comparative Totals for the Year Ended December 31, 2020)

	Budgeted Amounts		2021 Actual Amount	Variance With Budget Positive (Negative)	2020 Actual Amount
	Original	Final			
REVENUES					
Property Tax Levy					
Property tax collected	\$ 133,662	\$ 133,662	\$ 134,706	\$ 1,044	\$ 126,193
Intergovernmental Revenues					
CARES act funding					2,826
County - library grants	59,546	59,546	63,667	4,121	59,546
Total Intergovernmental Revenues	59,546	59,546	63,667	4,121	62,372
Charges For Services					
Fines and forfeits	250	250	349	99	421
Other	2,000	2,000	1,705	(295)	1,401
Total Charges For Services	2,250	2,250	2,054	(196)	1,822
Investment Income (Loss)	500	500	(595)	(1,095)	1,837
Miscellaneous					
Donations	2,000	9,500	7,759	(1,741)	7,452
Other	70,000	70,000	73,018	3,018	78,220
Total Miscellaneous	72,000	79,500	80,777	1,277	85,672
Total Revenues	267,958	275,458	280,609	5,151	277,896
EXPENDITURES					
Library services	294,958	299,823	269,385	30,438	266,679
Capital outlay	33,000	35,635	34,360	1,275	32,122
Total Expenditures	327,958	335,458	303,745	31,713	298,801
Excess (deficiency) of revenues over (under) expenditures	(60,000)	(60,000)	(23,136)	36,864	(20,905)
OTHER FINANCING SOURCES					
Transfers in	60,000	60,000	60,000		60,000
Net Change in Fund Balance			36,864	36,864	39,095
Fund Balance, beginning	153,375	153,375	153,375		114,280
Fund Balance, ending	\$ 153,375	\$ 153,375	\$ 190,239	\$ 36,864	\$ 153,375

CITY OF LAKE CITY, MINNESOTA
ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT
BALANCE SHEET - COMPONENT UNIT
December 31, 2021 and 2020

	2021	2020
Assets		
Cash and investments	\$ 140,086	\$ 137,668
Taxes receivable delinquent	406	319
Due from other governmental units	420	514
Due from primary government	71,019	66,890
Prepaid items	1,762	1,698
Property held for resale	235,000	235,000
TOTAL ASSETS	\$ 448,693	\$ 442,089
Liabilities, Deferred Inflows of Resources and Fund Balance		
Liabilities		
Accounts payable	\$ 6,681	\$ 6,681
Due to primary government		2,264
Total Liabilities	6,681	8,945
Deferred Inflows of Resources		
Unavailable revenue	235,406	235,319
Fund Balance		
Restricted:		
Economic development	206,606	197,825
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 448,693	\$ 442,089
Fund Balance - Component Unit	\$ 206,606	
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	406	
Net Position - Component Unit	\$ 442,012	

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, 2021
(With Comparative Totals for the Year Ended December 31, 2020)

	Totals	
	2021	2020
REVENUES		
Property tax	\$ 72,764	\$ 72,313
CARES act funding		13,027
Investment income	159	356
	72,923	85,696
Total Revenues		
EXPENDITURES		
Economic Development	64,142	71,203
	64,142	71,203
Total Expenditures		
Excess (Deficiency) of Revenues Over (Under) Expenditures	8,781	14,493
Fund Balance, beginning	197,825	183,332
Fund Balance, ending	\$ 206,606	\$ 197,825
Net Change in Fund Balance - Component Unit	\$ 8,781	\$ 14,493
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.	87	35
Change in Net Position - Component Unit	\$ 8,868	\$ 14,528

**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, 2021 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 15, 2022.

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 15, 2022