

CITY OF LAKE CITY, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2022

CITY OF LAKE CITY, MINNESOTA

**FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2022**

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY SECTION	
List of Elected and Appointed Officials	i
FINANCIAL SECTION	
Independent Auditor's Report	1
Management's Discussion and Analysis	4
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	15
Statement of Activities	16
Fund Financial Statements	
Balance Sheet - Governmental Funds	18
Reconciliation of Net Position in the Government-Wide Financial Statements and Fund Balances in the Fund Basis Financial Statements	20
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	23
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	24
Statement of Net Position - Proprietary Funds	29
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds	31
Statement of Cash Flows - Proprietary Funds	33
Notes to the Financial Statements	37
Required Supplementary Information	
Schedule of City Pension Contributions	
General Employees Retirement Fund	79
Public Employees Police and Fire Fund Pension Plan	79
Schedule of Proportionate Share of Net Pension Liability	
General Employees Retirement Fund	80
Public Employees Police and Fire Fund Pension Plan	80
City of Lake City Fire Relief Association	
Schedule of Changes in the Fire Relief Association Net Pension Asset and Related Ratios	81
Schedule of Changes in City's Net OPEB Liability and Related Ratios	82

CITY OF LAKE CITY, MINNESOTA
FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2022

TABLE OF CONTENTS (CONTINUED)

	<u>PAGE</u>
FINANCIAL SECTION (CONTINUED)	
Combining and Individual Fund Statements and Schedules	
Combining Balance Sheet - Nonmajor Governmental Funds	83
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Governmental Funds	85
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Library Fund	87
Balance Sheet - Component Units	88
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance - Component Units	89
Other Required Reports	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an audit of Financial Statements in accordance with Government Auditing Standards	90

CITY OF LAKE CITY, MINNESOTA

INTRODUCTORY SECTION

DECEMBER 31, 2022

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**CITY OF LAKE CITY, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2022**

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	Brian Quinn	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, 2022

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Lake City, Minnesota, as of and for the year ended December 31, 2022, 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Lake City as of December 31, 2022, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund 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

The 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.

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.

Supplementary Information (Continued)

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.

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, 2021, from which such partial information was derived.

We have previously audited the City's 2021 financial statements and our report dated March 15, 2022, expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, 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, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Information

Management is responsible for the other information included in the report. The other information comprises the introductory section but does not include the financial statements and our auditor's report thereon. Our opinions on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2023 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.



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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, 2022.

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 \$62,950,585 (*net position*). Of this amount, \$16,214,574 (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 decreased by \$1,051,803 primarily due to the operations of the General Fund and the adjustment of net pension liability.
- As of the close of the current fiscal year, the City of Lake City's governmental funds reported combined ending fund balances of \$8,474,963. Approximately 62 percent of this total amount, or \$5,278,758 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 \$5,147,526 or 65 percent of total general fund expenditures.
- The City of Lake City's total outstanding debt decreased by \$813,278 during the current fiscal year. Principal payments are made as scheduled and continue to reduce outstanding debt. The City combined the existing 2019 fire department ladder truck financing with the purchase of a new pumper truck in 2022.

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) and Port Authority can be found on pages 88 and 89. The EDA and Port Authority are reported as component units which are 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 eleven 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 83-86 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 87) 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 37-78 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds can be found on pages 83-86 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 \$62,950,585 at the close of the most recent fiscal year.

By far the largest portion of the City of Lake City's net position (73 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	
	2022	2021	2022	2021	2022	2021
Current and other assets	\$ 10,448,053	\$ 11,125,219	\$ 12,804,977	\$ 13,830,995	\$ 23,253,030	\$ 24,956,214
Capital assets	30,471,909	30,043,848	18,509,986	18,204,080	48,981,895	48,247,928
Total assets	<u>40,919,962</u>	<u>41,169,067</u>	<u>31,314,963</u>	<u>32,035,075</u>	<u>72,234,925</u>	<u>73,204,142</u>
Deferred outflows of resources	<u>2,772,392</u>	<u>1,847,131</u>	<u>537,890</u>	<u>680,578</u>	<u>3,310,282</u>	<u>2,527,709</u>
Long-term liabilities outstanding	7,840,365	4,766,953	2,562,358	2,134,079	10,402,723	6,901,032
Other liabilities	750,941	772,151	867,958	844,377	1,618,899	1,616,528
Total liabilities	<u>8,591,306</u>	<u>5,539,104</u>	<u>3,430,316</u>	<u>2,978,456</u>	<u>12,021,622</u>	<u>8,517,560</u>
Deferred inflows of resources	<u>548,230</u>	<u>2,369,299</u>	<u>24,770</u>	<u>842,604</u>	<u>573,000</u>	<u>3,211,903</u>
Net position:						
Net investment in capital assets	28,144,729	27,292,571	17,827,850	17,130,910	45,972,579	44,423,481
Restricted	763,432	1,255,421			763,432	1,255,421
Unrestricted	5,644,657	6,559,803	10,569,917	11,763,683	16,214,574	18,323,486
Total net position	<u>\$ 34,552,818</u>	<u>\$ 35,107,795</u>	<u>\$ 28,397,767</u>	<u>\$ 28,894,593</u>	<u>\$ 62,950,585</u>	<u>\$ 64,002,388</u>

A portion of the City of Lake City's net position (1 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (\$16,214,574) 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 decreased the City of Lake City's net position by \$554,977.

**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 \$496,826.

A condensed version of the Statement of Activities follows:

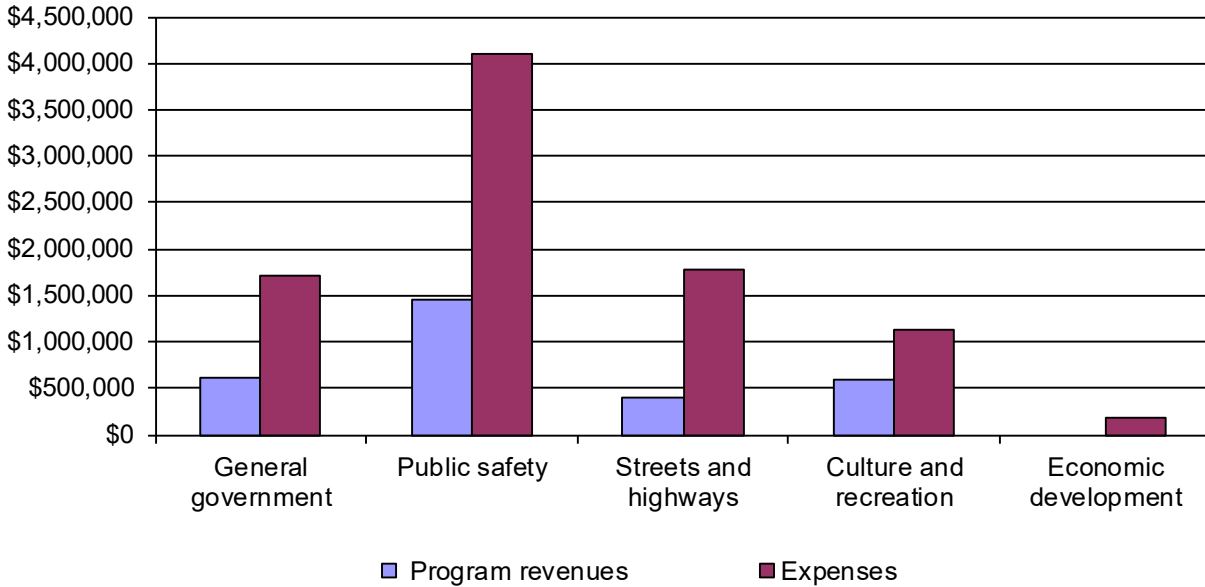
City of Lake City's Change in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Revenue:						
Program revenues:						
Charges for services	\$ 1,968,113	\$ 1,886,816	\$ 14,892,395	\$ 15,106,181	\$ 16,860,508	\$ 16,992,997
Operating grants and contributions	790,364	1,177,447		59,428	790,364	1,236,875
Capital grants and contributions	285,744	116,547	3,287	22,633	289,031	139,180
General revenues:						
Property taxes	3,780,760	3,817,012			3,780,760	3,817,012
Tax increments	548	549			548	549
Grants and contributions not restricted to specific programs	958,996	942,578			958,996	942,578
Other	(250,697)	228,713	(252,478)	531,516	(503,175)	760,229
Total revenues	<u>7,533,828</u>	<u>8,169,662</u>	<u>14,643,204</u>	<u>15,719,758</u>	<u>22,177,032</u>	<u>23,889,420</u>
Expenses:						
General government	1,706,938	1,727,390			1,706,938	1,727,390
Public safety	4,104,755	3,356,742			4,104,755	3,356,742
Streets and highways	1,772,045	1,378,780			1,772,045	1,378,780
Culture and recreation	1,135,815	935,677			1,135,815	935,677
Economic development	184,319	222,226			184,319	222,226
Interest on long-term debt	54,933	76,238			54,933	76,238
Electric			10,279,454	10,010,464	10,279,454	10,010,464
Water			856,031	698,665	856,031	698,665
Sewer			1,544,083	1,422,986	1,544,083	1,422,986
Storm water			187,261	224,640	187,261	224,640
Marina			84,927	90,185	84,927	90,185
Garbage			1,318,274	1,122,328	1,318,274	1,122,328
Total expenses	<u>8,958,805</u>	<u>7,697,053</u>	<u>14,270,030</u>	<u>13,569,268</u>	<u>23,228,835</u>	<u>21,266,321</u>
Increase (decrease) in net position before transfers and other	(1,424,977)	472,609	373,174	2,150,490	(1,051,803)	2,623,099
Transfers	870,000	3,533,669	(870,000)	(3,533,669)		
Increase (decrease) in net position	<u>(554,977)</u>	<u>4,006,278</u>	<u>(496,826)</u>	<u>(1,383,179)</u>	<u>(1,051,803)</u>	<u>2,623,099</u>
Net position, beginning of year	35,107,795	31,101,517	28,894,593	30,277,772	64,002,388	61,379,289
Net position, end of year	<u>\$ 34,552,818</u>	<u>\$ 35,107,795</u>	<u>\$ 28,397,767</u>	<u>\$ 28,894,593</u>	<u>\$ 62,950,585</u>	<u>\$ 64,002,388</u>

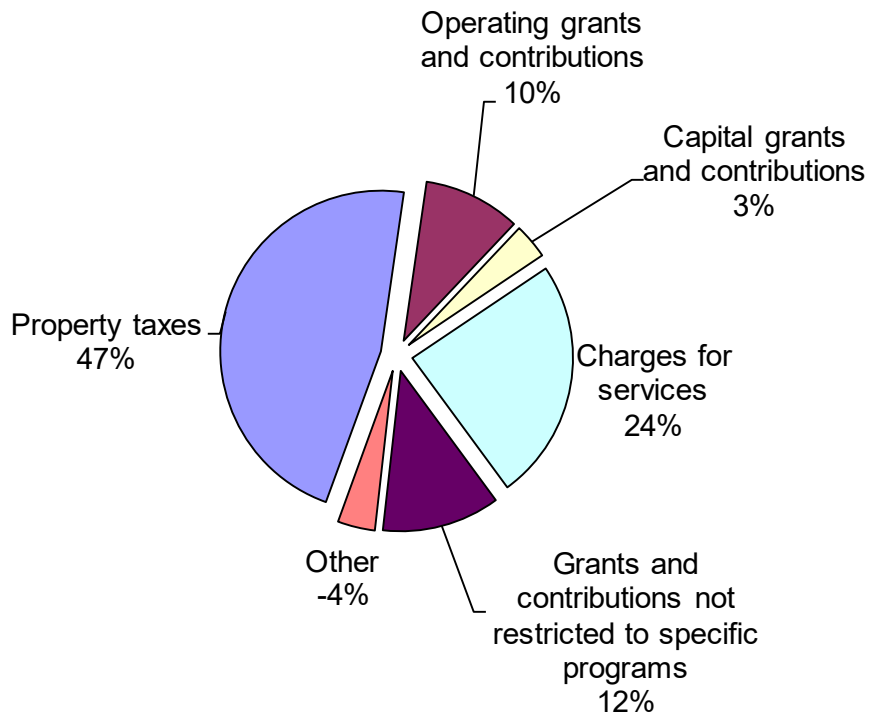
**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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



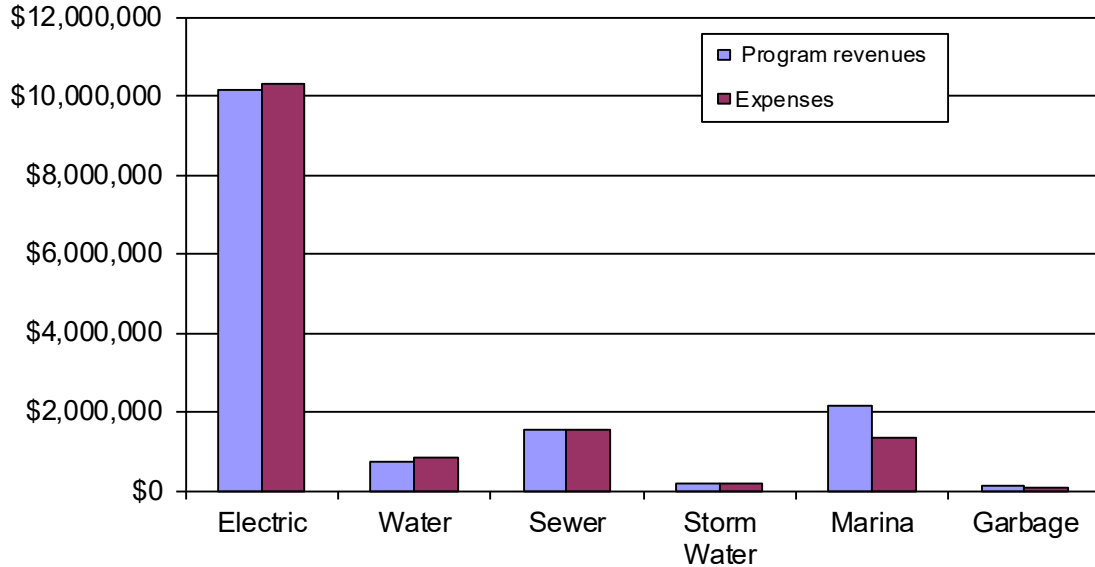
Revenues by Source - Governmental Activities



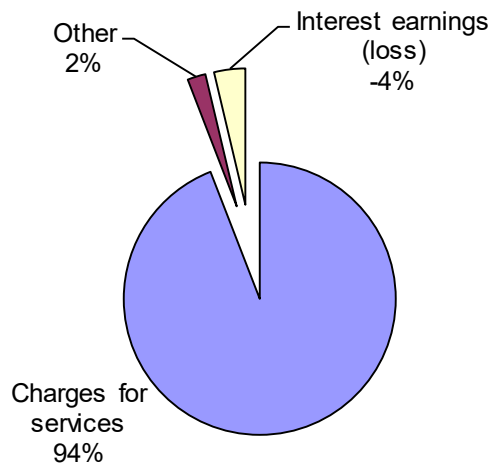
**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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 \$8,474,963, a decrease of \$843,131. Approximately 83 percent of this total amount, or \$7,045,550, constitutes *unassigned, assigned, or committed fund balance*, which is available for spending at the government's discretion. The remainder of the total fund balance \$1,429,413 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 \$5,147,526. 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 65 percent of total general fund expenditures.

The general fund's total fund balance decreased by \$317,104 during the current fiscal year. This year's decrease was due to cash valuation adjustment of investment portfolio at year end.

The debt service funds have a total fund balance of \$300,377 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 - \$7,228,738, Water - \$38,065, Sewer - \$116,506, Storm Water - \$66,823, Marina - \$3,011,644, and Garbage - \$108,141. All funds, except the marina fund and garbage, had decreases in total net position for the year.

General Fund Budgetary Highlights

The original 2022 general fund budget approved by the City anticipated an increase to general fund reserves. All differences between the original and final budgets in the general fund for the City in 2022 were approved by resolution amending the original budget. Select unspent budgeted amounts from 2021 were carried over to the 2023 budget by resolution. The City general fund budget adjustments were approved for 2 long-term employee PTO payouts, higher pool salaries, higher than anticipated fuel expenses, and the unplanned hiring of an assistant ambulance director.

**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, 2022, amounts to \$48,981,895 (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 \$733,967.

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

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Land	\$ 1,342,607	\$ 1,342,607	\$ 725,300	\$ 725,300	\$ 2,067,907	\$ 2,067,907
Construction in progress	578,804	594,749	20,663	10,157	599,467	604,906
Buildings and improvements	12,519,354	12,000,997	7,387,568	6,304,957	19,906,922	18,305,954
Machinery and equipment	4,691,892	4,075,901	1,267,957	1,384,034	5,959,849	5,459,935
Infrastructure	11,339,252	12,029,594			11,339,252	12,029,594
Distribution and collection system			9,108,498	9,779,632	9,108,498	9,779,632
Total	\$ 30,471,909	\$ 30,043,848	\$ 18,509,986	\$ 18,204,080	\$ 48,981,895	\$ 48,247,928

Additional information on the City of Lake City's capital assets can be found in Note 5 on pages 53-54 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 \$2,208,267 in bonds and notes outstanding, \$801,049 in equipment lease payable and \$564,293 in compensated absences.

City of Lake City's Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
General obligation bonds	\$ 1,526,131	\$ 2,463,045	\$	\$	\$ 1,526,131	\$ 2,463,045
General obligation revenue bonds			682,136	1,073,170	682,136	1,073,170
Equipment lease payable	801,049	288,232			801,049	288,232
Compensated absences	421,176	418,493	143,117	143,947	564,293	562,440
Total	\$ 2,748,356	\$ 3,169,770	\$ 825,253	\$ 1,217,117	\$ 3,573,609	\$ 4,386,887

The City of Lake City's total outstanding debt decreased by \$813,278 during the current fiscal year. The City paid \$1,573,873 in debt payments and issued \$758,742 equipment lease payable for a fire truck pumper. A more detailed breakdown of these obligations can be found in Note 9, beginning on page 58.

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

Future Factors

While the City saw a decrease in building permits in 2022, permit revenue was higher than normal due to the development of a 36-unit housing project 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 contracted with an engineer and completed a general development plan for an adjacent 100+ acre site for possible future residential, commercial, and industrial growth. The City also issued several permits late in 2022 for large construction projects. Thus, the City does anticipate building permits to trend higher due to ongoing development projects and the availability of residential lots for housing development.

The City is finishing a major renovation of Ohuta Park with the final piece being construction of a 4-season pavilion. The City anticipates completing the pavilion project in 2023.

The City 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. The feasibility has been completed on Hok-Si-La Park. The Ohuta Beach area feasibility study will be completed in the upcoming months. Both feasibility studies are anticipated to be reviewed during Summer 2023 to determine next steps, costs, and possible construction for both projects.

The City completed a 5-year (2023-2027) street reconstruction plan in 2023 which identified possible street and utility projects. The Street Reconstruction Plan will allow the city to issue general obligation bonds for projects totaling up to \$20,500,000. These projects will affect the City's future tax levies and utility rates.

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, 2022

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CITY OF LAKE CITY, MINNESOTA

STATEMENT OF NET POSITION

December 31, 2022

With Comparative Totals as of December 31, 2021

	Primary Government		Totals		Component Units	
	Governmental Activities	Business-Type Activities	Totals		Totals	
			2022	2021	2022	2021
Assets						
Cash and investments	\$ 8,446,257	\$ 11,017,280	\$ 19,463,537	\$ 21,520,164	\$ 142,812	\$ 140,086
Accounts receivable	401,911	1,144,303	1,546,214	1,512,469		
Interest receivable	64,761		64,761	48,932		
Taxes receivable	33,206		33,206	31,449	552	406
Special assessments receivable	16,047	16,760	32,807	47,633		
Loan receivable	453,290		453,290	401,363		
Internal balances	(25,096)	25,096				
Due from other governmental units	271,255		271,255	22,948	2,486	420
Due from primary government					66,890	71,019
Prepaid items	115,136	123,899	239,035	261,418	265	1,762
Property held for resale					235,000	235,000
Inventories		477,639	477,639	592,961		
Net pension asset	671,286		671,286	516,877		
Capital assets:						
Nondepreciable	1,921,411	745,963	2,667,374	2,672,813		
Depreciable, net	28,550,498	17,764,023	46,314,521	45,575,115		
Total Assets	40,919,962	31,314,963	72,234,925	73,204,142	448,005	448,693
Deferred Outflows of Resources						
Deferred outflows from pension activity	2,772,392	537,890	3,310,282	2,527,709		
Liabilities						
Accounts and contracts payable	366,241	748,639	1,114,880	1,271,608	6,931	6,681
Accrued liabilities	19,604	35,547	55,151	58,800		
Deposits payable	8,232	83,772	92,004	78,959		
Due to other governmental units	1,624		1,624			
Due to component unit	66,890		66,890	71,019		
Unearned revenue	230,124		230,124	91,207		
Noncurrent liabilities:						
Due within one year	454,673	401,000	855,673	954,001		
Due in more than one year	2,293,683	424,253	2,717,936	3,432,886		
Other postemployment benefits	58,226		58,226	44,935		
Net pension liability	5,092,009	1,737,105	6,829,114	2,514,145		
Total Liabilities	8,591,306	3,430,316	12,021,622	8,517,560	6,931	6,681
Deferred Inflows of Resources						
Deferred inflows from pension activity	548,230	24,770	573,000	3,211,903		
Net Position						
Net investment in capital assets	28,144,729	17,827,850	45,972,579	44,423,481		
Restricted for:						
Debt service	283,788		283,788	743,340		
Revolving loans	430,512		430,512	452,152		
Contributors	49,132		49,132	59,929		
Unrestricted	5,644,657	10,569,917	16,214,574	18,323,486	441,074	442,012
Total Net Position	\$ 34,552,818	\$ 28,397,767	\$ 62,950,585	\$ 64,002,388	\$ 441,074	\$ 442,012

See Notes to Financial Statements

CITY OF LAKE CITY, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2022
With Comparative Totals for the Year Ended December 31, 2021

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 1,706,938	\$ 465,446	\$ 139,331	\$
Public safety	4,104,755	1,255,611	202,152	
Streets and highways	1,772,045	30,827	79,477	285,744
Culture and recreation	1,135,815	216,229	369,404	
Economic development	184,319			
Interest on long-term debt	54,933			
Total governmental activities	8,958,805	1,968,113	790,364	285,744
Business-Type activities:				
Electric utility	10,279,454	10,148,560		
Water utility	856,031	745,021		1,648
Sewer utility	1,544,083	1,520,927		880
Storm water utility	187,261	174,530		759
Garbage	84,927	141,228		
Marina	1,318,274	2,162,129		
Total business-type activities	14,270,030	14,892,395		3,287
Total Primary Government	\$ 23,228,835	\$ 16,860,508	\$ 790,364	\$ 289,031
Component Units:				
Economic Development Authority	\$ 206,642	\$	\$	\$
Port Authority	115,849			
Total Component Units	\$ 322,491	\$	\$	\$

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 Units	
Governmental Activities	Business-Type Activities	2022	2021	2022	2021
\$ (1,102,161)	\$	\$ (1,102,161)	\$ (734,477)	\$	\$
(2,646,992)		(2,646,992)	(1,952,548)		
(1,375,997)		(1,375,997)	(1,154,888)		
(550,182)		(550,182)	(375,866)		
(184,319)		(184,319)	(222,226)		
(54,933)		(54,933)	(76,238)		
<u>(5,914,584)</u>		<u>(5,914,584)</u>	<u>(4,516,243)</u>		
	(130,894)	(130,894)	556,456		
	(109,362)	(109,362)	7,554		
	(22,276)	(22,276)	(18,296)		
	(11,972)	(11,972)	(32,518)		
	56,301	56,301	16,941		
	843,855	843,855	1,088,837		
	<u>625,652</u>	<u>625,652</u>	<u>1,618,974</u>		
<u>(5,914,584)</u>	<u>625,652</u>	<u>(5,288,932)</u>	<u>(2,897,269)</u>		
				(206,642)	(64,142)
				(115,849)	
				<u>(322,491)</u>	<u>(64,142)</u>
3,780,760		3,780,760	3,817,012	76,504	72,851
548		548	549		
958,996		958,996	942,578		
(381,303)	(589,581)	(970,884)	(65,136)	(6,020)	159
55,111		55,111	88,916		
75,495	337,103	412,598	736,449	251,069	
870,000	(870,000)				
<u>5,359,607</u>	<u>(1,122,478)</u>	<u>4,237,129</u>	<u>5,520,368</u>	<u>321,553</u>	<u>73,010</u>
(554,977)	(496,826)	(1,051,803)	2,623,099	(938)	8,868
<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>
<u>\$ 34,552,818</u>	<u>\$ 28,397,767</u>	<u>\$ 62,950,585</u>	<u>\$ 64,002,388</u>	<u>\$ 441,074</u>	<u>\$ 442,012</u>

CITY OF LAKE CITY, MINNESOTA

BALANCE SHEET

GOVERNMENTAL FUNDS

December 31, 2022

With Comparative Totals as of December 31, 2021

	General Fund	2018 Small Cities Development Program Fund
Assets		
Cash and investments	\$ 6,839,686	\$ 160,037
Interest receivable	64,761	
Accounts receivable	361,483	40,428
Taxes receivable delinquent	29,560	
Special assessments receivable:		
Delinquent	1,655	
Deferred	14,392	
Advances to other funds	461,879	
Loans receivable		440,338
Due from other governmental units	246,768	
TOTAL ASSETS	\$ 8,020,184	\$ 640,803
Liabilities, Deferred Inflows of Resources and Fund Balance		
Liabilities		
Accounts payable	\$ 170,251	\$
Accrued liabilities	432	
Deposits payable	8,232	
Advances from other funds	25,096	
Interfund payable	27,270	
Due to other governmental units	1,624	
Due to component unit	66,890	
Unearned revenue	230,124	
Total Liabilities	529,919	
Deferred Inflows of Resources		
Unavailable revenue:		
Property taxes	29,560	
Special assessments	16,047	
Loans receivable		440,338
Total Deferred Inflows of Resources	45,607	440,338
Fund Balance		
Nonspendable:		
Advances to other funds	461,879	
Restricted:		
Creditors (debt covenants)		
Regulations		200,465
Other purposes	49,132	
Committed	1,766,792	
Assigned	19,329	
Unassigned	5,147,526	
Total Fund Balance	7,444,658	200,465
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 8,020,184	\$ 640,803

See Notes to Financial Statements

Capital Projects	Other Governmental Funds	Total Governmental Funds	
		2022	2021
\$ 482,960	\$ 963,574	\$ 8,446,257	\$ 9,625,944
		64,761	48,932
		401,911	416,049
	3,646	33,206	31,449
		1,655	3,570
		14,392	21,903
		461,879	173,493
	12,952	453,290	401,363
	24,487	271,255	22,948
<u>\$ 482,960</u>	<u>\$ 1,004,659</u>	<u>\$ 10,148,606</u>	<u>\$ 10,745,651</u>
\$ 140,480	\$ 38,822	\$ 349,553	\$ 526,122
		432	340
		8,232	
	461,879	486,975	260,462
		27,270	20,122
		1,624	
		66,890	71,019
		230,124	91,207
<u>140,480</u>	<u>500,701</u>	<u>1,171,100</u>	<u>969,272</u>
	3,646	33,206	31,449
		16,047	25,473
	12,952	453,290	401,363
	<u>16,598</u>	<u>502,543</u>	<u>458,285</u>
		461,879	173,493
	300,377	300,377	761,381
	417,560	618,025	640,328
		49,132	59,929
		1,766,792	1,817,873
342,480	258,299	620,108	477,216
	(488,876)	4,658,650	5,387,874
<u>342,480</u>	<u>487,360</u>	<u>8,474,963</u>	<u>9,318,094</u>
<u>\$ 482,960</u>	<u>\$ 1,004,659</u>	<u>\$ 10,148,606</u>	<u>\$ 10,745,651</u>

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CITY OF LAKE CITY, MINNESOTA
RECONCILIATION OF NET POSITION IN THE
GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND BALANCES
IN THE FUND BASIS FINANCIAL STATEMENTS
For the Year Ended December 31, 2022

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

Total governmental fund balances (pages 18 and 19)		\$ 8,474,963
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 56,373,867	
Less: Accumulated depreciation	<u>(25,901,958)</u>	30,471,909
Some receivables are not available soon enough to pay for current period expenditures and therefore are unavailable in the funds.		
Delinquent property taxes	\$ 33,206	
Deferred and delinquent special assessments	16,047	
Loans receivable	<u>453,290</u>	502,543
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		
		125,718
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	\$ (5,092,009)	
Net pension asset	671,286	
Other post employment benefits	(58,226)	
Deferred outflows from pension activity	2,772,392	
Deferred inflows from pension activity	<u>(548,230)</u>	(2,254,787)
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	\$ (2,327,180)	
Compensated absences	(421,176)	
Accrued interest	<u>(19,172)</u>	<u>(2,767,528)</u>
Net position of governmental activities (page 15)		<u><u>\$ 34,552,818</u></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, 2022

With Comparative Totals for the Year Ended December 31, 2021

		2018 Small Cities Development Program Fund
	General Fund	
Revenues		
Taxes	\$ 3,231,551	\$
Tax increments		
Special assessments	23,108	
Licenses and permits	164,745	
Intergovernmental revenues	1,437,185	107,672
Charges for services	1,733,943	
Fines and forfeits	27,896	
Investment income (loss)	(350,969)	(8,455)
Miscellaneous revenues	79,269	11,592
Total Revenues	6,346,728	110,809
Expenditures		
General government	1,384,842	
Public safety	4,279,951	
Streets and highways	945,142	
Culture and recreation	974,730	
Economic development	42,320	112,672
Capital outlay		
Bond principal retirement	245,925	
Interest and fiscal charges	19,788	
Total Expenditures	7,892,698	112,672
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,545,970)	(1,863)
Other Financing Sources (Uses)		
Debt issuance	758,742	
Sale of property	55,111	
Transfers in	894,456	
Transfers out	(479,443)	
Total other financing sources (uses)	1,228,866	
Net change in fund balances	(317,104)	(1,863)
FUND BALANCE, beginning	7,761,762	202,328
FUND BALANCE, ending	\$ 7,444,658	\$ 200,465

See Notes to Financial Statements

Capital Projects	Other Governmental Funds	Total Governmental Funds	
		2022	2021
\$	\$ 752,221	\$ 3,983,772	\$ 3,796,971
	548	548	549
		23,108	19,519
		164,745	129,464
	64,923	1,609,780	1,947,088
	2,216	1,736,159	1,694,206
	425	28,321	29,679
(11,827)	(35,991)	(407,242)	(41,099)
	115,157	206,018	378,998
(11,827)	899,499	7,345,209	7,955,375
		1,384,842	1,299,169
		4,279,951	3,341,403
		945,142	878,278
	278,215	1,252,945	1,602,668
	156	155,148	188,214
328,753	286,945	615,698	4,100,264
	930,000	1,175,925	1,062,852
	42,754	62,542	76,538
328,753	1,538,070	9,872,193	12,549,386
(340,580)	(638,571)	(2,526,984)	(4,594,011)
		758,742	943,000
		55,111	81,678
479,443	60,000	1,433,899	4,421,781
	(84,456)	(563,899)	(801,781)
479,443	(24,456)	1,683,853	4,644,678
138,863	(663,027)	(843,131)	50,667
203,617	1,150,387	9,318,094	9,267,427
\$ 342,480	\$ 487,360	\$ 8,474,963	\$ 9,318,094

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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, 2022

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)	\$	(843,131)
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	\$	2,167,217
Depreciation expense		<u>(1,734,180)</u>
		433,037
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, etc.) is to decrease net position		(4,976)
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		44,258
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	\$	1,175,925
Long-term debt discount and premiums		6,914
Issuance of debt		(758,742)
Change in accrued interest		<u>2,087</u>
		426,184
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		(288)
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	\$	(612,214)
Net pension asset		18,127
Other postemployment benefits		(13,291)
Compensated absences		<u>(2,683)</u>
		<u>(610,061)</u>
Change in net position of governmental activities (pages 16 and 17)	\$	<u>(554,977)</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, 2022

With Comparative Totals for the Year Ended December 31, 2021

	Budgeted Amounts		2022 Actual Amounts	Variance with Final Budget Positive (Negative)	2021 Actual Amounts
	Original	Final			
Taxes					
Property taxes	\$ 3,116,304	\$ 3,116,304	\$ 3,145,013	\$ 28,709	\$ 2,955,400
Special assessments			23,108	23,108	3,467
Franchise tax	75,000	75,000	11,563	(63,437)	65,596
Lodging tax	63,158	63,158	74,975	11,817	60,169
Total Taxes	3,254,462	3,254,462	3,254,659	197	3,084,632
Licenses and Permits					
Business licenses	19,900	19,900	20,330	430	20,005
Non-Business licenses	73,100	153,100	144,415	(8,685)	109,459
Total Licenses and Permits	93,000	173,000	164,745	(8,255)	129,464
Intergovernmental Revenues					
Federal:					
Other federal aids	126,100	126,100	76,020	(50,080)	540,029
State:					
Local government aid	958,885	958,885	958,885		942,578
Market value credit			111	111	
MSA street maintenance	70,000	70,000	79,477	9,477	69,465
Fire aid	60,000	65,390	65,390		62,621
Police aid	93,250	99,250	114,115	14,865	104,768
Other state aids		143,187	143,187		
County:					
Federal county aid					13,226
Total Intergovernmental	1,308,235	1,462,812	1,437,185	(25,627)	1,732,687
Charges for Services					
General government	275,450	275,450	275,846	396	275,215
Public safety	1,354,250	1,362,490	1,214,187	(148,303)	1,183,438
Streets and highways	20,458	20,458	30,815	10,357	37,880
Park fees	200,050	209,050	213,095	4,045	195,968
Total Charges for Services	1,850,208	1,867,448	1,733,943	(133,505)	1,692,501
Fines and Forfeits					
	28,000	28,000	27,896	(104)	29,330
Investment Income (Loss)					
	25,000	25,000	(350,969)	(375,969)	(34,186)
Miscellaneous Revenues					
Gift and contributions	8,000	30,005	38,304	8,299	125,817
Other	45,750	45,750	35,929	(9,821)	44,094
Refunds and reimbursements	5,000	5,000	5,036	36	6,086
Total Miscellaneous Revenues	58,750	80,755	79,269	(1,486)	175,997
TOTAL REVENUES	\$ 6,617,655	\$ 6,891,477	\$ 6,346,728	\$ (544,749)	\$ 6,810,425

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, 2022

With Comparative Totals for the Year Ended December 31, 2021

	Budgeted Amounts		2022 Actual Amounts	Variance with Final Budget Positive (Negative)	2021 Actual Amounts
	Original	Final			
EXPENDITURES					
General Government					
Mayor and City Council:					
Personnel services	\$ 43,000	\$ 43,000	\$ 41,477	\$ 1,523	\$ 41,182
Supplies	3,000	3,000	564	2,436	833
Other services and charges	45,500	45,500	42,522	2,978	43,031
Capital outlay	60,000	60,000		60,000	3,681
Total Mayor and City Council	151,500	151,500	84,563	66,937	88,727
City Administrator:					
Personnel services	173,250	173,250	172,281	969	162,272
Supplies	550	550	247	303	110
Other services and charges	6,700	6,700	3,289	3,411	4,644
Total City Administrator	180,500	180,500	175,817	4,683	167,026
City Clerk/Finance Director:					
Personnel services	422,250	422,250	423,487	(1,237)	401,142
Supplies	5,500	5,500	4,751	749	517
Other services and charges	56,050	56,050	34,783	21,267	28,072
Total City Clerk/Finance Director	483,800	483,800	463,021	20,779	429,731
Audit:					
Other services and charges	25,300	29,050	28,750	300	29,200
Legal:					
Other services and charges	109,000	105,250	87,818	17,432	85,679
Planning and Zoning:					
Personnel services	192,231	192,231	159,964	32,267	185,581
Supplies	2,000	2,000	1,687	313	1,162
Other services and charges	116,750	196,750	194,464	2,286	113,709
Total Planning and Zoning	310,981	390,981	356,115	34,866	300,452
Elections:					
Personnel services	15,000	15,000	7,603	7,397	
Supplies	6,500	6,500	1,827	4,673	3,386
Other services and charges	3,250	3,250	1,579	1,671	1,713
Capital outlay	10,000	10,000	5,244	4,756	
Total Elections	34,750	34,750	16,253	18,497	5,099
General Government Buildings:					
Other services and charges	188,921	188,921	172,505	16,416	193,255
Total General Government Buildings	188,921	188,921	172,505	16,416	193,255
Total General Government	\$ 1,484,752	\$ 1,564,752	\$ 1,384,842	\$ 179,910	\$ 1,299,169

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, 2022

With Comparative Totals for the Year Ended December 31, 2021

	Budgeted Amounts		2022 Actual Amounts	Variance with Final Budget Positive (Negative)	2021 Actual Amounts
	Original	Final			
EXPENDITURES					
Public Safety					
Police:					
Personnel services	\$ 1,288,000	\$ 1,307,250	\$ 1,310,983	\$ (3,733)	\$ 1,284,938
Supplies	59,200	60,700	58,164	2,536	61,304
Other services and charges	187,065	181,815	177,246	4,569	123,670
Capital outlay	30,000	46,726	50,812	(4,086)	41,251
Total Police	1,564,265	1,596,491	1,597,205	(714)	1,511,163
Fire:					
Personnel services	102,900	93,400	89,667	3,733	90,818
Supplies	35,500	37,000	37,352	(352)	26,564
Other services and charges	151,560	148,850	143,580	5,270	124,366
Capital outlay	116,813	135,748	859,344	(723,596)	235,214
Debt service	225,000	225,000	265,713	(40,713)	225,000
Total Fire	631,773	639,998	1,395,656	(755,658)	701,962
Ambulance:					
Personnel services	1,155,700	1,204,906	1,183,635	21,271	1,070,881
Supplies	71,500	101,840	104,038	(2,198)	90,912
Other services and charges	227,603	231,503	183,326	48,177	150,763
Capital outlay	55,000	51,500	40,300	11,200	
Total Ambulance	1,509,803	1,589,749	1,511,299	78,450	1,312,556
Civil Defense:					
Personnel services	27,020	27,020	27,078	(58)	26,406
Supplies	11,000	11,000	12,334	(1,334)	11,752
Other services and charges	4,500	4,500	2,092	2,408	2,564
Total Civil Defense	42,520	42,520	41,504	1,016	40,722
Total Public Safety	\$ 3,748,361	\$ 3,868,758	\$ 4,545,664	\$ (676,906)	\$ 3,566,403

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, 2022

With Comparative Totals for the Year Ended December 31, 2021

	Budgeted Amounts		2022 Actual Amounts	Variance with Final Budget Positive (Negative)	2021 Actual Amounts
	Original	Final			
EXPENDITURES					
Streets and Highways					
Personnel services	\$ 372,230	\$ 388,730	\$ 386,908	\$ 1,822	\$ 359,745
Supplies	72,500	82,500	77,461	5,039	54,686
Other services and charges	359,319	470,473	376,232	94,241	267,932
Capital outlay	149,000	149,000	104,541	44,459	195,915
Total Streets and Highways	953,049	1,090,703	945,142	145,561	878,278
Culture and Recreation					
Lodging Tax:					
Other services and charges	60,000	60,000	71,061	(11,061)	56,970
Total Tourism	60,000	60,000	71,061	(11,061)	56,970
Summer Recreation:					
Personnel services					3,977
Other services and charges	8,000	10,000	10,000		257
Total Summer Recreation	8,000	10,000	10,000		4,234
Swimming Pool:					
Personnel services	43,000	65,800	65,447	353	44,820
Supplies	15,500	23,150	23,056	94	13,958
Other services and charges	22,941	33,991	31,146	2,845	19,131
Total Swimming Pool	81,441	122,941	119,649	3,292	77,909
Hok-Si-La Park:					
Personnel services	154,082	178,082	177,331	751	146,796
Supplies	31,300	32,400	32,481	(81)	21,735
Other services and charges	77,473	59,473	58,007	1,466	58,637
Capital outlay	15,000	95,250	92,523	2,727	11,008
Total Hok-Si-La Park	\$ 277,855	\$ 365,205	\$ 360,342	\$ 4,863	\$ 238,176

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, 2022

With Comparative Totals for the Year Ended December 31, 2021

	Budgeted Amounts		2022 Actual Amounts	Variance with Final Budget Positive (Negative)	2021 Actual Amounts
	Original	Final			
Culture and Recreation (continued)					
Other Parks:					
Personnel services	\$ 193,486	\$ 163,486	\$ 153,094	\$ 10,392	\$ 166,642
Supplies	47,000	49,000	40,575	8,425	35,791
Other services and charges	76,083	76,583	60,158	16,425	48,339
Capital outlay	7,000	57,548	159,851	(102,303)	705,222
Total Other Parks	<u>323,569</u>	<u>346,617</u>	<u>413,678</u>	<u>(67,061)</u>	<u>955,994</u>
 Total Culture and Recreation	 <u>750,865</u>	 <u>904,763</u>	 <u>974,730</u>	 <u>(69,967)</u>	 <u>1,333,283</u>
 Economic Development	 <u>40,000</u>	 <u>40,000</u>	 <u>42,320</u>	 <u>(2,320)</u>	 <u>23,875</u>
 TOTAL EXPENDITURES	 <u>6,977,027</u>	 <u>7,468,976</u>	 <u>7,892,698</u>	 <u>(423,722)</u>	 <u>7,101,008</u>
 Excess (deficiency) of revenues over (under) expenditures	 <u>(359,372)</u>	 <u>(577,499)</u>	 <u>(1,545,970)</u>	 <u>(968,471)</u>	 <u>(290,583)</u>
OTHER FINANCING SOURCES (USES)					
Debt issuance			758,742	758,742	
Sale of property		20,561	55,111	34,550	81,678
Transfers in	810,000	810,000	894,456	84,456	950,774
Transfers out	(439,578)	(455,578)	(479,443)	(23,865)	(529,083)
Total Other Financing Sources (Uses)	<u>370,422</u>	<u>374,983</u>	<u>1,228,866</u>	<u>853,883</u>	<u>503,369</u>
 NET CHANGE IN FUND BALANCE	 <u>11,050</u>	 <u>(202,516)</u>	 <u>(317,104)</u>	 <u>(114,588)</u>	 <u>212,786</u>
 FUND BALANCE, beginning	 <u>7,761,762</u>	 <u>7,761,762</u>	 <u>7,761,762</u>		 <u>7,548,976</u>
 FUND BALANCE, ending	 <u>\$ 7,772,812</u>	 <u>\$ 7,559,246</u>	 <u>\$ 7,444,658</u>	 <u>\$ (114,588)</u>	 <u>\$ 7,761,762</u>

See Notes to Financial Statements

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CITY OF LAKE CITY, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
December 31, 2022
With Comparative Totals as of December 31, 2021

	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	\$ 7,164,433	\$ 169,436	\$ 238,013	\$ 106,948
Accounts receivable	909,739	51,550	111,315	16,930
Advances to other funds	55,096			
Interfund receivables				
Inventories	456,781			
Prepaid items	45,787	5,382	24,890	1,115
Total Current Assets	8,631,836	226,368	374,218	124,993
Noncurrent Assets				
Capital Assets				
Nondepreciable	9,900	4,738		117,598
Depreciable	17,156,859	5,711,573	12,639,098	3,073,325
Less: Accumulated depreciation	(11,731,509)	(2,902,733)	(9,593,904)	(1,716,370)
Net Capital Assets	5,435,250	2,813,578	3,045,194	1,474,553
Special Assessments		8,380		8,380
Total Noncurrent Assets	5,435,250	2,821,958	3,045,194	1,482,933
Deferred Outflows of Resources				
Deferred outflows from pension activity	246,106	73,881	91,329	8,195
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 14,313,192	\$ 3,122,207	\$ 3,510,741	\$ 1,616,121
LIABILITIES				
Current Liabilities				
Current maturities of bonds payable	\$	\$ 42,500	\$ 316,000	\$ 42,500
Accounts payable	703,074	5,648	22,229	13,811
Accrued liabilities	24,851	3,941	3,439	2,775
Advances from other funds				30,000
Customer deposits	83,772			
Total Current Liabilities	811,697	52,089	341,668	89,086
Noncurrent Liabilities				
Bonds payable, net of current maturities and discount		140,568		140,568
Compensated absences payable	19,563	26,274	32,745	
Net pension liability	806,443	231,404	286,542	27,764
Total Liabilities	1,637,703	450,335	660,955	257,418
Deferred Inflows of Resources				
Deferred inflows from pension activity	11,501	3,297	4,086	395
NET POSITION				
Net investment in capital assets	5,435,250	2,630,510	2,729,194	1,291,485
Unrestricted	7,228,738	38,065	116,506	66,823
Total Net Position	12,663,988	2,668,575	2,845,700	1,358,308
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET PENSION	\$ 14,313,192	\$ 3,122,207	\$ 3,510,741	\$ 1,616,121

See Notes to Financial Statements

710 Marina Fund	720 Garbage Fund	TOTALS		Governmental Activities - Internal Service Fund	
		2022	2021	2022	2021
\$ 3,230,211	\$ 108,239	\$ 11,017,280	\$ 11,894,220	\$	\$
40,457	14,312	1,144,303	1,096,420		
		55,096	131,098		
20,858		477,639	592,961	27,270	20,122
46,136	589	123,899	138,265	115,136	123,153
<u>3,337,662</u>	<u>123,140</u>	<u>12,818,217</u>	<u>13,852,964</u>	<u>142,406</u>	<u>143,275</u>
613,727		745,963	735,457		
9,606,996		48,187,851	46,911,094		
(4,479,312)		(30,423,828)	(29,442,471)		
<u>5,741,411</u>		<u>18,509,986</u>	<u>18,204,080</u>		
		16,760	22,160		
<u>5,741,411</u>		<u>18,526,746</u>	<u>18,226,240</u>		
112,123	6,256	537,890	680,578		
<u>\$ 9,191,196</u>	<u>\$ 129,396</u>	<u>\$ 31,882,853</u>	<u>\$ 32,759,782</u>	<u>\$ 142,406</u>	<u>\$ 143,275</u>
\$	\$	\$	\$	\$	\$
3,830	47	401,000	392,000	16,688	17,269
	541	748,639	728,217		
		35,547	37,201		
		30,000	44,129		
		83,772	78,959		
<u>3,830</u>	<u>588</u>	<u>1,298,958</u>	<u>1,280,506</u>	<u>16,688</u>	<u>17,269</u>
64,535		281,136	681,170		
364,577	20,375	143,117	143,947		
<u>432,942</u>	<u>20,963</u>	<u>1,737,105</u>	<u>916,962</u>	<u>16,688</u>	<u>17,269</u>
5,199	292	3,460,316	3,022,585		
5,741,411		24,770	842,604		
3,011,644	108,141	17,827,850	17,130,910	125,718	126,006
<u>8,753,055</u>	<u>108,141</u>	<u>10,569,917</u>	<u>11,763,683</u>	<u>125,718</u>	<u>126,006</u>
		28,397,767	28,894,593		
<u>\$ 9,191,196</u>	<u>\$ 129,396</u>	<u>\$ 31,882,853</u>	<u>\$ 32,759,782</u>	<u>\$ 142,406</u>	<u>\$ 143,275</u>

CITY OF LAKE CITY, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
For the Year Ended December 31, 2022
With Comparative Totals for the Year Ended December 31, 2021

	Business-Type Activities - Enterprise Funds			
	701 Electric Fund	702 Water Fund	703 Sewer Fund	706 Storm Water Fund
Operating Revenue	\$ 10,148,560	\$ 745,021	\$ 1,520,927	\$ 174,530
Operating Expenses				
Salaries and benefits	718,571	321,442	401,585	19,207
Supplies	195,955	58,202	32,681	21,718
Other services and charges	8,785,224	250,833	657,202	22,456
Insurance	66,453	10,554	35,251	1,457
Depreciation	482,699	207,465	402,076	115,163
Total Operating Expenses	<u>10,248,902</u>	<u>848,496</u>	<u>1,528,795</u>	<u>180,001</u>
Operating Income (Loss)	<u>(100,342)</u>	<u>(103,475)</u>	<u>(7,868)</u>	<u>(5,471)</u>
Nonoperating Income (Expense)				
Miscellaneous income	310,667	1,004	5,525	264
Investment loss	(361,004)	(4,269)	(10,908)	(4,161)
Special assessments		1,648	880	759
Intergovernmental revenues				
Gain (loss) on disposal of capital assets	(30,552)			
Interest expense		(7,535)	(15,288)	(7,260)
Total Nonoperating Income (Expense)	<u>(80,889)</u>	<u>(9,152)</u>	<u>(19,791)</u>	<u>(10,398)</u>
Income (Loss) Before Transfers, Capital Contributions and Capital Grant	<u>(181,231)</u>	<u>(112,627)</u>	<u>(27,659)</u>	<u>(15,869)</u>
Transfers out	(180,000)	(22,500)	(22,500)	
Capital contributions				
Capital grant				
Change in net position	<u>(361,231)</u>	<u>(135,127)</u>	<u>(50,159)</u>	<u>(15,869)</u>
Net Position, beginning	<u>13,025,219</u>	<u>2,803,702</u>	<u>2,895,859</u>	<u>1,374,177</u>
Net Position, ending	<u>\$ 12,663,988</u>	<u>\$ 2,668,575</u>	<u>\$ 2,845,700</u>	<u>\$ 1,358,308</u>

See Notes to Financial Statements

710 Marina Fund	720 Garbage Fund	TOTALS		Governmental Activities - Internal Service Funds	
		2022	2021	2022	2021
\$ 2,162,129	\$ 141,228	\$ 14,892,395	\$ 15,106,181	\$ 618,365	\$ 477,000
488,522	18,571	1,967,898	1,800,379		
287,089	1,770	597,415	362,283	44,467	25,147
199,347	64,586	9,979,648	9,755,446	425,132	234,049
91,027		204,742	188,720	238,304	230,963
252,289		1,459,692	1,399,669		
1,318,274	84,927	14,209,395	13,506,497	707,903	490,159
843,855	56,301	683,000	1,599,684	(89,538)	(13,159)
12,005	7,638	337,103	586,038	25,939	30,485
(204,692)	(4,547)	(589,581)	(54,522)		
		3,287	1,452		
			59,428	63,311	15,405
		(30,552)	(20,220)		
		(30,083)	(42,551)		
(192,687)	3,091	(309,826)	529,625	89,250	45,890
651,168	59,392	373,174	2,129,309	(288)	32,731
(645,000)		(870,000)	(3,620,000)		
			86,331		
			21,181		
6,168	59,392	(496,826)	(1,383,179)	(288)	32,731
8,746,887	48,749	28,894,593	30,277,772	126,006	93,275
\$ 8,753,055	\$ 108,141	\$ 28,397,767	\$ 28,894,593	\$ 125,718	\$ 126,006

CITY OF LAKE CITY, MINNESOTA
ENTERPRISE FUNDS
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2022
With Comparative Totals for the Year Ended December 31, 2021

	Business-Type Activities - Enterprise Funds			
	Electric Fund	Water Fund	Sewer Fund	Storm Water Fund
Cash Flows From Operating Activities				
Cash received from customers	\$ 10,442,017	\$ 743,685	\$ 1,517,984	\$ 172,374
Cash paid to suppliers	(8,924,623)	(334,992)	(715,244)	(42,353)
Cash paid to employees	(659,567)	(304,358)	(376,617)	(17,384)
Net Cash Provided By Operating Activities	<u>857,827</u>	<u>104,335</u>	<u>426,123</u>	<u>112,637</u>
Cash Flows From Noncapital Financing Activities				
Advances from/ (to) other funds	30,474			(10,000)
Intergovernmental revenues				
Operating transfers out	(180,000)	(22,500)	(22,500)	
Net Cash Used In Noncapital Financing Activities	<u>(149,526)</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		4,348	880	3,459
Acquisition of capital assets	(90,802)			(14,521)
Cash received for disposal of capital assets				
Cash received from grant				
Interest paid on debt		(7,052)	(15,288)	(6,777)
Principal paid on debt		(42,500)	(307,000)	(42,500)
Net Cash Used In Capital and Related Financing Activities	<u>(90,802)</u>	<u>(45,204)</u>	<u>(321,408)</u>	<u>(60,339)</u>
Cash Flows From Investing Activities				
Investment income (loss)	(361,004)	(4,269)	(10,908)	(4,161)
Net Cash Provided By (Used In) Investing Activities	<u>(361,004)</u>	<u>(4,269)</u>	<u>(10,908)</u>	<u>(4,161)</u>
Increase (Decrease) in Cash and Cash Equivalents				
	256,495	32,362	71,307	38,137
Cash and Cash Equivalents, beginning	<u>6,907,938</u>	<u>137,074</u>	<u>166,706</u>	<u>68,811</u>
Cash and Cash Equivalents, ending	<u>\$ 7,164,433</u>	<u>\$ 169,436</u>	<u>\$ 238,013</u>	<u>\$ 106,948</u>

See Notes to Financial Statements

Marina Fund	Garbage Fund	TOTALS		Governmental Activities - Internal Service Fund	
		2022	2021	2022	2021
\$ 2,166,317	\$ 144,051	\$ 15,186,428	\$ 15,744,771	\$ 644,304	\$ 507,485
(584,356)	(66,355)	(10,667,923)	(10,279,986)	(700,467)	(495,363)
(451,213)	(16,246)	(1,825,385)	(1,887,263)		
1,130,748	61,450	2,693,120	3,577,522	(56,163)	12,122
41,399		61,873	68,838	(7,148)	(27,527)
			59,428	63,311	15,405
(645,000)		(870,000)	(3,620,000)		
(603,601)		(808,127)	(3,491,734)	56,163	(12,122)
		8,687	6,428		
(1,654,599)		(1,759,922)	(1,367,969)		
			41,135		
			21,181		
		(29,117)	(42,028)		
		(392,000)	(408,000)		
(1,654,599)		(2,172,352)	(1,749,253)		
(204,692)	(4,547)	(589,581)	(54,522)		
(204,692)	(4,547)	(589,581)	(54,522)		
(1,332,144)	56,903	(876,940)	(1,717,987)		
4,562,355	51,336	11,894,220	13,612,207		
\$ 3,230,211	\$ 108,239	\$ 11,017,280	\$ 11,894,220	\$	\$

CITY OF LAKE CITY, MINNESOTA
ENTERPRISE FUNDS
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2022
With Comparative Totals for the Year Ended December 31, 2021

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)	\$ (100,342)	\$ (103,475)	\$ (7,868)	\$ (5,471)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	482,699	207,465	402,076	115,163
Other	280,115	1,004	5,525	264
(Increase) Decrease In:				
Accounts receivable	(22,023)	(2,340)	(8,468)	(2,420)
Inventories	129,445			
Prepaid items	(1,965)	241	(2,169)	(30)
Increase (Decrease) In:				
Accounts payable	26,081	(15,644)	12,059	3,308
Accrued liabilities	2,518	(398)	(3,340)	(585)
Pension related	68,580	18,668	23,023	2,408
Compensated absences	(12,094)	(1,186)	5,285	
Customer deposits	4,813			
Net Cash Provided By Operating Activities	\$ 857,827	\$ 104,335	\$ 426,123	\$ 112,637
Non Cash Transactions:				
Amortization of bond discount/premium	\$	\$ 483	\$	\$ 483
Capital assets in accounts payable at year end				5,676
Receipt of contributed property				

See Notes to Financial Statements

Marina Fund	Garbage Fund	TOTALS		Governmental Activities - Internal Service Fund	
		2022	2021	2022	2021
\$ 843,855	\$ 56,301	\$ 683,000	\$ 1,599,684	\$ (89,538)	\$ (13,159)
252,289		1,459,692	1,399,669		
12,005	7,638	306,551	533,195	25,939	30,485
(7,817)	(4,815)	(47,883)	95,394		
(14,123)		115,322	64,669		
18,291	(2)	14,366	(17,852)	8,017	(7,523)
(11,061)	3	14,746	(8,646)	(581)	2,319
	151	(1,654)	(6,956)		
30,144	2,174	144,997	(81,943)		
7,165		(830)	2,015		
		4,813	(1,707)		
<u>\$ 1,130,748</u>	<u>\$ 61,450</u>	<u>\$ 2,693,120</u>	<u>\$ 3,577,522</u>	<u>\$ (56,163)</u>	<u>\$ 12,122</u>
\$	\$	\$ 966	\$ 523	\$	\$
		5,676	2,418		
			86,331		

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CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

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) and Port Authority of Lake City. These component units are 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. In 2022, the EDA was dissolved. All EDA assets, finances, contracts and projects were transferred to the Lake City Port Authority.

The Lake City Port Authority was created pursuant to Minnesota Statutes 469.0773 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 and Port Authority are reported as a discretely presented governmental fund type. Separate financial statements are not issued for these component units.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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.

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.

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)

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.

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.

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 4.34%. 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, 2021 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.

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

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.

Leases

For leases with term exceeding 12 months, the City recognizes a lease liability and a right to use lease asset in the government-wide financial statements.

The right to use lease asset is calculated at the initial amount of the lease liability, plus any lease payments made to the lessor before the lease commencement date, plus certain initial direct costs incurred, minus any lease incentives received. Subsequently, the right to use lease asset is amortized on a straight-line basis over its useful life. The City initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of the lease payments made. Remeasurement of the right to use lease asset and lease liability occurs when certain changes occur that are likely to have a significant impact on the lease liability.

Right to use lease assets are reported with capital assets and lease liabilities are reported with long-term debt on the statement of net position.

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.

1. Summary of Significant Accounting Policies (Continued)

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

Concentration of Credit Risk

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

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.

Implementation of New Accounting Principles

During the year, the City implemented GASB Statement No. 87, Leases. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Cash and Investments

Summary of Cash and Investments

As of December 31, 2022, the City’s investments consisted of the following items, all of which are held in an internal investment pool:

Deposits	\$ 1,283,390
Investments	<u>18,180,147</u>
Cash and Investments Per Statement of Net Position	<u>\$ 19,463,537</u>

<u>Investment</u>	<u>Fair Value</u>	<u>Investment Rating</u>	
		<u>S&P</u>	<u>MOODY</u>
Money Market Mutual Funds	\$ 1,728,476	N/A	N/A
Mutual Funds	121,797	N/A	N/A
Non-Negotiable CD's	3,415,583	N/A	N/A
US Treasury Bonds	48,628	AA+	AAA
Federal Home Loan Bank	4,095,830	AA+	AAA
Municipal Bonds	6,363,786	AA+	AAA
Federal Farm Credit Bank	1,939,702	AA+	AAA
Federal Home Loan Mortgage Corp	466,345	AA+	AAA
	<u>\$ 18,180,147</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 Statues 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 Statues 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).

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 meansIf 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.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Cash and Investments (Continued)

Fair Value Measurements (continued)

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, 2022 and 2021 were as follows:

	At December 31, 2022			
	Assets Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Mutual Funds	\$ 121,797	\$ 121,797	\$	\$
US Treasury Bonds	48,628	48,628		
Federal Home Loan Bank	4,095,830		4,095,830	
Municipal Bonds	6,363,786		6,363,786	
Federal Farm Credit Bank	1,939,702		1,939,702	
Federal Home Loan Mortgage Corp	466,345		466,345	
	<u>\$ 13,036,088</u>	<u>\$ 170,425</u>	<u>\$ 12,865,663</u>	<u>\$</u>

	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	\$	\$
US Treasury Bonds	55,777	55,777		
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	
	<u>\$ 13,169,556</u>	<u>\$ 126,212</u>	<u>\$ 13,043,344</u>	<u>\$</u>

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Cash and Investments (Continued)

Interest Rate Risk

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

	Fair Value	12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months
Money Market Mutual Funds	\$ 1,728,476	\$ 1,728,476	\$	\$	\$
Mutual Funds	121,797	121,797			
Non-Negotiable CD's	3,415,583	488,339	1,165,004	1,762,240	
US Treasury Bonds	48,628		31,643		16,985
Federal Home Loan Bank	4,095,830	4,095,830			
Municipal Bonds	6,363,786	6,363,786			
Federal Farm Credit Bank	1,939,702	1,553,418		386,284	
Federal Home Loan Mortgage Corp	466,345		466,345		
Total	\$ 18,180,147	\$ 14,351,646	\$ 1,662,992	\$ 2,148,524	\$ 16,985

Credit Risk

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

Concentration of Credit Risk

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

<u>Investment</u>	<u>Percent of Total</u>
Non-Negotiable CD's	19%
Federal Farm Credit Bank	11%
Municipal Bonds	35%
Federal Home Loan Bank	23%

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, 2022 totaled \$12,952.

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 \$440,338.

4. Stewardship, Compliance, and Accountability

Certain funds had a deficit fund balance at December 31, 2022, as follows:

Special Revenue Funds:		
Tax increment TIF #13	\$	238,825
Capital Project Funds		
7th Street Reconstruction		250,051

These deficits will be eliminated through future tax levies.

Excess expenditures over appropriations at the individual fund level during 2022 is as follows:

	Final Budget	Actual	Over Budget
General	\$ 7,468,976	\$ 7,892,698	\$ 423,722

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Capital Assets

Capital asset activity for the year ended December 31, 2022 was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 1,342,607	\$	\$	\$ 1,342,607
Construction in progress	594,749	578,804	594,749	578,804
Total capital assets, not being depreciated	<u>1,937,356</u>	<u>578,804</u>	<u>594,749</u>	<u>1,921,411</u>
Capital assets, being depreciated:				
Buildings	17,674,182	301,482		17,975,664
Improvements other than buildings	3,403,363	743,801		4,147,164
Infrastructure	23,615,286			23,615,286
Machinery and equipment	7,874,799	1,137,879	298,336	8,714,342
Total capital assets, being depreciated	<u>52,567,630</u>	<u>2,183,162</u>	<u>298,336</u>	<u>54,452,456</u>
Less accumulated depreciation for:				
Buildings	8,780,750	384,550		9,165,300
Improvements other than buildings	295,798	142,376		438,174
Infrastructure	11,585,692	690,342		12,276,034
Machinery and equipment	3,798,898	516,912	293,360	4,022,450
Total accumulated depreciation	<u>24,461,138</u>	<u>1,734,180</u>	<u>293,360</u>	<u>25,901,958</u>
Total capital assets, being depreciated, net	<u>28,106,492</u>	<u>448,982</u>	<u>4,976</u>	<u>28,550,498</u>
Governmental activities capital assets, net	<u>\$ 30,043,848</u>	<u>\$ 1,027,786</u>	<u>\$ 599,725</u>	<u>\$ 30,471,909</u>

Governmental Activities:

General government	\$ 373,790
Public safety	279,884
Streets and highways	787,945
Culture and recreation	292,561
Total depreciation expense - governmental activities	<u>\$ 1,734,180</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	10,157	20,198	9,692	20,663
Total capital assets, not being depreciated	<u>735,457</u>	<u>20,198</u>	<u>9,692</u>	<u>745,963</u>
Capital assets, being depreciated:				
Buildings and improvements	15,911,369	1,610,988	168,917	17,353,440
Distribution and collection system	26,662,469	66,448		26,728,917
Machinery and equipment	4,337,256	90,302	322,064	4,105,494
Total capital assets, being depreciated	<u>46,911,094</u>	<u>1,767,738</u>	<u>490,981</u>	<u>48,187,851</u>
Less accumulated depreciation for:				
Buildings and improvements	9,606,412	528,377	168,917	9,965,872
Distribution and collection system	16,882,837	737,582		17,620,419
Machinery and equipment	2,953,222	193,733	309,418	2,837,537
Total accumulated depreciation	<u>29,442,471</u>	<u>1,459,692</u>	<u>478,335</u>	<u>30,423,828</u>
Total capital assets, being depreciated, net	<u>17,468,623</u>	<u>308,046</u>	<u>12,646</u>	<u>17,764,023</u>
Business-type activities capital assets, net	<u>\$ 18,204,080</u>	<u>\$ 328,244</u>	<u>\$ 22,338</u>	<u>\$ 18,509,986</u>

Business-Type Activities:

Electric	\$ 482,699
Water	207,465
Sewer	402,076
Stormwater	115,163
Marina	252,289
Total depreciation expense - business-type activities	<u>\$ 1,459,692</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, 2022 are as follows:

Fund	Due from various Counties	State of Minnesota	Total
General	\$ 245,551	\$ 1,217	\$ 246,768
Special revenue	4,901		4,901
Debt service	19,586		19,586
Port authority	2,486		2,486
Total	<u>\$ 272,524</u>	<u>\$ 1,217</u>	<u>\$ 273,741</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, 2022.

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 2022 totaled \$42,320.

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, 2022 at the individual fund level are summarized below:

	<u>Advances to Other Funds</u>	<u>Advances from Other Funds</u>
General Fund	\$ 461,879	\$ 25,096
Special Revenue Funds:		
Tax Increment TIF #13		238,825
Capital Project Funds:		
7th Street Reconstruction		213,405
Debt Service Funds:		
2008 Street Improvement		3,695
2013A Street Improvement		5,954
Enterprise Fund:		
Electric	55,096	
Storm Water		30,000
	<u>\$ 516,975</u>	<u>\$ 516,975</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, 2022 were as follows:

Funds	Transfers In	Transfers Out
General Fund	\$ 894,456	\$ 479,443
Special Revenue:		
Library	60,000	
Capital Project Funds:		
Capital Projects	479,443	
Debt Service Funds:		
2008 Street Improvement		36,898
2013A Street Improvement		47,558
Enterprise:		
Electric		180,000
Water		22,500
Sewer		22,500
Marina		645,000
	\$ 1,433,899	\$ 1,433,899

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 Note of 2002 was 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. This bond was paid in full during 2022.

Equipment Lease Payable:

The Equipment Lease Payable was issued to fund the purchase of a ladder fire truck and pumper fire truck. It is a capital lease agreement with an annual interest rate of 1.89% and a final payment date of June 25, 2026.

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, 2022 is as follows:

	Range of Interest Rates	Final Maturity	Balance December 31, 2022
<u>Governmental Activities</u>			
G.O. Improvement Bonds:			
G.O. Street Reconstruction Bonds of 2018A	3.00%	2029	\$ 575,000
G.O. Street Reconstruction Bonds of 2021A	1.15%	2027	943,000
Equipment lease payable	1.89%	2026	801,049
Compensated Absences			421,176
<u>Business-Type Activities</u>			
General Obligation Revenue Bonds and Notes:			
G.O. Utility Revenue Bonds of 2010A	2%-3.75%	2026	370,000
G.O. Public Facilities Note of 2002	2.99%	2023	316,000
Compensated Absences			143,117
Sub-total			3,569,342
Less: Unamortized discount			(3,864)
Plus: Unamortized premiums			8,131
Total			<u>\$ 3,573,609</u>

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, 2022:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds:					
G.O. Improvement Bonds of 2013A	\$ 495,000	\$	\$ 495,000	\$	\$
G.O. Crossover Refunding Bonds of 2015A	360,000		360,000		
Plus: Amortized Premium	5,752		5,752		
G.O. Street Reconstruction Bonds of 2018A	650,000		75,000	575,000	75,000
Plus: Amortized Premium	9,293		1,162	8,131	
G.O. Street Reconstruction Bonds of 2021A	943,000			943,000	185,000
Equipment lease payable	288,232	758,742	245,925	801,049	194,673
Subtotal	2,751,277	758,742	1,182,839	2,327,180	454,673
Other liabilities:					
Compensated Absences	418,493	253,779	251,096	421,176	
Governmental Activities Long-term Liabilities	3,169,770	1,012,521	1,433,935	2,748,356	454,673
BUSINESS-TYPE ACTIVITIES					
General Obligation Revenue Bonds:					
G.O. Utility Revenue Bonds of 2010A	455,000		85,000	370,000	85,000
Less: Unamortized Discount	(4,830)		(966)	(3,864)	
G.O. Public Facilities Note of 2002	623,000		307,000	316,000	316,000
Subtotal	1,073,170		391,034	682,136	401,000
Other liabilities:					
Compensated Absences	143,947	85,538	86,368	143,117	
Business-type Activities Long-term Liabilities	1,217,117	85,538	477,402	825,253	401,000
Total	\$ 4,386,887	\$ 1,098,059	\$ 1,911,337	\$ 3,573,609	\$ 855,673

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, 2022, 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>						
2023	\$ 260,000	\$ 28,094			\$ 194,673	\$ 15,140
2024	266,000	23,716			198,353	11,461
2025	268,000	19,178			202,102	7,712
2026	271,000	14,616			205,921	3,891
2027	278,000	10,021				
2028-2029	175,000	7,950				
Totals	<u>\$ 1,518,000</u>	<u>\$ 103,575</u>			<u>\$ 801,049</u>	<u>\$ 38,204</u>

Business-Type Activities

2023	\$ 401,000	\$ 21,279
2024	90,000	8,769
2025	95,000	5,472
2026	100,000	1,875
Totals	<u>\$ 686,000</u>	<u>\$ 37,395</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.

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 2022.

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 2022. 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.

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 2022 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, 2022, were \$267,402. 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 2022 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, 2022, were \$151,081. 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, 2022, the City reported a liability of \$3,769,936 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 \$110,533. The net pension liability was measured as of June 30, 2022, 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, 2021 through June 30, 2022, relative to the total employer contributions received from all of PERA’s participating employers. The City’s proportionate share was 0.0476 percent at the end of the measurement period and 0.0466 percent for the beginning of the period.

City's proportionate share of net pension liability	\$ 3,769,936
State of Minnesota's proportionate share of the net pension liability associated with the City	\$ 110,533

For the year ended December 31, 2022, the City recognized pension expense of \$162,951 for its proportionate share of the General Employee Plan’s pension expense. In addition, the City recognized an additional \$16,516 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, 2022, 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	\$ 31,489	\$ 39,297
Difference between projected and actual investment earnings	87,440	
Changes in actuarial assumptions	835,822	14,460
Changes in proportion	106,489	
Contributions paid to PERA subsequent to the measurement date	126,400	
Total	<u>\$ 1,187,640</u>	<u>\$ 53,757</u>

The \$126,400 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, 2023. 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
2023	\$ 387,704
2024	378,215
2025	(99,375)
2026	340,939

11. Defined Benefit Pension Plans – Statewide (Continued)

2. Police and Fire Fund Pension Costs

At December 31, 2022, the City reported a liability of \$3,059,178 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2022, 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, 2021, through June 30, 2022, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0703 percent at the end of the measurement period and 0.0679 percent for the beginning of the period.

The State of Minnesota contributed \$18 million to the Police and Fire Fund in the plan fiscal year ended June 30, 2022. 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, 2021. 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.

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, 2022, the City recognized pension expense of \$449,263 for its proportionate share of the Police and Fire Plan's pension expense. The City recognized \$25,898 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 \$133,512 for the year ended December 31, 2022 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, 2022, 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	\$ 164,281	\$
Difference between projected and actual investment earnings	68,489	
Changes in actuarial assumptions	1,676,307	4,751
Changes in proportion	15,438	15,161
Contributions paid to PERA subsequent to the measurement date	77,781	
Total	<u>\$ 2,002,296</u>	<u>\$ 19,912</u>

The \$77,781 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, 2023. Other 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>	Pension Expense Amount
2023	\$ 670,840
2024	674,374
2025	357,958
2026	201,431

Total Pension Costs

The total pension expense for all plans recognized by the City for the year ended December 31, 2022 was:

General Employees Fund	\$ 179,467
Police and Fire Fund	475,161
Fire Relief	(18,127)
	<u>\$ 636,501</u>

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 Equity	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, 2022, 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 27 years of service. 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 2022:

1. General Employees Fund

Changes in Actuarial Assumptions:

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

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 mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.
- The single discount rate changed from 6.50% to 5.40%.

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 2022 was 6.5 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 position of the General Employees Fund was 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.

In the Police and Fire Fund the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2060. Beginning in fiscal year ended June 30, 2061 projected benefit payments exceed the funds' projected fiduciary net position. Benefit payments projected after were discounted at the municipal bond rate of 3.69 percent (based on the weekly rate closest to but not later than the measurement date of the Fidelity "20-Year Municipal GO AA Index"). The resulting equivalent single discount rate of 5.40 percent for the Police and Fire Fund was determined to give approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 6.5 percent applied to all years of projected benefits through the point of asset depletion and 3.69 percent thereafter.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Defined Benefit Pension Plans – Statewide (Continued)

Pension Liability Sensitivity

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

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

	General Employees Fund		Police and Fire Fund	
1% Lower	5.50%	\$ 5,954,811	4.40%	\$ 4,629,674
Current Discount Rate	6.50%	\$ 3,769,936	5.40%	\$ 3,059,178
1% Higher	7.50%	\$ 1,978,001	6.40%	\$ 1,789,527

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, 2022, 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	
= Total Contribution Required	

The Plan is funded in part by fire state aid and, if necessary, City contributions. The State of Minnesota distributed \$65,390 in fire state aid paid by the City to the Relief Association for the year ended December 31, 2022. Required employer contributions are calculated annually based on statutory provisions. The City's voluntarily contributions for the plan for the year ended December 31, 2022 was \$20,000.

Pension Costs

At December 31, 2022, the City reported a net pension asset of \$671,286 for the Association's plan. The net pension asset was measured as of December 31, 2021. 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, 2022. 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 12/31/21	\$ 636,157	\$ 1,153,034	\$ (516,877)
Changes for the Year			
Service cost	49,992		49,992
Interest on pension liability	34,697		34,697
Net investment income		156,477	(156,477)
Contributions state and local		82,621	(82,621)
Benefit payments	(50,500)	(50,500)	
Net Changes	34,189	188,598	(154,409)
Balance End of Year 12/31/22	\$ 670,346	\$ 1,341,632	\$ (671,286)

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, 2022, 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	\$	\$ 202,978
Changes in actuarial assumptions		296,353
Difference between projected and actual investment earnings	120,346	
Total	<u>\$ 120,346</u>	<u>\$ 499,331</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>
2023	\$ (115,719)
2024	(120,128)
2025	(92,735)
2026	(50,403)

Actuarial Assumptions

The total pension liability at December 31, 2022, 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:

- There were no changes in actuarial assumptions since the previous valuation .

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	\$ (628,051)	\$ (671,286)	\$ (712,406)

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, 2022, 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, 2021.

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, 2021 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, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of date. The components of the net OPEB liability of the City at year-end were as follows:

Total OPEB Liability	<u>\$ 58,226</u>
Valuation Salary	<u>3,917,131</u>
Total OPEB liability as a percentage of payroll	<u>1.5%</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

13. Other Post Employment Benefit Plan (Continued)

Actuarial Methods and Assumptions

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

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

The total OPEB liability was determined by an actuarial valuation as of December 31, 2021, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount rate	1.84%
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-2020, and other adjustments.
Police & Fire	RP-2010 Public Safety mortality tables with projected mortality improvements based on scale MP-2020, and other adjustments.
Healthcare cost trend rate	6.2% for FY2022, gradually decreasing over several decades to an ultimate rate of 3.7% in FY2074 and later years.

The following changes in OPEB actuarial assumptions since the 2020 valuation:

- The discount rate was changed from 2.00% to 1.84% 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 7/1/2020 PERA General Employees Plan and 7/1/2020 Police & Fire Plan valuations to the rates in the 7/1/2021 valuations.

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 1/1/2022	\$ 53,314
Changes for the Year	
Service cost	4,722
Interest	1,161
Difference between expected and actual experience	(2,532)
Changes of assumptions	1,561
Net Changes	<u>4,912</u>
Ending Balance 12/31/2022	<u>\$ 58,226</u>

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

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

	1% decrease in Discount Rate (0.84%)	Current Discount Rate (1.84%)	1% increase in Discount Rate (2.84%)
Total OPEB Liability	\$ 63,590	\$ 58,226	\$ 53,280

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	\$ 51,296	\$ 58,226	\$ 66,374

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CITY OF LAKE CITY, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2022

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	267,402	267,402		3,565,360	7.50%
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	151,081	151,081		853,565	17.70%
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	0.0476%	3,769,936	110,533	3,880,469	3,460,040	112.2%	76.7%
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	0.0703%	3,059,178	133,512	3,192,690	827,966	385.6%	70.5%
2023							

CITY OF LAKE CITY, MINNESOTA
Schedule of Changes in the Fire Relief Association Net Pension Asset and Related Ratios
December 31, 2022

	<u>2022</u>	<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	\$ 49,992	\$ 56,898	\$ 55,510	\$ 55,068	\$ 53,594	\$ 49,074	\$ 37,963	\$ 36,947
Interest	34,697	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	(50,500)	(203,560)	(261,000)	(158,000)	(223,150)			(95,250)
Net change in total pension liability	34,189	(114,429)	(155,617)	(60,280)	(101,388)	133,823	227,661	(8,975)
Total Pension Liability - beginning of year	636,157	750,586	906,203	966,483	1,067,871	934,048	706,387	715,362
Total Pension Liability - end of year	<u>\$ 670,346</u>	<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	\$ 82,621	\$ 80,139	\$ 56,626	\$ 69,934	\$ 86,113	\$ 74,127	\$ 73,941	\$ 72,756
Net investment income	156,477	156,127	196,573	(27,614)	139,004	86,871	5,784	72,741
Other additions			10,790					
Benefit payments	(50,500)	(203,560)	(261,000)	(158,000)	(223,150)			(95,250)
Administrative expense		(5,500)			(31)			(20)
Net change in plan fiduciary net position	188,598	27,206	2,989	(115,680)	1,936	160,998	79,725	50,227
Plan Fiduciary Net Position - beginning of year	1,153,034	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>\$ 1,341,632</u>	<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	<u>\$ (671,286)</u>	<u>\$ (516,877)</u>	<u>\$ (375,242)</u>	<u>\$ (216,636)</u>	<u>\$ (272,036)</u>	<u>\$ (168,712)</u>	<u>\$ (141,537)</u>	<u>\$ (289,473)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	200.14%	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, 2022

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Total OPEB Liability				
Service cost	\$ 4,722	\$ 3,946	\$ 3,457	\$ 3,686
Interest	1,161	1,339	2,078	1,987
Difference between expected and actual experience	(2,532)		(13,445)	
Changes of assumptions	1,561	3,495	1,902	(3,465)
Benefit payments		(401)	(3,226)	(8,755)
Net change in total pension liability	4,912	8,379	(9,234)	(6,547)
Total Pension Liability - beginning of year	53,314	44,935	54,169	60,716
Total Pension Liability - end of year	<u>\$ 58,226</u>	<u>\$ 53,314</u>	<u>\$ 44,935</u>	<u>\$ 54,169</u>
 OPEB-eligible payroll for the measurement period	 \$ 3,917,131	 \$ 3,884,518	 \$ 3,730,814	 \$ 3,633,000
 Total OPEB Liability as a Percentage of Eligible Payroll	 1.5%	 1.4%	 1.2%	 1.5%

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CITY OF LAKE CITY, MINNESOTA
COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES
DECEMBER 31, 2022

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CITY OF LAKE CITY, MINNESOTA

NONMAJOR FUNDS

DECEMBER 31, 2022

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, 2022**

	Special Revenue Funds			Debt Service Funds
	270			
	210	Community Development Revolving Loan Fund	492 Block 25 Redev TIF #13	358 2008 Street Improvement
	Library			
ASSETS				
Cash and investments	\$ 255,574	\$ 417,560	\$	\$
Loans receivable		12,952		
Taxes receivable, delinquent	1,063			
Due from other governments	4,901			3,695
TOTAL ASSETS	\$ 261,538	\$ 430,512	\$	\$ 3,695
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ 2,176	\$	\$	\$
Advances from other funds			238,825	3,695
Total Liabilities	2,176		238,825	3,695
Deferred Inflows of Resources				
Unavailable revenue:				
Property taxes	1,063			
Loans receivable			12,952	
Total Deferred Inflows of Resources	1,063		12,952	
Fund Balance				
Restricted:				
Creditors (debt covenants)				
Regulations		417,560		
Assigned:				
Fund assignments	258,299			
Unassigned			(238,825)	
Total Fund Balance	258,299	417,560	(238,825)	
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 261,538	\$ 430,512	\$	\$ 3,695

Debt Service Funds			Capital Project Funds	
365 2013A Improvement Bonds	368 2018A Street Improvement	369 2021A Street Improvement	407 7th Street Reconstruction	Totals
\$	\$ 98,899	\$ 191,541	\$	\$ 963,574
				12,952
	827	1,756		3,646
5,954	3,182	6,755		24,487
<u>\$ 5,954</u>	<u>\$ 102,908</u>	<u>\$ 200,052</u>	<u>\$</u>	<u>\$ 1,004,659</u>
\$	\$	\$	\$ 36,646	\$ 38,822
5,954			213,405	461,879
<u>5,954</u>			<u>250,051</u>	<u>500,701</u>
	827	1,756		3,646
				12,952
	<u>827</u>	<u>1,756</u>		<u>16,598</u>
	102,081	198,296		300,377
				417,560
				258,299
			(250,051)	(488,876)
	<u>102,081</u>	<u>198,296</u>	<u>(250,051)</u>	<u>487,360</u>
<u>\$ 5,954</u>	<u>\$ 102,908</u>	<u>\$ 200,052</u>	<u>\$</u>	<u>\$ 1,004,659</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, 2022

	Special Revenue Funds		Debt Service Funds	
	270			
	210	Community Development Revolving Loan Fund	492	358
	Library		Block 25 Redev TIF #13	2008 Street Improvement
REVENUES				
Taxes:				
Property taxes	\$ 150,516		\$	\$ 113,528
Tax increments			548	
Intergovernmental revenues	64,923			
Charges for services	2,216			
Fines and forfeits	425			
Investment income (loss)	(8,868)	(21,624)		
Miscellaneous revenues	113,957	1,200		
TOTAL REVENUES	323,169	(20,424)	548	113,528
EXPENDITURES				
Culture and recreation:				
Library	278,215			
Economic development		16	140	
Debt service:				
Principal retirement				360,000
Interest and fiscal charges				4,280
Capital outlay	36,894			
TOTAL EXPENDITURES	315,109	16	140	364,280
Excess (deficiency) of revenues over (under) expenditures	8,060	(20,440)	408	(250,752)
OTHER FINANCING SOURCES (USES)				
Transfers out				(36,898)
Transfers in	60,000			
Total Other Financing Sources (Uses)	60,000			(36,898)
Net change in fund balances	68,060	(20,440)	408	(287,650)
FUND BALANCE, beginning	190,239	438,000	(239,233)	287,650
FUND BALANCE, ending	\$ 258,299	\$ 417,560	\$ (238,825)	\$

Debt Service Funds			Capital Project Funds	
365 2013A Improvement Bonds	368 2018A Street Improvement	369 2021A Street Improvement	407 7th Street Reconstruction	Totals
\$ 182,912	\$ 97,749	\$ 207,516	\$	\$ 752,221
				548
				64,923
				2,216
				425
	(2,151)	(3,348)		(35,991)
				115,157
<u>182,912</u>	<u>95,598</u>	<u>204,168</u>		<u>899,499</u>
				278,215
				156
495,000	75,000			930,000
6,093	19,300	13,081		42,754
			250,051	286,945
<u>501,093</u>	<u>94,300</u>	<u>13,081</u>	<u>250,051</u>	<u>1,538,070</u>
(318,181)	1,298	191,087	(250,051)	(638,571)
(47,558)				(84,456)
				60,000
(47,558)				(24,456)
(365,739)	1,298	191,087	(250,051)	(663,027)
365,739	100,783	7,209		1,150,387
<u>\$</u>	<u>\$ 102,081</u>	<u>\$ 198,296</u>	<u>\$ (250,051)</u>	<u>\$ 487,360</u>

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, 2022
(With Comparative Totals for the Year Ended December 31, 2021)

	Budgeted Amounts		2022 Actual Amount	Variance With Budget Positive (Negative)	2021 Actual Amount
	Original	Final			
REVENUES					
Property Tax Levy					
Property tax collected	\$ 149,204	\$ 149,204	\$ 150,516	\$ 1,312	\$ 134,706
Intergovernmental Revenues					
County - library grants	59,546	59,546	64,923	5,377	63,667
Charges For Services					
Fines and forfeits	250	250	425	175	349
Other	1,000	1,000	2,216	1,216	1,705
Total Charges For Services	1,250	1,250	2,641	1,391	2,054
Investment Income (Loss)	500	500	(8,868)	(9,368)	(595)
Miscellaneous					
Donations	2,000	15,392	14,546	(846)	7,759
Other	75,000	75,000	99,411	24,411	73,018
Total Miscellaneous	77,000	90,392	113,957	23,565	80,777
Total Revenues	287,500	300,892	323,169	22,277	280,609
EXPENDITURES					
Personnel services	239,250	222,750	189,326	33,424	203,170
Supplies	9,500	15,645	10,319	5,326	10,198
Other services and charges	63,000	87,742	78,570	9,172	56,017
Capital outlay	34,000	35,755	36,894	(1,139)	34,360
Total Expenditures	345,750	361,892	315,109	46,783	303,745
Excess (deficiency) of revenues over (under) expenditures	(58,250)	(61,000)	8,060	69,060	(23,136)
OTHER FINANCING SOURCES					
Transfers in	60,000	60,000	60,000		60,000
Net Change in Fund Balance	1,750	(1,000)	68,060	69,060	36,864
Fund Balance, beginning	190,239	190,239	190,239		153,375
Fund Balance, ending	\$ 191,989	\$ 189,239	\$ 258,299	\$ 69,060	\$ 190,239

CITY OF LAKE CITY, MINNESOTA
COMPONENT UNITS
BALANCE SHEET
December 31, 2022 and 2021

	Economic Development Authority	Port Authority	2022 Total Component Units	2021
Assets				
Cash and investments	\$	\$ 142,812	\$ 142,812	\$ 140,086
Taxes receivable delinquent		552	552	406
Due from other governmental units		2,486	2,486	420
Due from primary government		66,890	66,890	71,019
Prepaid items		265	265	1,762
Property held for resale		235,000	235,000	235,000
TOTAL ASSETS	\$	\$ 448,005	\$ 448,005	\$ 448,693
Liabilities, Deferred Inflows of Resources and Fund Balance				
Liabilities				
Accounts payable	\$	\$ 6,931	\$ 6,931	\$ 6,681
Deferred Inflows of Resources				
Unavailable revenue		235,552	235,552	235,406
Fund Balance				
Restricted:				
Economic development				206,606
Port authority		205,522	205,522	
Total Fund Balance		205,522	205,522	206,606
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$	\$ 448,005	\$ 448,005	\$ 448,693
Fund Balance - Component Units	\$	\$ 205,522	\$ 205,522	\$ 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	235,000	235,000
Other long-term assets are not available to pay for current-period expenditures and, therefore are unavailable in the funds				
		552	552	406
Net Position - Component Units	\$	\$ 441,074	\$ 441,074	\$ 442,012

CITY OF LAKE CITY, MINNESOTA
COMPONENT UNITS
Combining Statement of Revenues, Expenditures
and Changes in Fund Balance
For the Year Ended December 31, 2022
(With Comparative Totals for the Year Ended December 31, 2021)

	Economic Development Authority	Port Authority	2022 Total Component Units	2021
REVENUES				
Property tax	\$	\$ 76,358	\$ 76,358	\$ 72,764
Investment income (loss)	36	(6,056)	(6,020)	159
Miscellaneous		251,069	251,069	
Total Revenues	36	321,371	321,407	72,923
EXPENDITURES				
Personnel services		1,381	1,381	1,065
Supplies	171	744	915	7,110
Other services and charges	206,471	113,315	319,786	55,520
Insurance		409	409	447
Total Expenditures	206,642	115,849	322,491	64,142
Excess (Deficiency) of Revenues Over (Under) Expenditures	(206,606)	205,522	(1,084)	8,781
Fund Balance, beginning	206,606		206,606	197,825
Fund Balance, ending	\$	\$ 205,522	\$ 205,522	\$ 206,606
Net Change in Fund Balance - Component Units	\$ (206,606)	\$ 205,522	\$ (1,084)	\$ 8,781
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.	(406)	552	146	87
Change in Net Position - Component Units	\$ (207,012)	\$ 206,074	\$ (938)	\$ 8,868

**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 aggregate discretely presented component units, 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, 2022 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 3, 2023.

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.

Honorable Mayor and Common Council
City of Lake City, Minnesota
Page Two

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 3, 2023