

CITY OF LAKE CITY, MINNESOTA
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2014

**CITY OF LAKE CITY, MINNESOTA
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YEAR ENDED DECEMBER 31, 2014**

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INTRODUCTORY SECTION

**CITY OF LAKE CITY, MINNESOTA
CITY OFFICIALS
DECEMBER 31, 2014**

ELECTED

<u>Title</u>	<u>Name</u>	<u>Term Expires</u>
Mayor	Joel Beckman	01/14/17
Council	Marylou Waltman	01/14/17
Council	Phil Gartner	01/10/15
Council	Randel Klipfel	01/10/15
Council	Mark Spence	01/14/17
Council	Gene Durand	01/10/15
Council	Andru Peters	01/14/17

APPOINTED

City Administrator	Alan Lanning
City Clerk	Kari Schreck
Finance Director/Treasurer	Barbara Pratt

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lake City, Minnesota, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. Management is also responsible 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.

Auditors' Responsibility

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

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

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

Auditors' Responsibility (Continued)

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lake City, Minnesota, as of December 31, 2014, and the respective changes in financial position and 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.

Other Matters

Required Supplementary Information

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

Other Information


Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Lake City, Minnesota's basic financial statements. The combining fund statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 fund statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2015, on our consideration of the City of Lake City, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Lake City, Minnesota's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Austin, Minnesota
June 25, 2015

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REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

As management of the City of Lake City, State of 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, 2014. We encourage readers to consider the information presented here in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the City of Lake City exceeded its liabilities at the close of the most recent fiscal year by \$49,225,337 (*net position*). Of this amount, \$19,050,744 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designations and fiscal policies.
- The City's total net position increased by \$2,065,178 primarily due to grants used to purchase a fire truck and ambulance and the receipt of pledges for the renovation of the City Public Library.
- As of the close of the current fiscal year, the City of Lake City's governmental funds reported combined ending fund balances of \$7,318,028. Approximately 79 percent of this total amount, or \$5,789,092, is available for use within the City's designations and policies.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,765,158 or 81 percent of total general fund expenditures.
- The City of Lake City total outstanding debt decreased by \$1,046,775 during the current fiscal year. Principal payments are made as scheduled and continue to reduce outstanding debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is 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.

The *statement of net position* presents information on all of the City of Lake City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases in net position may serve as a useful indicator of whether the financial position of the City of Lake City is improving. Conversely, decreases in net position may indicate the financial position is deteriorating.

**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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 16-18 of this report.

Additional financial information for the Economic Development Authority (EDA) can be found on pages 64-65. The EDA is reported as a component unit which is legally separate from the City but the City is financially accountable.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Lake City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Lake City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The City of Lake City maintains twenty-four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund which is considered to be a major fund. Data from the other government funds are combined into a single, aggregate presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* on pages 55-62 in this report.

The City of Lake City adopts an annual appropriated budget for its general fund and library fund. Budgetary comparison statements have been provided for the general fund (pages 23-26) and the library fund (page 63) to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 19-26 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 27-34 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 35-54 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds can be found on pages 55-62 of this report.

**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Lake City, assets exceeded liabilities by \$49,225,337 at the close of the most recent fiscal year.

By far the largest portion of the City of Lake City's net position (58 percent) reflects its investments 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 Statement of Net Position

	2014			2013		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Assets						
Current and Other	\$ 8,112,229	\$ 14,577,714	\$ 22,689,943	\$ 7,259,867	\$ 12,868,208	\$ 20,128,075
Capital Assets	18,480,419	21,139,683	39,620,102	19,016,924	22,275,736	41,292,660
Total Assets	<u>26,592,648</u>	<u>35,717,397</u>	<u>62,310,045</u>	<u>26,276,791</u>	<u>35,143,944</u>	<u>61,420,735</u>
Liabilities						
Long-Term Outstanding	3,839,842	6,413,186	10,253,028	4,190,389	7,283,900	11,474,289
Other	805,447	2,026,233	2,831,680	717,865	2,068,422	2,786,287
Total Liabilities	<u>4,645,289</u>	<u>8,439,419</u>	<u>13,084,708</u>	<u>4,908,254</u>	<u>9,352,322</u>	<u>14,260,576</u>
Net Position						
Net Investment in						
Capital Assets	14,613,946	14,013,764	28,627,710	14,915,623	14,302,785	29,218,408
Restricted	1,546,883	-	1,546,883	1,300,003	-	1,300,003
Unrestricted	5,786,530	13,264,214	19,050,744	5,152,911	11,488,837	16,641,748
Total Net Position	<u>\$ 21,947,359</u>	<u>\$ 27,277,978</u>	<u>\$ 49,225,337</u>	<u>\$ 21,368,537</u>	<u>\$ 25,791,622</u>	<u>\$ 47,160,159</u>

A portion of the City of Lake City's net position (3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (\$19,050,744) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Lake City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its business-type activities.

Governmental activities. Governmental activities increased the City of Lake City's net position by \$578,822.

Business-type activities. Business-type activities increased the City of Lake City's net position by \$1,486,356.

**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

A condensed version of the Statement of Activities follows:

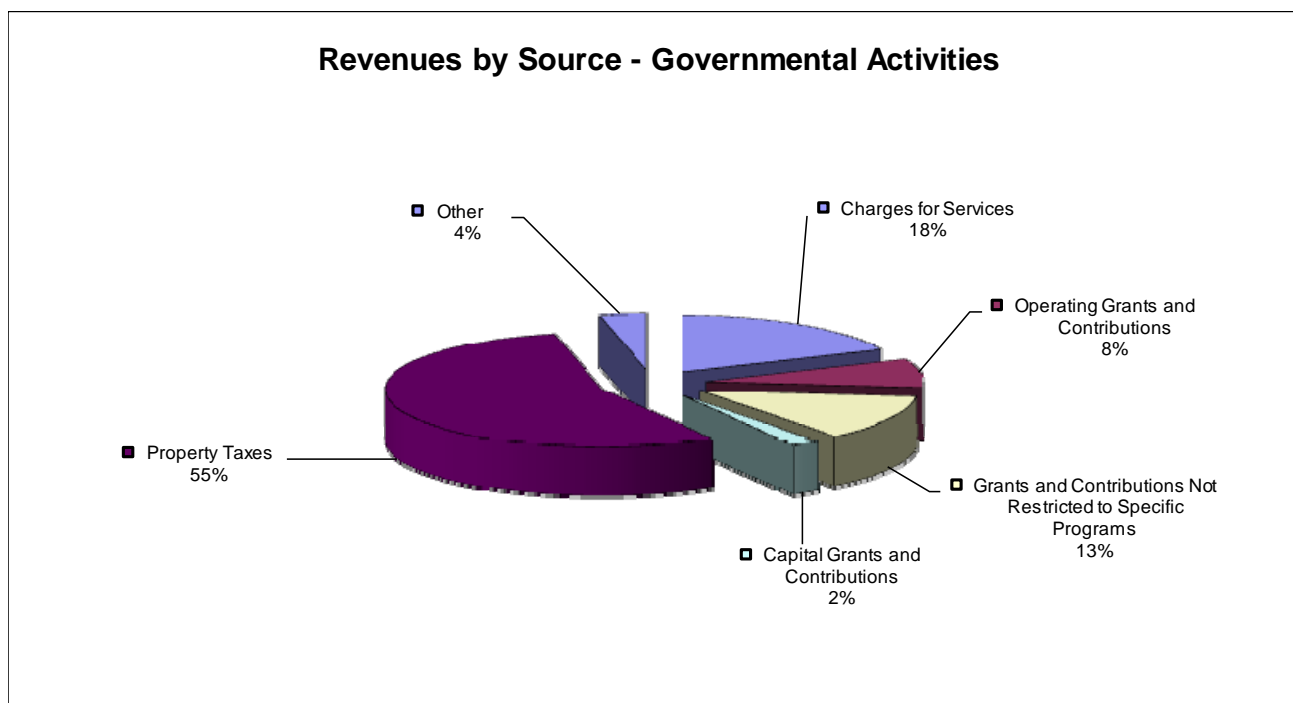
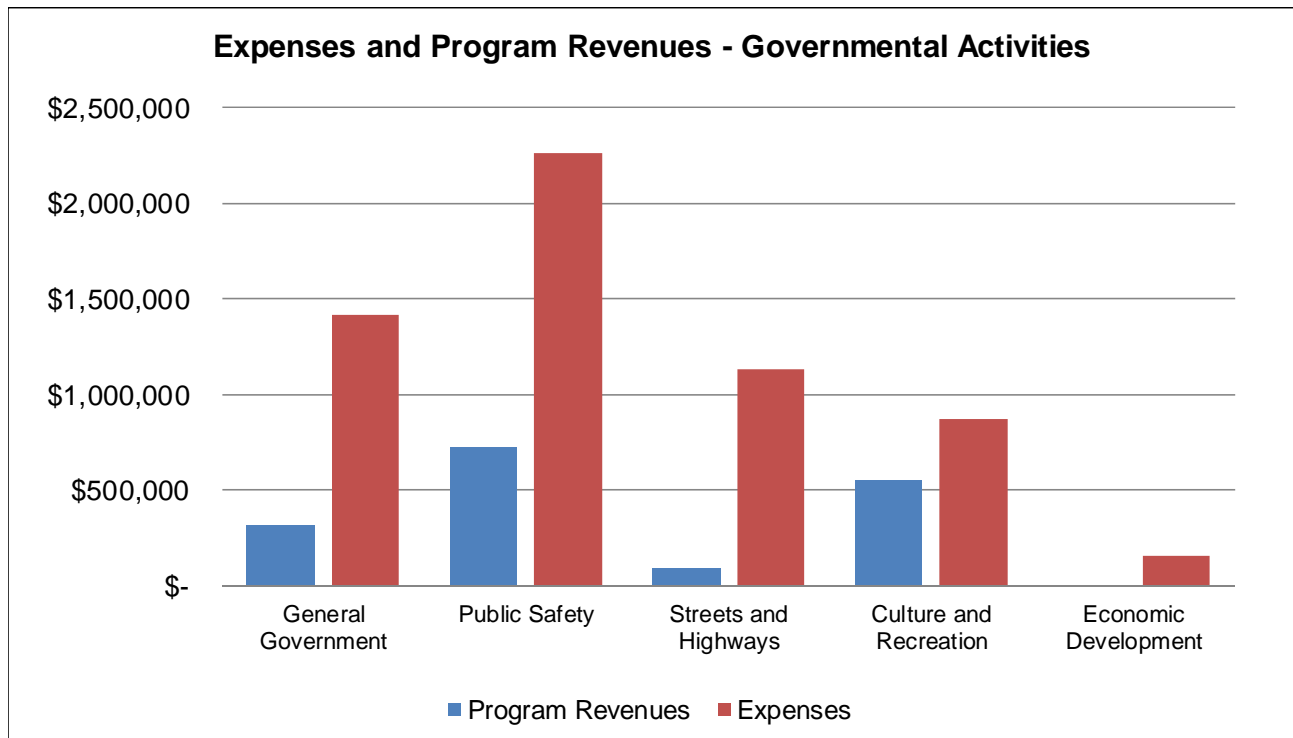
City of Lake City Change in Net Position

	2014			2013		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Revenues						
Program Revenues						
Charges for Services	\$ 1,088,981	\$ 17,933,862	\$ 19,022,843	\$ 1,185,943	\$ 17,974,412	\$ 19,160,355
Operating Grants						
And Contributions	480,159	-	480,159	305,644	-	305,644
Capital Grants & Contributions	124,491	4,813	129,304	1,812,508	15,361	1,827,869
General Revenues						
Property Taxes	3,065,712	-	3,065,712	2,941,610	-	2,941,610
Tax Increments	171,916	-	171,916	180,274	-	180,274
Grants & Contributions not Restricted to Specific Programs	751,721	-	751,721	610,467	-	610,467
Other	205,944	245,667	451,611	3,592	(57,555)	(53,963)
Total Revenues	5,888,924	18,184,342	24,073,266	7,040,038	17,932,218	24,972,256
Expenses						
General Government	1,416,414	-	1,416,414	1,267,526	-	1,267,526
Public Safety	2,260,110	-	2,260,110	2,198,180	-	2,198,180
Streets and Highways	1,129,491	-	1,129,491	868,330	-	868,330
Culture and Recreation	872,801	-	872,801	879,111	-	879,111
Economic Development	153,906	-	153,906	66,847	-	66,847
Interest on Long-Term Debt	90,099	-	90,099	133,358	-	133,358
Electric	-	12,193,723	12,193,723	-	12,461,745	12,461,745
Water	-	674,837	674,837	-	668,457	668,457
Sewer	-	1,463,812	1,463,812	-	1,416,946	1,416,946
Storm Water	-	205,133	205,133	-	209,134	209,134
Marina	-	992,781	992,781	-	988,508	988,508
Garbage	-	554,981	554,981	-	541,067	541,067
Total Expenses	5,922,821	16,085,267	22,008,088	5,413,352	16,285,857	21,699,209
Increase (Decrease) in Net Position Before Transfers and Other	(33,897)	2,099,075	2,065,178	1,626,686	1,646,361	3,273,047
Transfers	612,719	(612,719)	-	467,719	(467,719)	-
Increase in Net Position	578,822	1,486,356	2,065,178	2,094,405	1,178,642	3,273,047
Net Position - As Previously Stated	21,368,537	25,791,622	47,160,159	19,229,641	24,490,215	43,719,856
Prior Period Adjustment	-	-	-	44,491	122,765	167,256
Net Position - As Restated	21,368,537	25,791,622	47,160,159	19,274,132	24,612,980	43,887,112
Net Position - End of Year	\$ 21,947,359	\$ 27,277,978	\$ 49,225,337	\$ 21,368,537	\$ 25,791,622	\$ 47,160,159

**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

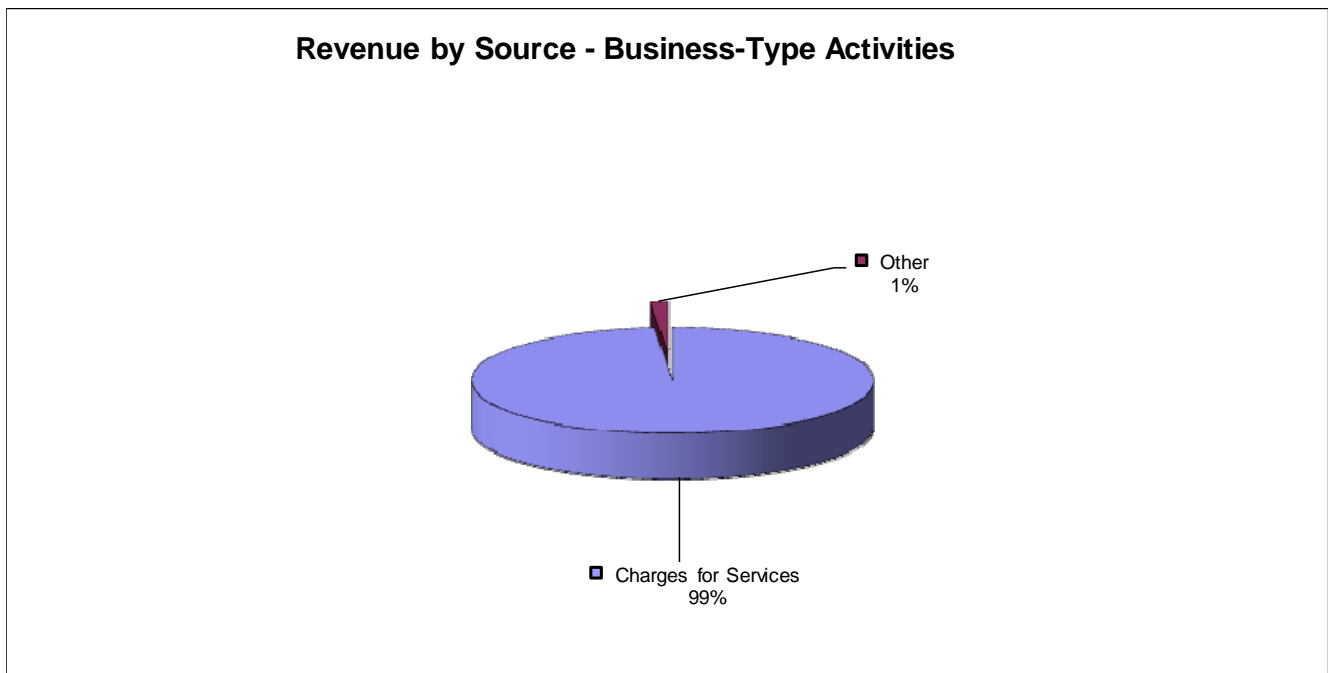
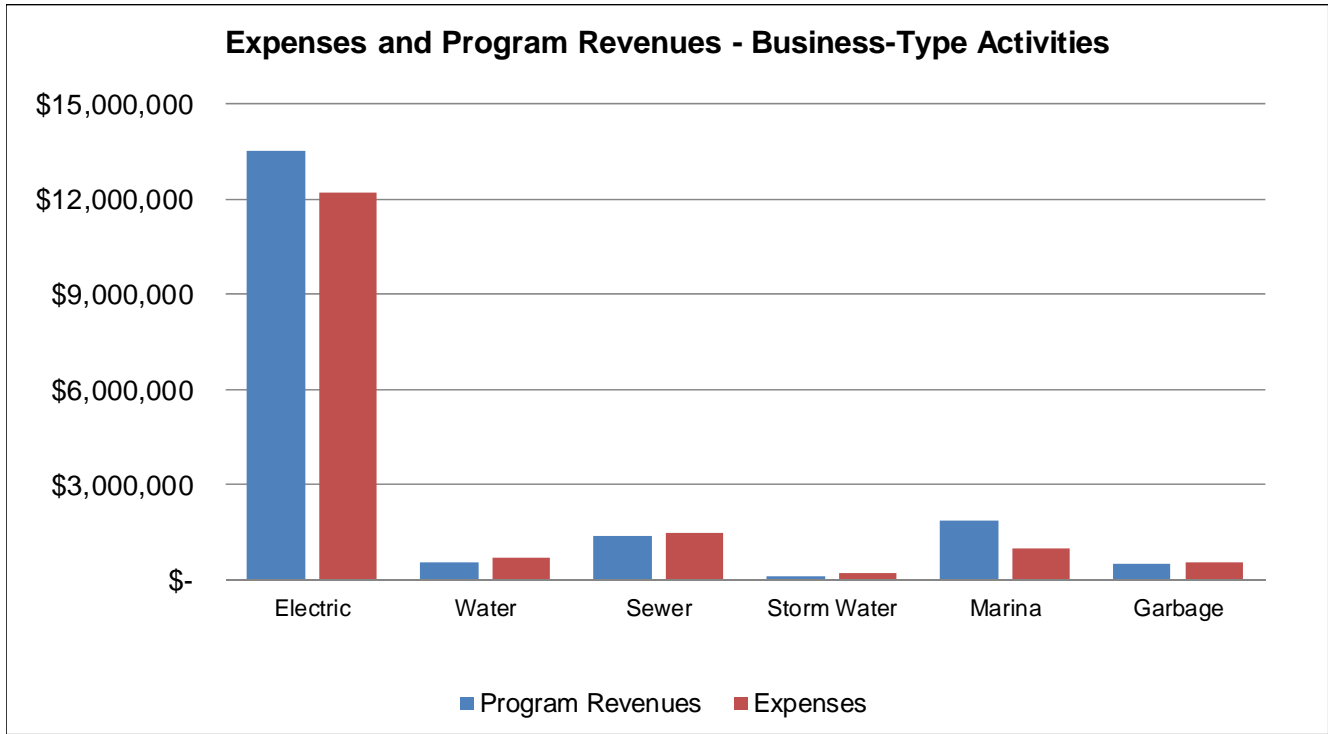
Below are specific graphs that provide comparisons of the governmental activities direct program revenues with their expenses. Any shortfalls in direct revenues are primarily supported by property tax levy or general state aid.



**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

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.



**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

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 nonspendable, 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.

As of the end of the current fiscal year, the City of Lake City's governmental funds reported combined ending fund balances of \$7,318,028, an increase of \$940,085. Approximately 73 percent of this total amount, or \$5,332,228, constitutes *unassigned or assigned fund balance*, which is available for spending at the government's discretion. Approximately 1 percent of this total amount, or \$456,864, is *committed* for the purpose of being used for the Library. The remainder of the total fund balance (\$1,528,936) is *nonspendable or restricted* to indicate that it is not available for new spending or is restricted as to how it will be spent.

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 \$3,765,158. 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 81 percent of total general fund expenditures.

**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (CONTINUED)

The general fund's total fund balance decreased by \$762,652 during the current fiscal year. This year's decrease was primarily due to a transfer into the Library fund of \$1,000,000 for Library renovations which begin in 2015.

The debt service funds have a total fund balance of \$587,703 all of which is restricted for the payment of debt service. These fund balances increased by \$175,182 which is mainly due to additional property tax collections.

Proprietary funds. The City of Lake City's proprietary funds unrestricted balance are Electric - \$6,095,527, Water - \$710,666, Sewer - \$504,831, Storm Water – (\$33,815), Marina - \$5,767,872, and Garbage - \$219,133. All funds, except the water fund, sewer fund, storm water fund, and garbage fund, had increases in total net position for the year. The water fund, sewer fund and storm water fund's decrease in net position for the year of \$151,912, \$48,938 and \$98,650 respectively, were primarily due to depreciation which has not been factored in to the water or storm water fund user rates. The garbage fund had a decrease in net position of \$23,714.

General Fund Budgetary Highlights

The original 2014 general fund budget approved by the City anticipated an increase in general fund reserves of \$714,085. All differences between the original and final budgets in the general fund for the City in 2014 were approved by resolution amending the original budget. Select unspent budgeted amounts from 2013 were carried over to the 2014 budget by resolution.

Capital Asset and Debt Administration

Capital assets. The City of Lake City's investments in capital assets for its governmental and business-type activities as of December 31, 2014, amounts to \$39,620,102 (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 decrease in the City of Lake City's reported investment in capital assets for the current fiscal year was \$1,672,558, or 4 percent. The main reason for the decrease was the depreciation expense.

**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (CONTINUED)

City of Lake City's Capital Assets

	Capital Assets December 31, 2014	Capital Assets December 31, 2013
	<u>2014</u>	<u>2013</u>
Governmental Activities		
Land	\$ 1,351,940	\$ 1,351,940
Construction in Progress	88,413	-
Buildings and Improvements	6,116,321	6,369,780
Machinery and Equipment	1,417,875	1,311,503
Infrastructure	9,505,870	9,983,701
Total	<u>18,480,419</u>	<u>19,016,924</u>
Business-Type Activities		
Land	742,801	742,801
Buildings and Improvements	7,586,465	8,030,392
Machinery and Equipment	857,666	992,917
Distribution and Collection System	11,952,751	12,509,626
Total	<u>21,139,683</u>	<u>22,275,736</u>
Total Capital Assets	<u><u>\$ 39,620,102</u></u>	<u><u>\$ 41,292,660</u></u>

Additional information on the City of Lake City's capital assets can be found in Note 5 on page 46-47 of this report.

Long-term debt. At the end of the current fiscal year, the City of Lake City had \$11,102,395 in bonds and notes outstanding. Of this amount, \$8,380,435 comprises debt backed by the full faith and credit of the government and \$2,721,960 represents bonds secured solely by specified revenue sources.

City of Lake City's Long-Term Liabilities

	<u>2014</u>			<u>2013</u>
	Governmental Activities	Business- Type Activities	Total	Total
General Obligation Bonds	\$ 3,976,476	\$ 249,101	\$ 4,225,577	\$ 4,483,332
General Obligation Revenue Loans	-	3,215,718	3,215,718	3,716,672
General Obligation Revenue Bonds	-	939,140	939,140	1,001,780
Revenue Bonds	-	2,721,960	2,721,960	2,985,330
Compensated Absences	253,298	185,202	438,500	400,556
Total	<u>\$ 4,229,774</u>	<u>\$ 7,311,121</u>	<u>\$ 11,540,895</u>	<u>\$ 12,587,670</u>

The City of Lake City's total long-term liabilities decreased by \$1,046,775 during the current year. A total of \$1,095,953 in bonds and notes payable were retired during 2014. A more detailed breakdown of these obligations can be found in Note 7, beginning on pages 49-51.

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

**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

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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BASIC FINANCIAL STATEMENTS

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**CITY OF LAKE CITY, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2014**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Economic Development Authority
ASSETS				
Cash and Investments	\$ 7,227,602	\$ 12,192,553	\$ 19,420,155	\$ 53,306
Interest Receivable	32,862	-	32,862	-
Accounts Receivable	93,407	1,200,689	1,294,096	-
Pledges Receivable	187,195	-	187,195	-
Taxes Receivable	62,339	-	62,339	-
Special Assessments Receivable	101,125	77,995	179,120	-
Loans Receivable	203,821	-	203,821	-
Internal Balances	(321,949)	321,949	-	-
Due from Other Governmental Units	466,884	-	466,884	1,511
Due from Primary Government	-	-	-	58,657
Prepaid Expenses	58,943	73,301	132,244	34
Property Held for Resale	-	-	-	235,000
Inventories	-	711,227	711,227	-
Capital Assets:				
Nondepreciable	1,440,353	742,801	2,183,154	-
Depreciable, Net	17,040,066	20,396,882	37,436,948	-
Total Assets	<u>26,592,648</u>	<u>35,717,397</u>	<u>62,310,045</u>	<u>348,508</u>
LIABILITIES				
Accounts and Contracts Payable	119,818	917,844	1,037,662	61
Interest Payable	34,823	96,220	131,043	-
Accrued Liabilities	83,655	29,717	113,372	-
Deposits Payable	17,300	84,517	101,817	10,000
Due to Other Governments	101,262	-	101,262	-
Due to Component Unit	58,657	-	58,657	-
Noncurrent Liabilities:				
Due Within One Year	389,932	897,935	1,287,867	-
Due in More Than One Year	3,839,842	6,413,186	10,253,028	-
Total Liabilities	<u>4,645,289</u>	<u>8,439,419</u>	<u>13,084,708</u>	<u>10,061</u>
NET POSITION				
Net Investment in Capital Assets	14,613,946	14,013,764	28,627,710	-
Restricted for:				
Debt Service	552,880	-	552,880	-
Tax Increment Financing	344,840	-	344,840	-
Revolving Loans	648,995	-	648,995	-
Other Purposes	168	-	168	-
Unrestricted	<u>5,786,530</u>	<u>13,264,214</u>	<u>19,050,744</u>	<u>338,447</u>
Total Net Position	<u>\$ 21,947,359</u>	<u>\$ 27,277,978</u>	<u>\$ 49,225,337</u>	<u>\$ 338,447</u>

See accompanying Notes to Financial Statements.

**CITY OF LAKE CITY, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2014**

<u>Functions/Programs</u>	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General Government	\$ 1,416,414	\$ 284,652	\$ 35,876	\$ -
Public Safety	2,260,110	572,660	153,242	-
Streets and Highways	1,129,491	12,842	54,573	24,491
Culture and Recreation	872,801	218,827	236,468	100,000
Economic Development	153,906	-	-	-
Interest on Long-Term Debt	90,099	-	-	-
Total Governmental Activities	5,922,821	1,088,981	480,159	124,491
Business-Type Activities				
Electric Utility	12,193,723	13,508,430	-	-
Water Utility	674,837	549,181	-	518
Sewer Utility	1,463,812	1,397,221	-	876
Storm Water Utility	205,133	103,851	-	3,419
Marina	992,781	1,855,800	-	-
Garbage	554,981	519,379	-	-
Total Business-Type Activities	16,085,267	17,933,862	-	4,813
Total Primary Government	\$ 22,008,088	\$ 19,022,843	\$ 480,159	\$ 129,304
Total Component Unit	\$ 99,223	\$ 30,959	\$ -	\$ 235,000

General Revenues:
 General Property Taxes
 Tax Increments
 Grants and Contributions Not Restricted to Specific Programs
 Investment Earnings
 Gain on Sale of Capital Assets
 Miscellaneous
Transfers
 Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning
Net Position - Ending

See accompanying Notes to Financial Statements

Net (Expense) Revenue and
Change in Net Position

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Economic Development Authority
\$ (1,095,886)	\$ -	\$ (1,095,886)	\$ -
(1,534,208)	-	(1,534,208)	-
(1,037,585)	-	(1,037,585)	-
(317,506)	-	(317,506)	-
(153,906)	-	(153,906)	-
(90,099)	-	(90,099)	-
<u>(4,229,190)</u>	<u>-</u>	<u>(4,229,190)</u>	<u>-</u>
-	1,314,707	1,314,707	-
-	(125,138)	(125,138)	-
-	(65,715)	(65,715)	-
-	(97,863)	(97,863)	-
-	863,019	863,019	-
-	(35,602)	(35,602)	-
<u>-</u>	<u>1,853,408</u>	<u>1,853,408</u>	<u>-</u>
(4,229,190)	1,853,408	(2,375,782)	-
-	-	-	166,736
3,065,712	-	3,065,712	58,074
171,916	-	171,916	-
751,721	-	751,721	-
130,144	231,626	361,770	14
25,227	-	25,227	-
50,573	14,041	64,614	-
612,719	(612,719)	-	-
<u>4,808,012</u>	<u>(367,052)</u>	<u>4,440,960</u>	<u>58,088</u>
578,822	1,486,356	2,065,178	224,824
<u>21,368,537</u>	<u>25,791,622</u>	<u>47,160,159</u>	<u>113,623</u>
<u>\$ 21,947,359</u>	<u>\$ 27,277,978</u>	<u>\$ 49,225,337</u>	<u>\$ 338,447</u>

**CITY OF LAKE CITY, MINNESOTA
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Investments	\$ 3,783,724	\$ 3,443,878	\$ 7,227,602
Interest Receivable	32,862	-	32,862
Accounts Receivable	93,407	-	93,407
Pledges Receivable	-	187,195	187,195
Taxes Receivable Delinquent	47,720	14,619	62,339
Special Assessments Receivable			
Delinquent	2,698	-	2,698
Noncurrent	-	98,427	98,427
Advances to Other Funds	55,000	-	55,000
Interfund Receivable	471,016	-	471,016
Loans Receivable	95,550	108,271	203,821
Prepaid Expenses	-	500	500
Due from Other Governmental Units	26,582	440,302	466,884
Total Assets	\$ 4,608,559	\$ 4,293,192	\$ 8,901,751
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE			
LIABILITIES			
Accounts Payable	\$ 49,159	\$ 58,666	\$ 107,825
Accrued Liabilities	80,489	3,166	83,655
Interfund Payable			
Deposits Payable	12,156	5,144	17,300
Advances from Other Funds	436,261	-	436,261
Interfund Payable	-	407,029	407,029
Due to Other Governmental Units	101,262	-	101,262
Due to Component Unit	58,657	-	58,657
Total Liabilities	737,984	474,005	1,211,989
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue	50,417	321,317	371,734
Total Deferred Inflows of Resources	50,417	321,317	371,734
FUND BALANCE			
Nonspendable:			
Advances to Other Funds	55,000	-	55,000
Prepaid Expenses	-	500	500
Restricted:			
Debt Service	-	587,703	587,703
Tax Increment Financing	-	344,840	344,840
Revolving Loans	-	540,725	540,725
Other Purposes	-	168	168
Committed:			
Library	-	456,864	456,864
Assigned:			
Capital Projects	-	639,012	639,012
Library Renovation	-	936,528	936,528
Unassigned	3,765,158	(8,470)	3,756,688
Total Fund Balance	3,820,158	3,497,870	7,318,028
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 4,608,559	\$ 4,293,192	\$ 8,901,751

See accompanying Notes to Financial Statements

**CITY OF LAKE CITY, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2014**

Total Fund Balances for Governmental Funds	\$ 7,318,028
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Governmental Funds - Capital Assets	36,848,873
Less: Accumulated Depreciation	(18,368,454)
Other long-term assets are not available to pay for current period expenditures and, therefore, are unavailable in the funds.	
Delinquent Property Taxes and Special Assessments	65,037
Noncurrent Special Assessments	98,427
Pledges Receivable	100,000
Loans Receivable	108,270
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.	
	41,775
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	(3,976,477)
Compensated Absences	(253,297)
Accrued Interest	(34,823)
Net Position of Governmental Activities	<u>\$ 21,947,359</u>

**CITY OF LAKE CITY, MINNESOTA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2014**

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 2,494,342	\$ 570,302	\$ 3,064,644
Tax Increments	-	171,916	171,916
Special Assessments	2,068	22,423	24,491
Licenses and Permits	83,652	-	83,652
Intergovernmental Revenues	1,012,960	56,187	1,069,147
Charges for Services	911,420	2,267	913,687
Fines and Forfeits	30,590	3,516	34,106
Investment Income	100,297	29,847	130,144
Gift and Contributions	38,433	193,744	232,177
Miscellaneous Revenues	20,338	65,325	85,663
Total Revenues	<u>4,694,100</u>	<u>1,115,527</u>	<u>5,809,627</u>
EXPENDITURES			
Current:			
General Government	1,164,963	-	1,164,963
Public Safety	2,004,259	-	2,004,259
Streets and Highways	548,895	-	548,895
Culture and Recreation	620,102	179,154	799,256
Economic Development	-	60,455	60,455
Miscellaneous	-	2,201	2,201
Capital Outlay	309,608	285,298	594,906
Debt Service:			
Principal	-	239,932	239,932
Interest and Fiscal Charges	-	92,621	92,621
Total Expenditures	<u>4,647,827</u>	<u>859,661</u>	<u>5,507,488</u>
Excess of Revenues Over Expenditures	46,273	255,866	302,139
OTHER FINANCING SOURCES (USES)			
Transfers In	567,719	1,421,644	1,989,363
Transfers Out	(1,376,644)	-	(1,376,644)
Proceeds From Sale of Property	-	25,227	25,227
Total Other Financing Sources (Uses)	<u>(808,925)</u>	<u>1,446,871</u>	<u>637,946</u>
Net Change in Fund Balances	(762,652)	1,702,737	940,085
Fund Balances - Beginning	4,582,810	1,795,133	6,377,943
Fund Balances - Ending	<u>\$ 3,820,158</u>	<u>\$ 3,497,870</u>	<u>\$ 7,318,028</u>

See accompanying Notes to Financial Statements

**CITY OF LAKE CITY, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2014**

Net Change in Fund Balances - Total Governmental Funds	\$	940,085
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the asset.		
Capital Outlay		517,407
Depreciation Expense		(1,042,040)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, etc.) is to decrease net position.		
		(11,872)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Unavailable Revenue, December 31, 2014		371,734
Unavailable Revenue, December 31, 2013		(411,245)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Compensated Absences		(19,715)
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.		
		(7,986)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Principal Retirement on Long-Term Debt		239,932
Long-Term Debt Discount		(2,244)
Change in Accrued Interest		4,766
Change in Net Position of Governmental Activities	\$	578,822

See accompanying Notes to Financial Statements.

**CITY OF LAKE CITY, MINNESOTA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2014**

	Original Budget	Final Budget	2014 Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes				
General Property Taxes	\$ 2,300,263	\$ 2,300,263	\$ 2,347,662	\$ 47,399
Franchise Taxes	89,000	89,000	87,445	(1,555)
Lodging Tax	57,750	57,750	59,235	1,485
Total Taxes	<u>2,447,013</u>	<u>2,447,013</u>	<u>2,494,342</u>	<u>47,329</u>
Special Assessments	-	-	2,068	2,068
Licenses and Permits				
Business Licenses	22,600	22,600	17,665	(4,935)
Non-Business Licenses	69,350	69,350	65,987	(3,363)
Total Licenses and Permits	<u>91,950</u>	<u>91,950</u>	<u>83,652</u>	<u>(8,298)</u>
Intergovernmental				
Federal:				
Cops in School Grant	35,600	35,600	44,558	8,958
State:				
Local Government Aid	751,581	751,581	751,581	-
Market Value Credit Aid	-	-	140	140
MSA Street Maintenance	55,000	55,000	54,573	(427)
Police State Aid	68,000	68,000	72,352	4,352
Other Police Grants	-	-	31,332	31,332
Fire State Aid	-	-	51,031	51,031
PERA Aid	7,393	7,393	7,393	-
Total Intergovernmental	<u>917,574</u>	<u>917,574</u>	<u>1,012,960</u>	<u>95,386</u>
Charges for Services				
General Government	220,800	220,800	203,424	(17,376)
Public Safety	505,457	505,457	482,487	(22,970)
Streets and Highways	3,200	3,200	12,699	9,499
Park Fees	214,050	214,050	212,810	(1,240)
Total Charges for Services	<u>943,507</u>	<u>943,507</u>	<u>911,420</u>	<u>(32,087)</u>
Fines and Forfeits	21,500	21,500	30,590	9,090
Investment Income	60,000	60,000	100,297	40,297
Gift and Contributions	6,500	15,000	38,433	23,433
Miscellaneous Revenues				
Other	210	210	11,868	11,658
Refunds and Reimbursements	50,000	50,000	8,470	(41,530)
Total Miscellaneous	<u>50,210</u>	<u>50,210</u>	<u>20,338</u>	<u>(29,872)</u>
Total Revenues	4,538,254	4,546,754	4,694,100	147,346

See accompanying Notes to Financial Statements.

**CITY OF LAKE CITY, MINNESOTA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2014**

	Original Budget	Final Budget	2014 Actual	Variance with Final Budget Positive (Negative)
EXPENDITURES				
General Government -				
Mayor and City Council:				
Personnel Services	\$ 45,751	\$ 45,751	\$ 40,068	\$ 5,683
Supplies	3,500	500	407	93
Other Services and Charges	31,200	45,900	24,861	21,039
Capital Outlay	-	-	6,200	(6,200)
Total Mayor and City Council	<u>80,451</u>	<u>92,151</u>	<u>71,536</u>	<u>20,615</u>
City Administrator:				
Personnel Services	146,494	146,494	126,648	19,846
Supplies	1,400	1,400	768	632
Other Services and Charges	8,370	28,370	29,143	(773)
Total City Administrator	<u>156,264</u>	<u>176,264</u>	<u>156,559</u>	<u>19,705</u>
City Clerk/Finance Director:				
Personnel Services	313,530	313,530	262,127	51,403
Supplies	6,750	6,750	3,449	3,301
Other Services and Charges	33,670	36,170	31,151	5,019
Total City Clerk/Finance Director	<u>353,950</u>	<u>356,450</u>	<u>296,727</u>	<u>59,723</u>
Audit:				
Other Services and Charges	<u>38,000</u>	<u>38,000</u>	<u>23,400</u>	<u>14,600</u>
Legal:				
Other Services and Charges	<u>127,600</u>	<u>131,863</u>	<u>117,655</u>	<u>14,208</u>
Planning and Zoning:				
Personnel Services	246,096	246,096	241,006	5,090
Supplies	3,200	3,200	1,986	1,214
Other Services and Charges	85,425	105,425	85,833	19,592
Total Planning and Zoning	<u>334,721</u>	<u>354,721</u>	<u>328,825</u>	<u>25,896</u>
Elections:				
Personnel Services	8,500	8,500	8,126	374
Supplies	2,500	2,500	1,820	680
Other Services and Charges	3,050	3,050	2,057	993
Total Elections	<u>14,050</u>	<u>14,050</u>	<u>12,003</u>	<u>2,047</u>
General Government Buildings:				
Other Services and Charges	-	-	164,345	(164,345)
Total General Government Buildings	<u>-</u>	<u>-</u>	<u>164,345</u>	<u>(164,345)</u>
Total General Government	<u>1,105,036</u>	<u>1,163,499</u>	<u>1,171,050</u>	<u>(7,551)</u>

See accompanying Notes to Financial Statements.

**CITY OF LAKE CITY, MINNESOTA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2014**

Expenditures: - (Cont'd.)	Original Budget	Final Budget	2014 Actual	Variance with Final Budget Positive (Negative)
Public Safety				
Police:				
Personnel Services	\$ 1,098,181	\$ 1,098,117	\$ 1,021,734	\$ 76,383
Supplies	60,200	69,200	60,807	8,393
Other Services and Charges	44,296	44,500	95,573	(51,073)
Capital Outlay	49,500	50,200	49,136	1,064
Total Police	<u>1,252,177</u>	<u>1,262,017</u>	<u>1,227,250</u>	<u>34,767</u>
Fire:				
Personnel Services	100,717	100,717	87,496	13,221
Supplies	37,200	39,782	32,103	7,679
Other Services and Charges	35,775	37,243	104,810	(67,567)
Capital Outlay	65,600	66,330	19,276	47,054
Total Fire	<u>239,292</u>	<u>244,072</u>	<u>243,685</u>	<u>387</u>
Ambulance:				
Personnel Services	526,081	526,081	449,642	76,439
Supplies	50,500	48,500	40,615	7,885
Other Services and Charges	41,200	41,200	72,842	(31,642)
Capital Outlay	57,351	60,351	28,974	31,377
Total Ambulance	<u>675,132</u>	<u>676,132</u>	<u>592,073</u>	<u>84,059</u>
Civil Defense:				
Personnel Services	16,526	16,716	16,363	353
Supplies	8,600	8,100	7,350	750
Other Services and Charges	2,400	2,900	2,388	512
Capital Outlay	12,000	18,500	15,664	2,836
Total Civil Defense	<u>39,526</u>	<u>46,216</u>	<u>41,765</u>	<u>4,451</u>
Animal Control:				
Personnel Services	6,104	6,104	6,056	48
Supplies	400	400	7	393
Other Services and Charges	625	625	3,763	(3,138)
Total Animal Control	<u>7,129</u>	<u>7,129</u>	<u>9,826</u>	<u>(2,697)</u>
Total Public Safety	<u>2,213,256</u>	<u>2,235,566</u>	<u>2,114,599</u>	<u>120,967</u>
Streets and Highways -				
Personnel Services	348,647	353,202	325,928	27,274
Supplies	99,500	99,500	78,475	21,025
Other Services and Charges	115,500	145,500	144,492	1,008
Capital Outlay	61,000	61,000	190,335	(129,335)
Total Street and Highways	<u>624,647</u>	<u>659,202</u>	<u>739,230</u>	<u>(80,028)</u>

See accompanying Notes to Financial Statements.

**CITY OF LAKE CITY, MINNESOTA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2014**

	Original Budget	Final Budget	2014 Actual	Variance with Final Budget Positive (Negative)
Expenditures: - (Cont'd.)				
Culture and Recreation				
Tourism:				
Other Services and Charges	\$ 55,000	\$ 55,000	\$ 57,644	\$ (2,644)
Total Tourism	55,000	55,000	57,644	(2,644)
Participant Recreation:				
Personnel Services	50,525	50,525	52,020	(1,495)
Supplies	2,000	1,500	237	1,263
Other Services and Charges	1,650	2,150	1,824	326
Total Participant Recreation	54,175	54,175	54,081	94
Swimming Pool:				
Personnel Services	51,601	51,602	45,999	5,603
Supplies	17,000	17,000	3,971	13,029
Other Services and Charges	3,650	3,650	65,162	(61,512)
Total Swimming Pool	72,251	72,252	115,132	(42,880)
Hok-Si-La Park:				
Personnel Services	116,150	111,597	96,285	15,312
Supplies	20,800	20,800	17,313	3,487
Other Services and Charges	41,300	41,300	54,123	(12,823)
Capital Outlay	8,000	-	2,733	(2,733)
Total Hok-Si-La Park	186,250	173,697	170,454	3,243
Other Parks:				
Personnel Services	128,254	128,254	126,439	1,815
Supplies	37,900	37,900	21,185	16,715
Other Services and Charges	9,400	9,400	78,013	(68,613)
Capital Outlay	38,000	-	-	-
Total Other Parks	213,554	175,554	225,637	(50,083)
Total Culture and Recreation	581,230	530,678	622,948	(92,270)
Total Expenditures	4,524,169	4,588,945	4,647,827	(58,882)
Excess (Deficiency) of Revenues Over (Under) Expenditures	14,085	(42,191)	46,273	88,464
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	700,000	700,000	567,719	(132,281)
Operating Transfers Out	-	(739,128)	(1,376,644)	(637,516)
Total Other Financing Sources (Uses)	700,000	(39,128)	(808,925)	(769,797)
Net Change in Fund Balance	714,085	(81,319)	(762,652)	(681,333)
Fund Balance - Beginning	4,582,810	4,582,810	4,582,810	-
Fund Balance - Ending	\$ 5,296,895	\$ 4,501,491	\$ 3,820,158	\$ (681,333)

See accompanying Notes to Financial Statements.

**CITY OF LAKE CITY, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 DECEMBER 31, 2014**

	Business-Type Activities - Enterprise Funds			
	Electric Fund	Water Fund	Sewer Fund	Storm Water Fund
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 5,102,958	\$ 705,832	\$ 572,375	\$ -
Accounts Receivable	1,115,787	9,864	31,952	2,152
Advances to Other Funds	170,966	-	-	-
Inventories	691,918	-	-	-
Prepaid Expenses	19,636	3,729	16,895	1,326
Total Current Assets	<u>7,101,265</u>	<u>719,425</u>	<u>621,222</u>	<u>3,478</u>
Noncurrent Assets				
Capital Assets				
Nondepreciable	23,401	4,273	-	97,400
Depreciable	16,247,499	4,125,137	12,133,106	2,651,415
Less: Accumulated Depreciation	<u>(8,532,222)</u>	<u>(1,755,226)</u>	<u>(6,726,044)</u>	<u>(819,718)</u>
Net Capital Assets	7,738,678	2,374,184	5,407,062	1,929,097
Special Assessments	-	29,708	18,579	29,708
Total Noncurrent Assets	<u>7,738,678</u>	<u>2,403,892</u>	<u>5,425,641</u>	<u>1,958,805</u>
Total Assets	14,839,943	3,123,317	6,046,863	1,962,283
LIABILITIES				
Current Liabilities				
Current Maturities of				
Bonds Payable	165,000	52,569	412,866	32,500
Accounts Payable	805,212	1,847	65,415	974
Accrued Liabilities	55,786	15,322	40,802	6,715
Advances from Other Funds	-	-	-	-
Interfund Payables	-	-	-	59,312
Customer Deposits	84,517	-	-	-
Total Current Liabilities	<u>1,110,515</u>	<u>69,738</u>	<u>519,083</u>	<u>99,501</u>
Non Current Liabilities				
Bonds Payable, Net of Current				
Maturities and Discount	2,324,162	666,102	2,802,850	437,070
Compensated Absences Payable	60,223	21,298	28,753	-
Total Liabilities	<u>3,494,900</u>	<u>757,138</u>	<u>3,350,686</u>	<u>536,571</u>
NET POSITION				
Net Investment in Capital Assets	5,249,516	1,655,513	2,191,346	1,459,527
Unrestricted	6,095,527	710,666	504,831	(33,815)
Total Net Position	<u>\$ 11,345,043</u>	<u>\$ 2,366,179</u>	<u>\$ 2,696,177</u>	<u>\$ 1,425,712</u>

See accompanying Notes to Financial Statements.

Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
Marina Fund	Garbage Fund	Totals	
\$ 5,574,448	\$ 236,940	\$ 12,192,553	\$ -
17,121	23,813	1,200,689	-
265,295	-	436,261	-
19,309	-	711,227	-
31,208	507	73,301	58,443
<u>5,907,381</u>	<u>261,260</u>	<u>14,614,031</u>	<u>58,443</u>
613,727	4,000	742,801	-
7,270,676	-	42,427,833	-
<u>(4,197,741)</u>	<u>-</u>	<u>(22,030,951)</u>	<u>-</u>
3,686,662	4,000	21,139,683	-
-	-	77,995	-
<u>3,686,662</u>	<u>4,000</u>	<u>21,217,678</u>	<u>-</u>
9,594,043	265,260	35,831,709	58,443
235,000	-	897,935	-
2,269	42,127	917,844	11,993
7,312	-	125,937	-
55,000	-	55,000	-
-	-	59,312	4,675
-	-	84,517	-
<u>299,581</u>	<u>42,127</u>	<u>2,140,545</u>	<u>16,668</u>
(2,200)	-	6,227,984	-
<u>74,928</u>	<u>-</u>	<u>185,202</u>	<u>-</u>
<u>372,309</u>	<u>42,127</u>	<u>8,553,731</u>	<u>16,668</u>
3,453,862	4,000	14,013,764	-
5,767,872	219,133	13,264,214	41,775
<u>\$ 9,221,734</u>	<u>\$ 223,133</u>	<u>\$ 27,277,978</u>	<u>\$ 41,775</u>

**CITY OF LAKE CITY, MINNESOTA
ENTERPRISE FUNDS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
YEAR ENDED DECEMBER 31, 2014**

	Business-Type Activities - Enterprise Funds			
	Electric Fund	Water Fund	Sewer Fund	Storm Water Fund
OPERATING REVENUES	\$ 13,508,430	\$ 549,181	\$ 1,397,221	\$ 103,851
OPERATING EXPENSES				
Salaries and Benefits	638,877	209,966	220,154	24,873
Supplies	39,432	24,283	44,875	17,711
Other Services and Charges	10,844,887	264,143	607,181	24,245
Insurance	55,939	15,266	34,996	2,253
Depreciation	504,161	133,529	451,714	119,898
Total Operating Expenses	<u>12,083,296</u>	<u>647,187</u>	<u>1,358,920</u>	<u>188,980</u>
Operating Income (Loss)	1,425,134	(98,006)	38,301	(85,129)
NONOPERATING INCOME (EXPENSE)				
Miscellaneous Income	2,085	-	-	-
Investment Income	99,567	13,226	16,777	(787)
Special Assessments	-	8,847	876	3,419
Loss on Disposal of Capital Assets	-	(8,329)	-	-
Loss on Disposal of Inventory	(113)	-	-	-
Intergovernmental Revenues	-	-	-	-
Interest Expense	(110,314)	(27,650)	(104,892)	(16,153)
Total Nonoperating Income (Expense)	<u>(8,775)</u>	<u>(13,906)</u>	<u>(87,239)</u>	<u>(13,521)</u>
Income (Loss) Before Transfers	1,416,359	(111,912)	(48,938)	(98,650)
Transfers Out	<u>(155,000)</u>	<u>(40,000)</u>	<u>-</u>	<u>-</u>
Change in Net Position	1,261,359	(151,912)	(48,938)	(98,650)
Net Position - Beginning	<u>10,083,684</u>	<u>2,518,091</u>	<u>2,745,115</u>	<u>1,524,362</u>
Net Position - Ending	<u>\$ 11,345,043</u>	<u>\$ 2,366,179</u>	<u>\$ 2,696,177</u>	<u>\$ 1,425,712</u>

See accompanying Notes to Financial Statements.

Business-Type Activities - Enterprise Funds			Governmental
Marina	Garbage		Activities - Internal
Fund	Fund	Totals	Service Funds
\$ 1,855,800	\$ 519,379	\$ 17,933,862	\$ 475,265
425,550	10,881	1,530,301	641
198,624	1,592	326,517	28,194
113,841	540,693	12,394,990	256,881
75,635	1,815	185,904	197,666
163,244	-	1,372,546	-
<u>976,894</u>	<u>554,981</u>	<u>15,810,258</u>	<u>483,382</u>
878,906	(35,602)	2,123,604	(8,117)
6,229	5,727	14,041	131
96,682	6,161	231,626	-
-	-	13,142	-
-	-	(8,329)	-
-	-	(113)	-
-	-	-	-
(15,887)	-	(274,896)	-
<u>87,024</u>	<u>11,888</u>	<u>(24,529)</u>	<u>131</u>
965,930	(23,714)	2,099,075	(7,986)
(417,719)	-	(612,719)	-
548,211	(23,714)	1,486,356	(7,986)
8,673,523	246,847	25,791,622	49,761
<u>\$ 9,221,734</u>	<u>\$ 223,133</u>	<u>\$ 27,277,978</u>	<u>\$ 41,775</u>

**CITY OF LAKE CITY, MINNESOTA
ENTERPRISE FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2014**

	Business-Type Activities - Enterprise Funds			
	Electric Fund	Water Fund	Sewer Fund	Storm Water Fund
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	\$ 13,611,116	\$ 555,872	\$ 1,418,334	\$ 105,346
Payments to Employees	(627,888)	(210,971)	(219,804)	(24,873)
Payments to Suppliers	(10,965,437)	(318,697)	(710,625)	(43,374)
Net Cash Provided (Used) by Operating Activities	<u>2,017,791</u>	<u>26,204</u>	<u>487,905</u>	<u>37,099</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Advances from/(to) Other Funds	(170,966)	-	-	37,720
Operating Transfers Out	(155,000)	(40,000)	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(325,966)</u>	<u>(40,000)</u>	<u>-</u>	<u>37,720</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal Received on Special Assessments	-	38,413	880	(26,289)
Acquisition of Capital Assets	(169,633)	(52,104)	(23,197)	-
Interest Paid on Debt	(106,082)	(27,074)	(110,658)	(15,243)
Principal Paid on Debt	(160,000)	(52,570)	(500,954)	(32,500)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(435,715)</u>	<u>(93,335)</u>	<u>(633,929)</u>	<u>(74,032)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment Income	99,567	13,226	16,777	(787)
Net Increase (Decrease) in Cash and Cash Equivalents	1,355,677	(93,905)	(129,247)	-
Cash and Cash Equivalents - Beginning	3,747,281	799,737	701,622	-
Cash and Cash Equivalents - Ending	<u>\$ 5,102,958</u>	<u>\$ 705,832</u>	<u>\$ 572,375</u>	<u>\$ -</u>

See accompanying Notes to Financial Statements.

Business-Type Activities - Enterprise Funds			Governmental
Marina	Garbage	Totals	Activities - Internal
Fund	Fund		Service Funds
\$ 1,865,332	\$ 529,730	\$ 18,085,730	\$ 475,265
(417,654)	(10,881)	(1,512,071)	(641)
(390,391)	(540,672)	(12,969,196)	(481,316)
<u>1,057,287</u>	<u>(21,823)</u>	<u>3,604,463</u>	<u>(6,692)</u>
83,331	-	(49,915)	4,675
(417,719)	-	(612,719)	-
(334,388)	-	(662,634)	4,675
-	-	13,004	-
-	-	(244,934)	-
(15,185)	-	(274,242)	-
<u>(110,000)</u>	<u>-</u>	<u>(856,024)</u>	<u>-</u>
(125,185)	-	(1,362,196)	-
<u>96,682</u>	<u>6,161</u>	<u>231,626</u>	<u>-</u>
694,396	(15,662)	1,811,259	(2,017)
<u>4,880,052</u>	<u>252,602</u>	<u>10,381,294</u>	<u>2,017</u>
<u>\$ 5,574,448</u>	<u>\$ 236,940</u>	<u>\$ 12,192,553</u>	<u>\$ -</u>

**CITY OF LAKE CITY, MINNESOTA
ENTERPRISE FUNDS
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2014**

	Business-Type Activities - Enterprise Funds			
	Electric Fund	Water Fund	Sewer Fund	Storm Water Fund
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating Income (Loss)	\$ 1,425,134	\$ (98,006)	\$ 38,301	\$ (85,129)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Depreciation	504,161	133,529	451,714	119,898
Other	2,085	-	-	-
(Increase) Decrease in				
Accounts Receivable	91,334	6,691	21,113	1,495
Inventories	26,048	-	-	-
Prepaid Expenses	(288)	(223)	(1,766)	(217)
Increase (Decrease) in				
Accounts Payable	(46,972)	(15,113)	(23,078)	553
Accrued Liabilities	(3,967)	331	1,271	499
Compensated Absences	10,989	(1,005)	350	-
Customer Deposits	9,267	-	-	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 2,017,791</u>	<u>\$ 26,204</u>	<u>\$ 487,905</u>	<u>\$ 37,099</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES				
Amortization of Bond Discount	\$ 5,532	\$ 1,180	\$ -	\$ 1,180
Loss on Disposal of Capital Assets	-	7,795	-	-

See accompanying Notes to Financial Statements.

<u>Business-Type Activities - Enterprise Funds</u>			<u>Governmental</u>
<u>Marina</u>	<u>Garbage</u>		<u>Activities - Internal</u>
<u>Fund</u>	<u>Fund</u>	<u>Totals</u>	<u>Service Funds</u>
\$ 878,906	\$ (35,602)	\$ 2,123,604	\$ (8,117)
163,244	-	1,372,546	-
6,229	5,727	14,041	131
3,303	4,624	128,560	-
-	-	26,048	-
(210)	(99)	(2,803)	(5,744)
(2,292)	4,427	(82,475)	7,038
211	(900)	(2,555)	-
7,896	-	18,230	-
-	-	9,267	-
<u>\$ 1,057,287</u>	<u>\$ (21,823)</u>	<u>\$ 3,604,463</u>	<u>\$ (6,692)</u>
\$ 1,100	\$ -	\$ 8,992	\$ -
-	-	7,795	-

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**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Lake City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as accounting principles generally accepted in the United States of America for state and local governments.

Financial Reporting Entity

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.

Accounting Principles Generally Accepted in the United States of America (GAAP) require that the City's financial statements include all funds, departments, agencies, boards, commissions, and other organizations 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.

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burden on, the organization. These financial statements include all funds, account groups and the component units for which the City of Lake City is financially accountable.

Component units for which the City has been determined to be financially accountable can be blended with the primary government or be included as a discrete presentation.

Discrete Presentation

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

Excluded Units

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

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the 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 on 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 the 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 available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are reported when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, special assessments, intergovernmental revenues, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The City reports the following major governmental funds:

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

The City reports the following major proprietary funds:

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

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

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

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

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

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

Additionally, the government reports the following fund type:

The *Internal Service Fund* is used to account for the City's insurance, utilities, repairs and maintenance expenditures of the buildings associated with the governmental activities.

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 *non-operating* 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 non-operating revenues and expenses. When both restricted and unrestricted are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the Library Special Revenue Fund.
5. The City's department heads may make transfer of appropriation with approval of the City Council.

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

Cash and Investments

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 flows are invested according to the City's investment policy. Interest income is allocated to each fund based upon their relative cash balance.

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 the balance sheet date.

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Property Taxes

Property tax levies are set by the City Council and are certified to the County in December of each year for collection 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 unavailable 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 receivable by the City at that date. Revenues from property taxes are accrued and recognized in the year collectible, 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.

Special Assessments

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

Prepaid Expenditures

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments. The prepaid expenditure balances included in the financial statements include payments of insurance premiums which will be expensed over the premium period.

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 for resale is recorded at net realizable value. Donated property held for resale is recorded at estimated fair value on the date of donation.

**CITY OF LAKE CITY, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Inventories

Inventories are valued at cost, which approximates market, on a first-in, first-out basis.

Property, Plant and Equipment

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

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset 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.

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

	Useful Life in Years
Buildings and Improvements	10 - 33
Distribution and Collection System	25
Infrastructure	5 - 50
Other Improvements	5 - 50
Machinery and Equipment	5 - 15

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
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources 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 are reported as debt service expenditures.

Deferred Outflows of Resources

The City's governmental activities and proprietary fund financial statements report a separate section for deferred outflows of resources. This separate financial statement element reflects a decrease in net position or fund balance, that relate to future periods. The City will not recognize the related outflow until a future event occurs.

Deferred Inflows of Resources

The City's governmental fund financial statements report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in fund balance that applies to a future period. The City will not recognize the related revenue until a future event occurs. The deferred inflow of resources occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the City's year) under the modified accrual basis of accounting. The City does not have deferred inflows of resources to report in its proprietary fund financial statements in the current year.

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 does not meet the definition of "invested in capital assets, net of related debt" or "restricted net position."

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Net Position/Fund Balance (Continued)

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, contributions, laws or regulations of other governments.

Committed – This is a self-imposed limitation approved by the City Council, which is the highest level of decision-making authority within the City. Only the City Council can remove or change the constraints placed on committed fund balances.

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.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the City's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned and unassigned fund balance is available, it is the City's policy to use committed first, then assigned and finally unassigned fund balance.

Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses or revenues/income initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses or revenues/income in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as operating transfers.

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Deficit Fund Balances

Certain funds had deficit fund balances at December 31, 2014, as follows:

Pepin Heights TIF #12	\$	(2,182)
Block 25 Redevelopment TIF #13		(2,413)
Pepin Manufacturing TIF #14		(3,875)

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

Excess of Expenditures Over Budget

Expenditures exceeded budgeted amounts in the following fund:

	Budget	Actual
General Fund	\$ 4,588,945	\$ 4,647,827

NOTE 3 CASH AND INVESTMENTS

Deposits

In accordance with Minnesota Statutes, the City maintains deposits at depository banks as authorized by the City Council.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City does not have a formal deposit policy for custodial credit risk and follows Minnesota Statutes for deposits.

The City maintains a cash pool that is available for use by all funds. Each fund type’s portion of this pool is displayed on the Balance Sheet and Statement of Net Position as “Cash and Investments.”

Minnesota Statutes require that all City deposits be protected by insurance, surety bond or collateral. The market value of the collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds.

The City’s deposits in the depository banks at December 31, 2014 were not entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes. Combined insurance and collateral at the City’s banks was \$284,979 less than required by state statutes, representing 105% coverage as compared to the 110% coverage requirement described above.

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Deposits (Continued)

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. Government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. It is required that the City sign authorizations releasing collateral once it is pledged.

Investments

The City may also invest idle funds as authorized by Minnesota Statutes as follows:

- Direct obligations or obligations guaranteed by the United States or its agencies.
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency and all of the investments have a final maturity of thirteen months or less.
- General obligations rated "A" or better; Revenue obligations rated "AA" or better.
- General obligations of the Minnesota Housing Finance Agency rated "A" or better.
- Banker's acceptances of United States banks eligible for purchase by the Federal Reserve System.
- Commercial paper issued by United States bank, corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
- Guaranteed Investment Contracts guaranteed by United States commercial banks or domestic branches of foreign banks, or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories.
- Repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

Interest Rate Risk

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

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Interest Rate Risk (Continued)

<u>Investment</u>	<u>Fair Value</u>	<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More Than 60 Months</u>
Money Market Mutual Funds	\$ 3,500,439	\$ 3,500,439	\$ -	\$ -	\$ -
Mutual Funds	7,961	7,961	-	-	-
Negotiable CD's	7,465,418	240,619	1,309,185	4,272,119	1,643,495
US Treasury Notes	8,118	8,118	-	-	-
US Treasury Bonds	65,844	-	-	-	65,844
Federal Home Loan Bank	819,553	-	-	-	819,553
Federal National Mortgage Association Notes	700,462	-	-	-	700,462
Farm Credit Discount Notes	450,477	-	-	-	450,477
Federal Home Loan Mortgage Corp	350,228	-	-	-	350,228
	<u>\$ 13,368,500</u>	<u>\$ 3,757,137</u>	<u>\$ 1,309,185</u>	<u>\$ 4,272,119</u>	<u>\$ 4,030,059</u>

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. As of December 31, 2014, the City's investments in United States Treasury Notes and Bonds were rated AAA by Moody's Investor Services; the investments in Federal Home Loan Bank obligations were rated AA+ and AAA by Standard & Poor's and Moody's Investor Services, respectively; the investments in Federal National Mortgage Association Notes obligations were rated AA+ and AAA by Standard & Poor's and Moody's Investor Services, respectively; the investments in Farm Credit Discount Notes obligations were rated AA+ and AAA by Standard & Poor's and Moody's Investor Services, respectively; the investments in Federal Home Loan Mortgage Corporate Notes were AA+ and AAA by Standard & Poor's and Moody's Investor Services, respectively. As of December 31, 2014, the City had invested \$3,500,439 in Money Market Mutual Funds which are unrated and \$7,961 in Mutual Funds we are unrated. Additionally, the City invested \$7,465,418 in negotiable certificates of deposit which are not rated.

Concentration of Credit Risk

Investments that are more than 5 percent of the City's total investments are as follows:

<u>Investment</u>	<u>Percent of Total</u>
Federal Home Loan Bank	6%
Federal National Mortgage Association Notes	5%

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk (Continued)

The deposits and investments of the City are presented in the financial statements as follows:

Deposits	\$ 6,051,655
Investments	13,368,500
	<u>19,420,155</u>
Cash and Investments Per Statement of Net Position	<u>\$ 19,420,155</u>

NOTE 4 LOANS RECEIVABLE

Community Development Revolving Loan Fund

As part of the City's community development block grant program, the City has issued commercial rehabilitation loans to various individual businesses to be repaid in monthly installments with interest at 6 to 8% over a period of three to five years with a balloon payment required at maturity. Aggregate outstanding balances on these loans as of December 31, 2014 totaled \$108,271.

MIF Loan

The City entered into an economic development loan agreement with a local manufacturer. The loan is noninterest bearing and is being repaid at \$4,550 per month. A portion of the loan was forgivable and the conditions have been met. The remaining portion at December 31, 2014 is \$95,550. As part of the agreement with the Minnesota Investment Grant Fund, the amounts received on this loan must be remitted to the state. The amount due to the State of Minnesota at December 31, 2014 is \$95,550.

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities:					
Capital Assets, Not Being Depreciated:					
Land	\$ 1,351,940	\$ -	\$ -	\$ -	\$ 1,351,940
Construction in Progress	-	88,413	-	-	88,413
Total Capital Assets, Not Being Depreciated	1,351,940	88,413	-	-	1,440,353
Capital Assets, Being Depreciated:					
Buildings	12,309,504	-	-	-	12,309,504
Improvements Other than Buildings	447,083	-	-	-	447,083
Infrastructure	17,369,086	-	-	-	17,369,086
Machinery and Equipment	5,348,610	428,994	494,757	-	5,282,847
Total Capital Assets, Being Depreciated	35,474,283	428,994	494,757	-	35,408,520
Less Accumulated Depreciation For:					
Buildings	6,256,960	233,441	-	-	6,490,401
Improvements Other than Buildings	129,847	20,018	-	-	149,865
Infrastructure	7,385,385	477,831	-	-	7,863,216
Machinery and Equipment	4,037,107	310,750	482,885	-	3,864,972
Total Accumulated Depreciation	17,809,299	1,042,040	482,885	-	18,368,454
Total Capital Assets, Being Depreciated, Net	17,664,984	(613,046)	11,872	-	17,040,066
Governmental Activities Capital Assets, Net	<u>\$ 19,016,924</u>	<u>\$ (524,633)</u>	<u>\$ 11,872</u>	<u>\$ -</u>	<u>\$ 18,480,419</u>

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 5 CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-Type Activities:					
Capital Assets, Not Being Depreciated:					
Land	\$ 742,801	\$ -	\$ -	\$ -	\$ 742,801
Total Capital Assets, Not Being Depreciated	742,801	-	-	-	742,801
Capital Assets, Being Depreciated:					
Buildings and Improvements	14,902,983	-	-	-	14,902,983
Distribution and Collection System	23,574,124	226,932	13,345	-	23,787,711
Machinery and Equipment	3,748,135	17,891	28,881	-	3,737,145
Total Capital Assets, Being Depreciated	42,225,242	244,823	42,226	-	42,427,839
Less Accumulated Depreciation For:					
Buildings and Improvements	6,872,591	443,927	-	-	7,316,518
Distribution and Collection System	11,064,498	776,022	5,560	-	11,834,960
Machinery and Equipment	2,755,218	153,132	28,871	-	2,879,479
Total Accumulated Depreciation	20,692,307	1,373,081	34,431	-	22,030,957
Total Capital Assets, Being Depreciated, Net	21,532,935	(1,128,258)	7,795	-	20,396,882
Business-Type Activities Capital Assets, Net	\$ 22,275,736	\$ (1,128,258)	\$ 7,795	\$ -	\$ 21,139,683
	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Discretely Presented Component Unit					
Economic Development Authority:					
Capital Assets, Being Depreciated:					
Buildings and Improvements	\$ -	\$ -	\$ -	\$ -	\$ -
Machinery and Equipment	63,380	-	-	-	63,380
Total Capital Assets, Being Depreciated	63,380	-	-	-	63,380
Less Accumulated Depreciation For:					
Buildings and Improvements	-	-	-	-	-
Machinery and Equipment	63,380	-	-	-	63,380
Total Accumulated Depreciation	63,380	-	-	-	63,380
Total Capital Assets, Being Depreciated, Net	\$ -	\$ -	\$ -	\$ -	\$ -

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General Government	\$ 257,074
Public Safety	212,330
Streets and Highways	507,909
Culture and Recreation	64,727
Total Depreciation Expense - Governmental Activities	<u>\$ 1,042,040</u>
Business-Type Activities:	
Electric	\$ 504,161
Water	134,064
Sewer	451,715
Storm Water	119,897
Marina	163,244
Total Depreciation Expense - Business-Type Activities	<u>\$ 1,373,081</u>

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 6 INTERFUND BALANCES AND TRANSFERS

The amounts advanced to and advanced from other funds as of December 31, 2014 at the individual fund level are summarized below:

	<u>Advances to Other Funds</u>	<u>Advances From Other Funds</u>
Governmental Fund		
General Fund	\$ 55,000	\$ 436,261
Enterprise Funds		
Electric	170,966	-
Marina	265,295	55,000
Total Enterprise Funds	<u>436,261</u>	<u>55,000</u>
	<u>\$ 491,261</u>	<u>\$ 491,261</u>

Balances of interfund receivables and payables as of December 31, 2014 at the individual fund level for year-end cash deficiencies are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Governmental Funds		
General Fund	\$ 471,016	\$ -
Nonmajor Governmental Funds	-	407,029
Total Governmental Funds	<u>471,016</u>	<u>407,029</u>
Enterprise Fund		
Storm Water	-	59,312
Internal Service Fund	-	4,675
Total Enterprise Funds	<u>-</u>	<u>63,987</u>
	<u>\$ 471,016</u>	<u>\$ 471,016</u>

The amounts listed above are amounts due for interfund services provided, and are expected to be paid within the following year.

Operating transfers during the year ended December 31, 2014 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds		
General Fund	\$ 567,719	\$ (1,376,644)
Nonmajor Governmental Funds	1,421,644	-
Total Governmental Funds	<u>1,989,363</u>	<u>(1,376,644)</u>
Enterprise Funds		
Electric	-	(155,000)
Water	-	(40,000)
Marina	-	(417,719)
Total Enterprise Funds	<u>-</u>	<u>(612,719)</u>
	<u>\$ 1,989,363</u>	<u>\$ (1,989,363)</u>

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 7 LONG-TERM DEBT

A summary of long-term debt obligations outstanding at December 31, 2014 is as follows:

	Range of Interest Rates	Final Maturity	Balance December 31, 2013
<u>Government Activities</u>			
G.O. Improvement Bonds:			
G.O. Improvement Bonds of 2008A	4.00%-4.60%	2024	\$ 805,897
G.O. Improvement Bonds of 2012A	0.4%-2.15%	2023	1,285,000
G.O. Improvement Bonds of 2013A	1.00%-2.35%	2024	1,580,000
G.O. Refunding Bonds of 2013B	1.5%-2.5%	2022	325,000
Less: Unamortized Discounts			(19,421)
Compensated Absences			253,298
Subtotal			4,229,774
 <u>Business-Type Activities</u>			
G.O. Improvement Bonds:			
G.O. Improvement Bonds of 2008A	4.00%-4.60%	2024	249,101
Revenue Bonds:			
Marina Revenue Bonds of 2006	4.05%-4.45%	2016	235,000
Electric Revenue Bonds of 2010B	.85%-4.85%	2026	2,550,000
General Obligation Revenue Bonds:			
G.O. Utility Revenue Bonds of 2010A	2%-3.75%	2026	965,000
G.O. Revenue Loans:			
Public Facilities Loan of 1996	3.32%	2017	245,718
Public Facilities Loan of 1999	2.86%	2020	433,000
Public Facilities Loan of 2002	2.99%	2023	2,537,000
Less: Unamortized Discounts			(88,900)
Compensated Absences			185,202
Subtotal			7,311,121
Total			\$ 11,540,895

General Obligation Improvement Bonds

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

Revenue Bonds

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

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

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 7 LONG-TERM DEBT (CONTINUED)

General Obligation Utility Revenue Bonds

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

General Obligation Revenue Loans

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

General Obligation Refunding Bonds

G.O. Improvement Refunding Bonds were issued to refund, in advance of maturity, City's G.O. Improvement Bonds, Series 2006A. These bonds are payable primarily from tax levies of the Debt Service Funds and are backed by the full faith and credit of the City.

General Obligation Crossover Refunding Bonds

Subsequent to December 31, 2014 the City approved \$920,000 in General Obligation Crossover Refunding Bonds, Series 2015A to be issued on April 15, 2015, bearing interest 2% and maturing February 1, 2024. These bonds were issued in order to crossover refund the City's General Obligation Bonds, Series 2008A on their first available call date, February 1, 2016.

The following is a summary of changes in long-term debt obligations for the year ended December 31, 2014:

	Beginning Balance	Issuances	Payments	Ending Balance	Amount Due Within One Year
Governmental Activities					
Bonds and Notes Payable:					
General Obligation Bonds					
G.O. Improvement Bonds of 2008A	\$ 870,829	\$ -	\$ 64,932	\$ 805,897	\$ 64,932
Less: Unamortized Discount	(14,636)	-	(1,463)	(13,173)	-
G.O. Improvement Bonds of 2012A	1,420,000	-	135,000	1,285,000	135,000
Less: Unamortized Discount	(7,029)	-	(781)	(6,248)	-
G.O. Improvement Bonds of 2013A	1,580,000	-	-	1,580,000	150,000
G.O. Refunding Bonds of 2013B	365,000	-	40,000	325,000	40,000
Other Liabilities:					
Compensated Absences	233,583	34,186	14,471	253,298	-
Governmental Activities					
Long-Term Liabilities	4,447,747	34,186	252,159	4,229,774	389,932

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 7 LONG-TERM DEBT (CONTINUED)

	Beginning Balance	Issuances	Payments	Ending Balance	Amount Due Within One Year
Business-Type Activities					
Bonds and Notes Payable:					
Revenue Bonds:					
Marina Revenue Bonds of 2006	\$ 345,000	\$ -	\$ 110,000	\$ 235,000	\$ 235,000
Electric Revenue Bonds of 2010B	2,710,000	-	160,000	2,550,000	165,000
Less: Unamortized Discount	(69,670)	-	(6,630)	(63,040)	-
General Obligation Revenue Bonds:					
G.O. Utility Revenue Bonds of 2010A	1,030,000	-	65,000	965,000	65,000
Less: Unamortized Discount	(28,220)	-	(2,360)	(25,860)	-
General Obligation Bonds:					
G.O. Improvement Bonds of 2008A	269,168	-	20,067	249,101	20,069
General Obligation Revenue Loans:					
Public Facilities Loan of 1993	100,194	-	100,194	-	-
Public Facilities Loan of 1996	338,478	-	92,760	245,718	95,866
Public Facilities Loan of 1999	498,000	-	65,000	433,000	67,000
Public Facilities Loan of 2002	2,780,000	-	243,000	2,537,000	250,000
Other Liabilities:					
Compensated Absences	166,973	18,229	-	185,202	-
Business-Type Activities Long-Term Liabilities	8,139,923	18,229	847,031	7,311,121	897,935
Total General Long-Term Debt	\$ 12,587,670	\$ 52,415	\$ 1,099,190	\$ 11,540,895	\$ 1,287,867

The annual requirements to amortize long-term debt obligations outstanding at December 31, 2014, excluding accrued compensated absences are summarized below:

Governmental Activities

Year Ending December 31:	General Obligation Bonds		Total
	Principal	Interest	
2015	\$ 389,932	\$ 80,888	\$ 470,820
2016	398,751	75,357	474,108
2017	407,571	69,353	476,924
2018	406,390	62,662	469,052
2019	415,210	54,870	470,080
2020-2024	1,978,043	125,743	2,103,786
Total	<u>\$ 3,995,897</u>	<u>\$ 468,873</u>	<u>\$ 4,464,770</u>

Business-Type Activities

Year Ending December 31:	General Obligation Bonds		General Obligation Revenue Loans		General Obligation Revenue Bonds		Revenue Bonds		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2015	\$ 20,069	\$ 10,472	\$ 412,865	\$ 95,609	\$ 65,000	\$ 29,186	\$ 400,000	\$ 112,860	\$ 1,146,061
2016	21,249	9,646	425,075	83,009	70,000	27,792	170,000	97,848	904,619
2017	22,430	8,750	386,778	70,034	70,000	26,173	180,000	92,373	856,538
2018	23,610	7,783	346,000	59,237	70,000	24,336	185,000	86,118	802,084
2019	24,791	6,742	356,000	48,987	75,000	22,249	195,000	78,888	807,657
2020-2024	136,952	16,195	1,289,000	94,055	420,000	72,569	1,120,000	259,108	3,407,879
2025-2026	-	-	-	-	195,000	7,347	535,000	26,181	763,528
Total	<u>\$ 249,101</u>	<u>\$ 59,588</u>	<u>\$ 3,215,718</u>	<u>\$ 450,931</u>	<u>\$ 965,000</u>	<u>\$ 209,652</u>	<u>\$ 2,785,000</u>	<u>\$ 753,376</u>	<u>\$ 8,688,366</u>

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 8 OPERATING LEASES

The City has entered into agreements to lease City owned farmland. The lease terms are for 3 years ending in 2014. The City received \$27,028 for these lease agreements in 2014.

NOTE 9 COMMITMENTS AND CONTINGENCIES

Litigation

In connection with the normal conduct of its affairs, the City is involved in various claims, litigations, and judgments. It is expected that the final settlement of these matters will not materially affect the financial statements of the City.

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 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 2014.

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 2014. 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.

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 9 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

NOTE 10 RESTRICTED NET POSITION

At December 31, 2014 the City of Lake City had the following restricted net position for other purposes:

	Governmental Activities
	<hr/>
New Highway 61 Coalition	\$ 168

All restricted net positions for other purposes were restricted via donor restrictions.

NOTE 11 DEFINED BENEFIT PENSION PLANS - STATEWIDE

Plan Description

All full-time and certain part-time employees of the City of Lake City are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employee Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, fire-fighters and peace officers who qualify for membership by statute are covered by the PEPFF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF and PEPFF. That report may be obtained on the internet at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 11 DEFINED BENEFIT PENSION PLANS - STATEWIDE (CONTINUED)

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERS Basic Plan members and Coordinated Members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2014. PEPFF members are required to contribute 10.2% of their annual covered salary in 2014. In 2014, the City of Lake City is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.25% for Coordinated Plan members, and 15.30% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2014, 2013, and 2012 were \$172,801, \$172,285, and \$154,647, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2014, 2013, and 2012 were \$99,525, \$90,221, and \$96,742, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

Lake City Fire Department Relief Association

Plan Description -

Public Employee Retirement System (PERS) is a single-employer defined benefit pension plan administered by the Lake City Fire Department Relief Association. The Plan provides retirement, disability, and death benefits to plan members and beneficiaries. The Lake City Fire Department Relief Association has an annual audit. The audit report may be obtained by contacting the Lake City Firefighters' Relief Association.

Funding Policy -

The funding policy provides for periodic City contributions at actuarially determined rates that are sufficient to accumulate assets to pay benefits when due. City contribution rates are determined using the entry age normal cost actuarial funding method. Total City contributions for the years ended December 31, 2014, 2013, and 2012 were \$71,755, \$71,208, and \$55,352, respectively.

COMBINING FUND STATEMENTS

**CITY OF LAKE CITY, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2014**

	Special Revenue Funds					
	Library	New Highway 61 Coalition	Community Development Revolving Loan Fund	Business Development Revolving Loan Fund	Small Cities Development Program Fund	Heat 'N Glo TIF #9
ASSETS						
Cash and Investments	\$ 1,311,126	\$ 5,312	\$ 349,207	\$ 172,535	\$ 18,983	\$ -
Pledges Receivable	187,195	-	-	-	-	-
Loans Receivable	-	-	108,271	-	-	-
Due From Other Governmental Units	-	-	-	-	-	-
Taxes Receivable Delinquent	1,848	-	-	-	-	-
Prepaid Expenses	500	-	-	-	-	-
Special Assessments Deferred	-	-	-	-	-	-
Total Assets	\$ 1,500,669	\$ 5,312	\$ 457,478	\$ 172,535	\$ 18,983	\$ -
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
LIABILITIES						
Accounts Payable	\$ 1,763	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued Liabilities	3,166	-	-	-	-	-
Deposits Payable	-	5,144	-	-	-	-
Interfund Payables	-	-	-	-	-	-
Total Liabilities	4,929	5,144	-	-	-	-
DEFERRED INFLOWS OF RESOURCES						
Unavailable Revenue	101,848	-	108,271	-	-	-
Total Deferred Inflows of Resources	101,848	-	108,271	-	-	-
FUND BALANCES						
Nonspendable	500	-	-	-	-	-
Restricted for:						
Debt Service	-	-	-	-	-	-
Tax Increment Financing	-	-	-	-	-	-
Revolving Loans	-	-	349,207	172,535	18,983	-
Other Purposes	-	168	-	-	-	-
Committed for:						
Library	456,864	-	-	-	-	-
Assigned for:						
Capital Projects	-	-	-	-	-	-
Library Renovation	936,528	-	-	-	-	-
Unassigned:	-	-	-	-	-	-
Total Fund Balances	1,393,892	168	349,207	172,535	18,983	-
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 1,500,669	\$ 5,312	\$ 457,478	\$ 172,535	\$ 18,983	\$ -

Special Revenue Funds

Bergstad Housing TIF #1	Tax Increment #4 Downtown	Pepin Heights TIF #12	Block 25 Redevelopment TIF #13	Pepin Manufacturing TIF #14	HNT Expansion #3 TIF #15	Wells Trust Scholarship
\$ 10,581	\$ 325,532	\$ -	\$ -	\$ 10,863	\$ 49,092	\$ 1,000
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	1,103	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 10,581</u>	<u>\$ 326,635</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,863</u>	<u>\$ 49,092</u>	<u>\$ 1,000</u>
\$ 8,401	\$ -	\$ -	\$ -	\$ 14,738	\$ 31,964	\$ 1,000
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	2,182	2,413	-	-	-
<u>8,401</u>	<u>-</u>	<u>2,182</u>	<u>2,413</u>	<u>14,738</u>	<u>31,964</u>	<u>1,000</u>
-	1,103	-	-	-	-	-
<u>-</u>	<u>1,103</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
2,180	325,532	-	-	-	17,128	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	(2,182)	(2,413)	(3,875)	-	-
<u>2,180</u>	<u>325,532</u>	<u>(2,182)</u>	<u>(2,413)</u>	<u>(3,875)</u>	<u>17,128</u>	<u>-</u>
<u>\$ 10,581</u>	<u>\$ 326,635</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,863</u>	<u>\$ 49,092</u>	<u>\$ 1,000</u>

**CITY OF LAKE CITY, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET (CONTINUED)
DECEMBER 31, 2014**

	Debt Service Funds				
	316 Peters 4th and 5th Street Improvement	2006 Street Improvement	2008 Street Improvement	2013A Improvement Bonds	2012 Street Improvement
ASSETS					
Cash and Investments	\$ 12,613	\$ 45,762	\$ 213,077	\$ 173,670	\$ 143,181
Pledges Receivable	-	-	-	-	-
Loans Receivable	-	-	-	-	-
Due From Other Governmental Units	-	-	-	-	-
Taxes Receivable Delinquent	-	673	2,025	2,048	1,745
Prepaid Expenses	-	-	-	-	-
Special Assessments Deferred	8,820	89,607	-	-	-
Total Assets	\$ 21,433	\$ 136,042	\$ 215,102	\$ 175,718	\$ 144,926
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ -	\$ 200	\$ 200	\$ -	\$ 200
Accrued Liabilities	-	-	-	-	-
Deposits Payable	-	-	-	-	-
Interfund Payables	-	-	-	-	-
Total Liabilities	-	200	200	-	200
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue	8,820	90,280	2,025	2,048	1,745
Total Deferred Inflows of Resources	8,820	90,280	2,025	2,048	1,745
FUND BALANCES					
Nonspendable	-	-	-	-	-
Restricted for:					
Debt Service	12,613	45,562	212,877	173,670	142,981
Tax Increment Financing	-	-	-	-	-
Revolving Loans	-	-	-	-	-
Other Purposes	-	-	-	-	-
Committed for:					
Library	-	-	-	-	-
Assigned for:					
Capital Projects	-	-	-	-	-
Library Renovation	-	-	-	-	-
Unassigned:	-	-	-	-	-
Total Fund Balances	12,613	45,562	212,877	173,670	142,981
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 21,433	\$ 136,042	\$ 215,102	\$ 175,718	\$ 144,926

Capital Project Funds

2009 7th Street Improvement	2012 Improvement Fund	2013 Street Improvement	Monroe Street Improvement Fund	Capital Projects	Total Other Governmental Funds
\$ 32,985	\$ 73,444	\$ 98,848	\$ -	\$ 396,067	\$ 3,443,878
-	-	-	-	-	187,195
-	-	-	-	-	108,271
-	-	-	440,302	-	440,302
-	-	5,074	-	103	14,619
-	-	-	-	-	500
-	-	-	-	-	98,427
<u>\$ 32,985</u>	<u>\$ 73,444</u>	<u>\$ 103,922</u>	<u>\$ 440,302</u>	<u>\$ 396,170</u>	<u>\$ 4,293,192</u>
-	-	200	-	-	58,666
-	-	-	-	-	3,166
-	-	-	-	-	5,144
-	-	-	402,434	-	407,029
-	-	200	402,434	-	474,005
-	-	5,074	-	103	321,317
-	-	5,074	-	103	321,317
-	-	-	-	-	500
-	-	-	-	-	587,703
-	-	-	-	-	344,840
-	-	-	-	-	540,725
-	-	-	-	-	168
-	-	-	-	-	456,864
32,985	73,444	98,648	37,868	396,067	639,012
-	-	-	-	-	936,528
-	-	-	-	-	(8,470)
<u>32,985</u>	<u>73,444</u>	<u>98,648</u>	<u>37,868</u>	<u>396,067</u>	<u>3,497,870</u>
<u>\$ 32,985</u>	<u>\$ 73,444</u>	<u>\$ 103,922</u>	<u>\$ 440,302</u>	<u>\$ 396,170</u>	<u>\$ 4,293,192</u>

**CITY OF LAKE CITY, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2014**

	Special Revenue Funds					Heat 'N Glo TIF #9
	Library	New Highway 61 Coalition	Community Development Revolving Loan Fund	Business Development Revolving Loan Fund	Small Cities Development Program Fund	
REVENUES						
Taxes	\$ 91,835	\$ -	\$ -	\$ -	\$ -	\$ -
Tax Increments	-	-	-	-	-	-
Special Assessments	-	-	-	-	-	-
Intergovernmental	37,326	-	-	-	18,861	-
Charges for Services	2,267	-	-	-	-	-
Fines and forfeits	3,516	-	-	-	-	-
Gifts and Contributions	193,744	-	-	-	-	-
Earnings on Investments	6,718	124	7,510	3,701	122	-
Miscellaneous	1,448	-	45,176	14,255	-	-
Total Revenues	<u>336,854</u>	<u>124</u>	<u>52,686</u>	<u>17,956</u>	<u>18,983</u>	<u>-</u>
EXPENDITURES						
Culture and Recreation						
Library	179,154	-	-	-	-	-
Economic Development	-	-	98	-	-	-
Debt Service						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Capital Outlay	226,101	-	-	-	-	-
Total Expenditures	<u>405,255</u>	<u>-</u>	<u>98</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(68,401)	124	52,588	17,956	18,983	-
OTHER FINANCING SOURCES						
Transfers In	1,045,000	-	-	-	-	32
Proceeds From Sale of Property	-	-	-	-	-	-
Total Other Financing Sources	<u>1,045,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32</u>
Net Change in Fund Balances	976,599	124	52,588	17,956	18,983	32
Fund Balances - Beginning	417,293	44	296,619	154,579	-	(32)
Fund Balances - Ending	<u>\$ 1,393,892</u>	<u>\$ 168</u>	<u>\$ 349,207</u>	<u>\$ 172,535</u>	<u>\$ 18,983</u>	<u>\$ -</u>

Special Revenue Funds

Bergstad Housing TIF #1	Tax Increment #4 Downtown	Pepin Heights TIF #12	Block 25 Redevelopment TIF #13	Pepin Manufacturing TIF #14	HNT Expansion #3 TIF #15	Wells Trust Scholarship
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9,334	111,691	-	-	16,375	34,516	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
129	5,649	(26)	(43)	62	714	-
-	-	-	-	-	-	-
<u>9,463</u>	<u>117,340</u>	<u>(26)</u>	<u>(43)</u>	<u>16,437</u>	<u>35,230</u>	<u>-</u>
-	-	-	-	-	-	-
9,277	877	875	876	15,613	32,839	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	2,001
-	-	-	-	-	-	-
<u>9,277</u>	<u>877</u>	<u>875</u>	<u>876</u>	<u>15,613</u>	<u>32,839</u>	<u>2,001</u>
186	116,463	(901)	(919)	824	2,391	(2,001)
-	-	-	-	-	-	822
-	-	-	-	-	-	-
-	-	-	-	-	-	822
186	116,463	(901)	(919)	824	2,391	(1,179)
1,994	209,069	(1,281)	(1,494)	(4,699)	14,737	1,179
<u>\$ 2,180</u>	<u>\$ 325,532</u>	<u>\$ (2,182)</u>	<u>\$ (2,413)</u>	<u>\$ (3,875)</u>	<u>\$ 17,128</u>	<u>\$ -</u>

**CITY OF LAKE CITY, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES (CONTINUED)
YEAR ENDED DECEMBER 31, 2014**

	Debt Service Funds				
	316 Peters 4th and 5th Street Improvement	2006 Street Improvement	2008 Street Improvement	2013A Improvement Bonds	2012 Street Improvement
REVENUES					
Taxes	\$ -	\$ 34,535	\$ 105,547	\$ 176,720	\$ 161,665
Tax Increments	-	-	-	-	-
Special Assessments	4,366	16,052	-	-	-
Intergovernmental	-	-	-	-	-
Charges for Services	-	-	-	-	-
Fines and forfeits	-	-	-	-	-
Gifts and Contributions	-	-	-	-	-
Earnings on Investments	225	373	3,660	573	4,019
Miscellaneous	-	-	-	-	-
Total Revenues	<u>4,591</u>	<u>50,960</u>	<u>109,207</u>	<u>177,293</u>	<u>165,684</u>
EXPENDITURES					
Culture and Recreation					
Library	-	-	-	-	-
Economic Development	-	-	-	-	-
Debt Service					
Principal	-	40,000	64,932	-	135,000
Interest	-	8,168	37,024	29,574	17,855
Miscellaneous	-	-	-	-	-
Capital Outlay	-	-	-	-	-
Total Expenditures	<u>-</u>	<u>48,168</u>	<u>101,956</u>	<u>29,574</u>	<u>152,855</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,591	2,792	7,251	147,719	12,829
OTHER FINANCING SOURCES					
Transfers In	-	-	-	-	-
Proceeds From Sale of Property	-	-	-	-	-
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	4,591	2,792	7,251	147,719	12,829
Fund Balances - Beginning	<u>8,022</u>	<u>42,770</u>	<u>205,626</u>	<u>25,951</u>	<u>130,152</u>
Fund Balances - Ending	<u>\$ 12,613</u>	<u>\$ 45,562</u>	<u>\$ 212,877</u>	<u>\$ 173,670</u>	<u>\$ 142,981</u>

Capital Project Funds

2009 7th Street Improvement	2012 Improvement Fund	2013 Street Improvement	Monroe Street Improvement Fund	Capital Projects	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 570,302
-	-	-	-	-	171,916
-	-	-	-	2,005	22,423
-	-	-	-	-	56,187
-	-	-	-	-	2,267
-	-	-	-	-	3,516
-	-	-	-	-	193,744
851	40	1,856	(8,377)	1,967	29,847
-	-	-	-	4,446	65,325
<u>851</u>	<u>40</u>	<u>1,856</u>	<u>(8,377)</u>	<u>8,418</u>	<u>1,115,527</u>
-	-	-	-	-	179,154
-	-	-	-	-	60,455
-	-	-	-	-	239,932
-	-	-	-	-	92,621
-	-	200	-	-	2,201
-	1,300	2,659	-	55,238	285,298
<u>-</u>	<u>1,300</u>	<u>2,859</u>	<u>-</u>	<u>55,238</u>	<u>859,661</u>
851	(1,260)	(1,003)	(8,377)	(46,820)	255,866
-	-	-	-	375,790	1,421,644
-	-	-	-	25,227	25,227
-	-	-	-	401,017	1,446,871
851	(1,260)	(1,003)	(8,377)	354,197	1,702,737
32,134	74,704	99,651	46,245	41,870	1,795,133
<u>\$ 32,985</u>	<u>\$ 73,444</u>	<u>\$ 98,648</u>	<u>\$ 37,868</u>	<u>\$ 396,067</u>	<u>\$ 3,497,870</u>

**CITY OF LAKE CITY, MINNESOTA
LIBRARY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE
IN FUND BALANCES – BUDGET AND ACTUAL – LIBRARY FUND
YEAR ENDED DECEMBER 31, 2014**

	Budgeted Amounts		2014 Actual	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
REVENUES				
Taxes	\$ 90,000	\$ 90,000	\$ 91,835	\$ 1,835
Intergovernmental Revenues	48,000	48,000	37,326	(10,674)
Charges for Services	2,200	2,200	2,267	67
Fines and Forfeits	5,000	5,000	3,516	(1,484)
Gifts and Contributions	69,000	64,000	193,744	129,744
Earnings on Investments	3,000	3,000	6,718	3,718
Miscellaneous	-	340	1,448	1,108
Total Revenues	<u>217,200</u>	<u>212,540</u>	<u>336,854</u>	<u>124,314</u>
EXPENDITURES				
Library Services	194,072	196,599	179,154	17,445
Capital Outlay	<u>50,000</u>	<u>502,500</u>	<u>226,101</u>	<u>276,399</u>
Total Expenditures	<u>244,072</u>	<u>699,099</u>	<u>405,255</u>	<u>293,844</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(26,872)	(486,559)	(68,401)	418,158
OTHER FINANCING SOURCES				
Transfers In	<u>50,000</u>	<u>50,000</u>	<u>1,045,000</u>	<u>995,000</u>
Net Change in Fund Balance	23,128	(436,559)	976,599	1,413,158
Fund Balance - Beginning	<u>417,293</u>	<u>417,293</u>	<u>417,293</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 440,421</u>	<u>\$ (19,266)</u>	<u>\$ 1,393,892</u>	<u>\$ 1,413,158</u>

**CITY OF LAKE CITY, MINNESOTA
ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT
COMBINING BALANCE SHEET COMPONENT UNIT –
ECONOMIC DEVELOPMENT AUTHORITY
DECEMBER 31, 2014**

	Economic Development	City Hall Project	Totals
ASSETS			
Cash and Investments	\$ 53,306	\$ -	\$ 53,306
Prepaid Expenditures	34	-	34
Taxes Receivable Delinquent	1,015	-	1,015
Due From Primary Government	58,657	-	58,657
Due From Other Governmental Units	496	-	496
Property Held for Resale	235,000	-	235,000
Total Assets	\$ 348,508	\$ -	\$ 348,508
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE			
LIABILITIES			
Accounts Payable	\$ 61	\$ -	\$ 61
Deposits Payable	10,000	-	10,000
Total Liabilities	10,061	-	10,061
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue	236,015	-	236,015
Total Deferred Inflows of Resources	236,015	-	236,015
FUND BALANCES			
Restricted for:			
Economic Development	102,432	-	102,432
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 348,508	\$ -	\$ 348,508
Fund Balances - Component Unit			\$ 102,432
Amounts reported for governmental activities in the statement of net position are different because:			
Property Held for resale is not expected to be sold soon enough to provide available resources, and therefore, is a deferred inflow of resources in the funds			235,000
Other long-term assets are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.			1,015
Net Position - Component Unit			\$ 338,447

**CITY OF LAKE CITY, MINNESOTA
ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2014**

	Economic Development	City Hall Project	Totals
REVENUES			
Taxes	\$ 57,809	\$ -	\$ 57,809
Investment Income	14	-	14
Payment From Primary Government	30,900	-	30,900
Miscellaneous	59	-	59
Total Revenues	<u>88,782</u>	<u>-</u>	<u>88,782</u>
EXPENDITURES			
Economic Development	95,244	3,979	99,223
Total Expenditures	<u>95,244</u>	<u>3,979</u>	<u>99,223</u>
Net Change in Fund Balances	(6,462)	(3,979)	(10,441)
Fund Balances - Beginning	108,894	3,979	112,873
Fund Balances - Ending	<u>\$ 102,432</u>	<u>\$ -</u>	<u>\$ 102,432</u>

Net Change in Fund Balance - Component Unit \$ (10,441)

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 as revenues in the funds.

235,265

Change in Net Position - Component Unit

\$ 224,824

OTHER REPORTS SECTION

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**INDEPENDENT AUDITORS' 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
Members of the City Council
City of Lake City
Lake City, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lake City, State of Minnesota as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City of Lake City, Minnesota's basic financial statements and have issued our report thereon dated June 25, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Lake City'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 opinion 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 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. We consider the deficiencies in the accompanying Schedule of Findings and Responses listed as items 2014-001 and 2014-002 to be material weaknesses.

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

Compliance and Other Matters

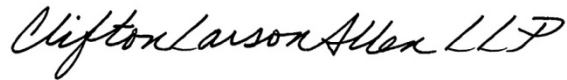
As part of obtaining reasonable assurance about whether the City of Lake City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and 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*.

City of Lake City's Responses to Findings

City of Lake City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. City of Lake City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.



CliftonLarsonAllen LLP

Austin, Minnesota
June 25, 2015



CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompany financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lake City, State of Minnesota as of and for the year ended December 31, 2014, and the related notes to the financial statements and have issued our report thereon dated June 25, 2015.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions and tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Lake City, State of Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as stated in the Schedule of Findings and Responses as item 2014-003. 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 of Lake City, State of Minnesota's noncompliance with the above-referenced provisions.

The City of Lake City, State of Minnesota's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The City of Lake City, State of Minnesota's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

The purpose of this report is intended solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Austin, Minnesota
June 25, 2015

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**CITY OF LAKE CITY, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2014**

FINDING: 2014-001 ANNUAL FINANCIAL REPORTING UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

Condition: The City Council and management share the ultimate responsibility for the City's internal control system. While it is acceptable to outsource various accounting functions, the responsibility for internal control cannot be outsourced. The City engages CLA to assist in preparing its financial statements and accompanying disclosures. However, as independent auditors, CLA cannot be considered part of the City's internal control system. As part of its internal control over the preparation of its financial statements, including disclosures, the City has implemented a comprehensive review procedure to ensure that the financial statements, including disclosures, are complete and accurate. Such review procedures should be performed by an individual possessing a thorough understanding of accounting principles generally accepted in the United States of America and knowledge of the City's activities and operations. The City's personnel have not monitored recent accounting developments to the extent necessary to enable them to prepare the City's financial statements and related disclosures, to provide a high level of assurance that potential omissions or other errors that are material would be identified and corrected on a timely basis.

Criteria: The City should have controls in place to prevent, or detect and correct the omission of a material disclosure in the annual financial statements.

Context: The City has informed us that they will continue to rely upon the audit firm to prepare the financial statements and related footnote disclosures, and will review and approve these prior to the issuance of the annual financial statements.

Effect: The potential exists that a material misstatement or omission could occur in the financial statements and not be prevented or detected by the City's internal controls.

Cause: The City relies on the audit firm to prepare the annual financial statements and related footnote disclosures. However, they have reviewed and approved the annual financial statements and related footnote disclosures.

Recommendation: The City should evaluate the cost/benefit of obtaining further training for the Finance Director/Treasurer in order to enhance financial reporting abilities.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The City will continue to rely on the audit firm to prepare the annual financial statements. However, the Finance Director/Treasurer and the City Administrator will review a draft of the statements and related note disclosures.

Official Responsible for Ensuring CAP:

Barb Pratt, Finance Director/Treasurer is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

December 31, 2015.

Plan to Monitor Completion of CAP:

The City Council will be monitoring this corrective action plan.

**CITY OF LAKE CITY, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2014**

FINDING: 2014-002 ADJUSTING JOURNAL ENTRIES

- Condition:** The City made journal entries to adjust accounts to year-end balances. However, the audit firm identified misstatements and proposed journal entries to correct them. Management reviewed the journal entries and posted them to its general ledger.
- Criteria:** The City should have controls in place to prevent and detect a material misstatement in the financial statements in a timely manner.
- Context:** The City will continue to work with the auditors to identify year-end adjustments, which are necessary to adjust accounts in accordance with GAAP.
- Effect:** Year-end balances were materially misstated and the misstatements were not detected by the City's internal controls.
- Cause:** The City's controls were not adequate to ensure all accounts were adjusted to their appropriate year-end balances in accordance with GAAP.
- Recommendation:** The City should continue to evaluate their internal processes to determine if additional internal control procedures should be implemented to ensure that accounts are adjusted to their appropriate year-end balances in accordance with accounting principles generally accepted in the United States of America.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The City will explore the options and cost-effective feasibility of training existing personnel, and/or will modify existing procedures, to independently post all general ledger journal entries to correct certain year-end account balances.

Official Responsible for Ensuring CAP:

Barb Pratt, Finance Director/Treasurer is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

December 31, 2015.

Plan to Monitor Completion of CAP:

The City Council will be monitoring this corrective action plan.

**CITY OF LAKE CITY, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2014**

FINDING: 2014-003 UNCOLLATERALIZED DEPOSITS

Minnesota State Statute 118A.03 requires the City to have deposits in excess of FDIC or FSLIC insurance protected by a bond or collateral of which market value should be at least ten percent more than the excess deposits. The City did not have adequate collateral for its deposits at December 31, 2014.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding

They will make sure all deposits are properly collateralized at all times.

Official Responsible for Ensuring CAP

Barb Pratt, Finance Director/Treasurer is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP

The completion date is immediately.

Plan to Monitor Completion of CAP

The City Council will be monitoring this corrective action plan.

