

CITY OF LAKE CITY, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2016

CITY OF LAKE CITY, MINNESOTA
FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2016

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CITY OF LAKE CITY, MINNESOTA

INTRODUCTORY SECTION

DECEMBER 31, 2016

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**CITY OF LAKE CITY, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2016**

ELECTED

<u>Title</u>	<u>Name</u>	<u>Term Expires</u>
Mayor	Joel Beckman	December 31, 2016
Council	Russell Boe	December 31, 2019
Council	Randall Klipfel	December 31, 2019
Council	Greg Schreck	December 31, 2019
Council	Andru Peters	December 31, 2016
Council	Mark Spence	December 31, 2016
Council	Marylou Waltman	December 31, 2016

APPOINTED

City Administrator	Mark Sievert
City Clerk	Kari Schreck
Finance Director/Treasurer	Barbara Pratt (Retired)
Finance Director/Treasurer	Amy Hove

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CITY OF LAKE CITY, MINNESOTA

FINANCIAL SECTION

DECEMBER 31, 2016

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Lake City, Minnesota, as of and for the year ended December 31, 2016, and the related notes to financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lake City, Minnesota as of December 31, 2016, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Lake City, Minnesota's basic financial statements. The introductory section and combining and individual non-major fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major funds financial statements have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on them.

Report on Summarized Comparative Information

The financial statements include partial prior year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's financial statement for the year ended December 31, 2015, from which such partial information was derived.

The City's 2015 financial statements were audited by other auditors whose report dated August 3, 2016, expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2017, on our consideration of the City of Lake City, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Lake City, Minnesota's internal control over financial reporting and compliance.



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

As management of the City of Lake City, Minnesota, we offer readers of the City of Lake City's financial statements this narrative overview and analysis of the financial activities of the City of Lake City for the fiscal year ended December 31, 2016.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City of Lake City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$50,988,723 (*net position*). Of this amount, \$17,705,089 (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 \$1,670,535 primarily due to the operations of the electric utility and marina.
- As of the close of the current fiscal year, the City of Lake City's governmental funds reported combined ending fund balances of \$5,619,785. Approximately 74 percent of this total amount, or \$4,147,428, is available for use within the City's assignments and policies.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,099,979 or 22 percent of total general fund expenditures.
- The City of Lake City total outstanding debt decreased by \$1,901,771 during the current fiscal year. Principal payments are made as scheduled and continue to reduce outstanding debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City of Lake City's basic financial statements. The City of Lake City's basic financial statements comprise three components:

1. Government-wide financial statements, providing information for the City as a whole.
2. Fund financial statements, providing detailed information for the City's significant funds.
3. Notes to the financial statements, providing additional information that is essential to understanding the government-wide and fund statements.

This report also contains other supplementary information in addition to the basic financial statements themselves. Additional explanation of these sections of the financial statements follows.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Lake City's finances, in a manner similar to a private-sector business. All departments operated by the City are presented in the financial statements including enterprise funds such as the electric utility and marina.

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

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

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of the related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned, but not used, compensated absences).

Both of the government-wide financial statements distinguish functions of the City of Lake City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Lake City include general government, public safety, streets and highways, culture and recreation, and economic development. The business-type activities of the City of Lake City include the electric, water, sewer, storm water and garbage utilities as well as the operations of the City owned marina. The government-wide financial statements can be found on pages 14-16 of this report.

Additional financial information for the Economic Development Authority (EDA) can be found on pages 84 and 85. The EDA is reported as a component unit which is legally separate from the City but the City is financially accountable.

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

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

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

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

The City of Lake City maintains twenty 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 and the Public Safety Building Project Fund which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* on pages 75-82 in this report.

The City of Lake City adopts an annual appropriated budget for its general fund and library fund. Budgetary comparison statements have been provided for the general fund (pages 21-25) and the library fund (page 83) to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 17 and 19 of this report.

Proprietary funds. The City of Lake City maintains two types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Lake City uses enterprise funds to account for its electric, water, sewer, storm water, garbage utilities, and its marina activity. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the City of Lake City's various functions. The City of Lake City uses an internal service fund to account for the City's insurance, utilities, repairs and maintenance expenditures of the General and Library funds.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the electric, water, sewer, storm water, garbage utilities, marina activity, and its internal service fund, all of which are considered to be major funds of the City of Lake City.

The basic proprietary fund financial statements can be found on pages 26-33 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 34-70 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds can be found on pages 75-82 of this report.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Lake City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$50,988,723 at the close of the most recent fiscal year.

By far the largest portion of the City of Lake City's net position (62 percent) reflects its investment in capital assets (e.g. land, buildings, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Lake City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Lake City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Lake City's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 6,313,422	\$ 8,154,924	\$ 18,022,508	\$ 16,665,132	\$ 24,335,930	\$ 24,820,056
Capital assets	21,729,597	20,247,147	18,864,003	20,130,080	40,593,600	40,377,227
Total assets	<u>28,043,019</u>	<u>28,402,071</u>	<u>36,886,511</u>	<u>36,795,212</u>	<u>64,929,530</u>	<u>65,197,283</u>
Deferred outflows of resources	2,889,617	394,372	648,150	134,711	3,537,767	529,083
Long-term liabilities outstanding	3,491,936	6,147,004	5,764,089	3,959,204	9,256,025	10,106,208
Other liabilities	4,928,516	1,100,790	2,554,682	1,819,925	7,483,198	2,920,715
Total liabilities	<u>8,420,452</u>	<u>7,247,794</u>	<u>8,318,771</u>	<u>5,779,129</u>	<u>16,739,223</u>	<u>13,026,923</u>
Deferred inflows of resources	556,142	269,393	183,209	106,750	739,351	376,143
Net position:						
Net investment in capital assets	18,487,487	16,646,560	13,282,649	13,890,570	31,770,136	30,537,130
Restricted	1,513,498	1,677,620			1,513,498	1,677,620
Unrestricted	1,955,057	2,955,076	15,750,032	14,148,362	17,705,089	17,103,438
Total net position	<u>\$ 21,956,042</u>	<u>\$ 21,279,256</u>	<u>\$ 29,032,681</u>	<u>\$ 28,038,932</u>	<u>\$ 50,988,723</u>	<u>\$ 49,318,188</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* (\$17,705,089) 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 \$676,786.

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

Business-type activities. Business-type activities increased the City of Lake City's net position by \$993,749.

A condensed version of the Statement of Activities follows:

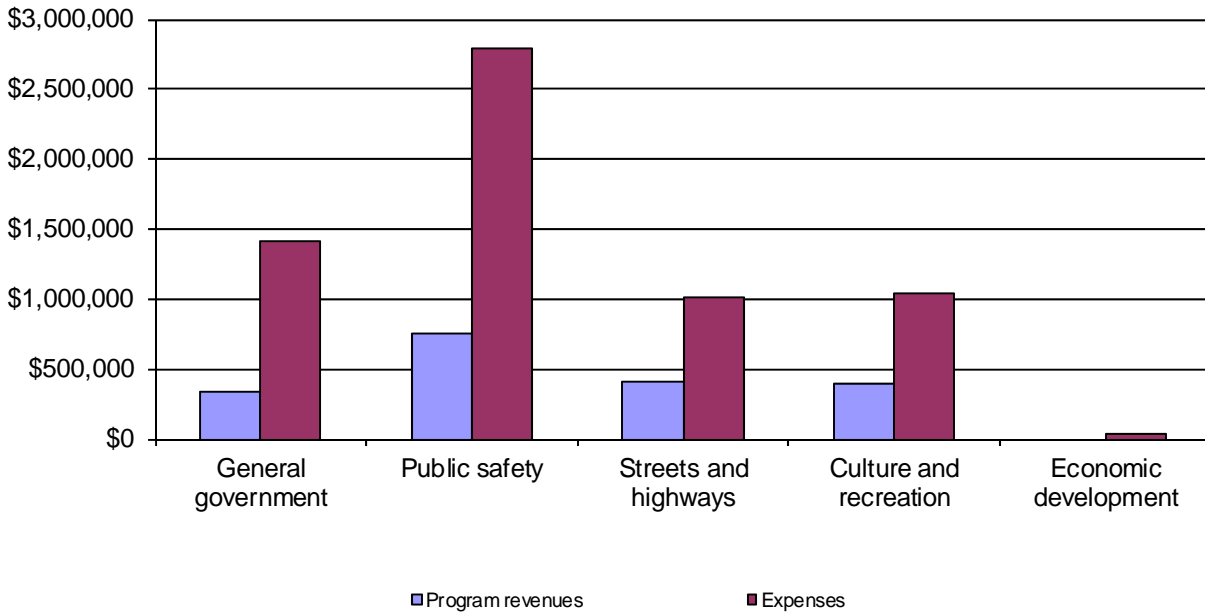
City of Lake City's Change in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenue:						
Program revenues:						
Charges for services	\$ 1,104,842	\$ 1,107,562	\$ 17,769,767	\$ 18,042,393	\$ 18,874,609	\$ 19,149,955
Operating grants and contributions	770,412	588,137			770,412	588,137
Capital grants and contributions	23,554	99,056	20,266	45,265	43,820	144,321
General revenues:						
Property taxes	3,326,703	3,180,366			3,326,703	3,180,366
Tax increments	128,362	162,130			128,362	162,130
Grants and contributions not restricted to specific programs	774,090	768,486			774,090	768,486
Other	163,444	136,155	201,254	193,679	364,698	329,834
Total revenues	<u>6,291,407</u>	<u>6,041,892</u>	<u>17,991,287</u>	<u>18,281,337</u>	<u>24,282,694</u>	<u>24,323,229</u>
Expenses:						
General government	1,416,600	1,427,910			1,416,600	1,427,910
Public safety	2,798,368	2,457,398			2,798,368	2,457,398
Streets and highways	1,011,374	871,911			1,011,374	871,911
Culture and recreation	1,041,793	959,798			1,041,793	959,798
Economic development	43,035	117,385			43,035	117,385
Interest on long-term debt	73,513	118,975			73,513	118,975
Electric			12,392,220	11,995,095	12,392,220	11,995,095
Water			708,486	604,618	708,486	604,618
Sewer			1,380,365	1,406,412	1,380,365	1,406,412
Storm water			209,801	201,691	209,801	201,691
Marina			582,149	976,657	582,149	976,657
Garbage			954,455	577,725	954,455	577,725
Total expenses	<u>6,384,683</u>	<u>5,953,377</u>	<u>16,227,476</u>	<u>15,762,198</u>	<u>22,612,159</u>	<u>21,715,575</u>
Increase in net position before transfers and other	(93,276)	88,515	1,763,811	2,519,139	1,670,535	2,607,654
Transfers	770,062	816,122	(770,062)	(816,122)		
Increase in net position	676,786	904,637	993,749	1,703,017	1,670,535	2,607,654
Net position, beginning of year	21,279,256	20,374,619	28,038,932	26,335,915	49,318,188	46,710,534
Net position, end of year	<u>\$ 21,956,042</u>	<u>\$ 21,279,256</u>	<u>\$ 29,032,681</u>	<u>\$ 28,038,932</u>	<u>\$ 50,988,723</u>	<u>\$ 49,318,188</u>

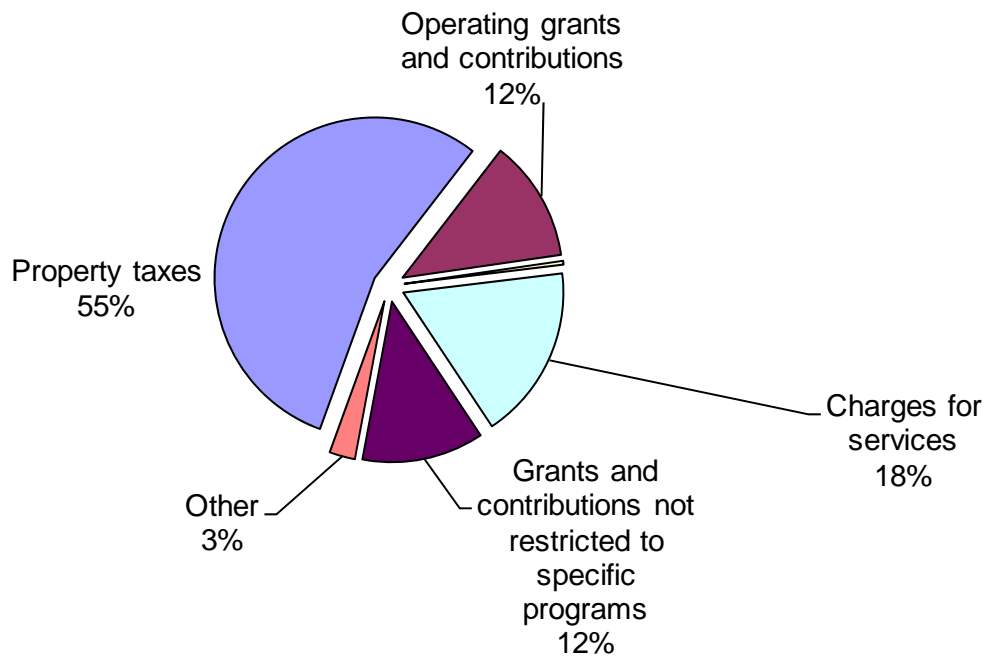
**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

Expenses and Program Revenues - Governmental Activities



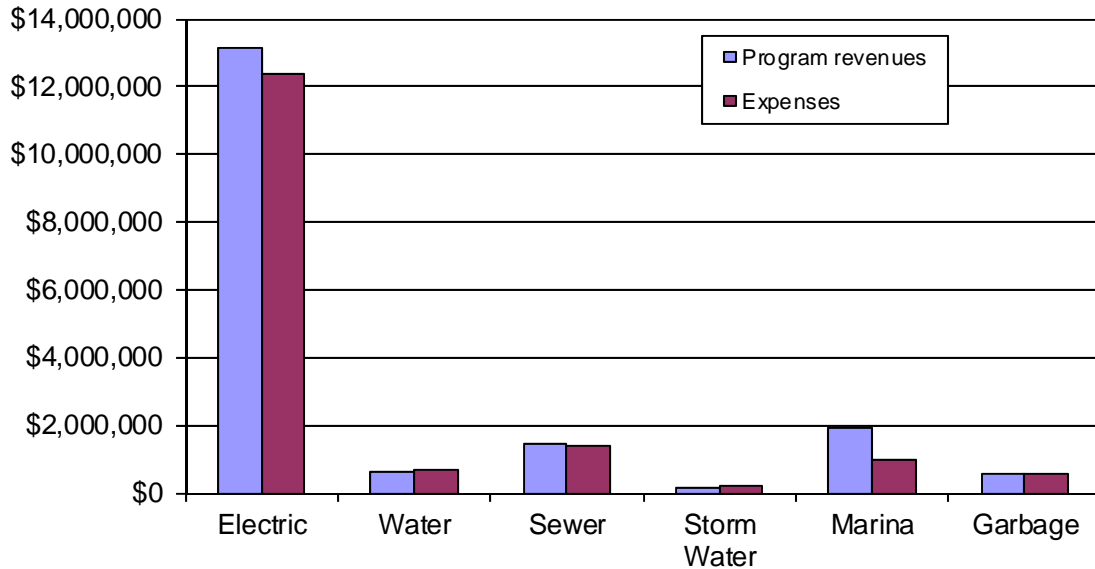
Revenues by Source - Governmental Activities



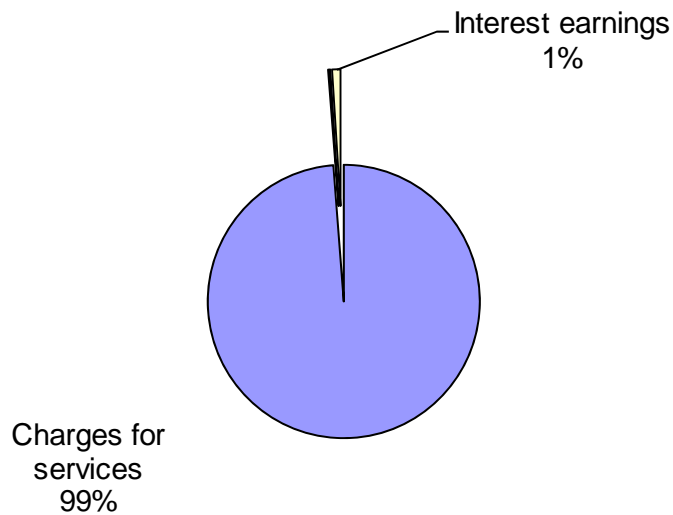
**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following graphs relate the various business-type activities' program revenues with their expenses. Since these activities generally require significant physical assets to operate, any excess revenues are held for planned capital expenses to keep pace with growing demand for services.

Expenses and Program Revenues - Business-Type Activities



Revenues by Source - Business-Type Activities



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

Financial Analysis of the Government's Funds

As noted earlier, the City of Lake City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Lake City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Lake City's financing requirements. In particular, *unassigned and assigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Fund balance is classified as non-spendable, restricted, committed, assigned or unassigned according to the following definitions:

Nonspendable – representing that portion of fund balance that is not in a spendable form. Included in this category are advances to other funds, prepaid items and inventory.

Restricted – reports resources that have external constraints placed upon their use.

Committed – reports those resources for a specific purpose by Council action. The constraints cannot be changed or removed without Council action.

Assigned – represents the portion of fund balance that reflects the amounts the City intends to use for a specific purpose.

Unassigned – comparable to the old unreserved, undesignated classification of fund balance, this represents the amount available for any purpose. However, only the General Fund may report a positive fund balance. Fund balance in other governmental funds will fall into one or more of the categories listed above, unless a fund has a negative fund balance.

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

Detailed information regarding the fund balance classifications are found in Note 1 in the Notes to Financial Statements.

As of the end of the current fiscal year, the City of Lake City's governmental funds reported combined ending fund balances of \$5,619,785, a decrease of \$1,354,126. Approximately 74 percent of this total amount, or \$4,147,428, constitutes *unassigned or assigned fund balance*, which is available for spending at the government's discretion. The remainder of the total fund balance (\$1,472,357) is *nonspendable or restricted* to indicate that it is not available for new spending because it has already been committed to repay long-term debt.

The general fund is the chief operating fund of the City of Lake City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,099,979. 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 22 percent of total general fund expenditures.

The general fund's total fund balance decreased by \$2,693,367 during the current fiscal year. This year's decrease was primarily due to the financing of the new public safety building project.

The debt service funds have a total fund balance of \$866,397 all of which is reserved for the payment of debt service. These fund balances decreased by \$454,165 for the year which is primarily due to the payment of the 2008A GO Improvement bond which was refunded in 2015 but not callable until 2016.

Proprietary funds. The City of Lake City's proprietary funds statements found on pages 26-33 provide the same type of information found in the government-wide financial statements, but in more detail.

The unrestricted net position in the respective proprietary funds are Electric - \$7,986,159, Water - \$646,322, Sewer - \$578,595, Storm Water - (\$19,817), Marina - \$6,422,998, and Garbage - \$115,775. All funds, except the water fund, storm water fund and garbage fund, had increases in total net position for the year. The water and storm water utility fund's net loss was primarily due to depreciation.

General Fund Budgetary Highlights

The original 2016 general fund budget approved by the City anticipated a decrease in general fund reserves of \$1,022,675. All differences between the original and final budgets in the general fund for the City in 2016 were approved by resolution amending the original budget. Select unspent budgeted amounts from 2015 were carried over to the 2016 budget by resolution. During 2016, the primary changes from the original budget to the final additional street construction funds of approximately \$383,000 available from the state. Another change in budget was a scheduled transfer out of \$1,500,000 to finance the building of the public safety building, however the City transferred \$3,500,000 to help finance the construction of the building.

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

Capital Asset and Debt Administration

Capital assets. The City of Lake City's investment in capital assets for its governmental and business-type activities as of December 31, 2016, amounts to \$40,593,600 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City of Lake City's reported investment in capital assets for the current fiscal year was \$216,373.

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

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 1,351,940	\$ 1,351,940	\$ 732,135	\$ 742,801	\$ 2,084,075	\$ 2,094,741
Construction in progress	1,965,613	1,776,347	19,938		1,985,551	1,776,347
Buildings and improvements	7,774,257	6,258,878	6,715,750	7,150,080	14,490,007	13,408,958
Machinery and equipment	1,557,743	1,559,863	635,312	771,695	2,193,055	2,331,558
Infrastructure	9,080,044	9,300,119			9,080,044	9,300,119
Distribution and collection system			10,760,868	11,465,504	10,760,868	11,465,504
Total	\$ 21,729,597	\$ 20,247,147	\$ 18,864,003	\$ 20,130,080	\$ 40,593,600	\$ 40,377,227

Additional information on the City of Lake City's capital assets can be found in Note 5 on pages 49-50 of this report.

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

Long-term debt. At the end of the current fiscal year, the City of Lake City had \$8,823,464 in bonds and notes outstanding. Of this amount, \$6,663,774 comprises debt backed by the full faith and credit of the government and \$2,159,690 represents bonds secured solely by specified revenue sources.

City of Lake City's Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
General obligation bonds	\$ 3,242,110	\$ 4,300,584	\$ 223,556	\$ 452,588	\$ 3,465,666	\$ 4,753,172
General obligation revenue loans			2,377,774	2,802,852	2,377,774	2,802,852
General obligation revenue bonds			820,334	876,580	820,334	876,580
Revenue bonds			2,159,690	2,327,491	2,159,690	2,327,491
Compensated absences	249,826	239,605	182,735	191,583	432,561	431,188
Total	\$ 3,491,936	\$ 4,540,189	\$ 5,764,089	\$ 6,651,094	\$ 9,256,025	\$ 11,191,283

The City of Lake City's total outstanding debt decreased by \$1,901,771 during the current year. A more detailed breakdown of these obligations can be found in Note 9, beginning on page 54.

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

Requests for Information

This financial report is designed to provide a general overview of the City of Lake City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance Director, City Hall, 205 West Center, Lake City, MN 55041.

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CITY OF LAKE CITY, MINNESOTA

BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2016

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CITY OF LAKE CITY, MINNESOTA
STATEMENT OF NET POSITION

December 31, 2016

With Comparative Totals as of December 31, 2015

	Primary Government		Totals		Component Unit	
	Governmental Activities	Business-Type Activities			Economic Development Authority	
			2016	2015	2016	2015
Assets						
Cash and investments	\$ 8,628,990	\$ 11,871,488	\$ 20,500,478	\$ 20,488,271	\$ 137,847	\$ 56,425
Restricted cash				889,200		
Accounts receivable	75,486	2,148,409	2,223,895	1,776,968		
Interest receivable	50,975	7,456	58,431	46,293		
Taxes receivable	49,228		49,228	39,400		
Special assessments receivable	89,226	72,794	162,020	160,198		
Loan receivable	64,780		64,780	118,422		
Internal balances	(3,207,652)	3,207,652				
Due from other governmental units	218,420		218,420	278,721	2,065	1,262
Due from primary government						69,311
Due from component unit	37		37			
Prepaid expenses	54,459	48,585	103,044	123,463		869
Property held for resale					235,000	235,000
Inventories		666,124	666,124	609,647		
Net pension asset	289,473		289,473	289,473		
Capital assets:						
Nondepreciable	3,317,553	752,073	4,069,626	3,871,088		
Depreciable, net	18,412,044	18,111,930	36,523,974	36,506,139		
Total Assets	<u>28,043,019</u>	<u>36,886,511</u>	<u>64,929,530</u>	<u>65,197,283</u>	<u>374,912</u>	<u>362,867</u>
Deferred Outflows of Resources						
Deferred outflows from pension activity	2,889,617	648,150	3,537,767	529,083		
Liabilities						
Accounts and contracts payable	68,510	817,590	886,100	1,449,333		61
Accrued liabilities	141,522	112,946	254,468	147,145		
Deposits payable	28,164	87,866	116,030	118,713		
Due to other governmental units				51,138		
Due to primary government					37	
Due to component unit				69,311		
Noncurrent liabilities						
Due within one year	420,000	661,774	1,081,774	1,085,075		
Due in more than one year	3,071,936	5,102,315	8,174,251	10,106,208		
Net pension liability	4,690,320	1,536,280	6,226,600	3,005,112		
Total Liabilities	<u>8,420,452</u>	<u>8,318,771</u>	<u>16,739,223</u>	<u>16,032,035</u>	<u>37</u>	<u>61</u>
Deferred Inflows of Resources						
Deferred inflows from pension activity	556,142	183,209	739,351	376,143		
Net Position						
Net investment in capital assets	18,487,487	13,282,649	31,770,136	30,537,130		
Restricted for:						
Debt service	842,758		842,758	582,145		
Tax increment financing				434,100		
Revolving loans	670,740		670,740	661,375		
Unrestricted	1,955,057	15,750,032	17,705,089	17,103,438	374,875	362,806
Total Net Position	<u>\$ 21,956,042</u>	<u>\$ 29,032,681</u>	<u>\$ 50,988,723</u>	<u>\$ 49,318,188</u>	<u>\$ 374,875</u>	<u>\$ 362,806</u>

See Notes to Financial Statements

CITY OF LAKE CITY, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016
With Comparative Totals for the Year Ended December 31, 2015

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 1,416,600	\$ 316,932	\$ 14,823	\$
Public safety	2,798,368	536,138	217,299	
Streets and highways	1,011,374	5,570	383,741	23,554
Culture and recreation	1,041,793	246,202	154,549	
Economic development	43,035			
Interest on long-term debt	73,513			
Total governmental activities	6,384,683	1,104,842	770,412	23,554
Business-Type activities:				
Electric utility	12,392,220	13,117,618		
Water utility	708,486	627,654		18,945
Sewer utility	1,380,365	1,425,726		376
Storm water utility	209,801	129,885		945
Garbage	582,149	534,657		
Marina	954,455	1,934,227		
Total business-type activities	16,227,476	17,769,767		20,266
Total Primary Government	\$ 22,612,159	\$ 18,874,609	\$ 770,412	\$ 43,820
Component Unit:				
Economic Development Authority	\$ 107,366	\$ 38,400		\$

General revenues:
 General property taxes
 Tax increments
 Grants and contributions not restricted to specific programs
 Investment earnings
 Miscellaneous
Transfers
 Total general revenues and transfers

Change in net position

Net position - beginning

Net position - ending

See Notes to Financial Statements

Net (Expense) Revenue
and Changes in Net Position

Primary Government		Totals		Component Unit Economic Development Authority	
Governmental Activities	Business-Type Activities	2016	2015	2016	2015
\$ (1,084,845)	\$	\$ (1,084,845)	\$ (1,053,229)	\$	\$
(2,044,931)		(2,044,931)	(1,613,159)		
(598,509)		(598,509)	(773,454)		
(641,042)		(641,042)	(482,420)		
(43,035)		(43,035)	(117,385)		
(73,513)		(73,513)	(118,975)		
<u>(4,485,875)</u>		<u>(4,485,875)</u>	<u>(4,158,622)</u>		
	725,398	725,398	1,295,787		
	(61,887)	(61,887)	55,895		
	45,737	45,737	192,375		
	(78,971)	(78,971)	(78,738)		
	(47,492)	(47,492)	(60,590)		
	<u>979,772</u>	<u>979,772</u>	<u>920,731</u>		
	<u>1,562,557</u>	<u>1,562,557</u>	<u>2,325,460</u>		
<u>(4,485,875)</u>	<u>1,562,557</u>	<u>(2,923,318)</u>	<u>(1,833,162)</u>		
				<u>(68,966)</u>	<u>(54,723)</u>
3,326,703		3,326,703	3,180,366	80,864	79,068
128,362		128,362	162,130		
774,090		774,090	768,486		
76,844	178,188	255,032	271,140	171	14
86,600	23,066	109,666	58,694		
770,062	(770,062)				
<u>5,162,661</u>	<u>(568,808)</u>	<u>4,593,853</u>	<u>4,440,816</u>	<u>81,035</u>	<u>79,082</u>
676,786	993,749	1,670,535	2,607,654	12,069	24,359
<u>21,279,256</u>	<u>28,038,932</u>	<u>49,318,188</u>	<u>46,710,534</u>	<u>362,806</u>	<u>338,447</u>
<u>\$ 21,956,042</u>	<u>\$ 29,032,681</u>	<u>\$ 50,988,723</u>	<u>\$ 49,318,188</u>	<u>\$ 374,875</u>	<u>\$ 362,806</u>

CITY OF LAKE CITY, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2016
With Comparative Totals as of December 31, 2015

	General Fund	Public Safety Building Project	Other Governmental Funds	Total Governmental Funds	
				2016	2015
Assets					
Cash and investments	\$ 3,849,495	\$ 2,221,281	\$ 2,626,650	\$ 8,697,426	\$ 6,976,035
Cash with Escrow Agent					682,000
Interest receivable	50,975			50,975	46,293
Accounts receivable	67,541		8,112	75,653	62,797
Pledges receivable					12,694
Taxes receivable delinquent	41,599		7,629	49,228	39,400
Special assessments receivable:					
Delinquent					1,323
Deferred	18,890		70,336	89,226	84,370
Advances to other funds					55,000
Interfund receivable	141,753			141,753	242,657
Loans receivable			64,780	64,780	118,422
Due from other governmental units	73,119		145,301	218,420	278,721
Due from component unit	37			37	
TOTAL ASSETS	\$ 4,243,409	\$ 2,221,281	\$ 2,922,808	\$ 9,387,498	\$ 8,599,712
Liabilities, Deferred Inflows of Resources and Fund Balance					
Liabilities					
Accounts payable	\$ 65,027			\$ 65,027	\$ 419,983
Accrued liabilities	117,883			117,883	88,786
Deposits payable	27,020		5,144	32,164	27,664
Advances from other funds	2,873,011		334,641	3,207,652	549,980
Interfund payable			141,753	141,753	216,374
Due to other governmental units					51,138
Due to component unit					69,311
Total Liabilities	3,082,941		481,538	3,564,479	1,423,236
Deferred Inflows of Resources					
Unavailable revenue	60,489		142,745	203,234	202,565
Fund Balance					
Nonspendable:					
Advances to other funds					55,000
Restricted:					
Creditors (debt covenants)			866,397	866,397	1,320,562
Regulations			605,960	605,960	434,100
Other purposes					583,900
Assigned		2,221,281	1,102,012	3,323,293	1,029,944
Unassigned	1,099,979		(275,844)	824,135	3,550,405
Total Fund Balance	1,099,979	2,221,281	2,298,525	5,619,785	6,973,911
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 4,243,409	\$ 2,221,281	\$ 2,922,808	\$ 9,387,498	\$ 8,599,712

See Notes to Financial Statements

CITY OF LAKE CITY, MINNESOTA
RECONCILIATION OF NET POSITION IN THE
GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND BALANCES
IN THE FUND BASIS FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

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

Total governmental fund balances (page 17)		\$ 5,619,785
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 42,087,206	
Less: Accumulated depreciation	<u>(20,507,082)</u>	21,580,124
Some receivables are not available soon enough to pay for current period expenditures and therefore are unavailable in the funds.		
Delinquent property taxes	\$ 49,228	
Deferred special assessments	89,226	
Loans receivable	<u>64,780</u>	203,234
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		
		135,846
The City's Net Pension Asset, Net Pension Liability, and related deferred outflows and inflows of resources are recorded only on the statement of net position. Balances at year-end are:		
Net pension liability	\$ (4,690,320)	
Net pension asset	289,473	
Deferred outflows from pension activity	2,889,617	
Deferred inflows from pension activity	<u>(556,142)</u>	(2,067,372)
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	\$ (3,242,110)	
Compensated absences	(249,826)	
Accrued interest	<u>(23,639)</u>	<u>(3,515,575)</u>
Net position of governmental activities (page 14)		<u><u>\$ 21,956,042</u></u>

See Notes to Financial Statements

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

For the Year Ended December 31, 2016

With Comparative Totals for the Year Ended December 31, 2015

	General Fund	Public Safety Building Project	Other Governmental Funds	Total Governmental Funds	
				2016	2015
Revenues					
Taxes	\$ 2,727,213	\$	\$ 585,979	\$ 3,313,192	\$ 3,204,681
Tax increments			128,362	128,362	162,130
Special assessments	4,798		20,021	24,819	35,966
Licenses and permits	83,870			83,870	97,213
Intergovernmental revenues	1,324,486		48,929	1,373,415	1,172,266
Charges for services	999,834		2,320	1,002,154	970,137
Fines and forfeits	26,372		3,262	29,634	33,152
Investment income	39,726	14,528	22,939	77,193	86,343
Miscellaneous revenues	128,053		126,749	254,802	429,040
Total Revenues	5,334,352	14,528	938,561	6,287,441	6,190,928
Expenditures					
General government	1,132,052			1,132,052	1,145,091
Public safety	2,251,611			2,251,611	2,242,298
Streets and highways	745,327			745,327	492,626
Culture and recreation	780,750		257,157	1,037,907	890,689
Economic development			65,834	65,834	117,385
Capital outlay		1,293,247	736,601	2,029,848	2,688,805
Bond principal retirement			1,070,965	1,070,965	389,932
Interest and fiscal charges			78,085	78,085	113,137
Total Expenditures	4,909,740	1,293,247	2,208,642	8,411,629	8,079,963
Excess (Deficiency) of Revenues Over (Under) Expenditures	424,612	(1,278,719)	(1,270,081)	(2,124,188)	(1,889,035)
Other Financing Sources (Uses)					
Bond proceeds					700,000
Bond premium					11,796
Proceeds from sale of property					17,000
Transfers in	768,915	3,500,000	1,156,696	5,425,611	1,227,950
Transfers out	(3,886,894)		(768,655)	(4,655,549)	(411,828)
Total other financing sources (uses)	(3,117,979)	3,500,000	388,041	770,062	1,544,918
Net change in fund balances	(2,693,367)	2,221,281	(882,040)	(1,354,126)	(344,117)
FUND BALANCE, beginning	3,793,346		3,180,565	6,973,911	7,318,028
FUND BALANCE, ending	\$ 1,099,979	\$ 2,221,281	\$ 2,298,525	\$ 5,619,785	\$ 6,973,911

See Notes to Financial Statements

CITY OF LAKE CITY, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
December 31, 2016

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

Net change in fund balances - total governmental funds (page 19)		\$ (1,354,126)
Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay	\$ 2,481,234	
Depreciation expense	<u>(1,148,257)</u>	1,332,977
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, 2016	\$ 203,234	
Unavailable revenue, December 31, 2015	<u>(202,565)</u>	669
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		(10,221)
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		
		110,493
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	\$ 1,070,965	
Long-term debt discount	(12,491)	
Change in net pension activity	(476,258)	
Change in accrued interest	<u>14,778</u>	<u>596,994</u>
Change in net position of governmental activities (pages 15 and 16)		<u><u>\$ 676,786</u></u>

See Notes to Financial Statements

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

For the Year Ended December 31, 2016

With Comparative Totals for the Year Ended December 31, 2015

	Budgeted Amounts		2016 Actual Amounts	Variance with Final Budget Positive (Negative)	2015 Actual Amounts
	Original	Final			
Taxes					
Property taxes	\$ 2,519,502	\$ 2,519,502	\$ 2,594,335	\$ 74,833	\$ 2,482,533
Special assessments			4,798	4,798	16,337
Franchise tax	87,000	87,000	70,156	(16,844)	70,464
Lodging tax	59,000	59,000	62,722	3,722	61,598
Total Taxes	2,665,502	2,665,502	2,732,011	66,509	2,630,932
Licenses and Permits					
Business licenses	18,850	18,850	21,366	2,516	36,288
Non-Business licenses	38,100	50,100	62,504	12,404	60,925
Total Licenses and Permits	56,950	68,950	83,870	14,920	97,213
Intergovernmental Revenues					
Local government aid	768,179	768,179	773,788	5,609	768,179
Market value credit			302	302	307
MSA street maintenance		275,000	383,741	108,741	61,714
Fire aid	50,000	50,000	53,402	3,402	157,568
Police aid	68,000	72,300	105,860	33,560	94,484
Other state aids	7,393	7,393	7,393		7,393
Total Intergovernmental	893,572	1,172,872	1,324,486	151,614	1,089,645
Charges for Services					
General government	211,750	211,750	210,705	(1,045)	210,597
Public safety	563,500	563,500	543,072	(20,428)	551,477
Streets and highways	6,000	6,000	5,544	(456)	12,640
Park fees	227,050	227,050	240,513	13,463	227,241
Total Charges for Services	1,008,300	1,008,300	999,834	(8,466)	1,001,955
Fines and forfeits					
	30,000	30,000	26,372	(3,628)	29,783
Investment Income					
	65,000	65,000	39,726	(25,274)	45,572
Miscellaneous Revenues					
Gift and contributions	61,500	61,500	9,849	(51,651)	91,521
Other	14,900	19,165	48,567	29,402	13,551
Refunds and reimbursements	30,000	30,000	69,637	39,637	1,290
Total Miscellaneous Revenues	106,400	110,665	128,053	17,388	106,362
TOTAL REVENUES	\$ 4,825,724	\$ 5,121,289	\$ 5,334,352	\$ 213,063	\$ 5,001,462

See Notes to Financial Statements

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

For the Year Ended December 31, 2016

With Comparative Totals for the Year Ended December 31, 2015

	Budgeted Amounts		2016 Actual Amounts	Variance with Final Budget Positive (Negative)	2015 Actual Amounts
	Original	Final			
EXPENDITURES					
General Government					
Mayor and City Council:					
Personnel services	\$ 43,060	\$ 43,060	\$ 41,532	\$ 1,528	\$ 41,161
Supplies	3,500	3,500	3,476	24	4,216
Other services and charges	41,800	41,800	33,654	8,146	39,953
Total Mayor and City Council	88,360	88,360	78,662	9,698	85,330
City Administrator:					
Personnel services	149,298	149,298	154,011	(4,713)	154,423
Supplies	1,200	1,200	345	855	2,333
Other services and charges	7,900	7,900	5,684	2,216	16,061
Total City Administrator	158,398	158,398	160,040	(1,642)	172,817
City Clerk/Finance Director:					
Personnel services	316,211	316,211	324,634	(8,423)	308,157
Supplies	5,250	5,250	3,752	1,498	2,328
Other services and charges	35,825	46,825	40,139	6,686	30,399
Capital outlay			7,932		
Total City Clerk/Finance Director	357,286	368,286	376,457	(239)	340,884
Audit:					
Other services and charges	35,000	35,000	26,085	8,915	22,785
Legal:					
Other services and charges	132,300	132,300	96,935	35,365	104,358
Planning and Zoning:					
Personnel services	259,562	259,562	232,399	27,163	252,872
Supplies	2,900	2,900	631	2,269	1,082
Other services and charges	54,125	66,125	55,458	10,667	63,928
Total Planning and Zoning	316,587	328,587	288,488	40,099	317,882
Elections:					
Personnel services	9,000	9,000	9,197	(197)	
Supplies	2,200	2,200	2,142	58	13
Other services and charges	2,700	2,700	2,747	(47)	1,629
Total Elections	13,900	13,900	14,086	(186)	1,642
General Government Buildings:					
Other services and charges	91,299	91,299	91,299		98,888
Total General Government Buildings	91,299	91,299	91,299		98,888
Total General Government	\$ 1,193,130	\$ 1,216,130	\$ 1,132,052	\$ 92,010	\$ 1,144,586

See Notes to Financial Statements

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

For the Year Ended December 31, 2016

With Comparative Totals for the Year Ended December 31, 2015

	Budgeted Amounts		2016 Actual Amounts	Variance with Final Budget Positive (Negative)	2015 Actual Amounts
	Original	Final			
EXPENDITURES					
Public Safety					
Police:					
Personnel services	\$ 1,097,700	\$ 1,102,000	\$ 1,131,511	\$ (29,511)	\$ 1,100,666
Supplies	64,000	80,623	60,157	20,466	51,556
Other services and charges	84,407	91,007	69,788	21,219	69,601
Capital outlay	42,000	42,000	41,661	339	28,427
Total Police	1,288,107	1,315,630	1,303,117	12,513	1,250,250
Fire:					
Personnel services	106,297	106,297	97,966	8,331	87,729
Supplies	40,000	40,000	32,463	7,537	30,268
Other services and charges	110,205	110,205	108,861	1,344	215,441
Capital outlay	118,702	118,702	10,322	108,380	310,409
Total Fire	375,204	375,204	249,612	125,592	643,847
Ambulance:					
Personnel services	577,960	577,960	512,158	65,802	515,872
Supplies	48,500	48,500	48,527	(27)	45,091
Other services and charges	87,333	87,333	86,925	408	84,320
Capital outlay	45,589	45,589	9,045	36,544	28,711
Total Ambulance	759,382	759,382	656,655	102,727	673,994
Civil Defense:					
Personnel services	22,510	22,510	28,171	(5,661)	23,179
Supplies	8,200	8,200	6,011	2,189	1,488
Other services and charges	4,510	4,510	3,547	963	2,230
Total Civil Defense	35,220	35,220	37,729	(2,509)	26,897
Animal Control:					
Personnel services	6,212	6,212	4,498	1,714	6,561
Other services and charges					1
Total Animal Control	6,212	6,212	4,498	1,714	6,562
Total Public Safety	\$ 2,464,125	\$ 2,491,648	\$ 2,251,611	\$ 240,037	\$ 2,601,550

See Notes to Financial Statements

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

For the Year Ended December 31, 2016

With Comparative Totals for the Year Ended December 31, 2015

	Budgeted Amounts		2016 Actual Amounts	Variance with Final Budget Positive (Negative)	2015 Actual Amounts
	Original	Final			
EXPENDITURES					
Streets and Highways					
Personnel services	\$ 365,724	\$ 365,724	\$ 286,321	\$ 79,403	\$ 308,967
Supplies	88,500	88,800	38,319	50,481	59,994
Other services and charges	220,121	219,821	146,403	73,418	123,665
Capital outlay	48,000	329,000	274,284	54,716	367,083
Total Streets and Highways	722,345	1,003,345	745,327	258,018	859,709
Culture and Recreation					
Tourism:					
Other services and charges	55,000	55,000	58,681	(3,681)	58,248
Total Tourism	55,000	55,000	58,681	(3,681)	58,248
Summer Recreation:					
Personnel services	48,800	48,800	52,561	(3,761)	52,391
Supplies	400	400	312	88	685
Other services and charges	6,600	6,600	1,640	4,960	1,673
Total Summer Recreation	55,800	55,800	54,513	1,287	54,749
Swimming Pool:					
Personnel services	48,650	48,650	46,135	2,515	48,661
Supplies	11,000	11,000	7,600	3,400	13,847
Other services and charges	92,894	92,894	90,873	2,021	99,452
Capital outlay		58,000	62,122	(4,122)	4,370
Total Swimming Pool	152,544	210,544	206,730	3,814	166,330
Hok-Si-La Park:					
Personnel services	155,135	155,135	122,796	32,339	92,794
Supplies	19,000	19,473	19,540	(67)	18,359
Other services and charges	71,912	71,439	60,626	10,813	60,717
Capital outlay	57,000	57,000	58,186	(1,186)	77,064
Total Hok-Si-La Park	\$ 303,047	\$ 303,047	\$ 261,148	\$ 41,899	\$ 248,934

See Notes to Financial Statements

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

For the Year Ended December 31, 2016

With Comparative Totals for the Year Ended December 31, 2015

	Budgeted Amounts		2016 Actual Amounts	Variance with Final Budget Positive (Negative)	2015 Actual Amounts
	Original	Final			
Culture and Recreation (continued)					
Other Parks:					
Personnel services	\$ 131,385	\$ 131,385	\$ 119,266	\$ 12,119	\$ 138,747
Supplies	38,000	38,000	24,064	13,936	19,025
Other services and charges	61,179	61,179	56,348	4,831	63,440
Capital outlay					33,318
Total Other Parks	<u>230,564</u>	<u>230,564</u>	<u>199,678</u>	<u>30,886</u>	<u>254,530</u>
Total Culture and Recreation	<u>796,955</u>	<u>854,955</u>	<u>780,750</u>	<u>74,205</u>	<u>782,791</u>
TOTAL EXPENDITURES	<u>5,176,555</u>	<u>5,566,078</u>	<u>4,909,740</u>	<u>664,270</u>	<u>5,388,636</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(350,831)</u>	<u>(444,789)</u>	<u>424,612</u>	<u>869,401</u>	<u>(387,174)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	748,915	748,915	768,915	20,000	766,122
Transfers out		(1,386,590)	(3,886,894)	(2,500,304)	(405,760)
Total Other Financing Sources (Uses)	<u>748,915</u>	<u>(637,675)</u>	<u>(3,117,979)</u>	<u>(2,480,304)</u>	<u>360,362</u>
NET CHANGE IN FUND BALANCE	<u>398,084</u>	<u>(1,082,464)</u>	<u>(2,693,367)</u>	<u>(1,610,903)</u>	<u>(26,812)</u>
FUND BALANCE, beginning	<u>3,793,346</u>	<u>3,793,346</u>	<u>3,793,346</u>		<u>3,820,158</u>
FUND BALANCE, ending	<u>\$ 4,191,430</u>	<u>\$ 2,710,882</u>	<u>\$ 1,099,979</u>	<u>\$ (1,610,903)</u>	<u>\$ 3,793,346</u>

See Notes to Financial Statements

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CITY OF LAKE CITY, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
December 31, 2016
With Comparative Totals as of December 31, 2015

	Business-Type Activities - Enterprise Funds			
	701 Electric Fund	702 Water Fund	703 Sewer Fund	706 Storm Water Fund
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Current Assets				
Cash and cash equivalents	\$ 4,595,322	\$ 767,333	\$ 692,801	\$ 62,638
Restricted cash				
Accounts receivable	1,526,386	36,113	113,959	4,835
Advances to other funds	2,695,595			
Inventories	632,780			
Prepaid expense	12,156	2,129	13,246	476
Total Current Assets	9,462,239	805,575	820,006	67,949
Noncurrent Assets				
Capital Assets				
Nondepreciable	16,735	4,273		97,400
Depreciable	16,499,502	4,188,806	12,203,997	2,651,415
Less: Accumulated depreciation	(9,533,823)	(2,028,626)	(7,608,489)	(1,059,513)
Net Capital Assets	6,982,414	2,164,453	4,595,508	1,689,302
Special Assessments		44,461	3,615	24,718
Total Noncurrent Assets	6,982,414	2,208,914	4,599,123	1,714,020
Deferred Outflows of Resources				
Deferred outflows from pension activity	300,498	86,546	106,799	10,631
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 16,745,151	\$ 3,101,035	\$ 5,525,928	\$ 1,792,600
LIABILITIES				
Current Liabilities				
Current maturities of bonds payable	\$ 180,000	\$ 60,000	\$ 386,774	\$ 35,000
Accounts payable	790,521	27,069		
Accrued liabilities	63,553	9,737	30,295	5,635
Advances from other funds				90,000
Interfund payables				
Customer deposits	87,866			
Total Current Liabilities	1,121,940	96,806	417,069	130,635
Noncurrent Liabilities				
Bonds payable, net of current maturities and discount	1,979,690	573,723	1,991,000	375,167
Compensated absences payable	36,373	24,396	37,893	
Net pension liability	713,211	204,652	253,415	24,554
Total Liabilities	3,851,214	899,577	2,699,377	530,356
Deferred Inflows of Resources				
Deferred inflows from pension activity	85,054	24,406	30,222	2,926
NET POSITION				
Net investment in capital assets	4,822,724	1,530,730	2,217,734	1,279,135
Unrestricted	7,986,159	646,322	578,595	(19,817)
Total Net Position	12,808,883	2,177,052	2,796,329	1,259,318
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET PENSION	\$ 16,745,151	\$ 3,101,035	\$ 5,525,928	\$ 1,792,600

See Notes to Financial Statements

710 Marina Fund	720 Garbage Fund	TOTALS		Governmental Activities - Internal Service Fund	
		2016	2015	2016	2015
\$ 5,650,279	\$ 103,115	\$ 11,871,488	\$ 13,512,236	\$	\$
			207,200		
445,872	28,700	2,155,865	1,701,477	350	
602,057		3,297,652	649,980		
33,344		666,124	609,647		
20,262	316	48,585	65,087	54,459	58,376
<u>6,751,814</u>	<u>132,131</u>	<u>18,039,714</u>	<u>16,745,627</u>	<u>54,809</u>	<u>58,376</u>
633,665		752,073	742,801		
7,294,438		42,838,158	42,771,147	153,694	
<u>(4,495,777)</u>		<u>(24,726,228)</u>	<u>(23,383,868)</u>	<u>(4,221)</u>	
3,432,326		18,864,003	20,130,080	149,473	
		72,794	74,505		
<u>3,432,326</u>		<u>18,936,797</u>	<u>20,204,585</u>	<u>149,473</u>	
136,143	7,533	648,150	134,711		
<u>\$ 10,320,283</u>	<u>\$ 139,664</u>	<u>\$ 37,624,661</u>	<u>\$ 37,084,923</u>	<u>\$ 204,282</u>	<u>\$ 58,376</u>
\$	\$	\$ 661,774	\$ 686,324	\$	\$
		817,590	894,145		6,740
4	3,722	112,946	148,407		
		90,000	155,000		
		87,866	91,049	68,436	26,283
<u>4</u>	<u>3,722</u>	<u>1,770,176</u>	<u>1,974,925</u>	<u>68,436</u>	<u>33,023</u>
		4,919,580	5,773,186		
84,073		182,735	191,584		
322,429	18,019	1,536,280	999,546		
<u>406,506</u>	<u>21,741</u>	<u>8,408,771</u>	<u>8,939,241</u>	<u>68,436</u>	<u>33,023</u>
38,453	2,148	183,209	106,750		
3,432,326		13,282,649	13,890,570	149,473	
6,442,998	115,775	15,750,032	14,148,362	(13,627)	25,353
<u>9,875,324</u>	<u>115,775</u>	<u>29,032,681</u>	<u>28,038,932</u>	<u>135,846</u>	<u>25,353</u>
<u>\$ 10,320,283</u>	<u>\$ 139,664</u>	<u>\$ 37,624,661</u>	<u>\$ 37,084,923</u>	<u>\$ 204,282</u>	<u>\$ 58,376</u>

CITY OF LAKE CITY, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
For the Year Ended December 31, 2016
With Comparative Totals for the Year Ended December 31, 2015

	Business-Type Activities - Enterprise Funds			
	701	702	703	706
	Electric Fund	Water Fund	Sewer Fund	Storm Water Fund
Operating Revenue	\$ 13,117,618	\$ 627,654	\$ 1,425,726	\$ 129,885
Operating Expenses				
Salaries and benefits	824,054	248,967	302,121	26,150
Supplies	51,938	22,537	28,226	17,946
Other services and charges	10,801,155	261,417	509,743	25,654
Insurance	44,331	10,084	22,511	
Depreciation	499,078	138,447	439,467	119,897
Total Operating Expenses	12,220,556	681,452	1,302,068	189,647
Operating Income (Loss)	897,062	(53,798)	123,658	(59,762)
Nonoperating Income (Expense)				
Miscellaneous income	14,687			
Investment income	71,615	8,976	3,455	441
Special assessments		18,945	376	945
Loss on disposal of capital assets	(20,648)			
Loss on disposal of inventory	(54,705)			
Interest expense	(96,311)	(27,034)	(78,297)	(20,154)
Bond Issuance Costs				
Total Nonoperating Income (Expense)	(85,362)	887	(74,466)	(18,768)
Income (and Contributions)	811,700	(52,911)	49,192	(78,530)
Transfers in	10,000	16,747		16,747
Transfers out	(155,000)	(45,000)		(10,000)
Change in net position	666,700	(81,164)	49,192	(71,783)
Net Position, beginning	12,142,183	2,258,216	2,747,137	1,331,101
Net Position, ending	\$ 12,808,883	\$ 2,177,052	\$ 2,796,329	\$ 1,259,318

See Notes to Financial Statements

710 Marina Fund	720 Garbage Fund	TOTALS		Governmental Activities - Internal Service Funds	
		2016	2015	2016	2015
\$ 1,934,227	\$ 534,657	\$ 17,769,767	\$ 18,042,393	\$ 408,000	\$ 441,323
472,912	15,091	1,889,295	1,672,607		
161,437	579	282,663	318,056	20,455	21,851
115,921	562,479	12,276,369	11,980,243	124,485	260,679
44,181		121,107	162,300	152,095	178,350
150,772		1,347,661	1,352,917	4,221	
945,223	578,149	15,917,095	15,486,123	301,256	460,880
989,004	(43,492)	1,852,672	2,556,270	106,744	(19,557)
2,500	5,879	23,066	10,944	3,645	1,071
91,682	2,019	178,188	182,735	104	2,064
		20,266	45,265		
(9,232)	(4,000)	(33,880)			
		(54,705)	(17,305)		
		(221,796)	(244,859)		
			(13,911)		
84,950	3,898	(88,861)	(37,131)	3,749	3,135
1,073,954	(39,594)	1,763,811	2,519,139	110,493	(16,422)
15,359		58,853			
(618,915)		(828,915)	(816,122)		
470,398	(39,594)	993,749	1,703,017	110,493	(16,422)
9,404,926	155,369	28,038,932	26,335,915	25,353	41,775
\$ 9,875,324	\$ 115,775	\$ 29,032,681	\$ 28,038,932	\$ 135,846	\$ 25,353

CITY OF LAKE CITY, MINNESOTA
ENTERPRISE FUNDS
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2016
With Comparative Totals for the Year Ended December 31, 2015

	Business-Type Activities - Enterprise Funds			
	Electric Fund	Water Fund	Sewer Fund	Storm Water Fund
Cash Flows From Operating Activities				
Cash received from customers	\$ 13,189,526	\$ 614,008	\$ 1,356,684	\$ 129,046
Cash paid to suppliers	(11,015,235)	(269,780)	(577,583)	(43,143)
Cash paid to employees	(824,919)	(230,066)	(278,797)	(27,169)
Net Cash Provided By (Used In) Operating Activities	<u>1,349,372</u>	<u>114,162</u>	<u>500,304</u>	<u>58,734</u>
Cash Flows From Noncapital Financing Activities				
Advances from/ (to) other funds	(2,456,832)			(10,000)
Operating transfers in	10,000	16,747		16,747
Operating transfers out	(155,000)	(45,000)		(10,000)
Net Cash Provided By (Used In) Noncapital Financing Activities	<u>(2,601,832)</u>	<u>(28,253)</u>		<u>(3,253)</u>
Cash Flows From Capital and Related Financing Activities				
Principal received on special assessments		10,143	8,048	3,788
Acquisition of capital assets	(25,151)	(28,823)	(28,888)	
Cash received from bond issuance				
Cash paid for bond issuance costs				
Interest paid on debt	(94,112)	(20,157)	(78,297)	(13,277)
Principal paid on debt	(170,000)	(264,032)	(425,078)	(35,000)
Net Cash Provided By (Used In) Capital and Related Financing Activities	<u>(289,263)</u>	<u>(302,869)</u>	<u>(524,215)</u>	<u>(44,489)</u>
Cash Flows From Investing Activities				
Investment income	71,615	8,976	3,455	441
(Increase) decrease in cash with escrow agent		207,200		
Net Cash Provided By (Used In) Investing Activities	<u>71,615</u>	<u>216,176</u>	<u>3,455</u>	<u>441</u>
Increase (Decrease) in Cash and Cash Equivalents				
	(1,470,108)	(784)	(20,456)	11,433
Cash and Cash Equivalents, beginning	<u>6,065,430</u>	<u>768,117</u>	<u>713,257</u>	<u>51,205</u>
Cash and Cash Equivalents, ending	<u>\$ 4,595,322</u>	<u>\$ 767,333</u>	<u>\$ 692,801</u>	<u>62,638</u>

See Notes to Financial Statements

Marina Fund	Garbage Fund	TOTALS		Governmental Activities - Internal Service Fund	
		2016	2015	2016	2015
\$ 1,508,670	\$ 537,328	\$ 17,335,262	\$ 17,541,776	\$ 411,645	\$ 442,394
(340,084)	(605,549)	(12,851,374)	(12,345,858)		(853)
(455,181)	(17,719)	(1,833,851)	(1,636,703)	(300,208)	(465,213)
<u>713,405</u>	<u>(85,940)</u>	<u>2,650,037</u>	<u>3,559,215</u>	<u>111,437</u>	<u>(23,672)</u>
(245,840)		(2,712,672)	(173,031)	42,153	21,608
15,359		58,853			
<u>(618,915)</u>		<u>(828,915)</u>	<u>(816,122)</u>		
<u>(849,396)</u>		<u>(3,482,734)</u>	<u>(989,153)</u>	<u>42,153</u>	<u>21,608</u>
		21,979	48,755		
(32,603)		(115,465)	(343,316)	(153,694)	
			223,556		
			(13,911)		
		(205,843)	(243,062)	104	
		<u>(894,110)</u>	<u>(897,936)</u>		
<u>(32,603)</u>		<u>(1,193,439)</u>	<u>(1,225,914)</u>	<u>(153,590)</u>	
91,682	2,019	178,188	182,735		2,064
		207,200	(207,200)		
<u>91,682</u>	<u>2,019</u>	<u>385,388</u>	<u>(24,465)</u>		<u>2,064</u>
(76,912)	(83,921)	(1,640,748)	1,319,683		
<u>5,727,191</u>	<u>187,036</u>	<u>13,512,236</u>	<u>12,192,553</u>		
<u>\$ 5,650,279</u>	<u>\$ 103,115</u>	<u>\$ 11,871,488</u>	<u>\$ 13,512,236</u>	<u>\$</u>	<u>\$</u>

CITY OF LAKE CITY, MINNESOTA
ENTERPRISE FUNDS
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2016
With Comparative Totals for the Year Ended December 31, 2015

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

	Business-Type Activities - Enterprise Funds			
	Electric Fund	Water Fund	Sewer Fund	Storm Water Fund
Operating Income (Loss)	\$ 897,062	\$ (53,798)	\$ 123,658	\$ (59,762)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	499,078	138,447	439,467	119,897
Other	(40,018)			
(Increase) Decrease In:				
Accounts receivable	60,404	(13,646)	(69,042)	(839)
Inventories	(42,442)			
Prepaid expenses	6,814	1,347	2,871	720
Increase (Decrease) In:				
Accounts payable	(27,478)	22,911	(19,974)	(263)
Accrued liabilities	(14,356)	(7,060)	(6,061)	(309)
Pension related	39,536	23,881	22,163	(710)
Compensated absences	(26,045)	2,080	7,222	
Customer deposits	(3,183)			
Net Cash Provided By (Used In) Operating Activities	<u>\$ 1,349,372</u>	<u>\$ 114,162</u>	<u>\$ 500,304</u>	<u>\$ 58,734</u>
Noncash Investing, Capital and Financing Activities				
Amortization of bond discount	\$ 2,199	\$ 6,877		\$ 6,877

See Notes to Financial Statements

Marina Fund	Garbage Fund	TOTALS		Governmental Activities - Internal Service Fund	
		2016	2015	2016	2015
\$ 989,004	\$ (43,492)	\$ 1,852,672	\$ 2,556,270	\$ 106,744	\$ (19,557)
150,772		1,347,661	1,352,917	4,221	
2,500	5,879	(31,639)	(6,361)	3,645	1,071
(428,057)	(3,208)	(454,388)	(500,788)	(350)	
(14,035)		(56,477)	101,580		
4,600	150	16,502	8,214	3,917	67
(9,110)	(42,641)	(76,555)	(23,699)	(6,740)	(5,253)
(7,870)	195	(35,461)	28,646		
17,707	(2,823)	99,754	29,522		
7,894		(8,849)	6,382		
		(3,183)	6,532		
<u>\$ 713,405</u>	<u>\$ (85,940)</u>	<u>\$ 2,650,037</u>	<u>\$ 3,559,215</u>	<u>\$ 111,437</u>	<u>\$ (23,672)</u>
\$	\$	\$ 15,953	\$ 7,969	\$	\$

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CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The City of Lake City, Minnesota was incorporated in 1872 and operates under a Mayor-Council form of government. The governing body is the City Council which consists of six elected Council Members and a Mayor.

The accounting policies of the City of Lake City, Minnesota conform to generally accepted accounting principles applicable to governmental units. The following is a summary of the more significant accounting policies:

Reporting Entity

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

Primary Government - Includes all funds, account groups, organizations, institutions, agencies, departments, or offices which are not legally separate from the City of Lake City.

Component Units - Component units are legally separate organizations for which the elected officials of the City of Lake City are financially accountable or for which the nature or significance of their relationship with the City of Lake City would cause the general purpose financial statements to be misleading or incomplete. The component unit's columns in the combined financial statements include the financial data of the Economic Development Authority (EDA) of Lake City. This component unit is presented in a separate column to emphasize that it is legally separate from the City.

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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

The City reports the following major governmental funds:

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

The *public safety building project fund* accounts for the resources and costs for the public safety building project.

The City reports the following major proprietary funds:

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

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

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

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

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

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

Additionally, the government reports the following fund type:

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

Budgets and Budgetary Accounting

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

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

1. The Finance Director submits a proposed operating budget to the City Council prior to the end of each year for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through the passage of a budget resolution.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting (continued)

4. Formal budgetary integration is employed as a management control device during the year for the General Fund and Library Special Revenue Fund.
5. The City's department heads may make transfer of appropriation with approval of the City Council.

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

Cash and Investments

Except where otherwise required, the City maintains all deposits in bank accounts in the name of the City. The deposits needed for day to day operations are invested on a short-term basis. Deposits not needed for short-term cash flow are invested according to the City's investment policy. Interest income is allocated to each fund based upon their relative cash balance. The balances shown in each fund represents an equity interest in the commingled pool of cash and investments, which is under the management of the City.

The City has designated cash and cash equivalents as demand deposits and all investments. Investments are stated at fair value, based upon quoted market prices as of the balance sheet date.

Property Taxes

Property tax levies are set by the City Council and are certified to the County in December of each year for collection in the following year. In Minnesota, counties act as collection agents for all property taxes. Taxes which remain unpaid at December 31 are classified as delinquent taxes receivable. Delinquent taxes receivable are fully offset by deferred revenue in the governmental fund types because they are not known to be available to finance current expenditures.

The County spreads all levies over taxable property. Such taxes become a lien on January 1, following, and are recorded as receivables by the City at that date. Revenues from property taxes are accrued and recognized in the year collectable, net of delinquencies.

Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to cities and other taxing districts normally during the months of July and December.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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

Special Assessments

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

Short-Term Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds. These receivables and payables are classified as "interfund receivables" or "interfund payables" on the balance sheet. Short-term interfund loans are classified as "advances from other funds" or "advances to other funds".

Inventories

Inventories are valued at cost, which approximates market, on a first-in, first-out basis in the Proprietary Fund types. For governmental funds, the original cost of materials and supplies has been recorded as expenditures at the time of purchase.

Property, Plant and Equipment

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

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

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

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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

Property, Plant and Equipment (continued)

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

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

Property held for Resale

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

Compensated Absences

It is the City's policy to permit employees to accumulate a limited amount of earned but unused vacation which is paid to the employees upon separation. Vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirement.

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net position.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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

Long-term Obligations (continued)

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Outflows of Resources

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. Pension related deferred outflows are recorded in the current year, but the expenses will be recorded in subsequent years.

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. In the governmental funds, the deferred inflows of resources occurs because governmental fund revenues are not recognized until available under the modified accrual basis of accounting. Pension related deferred inflows are recorded in the current year, but the revenue will be recorded in subsequent years.

Comparative Data

Comparative data for the prior year has been presented in certain of the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. However, complete comparative data has not been presented since their inclusion would not provide meaningful comparisons. Certain amounts in the December 31, 2015 totals column have been reclassified to conform with the current year presentation.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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

Net Position / Fund Balance

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

Net Investment in Capital Assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

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

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

In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the City classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual restraints.

Restricted – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the City Council through formal action and remain binding unless removed by the City Council by subsequent formal action.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. The City Council, by majority vote, may assign fund balances to be used for specific purposes when appropriate.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses or revenues/income initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses or revenues/income in the fund that is reimbursed.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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

Interfund Transactions (Continued)

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Use of Estimates

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

Concentration of Credit Risk

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

Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end in June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information included in Note 12 related to the City's volunteer Relief Association pension have been determined at the same basis as reported by Statewide Volunteer Firefighter Retirement Plan also administered by PERA.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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

Implementation of New Accounting Principles

The City adopted the provisions of Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. This statement generally requires investments to be measured at fair value and requires disclosures to be made about fair value measurements including the level of fair value hierarchy and the valuation techniques utilized by the City.

The City adopted the provisions of Governmental Accounting Standards Board Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. This statement establishes the order and priority of pronouncements and other sources of accounting and financial reporting guidance that governments should apply. This statement did not impact the preparation of these financial statements.

The City adopted the provisions of Governmental Accounting Standards Board Statement No. 77, Tax Abatement Disclosures. This statement requires the disclosure of information related to tax abatement agreements entered into by the City such as the financial statement impact, amount of taxes the City has promised to forego, and commitments made, under the agreements.

The City adopted the provisions of Governmental Accounting Standards Board Statement No. 82, Pension Issues – an amendment of GASB Statements No.67, No.68 and No.73. The objective of this statement is to improve consistency in the application of pension accounting and financial reporting requirements by addressing certain issues that have been raised during implementation of the three standards listed above. One of the significant changes included in this statement clarifies the presentation of covered payroll in the required supplementary information to reflect the amount of payroll on which contributions made to the pension plan are based.

2. Cash and Investments

Summary of Cash and Investments

As of December 31, 2016, the City's investments consisted of the following items, all of which are held in an internal investment pool:

Deposits	\$ 3,868,269
Investments	<u>16,632,209</u>
Cash and Investments Per Statement of Net Position	<u>\$ 20,500,478</u>

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Cash and Investments

Summary of Cash and Investments (continued)

<u>Investment</u>	<u>Fair Value</u>	<u>Investment Rating</u>	
		<u>S&P</u>	<u>MOODY</u>
Money Market Mutual Funds	\$ 3,447,190	N/A	N/A
Mutual Funds	322,695	N/A	N/A
Non-Negotiable CD's	9,839,841	N/A	N/A
US Treasury Bonds	62,332	AA+	AAA
Federal Home Loan Bank	972,808	AA+	AAA
Federal National Mortgage Association Notes	1,012,143	AA+	AAA
Federal Home Loan Mortgage Corp	975,200	AA+	AAA
	<u>\$ 16,632,209</u>		

Investments Authorized by Minnesota Statutes

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

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

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

Fair Value Measurements

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

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Cash and Investments (Continued)

Fair Value Measurements (continued)

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

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

If the asset or liability has a specific (contractual) term, Level 2 input must be observable for substantially the full term of the asset or liability
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

The following is a description of the methodologies used for measuring assets at fair value. There have been no changes in the methodologies used in 2015 or 2016.

	Assets			
	Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Mutual Funds	\$ 322,695	\$	\$ 322,695	\$
US Treasury Bonds	62,332	62,332		
Federal Home Loan Bank	972,808	972,808		
Federal National Mortgage Association Notes	1,012,143	1,012,143		
Federal Home Loan Mortgage Corp	975,200	975,200		
	<u>\$ 3,345,178</u>	<u>\$ 3,022,483</u>	<u>\$ 322,695</u>	<u>\$</u>

Collateralization of Cash Deposits

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

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

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Cash and Investments (Continued)

Collateralization of Cash Deposits (continued)

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

Interest Rate Risk

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

	Fair Value	12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months
Money Market Mutual Funds	\$ 3,447,190	\$ 3,447,190	\$	\$	\$
Mutual Funds	322,695	322,695			
Non-Negotiable CD's	9,839,841	301,704	1,650,094	5,706,209	2,181,834
US Treasury Bonds	62,332				62,332
Federal Home Loan Bank	972,808				972,808
Federal National Mortgage Association Notes	1,012,143				1,012,143
Federal Home Loan Mortgage Corp	975,200				975,200
Total	\$ 16,632,209	\$ 4,071,589	\$ 1,650,094	\$ 5,706,209	\$ 5,204,317

Credit Risk

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

Concentration of Credit Risk

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

Investment	Percent of Total
Federal Home Loan Bank	6%
Federal National Mortgage Association Notes	6%
Federal Home Loan Mortgage Corp	6%

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Loans Receivables

Community Development Revolving Loan Fund

As part of the City's community development block grant program, the City has issued commercial rehabilitation loans to various individual businesses to be repaid in monthly installments with interest at 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, 2016 totaled \$64,780.

4. Stewardship, Compliance, and Accountability

Certain funds had a deficit fund balance at December 31, 2016, as follows:

Special Revenue Funds:		
Library	\$	236,845
Tax increment TIF #16		9,575
New Highway 61 Coalition		29,424

The deficit in the Library Fund will be eliminated through future tax levies. The deficit in the New Highway 61 Coalition Fund will be eliminated with future grants.

The City had no excess expenditures over appropriations at the individual fund level during 2016.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Capital Assets

Capital asset activity for the year ended December 31, 2016 was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 1,351,940	\$	\$	\$ 1,351,940
Construction in progress	1,776,347	1,965,613	1,776,347	1,965,613
Total capital assets, not being depreciated	<u>3,128,287</u>	<u>1,965,613</u>	<u>1,776,347</u>	<u>3,317,553</u>
Capital assets, being depreciated:				
Buildings	12,682,102	1,900,966		14,583,068
Improvements other than buildings	474,901			474,901
Infrastructure	17,643,566	270,631		17,914,197
Machinery and equipment	5,677,116	274,065		5,951,181
Total capital assets, being depreciated	<u>36,477,685</u>	<u>2,445,662</u>		<u>38,923,347</u>
Less accumulated depreciation for:				
Buildings	6,728,053	364,456		7,092,509
Improvements other than buildings	170,072	21,131		191,203
Infrastructure	8,343,447	490,706		8,834,153
Machinery and equipment	4,117,253	276,185		4,393,438
Total accumulated depreciation	<u>19,358,825</u>	<u>1,152,478</u>		<u>20,511,303</u>
Total capital assets, being depreciated, net	<u>17,118,860</u>	<u>1,293,184</u>		<u>18,412,044</u>
Governmental activities capital assets, net	<u>\$ 20,247,147</u>	<u>\$ 3,258,797</u>	<u>\$ 1,776,347</u>	<u>\$ 21,729,597</u>

Governmental Activities:

General government	\$ 351,258
Public safety	195,559
Streets and highways	503,176
Culture and recreation	102,485
Total depreciation expense - governmental activities	<u>\$ 1,152,478</u>

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Capital Assets (continued)

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 742,801	\$	\$ 10,666	\$ 732,135
Construction in progress		19,938		19,938
Total capital assets, not being depreciated	742,801	19,938	10,666	752,073
Capital assets, being depreciated:				
Buildings and improvements	14,902,983			14,902,983
Distribution and collection system	24,079,811	82,857		24,162,668
Machinery and equipment	3,788,360	12,661	28,514	3,772,507
Total capital assets, being depreciated	42,771,154	95,518	28,514	42,838,158
Less accumulated depreciation for:				
Buildings and improvements	7,752,903	434,330		8,187,233
Distribution and collection system	12,614,307	787,493		13,401,800
Machinery and equipment	3,016,665	125,838	5,308	3,137,195
Total accumulated depreciation	23,383,875	1,347,661	5,308	24,726,228
Total capital assets, being depreciated, net	19,387,279	(1,252,143)	23,206	18,111,930
Business-type activities capital assets, net	\$ 20,130,080	\$ (1,232,205)	\$ 33,872	\$ 18,864,003

Discretely Presented Component Unit Economic Development Authority	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Machinery and equipment	\$ 63,380	\$	\$	\$ 63,380
Total capital assets, being depreciated	63,380			63,380
Less accumulated depreciation for:				
Machinery and equipment	63,380			63,380
Total accumulated depreciation	63,380			63,380
Total capital assets, being depreciated, net	\$	\$	\$	\$

Business-Type Activities:			
Electric		\$	499,078
Water			138,447
Sewer			439,467
Storm water			119,897
Marina			150,772
Total depreciation expense - business-type activities		\$	1,347,661

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Due From Other Governmental Units

Amounts due from other governmental units at December 31, 2016 are as follows:

Fund	Due from various Counties	State of Minnesota	Total
General	\$ 67,775	\$ 5,344	\$ 73,119
Monroe Street Improvement		145,301	145,301
Total	\$ 67,775	\$ 150,645	\$ 218,420

7. Tax Abatement

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

The City has made no commitments, other than tax abatement, under the agreements. The taxpayer submits property taxes annually and is reimbursed by the City for the abatement amount if the taxpayer has filed reports substantiating that it has met the employment levels stipulated in the agreement. The City had the following tax abatement agreements as of December 31, 2016.

Lake City Partners MN, LLC

The City entered into a tax abatement agreement in August 2014 for the purpose of construction of a market-rate housing for seniors. Under the agreement, the tax abatement is based on the property's tax capacity after development and the city's tax rate. The amount abated under this agreement may not exceed \$68,849 per year or \$600,000 over the nine year term (payable 2017-2025). The first payment owing under this agreement is due February 2018 for \$25,141.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Interfund Balances and Transfers

The amounts advanced to and advanced from other funds as of December 31, 2016 at the individual fund level are summarized below:

	<u>Advances to Other Funds</u>	<u>Advances from Other Funds</u>
General Fund	\$	\$ 2,873,011
Library Fund		334,641
Enterprise Fund:		
Electric	2,695,595	
Storm Water		
Marina	602,057	
	<u>\$ 3,297,652</u>	<u>\$ 3,207,652</u>

Balances of interfund receivables and payables as of December 31, 2016 at the individual fund level for year-end cash deficiencies are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 141,753	\$
Special Revenue Funds:		
New Highway 61 Coalition		24,280
Tax Increment TIF #16		9,575
Capital Project Funds		
Monroe Street Improvement		107,898
	<u>\$ 141,753</u>	<u>\$ 141,753</u>

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Interfund Balances and Transfers (Continued)

Operating transfers primarily from payments in lieu of taxes during the year ended December 31, 2016 were as follows:

Funds	Transfers In	Transfers Out
General Fund	\$ 768,915	\$ 3,886,894
Special Revenue:		
Library	50,000	15,359
Tax Increment #4 Downtown		545,442
Capital Project Funds:		
Capital Projects	932,336	
Public Safety Building Project	3,500,000	
2009 7th Street Improvement		33,494
2012 Improvement Fund		78,561
2013 Improvement Fund		95,799
Debt Service Funds:		
2012 Street Improvement	78,561	
2013A Improvement Bonds	95,799	
Enterprise:		
Electric	10,000	155,000
Water	16,747	45,000
Storm	16,747	10,000
Marina	15,359	618,915
	\$ 5,484,464	\$ 5,484,464

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Long-Term Debt

General Obligation Improvement Bonds:

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

Revenue Bonds:

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

General Obligation Revenue Bonds:

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

General Obligation Revenue Loans:

The Public Facilities Loans of 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 Crossover Refunding Bonds

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

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Long-Term Debt (Continued)

A summary of long-term debt obligations outstanding at December 31, 2016 is as follows:

	Range of Interest Rates	Final Maturity	Balance December 31, 2016
<u>Governmental Activities</u>			
G.O. Improvement Bonds:			
G.O. Improvement Bonds of 2012A	0.4%-2.15%	2023	\$ 1,010,000
G.O. Improvement Bonds of 2013A	1.00%-2.35%	2024	1,280,000
G.O. Refunding Bonds of 2013B	1.5%-2.5%	2022	245,000
G.O. Crossover Refunding Bonds of 2015A	2.00%	2024	700,000
Compensated Absences			249,826
<u>Business-Type Activities</u>			
G.O. Improvement Bonds:			
G.O. Crossover Refunding Bonds of 2015A	2.00%	2024	220,000
Revenue Bonds:			
Electric Revenue Bonds of 2010B	.85%-4.85%	2026	2,215,000
General Obligation Revenue Bonds:			
G.O. Utility Revenue Bonds of 2010A	2%-3.75%	2026	830,000
GO Revenue Loans:			
Public Facilities Loan of 1996	3.32%	2017	50,774
Public Facilities Loan of 1999	2.86%	2020	297,000
Public Facilities Loan of 2002	2.99%	2023	2,030,000
Compensated Absences			182,735
Sub-total			9,310,335
Less: Unamortized discount			(69,662)
Plus: Unamortized premiums			15,352
Total			<u>\$ 9,256,025</u>

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Long-Term Debt (Continued)

The following is a summary of changes in long-term debt obligations for the year ended December 31, 2016:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds and Notes Payable:					
General Obligation Bonds:					
G.O. Improvement Bonds of 2008A	\$ 740,965	\$	\$ 740,965	\$	\$
Less: Unamortized Discount	(11,710)		(11,710)		
G.O. Improvement Bonds of 2012A	1,150,000		140,000	1,010,000	140,000
Less: Unamortized Discount	(5,467)		(781)	(4,686)	
G.O. Improvement Bonds of 2013A	1,430,000		150,000	1,280,000	155,000
G.O. Refunding Bonds of 2013B	285,000		40,000	245,000	40,000
G.O. Crossover Refunding Bonds of 2015A	700,000			700,000	85,000
Plus: Amortized Premium	11,796			11,796	
Other liabilities:					
Compensated Absences	239,605	10,221		249,826	
Governmental Activities Long-term Liabilities	<u>4,540,189</u>	<u>10,221</u>	<u>1,058,474</u>	<u>3,491,936</u>	<u>420,000</u>
BUSINESS-TYPE ACTIVITIES					
Bonds and Notes Payable:					
Revenue Bonds:					
Electric Revenue Bonds of 2010B	2,385,000		170,000	2,215,000	180,000
Less: Unamortized Discount	(57,509)		(2,199)	(55,310)	
General Obligation Revenue Bonds:					
G.O. Utility Revenue Bonds of 2010A	900,000		70,000	830,000	70,000
Less: Unamortized Discount	(23,420)		(13,754)	(9,666)	
General Obligation Bonds:					
G.O. Improvement Bonds of 2008A	229,032		229,032		
G.O. Crossover Refunding Bonds of 2015A	220,000			220,000	25,000
Plus: Amortized Premium	3,556			3,556	
General Obligation Revenue Loans:					
Public Facilities Loan of 1996	149,852		99,078	50,774	50,774
Public Facilities Loan of 1999	366,000		69,000	297,000	71,000
Public Facilities Loan of 2002	2,287,000		257,000	2,030,000	265,000
Other liabilities:					
Compensated Absences	191,583		8,848	182,735	
Business-type Activities Long-term Liabilities	<u>6,651,094</u>		<u>887,005</u>	<u>5,764,089</u>	<u>661,774</u>
Total	<u>\$ 11,191,283</u>	<u>\$ 10,221</u>	<u>\$ 1,945,479</u>	<u>\$ 9,256,025</u>	<u>\$ 1,081,774</u>

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Long-Term Debt (Continued)

The annual requirements to amortize long-term debt obligations outstanding at December 31, 2016, excluding accrued compensated absences are summarized below.

Years	General Obligation Bonds		General Obligation Revenue Loans		General Obligation Revenue Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
<u>Governmental Activities</u>								
2017	\$ 420,000	\$ 55,040						
2018	415,000	49,778						
2019	420,000	43,655						
2020	425,000	36,595						
2021	440,000	28,719						
2022-2026	1,115,000	34,856						
Totals	<u>\$ 3,235,000</u>	<u>\$ 248,643</u>						

Business-Type Activities

2017	\$ 25,000	\$ 4,400	\$ 386,774	\$ 70,034	\$ 70,000	\$ 26,173	\$ 180,000	\$ 92,373
2018	25,000	3,900	346,000	59,237	70,000	24,336	185,000	86,118
2019	30,000	3,400	356,000	48,987	75,000	22,249	195,000	78,888
2020	25,000	2,800	368,000	38,440	80,000	19,874	205,000	70,734
2021	25,000	2,300	298,000	27,538	80,000	17,374	210,000	62,018
2022-2026	90,000	3,700	623,000	28,076	455,000	42,668	1,240,000	152,538
Totals	<u>\$ 220,000</u>	<u>\$ 20,500</u>	<u>\$ 2,377,774</u>	<u>\$ 272,312</u>	<u>\$ 830,000</u>	<u>\$ 152,674</u>	<u>\$ 2,215,000</u>	<u>\$ 542,669</u>

10. Commitments and Contingencies

Litigation

The City attorney has indicated that existing and pending lawsuits, claims and other actions in which the City is a defendant are either covered by insurance, of an immaterial amount, or, in the judgment of the City attorney, remotely recoverable by plaintiffs.

Federal and State Funds

Amounts received or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. Commitments and Contingencies (Continued)

Tax Increment Districts

The City's tax increment districts are subject to review by the State of Minnesota Office of the State Auditor (OSA). Any disallowed claims or misuse of tax increments could become a liability of the applicable fund. Management has indicated that they are not aware of any instances of noncompliance which would have a material effect on the financial statements.

Risk Management

The City is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries insurance for liability, property, and automotive insurance through the League of Minnesota Cities Insurance Trust (LMCIT). The City provides employee health insurance through a private insurance carrier. Settled claims resulting from these risks have not exceeded the insurance coverage in any of the past three years. There were no reductions in insurance coverage in 2016.

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 2016. The amount of any liability in excess of plan assets may be assessed to participating Cities in a method and amount determined by the LMCIT.

Purchase Power Agreement

The City purchases power from the Southern Minnesota Municipal Power Agency (SMMPA) under a power sales contract dated January 1, 2010. Under the terms of the contract, the City is obligated to buy all the electrical power and energy needed to operate the electric utilities through April 1, 2050.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Defined Benefit Pension Plans - Statewide

Plan Description

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

1. General Employees Retirement Fund (GERF) - All full-time and certain part-time employees of the City of Lake City are covered by (GERF). 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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. Public Employees Police and Fire Fund (PEPFF) - The PEPFF, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the PEPFF also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases. The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Defined Benefit Pension Plans – Statewide (Continued)

1. GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based upon years of service and average high-five salary.

2. PEPFF Benefits

Benefits for the PEPFF members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. Benefits for PEPFF members first hired after June 30, 2014, vest on a prorated basis from 50% after ten years up to 100% after twenty years of credited service. The annuity accrual rate is 3% of average salary for each year of service. For PEPFF who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

Contributions

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

1. GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2016. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The City's contributions to the GERF for the year ended December 31, 2016, were \$191,166. The City's contributions were equal to the required contributions as set by state statute.

2. PEPFF Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2016. The City's was required to contribute 16.20% of pay for PEPFF members in calendar year 2015. The City's contributions to the PEPFF for the year ended December 31, 2016, were \$111,939. The City's contributions were equal to the required contributions as set by state statute.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Defined Benefit Pension Plans – Statewide (Continued)

Pension Costs

1. GERF Pension Costs

At December 31, 2016, the City reported a liability of \$3,337,116 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion was .0411% at the end of the measurement period and .0422% for the beginning of the period.

For the year ended December 31, 2016, the City recognized pension expense of \$448,284 for its proportionate share of the GERF's pension expense.

At December 31, 2016, the City reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$	\$ 273,008
Changes in actuarial assumptions	653,410	
Difference between projected and actual investment earnings	637,446	
Changes in proportion		124,960
Contributions paid to PERA subsequent to the measurement date	115,256	
Total	<u>\$ 1,406,112</u>	<u>\$ 397,968</u>

\$115,256 reported as deferred outflows of resources related to pensions City contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability during the year ending December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending June 30:</u>	<u>Pension Expense Amount</u>
2017	\$ 231,496
2018	231,495
2019	309,354
2020	120,543
2021	
Thereafter	

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Defined Benefit Pension Plans – Statewide (Continued)

2. PEPFF Pension Costs

At December 31, 2016, the City reported a liability of \$2,889,485 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion was .0740% at the end of the measurement period and .0740% for the beginning of the period.

For the year ended December 31, 2016, the City recognized pension expense of \$491,327 for its proportionate share of the PEPFF's pension expense. The City also recognized \$6,480 for the year ended December 31, 2016, as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's on-behalf contributions to the PEPFF. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the PEPFF each year, starting in fiscal year 2014.

At December 31, 2016, the City reported its proportionate share of the PEPFF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$	\$ 331,479
Changes in actuarial assumptions	1,590,210	
Difference between projected and actual investment earnings	440,955	
Changes in proportion	14,401	
Contributions paid to PERA subsequent to the measurement date	<u>65,363</u>	
Total	<u>\$ 2,110,929</u>	<u>\$ 331,479</u>

\$65.363 reported as deferred outflows of resources related to pensions from City contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability during the year ending December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending June 30:</u>	<u>Pension Expense Amount</u>
2017	\$ 369,188
2018	369,188
2019	369,186
2020	333,552
2021	272,973
Thereafter	

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Defined Benefit Pension Plans – Statewide (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50%	Per year
Active Member Payroll Growth	3.25%	Per year
Investment Rate of Return	7.50%	

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for GERF and RP-2000 tables for PEPFF for males or females, as appropriate, with slight adjustments. Cost of living benefits increases for retirees are assumed to be: 1% per year for all future years for GERF and PEPFF.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the GERF was completed in 2015. The experience study for PEPFF was for the period July 1, 2004, through June 30, 2009.

The following changes in actuarial assumptions occurred in 2016.

1. GERF

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2. PEPFF

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2037 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 5.6%.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Defined Benefit Pension Plans – Statewide (Continued)

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%
	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.5%, a reduction from 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of GERP was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

In PEPFF the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056. Beginning in fiscal years ended June 30, 2057 for PEPFF, when projected benefit payments exceed the funds' projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85% based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. A single discount rate of 5.60% for PEPFF was determined that produced approximately the same value of projected benefits when applied to all years of projected benefits as present value of projected benefits using 7.50% applied to all years of projected benefits through the point of asset depletion and 2.85% after.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Defined Benefit Pension Plans – Statewide (Continued)

Pension Liability Sensitivity

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
	6.50%	7.50%	8.50%
City's proportionate share of the GERF net pension liability	\$ 4,739,694	\$ 3,337,116	\$ 2,181,774
	4.60%	5.60%	6.60%
City's proportionate share of the PEPFF net pension liability	4,044,896	2,889,485	1,945,427
Total	<u>\$ 8,784,590</u>	<u>\$ 6,226,601</u>	<u>\$ 4,127,201</u>

Pension Plan Fiduciary Net Position

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

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

12. Defined Benefit Pension Plan - Volunteer Fire Relief Association

The Lake City Fire Department Relief Association has not had an updated actuarial study performed as of December 31, 2016. The information below is the latest information received.

Plan Description

The of Lake City Fire Department Relief Association (Association) participates in the Statewide Volunteer Firefighter Retirement Plan (SVF), an agent multiple-employer lump-sum defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The SVF plan covers volunteer firefighters of municipal fire departments or independent nonprofit firefighting corporations that have elected to join the plan. As of December 31, 2014, the plan covered 22 active firefighters and 7 vested terminated fire fighters whose pension benefits are deferred. The plan is established and administered in accordance with Minnesota Statutes, Chapter 353 G.

Benefits Provided

The SVF provides retirement, death, and supplemental benefits to covered firefighters and survivors. Benefits are paid based on the number of years of service multiplied by a benefit level per year of service approved by the City.

Members are eligible for a lump-sum retirement benefit at 50 years of age with five years of service. Plan provisions include a pro-rated vesting schedule that increases from 5 years at 40% through 20 years at 100%.

Contributions

The SVF is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in Minnesota Statutes, and voluntary City contributions. The State of Minnesota contributed \$53,402 in fire state aid to the plan for the year ended December 31, 2016. Required City contributions are calculated annually based on statutory provisions. The City's made voluntary contributions of \$20,725 in 2016.

Pension Costs

At December 31, 2016, the City reported a net pension asset of \$289,473 for the SVF plan. The net pension asset was measured as of December 31, 2014. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the fire department. The following table presents the changes in net pension liability during the year.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-b)
Beginning Balance 12/31/14	\$ 706,387	\$ 995,860	\$ (289,473)
Changes for the Year			
Service Cost	15,161		15,161
Interest on Pension Liability	16,355		16,355
Actuarial Experience (Gains)/Losses	(487)		(487)
Projected Investment Earnings		23,321	(23,321)
Contributions (Employer)		14,000	(14,000)
Contributions (State)		17,385	(17,385)
Asset (Gain)/Loss		(22,824)	22,824
PERA Administrative Fee		(853)	853
Net Changes	31,029	31,029	
Balance End of Year 12/31/15	\$ 737,416	\$ 1,026,889	\$ (289,473)

There were no provision changes during the measurement period.

At December 31, 2016, the City reported deferred inflows of resources and deferred outflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
City contributions paid subsequent to measurement date	\$ 20,726	\$
Difference between projected and actual investment earnings		9,904
Total	\$ 20,726	\$ 9,904

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

<u>Year ending December 31:</u>	<u>Pension Expense Amount</u>
2017	\$ (2,476)
2018	(2,476)
2019	(2,476)
2020	(2,476)
2021	

Actuarial Assumptions

The total pension liability at December 31, 2015, was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

- Retirement eligibility at the later of age 50 or 20 years of service
- Investment rate of return of 6.0%
- Inflation rate of 3.0%

There were no changes in actuarial assumptions in 2015.

Discount Rate

The discount rate used to measure the total pension liability was 6.0%. The projection of cash flows used to determine the discount rate assumed that contributions to the SVF plan will be made as specified in statute. Based on that assumption and considering the funding ratio of the plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity

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

<u></u>	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
	6.00%	7.00%	8.00%
Net pension asset	\$ 258,186	\$ 289,473	\$ 319,138

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Plan Investments

Investment Policy:

The assets of the Statewide Volunteer Firefighter Plan are invested by the Minnesota State Board of Investment (SBI). The SBI is established by Article XI of the Minnesota Constitution to invest all state funds. Its membership as specified in the Constitution is comprised of the Governor (who is designated as chair of the Board), State Auditor, Secretary of State and State Attorney General.

All investments undertaken by the SBI are governed by the prudent person rule and other standards codified in Minnesota Statutes, Chapter 11A and Chapter 356A.

Within the requirements defined by state law, the SBI, with assistance of the SBI staff and the Investment Advisory Council, establishes investment policy for all funds under its control. These investments policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure and specific performance standards. Studies guide the on-going management of the funds and are updated periodically.

Asset Allocation:

To match the long-term nature of the pension obligations, the SBI maintains a strategic asset allocation for the Statewide Volunteer Firefighter Retirement Plan that includes allocations to domestic equity, international equity, bonds and cash equivalents. The long-term target asset allocation and long-term expected real rate of return is the following:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Domestic Stocks	35%	5.50%
International Stocks	15%	6.00%
Bonds	45%	1.45%
Cash	5%	0.50%
	<u>100%</u>	

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

The 6% long-term expected rate of return on pension plan investments was determined using a building-block method. Best estimates for expected future real rates of return (expected returns, net of inflation) were developed for each asset class using both long-term historical returns and long-term capital market expectations. The asset class estimates and the target allocations were then combined to produce a geometric, long-term expected real rate of return for the portfolio. Inflation expectations were applied to derive the nominal rate of return for the portfolio.

Description of significant investment policy changes during the year:

The SBI made no significant changes to their investment policy during 2015 for the Statewide Volunteer Firefighter Retirement Plan.

Pension Plan Fiduciary Net Position

Detailed information about the SVF plan's fiduciary net position as of June 30 of the most recent financial reporting period is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

CITY OF LAKE CITY, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2016

CITY OF LAKE CITY, MINNESOTA
Schedule of City Pension Contributions
December 31, 2016

Schedule of City Pension Contributions
PERA General Employees Retirement Fund

Year Ended December 31	Statutorily Required Contribution (a)	Contributions in Relation to Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Employee Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
2014	\$ 148,967	\$ 148,967	\$	\$ 2,054,717	7.3%
2015	166,453	166,453	\$	2,219,373	7.5%
2016	191,166	191,166	\$	2,548,880	7.5%
2017					
2018					
2019					
2020					
2021					
2022					
2023					

Schedule of City Pension Contributions
PERA Public Employees Police and Fire Fund Pension Plan

Year Ended December 31	Statutorily Required Contribution (a)	Contributions in Relation to Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Employee Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
2014	\$ 99,525	\$ 99,525	\$	\$ 650,490	15.3%
2015	110,006	110,006	\$	679,049	16.2%
2016	111,939	111,939	\$	690,981	16.2%
2017					
2018					
2019					
2020					
2021					
2022					
2023					

CITY OF LAKE CITY, MINNESOTA
Schedules of Proportionate Share of Net Pension Liability
December 31, 2016

Schedule of Proportionate Share of Net Pension Liability
PERA General Employees Retirement Fund

Fiscal Year Ended June 30	Proportionate (Percentage) of Net Pension Liability (Asset)	Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	Covered- Employee Payroll (b)	Proportionate Share (Amount) of the Net Pension Liability (Asset) as a Percentage of its Covered Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0457%	\$ 2,146,757	\$ 2,054,717	104.5%	78.7%
2015	0.0422%	2,187,023	2,478,070	88.3%	78.2%
2016	0.0411%	3,337,116	2,384,127	140.0%	68.9%
2017					
2018					
2019					
2020					
2021					
2022					
2023					

Schedule of Proportionate Share of Net Pension Liability
PERA Public Employees Police and Fire Fund Pension Plan

Fiscal Year Ended June 30	Proportionate (Percentage) of Net Pension Liability (Asset)	Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	Covered- Employee Payroll (b)	Proportionate Share (Amount) of the Net Pension Liability (Asset) as a Percentage of its Covered Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0700%	\$ 756,029	\$ 650,951	116.1%	87.1%
2015	0.0720%	818,089	662,842	123.4%	86.6%
2016	0.0720%	2,889,485	662,842	435.9%	68.9%
2017					
2018					
2019					
2020					
2021					
2022					
2023					

CITY OF LAKE CITY, MINNESOTA
Schedule of Funding Progress for the Fire Relief Association
December 31, 2016

Actuarial Valuation Date	Actuarial Accrued Liability (AAL)Valuation of Plan Assets (a)	Actuarial Valuation of Plan Assets (b)	Net Pension Liability (Asset) (a-b)
12/31/2014	\$ 706,387	\$ 995,860	\$ (289,473)
12/31/2015	737,416	1,026,889	(289,473)

Schedule of Employer Contributions for the Fire Relief Association
December 31, 2016

	2016	2015
Actuarially determined contributions:	\$	\$
Actual contributions paid	20,725	7,980
Contributions Deficiency/(excess)	<u>\$ (20,725)</u>	<u>\$ (7,980)</u>

CITY OF LAKE CITY, MINNESOTA
COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES
DECEMBER 31, 2016

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CITY OF LAKE CITY, MINNESOTA

NONMAJOR FUNDS

DECEMBER 31, 2016

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources requiring separate accounting because of legal, regulatory or grant provisions or administrative action.

Debt Service Funds

Debt service funds are used to account for the accumulation of resources for, and the payment of, bond principal, interest and related fiscal changes.

Capital Projects Funds

Capital project funds are used to account for the acquisition and construction of major capital facilities other than those financed by the enterprise fund.

**CITY OF LAKE CITY, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2016**

	Special Revenue Funds			
	210 Library	270 Community Development Revolving Loan Fund	271 Business Development Revolving Loan Fund	272 Small Cities Development Program Fund
ASSETS				
Cash and investments	\$ 89,684	\$ 409,359	\$ 177,115	\$ 19,486
Accounts receivable	8,112			
Loans receivable		64,780		
Taxes receivable, delinquent	1,292			
Due from other governments				
Special assessments receivable:				
Deferred				
TOTAL ASSETS	\$ 99,088	\$ 474,139	\$ 177,115	\$ 19,486
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE				
Liabilities				
Accounts payable	\$	\$	\$	\$
Accrued liabilities				
Deposits payable				
Advances from other funds	334,641			
Interfund payables				
Total Liabilities	<u>334,641</u>			
Deferred Inflows of Resources				
Unavailable:				
Deferred revenue	1,292	64,780		
Fund Balance				
Restricted:				
Creditors (debt covenants)				
Regulations		409,359	177,115	19,486
Assigned:				
Fund assignments				
Unassigned	(236,845)			
Total Fund Balance	<u>(236,845)</u>	<u>409,359</u>	<u>177,115</u>	<u>19,486</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 99,088	\$ 474,139	\$ 177,115	\$ 19,486

Special Revenue Funds

480 Tax Increment #4 Downtown	495 Tax Increment TIF #16	494 HNT Expansion #3 TIF #15	250 New Highway 61 Coalition
\$	\$	\$	\$
\$	\$	\$	\$
			5,144
	9,575		24,280
	9,575		29,424
	(9,575)		(29,424)
	(9,575)		(29,424)
\$	\$	\$	\$

**CITY OF LAKE CITY, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2016**

	Debt Service Funds				
	316				
	Peters	357	358	366	365
	4th and 5th	2006	2008	2012	2013A
	Street	Street	Street	Street	Improvement
	Improvement	Improvement	Improvement	Improvement	Bonds
ASSETS					
Cash and investments	\$ 19,593	\$ 53,165	\$ 242,634	\$ 249,002	\$ 302,003
Accounts receivable					
Loans receivable					
Taxes receivable, delinquent			1,331	2,154	2,408
Due from other governments					
Special assessments receivable:					
Deferred	2,720	67,616			
TOTAL ASSETS	\$ 22,313	\$ 120,781	\$ 243,965	\$ 251,156	\$ 304,411
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE					
Liabilities					
Accounts payable	\$	\$	\$	\$	\$
Accrued liabilities					
Deposits payable					
Advances from other funds					
Interfund payables					
Total Liabilities					
Deferred Inflows of Resources					
Unavailable:					
Deferred revenue	2,720	67,616	1,331	2,154	2,408
Fund Balance					
Restricted:					
Creditors (debt covenants)	19,593	53,165	242,634	249,002	302,003
Regulations					
Assigned:					
Fund assignments					
Unassigned					
Total Fund Balance	19,593	53,165	242,634	249,002	302,003
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 22,313	\$ 120,781	\$ 243,965	\$ 251,156	\$ 304,411

Capital Projects Funds

400 Capital Projects	361 2009 7th Street Improvement	363 2012 Improvement Fund	364 2013 Street Improvement	362 Monroe Street Improvement Fund	Totals
\$ 1,064,609	\$	\$	\$	\$	\$ 2,626,650
					8,112
					64,780
			444		7,629
				145,301	145,301
					70,336
<u>\$ 1,064,609</u>	<u>\$</u>	<u>\$</u>	<u>\$ 444</u>	<u>\$ 145,301</u>	<u>\$ 2,922,808</u>
\$	\$	\$	\$	\$	\$
					5,144
					334,641
				107,898	141,753
				<u>107,898</u>	<u>481,538</u>
			444		142,745
					866,397
					605,960
1,064,609				37,403	1,102,012
					(275,844)
<u>1,064,609</u>				<u>37,403</u>	<u>2,298,525</u>
<u>\$ 1,064,609</u>	<u>\$</u>	<u>\$</u>	<u>\$ 444</u>	<u>\$ 145,301</u>	<u>\$ 2,922,808</u>

CITY OF LAKE CITY, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
Combining Statement of Revenues, Expenditures
and Changes in Fund Balance
For the Year Ended December 31, 2016

	Special Revenue Funds			
	210 Library	270 Community Development Revolving Loan Fund	271 Business Development Revolving Loan Fund	272 Small Cities Development Program Fund
REVENUES				
Taxes:				
Property taxes	\$ 91,672			
Tax increments				
Special assessments				
Intergovernmental revenues	48,929			
Charges for services	2,320			
Fines and forfeits	3,262			
Investment income	(503)	4,816	2,094	230
Miscellaneous revenues	101,194	24,460		
TOTAL REVENUES	246,874	29,276	2,094	230
EXPENDITURES				
Culture and recreation:				
Library	257,157			
Economic development		9,540		
Debt service:				
Principal retirement				
Interest and fiscal charges				
Capital outlay	78,347			
TOTAL EXPENDITURES	335,504	9,540		
Excess (deficiency) of revenues over (under) expenditures	(88,630)	19,736	2,094	230
OTHER FINANCING SOURCES (USES)				
Transfers out	(15,359)			
Transfers in	50,000			
Total Other Financing Sources (Uses)	34,641			
Net change in fund balances	(53,989)	19,736	2,094	230
FUND BALANCE, beginning	(182,856)	389,623	175,021	19,256
FUND BALANCE, ending	\$ (236,845)	\$ 409,359	\$ 177,115	\$ 19,486

480 Tax Increment #4 Downtown	495 Tax Increment TIF #16	494 HNT Expansion #3 TIF #15	250 New Highway 61 Coalition
\$ 110,850	\$	\$ 17,512	\$
5,492	(51)		(81)
116,342	(51)	17,512	(81)
5,000	9,524	17,512	24,258
5,000	9,524	17,512	24,258
111,342	(9,575)		(24,339)
(545,442)			
(545,442)			
(434,100)	(9,575)		(24,339)
434,100			(5,085)
\$	\$ (9,575)	\$	\$ (29,424)

CITY OF LAKE CITY, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
Combining Statement of Revenues, Expenditures
and Changes in Fund Balance
For the Year Ended December 31, 2016

	Debt Service Funds				
	316				
	Peters	357	358	366	365
	4th and 5th	2006	2008	2012	2013A
	Street	Street	Street	Street	Improvement
	Improvement	Improvement	Improvement	Improvement	Bonds
REVENUES					
Taxes:					
Property taxes	\$	\$ 33,388	\$ 105,782	\$ 166,093	\$ 189,044
Tax increments					
Special assessments	3,327	16,694			
Intergovernmental revenues					
Charges for services					
Fines and forfeits					
Investment income	204	248	1,873	1,703	2,169
Miscellaneous revenues					
TOTAL REVENUES	3,531	50,330	107,655	167,796	191,213
EXPENDITURES					
Culture and recreation:					
Library					
Economic development					
Debt service:					
Principal retirement		40,000	740,965	140,000	150,000
Interest and fiscal charges		6,544	31,334	16,664	23,543
Capital outlay					
TOTAL EXPENDITURES		46,544	772,299	156,664	173,543
Excess (deficiency) of revenues over (under) expenditures	3,531	3,786	(664,644)	11,132	17,670
OTHER FINANCING SOURCES (USES)					
Transfers out					
Transfers in				78,561	95,799
Total Other Financing Sources (Uses)				78,561	95,799
Net change in fund balances	3,531	3,786	(664,644)	89,693	113,469
FUND BALANCE, beginning	16,062	49,379	907,278	159,309	188,534
FUND BALANCE, ending	\$ 19,593	\$ 53,165	\$ 242,634	\$ 249,002	\$ 302,003

Capital Projects Funds

400 Capital Projects	361 2009 7th Street Improvement	363 2012 Improvement Fund	364 2013 Street Improvement	362 Monroe Street Improvement Fund	Totals
\$	\$	\$	\$	\$	\$ 585,979
					128,362
					20,021
					48,929
					2,320
					3,262
6,129				(1,384)	22,939
1,095					126,749
7,224				(1,384)	938,561
					257,157
					65,834
					1,070,965
					78,085
658,254					736,601
658,254					2,208,642
(651,030)				(1,384)	(1,270,081)
	(33,494)	(78,561)	(95,799)		(768,655)
932,336					1,156,696
932,336	(33,494)	(78,561)	(95,799)		388,041
281,306	(33,494)	(78,561)	(95,799)	(1,384)	(882,040)
783,303	33,494	78,561	95,799	38,787	3,180,565
\$ 1,064,609	\$	\$	\$	\$ 37,403	\$ 2,298,525

CITY OF LAKE CITY, MINNESOTA
LIBRARY FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)

	Budgeted Amounts		2016 Actual Amount	Variance With Budget Positive (Negative)	2015 Actual Amount
	Original	Final			
REVENUES					
Property Tax Levy					
Property tax collected	\$ 90,000	\$ 90,000	\$ 91,672	\$ 1,672	\$ 92,333
Intergovernmental Revenues					
County - library grants	45,000	45,000	48,929	3,929	48,716
Total Intergovernmental Revenues	45,000	45,000	48,929	3,929	48,716
Charges For Services					
Fines and forfeits	3,500	3,500	3,262	(238)	3,369
Other	2,000	2,000	2,320	320	2,087
Total Charges For Services	5,500	5,500	5,582	82	5,456
Investment Income					
	3,000	3,000	(503)	(3,503)	12,861
Miscellaneous					
Donations	4,000	8,527	21,592	13,065	267,660
Other			79,602	79,602	139
Total Miscellaneous	4,000	8,527	101,194	92,667	267,799
Total Revenues	147,500	152,027	246,874	94,847	427,165
EXPENDITURES					
Library services	253,855	260,982	257,157	3,825	222,650
Capital outlay	80,000	77,400	78,347	(947)	1,831,263
Total Expenditures	333,855	338,382	335,504	2,878	2,053,913
Excess (deficiency) of revenues over (under) expenditures	(186,355)	(186,355)	(88,630)	97,725	(1,626,748)
OTHER FINANCING SOURCES (USES)					
Transfers out			(15,359)	(15,359)	
Transfers in	50,000	50,000	50,000		50,000
Total other financing sources (uses)	50,000	50,000	34,641	(15,359)	50,000
Net Change in Fund Balance	(136,355)	(136,355)	(53,989)	82,366	(1,576,748)
Fund Balance, beginning	(182,856)	(182,856)	(182,856)		1,393,892
Fund Balance, ending	\$ (319,211)	\$ (319,211)	\$ (236,845)	\$ 82,366	\$ (182,856)

CITY OF LAKE CITY, MINNESOTA
ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT
BALANCE SHEET - COMPONENT UNIT
December 31, 2016 and 2015

	2016	2015
Assets		
Cash and investments	\$ 137,847	\$ 56,425
Taxes receivable delinquent	979	871
Due from other governmental units	1,086	391
Due from primary government		69,311
Prepaid expenditures		869
Property held for resale	235,000	235,000
TOTAL ASSETS	\$ 374,912	\$ 362,867
Liabilities, Deferred Inflows of Resources and Fund Balance		
Liabilities		
Accounts payable	\$	\$ 61
Due to primary government	37	
Total Liabilities	37	61
Deferred Inflows of Resources		
Unavailable revenue	235,979	235,871
Fund Balance		
Restricted:		
Economic development	138,896	126,935
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 374,912	\$ 362,867
 Fund Balance - Component Unit	 \$ 138,896	
 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	979	
Net Position - Component Unit	\$ 374,875	

CITY OF LAKE CITY, MINNESOTA
ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT
Combining Statement of Revenues, Expenditures
and Changes in Fund Balance
For the Year Ended December 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)

	Totals	
	2016	2015
REVENUES		
Property tax	\$ 80,756	\$ 79,212
Investment income	171	14
Payment from primary government	30,900	30,900
Miscellaneous	7,500	7,815
Total Revenues	119,327	117,941
EXPENDITURES		
Economic Development	107,366	93,438
Total Expenditures	107,366	93,438
Excess (Deficiency) of Revenues Over (Under) Expenditures	11,961	24,503
Fund Balance, beginning	126,935	102,432
Fund Balance, ending	\$ 138,896	\$ 126,935
 Net Change in Fund Balance - Component Unit	 \$ 11,961	 \$ 24,503
 Amounts reported for governmental activities in the statement of activities are different because:		
 Revenues in the statement of activities that do not provide current financial resources are not reported in the funds.	 108	 (144)
 Change in Net Position - Component Unit	 \$ 12,069	 \$ 24,359

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

Honorable Mayor and Common Council
City of Lake City, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Lake City, Minnesota, as of and for the year ended December 31, 2016 and the related notes to financial statements, which collectively comprise the City of Lake City, Minnesota's basic financial statements and have issued our report thereon dated June 29, 2017.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Smith, Schafu and Associates, Ltd.

Rochester, Minnesota
June 29, 2017

**CITY OF LAKE CITY, MINNESOTA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2016**

FINDINGS – FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCIES

FINDING: 2015-001 – 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 engaged the auditing firm to assist in preparing its financial statements and accompanying disclosures. The City does perform a comprehensive review to review the financial statement. 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
- 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.
- Effect: The potential exists that a material disclosure could be omitted from the financial statements and not be prevented, or detected and corrected by the City's internal controls.
- Cause: The City does not have the expertise to draft the notes to the financial statements; however, they have reviewed and approved the annual financial statements as prepared by the audit firm.
- 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):

Current Status:

Finding did not reoccur in 2016.

**CITY OF LAKE CITY, MINNESOTA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2016**

FINDINGS – FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCIES

FINDING 2015-002 ADJUSTING JOURNAL ENTRIES

- Condition: The City made journal entries to adjust accounts to year end balances. However, the audit firm identified certain misstatements and proposed journal entries to correct them. Management reviewed the journal entries and posted them to its general ledger.
- Criteria: City management is responsible for establishing and maintaining internal controls for the proper recording of all of the City's transaction activity in the appropriate period.
- Effect: The potential exists that a material disclosure could occur in the financial statements and not be prevented, or detected and corrected by the City's internal controls.
- Cause: The City's controls were not adequate to ensure that all accounts were adjusted to their appropriate year end balances in accordance with GAAP.
- Recommendation: We recommend the City continue to work with auditors to identify year end journal entries that are necessary to ensure that accounts are adjusted to their appropriate year end balances in accordance with GAAP.

CORRECTIVE ACTION PLAN (CAP):

Current Status:

Finding did not reoccur in 2016.

MINNESOTA LEGAL COMPLIANCE

Independent Auditor's Report

Honorable Mayor and Members
of the City Council
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 audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the financial statements of the City of Lake City, Minnesota as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City of Lake City's basic financial statements, and have issued our report thereon dated June 29, 2017.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains 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. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Lake City, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*. 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, Minnesota's noncompliance with the above referenced provisions.

The purpose of this report is 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.

Smith, Schafner and Associates, Ltd.

Rochester, Minnesota
June 29, 2017