

CITY OF LAKE CITY, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2017

CITY OF LAKE CITY, MINNESOTA

**FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2017**

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CITY OF LAKE CITY, MINNESOTA

INTRODUCTORY SECTION

DECEMBER 31, 2017

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**CITY OF LAKE CITY, MINNESOTA
ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2017**

ELECTED

<u>Title</u>	<u>Name</u>	<u>Term Expires</u>
Mayor	Mark Nichols	December 31, 2021
Council	Russell Boe	December 31, 2019
Council	Randall Klipfel	December 31, 2019
Council	Greg Schreck	December 31, 2019
Council	Cindy McGrath	December 31, 2021
Council	Philip Gartner	December 31, 2021
Council	Marylou Waltman	December 31, 2021

APPOINTED

City Administrator	Mark Sievert
City Clerk	Kari Schreck
Finance Director/Treasurer	Amy Hove

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CITY OF LAKE CITY, MINNESOTA

FINANCIAL SECTION

DECEMBER 31, 2017

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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, 2017, 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, 2017, 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, 2016, from which such partial information was derived.

We have previously audited the City's 2016 financial statement and our reported dated June 29, 2017 expressed unmodified opinions on the respective financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2018, on our consideration of the City of Lake City, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Lake City, Minnesota's internal control over financial reporting and compliance.



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, 2017.

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 \$52,882,317 (*net position*). Of this amount, \$17,997,648 (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 \$1,893,594 primarily due to the operations of the Electric and Marina funds.
- As of the close of the current fiscal year, the City of Lake City's governmental funds reported combined ending fund balances of \$5,107,429. Approximately 68 percent of this total amount, or \$3,485,238, 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 \$1,999,401 or 40 percent of total general fund expenditures.
- The City of Lake City total outstanding debt decreased by \$1,011,348 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 sixteen 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 \$52,882,317 at the close of the most recent fiscal year.

By far the largest portion of the City of Lake City's net position (63 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	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 5,776,593	\$ 6,313,422	\$ 19,366,553	\$ 18,022,508	\$ 25,143,146	\$ 24,335,930
Capital assets	23,045,541	21,729,597	18,058,733	18,864,003	41,104,274	40,593,600
Total assets	<u>28,822,134</u>	<u>28,043,019</u>	<u>37,425,286</u>	<u>36,886,511</u>	<u>66,247,420</u>	<u>64,929,530</u>
Deferred outflows of resources	374,066	2,889,617	144,574	648,150	518,640	3,537,767
Long-term liabilities outstanding	5,553,841	8,182,256	6,373,894	7,300,369	11,927,735	15,482,625
Other liabilities	308,803	238,196	1,158,460	1,018,402	1,467,263	1,256,598
Total liabilities	<u>5,862,644</u>	<u>8,420,452</u>	<u>7,532,354</u>	<u>8,318,771</u>	<u>13,394,998</u>	<u>16,739,223</u>
Deferred inflows of resources	451,408	556,142	37,337	183,209	488,745	739,351
Net position:						
Net investment in capital assets	20,224,125	18,487,487	13,133,099	13,282,649	33,357,224	31,770,136
Restricted	1,527,445	1,513,498			1,527,445	1,513,498
Unrestricted	1,130,578	1,955,057	16,867,070	15,750,032	17,997,648	17,705,089
Total net position	<u>\$ 22,882,148</u>	<u>\$ 21,956,042</u>	<u>\$ 30,000,169</u>	<u>\$ 29,032,681</u>	<u>\$ 52,882,317</u>	<u>\$ 50,988,723</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* (\$17,997,648) 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 \$926,106.

**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 \$967,488.

A condensed version of the Statement of Activities follows:

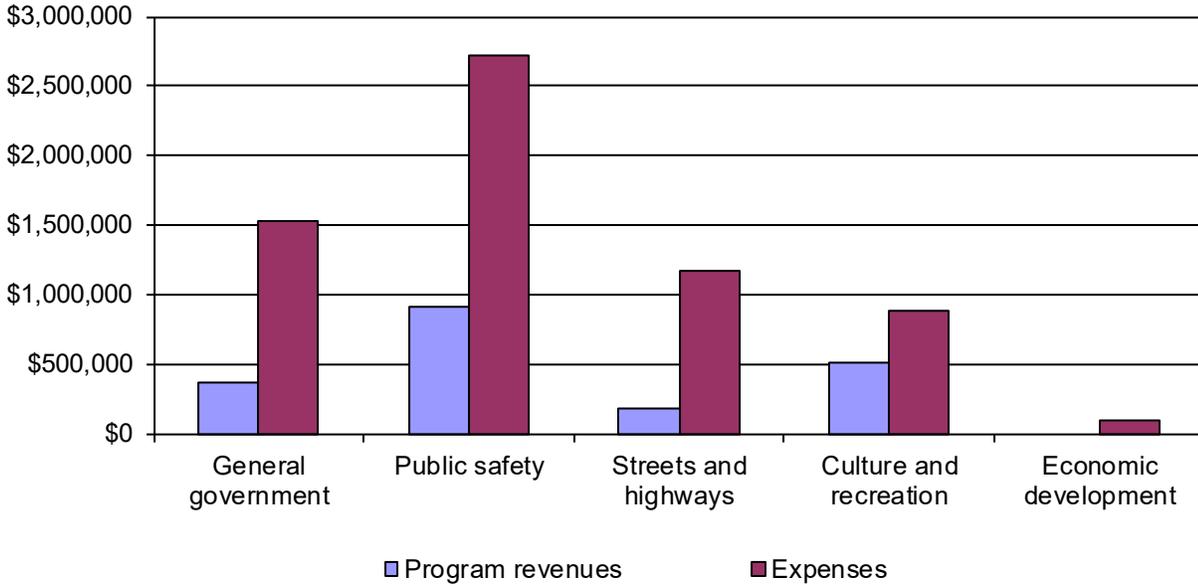
City of Lake City's Change in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenue:						
Program revenues:						
Charges for services	\$ 1,354,566	\$ 1,104,842	\$ 18,405,732	\$ 17,769,767	\$ 19,760,298	\$ 18,874,609
Operating grants and contributions	608,550	770,412			608,550	770,412
Capital grants and contributions		23,554	9,217	20,266	9,217	43,820
General revenues:						
Property taxes	3,336,874	3,326,703			3,336,874	3,326,703
Tax increments		128,362				128,362
Grants and contributions not restricted to specific programs	777,572	774,090			777,572	774,090
Other	201,756	163,444	240,620	201,254	442,376	364,698
Total revenues	<u>6,279,318</u>	<u>6,291,407</u>	<u>18,655,569</u>	<u>17,991,287</u>	<u>24,934,887</u>	<u>24,282,694</u>
Expenses:						
General government	1,530,311	1,416,600			1,530,311	1,416,600
Public safety	2,716,480	2,798,368			2,716,480	2,798,368
Streets and highways	1,168,069	1,011,374			1,168,069	1,011,374
Culture and recreation	884,869	1,041,793			884,869	1,041,793
Economic development	92,417	43,035			92,417	43,035
Interest on long-term debt	106,386	73,513			106,386	73,513
Electric			12,737,184	12,392,220	12,737,184	12,392,220
Water			593,924	708,486	593,924	708,486
Sewer			1,392,882	1,380,365	1,392,882	1,380,365
Storm water			190,142	209,801	190,142	209,801
Marina			584,030	582,149	584,030	582,149
Garbage			1,044,599	954,455	1,044,599	954,455
Total expenses	<u>6,498,532</u>	<u>6,384,683</u>	<u>16,542,761</u>	<u>16,227,476</u>	<u>23,041,293</u>	<u>22,612,159</u>
Increase in net position before transfers and other	(219,214)	(93,276)	2,112,808	1,763,811	1,893,594	1,670,535
Transfers	1,145,320	770,062	(1,145,320)	(770,062)		
Increase in net position	<u>926,106</u>	<u>676,786</u>	<u>967,488</u>	<u>993,749</u>	<u>1,893,594</u>	<u>1,670,535</u>
Net position, beginning of year	21,956,042	21,279,256	29,032,681	28,038,932	50,988,723	49,318,188
Net position, end of year	<u>\$ 22,882,148</u>	<u>\$ 21,956,042</u>	<u>\$ 30,000,169</u>	<u>\$ 29,032,681</u>	<u>\$ 52,882,317</u>	<u>\$ 50,988,723</u>

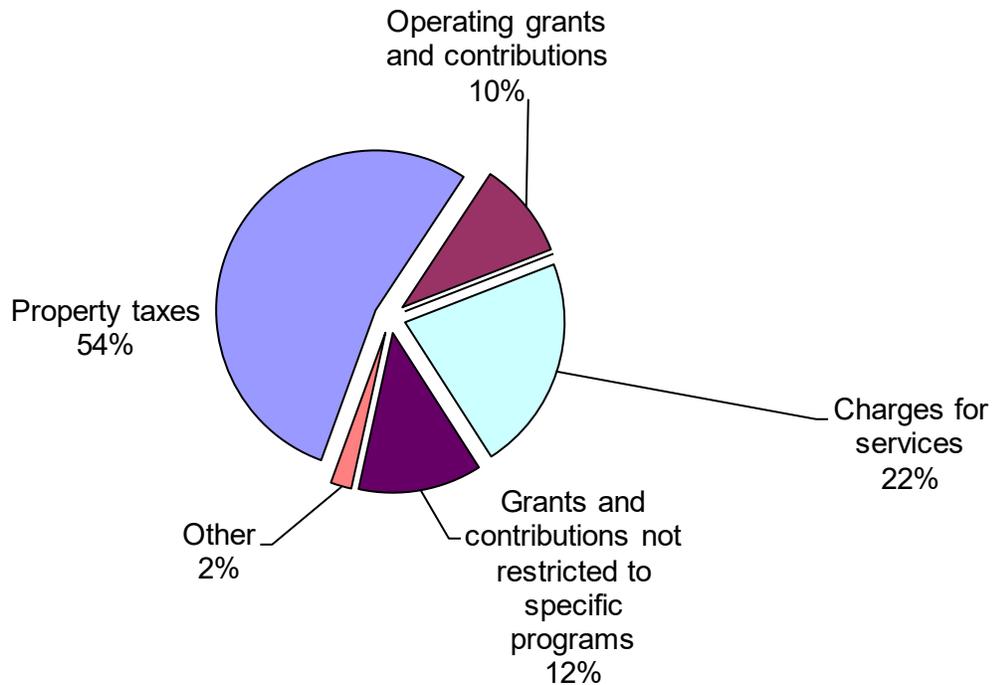
**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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



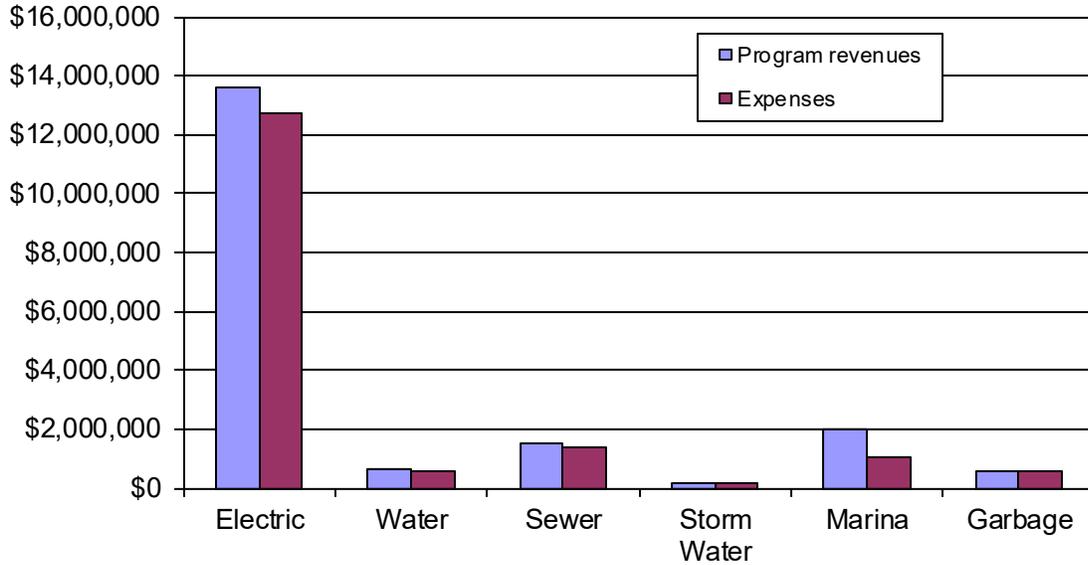
Revenues by Source - Governmental Activities



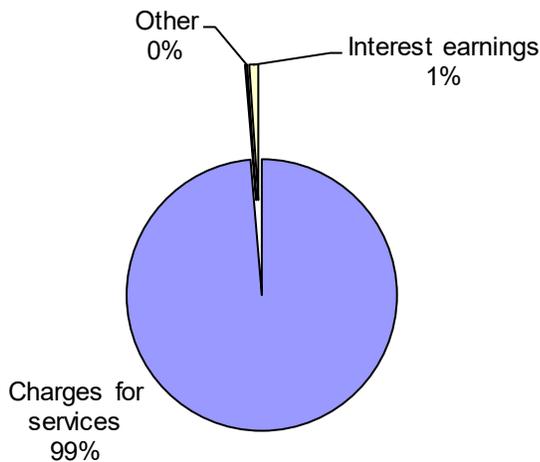
**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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 \$5,107,429, a decrease of \$512,356. Approximately 68 percent of this total amount, or \$3,485,238, constitutes *unassigned, assigned, or committed fund balance*, which is available for spending at the government's discretion. The remainder of the total fund balance (\$1,622,191) is *nonspendable or restricted* to indicate that it is not available for new spending because it is restricted to repay long-term debt, for use by the development loan programs, and other specific uses.

The general fund is the chief operating fund of the City of Lake City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,999,401. 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 40 percent of total general fund expenditures.

The general fund's total fund balance increased by \$1,171,269 during the current fiscal year. This year's increase was primarily due to collection of state aid from a previous year's project, savings due to the public safety building project costs coming in under budget so transfers out were less than budgeted, and more transfers were received from the Marina fund than budgeted.

The debt service funds have a total fund balance of \$871,362 all of which is restricted for the payment of debt service.

Proprietary funds. The City of Lake City's proprietary funds statements found on pages 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 - \$9,040,351, Water - \$712,736, Sewer - \$632,381, Storm Water - \$14,142, Marina - \$6,377,594, and Garbage - \$89,866. All funds, except the storm water fund and garbage fund, had increases in total net position for the year. The storm water utility fund's net loss was primarily due to depreciation.

General Fund Budgetary Highlights

The original 2017 general fund budget approved by the City anticipated a decrease in general fund reserves of \$106,849. All differences between the original and final budgets in the general fund for the City in 2017 were approved by resolution amending the original budget. Select unspent budgeted amounts from 2016 were carried over to the 2017 budget by resolution. During 2017, there were some smaller capital adjustments made to the budget but there were no major adjustments.

**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, 2017, amounts to \$41,104,274 (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 \$510,674.

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

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 1,342,605	\$ 1,351,940	\$ 725,300	\$ 732,135	\$ 2,067,905	\$ 2,084,075
Construction in progress	211,879	1,965,613	58,989	19,938	270,868	1,985,551
Buildings and improvements	10,401,792	7,774,257	6,596,739	6,715,750	16,998,531	14,490,007
Machinery and equipment	1,857,904	1,557,743	545,259	635,312	2,403,163	2,193,055
Infrastructure	9,231,361	9,080,044			9,231,361	9,080,044
Distribution and collection system			10,132,446	10,760,868	10,132,446	10,760,868
Total	<u>\$ 23,045,541</u>	<u>\$ 21,729,597</u>	<u>\$ 18,058,733</u>	<u>\$ 18,864,003</u>	<u>\$ 41,104,274</u>	<u>\$ 40,593,600</u>

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 \$7,747,050 in bonds and notes outstanding. Of this amount, \$5,761,829 comprises debt backed by the full faith and credit of the government and \$1,985,221 represents bonds secured solely by specified revenue sources.

City of Lake City's Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$ 2,821,416	\$ 3,242,110	\$ 198,111	\$ 223,556	\$ 3,019,527	\$ 3,465,666
General obligation revenue loans			1,991,000	2,377,774	1,991,000	2,377,774
General obligation revenue bonds			751,302	820,334	751,302	820,334
Revenue bonds			1,985,221	2,159,690	1,985,221	2,159,690
Compensated absences	316,042	249,826	181,585	182,735	497,627	432,561
Total	\$ 3,137,458	\$ 3,491,936	\$ 5,107,219	\$ 5,764,089	\$ 8,244,677	\$ 9,256,025

The City of Lake City's total outstanding debt decreased by \$1,011,348 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, 2017

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CITY OF LAKE CITY, MINNESOTA
STATEMENT OF NET POSITION

December 31, 2017

With Comparative Totals as of December 31, 2016

	Primary Government				Component Unit	
	Governmental Activities	Business-Type Activities	Totals		Economic Development Authority	
			2017	2016	2017	2016
Assets						
Cash and investments	\$ 7,393,844	\$ 15,025,787	\$ 22,419,631	\$ 20,500,478	\$ 140,852	\$ 137,847
Accounts receivable	197,544	1,291,365	1,488,909	2,223,895		
Interest receivable	70,511	7,456	77,967	58,431		
Taxes receivable	47,209		47,209	49,228		
Special assessments receivable	72,412	57,729	130,141	162,020		
Loan receivable	60,816		60,816	64,780		
Internal balances	(2,315,619)	2,315,619				
Due from other governmental units	23,819		23,819	218,420	1,263	2,065
Due from component unit	5		5	37		
Prepaid expenses	57,340	64,055	121,395	103,044	889	
Property held for resale					235,000	235,000
Inventories		604,542	604,542	666,124		
Net pension asset	168,712		168,712	289,473		
Capital assets:						
Nondepreciable	1,554,484	784,289	2,338,773	4,069,626		
Depreciable, net	21,491,057	17,274,444	38,765,501	36,523,974		
Total Assets	<u>28,822,134</u>	<u>37,425,286</u>	<u>66,247,420</u>	<u>64,929,530</u>	<u>378,004</u>	<u>374,912</u>
Deferred Outflows of Resources						
Deferred outflows from pension activity	374,066	144,574	518,640	3,537,767		
Liabilities						
Accounts and contracts payable	160,213	973,906	1,134,119	886,100	6,786	
Accrued liabilities	134,317	99,704	234,021	254,468		
Deposits payable	14,273	84,850	99,123	116,030		
Due to primary government					5	37
Noncurrent liabilities:						
Due within one year	415,000	626,000	1,041,000	1,081,774		
Due in more than one year	2,722,458	4,481,219	7,203,677	8,174,251		
Net pension liability	2,416,383	1,266,675	3,683,058	6,226,600		
Total Liabilities	<u>5,862,644</u>	<u>7,532,354</u>	<u>13,394,998</u>	<u>16,739,223</u>	<u>6,791</u>	<u>37</u>
Deferred Inflows of Resources						
Deferred inflows from pension activity	451,408	37,337	488,745	739,351		
Net Position						
Net investment in capital assets	20,224,125	13,133,099	33,357,224	31,770,136		
Restricted for:						
Debt service	849,817		849,817	842,758		
Revolving loans	677,628		677,628	670,740		
Unrestricted	1,130,578	16,867,070	17,997,648	17,705,089	371,213	374,875
Total Net Position	<u>\$ 22,882,148</u>	<u>\$ 30,000,169</u>	<u>\$ 52,882,317</u>	<u>\$ 50,988,723</u>	<u>\$ 371,213</u>	<u>\$ 374,875</u>

See Notes to Financial Statements

CITY OF LAKE CITY, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2017
With Comparative Totals for the Year Ended December 31, 2016

<u>Functions/Programs</u>	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 1,530,311	\$ 354,537	\$ 11,043	\$
Public safety	2,716,480	733,670	179,234	
Streets and highways	1,168,069	12,493	164,499	
Culture and recreation	884,869	253,866	253,774	
Economic development	92,417			
Interest on long-term debt	106,386			
Total governmental activities	<u>6,498,532</u>	<u>1,354,566</u>	<u>608,550</u>	
Business-Type activities:				
Electric utility	12,737,184	13,593,763		
Water utility	593,924	660,975		7,974
Sewer utility	1,392,882	1,499,703		218
Storm water utility	190,142	136,852		1,025
Garbage	584,030	550,407		
Marina	1,044,599	1,964,032		
Total business-type activities	<u>16,542,761</u>	<u>18,405,732</u>		<u>9,217</u>
Total Primary Government	<u>\$ 23,041,293</u>	<u>\$ 19,760,298</u>	<u>\$ 608,550</u>	<u>\$ 9,217</u>
Component Unit:				
Economic Development Authority	<u>\$ 109,007</u>	<u>\$ 33,400</u>	<u>\$</u>	<u>\$</u>

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

Change in net position

Net position - beginning

Net position - ending

See Notes to Financial Statements

Net (Expense) Revenue
and Changes in Net Position

Primary Government		Totals		Component Unit Economic Development Authority	
Governmental Activities	Business-Type Activities	2017	2016	2017	2016
\$ (1,164,731)	\$	\$ (1,164,731)	\$ (1,084,845)	\$	\$
(1,803,576)		(1,803,576)	(2,044,931)		
(991,077)		(991,077)	(598,509)		
(377,229)		(377,229)	(641,042)		
(92,417)		(92,417)	(43,035)		
(106,386)		(106,386)	(73,513)		
<u>(4,535,416)</u>		<u>(4,535,416)</u>	<u>(4,485,875)</u>		
	856,579	856,579	725,398		
	75,025	75,025	(61,887)		
	107,039	107,039	45,737		
	(52,265)	(52,265)	(78,971)		
	(33,623)	(33,623)	(47,492)		
	<u>919,433</u>	<u>919,433</u>	<u>979,772</u>		
	<u>1,872,188</u>	<u>1,872,188</u>	<u>1,562,557</u>		
<u>(4,535,416)</u>	<u>1,872,188</u>	<u>(2,663,228)</u>	<u>(2,923,318)</u>		
				<u>(75,607)</u>	<u>(68,966)</u>
3,336,874		3,336,874	3,326,703	71,797	80,864
777,572		777,572	128,362		
77,030	198,470	275,500	774,090	148	171
70,250		70,250	255,032		
54,476	42,150	96,626	109,666		
1,145,320	(1,145,320)				
<u>5,461,522</u>	<u>(904,700)</u>	<u>4,556,822</u>	<u>4,593,853</u>	<u>71,945</u>	<u>81,035</u>
926,106	967,488	1,893,594	1,670,535	(3,662)	12,069
<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>
<u>\$ 22,882,148</u>	<u>\$ 30,000,169</u>	<u>\$ 52,882,317</u>	<u>\$ 50,988,723</u>	<u>\$ 371,213</u>	<u>\$ 374,875</u>

CITY OF LAKE CITY, MINNESOTA

BALANCE SHEET

GOVERNMENTAL FUNDS

December 31, 2017

With Comparative Totals as of December 31, 2016

	General Fund	Public Safety Building Project	Other Governmental Funds	Total Governmental Funds	
				2017	2016
Assets					
Cash and investments	\$ 4,521,321	\$	\$2,872,523	\$ 7,393,844	\$ 8,697,426
Interest receivable	70,511			70,511	50,975
Accounts receivable	195,702		250	195,952	75,653
Taxes receivable delinquent	39,876		7,333	47,209	49,228
Special assessments receivable:					
Deferred	16,791		55,621	72,412	89,226
Interfund receivable	33,169			33,169	141,753
Loans receivable			60,816	60,816	64,780
Due from other governmental units	23,819			23,819	218,420
Due from component unit	5			5	37
TOTAL ASSETS	\$ 4,901,194	\$	\$2,996,543	\$ 7,897,737	\$ 9,387,498
Liabilities, Deferred Inflows of Resources and Fund Balance					
Liabilities					
Accounts payable	\$ 130,615	\$	\$ 25,948	\$ 156,563	\$ 65,027
Accrued liabilities	112,772			112,772	117,883
Deposits payable	14,273			14,273	32,164
Advances from other funds	2,315,619			2,315,619	3,207,652
Interfund payable			10,644	10,644	141,753
Total Liabilities	2,573,279		36,592	2,609,871	3,564,479
Deferred Inflows of Resources					
Unavailable revenue	56,667		123,770	180,437	203,234
Fund Balance					
Restricted:					
Creditors (debt covenants)			871,362	871,362	866,397
Regulations			616,812	616,812	605,960
Other purposes	134,017			134,017	63,071
Committed	137,830			137,830	107,289
Assigned			1,358,649	1,358,649	3,323,293
Unassigned	1,999,401		(10,642)	1,988,759	653,775
Total Fund Balance	2,271,248		2,836,181	5,107,429	5,619,785
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 4,901,194	\$	\$2,996,543	\$ 7,897,737	\$ 9,387,498

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, 2017

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

Total governmental fund balances (page 17)		\$ 5,107,429
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 43,151,932	
Less: Accumulated depreciation	<u>(20,277,149)</u>	22,874,783
Some receivables are not available soon enough to pay for current period expenditures and therefore are unavailable in the funds.		
Delinquent property taxes	\$ 47,209	
Deferred special assessments	72,412	
Loans receivable	<u>60,816</u>	180,437
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		
		203,515
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	\$ (2,416,383)	
Net pension asset	168,712	
Deferred outflows from pension activity	374,066	
Deferred inflows from pension activity	<u>(451,408)</u>	(2,325,013)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Bonds and notes payable	\$ (2,821,416)	
Compensated absences	(316,042)	
Accrued interest	<u>(21,545)</u>	<u>(3,159,003)</u>
Net position of governmental activities (page 14)		<u><u>\$ 22,882,148</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, 2017

With Comparative Totals for the Year Ended December 31, 2016

	General Fund	Public Safety Building Project	Other Governmental Funds	Total Governmental Funds	
				2017	2016
Revenues					
Taxes	\$2,763,892	\$	\$ 571,877	\$3,335,769	\$3,313,192
Tax increments					128,362
Special assessments	3,124		18,676	21,800	24,819
Licenses and permits	89,526			89,526	83,870
Intergovernmental revenues	1,099,493		11,898	1,111,391	1,373,415
Charges for services	1,202,977		2,878	1,205,855	1,002,154
Fines and forfeits	26,871		3,159	30,030	29,634
Investment income	34,803		22,510	57,313	77,193
Miscellaneous revenues	263,494		131,679	395,173	254,802
Total Revenues	5,484,180		762,677	6,246,857	6,287,441
Expenditures					
General government	1,107,135			1,107,135	1,132,052
Public safety	2,449,622			2,449,622	2,251,611
Streets and highways	631,829			631,829	745,327
Culture and recreation	808,232		253,364	1,061,596	1,037,907
Economic development			26,978	26,978	65,834
Capital outlay		1,942,451	207,296	2,149,747	2,029,848
Bond principal retirement			420,000	420,000	1,070,965
Interest and fiscal charges			57,626	57,626	78,085
Total Expenditures	4,996,818	1,942,451	965,264	7,904,533	8,411,629
Excess (Deficiency) of Revenues Over (Under) Expenditures	487,362	(1,942,451)	(202,587)	(1,657,676)	(2,124,188)
Other Financing Sources (Uses)					
Transfers in	1,072,547		792,172	1,864,719	5,425,611
Transfers out	(388,640)	(278,830)	(51,929)	(719,399)	(4,655,549)
Total other financing sources (uses)	683,907	(278,830)	740,243	1,145,320	770,062
Net change in fund balances	1,171,269	(2,221,281)	537,656	(512,356)	(1,354,126)
FUND BALANCE, beginning	1,099,979	2,221,281	2,298,525	5,619,785	6,973,911
FUND BALANCE, ending	\$2,271,248	\$	\$2,836,181	\$5,107,429	\$5,619,785

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, 2017

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

Net change in fund balances - total governmental funds (page 19)	\$	(512,356)
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	\$	2,572,724
Depreciation expense		<u>(1,111,106)</u>
		1,461,618
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, etc.) is to decrease net position		
		(166,959)
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, 2017	\$	180,437
Unavailable revenue, December 31, 2016		<u>(203,234)</u>
		(22,797)
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		(66,216)
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		
		67,669
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	\$	420,000
Long-term debt discount and premiums		694
Change in net pension activity		(257,641)
Change in accrued interest		<u>2,094</u>
		<u>165,147</u>
Change in net position of governmental activities (pages 15 and 16)	\$	<u><u>926,106</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, 2017

With Comparative Totals for the Year Ended December 31, 2016

	Budgeted Amounts		2017 Actual Amounts	Variance with Final Budget Positive (Negative)	2016 Actual Amounts
	Original	Final			
Taxes					
Property taxes	\$ 2,594,795	\$ 2,594,795	\$ 2,629,167	\$ 34,372	\$ 2,594,335
Special assessments			3,124	3,124	4,798
Franchise tax	75,000	75,000	66,718	(8,282)	70,156
Lodging tax	60,000	60,000	68,007	8,007	62,722
Total Taxes	<u>2,729,795</u>	<u>2,729,795</u>	<u>2,767,016</u>	<u>37,221</u>	<u>2,732,011</u>
Licenses and Permits					
Business licenses	19,100	19,100	22,023	2,923	21,366
Non-Business licenses	53,100	53,100	67,503	14,403	62,504
Total Licenses and Permits	<u>72,200</u>	<u>72,200</u>	<u>89,526</u>	<u>17,326</u>	<u>83,870</u>
Intergovernmental Revenues					
Local government aid	773,788	773,788	777,280	3,492	773,788
Market value credit	292	292	292		302
MSA street maintenance			164,499	164,499	383,741
Fire aid	50,000	50,000	52,896	2,896	53,402
Police aid	79,000	82,486	97,133	14,647	105,860
Other state aids	7,393	7,393	7,393		7,393
Total Intergovernmental	<u>910,473</u>	<u>913,959</u>	<u>1,099,493</u>	<u>185,534</u>	<u>1,324,486</u>
Charges for Services					
General government	232,000	232,000	231,541	(459)	210,705
Public safety	663,500	664,500	711,568	47,068	543,072
Streets and highways	7,000	7,000	12,458	5,458	5,544
Park fees	243,300	243,300	247,410	4,110	240,513
Total Charges for Services	<u>1,145,800</u>	<u>1,146,800</u>	<u>1,202,977</u>	<u>56,177</u>	<u>999,834</u>
Fines and forfeits					
	30,000	30,000	26,871	(3,129)	26,372
Investment Income					
	50,000	50,000	34,803	(15,197)	39,726
Miscellaneous Revenues					
Gift and contributions	5,000	27,572	138,996	111,424	9,849
Other	19,350	19,350	108,138	88,788	48,567
Refunds and reimbursements	25,000	25,000	16,360	(8,640)	69,637
Total Miscellaneous Revenues	<u>49,350</u>	<u>71,922</u>	<u>263,494</u>	<u>191,572</u>	<u>128,053</u>
TOTAL REVENUES	<u>\$ 4,987,618</u>	<u>\$ 5,014,676</u>	<u>\$ 5,484,180</u>	<u>\$ 469,504</u>	<u>\$ 5,334,352</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, 2017

With Comparative Totals for the Year Ended December 31, 2016

	Budgeted Amounts		2017 Actual Amounts	Variance with Final Budget Positive (Negative)	2016 Actual Amounts
	Original	Final			
EXPENDITURES					
General Government					
Mayor and City Council:					
Personnel services	\$ 43,060	\$ 43,060	\$ 42,016	\$ 1,044	\$ 41,532
Supplies	2,000	2,000	856	1,144	3,476
Other services and charges	43,700	43,700	38,342	5,358	33,654
Total Mayor and City Council	88,760	88,760	81,214	7,546	78,662
City Administrator:					
Personnel services	152,141	156,366	147,112	9,254	154,011
Supplies	1,000	1,000	94	906	345
Other services and charges	7,100	7,100	3,509	3,591	5,684
Total City Administrator	160,241	164,466	150,715	13,751	160,040
City Clerk/Finance Director:					
Personnel services	326,472	344,472	342,674	1,798	324,634
Supplies	4,750	4,750	3,051	1,699	3,752
Other services and charges	33,850	33,850	27,986	5,864	40,139
Capital outlay	15,000	40,000	12,400		7,932
Total City Clerk/Finance Director	380,072	423,072	386,111	9,361	376,457
Audit:					
Other services and charges	37,000	37,000	22,250	14,750	26,085
Legal:					
Other services and charges	133,000	133,000	115,130	17,870	96,935
Planning and Zoning:					
Personnel services	273,310	175,310	149,834	25,476	232,399
Supplies	2,900	2,900	1,549	1,351	631
Other services and charges	69,125	149,125	109,640	39,485	55,458
Total Planning and Zoning	345,335	327,335	261,023	66,312	288,488
Elections:					
Personnel services					9,197
Supplies	100	100		100	2,142
Other services and charges	2,000	2,000	1,290	710	2,747
Total Elections	2,100	2,100	1,290	810	14,086
General Government Buildings:					
Other services and charges			89,402	(89,402)	91,299
Total General Government Buildings			89,402	(89,402)	91,299
Total General Government	\$ 1,146,508	\$ 1,175,733	\$ 1,107,135	\$ 40,998	\$ 1,132,052

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, 2017

With Comparative Totals for the Year Ended December 31, 2016

	Budgeted Amounts		2017 Actual Amounts	Variance with Final Budget Positive (Negative)	2016 Actual Amounts
	Original	Final			
EXPENDITURES					
Public Safety					
Police:					
Personnel services	\$ 1,143,066	\$ 1,146,552	\$ 1,156,692	\$ (10,140)	\$ 1,131,511
Supplies	62,500	62,500	51,344	11,156	60,157
Other services and charges	55,550	55,550	109,790	(54,240)	69,788
Capital outlay	29,000	29,000	39,265	(10,265)	41,661
Total Police	<u>1,290,116</u>	<u>1,293,602</u>	<u>1,357,091</u>	<u>(63,489)</u>	<u>1,303,117</u>
Fire:					
Personnel services	106,297	106,297	85,679	20,618	97,966
Supplies	37,000	43,000	42,836	164	32,463
Other services and charges	89,600	89,600	128,628	(39,028)	108,861
Capital outlay	130,702	159,695	40,160	119,535	10,322
Total Fire	<u>363,599</u>	<u>398,592</u>	<u>297,303</u>	<u>101,289</u>	<u>249,612</u>
Ambulance:					
Personnel services	599,041	599,041	564,165	34,876	512,158
Supplies	55,500	50,500	47,403	3,097	48,527
Other services and charges	47,000	89,168	155,735	(66,567)	86,925
Capital outlay	42,589	42,589	7,119	35,470	9,045
Total Ambulance	<u>744,130</u>	<u>781,298</u>	<u>774,422</u>	<u>6,876</u>	<u>656,655</u>
Civil Defense:					
Personnel services	24,455	24,455	8,354	16,101	28,171
Supplies	9,700	9,700	8,820	880	6,011
Other services and charges	6,010	6,010	3,632	2,378	3,547
Total Civil Defense	<u>40,165</u>	<u>40,165</u>	<u>20,806</u>	<u>19,359</u>	<u>37,729</u>
Animal Control:					
Personnel services	6,212	6,212		6,212	4,498
Total Animal Control	<u>6,212</u>	<u>6,212</u>		<u>6,212</u>	<u>4,498</u>
Total Public Safety	<u>\$ 2,444,222</u>	<u>\$ 2,519,869</u>	<u>\$ 2,449,622</u>	<u>\$ 70,247</u>	<u>\$ 2,251,611</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, 2017

With Comparative Totals for the Year Ended December 31, 2016

	Budgeted Amounts		2017 Actual Amounts	Variance with Final Budget Positive (Negative)	2016 Actual Amounts
	Original	Final			
EXPENDITURES					
Streets and Highways					
Personnel services	\$ 398,483	\$ 398,483	\$ 306,875	\$ 91,608	\$ 286,321
Supplies	79,000	79,000	45,855	33,145	38,319
Other services and charges	217,900	208,400	205,547	2,853	146,403
Capital outlay	84,000	99,500	73,552	25,948	274,284
Total Streets and Highways	779,383	785,383	631,829	153,554	745,327
Culture and Recreation					
Tourism:					
Other services and charges	60,000	60,000	64,097	(4,097)	58,681
Total Tourism	60,000	60,000	64,097	(4,097)	58,681
Summer Recreation:					
Personnel services	55,978	55,978	54,591	1,387	52,561
Supplies	800	800	593	207	312
Other services and charges	5,600	5,600	5,094	506	1,640
Total Summer Recreation	62,378	62,378	60,278	2,100	54,513
Swimming Pool:					
Personnel services	50,811	50,811	46,163	4,648	46,135
Supplies	12,000	12,000	6,971	5,029	7,600
Other services and charges	2,700	2,700	89,963	(87,263)	90,873
Capital outlay					62,122
Total Swimming Pool	65,511	65,511	143,097	(77,586)	206,730
Hok-Si-La Park:					
Personnel services	141,938	141,938	131,671	10,267	122,796
Supplies	20,800	20,800	21,352	(552)	19,540
Other services and charges	52,400	52,400	58,279	(5,879)	60,626
Capital outlay	14,000	15,000	84,080	(69,080)	58,186
Total Hok-Si-La Park	\$ 229,138	\$ 230,138	\$ 295,382	\$ (65,244)	\$ 261,148

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, 2017

With Comparative Totals for the Year Ended December 31, 2016

	Budgeted Amounts		2017 Actual Amounts	Variance with Final Budget Positive (Negative)	2016 Actual Amounts
	Original	Final			
Culture and Recreation (continued)					
Other Parks:					
Personnel services	\$ 115,554	\$ 115,554	\$ 134,210	\$ (18,656)	\$ 119,266
Supplies	31,500	28,500	31,748	(3,248)	24,064
Other services and charges	9,700	12,700	77,192	(64,492)	56,348
Capital outlay	5,000	5,000	2,228	2,772	
Total Other Parks	161,754	161,754	245,378	(83,624)	199,678
Total Culture and Recreation	578,781	579,781	808,232	(228,451)	780,750
TOTAL EXPENDITURES	4,948,894	5,060,766	4,996,818	36,348	4,909,740
Excess (deficiency) of revenues over (under) expenditures	38,724	(46,090)	487,362	533,452	424,612
OTHER FINANCING SOURCES (USES)					
Transfers in	771,212	771,212	1,072,547	301,335	768,915
Transfers out	(916,785)	(916,785)	(388,640)	528,145	(3,886,894)
Total Other Financing Sources (Uses)	(145,573)	(145,573)	683,907	829,480	(3,117,979)
NET CHANGE IN FUND BALANCE	(106,849)	(191,663)	1,171,269	1,362,932	(2,693,367)
FUND BALANCE, beginning	1,099,979	1,099,979	1,099,979		3,793,346
FUND BALANCE, ending	\$ 993,130	\$ 908,316	\$ 2,271,248	\$ 1,362,932	\$ 1,099,979

See Notes to Financial Statements

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CITY OF LAKE CITY, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
December 31, 2017
With Comparative Totals as of December 31, 2016

	Business-Type Activities - Enterprise Funds			
	701	702	703	706
	Electric Fund	Water Fund	Sewer Fund	Storm Water Fund
ASSETS AND DEFERRED OUTFLOWS				
OF RESOURCES				
Current Assets				
Cash and cash equivalents	\$ 6,615,715	\$ 838,865	\$ 822,805	\$ 94,430
Accounts receivable	1,156,775	25,562	50,013	6,294
Advances to other funds	2,276,318			
Inventories	589,504			
Prepaid expense	24,689	2,543	13,090	606
Total Current Assets	10,663,001	866,970	885,908	101,330
Noncurrent Assets				
Capital Assets				
Nondepreciable	68,889	4,273		97,400
Depreciable	16,376,842	4,175,286	12,158,749	2,651,414
Less: Accumulated depreciation	(9,875,604)	(2,102,983)	(7,885,543)	(1,179,410)
Net Capital Assets	6,570,127	2,076,576	4,273,206	1,569,404
Special Assessments		35,565		22,164
Total Noncurrent Assets	6,570,127	2,112,141	4,273,206	1,591,568
Deferred Outflows of Resources				
Deferred outflows from pension activity	66,410	20,117	24,791	2,258
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 17,299,538	\$ 2,999,228	\$ 5,183,905	\$ 1,695,156
LIABILITIES				
Current Liabilities				
Current maturities of bonds payable	\$ 185,000	\$ 60,000	\$ 346,000	\$ 35,000
Accounts payable	910,905	2,963	1,720	5,497
Accrued liabilities	61,511	7,543	21,556	5,271
Advances from other funds				80,000
Interfund payables				
Customer deposits	84,850			
Total Current Liabilities	1,242,266	70,506	369,276	125,768
Noncurrent Liabilities				
Bonds payable, net of current maturities and discount	1,800,221	513,762	1,645,000	340,651
Compensated absences payable	26,412	25,700	39,940	
Net pension liability	588,048	168,737	208,943	20,245
Total Liabilities	3,656,947	778,705	2,263,159	486,664
Deferred Inflows of Resources				
Deferred inflows from pension activity	17,334	4,973	6,159	597
NET POSITION				
Net investment in capital assets	4,584,906	1,502,814	2,282,206	1,193,753
Unrestricted	9,040,351	712,736	632,381	14,142
Total Net Position	13,625,257	2,215,550	2,914,587	1,207,895
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET PENSION	\$ 17,299,538	\$ 2,999,228	\$ 5,183,905	\$ 1,695,156

See Notes to Financial Statements

710 Marina Fund	720 Garbage Fund	TOTALS		Governmental Activities - Internal Service Fund	
		2017	2016	2017	2016
\$ 6,538,163	\$ 115,809	\$ 15,025,787	\$ 11,871,488	\$	\$
25,387	34,790	1,298,821	2,155,865	1,592	350
119,301		2,395,619	3,297,652		
15,038		604,542	666,124		
22,284	843	64,055	48,585	57,340	54,459
<u>6,720,173</u>	<u>151,442</u>	<u>19,388,824</u>	<u>18,039,714</u>	<u>58,932</u>	<u>54,809</u>
613,727		784,289	752,073	6,650	
6,682,348		42,044,639	42,838,158	179,943	153,694
(3,726,655)		(24,770,195)	(24,726,228)	(15,835)	(4,221)
<u>3,569,420</u>		<u>18,058,733</u>	<u>18,864,003</u>	<u>170,758</u>	<u>149,473</u>
		57,729	72,794		
<u>3,569,420</u>		<u>18,116,462</u>	<u>18,936,797</u>	<u>170,758</u>	<u>149,473</u>
29,379	1,619	144,574	648,150		
<u>\$ 10,318,972</u>	<u>\$ 153,061</u>	<u>\$ 37,649,860</u>	<u>\$ 37,624,661</u>	<u>\$ 229,690</u>	<u>\$ 204,282</u>
\$	\$	\$ 626,000	\$ 661,774	\$	\$
8,734	44,087	973,906	817,590	3,650	
7	3,816	99,704	112,946		
		80,000	90,000		
		84,850	87,866	22,525	68,436
<u>8,741</u>	<u>47,903</u>	<u>1,864,460</u>	<u>1,770,176</u>	<u>26,175</u>	<u>68,436</u>
89,533		4,299,634	4,919,580		
265,845	14,857	181,585	182,735		
<u>364,119</u>	<u>62,760</u>	<u>1,266,675</u>	<u>1,536,280</u>	<u>26,175</u>	<u>68,436</u>
7,839	435	7,612,354	8,408,771		
<u>7,839</u>	<u>435</u>	<u>37,337</u>	<u>183,209</u>		
3,569,420		13,133,099	13,282,649	170,758	149,473
6,377,594	89,866	16,867,070	15,750,032	32,757	(13,627)
<u>9,947,014</u>	<u>89,866</u>	<u>30,000,169</u>	<u>29,032,681</u>	<u>203,515</u>	<u>135,846</u>
<u>\$ 10,318,972</u>	<u>\$ 153,061</u>	<u>\$ 37,649,860</u>	<u>\$ 37,624,661</u>	<u>\$ 229,690</u>	<u>\$ 204,282</u>

CITY OF LAKE CITY, MINNESOTA
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
For the Year Ended December 31, 2017
With Comparative Totals for the Year Ended December 31, 2016

	Business-Type Activities - Enterprise Funds			
	701 Electric Fund	702 Water Fund	703 Sewer Fund	706 Storm Water Fund
Operating Revenue	\$ 13,593,763	\$ 660,975	\$ 1,499,703	\$ 136,852
Operating Expenses				
Salaries and benefits	791,839	254,011	310,654	25,470
Supplies	49,761	20,270	25,284	17,575
Other services and charges	11,238,407	168,425	604,611	12,910
Insurance	46,344	7,484	29,849	1,084
Depreciation	476,517	128,483	361,189	119,897
Total Operating Expenses	<u>12,602,868</u>	<u>578,673</u>	<u>1,331,587</u>	<u>176,936</u>
Operating Income (Loss)	<u>990,895</u>	<u>82,302</u>	<u>168,116</u>	<u>(40,084)</u>
Nonoperating Income (Expense)				
Miscellaneous income	23,936	546	3,219	122
Investment income	100,959	7,927	8,000	720
Special assessments		7,974	218	1,025
Loss on disposal of capital assets	(23,975)			
Loss on disposal of inventory	(13,524)			
Interest expense	(96,817)	(15,251)	(61,295)	(13,206)
Total Nonoperating Income (Expense)	<u>(9,421)</u>	<u>1,196</u>	<u>(49,858)</u>	<u>(11,339)</u>
Income (Loss) Before Transfers	981,474	83,498	118,258	(51,423)
Transfers in				
Transfers out	(165,100)	(45,000)		
Change in net position	816,374	38,498	118,258	(51,423)
Net Position, beginning	<u>12,808,883</u>	<u>2,177,052</u>	<u>2,796,329</u>	<u>1,259,318</u>
Net Position, ending	<u>\$ 13,625,257</u>	<u>\$ 2,215,550</u>	<u>\$ 2,914,587</u>	<u>\$ 1,207,895</u>

See Notes to Financial Statements

710 Marina Fund	720 Garbage Fund	TOTALS		Governmental Activities - Internal Service Funds	
		2017	2016	2017	2016
\$ 1,964,032	\$ 550,407	\$ 18,405,732	\$ 17,769,767	\$ 407,932	\$ 408,000
472,316	15,595	1,869,885	1,889,295		
182,535	762	296,187	282,663	34,311	20,455
179,552	567,673	12,771,578	12,276,369	144,151	124,485
51,904		136,665	121,107	170,411	152,095
142,469		1,228,555	1,347,661	11,614	4,221
1,028,776	584,030	16,302,870	15,917,095	360,487	301,256
935,256	(33,623)	2,102,862	1,852,672	47,445	106,744
8,100	6,227	42,150	23,066	20,224	3,645
79,377	1,487	198,470	178,188		104
		9,217	20,266		
(15,823)		(39,798)	(33,880)		
		(13,524)	(54,705)		
		(186,569)	(221,796)		
71,654	7,714	9,946	(88,861)	20,224	3,749
1,006,910	(25,909)	2,112,808	1,763,811	67,669	110,493
			58,853		
(935,220)		(1,145,320)	(828,915)		
71,690	(25,909)	967,488	993,749	67,669	110,493
9,875,324	115,775	29,032,681	28,038,932	135,846	25,353
\$ 9,947,014	\$ 89,866	\$ 30,000,169	\$ 29,032,681	\$ 203,515	\$ 135,846

CITY OF LAKE CITY, MINNESOTA
ENTERPRISE FUNDS
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2017
With Comparative Totals for the Year Ended December 31, 2016

	Business-Type Activities - Enterprise Funds			
	Electric Fund	Water Fund	Sewer Fund	Storm Water Fund
Cash Flows From Operating Activities				
Cash received from customers	\$ 13,984,294	\$ 672,072	\$ 1,566,868	\$ 135,515
Cash paid to suppliers	(11,196,909)	(220,699)	(657,868)	(26,202)
Cash paid to employees	(762,637)	(243,820)	(303,873)	(24,099)
Net Cash Provided By (Used In) Operating Activities	2,024,748	207,553	605,127	85,214
Cash Flows From Noncapital Financing Activities				
Advances from/ (to) other funds	419,277			(10,000)
Operating transfers in				
Operating transfers out	(165,100)	(45,000)		
Net Cash Provided By (Used In) Noncapital Financing Activities	254,177	(45,000)		(10,000)
Cash Flows From Capital and Related Financing Activities				
Principal received on special assessments		16,870	3,834	3,580
Acquisition of capital assets	(88,205)	(40,606)	(38,888)	
Interest paid on debt	(91,286)	(15,212)	(61,295)	(12,722)
Principal paid on debt	(180,000)	(60,000)	(386,774)	(35,000)
Net Cash Provided By (Used In) Capital and Related Financing Activities	(359,491)	(98,948)	(483,123)	(44,142)
Cash Flows From Investing Activities				
Investment income	100,959	7,927	8,000	720
(Increase) decrease in cash with escrow agent				
Net Cash Provided By (Used In) Investing Activities	100,959	7,927	8,000	720
Increase (Decrease) in Cash and Cash Equivalents				
	2,020,393	71,532	130,004	31,792
Cash and Cash Equivalents, beginning	4,595,322	767,333	692,801	62,638
Cash and Cash Equivalents, ending	\$ 6,615,715	\$ 838,865	\$ 822,805	94,430

See Notes to Financial Statements

Marina Fund	Garbage Fund	TOTALS		Governmental Activities - Internal Service Fund	
		2017	2016	2017	2016
\$ 2,392,617	\$ 550,544	\$ 19,301,910	\$ 17,335,262	\$ 428,156	\$ 411,645
(388,973)	(524,875)	(13,015,526)	(12,851,374)		
(447,287)	(14,462)	(1,796,178)	(1,833,851)	(349,346)	(300,208)
1,556,357	11,207	4,490,206	2,650,037	78,810	111,437
482,756		892,033	(2,712,672)	(45,911)	42,153
			58,853		
(935,220)		(1,145,320)	(828,915)		
(452,464)		(253,287)	(3,482,734)	(45,911)	42,153
		24,284	21,979		
(295,386)		(463,085)	(115,465)	(32,899)	(153,694)
		(180,515)	(205,843)		104
		(661,774)	(894,110)		
(295,386)		(1,281,090)	(1,193,439)	(32,899)	(153,590)
79,377	1,487	198,470	178,188		
			207,200		
79,377	1,487	198,470	385,388		
887,884	12,694	3,154,299	(1,640,748)		
5,650,279	103,115	11,871,488	13,512,236		
\$ 6,538,163	\$ 115,809	\$ 15,025,787	\$ 11,871,488	\$	\$

CITY OF LAKE CITY, MINNESOTA
ENTERPRISE FUNDS
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2017
With Comparative Totals for the Year Ended December 31, 2016

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)	\$ 990,895	\$ 82,302	\$ 168,116	\$ (40,084)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	476,517	128,483	361,189	119,897
Other	10,412	546	3,219	122
(Increase) Decrease In:				
Accounts receivable	369,611	10,551	63,946	(1,459)
Inventories	43,276			
Prepaid expenses	(12,533)	(414)	156	(130)
Increase (Decrease) In:				
Accounts payable	120,384	(24,106)	1,720	5,497
Accrued liabilities	(2,042)	(2,194)	(8,739)	(364)
Pension related	41,205	11,081	13,473	1,735
Compensated absences	(9,961)	1,304	2,047	
Customer deposits	(3,016)			
Net Cash Provided By (Used In) Operating Activities	\$ 2,024,748	\$ 207,553	\$ 605,127	\$ 85,214
Noncash Investing, Capital and Financing Activities				
Amortization of bond discount/premium	\$ 5,531	\$ 39	\$	\$ 484

See Notes to Financial Statements

Marina Fund	Garbage Fund	TOTALS		Governmental Activities - Internal Service Fund	
		2017	2016	2017	2016
\$ 935,256	\$ (33,623)	\$ 2,102,862	\$ 1,852,672	\$ 47,445	\$ 106,744
142,469		1,228,555	1,347,661	11,614	4,221
8,100	6,227	28,626	(31,639)	20,224	3,645
420,485	(6,090)	857,044	(454,388)	(1,242)	(350)
18,306		61,582	(56,477)		
(2,022)	(527)	(15,470)	16,502	(2,881)	3,917
8,734	44,087	156,316	(76,555)	3,650	(6,740)
3	94	(13,242)	(35,461)		
19,566	1,039	88,099	99,754		
5,460		(1,150)	(8,849)		
		(3,016)	(3,183)		
<u>\$ 1,556,357</u>	<u>\$ 11,207</u>	<u>\$ 4,490,206</u>	<u>\$ 2,650,037</u>	<u>\$ 78,810</u>	<u>\$ 111,437</u>
\$	\$	\$ 6,054	\$ 15,953	\$	\$

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CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

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

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

Reporting Entity

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

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

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

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

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

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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

The City reports the following major governmental funds:

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

The *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 acquisition value at the date of donation.

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

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

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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

Property, Plant and Equipment (continued)

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

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

Property held for Resale

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

Compensated Absences

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

Long-term Obligations

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

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

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

Long-term Obligations (continued)

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

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

Deferred Outflows of Resources

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, 2016 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)

2. Cash and Investments

Summary of Cash and Investments

As of December 31, 2017, the City's investments consisted of the following items, all of which are held in an internal investment pool:

Deposits	\$ 2,522,314
Investments	<u>19,897,317</u>
Cash and Investments Per Statement of Net Position	<u><u>\$ 22,419,631</u></u>

<u>Investment</u>	<u>Fair Value</u>	<u>Investment Rating</u>	
		<u>S&P</u>	<u>MOODY</u>
Money Market Mutual Funds	\$ 543,223	N/A	N/A
Mutual Funds	27,486	N/A	N/A
Non-Negotiable CD's	12,537,739	N/A	N/A
US Treasury Bonds	60,775	AA+	AAA
Federal Home Loan Bank	1,968,706	AA+	AAA
Federal National Mortgage Association Notes	1,019,288	AA+	AAA
Federal Farm Credit Bank	244,770	AA+	AAA
Federal Home Loan Mortgage Corp	<u>3,495,330</u>	AA+	AAA
	<u><u>\$ 19,897,317</u></u>		

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Cash and Investments

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 2017 or 2016.

	Assets			
	Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Mutual Funds	\$ 27,486	\$	\$ 27,486	\$
Federal Home Loan Bank	1,968,706	1,968,706		
Federal National Mortgage Association Notes	1,019,288	1,019,288		
Federal Farm Credit Bank	244,770	244,770		
Federal Home Loan Mortgage Corp	3,495,330	3,495,330		
	<u>\$ 6,755,580</u>	<u>\$ 6,728,094</u>	<u>\$ 27,486</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 Statues further require that all City deposits be insured, secured by surety bonds or be collateralized. Except for notes secured by first mortgages of future maturity, the market value of collateral pledged by the custodial bank must equal 110% of the deposits not covered by insurance or surety bonds.

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	\$ 543,223	\$ 543,223	\$	\$	\$
Mutual Funds	27,486	27,486			
Non-Negotiable CD's	12,537,739	2,143,120	4,325,352	4,304,521	1,764,746
US Treasury Bonds	60,775				60,775
Federal Home Loan Bank	1,968,706			1,245,229	723,477
Federal National Mortgage Association Notes	1,019,288				1,019,288
Federal Farm Credit Bank	244,770			244,770	
Federal Home Loan Mortgage Corp	3,495,330			2,507,180	988,150
Total	\$ 19,897,317	\$ 2,713,829	\$ 4,325,352	\$ 8,301,700	\$ 4,556,436

Credit Risk

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

Concentration of Credit Risk

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

<u>Investment</u>	<u>Percent of Total</u>
Federal Home Loan Bank	10%
Federal National Mortgage Association Notes	5%
Federal Home Loan Mortgage Corp	18%

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, 2017 totaled \$60,816.

4. Stewardship, Compliance, and Accountability

Certain funds had a deficit fund balance at December 31, 2017, as follows:

Special Revenue Funds:		
Tax increment TIF #13	\$	1,067
Tax increment TIF #16		9,575

These deficits will be eliminated through future tax levies.

Excess of expenditures over appropriations at the individual fund level during 2017 is as follows:

	Final Budget	Actual	Over Budget
Library	\$ 269,547	\$ 286,532	\$ 16,985

All excess expenditures were the result of planned processes.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Capital Assets

Capital asset activity for the year ended December 31, 2017 was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 1,351,940	\$	\$ 9,335	\$ 1,342,605
Construction in progress	1,965,613	211,879	1,965,613	211,879
Total capital assets, not being depreciated	<u>3,317,553</u>	<u>211,879</u>	<u>1,974,948</u>	<u>1,554,484</u>
Capital assets, being depreciated:				
Buildings	14,583,068	3,122,555	290,401	17,415,222
Improvements other than buildings	474,901			474,901
Infrastructure	17,914,197	672,370		18,586,567
Machinery and equipment	5,951,181	564,432	1,208,262	5,307,351
Total capital assets, being depreciated	<u>38,923,347</u>	<u>4,359,357</u>	<u>1,498,663</u>	<u>41,784,041</u>
Less accumulated depreciation for:				
Buildings	7,092,509	322,156	138,668	7,275,997
Improvements other than buildings	191,203	21,131		212,334
Infrastructure	8,834,153	521,053		9,355,206
Machinery and equipment	4,393,438	258,380	1,202,371	3,449,447
Total accumulated depreciation	<u>20,511,303</u>	<u>1,122,720</u>	<u>1,341,039</u>	<u>20,292,984</u>
Total capital assets, being depreciated, net	<u>18,412,044</u>	<u>3,236,637</u>	<u>157,624</u>	<u>21,491,057</u>
Governmental activities capital assets, net	<u>\$ 21,729,597</u>	<u>\$ 3,448,516</u>	<u>\$ 2,132,572</u>	<u>\$ 23,045,541</u>

Governmental Activities:

General government	\$ 321,500
Public safety	195,559
Streets and highways	503,176
Culture and recreation	102,485
Total depreciation expense - governmental activities	<u>\$ 1,122,720</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	\$ 732,135	\$	\$ 6,835	\$ 725,300
Construction in progress	19,938	58,989	19,938	58,989
Total capital assets, not being depreciated	<u>752,073</u>	<u>58,989</u>	<u>26,773</u>	<u>784,289</u>
Capital assets, being depreciated:				
Buildings and improvements	14,902,983	315,323	730,659	14,487,647
Distribution and collection system	24,162,668	69,822		24,232,490
Machinery and equipment	3,772,507	38,887	486,892	3,324,502
Total capital assets, being depreciated	<u>42,838,158</u>	<u>424,032</u>	<u>1,217,551</u>	<u>42,044,639</u>
Less accumulated depreciation for:				
Buildings and improvements	8,187,233	418,511	714,836	7,890,908
Distribution and collection system	13,401,800	698,244		14,100,044
Machinery and equipment	3,137,195	111,800	469,752	2,779,243
Total accumulated depreciation	<u>24,726,228</u>	<u>1,228,555</u>	<u>1,184,588</u>	<u>24,770,195</u>
Total capital assets, being depreciated, net	<u>18,111,930</u>	<u>(804,523)</u>	<u>32,963</u>	<u>17,274,444</u>
Business-type activities capital assets, net	<u>\$ 18,864,003</u>	<u>\$ (745,534)</u>	<u>\$ 59,736</u>	<u>\$ 18,058,733</u>

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	<u>63,380</u>		<u>63,380</u>	
Less accumulated depreciation for:				
Machinery and equipment	63,380		63,380	
Total accumulated depreciation	<u>63,380</u>		<u>63,380</u>	
Total capital assets, being depreciated, net	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

Business-Type Activities:

Electric	\$ 476,517
Water	128,483
Sewer	361,189
Stormwater	119,897
Marina	142,469
Total depreciation expense - business-type activities	<u>\$ 1,228,555</u>

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Due From Other Governmental Units

Amounts due from other governmental units at December 31, 2017 are as follows:

Fund	Due from various Counties	State of Minnesota	Total
General	\$ 20,448	\$ 3,371	\$ 23,819
Total	<u>\$ 20,448</u>	<u>\$ 3,371</u>	<u>\$ 23,819</u>

7. Tax Abatement

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

The City has made no commitments, other than tax abatement, under the agreements. The taxpayer submits property taxes annually and is reimbursed by the City for the abatement amount if the taxpayer has filed reports substantiating that it has met the employment levels stipulated in the agreement. The City had the following tax abatement agreements as of December 31, 2017.

Lake City Partners MN, LLC

The City entered into a tax abatement agreement in August 2014 for the purpose of construction of a market-rate housing for seniors. Under the agreement, the tax abatement is based on the property's tax capacity after development and the city's tax rate. The amount abated under this agreement may not exceed \$68,847 per year or \$600,000 over the nine year term (payable 2017-2025). The first payment owing under this agreement is due February 2018 for \$24,979.

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, 2017 at the individual fund level are summarized below:

	<u>Advances to Other Funds</u>	<u>Advances from Other Funds</u>
General Fund	\$	\$ 2,315,619
Enterprise Fund:		
Electric	2,276,318	
Marina	119,301	
	<u>\$ 2,395,619</u>	<u>\$ 2,315,619</u>

Balances of interfund receivables and payables as of December 31, 2017 at the individual fund level for year-end cash deficiencies are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 33,169	\$
Special Revenue Funds:		
Tax Increment TIF #13		1,069
Tax Increment TIF #16		9,575
Internal Service Fund		22,525
	<u>\$ 33,169</u>	<u>\$ 33,169</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, 2017 were as follows:

Funds	Transfers In	Transfers Out
General Fund	\$ 1,072,547	\$ 388,640
Special Revenue:		
Library	374,108	
New Highway 61 Coalition	29,424	
Capital Project Funds:		
Capital Projects	388,640	29,424
Public Safety Building Project		278,830
Debt Service Funds:		
Peters 4th and 5th Street Improvement		22,505
Enterprise:		
Electric		165,100
Water		45,000
Marina		935,220
	\$ 1,864,719	\$ 1,864,719

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, 2017 is as follows:

	Range of Interest Rates	Final Maturity	Balance December 31, 2017
<u>Governmental Activities</u>			
G.O. Improvement Bonds:			
G.O. Improvement Bonds of 2012A	0.4%-2.15%	2023	\$ 870,000
G.O. Improvement Bonds of 2013A	1.00%-2.35%	2024	1,125,000
G.O. Refunding Bonds of 2013B	1.5%-2.5%	2022	205,000
G.O. Crossover Refunding Bonds of 2015A	2.00%	2024	615,000
Compensated Absences			316,042
<u>Business-Type Activities</u>			
G.O. Improvement Bonds:			
G.O. Crossover Refunding Bonds of 2015A	2.00%	2024	195,000
Revenue Bonds:			
Electric Revenue Bonds of 2010B	.85%-4.85%	2026	2,035,000
General Obligation Revenue Bonds:			
G.O. Utility Revenue Bonds of 2010A	2%-3.75%	2026	760,000
GO Revenue Loans:			
Public Facilities Loan of 1999	2.86%	2020	226,000
Public Facilities Loan of 2002	2.99%	2023	1,765,000
Compensated Absences			181,585
Sub-total			8,293,627
Less: Unamortized discount			(62,382)
Plus: Unamortized premiums			13,432
Total			<u>\$ 8,244,677</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, 2017:

	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 2012A	\$ 1,010,000		\$ 140,000	\$ 870,000	\$ 140,000
Less: Unamortized Discount	(4,686)		(781)	(3,905)	
G.O. Improvement Bonds of 2013A	1,280,000		155,000	1,125,000	155,000
G.O. Refunding Bonds of 2013B	245,000		40,000	205,000	35,000
G.O. Crossover Refunding Bonds of 2015A	700,000		85,000	615,000	85,000
Plus: Amortized Premium	11,796		1,475	10,321	
Other liabilities:					
Compensated Absences	249,826	66,216		316,042	
Governmental Activities Long-term Liabilities	<u>3,491,936</u>	<u>66,216</u>	<u>420,694</u>	<u>3,137,458</u>	<u>415,000</u>
BUSINESS-TYPE ACTIVITIES					
Bonds and Notes Payable:					
Revenue Bonds:					
Electric Revenue Bonds of 2010B	2,215,000		180,000	2,035,000	185,000
Less: Unamortized Discount	(55,310)		(5,531)	(49,779)	
General Obligation Revenue Bonds:					
G.O. Utility Revenue Bonds of 2010A	830,000		70,000	760,000	70,000
Less: Unamortized Discount	(9,666)		(968)	(8,698)	
General Obligation Bonds:					
G.O. Crossover Refunding Bonds of 2015A	220,000		25,000	195,000	25,000
Plus: Amortized Premium	3,556		445	3,111	
General Obligation Revenue Loans:					
Public Facilities Loan of 1996	50,774		50,774		
Public Facilities Loan of 1999	297,000		71,000	226,000	73,000
Public Facilities Loan of 2002	2,030,000		265,000	1,765,000	273,000
Other liabilities:					
Compensated Absences	182,735		1,150	181,585	
Business-type Activities Long-term Liabilities	<u>5,764,089</u>		<u>656,870</u>	<u>5,107,219</u>	<u>626,000</u>
Total	<u><u>\$ 9,256,025</u></u>	<u><u>\$ 66,216</u></u>	<u><u>\$ 1,077,564</u></u>	<u><u>\$ 8,244,677</u></u>	<u><u>\$ 1,041,000</u></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, 2017, 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>								
2018	\$ 415,000	\$ 55,040						
2019	420,000	49,778						
2020	425,000	43,655						
2021	440,000	36,595						
2022	445,000	28,719						
2023-2024	670,000	34,856						
Totals	<u>\$ 2,815,000</u>	<u>\$ 248,643</u>						

Business-Type Activities

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	78,887
2020	25,000	2,800	368,000	38,440	80,000	19,874	205,000	70,733
2021	25,000	2,300	298,000	27,538	80,000	17,374	210,000	62,018
2022	25,000	1,800	307,000	18,628	85,000	14,721	225,000	52,605
2023-2026	65,000	1,900	316,000	9,448	370,000	27,947	1,015,000	99,932
Totals	<u>\$ 195,000</u>	<u>\$ 16,100</u>	<u>\$ 1,991,000</u>	<u>\$ 202,278</u>	<u>\$ 760,000</u>	<u>\$ 126,501</u>	<u>\$ 2,035,000</u>	<u>\$ 450,293</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 2017.

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 2017. 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 Plan - All full-time and certain part-time employees of the City of Houston are covered by the General Employees Plan. General Employees Plan 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 Plan - The Police and Fire Plan, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the Police and Fire Plan also covers police officers and firefighters belonging to 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 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given 1 percent 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. General Employees Plan 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 percent of average salary for each of the first ten years of service and 2.7 percent 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 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent 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. Police and Fire Plan Benefits

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

Contributions

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

1. General Employees Plan 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 2017. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2017. The City's contributions to the General Employees Plan for the year ended December 31, 2017, were \$208,434. The City's contributions were equal to the required contributions as set by state statute.

2. Police and Fire Fund Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2017. The City's was required to contribute 16.20% of pay for Police and Fire Fund members in calendar year 2017. The City's contributions to the Police and Fire Fund for the year ended December 31, 2017, were \$114,746. 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. General Employees Plan Pension Costs

At December 31, 2017, the City reported a liability of \$2,751,476 for its proportionate share of the General Employees Fund’s net pension liability. The City’s net pension liability reflected a reduction due to the State of Minnesota’s contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state’s contribution meets the definition of a special funding situation. The State of Minnesota’s proportionate share of the net pension liability associated with the City totaled \$34,629. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA’s participating employers. At June 30, 2017, the City’s proportion was .0431% at the end of the measurement period and .0411% for the beginning of the period.

For the year ended December 31, 2017, the City recognized pension expense of \$153,457 for its proportionate share of the General Employees Plan’s pension expense. In addition, the City recognized an additional \$1,000 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota’s contribution of \$6 million to the General Employees Fund.

At December 31, 2017, the City reported its proportionate share of the General Employees Plan’s deferred outflows and 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	\$	\$ 79,070
Changes in actuarial assumptions	159,772	
Difference between projected and actual investment earnings		2,035
Changes in proportion	52,186	
Contributions paid to PERA subsequent to the measurement date	<u>102,749</u>	
Total	<u>\$ 314,707</u>	<u>\$ 81,105</u>

\$102,749 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, 2018. 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>
2018	\$ 93,580
2019	171,439
2020	(17,377)
2021	(116,789)

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Defined Benefit Pension Plans – Statewide (Continued)

2. Police and Fire Fund Pension Costs

At December 31, 2017, the City reported a liability of \$931,582 for its proportionate share of the Police and Fire Fund’s net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA’s participating employers. At June 30, 2017, the City’s proportion was .0690% at the end of the measurement period and .0720% for the beginning of the period.

For the year ended December 31, 2017, the City recognized pension expense of (\$139,820) for its proportionate share of the Police and Fund Plan’s pension expense. The City also recognized \$6,210 for the year ended December 31, 2017, 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, 2017, the City reported its proportionate share of the Plan’s deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$	\$ 238,434
Changes in actuarial assumptions		50,447
Difference between projected and actual investment earnings	26,202	
Changes in proportion		89,528
Contributions paid to PERA subsequent to the measurement date	63,550	
Total	<u>\$ 89,752</u>	<u>\$ 378,409</u>

\$63,550 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, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	Pension Expense Amount
2018	\$ (171,880)
2019	(171,882)
2020	(207,516)
2021	199,071

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Defined Benefit Pension Plans – Statewide (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2017 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 all plans for males or females, as appropriate, with slight adjustments. Cost of living benefits increases for retirees are assumed to be: 1% per year for the General Employees Plan through 2044 and Police and Fire Plan through 2064 and then 2.5% thereafter for both plans.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The most recent five-year experience study for Police and Fire Plan was completed in 2016.

The following changes in actuarial assumptions occurred in 2017.

1. General Employees Fund

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are not 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for on-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2. Police and Fire Fund

- Assumed salary increases were changed as recommended in June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table assumed for healthy retirees.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Defined Benefit Pension Plans – Statewide (Continued)

Actuarial Assumptions (continued)

- Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65 percent to 60 percent.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.5 percent thereafter.

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	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%
	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.5%. 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 the General Employees Fund and the Police and Fire Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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	\$ 4,267,743	\$ 2,751,476	\$ 1,510,135
	6.50%	7.50%	8.50%
City's proportionate share of the PEPFF net pension liability	1,754,441	931,582	252,267
Total	<u>\$ 6,022,184</u>	<u>\$ 3,683,058</u>	<u>\$ 1,762,402</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

Plan Description

Firefighters of the City of Lake City are members of the Lake City Fire Department Relief Association (Association). The Association is the administrator of the single-employer defined benefit pension plan available to firefighters. The plan is administrated pursuant to Minnesota Statutes Chapter 69, Chapter 424A, and the Association's by-laws. As of December 31, 2016, membership includes 22 active members and 8 terminated employees entitled to benefit but not yet receiving them. The plan issues a stand-alone financial statement.

Benefits Provided

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

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

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

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

Contributions

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

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Contributions (continued)

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

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

The Plan is funded in part by fire state aid and, if necessary, City contributions. The State of Minnesota distributed \$52,896 in fire state aid paid by the City to the Relief Association for the year ended December 31, 2017. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contributions for the plan for the year ended December 31, 2017 was \$18,737. The City made voluntary contributions of \$12,480 for the year ended December 31, 2017.

Pension Costs

At December 31, 2017, the City reported a net pension asset of \$168,712 for the Association's plan. The net pension asset was measured as of December 31, 2016. 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.

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-b)
Beginning Balance 12/31/15	\$ 934,048	\$ 1,075,585	\$ (141,537)
Changes for the Year			
Service cost	49,074		49,074
Interest on pension liability	68,819		68,819
Actuarial experience (gains)/losses	(32,761)		(32,761)
Changes in assumptions	6,511		6,511
Changes of benefit terms	42,180		42,180
Projected investment earnings		86,871	(86,871)
Contributions state and local		74,127	(74,127)
Net Changes	133,823	160,998	(27,175)
Balance End of Year 12/31/16	\$ 1,067,871	\$ 1,236,583	\$ (168,712)

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Pension Costs (continued)

As a result of its requirement to contribution to the Relief Association, the City recognized expense of \$39,250 for the year ended December 31, 2017. At December 31, 2017, 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
Differences between expected and actual economic experience	\$	\$ 29,231
Changes in actuarial assumptions	5,809	
Difference between projected and actual investment earnings	24,259	
City contributions paid subsequent to measurement date	84,113	
Total	<u>\$ 114,181</u>	<u>\$ 29,231</u>

The City contributions to the Association subsequent to the measurement date of \$84,113, reported as deferred outflows of resources will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending December 31:	Pension Expense Amount
2018	\$ 5,205
2019	5,205
2020	7,681
2021	(5,144)
2022	(2,828)
Thereafter	(9,282)

Actuarial Assumptions

The total pension liability at December 31, 2017, 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 6.75%
- Inflation rate of 2.75%

The following changes in actuarial assumptions occurred during 2017:

- The expected investment return and discount rate decreased from 7.00% to 6.75% to reflect updated capital market assumptions
- The mortality and withdrawal assumptions were updated form the rates used in the July 1, 2016 Minnesota PERA Police and Fire Plan actuarial valuation to the rates used in the July 1, 2017 Minnesota PERA Police and Fire Plan actuarial valuation.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. Assets were projected using expected benefit payments and expected asset returns. Expected benefit payments were discounted by year using expected assets returns assumption for years in which the assets were sufficient to pay all benefit payments. Any remaining benefit payments after the trust fund is exhausted are discounted at the municipal bond rate of return. The equivalent single rate is the discount rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Pension Liability Sensitivity

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

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
	5.75%	6.75%	7.75%
Net pension asset	\$ 129,659	\$ 168,712	\$ 205,794

Plan Investments

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These asset class estimates are combined to produce the portfolio long-term expected rate of return by weighting the expected future real rates of return by the current asset allocation percentage (or target allocation, if available) and by adding expected inflation (2.75%). All results are then rounded to the nearest quarter percentage point.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Plan Investments (continued)

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

Best-estimates of geometric real and nominal rates of return for each major asset class included in the pension plan's asset allocation as of the measurement date are summarized in the following table:

<u>Asset Class</u>	<u>Allocation at Measurement Date</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Long Term Expected Nominal Rate of Return</u>
Domestic equity	54.17%	5.39%	8.14%
International equity	0.00%	5.20%	7.95%
Fixed income	31.57%	1.98%	4.73%
Real estate and alternatives	0.00%	4.25%	7.00%
Cash and equivalents	14.26%	0.79%	3.54%
Total	100%		6.72%
Reduced for assumed investment expense			-0.05%
Net assumed investment return (rounded to 1/4%)			6.75%

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, 2017

CITY OF LAKE CITY, MINNESOTA
Schedule of City Pension Contributions
December 31, 2017

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 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	208,434	208,434	\$	2,779,120	7.5%
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 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	114,746	114,746	\$	708,309	16.2%
2018					
2019					
2020					
2021					
2022					
2023					

CITY OF LAKE CITY, MINNESOTA
Schedules of Proportionate Share of Net Pension Liability
December 31, 2017

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 Payroll (b)	Proportionate Share (Amount) of the Net Pension Liability (Asset) as a Percentage of its Covered 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	0.0431%	2,751,476	2,664,000	103.3%	75.9%
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 Payroll (b)	Proportionate Share (Amount) of the Net Pension Liability (Asset) as a Percentage of its Covered 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	0.0690%	931,582	699,645	133.2%	85.4%
2018					
2019					
2020					
2021					
2022					
2023					

CITY OF LAKE CITY, MINNESOTA
Schedule of Changes in the Fire Relief Association Net Pension Asset and Related Ratios
December 31, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Pension Liability			
Service cost	\$ 49,074	\$ 37,963	\$ 36,947
Interest	68,819	52,105	49,328
Difference between expected and actual experience	(32,761)		
Changes of assumptions	6,511		
Changes of benefit terms	42,180	137,593	
Benefit payments			(95,250)
Net change in total pension liability	<u>133,823</u>	<u>227,661</u>	<u>(8,975)</u>
Total Pension Liability - beginning of year	<u>934,048</u>	<u>706,387</u>	<u>715,362</u>
Total Pension Liability - end of year	<u>\$ 1,067,871</u>	<u>\$ 934,048</u>	<u>\$ 706,387</u>
Plan Fiduciary Net Position			
Contributions - State and local	\$ 74,127	\$ 73,941	\$ 72,756
Net investment income	86,871	5,784	72,741
Benefit payments			(95,250)
Administrative expense			(20)
Net change in plan fiduciary net position	<u>160,998</u>	<u>79,725</u>	<u>50,227</u>
Plan Fiduciary Net Position - beginning of year	<u>1,075,585</u>	<u>995,860</u>	<u>945,633</u>
Plan Fiduciary Net Position - end of year	<u>\$ 1,236,583</u>	<u>\$ 1,075,585</u>	<u>\$ 995,860</u>
Net Pension Liability (Asset) - End of Year	\$ (168,712)	\$ (141,537)	\$ (289,473)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	115.80%	115.15%	140.98%

CITY OF LAKE CITY, MINNESOTA
COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES
DECEMBER 31, 2017

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CITY OF LAKE CITY, MINNESOTA

NONMAJOR FUNDS

DECEMBER 31, 2017

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, 2017**

	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	\$ 90,269	\$ 418,225	\$ 178,903	\$ 19,684
Accounts receivable	250			
Loans receivable		60,816		
Taxes receivable, delinquent Deferred	1,144			
TOTAL ASSETS	\$ 91,663	\$ 479,041	\$ 178,903	\$ 19,684
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ 56	\$	\$	\$
Interfund payables				
Total Liabilities	56			
Deferred Inflows of Resources				
Unavailable:				
Unavailable revenue	1,144	60,816		
Fund Balance				
Restricted:				
Creditors (debt covenants)				
Regulations		418,225	178,903	19,684
Assigned:				
Fund assignments	90,463			
Unassigned				
Total Fund Balance	90,463	418,225	178,903	19,684
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 91,663	\$ 479,041	\$ 178,903	\$ 19,684

Special Revenue Funds

492	495	250
Block 25	Tax	New
Redev	Increment	Highway 61
TIF #13	TIF #16	Coalition

\$ 2 \$ \$

\$ 2 \$ \$

\$ \$ \$

1,069	9,575
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1,069	9,575
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(1,067)	(9,575)
---------	---------

(1,067)	(9,575)
---------	---------

\$ 2 \$ \$

**CITY OF LAKE CITY, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2017**

	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	\$	\$ 50,785	\$ 248,637	\$ 258,716	\$ 313,224
Accounts receivable					
Loans receivable					
Taxes receivable, delinquent		351	1,331	2,109	2,398
Deferred		55,621			
TOTAL ASSETS	\$	\$ 106,757	\$ 249,968	\$ 260,825	\$ 315,622
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE					
Liabilities					
Accounts payable	\$	\$	\$	\$	\$
Interfund payables					
Total Liabilities					
Deferred Inflows of Resources					
Unavailable:					
Deferred revenue		55,972	1,331	2,109	2,398
Fund Balance					
Restricted:					
Creditors (debt covenants)		50,785	248,637	258,716	313,224
Regulations					
Assigned:					
Fund assignments					
Unassigned					
Total Fund Balance		50,785	248,637	258,716	313,224
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$	\$ 106,757	\$ 249,968	\$ 260,825	\$ 315,622

Capital Projects Funds

400 Capital Projects	362 Monroe Street Improvement Fund	<u>Totals</u>
\$ 1,294,078	\$	\$ 2,872,523
		250
		60,816
		7,333
		<u>55,621</u>
<u>\$ 1,294,078</u>	<u>\$</u>	<u>\$ 2,996,543</u>
\$ 25,892	\$	\$ 25,948
		10,644
<u>25,892</u>		<u>36,592</u>
		<u>123,770</u>
		871,362
		616,812
1,268,186		1,358,649
		<u>(10,642)</u>
<u>1,268,186</u>		<u>2,836,181</u>
<u>\$ 1,294,078</u>	<u>\$</u>	<u>\$ 2,996,543</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, 2017
With Comparative Totals 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	\$ 91,072	\$	\$	\$
Special assessments				
Intergovernmental revenues	49,301			
Charges for services	2,878			
Fines and forfeits	3,159			
Investment income	523	4,046	1,788	198
Miscellaneous revenues	92,799	30,736		
TOTAL REVENUES	239,732	34,782	1,788	198
EXPENDITURES				
Culture and recreation:				
Library	253,364			
Economic development		25,916		
Debt service:				
Principal retirement				
Interest and fiscal charges				
Capital outlay	33,168			
TOTAL EXPENDITURES	286,532	25,916		
Excess (deficiency) of revenues over (under) expenditures	(46,800)	8,866	1,788	198
OTHER FINANCING SOURCES (USES)				
Transfers out				
Transfers in	374,108			
Total Other Financing Sources (Uses)	374,108			
Net change in fund balances	327,308	8,866	1,788	198
FUND BALANCE, beginning	(236,845)	409,359	177,115	19,486
FUND BALANCE, ending	\$ 90,463	\$ 418,225	\$ 178,903	\$ 19,684

492 Block 25 Redev TIF #13	495 Tax Increment TIF #16	250 New Highway 61 Coalition
-------------------------------------	------------------------------------	---------------------------------------

\$ \$ \$

(5)

(5)

1,062

1,062

(1,067)

29,424

29,424

(1,067)	29,424
---------	--------

(9,575)	(29,424)
---------	----------

\$ (1,067) \$ (9,575) \$

CITY OF LAKE CITY, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
Combining Statement of Revenues, Expenditures
and Changes in Fund Balance
For the Year Ended December 31, 2017
With Comparative Totals 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	\$	\$ 27,247	\$ 103,369	\$ 163,876	\$ 186,313
Special assessments	2,624	16,052			
Intergovernmental revenues					
Charges for services					
Fines and forfeits					
Investment income	288	224	1,736	1,481	1,886
Miscellaneous revenues					
TOTAL REVENUES	2,912	43,523	105,105	165,357	188,199
EXPENDITURES					
Culture and recreation:					
Library					
Economic development					
Debt service:					
Principal retirement		40,000	85,000	140,000	155,000
Interest and fiscal charges		5,903	14,102	15,643	21,978
Capital outlay					
TOTAL EXPENDITURES		45,903	99,102	155,643	176,978
Excess (deficiency) of revenues over (under) expenditures	2,912	(2,380)	6,003	9,714	11,221
OTHER FINANCING SOURCES (USES)					
Transfers out	(22,505)				
Transfers in					
Total Other Financing Sources (Uses)	(22,505)				
Net change in fund balances	(19,593)	(2,380)	6,003	9,714	11,221
FUND BALANCE, beginning	19,593	53,165	242,634	249,002	302,003
FUND BALANCE, ending	\$	\$ 50,785	\$ 248,637	\$ 258,716	\$ 313,224

Capital Projects Funds

400 Capital Projects	362 Monroe Street Improvement Fund	Totals
\$	\$	\$ 571,877
		18,676
	(37,403)	11,898
		2,878
		3,159
10,345		22,510
8,144		131,679
18,489	(37,403)	762,677
		253,364
		26,978
		420,000
		57,626
174,128		207,296
174,128		965,264
(155,639)	(37,403)	(202,587)
(29,424)		(51,929)
388,640		792,172
359,216		740,243
203,577	(37,403)	537,656
1,064,609	37,403	2,298,525
\$ 1,268,186	\$	\$ 2,836,181

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, 2017
(With Comparative Totals for the Year Ended December 31, 2016)

	Budgeted Amounts		2017 Actual Amount	Variance With Budget Positive (Negative)	2016 Actual Amount
	Original	Final			
REVENUES					
Property Tax Levy					
Property tax collected	\$ 90,000	\$ 90,000	\$ 91,072	\$ 1,072	\$ 91,672
Intergovernmental Revenues					
County - library grants	49,000	49,000	49,301	301	48,929
Total Intergovernmental Revenues	49,000	49,000	49,301	301	48,929
Charges For Services					
Fines and forfeits	3,500	3,500	3,159	(341)	3,262
Other	3,000	3,000	2,878	(122)	2,320
Total Charges For Services	6,500	6,500	6,037	(463)	5,582
Investment Income					
			523	523	(503)
Miscellaneous					
Donations	4,000	14,407	23,205	8,798	21,592
Other			69,594	69,594	79,602
Total Miscellaneous	4,000	14,407	92,799	78,392	101,194
Total Revenues	149,500	159,907	239,732	79,825	246,874
EXPENDITURES					
Library services	229,140	237,141	253,364	(16,223)	257,157
Capital outlay	30,000	32,406	33,168	(762)	78,347
Total Expenditures	259,140	269,547	286,532	(16,985)	335,504
Excess (deficiency) of revenues over (under) expenditures	(109,640)	(109,640)	(46,800)	62,840	(88,630)
OTHER FINANCING SOURCES (USES)					
Transfers out	(23,000)	(23,000)		23,000	(15,359)
Transfers in			374,108	374,108	50,000
Total other financing sources (uses)	(23,000)	(23,000)	374,108	397,108	34,641
Net Change in Fund Balance	(132,640)	(132,640)	327,308	459,948	(53,989)
Fund Balance, beginning	(236,845)	(236,845)	(236,845)		(182,856)
Fund Balance, ending	\$ (369,485)	\$ (369,485)	\$ 90,463	\$ 459,948	\$ (236,845)

CITY OF LAKE CITY, MINNESOTA
ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT
BALANCE SHEET - COMPONENT UNIT
December 31, 2017 and 2016

	2017	2016
Assets		
Cash and investments	\$ 140,852	\$ 137,847
Taxes receivable delinquent	838	979
Due from other governmental units	425	1,086
Prepaid expenditures	889	
Property held for resale	235,000	235,000
TOTAL ASSETS	\$ 378,004	\$ 374,912
Liabilities, Deferred Inflows of Resources and Fund Balance		
Liabilities		
Accounts payable	\$ 6,786	\$
Due to primary government	5	37
Total Liabilities	6,791	37
Deferred Inflows of Resources		
Unavailable revenue	235,838	235,979
Fund Balance		
Restricted:		
Economic development	135,375	138,896
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 378,004	\$ 374,912
 Fund Balance - Component Unit	 \$ 135,375	
 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	838	
 Net Position - Component Unit	 \$ 371,213	

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, 2017
(With Comparative Totals for the Year Ended December 31, 2016)

	Totals	
	2017	2016
REVENUES		
Property tax	\$ 71,938	\$ 80,756
Investment income	148	171
Payment from primary government	30,900	30,900
Miscellaneous	2,500	7,500
Total Revenues	105,486	119,327
EXPENDITURES		
Economic Development	109,007	107,366
Total Expenditures	109,007	107,366
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,521)	11,961
Fund Balance, beginning	138,896	126,935
Fund Balance, ending	\$ 135,375	\$ 138,896
 Net Change in Fund Balance - Component Unit	 \$ (3,521)	 \$ 11,961
 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.	 (141)	 108
 Change in Net Position - Component Unit	 \$ (3,662)	 \$ 12,069

**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, 2017 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 26, 2018.

Internal Control Over Financial Reporting

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

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

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

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

Red Wing, Minnesota
June 26, 2018

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, 2017, 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 26, 2018.

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, Schaffer and Associates, Ltd.

Red Wing, Minnesota
June 26, 2018