

**CITY OF LAKE CITY, MINNESOTA**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2018**



**CITY OF LAKE CITY, MINNESOTA**

**FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended December 31, 2018**

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**CITY OF LAKE CITY, MINNESOTA**  
**FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended December 31, 2018**

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**CITY OF LAKE CITY, MINNESOTA**

**INTRODUCTORY SECTION**

**DECEMBER 31, 2018**

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**CITY OF LAKE CITY, MINNESOTA  
ELECTED AND APPOINTED OFFICIALS  
DECEMBER 31, 2018**

**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	Rob Keehn
City Clerk	Kari Schreck
Finance Director/Treasurer	Amy Hove

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**CITY OF LAKE CITY, MINNESOTA**

**FINANCIAL SECTION**

**DECEMBER 31, 2018**

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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, 2018, 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, 2018, 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, 2017, from which such partial information was derived.

We have previously audited the City's 2017 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, 2017, 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 4, 2019, 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.

*Smith, Schafu and Associates, Ltd.*

## 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, 2018.

### 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 \$55,151,647 (*net position*). Of this amount, \$18,657,015 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designations and fiscal policies.
- The City's total net position increased by \$2,269,330 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 \$9,429,915. Approximately 79 percent of this total amount, or \$7,477,959, 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 \$6,142,006 or 114 percent of total general fund expenditures.
- The City of Lake City's total outstanding debt decreased by \$2,051,332 during the current fiscal year. The City paid off the 2010B Electric Revenue Bonds earlier than scheduled. The City also issued 2018A G.O. Street Reconstruction Bond for \$795,000 at a premium of \$11,617. Excluding the 2010B Electric Bond, 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 \$55,151,647 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	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 10,066,697	\$ 5,776,593	\$ 15,447,914	\$ 19,366,553	\$ 25,514,611	\$ 25,143,146
Capital assets	23,414,672	23,045,541	17,201,790	18,058,733	40,616,462	41,104,274
Total assets	<u>33,481,369</u>	<u>28,822,134</u>	<u>32,649,704</u>	<u>37,425,286</u>	<u>66,131,073</u>	<u>66,247,420</u>
Deferred outflows of resources	1,432,980	374,066	214,219	144,574	1,647,199	518,640
Long-term liabilities outstanding	5,556,086	5,553,841	3,716,573	6,373,894	9,272,659	11,927,735
Other liabilities	329,690	308,803	1,033,100	1,158,460	1,362,790	1,467,263
Total liabilities	<u>5,885,776</u>	<u>5,862,644</u>	<u>4,749,673</u>	<u>7,532,354</u>	<u>10,635,449</u>	<u>13,394,998</u>
Deferred inflows of resources	1,690,902	451,408	300,274	37,337	1,991,176	488,745
Net position:						
Net investment in capital assets	20,202,333	20,224,125	14,701,856	13,133,099	34,904,189	33,357,224
Restricted	1,590,443	1,527,445			1,590,443	1,527,445
Unrestricted	5,544,895	1,130,578	13,112,120	16,867,070	18,657,015	17,997,648
Total net position	<u>\$ 27,337,671</u>	<u>\$ 22,882,148</u>	<u>\$ 27,813,976</u>	<u>\$ 30,000,169</u>	<u>\$ 55,151,647</u>	<u>\$ 52,882,317</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* (\$18,657,015) may be used to meet the government's ongoing obligations to citizens and creditors.

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

**Governmental activities.** Governmental activities increased the City of Lake City's net position by \$4,455,523.

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

**Business-type activities.** Business-type activities decreased the City of Lake City's net position by \$2,186,193.

A condensed version of the Statement of Activities follows:

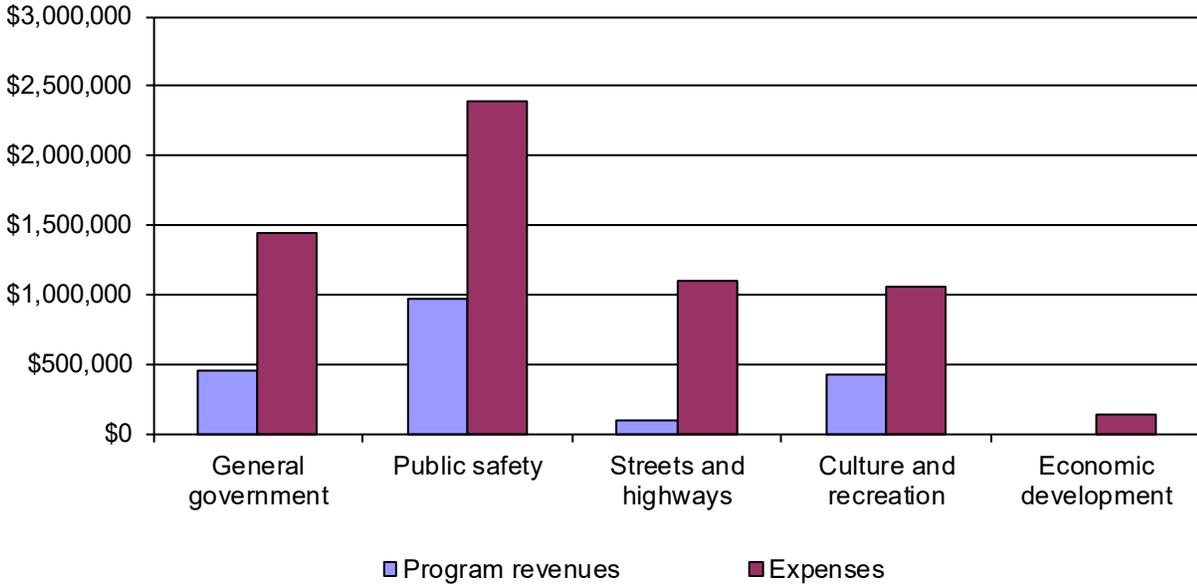
**City of Lake City's Change in Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenue:						
Program revenues:						
Charges for services	\$ 1,480,179	\$ 1,354,566	\$ 18,856,860	\$ 18,405,732	\$ 20,337,039	\$ 19,760,298
Operating grants and contributions	457,577	608,550			457,577	608,550
Capital grants and contributions			2,133	9,217	2,133	9,217
General revenues:						
Property taxes	3,480,022	3,336,874			3,480,022	3,336,874
Tax increments	1,537				1,537	
Grants and contributions not restricted to specific programs	823,006	777,572			823,006	777,572
Other	102,082	201,756	179,711	240,620	281,793	442,376
Total revenues	<u>6,344,403</u>	<u>6,279,318</u>	<u>19,038,704</u>	<u>18,655,569</u>	<u>25,383,107</u>	<u>24,934,887</u>
Expenses:						
General government	1,447,166	1,530,311			1,447,166	1,530,311
Public safety	2,384,320	2,716,480			2,384,320	2,716,480
Streets and highways	1,099,979	1,168,069			1,099,979	1,168,069
Culture and recreation	1,056,475	884,869			1,056,475	884,869
Economic development	143,253	92,417			143,253	92,417
Interest on long-term debt	138,903	106,386			138,903	106,386
Electric			13,068,569	12,737,184	13,068,569	12,737,184
Water			664,963	593,924	664,963	593,924
Sewer			1,384,701	1,392,882	1,384,701	1,392,882
Storm water			187,829	190,142	187,829	190,142
Marina			579,958	584,030	579,958	584,030
Garbage			957,661	1,044,599	957,661	1,044,599
Total expenses	<u>6,270,096</u>	<u>6,498,532</u>	<u>16,843,681</u>	<u>16,542,761</u>	<u>23,113,777</u>	<u>23,041,293</u>
Increase (decrease) in net position before transfers and other	74,307	(219,214)	2,195,023	2,112,808	2,269,330	1,893,594
Transfers	4,381,216	1,145,320	(4,381,216)	(1,145,320)		
Increase (decrease) in net position	<u>4,455,523</u>	<u>926,106</u>	<u>(2,186,193)</u>	<u>967,488</u>	<u>2,269,330</u>	<u>1,893,594</u>
Net position, beginning of year	22,882,148	21,956,042	30,000,169	29,032,681	52,882,317	50,988,723
Net position, end of year	<u>\$ 27,337,671</u>	<u>\$ 22,882,148</u>	<u>\$ 27,813,976</u>	<u>\$ 30,000,169</u>	<u>\$ 55,151,647</u>	<u>\$ 52,882,317</u>

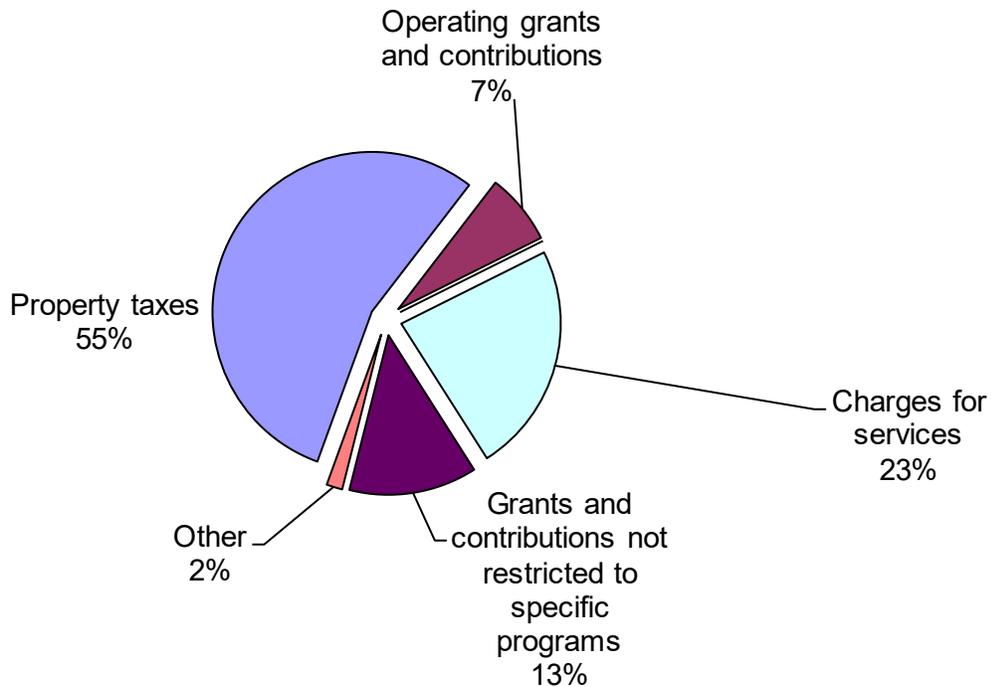
**CITY OF LAKE CITY, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

**Expenses and Program Revenues - Governmental Activities**



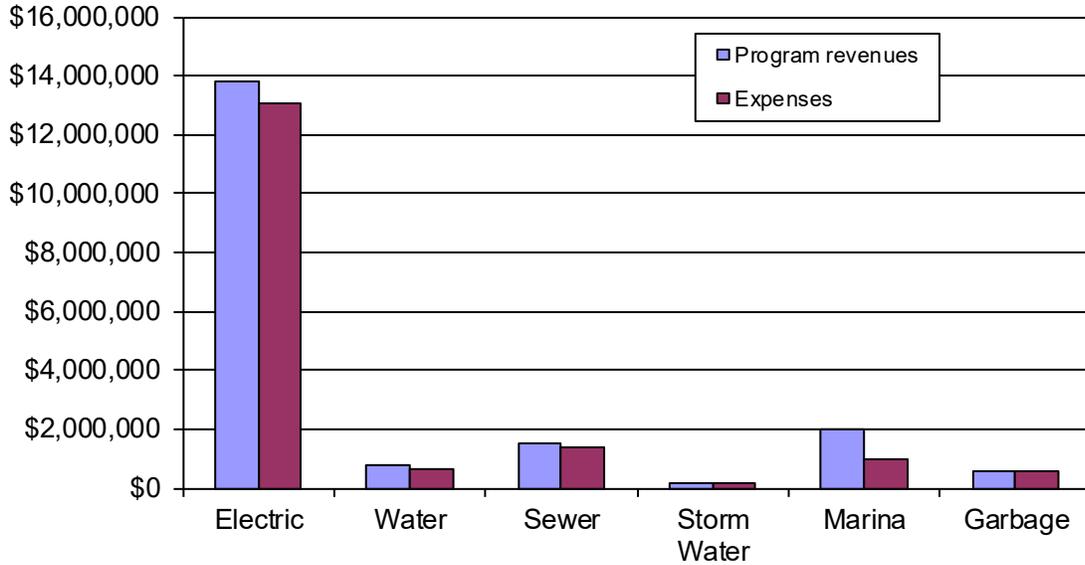
**Revenues by Source - Governmental Activities**



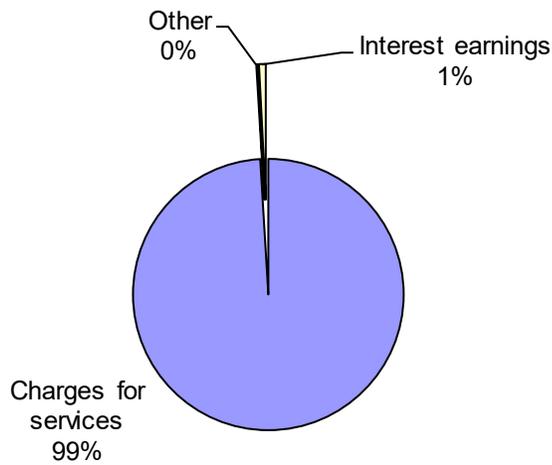
**CITY OF LAKE CITY, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

**Expenses and Program Revenues - Business-Type Activities**



**Revenues by Source - Business-Type Activities**



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

**Financial Analysis of the Government's Funds**

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

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

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

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

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

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

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

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

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

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

As of the end of the current fiscal year, the City of Lake City's governmental funds reported combined ending fund balances of \$9,429,915, an increase of \$4,322,486. Approximately 79 percent of this total amount, or \$7,627,528, constitutes *unassigned, assigned, or committed fund balance*, which is available for spending at the government's discretion. The remainder of the total fund balance (\$1,802,387) 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 \$6,142,006. 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 114 percent of total general fund expenditures.

The general fund's total fund balance increased by \$4,252,707 during the current fiscal year. This year's increase was primarily due to the forgiveness of the \$2.1 million Public Safety Building interfund loan balance by the Electric Fund and a \$1.5 million transfer of unused fund balance from the Marina Fund to the General Fund.

The debt service funds have a total fund balance of \$938,750 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 - \$5,953,846, Water - \$827,772, Sewer - \$738,077, Storm Water - \$41,304, Marina - \$5,458,507, and Garbage - \$92,614. All funds, except the electric fund, storm water fund and marina fund, had increases in total net position for the year. The electric and marina funds' losses were transfers to the General Fund (forgiveness of loan and unused fund balance, respectively). The storm water utility fund's net loss was primarily due to depreciation.

**General Fund Budgetary Highlights**

The original 2018 general fund budget approved by the City anticipated no change to general fund reserves. All differences between the original and final budgets in the general fund for the City in 2018 were approved by resolution amending the original budget. Select unspent budgeted amounts from 2017 were carried over to the 2018 budget by resolution. During 2018, there were some major adjustments to the budget including transfers.

**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, 2018, amounts to \$40,616,462 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total decrease in the City of Lake City's reported investment in capital assets for the current fiscal year was \$487,812.

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

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 1,342,605	\$ 1,342,605	\$ 725,300	\$ 725,300	\$ 2,067,905	\$ 2,067,905
Construction in progress	1,045,543	211,879		58,989	1,045,543	270,868
Buildings and improvements	10,198,721	10,401,792	6,191,992	6,596,739	16,390,713	16,998,531
Machinery and equipment	2,119,189	1,857,904	675,600	545,259	2,794,789	2,403,163
Infrastructure	8,708,614	9,231,361			8,708,614	9,231,361
Distribution and collection system			9,608,898	10,132,446	9,608,898	10,132,446
<b>Total</b>	<b>\$ 23,414,672</b>	<b>\$ 23,045,541</b>	<b>\$ 17,201,790</b>	<b>\$ 18,058,733</b>	<b>\$ 40,616,462</b>	<b>\$ 41,104,274</b>

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 \$5,712,273 in bonds and notes outstanding. Of this amount, \$5,030,005 comprises debt backed by the full faith and credit of the government and \$682,268 represents bonds secured solely by specified revenue sources.

**City of Lake City's Outstanding Debt**

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
General obligation bonds	\$ 3,212,339	\$ 2,821,416	\$ 172,666	\$ 198,111	\$ 3,385,005	\$ 3,019,527
General obligation revenue loans			1,645,000	1,991,000	1,645,000	1,991,000
General obligation revenue bonds			682,268	751,302	682,268	751,302
Revenue bonds				1,985,221		1,985,221
Compensated absences	338,041	316,042	143,031	181,585	481,072	497,627
<b>Total</b>	<b>\$ 3,550,380</b>	<b>\$ 3,137,458</b>	<b>\$ 2,642,965</b>	<b>\$ 5,107,219</b>	<b>\$ 6,193,345</b>	<b>\$ 8,244,677</b>

The City of Lake City's total outstanding debt decreased by \$2,051,332 during the current fiscal year. The City paid off the 2010B Electric Revenue Bonds earlier than scheduled. The City also issued 2018A G.O. Street Reconstruction Bond for \$795,000 at a premium of \$11,617. 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, 2018**

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**CITY OF LAKE CITY, MINNESOTA**  
**STATEMENT OF NET POSITION**

December 31, 2018

With Comparative Totals as of December 31, 2017

	Primary Government				Component Unit	
	Governmental Activities	Business-Type Activities	Totals		Economic Development Authority	
			2018	2017	2018	2017
<b>Assets</b>						
Cash and investments	\$ 9,610,224	\$ 12,822,233	\$ 22,432,457	\$ 22,419,631	\$ 119,871	\$ 140,852
Accounts receivable	243,924	1,643,345	1,887,269	1,488,909		
Interest receivable	76,512	7,456	83,968	77,967		
Taxes receivable	38,034		38,034	47,209		
Special assessments receivable	55,204	39,663	94,867	130,141		
Loan receivable	51,630		51,630	60,816		
Internal balances	(257,565)	257,565				
Due from other governmental units	23,432		23,432	23,819	1,072	1,263
Due from primary government					66,890	
Due from component unit	180		180	5		
Prepaid expenses	56,410	60,697	117,107	121,395	999	889
Property held for resale					235,000	235,000
Inventories		616,955	616,955	604,542		
Net pension asset	168,712		168,712	168,712		
Capital assets:						
Nondepreciable	2,388,148	725,300	3,113,448	2,338,773		
Depreciable, net	21,026,524	16,476,490	37,503,014	38,765,501		
Total Assets	<u>33,481,369</u>	<u>32,649,704</u>	<u>66,131,073</u>	<u>66,247,420</u>	<u>423,832</u>	<u>378,004</u>
<b>Deferred Outflows of Resources</b>						
Deferred outflows from pension activity	1,432,980	214,219	1,647,199	518,640		
<b>Liabilities</b>						
Accounts and contracts payable	118,389	883,166	1,001,555	1,134,119	6,681	6,786
Accrued liabilities	133,811	60,918	194,729	234,021		
Deposits payable	10,600	89,016	99,616	99,123		
Due to primary government					180	5
Due to component unit	66,890		66,890			
Noncurrent liabilities:						
Due within one year	420,000	461,000	881,000	1,041,000		
Due in more than one year	3,130,380	2,181,965	5,312,345	7,203,677		
Net pension liability	2,005,706	1,073,608	3,079,314	3,683,058		
Total Liabilities	<u>5,885,776</u>	<u>4,749,673</u>	<u>10,635,449</u>	<u>13,394,998</u>	<u>6,861</u>	<u>6,791</u>
<b>Deferred Inflows of Resources</b>						
Deferred inflows from pension activity	1,690,902	300,274	1,991,176	488,745		
<b>Net Position</b>						
Net investment in capital assets	20,202,333	14,701,856	34,904,189	33,357,224		
Restricted for:						
Debt service	907,556		907,556	849,817		
Revolving loans	682,887		682,887	677,628		
Unrestricted	5,544,895	13,112,120	18,657,015	17,997,648	416,971	371,213
Total Net Position	<u>\$ 27,337,671</u>	<u>\$ 27,813,976</u>	<u>\$ 55,151,647</u>	<u>\$ 52,882,317</u>	<u>\$ 416,971</u>	<u>\$ 371,213</u>

**See Notes to Financial Statements**

**CITY OF LAKE CITY, MINNESOTA**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2018  
With Comparative Totals for the Year Ended December 31, 2017

<b>Functions/Programs</b>	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental activities:</b>				
General government	\$ 1,447,166	\$ 447,484	\$ 9,439	\$
Public safety	2,384,320	791,302	174,063	
Streets and highways	1,099,979	18,065	70,764	
Culture and recreation	1,056,475	223,328	203,311	
Economic development	143,253			
Interest on long-term debt	138,903			
Total governmental activities	6,270,096	1,480,179	457,577	
<b>Business-Type activities:</b>				
Electric utility	13,068,569	13,823,319		
Water utility	664,963	754,859		42
Sewer utility	1,384,701	1,551,094		1,395
Storm water utility	187,829	139,823		696
Garbage	579,958	575,892		
Marina	957,661	2,011,873		
Total business-type activities	16,843,681	18,856,860		2,133
Total Primary Government	\$ 23,113,777	\$ 20,337,039	\$ 457,577	\$ 2,133
<b>Component Unit:</b>				
Economic Development Authority	\$ 137,622	\$ 110,490	\$	\$

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	2018	2017	2018	2017
\$ (990,243)	\$	\$ (990,243)	\$ (1,164,731)	\$	\$
(1,418,955)		(1,418,955)	(1,803,576)		
(1,011,150)		(1,011,150)	(991,077)		
(629,836)		(629,836)	(377,229)		
(143,253)		(143,253)	(92,417)		
(138,903)		(138,903)	(106,386)		
<u>(4,332,340)</u>		<u>(4,332,340)</u>	<u>(4,535,416)</u>		
	754,750	754,750	856,579		
	89,938	89,938	75,025		
	167,788	167,788	107,039		
	(47,310)	(47,310)	(52,265)		
	(4,066)	(4,066)	(33,623)		
	<u>1,054,212</u>	<u>1,054,212</u>	<u>919,433</u>		
	<u>2,015,312</u>	<u>2,015,312</u>	<u>1,872,188</u>		
<u>(4,332,340)</u>	<u>2,015,312</u>	<u>(2,317,028)</u>	<u>(2,663,228)</u>		
				<u>(27,132)</u>	<u>(75,607)</u>
3,480,022		3,480,022	3,336,874	72,585	71,797
1,537		1,537			
823,006		823,006	777,572		
57,703	153,324	211,027	275,500	305	148
			70,250		
44,379	26,387	70,766	96,626		
4,381,216	<u>(4,381,216)</u>				
<u>8,787,863</u>	<u>(4,201,505)</u>	<u>4,586,358</u>	<u>4,556,822</u>	<u>72,890</u>	<u>71,945</u>
4,455,523	(2,186,193)	2,269,330	1,893,594	45,758	(3,662)
<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>
<u>\$ 27,337,671</u>	<u>\$ 27,813,976</u>	<u>\$ 55,151,647</u>	<u>\$ 52,882,317</u>	<u>\$ 416,971</u>	<u>\$ 371,213</u>

**CITY OF LAKE CITY, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS**

December 31, 2018

*With Comparative Totals as of December 31, 2017*

	General Fund	Other Governmental Funds	Total Governmental Funds	
			2018	2017
<b>Assets</b>				
Cash and investments	\$ 6,416,746	\$ 3,193,478	\$ 9,610,224	\$ 7,393,844
Interest receivable	76,512		76,512	70,511
Accounts receivable	243,924		243,924	195,952
Taxes receivable delinquent	31,802	6,232	38,034	47,209
Special assessments receivable:				
Deferred	12,298	42,906	55,204	72,412
Advances to other funds	181,704		181,704	
Interfund receivable	31,704		31,704	33,169
Loans receivable		51,630	51,630	60,816
Due from other governmental units	23,432		23,432	23,819
Due from component unit	180		180	5
<b>TOTAL ASSETS</b>	<b>\$ 7,018,302</b>	<b>\$ 3,294,246</b>	<b>\$ 10,312,548</b>	<b>\$ 7,897,737</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balance</b>				
<b>Liabilities</b>				
Accounts payable	\$ 79,465	\$ 38,924	\$ 118,389	\$ 156,563
Accrued liabilities	102,617		102,617	112,772
Deposits payable	10,600		10,600	14,273
Advances from other funds	190,675		190,675	2,315,619
Interfund payable		248,594	248,594	10,644
Due to component unit	66,890		66,890	
Total Liabilities	450,247	287,518	737,765	2,609,871
<b>Deferred Inflows of Resources</b>				
Unavailable revenue	44,100	100,768	144,868	180,437
<b>Fund Balance</b>				
Nonspendable:				
Advances to other funds	181,704		181,704	
Restricted:				
Creditors (debt covenants)		938,750	938,750	871,362
Regulations		631,257	631,257	616,812
Other purposes	50,676		50,676	134,017
Committed	149,569		149,569	137,830
Assigned		1,584,547	1,584,547	1,358,649
Unassigned	6,142,006	(248,594)	5,893,412	1,988,759
Total Fund Balance	6,523,955	2,905,960	9,429,915	5,107,429
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<b>\$ 7,018,302</b>	<b>\$ 3,294,246</b>	<b>\$ 10,312,548</b>	<b>\$ 7,897,737</b>

**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, 2018

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

Total governmental fund balances (page 17)	\$	9,429,915
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$	44,770,212
Less: Accumulated depreciation		<u>(21,355,540)</u>
		23,414,672
Some receivables are not available soon enough to pay for current period expenditures and therefore are unavailable in the funds.		
Delinquent property taxes	\$	38,034
Deferred special assessments		55,204
Loans receivable		<u>51,630</u>
		144,868
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		
		24,706
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	\$	(2,005,706)
Net pension asset		168,712
Deferred outflows from pension activity		1,432,980
Deferred inflows from pension activity		<u>(1,690,902)</u>
		(2,094,916)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Bonds and notes payable	\$	(3,212,339)
Compensated absences		(338,041)
Accrued interest		<u>(31,194)</u>
		<u>(3,581,574)</u>
Net position of governmental activities (page 14)	\$	<u><u>27,337,671</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, 2018  
*With Comparative Totals for the Year Ended December 31, 2017*

	General Fund	Other Governmental Funds	Total Governmental Funds	
			2018	2017
<b>Revenues</b>				
Taxes	\$ 2,886,423	\$ 592,166	\$ 3,478,589	\$ 3,335,769
Special assessments	4,999	16,052	21,051	21,800
Licenses and permits	131,113		131,113	89,526
Intergovernmental revenues	1,056,363	51,320	1,107,683	1,111,391
Charges for services	1,277,935	2,109	1,280,044	1,205,855
Fines and forfeits	33,578	2,213	35,791	30,030
Investment income	26,215	17,429	43,644	57,313
Miscellaneous revenues	148,262	136,069	284,331	395,173
<b>Total Revenues</b>	<b>5,564,888</b>	<b>817,358</b>	<b>6,382,246</b>	<b>6,246,857</b>
<b>Expenditures</b>				
General government	1,181,735		1,181,735	1,107,135
Public safety	2,728,165		2,728,165	2,449,622
Streets and highways	511,734		511,734	631,829
Culture and recreation	944,369	269,585	1,213,954	1,061,596
Economic development	24,979	70,517	95,496	26,978
Capital outlay		988,842	988,842	2,149,747
Bond principal retirement		415,000	415,000	420,000
Interest and fiscal charges		79,141	79,141	57,626
<b>Total Expenditures</b>	<b>5,390,982</b>	<b>1,823,085</b>	<b>7,214,067</b>	<b>7,904,533</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>173,906</b>	<b>(1,005,727)</b>	<b>(831,821)</b>	<b>(1,657,676)</b>
<b>Other Financing Sources (Uses)</b>				
Debt issuance		773,091	773,091	
Transfers in	4,490,177	471,376	4,961,553	1,864,719
Transfers out	(411,376)	(168,961)	(580,337)	(719,399)
Total other financing sources (uses)	<b>4,078,801</b>	<b>1,075,506</b>	<b>5,154,307</b>	<b>1,145,320</b>
Net change in fund balances	4,252,707	69,779	4,322,486	(512,356)
<b>FUND BALANCE, beginning</b>	<b>2,271,248</b>	<b>2,836,181</b>	<b>5,107,429</b>	<b>5,619,785</b>
<b>FUND BALANCE, ending</b>	<b>\$ 6,523,955</b>	<b>\$ 2,905,960</b>	<b>\$ 9,429,915</b>	<b>\$ 5,107,429</b>

**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, 2018

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

Net change in fund balances - total governmental funds (page 19)		\$ 4,322,486
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	\$ 1,767,695	
Depreciation expense	<u>(1,216,207)</u>	551,488
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, etc.) is to decrease net position		
		(11,599)
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	\$ 144,868	
Unavailable revenue, December 31, 2016	<u>(180,437)</u>	(35,569)
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		(21,999)
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		
		(178,809)
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	\$ 415,000	
Long-term debt discount and premiums	694	
Issuance of debt	(806,617)	
Change in net pension activity	230,097	
Change in accrued interest	<u>(9,649)</u>	<u>(170,475)</u>
Change in net position of governmental activities (pages 15 and 16)		<u>\$ 4,455,523</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, 2018  
With Comparative Totals for the Year Ended December 31, 2017

	Budgeted Amounts		2018 Actual Amounts	Variance with Final Budget Positive (Negative)	2017 Actual Amounts
	Original	Final			
<b>Taxes</b>					
Property taxes	\$ 2,689,621	\$ 2,689,621	\$ 2,737,708	\$ 48,087	\$ 2,629,167
Special assessments			4,999	4,999	3,124
Franchise tax	65,000	65,000	73,958	8,958	66,718
Lodging tax	63,158	63,158	74,757	11,599	68,007
Total Taxes	2,817,779	2,817,779	2,891,422	73,643	2,767,016
<b>Licenses and Permits</b>					
Business licenses	20,200	20,200	21,460	1,260	22,023
Non-Business licenses	63,100	103,100	109,653	6,553	67,503
Total Licenses and Permits	83,300	123,300	131,113	7,813	89,526
<b>Intergovernmental Revenues</b>					
Local government aid	822,749	822,749	822,751	2	777,280
Market value credit	255	255	255		292
MSA street maintenance			70,764	70,764	164,499
Fire aid	53,000	53,000	52,609	(391)	52,896
Police aid	101,000	101,000	102,591	1,591	97,133
Other state aids	7,393	7,393	7,393		7,393
Total Intergovernmental	984,397	984,397	1,056,363	71,966	1,099,493
<b>Charges for Services</b>					
General government	275,650	275,650	275,615	(35)	231,541
Public safety	656,300	659,457	765,816	106,359	711,568
Streets and highways	10,500	10,500	17,719	7,219	12,458
Park fees	246,200	246,700	218,785	(27,915)	247,410
Total Charges for Services	1,188,650	1,192,307	1,277,935	85,628	1,202,977
<b>Fines and forfeits</b>					
	26,000	26,000	33,578	7,578	26,871
<b>Investment Income</b>					
	40,000	40,000	26,215	(13,785)	34,803
<b>Miscellaneous Revenues</b>					
Gift and contributions	56,000	67,960	68,445	485	138,996
Other	27,900	27,900	52,354	24,454	108,138
Refunds and reimbursements	5,000	5,000	27,463	22,463	16,360
Total Miscellaneous Revenues	88,900	100,860	148,262	47,402	263,494
<b>TOTAL REVENUES</b>	<b>\$ 5,229,026</b>	<b>\$ 5,284,643</b>	<b>\$ 5,564,888</b>	<b>\$ 280,245</b>	<b>\$ 5,484,180</b>

**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, 2018

With Comparative Totals for the Year Ended December 31, 2017

	Budgeted Amounts		2018 Actual Amounts	Variance with Final Budget Positive (Negative)	2017 Actual Amounts
	Original	Final			
<b>EXPENDITURES</b>					
<b>General Government</b>					
<b>Mayor and City Council:</b>					
Personnel services	\$ 43,060	\$ 43,060	\$ 41,922	\$ 1,138	\$ 42,016
Supplies	3,500	3,500	2,221	1,279	856
Other services and charges	48,000	46,200	36,184	10,016	38,342
Capital outlay	16,200	16,200	16,063	137	
Total Mayor and City Council	110,760	108,960	96,390	12,570	81,214
<b>City Administrator:</b>					
Personnel services	154,250	154,250	153,878	372	147,112
Supplies	1,000	1,000	972	28	94
Other services and charges	6,300	19,800	18,102	1,698	3,509
Total City Administrator	161,550	175,050	172,952	2,098	150,715
<b>City Clerk/Finance Director:</b>					
Personnel services	368,382	368,382	344,594	23,788	342,674
Supplies	4,500	4,500	3,967	533	3,051
Other services and charges	36,285	39,585	36,135	3,450	27,986
Capital outlay	25,000	25,000			12,400
Total City Clerk/Finance Director	434,167	437,467	384,696	27,771	386,111
<b>Audit:</b>					
Other services and charges	32,500	32,500	24,025	8,475	22,250
<b>Legal:</b>					
Other services and charges	134,000	134,000	112,787	21,213	115,130
<b>Planning and Zoning:</b>					
Personnel services	159,125	159,125	157,944	1,181	149,834
Supplies	2,200	2,200	697	1,503	1,549
Other services and charges	113,800	153,800	116,833	36,967	109,640
Total Planning and Zoning	275,125	315,125	275,474	39,651	261,023
<b>Elections:</b>					
Personnel services	9,600	9,600	10,727	(1,127)	
Supplies	2,000	2,000	1,647	353	
Other services and charges	2,400	2,400	1,692	708	1,290
Capital outlay		11,943	11,943		
Total Elections	14,000	25,943	26,009	(66)	1,290
<b>General Government Buildings:</b>					
Other services and charges			89,402	(89,402)	89,402
Total General Government Buildings			89,402	(89,402)	89,402
Total General Government	\$ 1,162,102	\$ 1,229,045	\$ 1,181,735	\$ 22,310	\$ 1,107,135

**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, 2018

With Comparative Totals for the Year Ended December 31, 2017

	Budgeted Amounts		2018 Actual Amounts	Variance with Final Budget Positive (Negative)	2017 Actual Amounts
	Original	Final			
<b>EXPENDITURES</b>					
<b>Public Safety</b>					
<b>Police:</b>					
Personnel services	\$ 1,176,610	\$ 1,176,610	\$ 1,176,851	\$ (241)	\$ 1,156,692
Supplies	60,000	66,785	53,610	13,175	51,344
Other services and charges	143,096	143,096	105,613	37,483	109,790
Capital outlay	36,800	33,020	33,020		39,265
Total Police	1,416,506	1,419,511	1,369,094	50,417	1,357,091
<b>Fire:</b>					
Personnel services	101,964	101,964	82,351	19,613	85,679
Supplies	37,000	37,000	37,109	(109)	42,836
Other services and charges	151,898	153,353	109,605	43,748	128,628
Capital outlay					40,160
Total Fire	290,862	292,317	229,065	63,252	297,303
<b>Ambulance:</b>					
Personnel services	624,875	627,375	713,266	(85,891)	564,165
Supplies	52,500	59,857	60,220	(363)	47,403
Other services and charges	168,728	165,828	121,330	44,498	155,735
Capital outlay	4,000	203,036	199,036	4,000	7,119
Total Ambulance	850,103	1,056,096	1,093,852	(37,756)	774,422
<b>Civil Defense:</b>					
Personnel services	22,070	22,070	24,016	(1,946)	8,354
Supplies	11,950	11,950	8,538	3,412	8,820
Other services and charges	4,500	4,500	3,600	900	3,632
Total Civil Defense	38,520	38,520	36,154	2,366	20,806
Total Public Safety	\$ 2,595,991	\$ 2,806,444	\$ 2,728,165	\$ 78,279	\$ 2,449,622

**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, 2018

With Comparative Totals for the Year Ended December 31, 2017

	Budgeted Amounts		2018 Actual Amounts	Variance with Final Budget Positive (Negative)	2017 Actual Amounts
	Original	Final			
<b>EXPENDITURES</b>					
<b>Streets and Highways</b>					
Personnel services	\$ 395,300	\$ 342,300	\$ 335,074	\$ 7,226	\$ 306,875
Supplies	65,500	80,500	66,663	13,837	45,855
Other services and charges	242,763	242,763	109,997	132,766	205,547
Capital outlay	15,000				73,552
Total Streets and Highways	718,563	665,563	511,734	153,829	631,829
<b>Culture and Recreation</b>					
<b>Tourism:</b>					
Other services and charges	125,575	100,003	71,721	28,282	64,097
Total Tourism	125,575	100,003	71,721	28,282	64,097
<b>Summer Recreation:</b>					
Personnel services	54,000	54,000	8,374	45,626	54,591
Supplies	500	500	710	(210)	593
Other services and charges	7,000	7,000	469	6,531	5,094
Total Summer Recreation	61,500	61,500	9,553	51,947	60,278
<b>Swimming Pool:</b>					
Personnel services	50,811	50,811	48,070	2,741	46,163
Supplies	10,500	25,072	19,356	5,716	6,971
Other services and charges	2,200	10,950	98,434	(87,484)	89,963
Capital outlay		11,500	11,338	162	
Total Swimming Pool	63,511	98,333	177,198	(78,865)	143,097
<b>Hok-Si-La Park:</b>					
Personnel services	123,375	123,375	121,983	1,392	131,671
Supplies	30,800	30,900	28,098	2,802	21,352
Other services and charges	29,800	56,800	89,195	(32,395)	58,279
Capital outlay	57,500	120,105	83,273	36,832	84,080
Total Hok-Si-La Park	\$ 241,475	\$ 331,180	\$ 322,549	\$ 8,631	\$ 295,382

**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, 2018

With Comparative Totals for the Year Ended December 31, 2017

	Budgeted Amounts		2018 Actual Amounts	Variance with Final Budget Positive (Negative)	2017 Actual Amounts
	Original	Final			
<b>Culture and Recreation (continued)</b>					
<b>Other Parks:</b>					
Personnel services	\$ 115,750	\$ 168,750	\$ 170,740	\$ (1,990)	\$ 134,210
Supplies	29,500	38,450	37,207	1,243	31,748
Other services and charges	8,650	8,650	56,900	(48,250)	77,192
Capital outlay	95,500	95,500	98,501	(3,001)	2,228
Total Other Parks	<u>249,400</u>	<u>311,350</u>	<u>363,348</u>	<u>(51,998)</u>	<u>245,378</u>
Total Culture and Recreation	<u>741,461</u>	<u>902,366</u>	<u>944,369</u>	<u>(42,003)</u>	<u>808,232</u>
<b>Economic Development</b>	<u>25,150</u>	<u>25,150</u>	<u>24,979</u>	<u>171</u>	
<b>TOTAL EXPENDITURES</b>	<u>5,243,267</u>	<u>5,628,568</u>	<u>5,390,982</u>	<u>212,586</u>	<u>4,996,818</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(14,241)</u>	<u>(343,925)</u>	<u>173,906</u>	<u>517,831</u>	<u>487,362</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	802,615	2,501,651	4,490,177	1,988,526	1,072,547
Transfers out	<u>(788,374)</u>	<u>(788,374)</u>	<u>(411,376)</u>	<u>376,998</u>	<u>(388,640)</u>
Total Other Financing Sources (Uses)	<u>14,241</u>	<u>1,713,277</u>	<u>4,078,801</u>	<u>2,365,524</u>	<u>683,907</u>
<b>NET CHANGE IN FUND BALANCE</b>		1,369,352	4,252,707	2,883,355	1,171,269
<b>FUND BALANCE, beginning</b>	<u>2,271,248</u>	<u>2,271,248</u>	<u>2,271,248</u>		<u>1,099,979</u>
<b>FUND BALANCE, ending</b>	<u>\$ 2,271,248</u>	<u>\$ 3,640,600</u>	<u>\$ 6,523,955</u>	<u>\$ 2,883,355</u>	<u>\$ 2,271,248</u>

**See Notes to Financial Statements**

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**CITY OF LAKE CITY, MINNESOTA**  
**PROPRIETARY FUNDS**  
**STATEMENT OF NET POSITION**  
**December 31, 2018**  
*With Comparative Totals as of December 31, 2017*

	Business-Type Activities - Enterprise Funds			
	701	702	703	706
	Electric Fund	Water Fund	Sewer Fund	Storm Water Fund
<b>ASSETS AND DEFERRED OUTFLOWS</b>				
<b>OF RESOURCES</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 5,317,895	\$ 939,551	\$ 904,823	\$ 107,634
Accounts receivable	1,450,803	55,191	72,476	7,443
Advances to other funds	106,244			
Inventories	581,417			
Prepaid expense	22,182	2,320	12,332	451
<b>Total Current Assets</b>	<b>7,478,541</b>	<b>997,062</b>	<b>989,631</b>	<b>115,528</b>
<b>Noncurrent Assets</b>				
Capital Assets				
Nondepreciable	9,900	4,273		97,400
Depreciable	16,658,794	4,202,449	12,213,123	2,651,414
Less: Accumulated depreciation	(10,341,381)	(2,232,018)	(8,238,787)	(1,287,688)
<b>Net Capital Assets</b>	<b>6,327,313</b>	<b>1,974,704</b>	<b>3,974,336</b>	<b>1,461,126</b>
Special Assessments		20,390		19,273
<b>Total Noncurrent Assets</b>	<b>6,327,313</b>	<b>1,995,094</b>	<b>3,974,336</b>	<b>1,480,399</b>
<b>Deferred Outflows of Resources</b>				
Deferred outflows from pension activity	99,467	28,935	36,200	3,333
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>				
	<b>\$ 13,905,321</b>	<b>\$ 3,021,091</b>	<b>\$ 5,000,167</b>	<b>\$ 1,599,260</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Current maturities of bonds payable	\$	\$ 67,500	\$ 356,000	\$ 37,500
Accounts payable	838,757			
Accrued liabilities	27,195	7,125	17,826	4,870
Advances from other funds				70,000
Interfund payables				
Customer deposits	89,016			
<b>Total Current Liabilities</b>	<b>954,968</b>	<b>74,625</b>	<b>373,826</b>	<b>112,370</b>
<b>Noncurrent Liabilities</b>				
Bonds payable, net of current maturities and discount		446,300	1,289,000	303,634
Compensated absences payable	31,376	28,474	43,299	
Net pension liability	498,417	143,018	177,096	17,160
<b>Total Liabilities</b>	<b>1,484,761</b>	<b>692,417</b>	<b>1,883,221</b>	<b>433,164</b>
<b>Deferred Inflows of Resources</b>				
Deferred inflows from pension activity	139,401	39,998	49,533	4,800
<b>NET POSITION</b>				
Net investment in capital assets	6,327,313	1,460,904	2,329,336	1,119,992
Unrestricted	5,953,846	827,772	738,077	41,304
<b>Total Net Position</b>	<b>12,281,159</b>	<b>2,288,676</b>	<b>3,067,413</b>	<b>1,161,296</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET PENSION</b>				
	<b>\$ 13,905,321</b>	<b>\$ 3,021,091</b>	<b>\$ 5,000,167</b>	<b>\$ 1,599,260</b>

**See Notes to Financial Statements**

710 Marina Fund	720 Garbage Fund	TOTALS		Governmental Activities - Internal Service Fund	
		2018	2017	2018	2017
\$ 5,438,619	\$ 113,711	\$ 12,822,233	\$ 15,025,787	\$	\$
24,695	40,193	1,650,801	1,298,821		1,592
221,321		327,565	2,395,619		
35,538		616,955	604,542		
22,700	712	60,697	64,055	56,410	57,340
<u>5,742,873</u>	<u>154,616</u>	<u>15,478,251</u>	<u>19,388,824</u>	<u>56,410</u>	<u>58,932</u>
613,727		725,300	784,289		6,650
6,730,436		42,456,216	42,044,639		179,943
(3,879,852)		(25,979,726)	(24,770,195)		(15,835)
<u>3,464,311</u>		<u>17,201,790</u>	<u>18,058,733</u>		<u>170,758</u>
		39,663	57,729		
<u>3,464,311</u>		<u>17,241,453</u>	<u>18,116,462</u>		<u>170,758</u>
43,864	2,420	214,219	144,574		
<u>\$ 9,251,048</u>	<u>\$ 157,036</u>	<u>\$ 32,933,923</u>	<u>\$ 37,649,860</u>	<u>\$ 56,410</u>	<u>\$ 229,690</u>
\$	\$	\$ 461,000	\$ 626,000	\$	\$
	44,409	883,166	973,906		3,650
	3,902	60,918	99,704		
		70,000	80,000		
		89,016	84,850	31,704	22,525
	<u>48,311</u>	<u>1,564,100</u>	<u>1,864,460</u>	<u>31,704</u>	<u>26,175</u>
		2,038,934	4,299,634		
39,882		143,031	181,585		
225,325	12,592	1,073,608	1,266,675		
<u>265,207</u>	<u>60,903</u>	<u>4,819,673</u>	<u>7,612,354</u>	<u>31,704</u>	<u>26,175</u>
63,023	3,519	300,274	37,337		
3,464,311		14,701,856	13,133,099		170,758
5,458,507	92,614	13,112,120	16,867,070	24,706	32,757
<u>8,922,818</u>	<u>92,614</u>	<u>27,813,976</u>	<u>30,000,169</u>	<u>24,706</u>	<u>203,515</u>
<u>\$ 9,251,048</u>	<u>\$ 157,036</u>	<u>\$ 32,933,923</u>	<u>\$ 37,649,860</u>	<u>\$ 56,410</u>	<u>\$ 229,690</u>

**CITY OF LAKE CITY, MINNESOTA  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUES, EXPENSES AND  
 CHANGES IN FUND NET POSITION  
 For the Year Ended December 31, 2018  
 With Comparative Totals for the Year Ended December 31, 2017**

	Business-Type Activities - Enterprise Funds			
	701 Electric Fund	702 Water Fund	703 Sewer Fund	706 Storm Water Fund
<b>Operating Revenue</b>	\$ 13,823,319	\$ 754,859	\$ 1,551,094	\$ 139,823
<b>Operating Expenses</b>				
Salaries and benefits	789,873	232,599	298,184	23,381
Supplies	47,545	25,470	49,926	21,131
Other services and charges	11,617,780	250,771	594,857	21,732
Insurance	67,895	11,600	32,984	1,057
Depreciation	474,714	129,035	353,244	108,277
Total Operating Expenses	<u>12,997,807</u>	<u>649,475</u>	<u>1,329,195</u>	<u>175,578</u>
<b>Operating Income (Loss)</b>	<u>825,512</u>	<u>105,384</u>	<u>221,899</u>	<u>(35,755)</u>
<b>Nonoperating Income (Expense)</b>				
Miscellaneous income	13,118	223	1,490	303
Investment income	86,635	5,465	6,048	408
Special assessments		42	1,395	696
Loss on disposal of capital assets				
Loss on disposal of inventory	(1,571)			
Interest expense	(69,191)	(15,488)	(55,506)	(12,251)
Total Nonoperating Income (Expense)	<u>28,991</u>	<u>(9,758)</u>	<u>(46,573)</u>	<u>(10,844)</u>
<b>Income (Loss) Before Transfers</b>	854,503	95,626	175,326	(46,599)
Transfers out	(2,198,601)	(22,500)	(22,500)	
Change in net position	(1,344,098)	73,126	152,826	(46,599)
<b>Net Position, beginning</b>	<u>13,625,257</u>	<u>2,215,550</u>	<u>2,914,587</u>	<u>1,207,895</u>
<b>Net Position, ending</b>	<u>\$ 12,281,159</u>	<u>\$ 2,288,676</u>	<u>\$ 3,067,413</u>	<u>\$ 1,161,296</u>

**See Notes to Financial Statements**

710 Marina Fund	720 Garbage Fund	TOTALS		Governmental Activities - Internal Service Funds	
		2018	2017	2018	2017
\$ 2,011,873	\$ 575,892	\$ 18,856,860	\$ 18,405,732	\$ 400,000	\$ 407,932
425,702	14,279	1,784,018	1,869,885		
184,072	1,509	329,653	296,187	37,551	34,311
131,512	564,170	13,180,822	12,771,578	167,352	144,151
63,178		176,714	136,665	217,377	170,411
153,197		1,218,467	1,228,555		11,614
957,661	579,958	16,689,674	16,302,870	422,280	360,487
1,054,212	(4,066)	2,167,186	2,102,862	(22,280)	47,445
5,304	5,949	26,387	42,150	14,229	20,224
53,903	865	153,324	198,470		
		2,133	9,217		
			(39,798)	(170,758)	
		(1,571)	(13,524)		
		(152,436)	(186,569)		
59,207	6,814	27,837	9,946	(156,529)	20,224
1,113,419	2,748	2,195,023	2,112,808	(178,809)	67,669
(2,137,615)		(4,381,216)	(1,145,320)		
(1,024,196)	2,748	(2,186,193)	967,488	(178,809)	67,669
9,947,014	89,866	30,000,169	29,032,681	203,515	135,846
\$ 8,922,818	\$ 92,614	\$ 27,813,976	\$ 30,000,169	\$ 24,706	\$ 203,515

**CITY OF LAKE CITY, MINNESOTA**  
**ENTERPRISE FUNDS**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2018**  
*With Comparative Totals for the Year Ended December 31, 2017*

	Business-Type Activities - Enterprise Funds			
	Electric Fund	Water Fund	Sewer Fund	Storm Water Fund
<b>Cash Flows From Operating Activities</b>				
Cash received from customers	\$ 13,546,575	\$ 725,453	\$ 1,530,121	\$ 138,977
Cash paid to suppliers	(11,796,345)	(290,581)	(678,729)	(49,262)
Cash paid to employees	(819,846)	(229,755)	(298,437)	(23,739)
Net Cash Provided By (Used In) Operating Activities	930,384	205,117	552,955	65,976
<b>Cash Flows From Noncapital Financing Activities</b>				
Advances from/ (to) other funds	2,170,074			(10,000)
Operating transfers out	(2,198,601)	(22,500)	(22,500)	
Net Cash Used In Noncapital Financing Activities	(28,527)	(22,500)	(22,500)	(10,000)
<b>Cash Flows From Capital and Related Financing Activities</b>				
Principal received on special assessments		15,216	1,396	3,588
Acquisition of capital assets	(231,900)	(27,162)	(54,375)	
Interest paid on debt	(19,412)	(15,450)	(55,506)	(11,768)
Principal paid on debt	(2,035,000)	(60,000)	(346,000)	(35,000)
Net Cash Used In Capital and Related Financing Activities	(2,286,312)	(87,396)	(454,485)	(43,180)
<b>Cash Flows From Investing Activities</b>				
Investment income	86,635	5,465	6,048	408
Net Cash Provided By Investing Activities	86,635	5,465	6,048	408
<b>Increase (Decrease) in Cash and Cash Equivalents</b>				
	(1,297,820)	100,686	82,018	13,204
<b>Cash and Cash Equivalents, beginning</b>	6,615,715	838,865	822,805	94,430
<b>Cash and Cash Equivalents, ending</b>	\$ 5,317,895	\$ 939,551	\$ 904,823	107,634

**See Notes to Financial Statements**

Marina Fund	Garbage Fund	TOTALS		Governmental Activities - Internal Service Fund	
		2018	2017	2018	2017
\$ 2,017,869	\$ 576,438	\$ 18,535,433	\$ 19,301,910	\$ 414,229	\$ 428,156
(408,412)	(565,226)	(13,788,555)	(13,015,526)		
(475,181)	(14,175)	(1,861,133)	(1,796,178)	(423,408)	(349,346)
1,134,276	(2,963)	2,885,745	4,490,206	(9,179)	78,810
(102,020)		2,058,054	892,033	9,179	(45,911)
(2,137,615)		(4,381,216)	(1,145,320)		
(2,239,635)		(2,323,162)	(253,287)	9,179	(45,911)
		20,200	24,284		
(48,088)		(361,525)	(463,085)		(32,899)
		(102,136)	(180,515)		
		(2,476,000)	(661,774)		
(48,088)		(2,919,461)	(1,281,090)		(32,899)
53,903	865	153,324	198,470		
53,903	865	153,324	198,470		
(1,099,544)	(2,098)	(2,203,554)	3,154,299		
6,538,163	115,809	15,025,787	11,871,488		
\$ 5,438,619	\$ 113,711	\$ 12,822,233	\$ 15,025,787	\$	\$

**CITY OF LAKE CITY, MINNESOTA**  
**ENTERPRISE FUNDS**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2018**  
*With Comparative Totals for the Year Ended December 31, 2017*

**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
<b>Operating Income (Loss)</b>	\$ 825,512	\$ 105,384	\$ 221,899	\$ (35,755)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	474,714	129,035	353,244	108,277
Other	11,547	223	1,490	303
(Increase) Decrease In:				
Accounts receivable	(294,028)	(29,629)	(22,463)	(1,149)
Inventories	8,087			
Prepaid expenses	2,507	223	758	155
Increase (Decrease) In:				
Accounts payable	(72,148)	(2,963)	(1,720)	(5,497)
Accrued liabilities	(34,316)	(418)	(3,730)	(401)
Pension related	(621)	488	118	43
Compensated absences	4,964	2,774	3,359	
Customer deposits	4,166			
<b>Net Cash Provided By (Used In) Operating Activities</b>	<b>\$ 930,384</b>	<b>\$ 205,117</b>	<b>\$ 552,955</b>	<b>\$ 65,976</b>
<b>Noncash Investing, Capital and Financing Activities</b>				
Amortization of bond discount/premium	\$ 49,779	\$ 38	\$	\$ 483

**See Notes to Financial Statements**

Marina Fund	Garbage Fund	TOTALS		Governmental Activities - Internal Service Fund	
		2018	2017	2018	2017
\$ 1,054,212	\$ (4,066)	\$ 2,167,186	\$ 2,102,862	\$ (22,280)	\$ 47,445
153,197		1,218,467	1,228,555		11,614
5,304	5,949	24,816	28,626	14,229	20,224
692	(5,403)	(351,980)	857,044	1,592	(1,242)
(20,500)		(12,413)	61,582		
(416)	131	3,358	(15,470)	930	(2,881)
(8,734)	322	(90,740)	156,316	(3,650)	3,650
(7)	86	(38,786)	(13,242)		
179	18	225	88,099		
(49,651)		(38,554)	(1,150)		
		4,166	(3,016)		
<u>\$ 1,134,276</u>	<u>\$ (2,963)</u>	<u>\$ 2,885,745</u>	<u>\$ 4,490,206</u>	<u>\$ (9,179)</u>	<u>\$ 78,810</u>
\$	\$	\$ 50,300	\$ 6,054	\$	\$

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**CITY OF LAKE CITY, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

# CITY OF LAKE CITY, MINNESOTA

## NOTES TO FINANCIAL STATEMENTS

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### 1. Summary of Significant Accounting Policies

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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)

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1. Summary of Significant Accounting Policies (Continued)

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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)

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1. Summary of Significant Accounting Policies (Continued)

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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)

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1. Summary of Significant Accounting Policies (Continued)

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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)**

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**1. Summary of Significant Accounting Policies (Continued)**

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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)**

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**1. Summary of Significant Accounting Policies (Continued)**

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*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)

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1. Summary of Significant Accounting Policies (Continued)

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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)**

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**1. Summary of Significant Accounting Policies (Continued)**

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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, 2017 totals column have been reclassified to conform with the current year presentation.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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1. Summary of Significant Accounting Policies (Continued)

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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)**

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**1. Summary of Significant Accounting Policies (Continued)**

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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

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Summary of Cash and Investments

As of December 31, 2018, the City's investments consisted of the following items, all of which are held in an internal investment pool:

Deposits	\$ 3,278,954
Investments	<u>19,153,503</u>
Cash and Investments Per Statement of Net Position	<u><u>\$ 22,432,457</u></u>

Investment	Fair Value	Investment Rating	
		S&P	MOODY
Money Market Mutual Funds	\$ 551,292	N/A	N/A
Mutual Funds	34,846	N/A	N/A
Non-Negotiable CD's	11,808,301	N/A	N/A
US Treasury Bonds	58,176	AA+	AAA
Federal Home Loan Bank	1,957,853	AA+	AAA
Federal National Mortgage Association Notes	1,015,572	AA+	AAA
Federal Farm Credit Bank	245,150	AA+	AAA
Federal Home Loan Mortgage Corp	<u>3,482,313</u>	AA+	AAA
	<u><u>\$ 19,153,503</u></u>		

**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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**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 2018 or 2017.

	Assets			
	Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Mutual Funds	\$ 34,846	\$	\$ 34,846	\$
Federal Home Loan Bank	1,957,853	1,957,853		
Federal National Mortgage Association Notes	1,015,572	1,015,572		
Federal Farm Credit Bank	245,150	245,150		
Federal Home Loan Mortgage Corp	3,482,313	3,482,313		
	<u>\$ 6,735,734</u>	<u>\$ 6,700,888</u>	<u>\$ 34,846</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	\$ 551,292	\$ 551,292	\$	\$	\$
Mutual Funds	34,846	34,846			
Non-Negotiable CD's	11,808,301	2,995,083	3,756,456	4,241,081	815,681
US Treasury Bonds	58,176				58,176
Federal Home Loan Bank	1,957,853			1,240,860	716,993
Federal National Mortgage Association Notes	1,015,572				1,015,572
Federal Farm Credit Bank	245,150			245,150	
Federal Home Loan Mortgage Corp	3,482,313			3,482,313	
Total	\$ 19,153,503	\$ 3,581,221	\$ 3,756,456	\$ 9,209,404	\$ 2,606,422

Credit Risk

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

Concentration of Credit Risk

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

<u>Investment</u>	<u>Percent of Total</u>
Non-Negotiable CD's	62%
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)**

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**3. Loans Receivables**

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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, 2018 totaled \$51,630.

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**4. Stewardship, Compliance, and Accountability**

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Certain funds had a deficit fund balance at December 31, 2018, as follows:

Special Revenue Funds:		
Tax increment TIF #13	\$	238,354
Tax increment TIF #16		10,240

These deficits will be eliminated through future tax levies.

Excess of expenditures over appropriations at the individual fund level during 2018 is as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Over Budget</u>
Library	\$ 298,164	\$ 307,970	\$ 9,806

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, 2018 was as follows:

<b>Governmental Activities</b>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 1,342,605	\$	\$	\$ 1,342,605
Construction in progress	211,879	922,950	89,286	1,045,543
Total capital assets, not being depreciated	<u>1,554,484</u>	<u>922,950</u>	<u>89,286</u>	<u>2,388,148</u>
Capital assets, being depreciated:				
Buildings	17,415,222	191,584		17,606,806
Improvements other than buildings	474,901			474,901
Infrastructure	18,586,567			18,586,567
Machinery and equipment	5,307,351	555,854	149,415	5,713,790
Total capital assets, being depreciated	<u>41,784,041</u>	<u>747,438</u>	<u>149,415</u>	<u>42,382,064</u>
Less accumulated depreciation for:				
Buildings	7,275,997	373,524		7,649,521
Improvements other than buildings	212,334	21,131		233,465
Infrastructure	9,355,206	522,747		9,877,953
Machinery and equipment	3,449,447	282,970	137,816	3,594,601
Total accumulated depreciation	<u>20,292,984</u>	<u>1,200,372</u>	<u>137,816</u>	<u>21,355,540</u>
Total capital assets, being depreciated, net	<u>21,491,057</u>	<u>(452,934)</u>	<u>11,599</u>	<u>21,026,524</u>
Governmental activities capital assets, net	<u>\$ 23,045,541</u>	<u>\$ 470,016</u>	<u>\$ 100,885</u>	<u>\$ 23,414,672</u>

**Governmental Activities:**

General government	\$ 376,749
Public safety	152,505
Streets and highways	543,738
Culture and recreation	127,380
Total depreciation expense - governmental activities	<u>\$ 1,200,372</u>

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Capital Assets (continued)

<b>Business-Type Activities</b>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 725,300	\$	\$	\$ 725,300
Construction in progress	58,989		58,989	
Total capital assets, not being depreciated	784,289		58,989	725,300
Capital assets, being depreciated:				
Buildings and improvements	14,487,647			14,487,647
Distribution and collection system	24,232,490	165,090		24,397,580
Machinery and equipment	3,324,502	272,086	25,599	3,570,989
Total capital assets, being depreciated	42,044,639	437,176	25,599	42,456,216
Less accumulated depreciation for:				
Buildings and improvements	7,890,908	404,747		8,295,655
Distribution and collection system	14,100,044	688,638		14,788,682
Machinery and equipment	2,779,243	125,082	8,936	2,895,389
Total accumulated depreciation	24,770,195	1,218,467	8,936	25,979,726
Total capital assets, being depreciated, net	17,274,444	(781,291)	16,663	16,476,490
Business-type activities capital assets, net	\$ 18,058,733	\$ (781,291)	\$ 75,652	\$ 17,201,790

**Business-Type Activities:**

Electric	\$ 474,714
Water	129,035
Sewer	353,244
Storm water	108,277
Marina	153,197
Total depreciation expense - business-type activities	\$ 1,218,467

**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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**6. Due From Other Governmental Units**

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Amounts due from other governmental units at December 31, 2018 are as follows:

Fund	Due from various Counties	State of Minnesota	Total
General	\$ 18,522	\$ 4,910	\$ 23,432
Economic development authority	383		383
Total	<u>\$ 18,905</u>	<u>\$ 4,910</u>	<u>\$ 23,815</u>

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**7. Tax Abatement**

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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, 2018.

Lake City Partners MN, LLC

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

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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8. Interfund Balances and Transfers

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The amounts advanced to and advanced from other funds as of December 31, 2018 at the individual fund level are summarized below:

	<u>Advances to Other Funds</u>	<u>Advances from Other Funds</u>
General Fund	\$ 181,704	\$ 190,675
Special Revenue Funds:		
Tax Increment TIF #13		238,354
Tax Increment TIF #16		10,240
Enterprise Fund:		
Electric	106,244	
Storm Water		70,000
Marina	221,321	
	<u>\$ 509,269</u>	<u>\$ 509,269</u>

Balances of interfund receivables and payables as of December 31, 2018 at the individual fund level for year-end cash deficiencies are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 31,704	\$
Internal Service Fund		31,704
	<u>\$ 31,704</u>	<u>\$ 31,704</u>

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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8. Interfund Balances and Transfers (Continued)

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Operating transfers primarily from payments in lieu of taxes during the year ended December 31, 2018 were as follows:

Funds	Transfers In	Transfers Out
General Fund	\$ 4,490,177	\$ 411,376
Special Revenue:		
Library	60,000	
Tax Increment TIF #13		168,961
Capital Project Funds:		
Capital Projects	411,376	
Enterprise:		
Electric		2,198,601
Water		22,500
Sewer		22,500
Marina		2,137,615
	\$ 4,961,553	\$ 4,961,553

**9. Long-Term Debt**

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**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, 2018 is as follows:

	Range of Interest Rates	Final Maturity	Balance December 31, 2018
<u>Governmental Activities</u>			
G.O. Improvement Bonds:			
G.O. Improvement Bonds of 2012A	0.4%-2.15%	2023	\$ 730,000
G.O. Improvement Bonds of 2013A	1.00%-2.35%	2024	970,000
G.O. Refunding Bonds of 2013B	1.5%-2.5%	2022	170,000
G.O. Crossover Refunding Bonds of 2015A	2.00%	2024	530,000
G.O. Street Reconstruction Bonds of 2018A	3.00%	2029	795,000
Compensated Absences			338,041
<u>Business-Type Activities</u>			
G.O. Improvement Bonds:			
G.O. Crossover Refunding Bonds of 2015A	2.00%	2024	170,000
General Obligation Revenue Bonds:			
G.O. Utility Revenue Bonds of 2010A	2%-3.75%	2026	690,000
GO Revenue Loans:			
Public Facilities Loan of 1999	2.86%	2020	153,000
Public Facilities Loan of 2002	2.99%	2023	1,492,000
Compensated Absences			143,031
Sub-total			6,181,072
Less: Unamortized discount			(10,856)
Plus: Unamortized premiums			23,129
Total			<u>\$ 6,193,345</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, 2018:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
Bonds and Notes Payable:					
General Obligation Bonds:					
G.O. Improvement Bonds of 2012A	\$ 870,000		\$ 140,000	\$ 730,000	\$ 140,000
Less: Unamortized Discount	(3,905)		(781)	(3,124)	
G.O. Improvement Bonds of 2013A	1,125,000		155,000	970,000	155,000
G.O. Refunding Bonds of 2013B	205,000		35,000	170,000	40,000
G.O. Crossover Refunding Bonds of 2015A	615,000		85,000	530,000	85,000
Plus: Amortized Premium	10,321		1,475	8,846	
G.O. Street Reconstruction Bonds of 2018A		795,000		795,000	
Plus: Amortized Premium		11,617		11,617	
Other liabilities:					
Compensated Absences	316,042	21,999		338,041	
Governmental Activities Long-term Liabilities	<u>3,137,458</u>	<u>828,616</u>	<u>415,694</u>	<u>3,550,380</u>	<u>420,000</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Bonds and Notes Payable:					
Revenue Bonds:					
Electric Revenue Bonds of 2010B	2,035,000		2,035,000		
Less: Unamortized Discount	(49,779)		(49,779)		
General Obligation Revenue Bonds:					
G.O. Utility Revenue Bonds of 2010A	760,000		70,000	690,000	75,000
Less: Unamortized Discount	(8,698)		(966)	(7,732)	
General Obligation Bonds:					
G.O. Crossover Refunding Bonds of 2015A	195,000		25,000	170,000	30,000
Plus: Amortized Premium	3,111		445	2,666	
General Obligation Revenue Loans:					
Public Facilities Loan of 1999	226,000		73,000	153,000	75,000
Public Facilities Loan of 2002	1,765,000		273,000	1,492,000	281,000
Other liabilities:					
Compensated Absences	181,585		38,554	143,031	
Business-type Activities Long-term Liabilities	<u>5,107,219</u>		<u>2,464,254</u>	<u>2,642,965</u>	<u>461,000</u>
Total	<u>\$ 8,244,677</u>	<u>\$ 828,616</u>	<u>\$ 2,879,948</u>	<u>\$ 6,193,345</u>	<u>\$ 881,000</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, 2018, excluding accrued compensated absences are summarized below.

Years	General Obligation Bonds		General Obligation Revenue Loans		General Obligation Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
<u>Governmental Activities</u>						
2019	\$ 420,000	\$ 57,967				
2020	495,000	60,447				
2021	515,000	50,471				
2022	520,000	39,484				
2023	485,000	28,327				
2024-2028	670,000	54,648				
2029	90,000					
Totals	<u>\$ 3,195,000</u>	<u>\$ 291,344</u>				

Business-Type Activities

2019	\$ 30,000	\$ 3,400	\$ 356,000	\$ 48,987	\$ 75,000	\$ 22,249
2020	25,000	2,800	368,000	38,440	80,000	19,874
2021	25,000	2,300	298,000	27,538	80,000	17,374
2022	25,000	1,800	307,000	18,628	85,000	14,721
2023	35,000	1,300	316,000	9,448	85,000	11,831
2024-2026	30,000	600			285,000	16,116
Totals	<u>\$ 170,000</u>	<u>\$ 12,200</u>	<u>\$ 1,645,000</u>	<u>\$ 143,041</u>	<u>\$ 690,000</u>	<u>\$ 102,165</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)

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10. Commitments and Contingencies (Continued)

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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 2018.

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 2018. 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.

## CITY OF LAKE CITY, MINNESOTA

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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#### 11. Defined Benefit Pension Plans - Statewide

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##### 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 are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

##### 2. Public Employees Police and Fire Plan

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

##### Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

##### 1. General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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11. Defined Benefit Pension Plans – Statewide (Continued)

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Benefits Provided (continued)

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90 percent funded for two consecutive years, benefit recipients are given a 2.5 percent increase. If the plan has not exceeded 90 percent funded, or have fallen below 80 percent, benefit recipients are given a one percent increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

2. Police and Fire Plan Benefits

Benefits for Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3 percent of average salary for each year of service. A full, unreduced pension is earned when members are age 55 and vested, or for members who were first hired prior to July 1, 1989, when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. Police and Fire Plan benefit recipients receive a future annual 1.0 percent increase. An annual adjustment will equal 2.5 percent any time the plan exceeds a 90 percent funded ratio for two consecutive years. If the adjustment is increased to 2.5 percent and the funded ratio falls below 80 percent for one year or 85 percent for two consecutive years, the post-retirement benefit increase will be lowered to one percent. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase. For retirements after May 31, 2014, the first increase will be delayed two years.

Contributions

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

1. General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2018 and the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2018, were \$211,509. 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)**

Contributions (continued)

2. Police and Fire Fund Contributions

Plan members were required to contribute 10.8 percent of their annual covered salary and the City was required to contribute 16.20 percent of pay for members in fiscal year 2018. The City's contributions to the Police and Fire Fund for the year ended December 31, 2018, were \$120,075. The City's contributions were equal to the required contributions as set by state statute.

Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2018, the City reported a liability of \$2,329,988 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. 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 \$76,291. The net pension liability was measured as of June 30, 2018, 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 proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017 through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the City's proportionate share was 0.0420 percent which was a decrease of 0.0011 percent from its proportionate share measured as of June 30, 2017.

For the year ended December 31, 2018 the City recognized pension expense of \$117,569 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$17,791 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2018, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 63,213	\$ 66,499
Difference between projected and actual investment earnings		252,065
Changes in actuarial assumptions	217,804	266,493
Changes in proportion	81,195	66,919
Contributions paid to PERA subsequent to the measurement date	108,096	
Total	<u>\$ 470,308</u>	<u>\$ 651,976</u>

**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**11. Defined Benefit Pension Plans – Statewide (Continued)**

*Pension Costs (continued)*

\$108,096 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, 2019. 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
2019	\$ 78,638
2020	(110,178)
2021	(209,594)
2022	(48,630)

**2. Police and Fire Fund Pension Costs**

At December 31, 2018, the City reported a liability of \$749,326 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2018, 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 proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017 through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers.

At June 30, 2018, the City's proportionate share was 0.0703 percent which was an increase of 0.0013 percent from its proportionate share measured as of June 30, 2017. The City also recognized \$6,327 for the year ended December 31, 2018, as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

At December 31, 2018, 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	\$ 27,019	\$ 188,275
Difference between projected and actual investment earnings		147,988
Changes in actuarial assumptions	954,126	906,820
Changes in proportion	21,827	66,886
Contributions paid to PERA subsequent to the measurement date	64,943	
Total	<u>\$ 1,067,915</u>	<u>\$ 1,309,969</u>

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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11. Defined Benefit Pension Plans – Statewide (Continued)

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Pension Costs (continued)

\$64,943 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, 2019. 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
2019	\$ (203,361)
2020	(238,995)
2021	167,594
2022	(32,235)

Total Pension Expense

Pension expense recognized by the City for the year ended December 31, 2018 is as follows:

General Employees Fund	\$ 228,940
Police and Fire Fund	(94,754)
	<u>\$ 134,186</u>

Actuarial Assumptions

The total pension liability in the June 30, 2018 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 for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the General Employees Plan and 1.0 percent per year for the Police and Fire Plan.

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015. The most recent four-year experience study for Police and Fire Plan was completed in 2016. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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11. Defined Benefit Pension Plans – Statewide (Continued)

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Actuarial Assumptions (continued)

The following changes in actuarial assumptions occurred in 2018:

**General Employees Fund**

- The morality projection scale was changed from MP-2015 to MP-2017.
- The assumed post-retirement benefit increase was changed from 1.0 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

**Police and Fire Fund**

- The morality projection scale was changed from MP-2016 to MP-2017.
- As set by statute, the assumed post-retirement benefit increase was changed from 1.0 percent per year through 2064 and 2.5 percent per year, thereafter, to 1.0 percent for all years, with no trigger.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Domestic Stocks	36%	5.10%
International Stocks	17%	5.30%
Bonds	20%	0.75%
Alternative Assets	25%	5.90%
Cash	2%	0.00%
	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability in 2018 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at 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 General Employees Fund net pension liability	\$ 3,786,528	\$ 2,329,988	\$ 1,127,655
City's proportionate share of the Police and Fire Fund net pension liability	1,616,601	749,326	40,394
Total	<u>\$ 5,403,129</u>	<u>\$ 3,079,314</u>	<u>\$ 1,168,049</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](http://www.mnpera.org).

## CITY OF LAKE CITY, MINNESOTA

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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#### 12. Defined Benefit Pension Plan - Volunteer Fire Relief Association

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##### 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, 2017 (the latest available information) membership includes 22 active members and 11 terminated employees entitled to benefit but not yet receiving them. The plan issues a stand-alone financial statement. This is the most recent financial statement available.

##### Benefits Provided

Authority for payment of pension benefits is established in *Minnesota Statutes* 69.77 and may be amended only by the Minnesota State Legislature. Each member who is at least 50 years of age, has retired from the Fire Department, has served at least 20 years of active service with such department shall be entitled to a lump sum service pension in the amount of \$5,700 for each year of active Fire Department service (including each year over 20) but not exceeding the maximum amount per year of service allowed by law for the minimum average amount of available financing per firefighter as prescribed by law.

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

If a member of the Association shall become permanently or totally disabled, the Association shall pay the sum \$5,700 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
=	<u>Total Contribution Required</u>

The Plan is funded in part by fire state aid and, if necessary, City contributions. The State of Minnesota distributed \$52,609 in fire state aid paid by the City to the Relief Association for the year ended December 31, 2018. 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 \$20,725 for the year ended December 31, 2018.

Pension Costs

At December 31, 2017 (the latest available information), 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 \$5,205 for the year ended December 31, 2018. At December 31, 2018, 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	19,054	
City contributions paid subsequent to measurement date	84,113	
Total	\$ 108,976	\$ 29,231

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
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 (the latest available information), 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 from 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)

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

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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)

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

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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](http://www.mnpera.org).

**CITY OF LAKE CITY, MINNESOTA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2018**

**CITY OF LAKE CITY, MINNESOTA**

**Schedule of City Pension Contributions  
PERA General Employees Retirement Fund  
Last Ten Years (presented prospectively)**

Year Ended December 31	Statutorily Required Contribution (a)	Contributions in Relation to Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
2014	\$ 148,967	\$ 148,967	\$	\$ 2,054,717	7.3%
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	211,509	211,509		2,820,120	7.5%
2019					
2020					
2021					
2022					
2023					

**Schedule of City Pension Contributions  
PERA Public Employees Police and Fire Fund Pension Plan  
Last Ten Years (presented prospectively)**

Year Ended December 31	Statutorily Required Contribution (a)	Contributions in Relation to Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
2014	\$ 99,525	\$ 99,525	\$	\$ 650,490	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	120,075	120,075		741,204	16.2%
2019					
2020					
2021					
2022					
2023					

**CITY OF LAKE CITY, MINNESOTA**

**Schedule of City's and Non-Employer Proportionate Share of Net Pension Liability  
PERA General Employees Retirement Fund  
Last Ten Years (presented prospectively)**

Fiscal Year Ended June 30	Employer's Proportionate Share (Percentage) of Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability (Asset) (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the City (a+b)	Covered Payroll (c)	Employer's Proportionate Share (Amount) of the Net Pension Liability as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0457%	\$ 2,146,757	\$	\$ 2,146,757	\$ 2,054,717	104.5%	78.7%
2015	0.0422%	2,187,023		2,187,023	2,478,070	88.3%	78.2%
2016	0.0411%	3,337,116	43,545	3,380,661	2,384,127	141.8%	68.9%
2017	0.0431%	2,751,476	34,629	2,786,105	2,664,000	104.6%	75.9%
2018	0.0420%	2,329,988	76,291	2,406,279	2,799,620	86.0%	79.5%
2019							
2020							
2021							
2022							
2023							

**Schedule of City's Proportionate Share of Net Pension Liability  
PERA Public Employees Police and Fire Fund Pension Plan  
Last Ten Years (presented prospectively)**

Fiscal Year Ended June 30	Employer's Proportionate Share (Percentage) of Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share (Amount) of the Net Pension Liability 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	0.0703%	749,326	724,757	103.4%	88.8%
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>
<b>Total Pension Liability</b>			
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>
<b>Plan Fiduciary Net Position</b>			
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>
<b>Net Pension Liability (Asset) - End of Year</b>	<b>\$ (168,712)</b>	<b>\$ (141,537)</b>	<b>\$ (289,473)</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<b>115.80%</b>	<b>115.15%</b>	<b>140.98%</b>

**CITY OF LAKE CITY, MINNESOTA**  
**COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES**  
**DECEMBER 31, 2018**

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**CITY OF LAKE CITY, MINNESOTA**

**NONMAJOR FUNDS**

**DECEMBER 31, 2018**

**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, 2018**

	Special Revenue Funds			
	210 Library	270 Community Development Revolving Loan Fund	271 Business Development Revolving Loan Fund	272 Small Cities Development Program Fund
<b>ASSETS</b>				
Cash and investments	\$ 100,355	\$ 431,346	\$ 180,096	\$ 19,815
Loans receivable		51,630		
Taxes receivable, delinquent	1,002			
Special assessments receivable: Deferred				
<b>TOTAL ASSETS</b>	<b>\$ 101,357</b>	<b>\$ 482,976</b>	<b>\$ 180,096</b>	<b>\$ 19,815</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>				
<b>Liabilities</b>				
Accounts payable	\$	\$	\$	\$
Interfund payables				
Total Liabilities				
<b>Deferred Inflows of Resources</b>				
Unavailable: Unavailable revenue	1,002	51,630		
<b>Fund Balance</b>				
Restricted:				
Creditors (debt covenants)				
Regulations		431,346	180,096	19,815
Assigned:				
Fund assignments	100,355			
Unassigned				
<b>Total Fund Balance</b>	<b>100,355</b>	<b>431,346</b>	<b>180,096</b>	<b>19,815</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<b>\$ 101,357</b>	<b>\$ 482,976</b>	<b>\$ 180,096</b>	<b>\$ 19,815</b>

Special Revenue Funds

492	495
Block 25	Tax
Redev	Increment
TIF #13	TIF #16

\$            \$

---

\$            \$

---

\$            \$

238,354	10,240
<u>238,354</u>	<u>10,240</u>

---

(238,354)	(10,240)
<u>(238,354)</u>	<u>(10,240)</u>

---

\$            \$

---

**CITY OF LAKE CITY, MINNESOTA  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
December 31, 2018**

	Debt Service Funds				
	357	358	366	365	368
	2006	2008	2012	2013A	2018A
	Street	Street	Street	Improvement	Street
	Improvement	Improvement	Improvement	Bonds	Improvement
<b>ASSETS</b>					
Cash and investments	\$ 58,719	\$ 254,471	\$ 268,002	\$ 323,911	\$ 33,647
Loans receivable					
Taxes receivable, delinquent	348	1,106	1,768	2,008	
Special assessments receivable:					
Deferred	42,906				
<b>TOTAL ASSETS</b>	<b>\$ 101,973</b>	<b>\$ 255,577</b>	<b>\$ 269,770</b>	<b>\$ 325,919</b>	<b>\$ 33,647</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>					
<b>Liabilities</b>					
Accounts payable	\$	\$	\$	\$	\$
Interfund payables					
Total Liabilities					
<b>Deferred Inflows of Resources</b>					
Unavailable:					
Deferred revenue	43,254	1,106	1,768	2,008	
<b>Fund Balance</b>					
Restricted:					
Creditors (debt covenants)	58,719	254,471	268,002	323,911	33,647
Regulations					
Assigned:					
Fund assignments					
Unassigned					
Total Fund Balance	58,719	254,471	268,002	323,911	33,647
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<b>\$ 101,973</b>	<b>\$ 255,577</b>	<b>\$ 269,770</b>	<b>\$ 325,919</b>	<b>\$ 33,647</b>

Capital Projects Funds

400 Capital Projects	405 Mill & Overlay	<u>Totals</u>
\$ 1,399,111	\$ 124,005	\$ 3,193,478
		51,630
		6,232
		<u>42,906</u>
<u>\$ 1,399,111</u>	<u>\$ 124,005</u>	<u>\$ 3,294,246</u>
\$ 38,924	\$	\$ 38,924
		248,594
<u>38,924</u>		<u>287,518</u>
		<u>100,768</u>
		938,750
		631,257
1,360,187	124,005	1,584,547
		(248,594)
<u>1,360,187</u>	<u>124,005</u>	<u>2,905,960</u>
<u>\$ 1,399,111</u>	<u>\$ 124,005</u>	<u>\$ 3,294,246</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, 2018**  
*With Comparative Totals for the Year Ended December 31, 2017*

	Special Revenue Funds			
	210	270	271	272
	Library	Community Development Revolving Loan Fund	Business Development Revolving Loan Fund	Small Cities Development Program Fund
<b>REVENUES</b>				
Taxes:				
Property taxes	\$ 109,855	\$	\$	\$
Special assessments				
Intergovernmental revenues	51,320			
Charges for services	2,109			
Fines and forfeits	2,213			
Investment income	124	2,819	1,193	131
Miscellaneous revenues	92,241	10,302		
<b>TOTAL REVENUES</b>	<b>257,862</b>	<b>13,121</b>	<b>1,193</b>	<b>131</b>
<b>EXPENDITURES</b>				
Culture and recreation:				
Library	269,585			
Economic development				
Debt service:				
Principal retirement				
Interest and fiscal charges				
Capital outlay	38,385			
<b>TOTAL EXPENDITURES</b>	<b>307,970</b>			
Excess (deficiency) of revenues over (under) expenditures	(50,108)	13,121	1,193	131
<b>OTHER FINANCING SOURCES (USES)</b>				
Issuance of debt				
Transfers out				
Transfers in	60,000			
Total Other Financing Sources (Uses)	60,000			
<b>Net change in fund balances</b>	<b>9,892</b>	<b>13,121</b>	<b>1,193</b>	<b>131</b>
<b>FUND BALANCE, beginning</b>	<b>90,463</b>	<b>418,225</b>	<b>178,903</b>	<b>19,684</b>
<b>FUND BALANCE, ending</b>	<b>\$ 100,355</b>	<b>\$ 431,346</b>	<b>\$ 180,096</b>	<b>\$ 19,815</b>

Special Revenue Funds

492 Block 25 Redev TIF #13	495 Tax Increment TIF #16
\$	\$ 1,537
(6)	(5)
<u>(6)</u>	<u>1,532</u>
68,320	2,197
<u>68,320</u>	<u>2,197</u>
<u>(68,326)</u>	<u>(665)</u>
(168,961)	
<u>(168,961)</u>	
(237,287)	(665)
<u>(1,067)</u>	<u>(9,575)</u>
<u>\$ (238,354)</u>	<u>\$ (10,240)</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, 2018**  
*With Comparative Totals for the Year Ended December 31, 2017*

	Debt Service Funds				
	357	358	366	365	368
	2006	2008	2012	2013A	2018A
	Street	Street	Street	Improvement	Street
	Improvement	Improvement	Improvement	Bonds	Improvement
<b>REVENUES</b>					
Taxes:					
Property taxes	\$ 32,039	\$ 101,680	\$ 162,503	\$ 184,552	\$
Special assessments	16,052				
Intergovernmental revenues					
Charges for services					
Fines and forfeits					
Investment income	176	1,257	1,048	1,325	121
Miscellaneous revenues					33,526
<b>TOTAL REVENUES</b>	<b>48,267</b>	<b>102,937</b>	<b>163,551</b>	<b>185,877</b>	<b>33,647</b>
<b>EXPENDITURES</b>					
Culture and recreation:					
Library					
Economic development					
Debt service:					
Principal retirement	35,000	85,000	140,000	155,000	
Interest and fiscal charges	5,333	12,103	14,265	20,190	
Capital outlay					
<b>TOTAL EXPENDITURES</b>	<b>40,333</b>	<b>97,103</b>	<b>154,265</b>	<b>175,190</b>	
Excess (deficiency) of revenues over (under) expenditures	7,934	5,834	9,286	10,687	33,647
<b>OTHER FINANCING SOURCES (USES)</b>					
Issuance of debt					
Transfers out					
Transfers in					
Total Other Financing Sources (Uses)					
<b>Net change in fund balances</b>	<b>7,934</b>	<b>5,834</b>	<b>9,286</b>	<b>10,687</b>	<b>33,647</b>
<b>FUND BALANCE, beginning</b>	<b>50,785</b>	<b>248,637</b>	<b>258,716</b>	<b>313,224</b>	
<b>FUND BALANCE, ending</b>	<b>\$ 58,719</b>	<b>\$ 254,471</b>	<b>\$ 268,002</b>	<b>\$ 323,911</b>	<b>\$ 33,647</b>

Capital Projects Funds

400 Capital Projects	405 Mill & Overlay	Totals
\$	\$	\$ 592,166
		16,052
		51,320
		2,109
		2,213
7,672	1,574	17,429
		136,069
<u>7,672</u>	<u>1,574</u>	<u>817,358</u>
		269,585
		70,517
		415,000
	27,250	79,141
327,047	623,410	988,842
<u>327,047</u>	<u>650,660</u>	<u>1,823,085</u>
<u>(319,375)</u>	<u>(649,086)</u>	<u>(1,005,727)</u>
	773,091	773,091
		(168,961)
411,376		471,376
<u>411,376</u>	<u>773,091</u>	<u>1,075,506</u>
92,001	124,005	69,779
1,268,186		2,836,181
<u>\$ 1,360,187</u>	<u>\$ 124,005</u>	<u>\$ 2,905,960</u>

**CITY OF LAKE CITY, MINNESOTA  
LIBRARY FUND  
Statement of Revenues, Expenditures  
and Changes in Fund Balance - Budget and Actual  
For the Year Ended December 31, 2018  
(With Comparative Totals for the Year Ended December 31, 2017)**

	Budgeted Amounts		2018 Actual Amount	Variance With Budget Positive (Negative)	2017 Actual Amount
	Original	Final			
<b>REVENUES</b>					
<b>Property Tax Levy</b>					
Property tax collected	\$ 108,393	\$ 108,393	\$ 109,855	\$ 1,462	\$ 91,072
<b>Intergovernmental Revenues</b>					
County - library grants	50,600	50,600	51,320	720	49,301
Total Intergovernmental Revenues	50,600	50,600	51,320	720	49,301
<b>Charges For Services</b>					
Fines and forfeits	3,500	3,500	2,213	(1,287)	3,159
Other	2,250	2,250	2,109	(141)	2,878
Total Charges For Services	5,750	5,750	4,322	(1,428)	6,037
<b>Investment Income</b>					
			124	124	523
<b>Miscellaneous</b>					
Donations	5,000	19,421	15,597	(3,824)	23,205
Other			76,644	76,644	69,594
Total Miscellaneous	5,000	19,421	92,241	72,820	92,799
<b>Total Revenues</b>	<b>169,743</b>	<b>184,164</b>	<b>257,862</b>	<b>73,698</b>	<b>239,732</b>
<b>EXPENDITURES</b>					
Library services	250,743	259,518	269,585	(10,067)	253,364
Capital outlay	33,000	38,646	38,385	261	33,168
<b>Total Expenditures</b>	<b>283,743</b>	<b>298,164</b>	<b>307,970</b>	<b>(9,806)</b>	<b>286,532</b>
Excess (deficiency) of revenues over (under) expenditures	(114,000)	(114,000)	(50,108)	63,892	(46,800)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers out	(23,000)	(23,000)		23,000	
Transfers in			60,000	60,000	374,108
Total other financing sources (uses)	(23,000)	(23,000)	60,000	83,000	374,108
<b>Net Change in Fund Balance</b>	<b>(137,000)</b>	<b>(137,000)</b>	<b>9,892</b>	<b>146,892</b>	<b>327,308</b>
<b>Fund Balance, beginning</b>	<b>90,463</b>	<b>90,463</b>	<b>90,463</b>		<b>(236,845)</b>
<b>Fund Balance, ending</b>	<b>\$ (46,537)</b>	<b>\$ (46,537)</b>	<b>\$ 100,355</b>	<b>\$ 146,892</b>	<b>\$ 90,463</b>



**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, 2018**  
*(With Comparative Totals for the Year Ended December 31, 2017)*

	Totals	
	2018	2017
<b>REVENUES</b>		
Property tax	\$ 72,734	\$ 71,938
Investment income	305	148
Payment from primary government	106,890	30,900
Miscellaneous	3,600	2,500
<b>Total Revenues</b>	<b>183,529</b>	<b>105,486</b>
<b>EXPENDITURES</b>		
Economic Development	137,622	109,007
<b>Total Expenditures</b>	<b>137,622</b>	<b>109,007</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	45,907	(3,521)
<b>Fund Balance, beginning</b>	135,375	138,896
<b>Fund Balance, ending</b>	\$ 181,282	\$ 135,375
 Net Change in Fund Balance - Component Unit	 \$ 45,907	 \$ (3,521)
 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.	 (149)	 (141)
 Change in Net Position - Component Unit	 \$ 45,758	 \$ (3,662)

**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, 2018 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 4, 2019.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

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 4, 2019

## 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, 2018, 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 4, 2019.

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 4, 2019