

**CITY OF LAKE CITY, MINNESOTA**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2019**



**CITY OF LAKE CITY, MINNESOTA**

**FINANCIAL STATEMENTS  
For the Fiscal Year Ended December 31, 2019**

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**CITY OF LAKE CITY, MINNESOTA**  
**FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended December 31, 2019**

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**CITY OF LAKE CITY, MINNESOTA**

**INTRODUCTORY SECTION**

**DECEMBER 31, 2019**

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**CITY OF LAKE CITY, MINNESOTA  
ELECTED AND APPOINTED OFFICIALS  
DECEMBER 31, 2019**

**ELECTED**

<u>Title</u>	<u>Name</u>	<u>Term Expires</u>
Mayor	Mark Nichols	December 31, 2020
Council	Russell Boe	December 31, 2022
Council	Faye Brown	December 31, 2022
Council	Amy Alkire	December 31, 2022
Council	Cindy McGrath	December 31, 2020
Council	Philip Gartner	December 31, 2020
Council	Jason DeVinny	December 31, 2020

**APPOINTED**

City Administrator	Rob Keehn
City Clerk	Kari Schreck
Finance Director/Treasurer	Jerome Illg

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**CITY OF LAKE CITY, MINNESOTA**

**FINANCIAL SECTION**

**DECEMBER 31, 2019**

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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, 2019, 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, 2019, 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, 2018, from which such partial information was derived.

We have previously audited the City's 2018 financial statement and our reported dated June 4, 2019 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, 2018, 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 24, 2020, 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, 2019.

### 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 \$57,832,435 (*net position*). Of this amount, \$21,120,088 (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 \$2,680,788 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 \$10,323,189. Approximately 64 percent of this total amount, or \$6,586,772, is available for use within the City's assignments and policies.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$5,112,207 or 77 percent of total general fund expenditures.
- The City of Lake City's total outstanding debt decreased by \$881,000 during the current fiscal year. The City entered into a capital lease finance agreement for \$685,182 to purchase a ladder fire truck. 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 85 and 86. 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 fifteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund which is considered to be a major fund. Data from the other 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 76-83 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 84) 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 34-71 of this report.

**Other information.** The combining statements referred to earlier in connection with nonmajor governmental funds can be found on pages 76-83 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 \$57,832,435 at the close of the most recent fiscal year.

By far the largest portion of the City of Lake City's net position (61 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	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 10,807,401	\$ 10,066,697	\$ 16,713,267	\$ 15,447,914	\$ 27,520,668	\$ 25,514,611
Capital assets	24,012,222	23,414,672	16,751,737	17,201,790	40,763,959	40,616,462
Total assets	<u>34,819,623</u>	<u>33,481,369</u>	<u>33,465,004</u>	<u>32,649,704</u>	<u>68,284,627</u>	<u>66,131,073</u>
Deferred outflows of resources	996,568	1,432,980	116,535	214,219	1,113,103	1,647,199
Long-term liabilities outstanding	5,900,994	5,556,086	3,279,933	3,716,573	9,180,927	9,272,659
Other liabilities	222,084	329,690	854,995	1,033,100	1,077,079	1,362,790
Total liabilities	<u>6,123,078</u>	<u>5,885,776</u>	<u>4,134,928</u>	<u>4,749,673</u>	<u>10,258,006</u>	<u>10,635,449</u>
Deferred inflows of resources	1,093,309	1,690,902	213,980	300,274	1,307,289	1,991,176
Net position:						
Net investment in capital assets	20,535,395	20,202,333	14,712,280	14,701,856	35,247,675	34,904,189
Restricted	1,464,672	1,590,443			1,464,672	1,590,443
Unrestricted	6,599,737	5,544,895	14,520,351	13,112,120	21,120,088	18,657,015
Total net position	<u>\$ 28,599,804</u>	<u>\$ 27,337,671</u>	<u>\$ 29,232,631</u>	<u>\$ 27,813,976</u>	<u>\$ 57,832,435</u>	<u>\$ 55,151,647</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* (\$21,120,088) 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 \$1,262,133.

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

**Business-type activities.** Business-type activities increased the City of Lake City's net position by \$1,418,655.

A condensed version of the Statement of Activities follows:

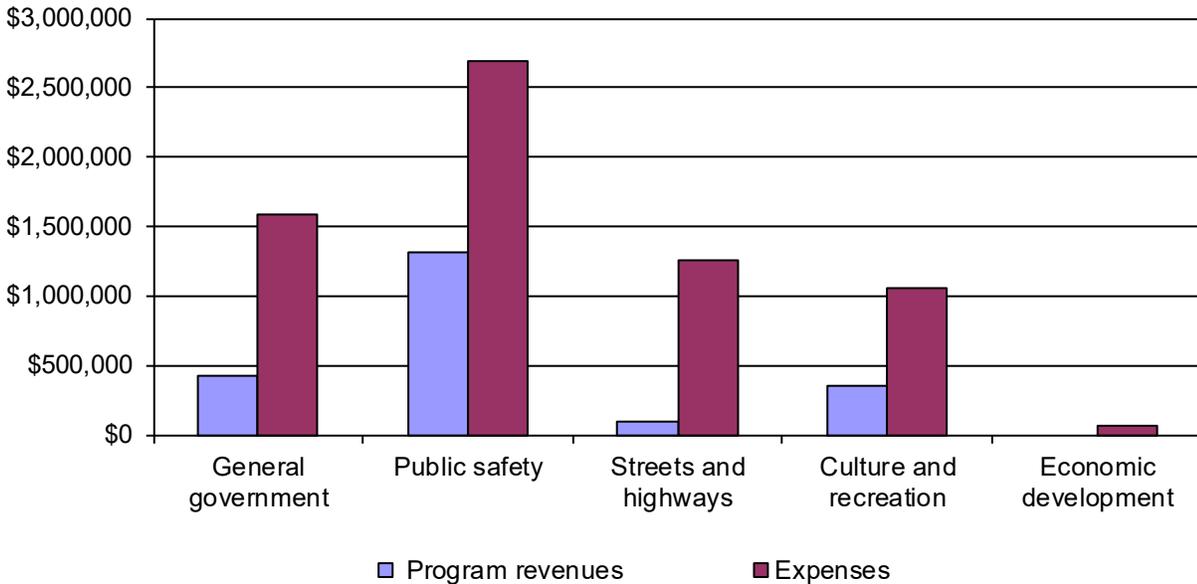
**City of Lake City's Change in Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenue:						
Program revenues:						
Charges for services	\$ 1,749,328	\$ 1,480,179	\$ 16,801,346	\$ 18,856,860	\$ 18,550,674	\$ 20,337,039
Operating grants and contributions	440,827	457,577			440,827	457,577
Capital grants and contributions	818		11,726	2,133	12,544	2,133
General revenues:						
Property taxes	3,566,368	3,480,022			3,566,368	3,480,022
Tax increments	2,222	1,537			2,222	1,537
Grants and contributions not restricted to specific programs	825,750	823,006			825,750	823,006
Other	545,795	102,082	1,035,246	179,711	1,581,041	281,793
Total revenues	<u>7,131,108</u>	<u>6,344,403</u>	<u>17,848,318</u>	<u>19,038,704</u>	<u>24,979,426</u>	<u>25,383,107</u>
Expenses:						
General government	1,589,195	1,447,166			1,589,195	1,447,166
Public safety	2,695,950	2,384,320			2,695,950	2,384,320
Streets and highways	1,255,115	1,099,979			1,255,115	1,099,979
Culture and recreation	1,054,741	1,056,475			1,054,741	1,056,475
Economic development	70,357	143,253			70,357	143,253
Interest on long-term debt	73,617	138,903			73,617	138,903
Electric			11,847,819	13,068,569	11,847,819	13,068,569
Water			636,584	664,963	636,584	664,963
Sewer			1,341,148	1,384,701	1,341,148	1,384,701
Storm water			164,547	187,829	164,547	187,829
Marina			602,451	579,958	602,451	579,958
Garbage			967,114	957,661	967,114	957,661
Total expenses	<u>6,738,975</u>	<u>6,270,096</u>	<u>15,559,663</u>	<u>16,843,681</u>	<u>22,298,638</u>	<u>23,113,777</u>
Increase (decrease) in net position before transfers and other	392,133	74,307	2,288,655	2,195,023	2,680,788	2,269,330
Transfers	870,000	4,381,216	(870,000)	(4,381,216)		
Increase (decrease) in net position	<u>1,262,133</u>	<u>4,455,523</u>	<u>1,418,655</u>	<u>(2,186,193)</u>	<u>2,680,788</u>	<u>2,269,330</u>
Net position, beginning of year	27,337,671	22,882,148	27,813,976	30,000,169	55,151,647	52,882,317
Net position, end of year	<u>\$ 28,599,804</u>	<u>\$ 27,337,671</u>	<u>\$ 29,232,631</u>	<u>\$ 27,813,976</u>	<u>\$ 57,832,435</u>	<u>\$ 55,151,647</u>

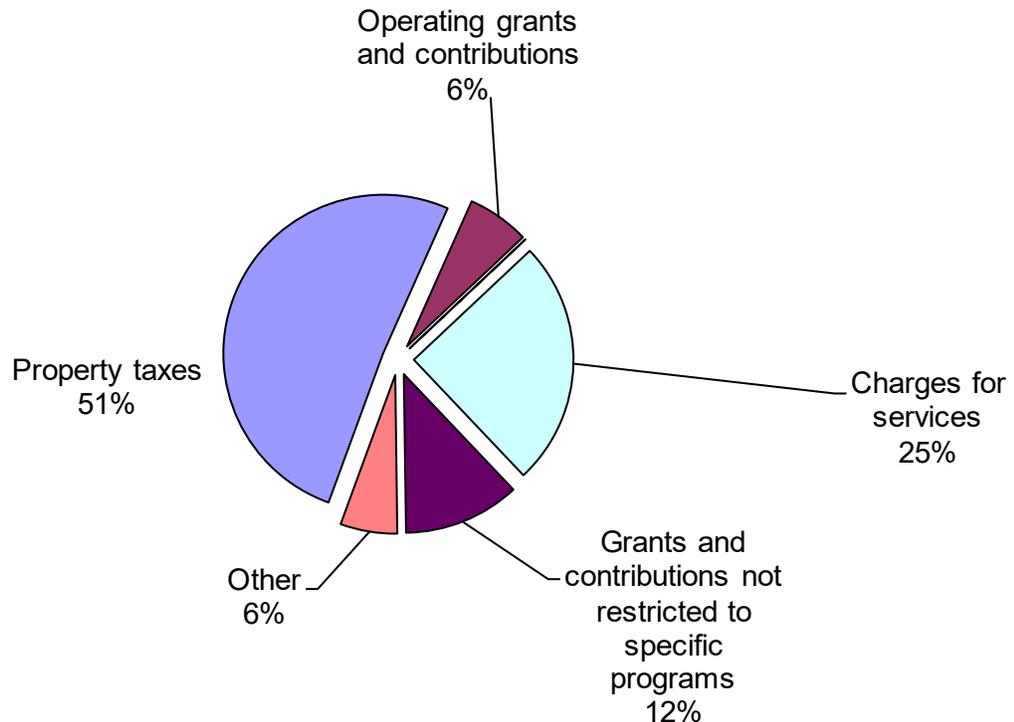
**CITY OF LAKE CITY, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**



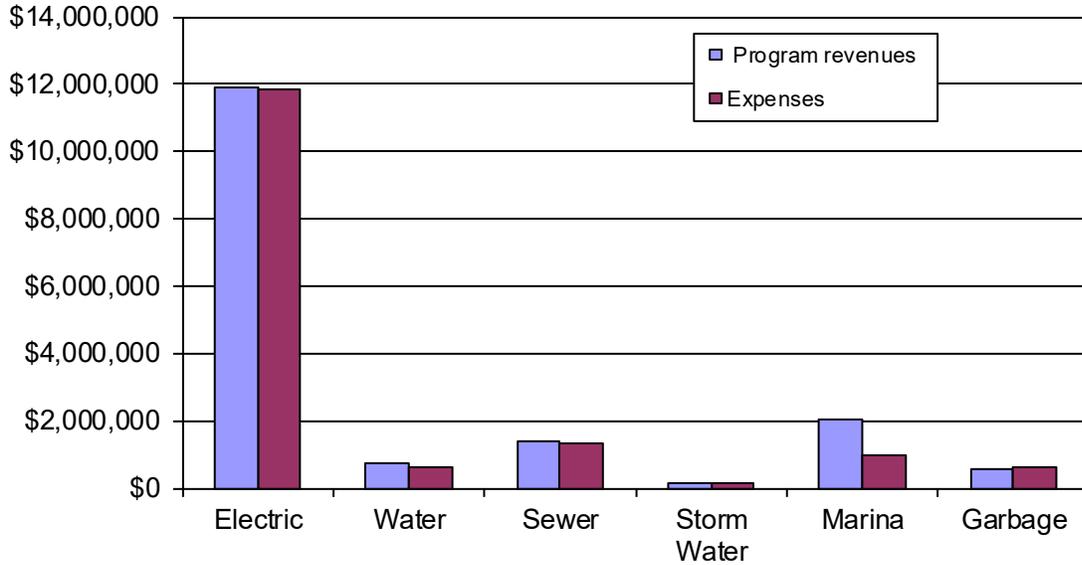
**Revenues by Source - Governmental Activities**



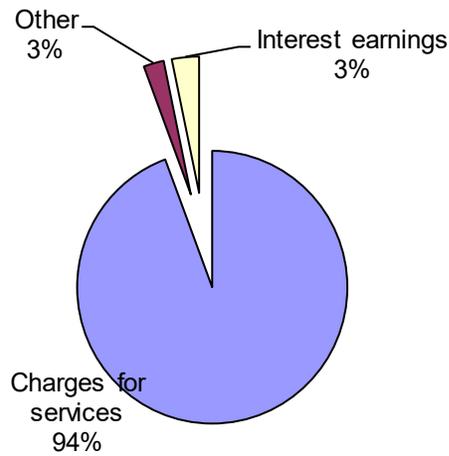
**CITY OF LAKE CITY, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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 \$10,323,189, an increase of \$893,274. Approximately 81 percent of this total amount, or \$8,363,164, constitutes *unassigned, assigned, or committed fund balance*, which is available for spending at the government's discretion. The remainder of the total fund balance (\$1,960,025) is *nonspendable or restricted* to indicate that it is not available for new spending because it is restricted to repay long-term debt, for use by the development loan programs, and other specific uses.

The general fund is the chief operating fund of the City of Lake City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$5,112,207. 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 77 percent of total general fund expenditures.

The general fund's total fund balance increased by \$607,557 during the current fiscal year. This year's increase was primarily due to gains from disposal of property (Fire Truck, Loader, Out Lot D) and some budgeted projects not being done in 2019.

The debt service funds have a total fund balance of \$1,045,799 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 - \$6,775,754, Water - \$917,309, Sewer - \$401,083, Storm Water - \$72,195, Marina - \$6,264,566, and Garbage - \$89,444. All funds, except the storm water fund and garbage fund, had increases in total net position for the year. The storm water utility fund's net loss was primarily due to depreciation and the garbage fund net loss was primarily due to increase in contractual service expense for grinding material at the compost site.

### **General Fund Budgetary Highlights**

The original 2019 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 2019 were approved by resolution amending the original budget. Select unspent budgeted amounts from 2018 were carried over to the 2019 budget by resolution. The City had some staffing changes within the ambulance department that changed personnel costs. The City experienced a harsh winter, wet spring, and summer, and a tornado that contributed to additional costs in streets and parks. The City entered into contractual services in 2019 for managing its pool operations, which contributed to unknown costs until a full season of operations were known.

**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, 2019, amounts to \$40,763,959 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City of Lake City's reported investment in capital assets for the current fiscal year was \$147,497.

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

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 1,342,605	\$ 1,342,605	\$ 725,300	\$ 725,300	\$ 2,067,905	\$ 2,067,905
Construction in progress	867,969	1,045,543	153,016		1,020,985	1,045,543
Buildings and improvements	9,856,745	10,198,721	5,874,442	6,191,992	15,731,187	16,390,713
Machinery and equipment	3,149,341	2,119,189	960,254	675,600	4,109,595	2,794,789
Infrastructure	8,795,562	8,708,614			8,795,562	8,708,614
Distribution and collection system			9,038,725	9,608,898	9,038,725	9,608,898
<b>Total</b>	<b>\$ 24,012,222</b>	<b>\$ 23,414,672</b>	<b>\$ 16,751,737</b>	<b>\$ 17,201,790</b>	<b>\$ 40,763,959</b>	<b>\$ 40,616,462</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 \$4,831,102 in bonds and notes outstanding and \$685,182 in equipment lease payable. Of this amount, \$4,908,048 comprises debt backed by the full faith and credit of the government and \$608,236 represents bonds secured solely by specified revenue sources.

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

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
General obligation bonds	\$ 2,791,645	\$ 3,212,339	\$ 142,221	\$ 172,666	\$ 2,933,866	\$ 3,385,005
General obligation revenue bonds			1,897,236	2,327,268	1,897,236	2,327,268
Equipment lease payable	685,182				685,182	
Compensated absences	376,149	338,041	139,938	143,031	516,087	481,072
Total	<u>\$ 3,852,976</u>	<u>\$ 3,550,380</u>	<u>\$ 2,179,395</u>	<u>\$ 2,642,965</u>	<u>\$ 6,032,371</u>	<u>\$ 6,193,345</u>

The City of Lake City's total outstanding debt decreased by \$160,974 during the current fiscal year. The City paid \$ 881,000 in debt payments and entered into an equipment lease for \$685,182. 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.

**Future Factors**

The City is reconstructing Highway 61 in 2020. The City is utilizing several sources of reserve funds to finance the estimated construction cost of \$3,450,000. Unfortunately, when bids were completed in December the bid cost was approximately \$4,125,000. Subsequently, the City has identified in 2020 additional resources for the \$675,000 shortfall. The shortfall does significantly impact the water, sewer, and storm sewer fund. There may need to be future utility rate adjustments in the water and storm sewer fund. The sewer fund has two debt payments that will be paid in the next 3 years that will improve the cash flow long term.

The City is planning a major renovation of Ohuta Park with estimated construction of \$4,725,000, with major funding coming from Marina fund reserves and General Fund reserves. As the project is designed with actual costs become known, the financing of the project will be reviewed.

**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, 2019**

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

December 31, 2019

With Comparative Totals as of December 31, 2018

	Primary Government				Component Unit	
	Governmental Activities	Business-Type Activities	Totals		Economic Development Authority	
			2019	2018	2019	2018
<b>Assets</b>						
Cash and investments	\$ 10,215,334	\$ 14,349,211	\$ 24,564,545	\$ 22,432,457	\$ 122,660	\$ 119,871
Accounts receivable	300,729	1,374,683	1,675,412	1,887,269		
Interest receivable	58,610		58,610	83,968		
Taxes receivable	20,844		20,844	38,034		
Special assessments receivable	39,970	31,906	71,876	94,867		
Loan receivable	39,849		39,849	51,630		
Internal balances	(219,247)	219,247				
Due from other governmental units	29,985		29,985	23,432	791	1,072
Due from primary government					66,890	66,890
Due from component unit	23		23	180		
Prepaid expenses	104,668	103,993	208,661	117,107	1,577	999
Property held for resale					235,000	235,000
Inventories		634,227	634,227	616,955		
Net pension asset	216,636		216,636	168,712		
Capital assets:						
Nondepreciable	2,210,574	878,316	3,088,890	3,113,448		
Depreciable, net	21,801,648	15,873,421	37,675,069	37,503,014		
Total Assets	<u>34,819,623</u>	<u>33,465,004</u>	<u>68,284,627</u>	<u>66,131,073</u>	<u>426,918</u>	<u>423,832</u>
<b>Deferred Outflows of Resources</b>						
Deferred outflows from pension activity	996,568	116,535	1,113,103	1,647,199		
<b>Liabilities</b>						
Accounts and contracts payable	5,247	721,779	727,026	1,001,555	8,279	6,681
Accrued liabilities	149,947	53,444	203,391	194,729		
Deposits payable		79,772	79,772	99,616		
Due to primary government					23	180
Due to component unit	66,890		66,890	66,890		
Noncurrent liabilities:						
Due within one year	689,098	473,000	1,162,098	881,000		
Due in more than one year	3,163,878	1,706,395	4,870,273	5,312,345		
Net pension liability	2,048,018	1,100,538	3,148,556	3,079,314		
Total Liabilities	<u>6,123,078</u>	<u>4,134,928</u>	<u>10,258,006</u>	<u>10,635,449</u>	<u>8,302</u>	<u>6,861</u>
<b>Deferred Inflows of Resources</b>						
Deferred inflows from pension activity	1,093,309	213,980	1,307,289	1,991,176		
<b>Net Position</b>						
Net investment in capital assets	20,535,395	14,712,280	35,247,675	34,904,189		
Restricted for:						
Debt service	1,019,403		1,019,403	907,556		
Revolving loans	445,269		445,269	682,887		
Unrestricted	6,599,737	14,520,351	21,120,088	18,657,015	418,616	416,971
Total Net Position	<u>\$ 28,599,804</u>	<u>\$ 29,232,631</u>	<u>\$ 57,832,435</u>	<u>\$ 55,151,647</u>	<u>\$ 418,616</u>	<u>\$ 416,971</u>

**See Notes to Financial Statements**

**CITY OF LAKE CITY, MINNESOTA**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2019  
With Comparative Totals for the Year Ended December 31, 2018

<u>Functions/Programs</u>	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 1,589,195	\$ 391,175	\$ 26,393	\$
Public safety	2,695,950	1,138,046	181,467	
Streets and highways	1,255,115	25,168	70,636	818
Culture and recreation	1,054,741	194,939	162,331	
Economic development	70,357			
Interest on long-term debt	73,617			
Total governmental activities	<u>6,738,975</u>	<u>1,749,328</u>	<u>440,827</u>	<u>818</u>
Business-Type activities:				
Electric utility	11,847,819	11,924,316		
Water utility	636,584	749,871		10,885
Sewer utility	1,341,148	1,384,691		
Storm water utility	164,547	139,862		841
Garbage	602,451	587,944		
Marina	967,114	2,014,662		
Total business-type activities	<u>15,559,663</u>	<u>16,801,346</u>		<u>11,726</u>
Total Primary Government	<u>\$ 22,298,638</u>	<u>\$ 18,550,674</u>	<u>\$ 440,827</u>	<u>\$ 12,544</u>
Component Unit:				
Economic Development Authority	<u>\$ 84,902</u>	<u>\$ 13,640</u>	<u>\$</u>	<u>\$</u>

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

Change in net position

Net position - beginning

Net position - ending

**See Notes to Financial Statements**

Net (Expense) Revenue  
and Changes in Net Position

Primary Government		Totals		Component Unit Economic Development Authority	
Governmental Activities	Business-Type Activities	2019	2018	2019	2018
\$ (1,171,627)	\$	\$ (1,171,627)	\$ (990,243)	\$	\$
(1,376,437)		(1,376,437)	(1,418,955)		
(1,158,493)		(1,158,493)	(1,011,150)		
(697,471)		(697,471)	(629,836)		
(70,357)		(70,357)	(143,253)		
(73,617)		(73,617)	(138,903)		
<u>(4,548,002)</u>		<u>(4,548,002)</u>	<u>(4,332,340)</u>		
	76,497	76,497	754,750		
	124,172	124,172	89,938		
	43,543	43,543	167,788		
	(23,844)	(23,844)	(47,310)		
	(14,507)	(14,507)	(4,066)		
	<u>1,047,548</u>	<u>1,047,548</u>	<u>1,054,212</u>		
	<u>1,253,409</u>	<u>1,253,409</u>	<u>2,015,312</u>		
<u>(4,548,002)</u>	<u>1,253,409</u>	<u>(3,294,593)</u>	<u>(2,317,028)</u>		
				<u>(71,262)</u>	<u>(27,132)</u>
3,566,368		3,566,368	3,480,022	72,129	72,585
2,222		2,222	1,537		
825,750		825,750	823,006		
379,447	576,507	955,954	211,027	778	305
142,600	40,000	182,600			
23,748	418,739	442,487	70,766		
870,000	(870,000)				
<u>5,810,135</u>	<u>165,246</u>	<u>5,975,381</u>	<u>4,586,358</u>	<u>72,907</u>	<u>72,890</u>
1,262,133	1,418,655	2,680,788	2,269,330	1,645	45,758
<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>
<u>\$ 28,599,804</u>	<u>\$ 29,232,631</u>	<u>\$ 57,832,435</u>	<u>\$ 55,151,647</u>	<u>\$ 418,616</u>	<u>\$ 416,971</u>

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

**GOVERNMENTAL FUNDS**

December 31, 2019

*With Comparative Totals as of December 31, 2018*

	General Fund	Other Governmental Funds	Total Governmental Funds	
			2019	2018
<b>Assets</b>				
Cash and investments	\$ 6,781,771	\$ 3,433,563	\$ 10,215,334	\$ 9,610,224
Interest receivable	58,610		58,610	76,512
Accounts receivable	300,729		300,729	243,924
Taxes receivable delinquent	17,079	3,765	20,844	38,034
Special assessments receivable:				
Deferred	10,541	29,429	39,970	55,204
Advances to other funds	174,996		174,996	181,704
Interfund receivable	133,443		133,443	31,704
Loans receivable		39,849	39,849	51,630
Due from other governmental units	29,985		29,985	23,432
Due from component unit	23		23	180
<b>TOTAL ASSETS</b>	<b>\$ 7,507,177</b>	<b>\$ 3,506,606</b>	<b>\$ 11,013,783</b>	<b>\$ 10,312,548</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balance</b>				
<b>Liabilities</b>				
Accounts payable	\$ 5,247	\$	\$ 5,247	\$ 118,389
Accrued liabilities	123,551		123,551	102,617
Deposits payable				10,600
Advances from other funds	152,357		152,357	190,675
Interfund payable		241,886	241,886	248,594
Due to component unit	66,890		66,890	66,890
<b>Total Liabilities</b>	<b>348,045</b>	<b>241,886</b>	<b>589,931</b>	<b>737,765</b>
<b>Deferred Inflows of Resources</b>				
Unavailable revenue	27,620	73,043	100,663	144,868
<b>Fund Balance</b>				
Nonspendable:				
Advances to other funds	174,996		174,996	181,704
Restricted:				
Creditors (debt covenants)		1,045,799	1,045,799	938,750
Regulations		671,313	671,313	631,257
Other purposes	67,917		67,917	50,676
Committed	1,776,392		1,776,392	149,569
Assigned		1,716,451	1,716,451	1,584,547
Unassigned	5,112,207	(241,886)	4,870,321	5,893,412
<b>Total Fund Balance</b>	<b>7,131,512</b>	<b>3,191,677</b>	<b>10,323,189</b>	<b>9,429,915</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<b>\$ 7,507,177</b>	<b>\$ 3,506,606</b>	<b>\$ 11,013,783</b>	<b>\$ 10,312,548</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, 2019

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

Total governmental fund balances (page 17)		\$ 10,323,189
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 46,235,978	
Less: Accumulated depreciation	<u>(22,223,756)</u>	24,012,222
Some receivables are not available soon enough to pay for current period expenditures and therefore are unavailable in the funds.		
Delinquent property taxes	\$ 20,844	
Deferred special assessments	39,970	
Loans receivable	<u>39,849</u>	100,663
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		
		(28,775)
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	\$ (2,048,018)	
Net pension asset	216,636	
Deferred outflows from pension activity	996,568	
Deferred inflows from pension activity	<u>(1,093,309)</u>	(1,928,123)
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	\$ (3,476,827)	
Compensated absences	(376,149)	
Accrued interest	<u>(26,396)</u>	<u>(3,879,372)</u>
Net position of governmental activities (page 14)		<u><u>\$ 28,599,804</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, 2019  
*With Comparative Totals for the Year Ended December 31, 2018*

	General Fund	Other Governmental Funds	Total Governmental Funds	
			2019	2018
<b>Revenues</b>				
Taxes	\$ 2,907,779	\$ 673,456	\$ 3,581,235	\$ 3,478,589
Special assessments	4,545	16,052	20,597	21,051
Licenses and permits	79,780		79,780	131,113
Intergovernmental revenues	1,072,061	56,611	1,128,672	1,107,683
Charges for services	1,602,405	2,710	1,605,115	1,280,044
Fines and forfeits	35,276	1,316	36,592	35,791
Investment income	263,199	111,823	375,022	43,644
Miscellaneous revenues	232,140	111,735	343,875	284,331
<b>Total Revenues</b>	<b>6,197,185</b>	<b>973,703</b>	<b>7,170,888</b>	<b>6,382,246</b>
<b>Expenditures</b>				
General government	1,166,280		1,166,280	1,181,735
Public safety	3,819,282		3,819,282	2,728,165
Streets and highways	866,440		866,440	511,734
Culture and recreation	795,840	277,705	1,073,545	1,213,954
Economic development	24,147	5,355	29,502	95,496
Capital outlay		384,239	384,239	988,842
Bond principal retirement		420,000	420,000	415,000
Interest and fiscal charges		73,508	73,508	79,141
<b>Total Expenditures</b>	<b>6,671,989</b>	<b>1,160,807</b>	<b>7,832,796</b>	<b>7,214,067</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>(474,804)</b>	<b>(187,104)</b>	<b>(661,908)</b>	<b>(831,821)</b>
<b>Other Financing Sources (Uses)</b>				
Debt issuance	685,182		685,182	773,091
Transfers in	810,000	728,821	1,538,821	4,961,553
Transfers out	(412,821)	(256,000)	(668,821)	(580,337)
Total other financing sources (uses)	1,082,361	472,821	1,555,182	5,154,307
Net change in fund balances	607,557	285,717	893,274	4,322,486
<b>FUND BALANCE, beginning</b>	<b>6,523,955</b>	<b>2,905,960</b>	<b>9,429,915</b>	<b>5,107,429</b>
<b>FUND BALANCE, ending</b>	<b>\$ 7,131,512</b>	<b>\$ 3,191,677</b>	<b>\$10,323,189</b>	<b>\$ 9,429,915</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, 2019

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

Net change in fund balances - total governmental funds (page 19)		\$	893,274
<p>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.</p>			
Capital outlay		\$ 1,837,903	
Depreciation expense		<u>(1,221,682)</u>	616,221
<p>The net effect of various miscellaneous transactions involving  capital assets (i.e., sales, trade-ins, etc.) is to decrease  net position</p>			
			(18,671)
<p>Revenues in the statement of activities that do not provide current  financial resources are not reported as revenues in the funds.</p>			
Unavailable revenue, December 31, 2019		\$ 100,663	
Unavailable revenue, December 31, 2018		<u>(144,868)</u>	(44,205)
<p>The governmental funds report long-term debt proceeds as financing  sources, while repayment of long-term debt principal is reported as an  expenditure. In the statement of net position, however, issuing debt  increases long-term liabilities and does not affect the statement of  activities and repayment of principal reduces the liability. Also,  interest is recognized as an expenditure in the governmental funds  when it is due. In the statement of activities, however, interest expense  is recognized as it accrues, regardless of when it is due. The net effect  of these differences in the treatment of general obligations bonds and  related items is as follows.</p>			
Principal retirement on long-term debt		\$ 420,000	
Long-term debt discount and premiums		694	
Issuance of debt		(685,182)	
Change in accrued interest		<u>4,798</u>	(259,690)
<p>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</p>			
			(53,481)
<p>In the statement of activities, certain operating expenses - net pension  liability, net pension asset, and compensated absences - are measured  by the amounts earned during the year. In the governmental funds,  however, expenditures for these items are measured by the amount  of financial resources used (essentially, the amounts actually paid).</p>			
Net pension liability		\$ 169,996	
Net pension asset		(3,203)	
Compensated absences		<u>(38,108)</u>	128,685
			<u>128,685</u>
Change in net position of governmental activities (pages 15 and 16)			<u>\$ 1,262,133</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, 2019  
With Comparative Totals for the Year Ended December 31, 2018

	Budgeted Amounts		2019 Actual Amounts	Variance with Final Budget Positive (Negative)	2018 Actual Amounts
	Original	Final			
<b>Taxes</b>					
Property taxes	\$ 2,728,151	\$ 2,728,151	\$ 2,759,936	\$ 31,785	\$ 2,737,708
Special assessments			4,545	4,545	4,999
Franchise tax	63,000	63,000	80,539	17,539	73,958
Lodging tax	63,158	63,158	67,304	4,146	74,757
Total Taxes	<u>2,854,309</u>	<u>2,854,309</u>	<u>2,912,324</u>	<u>58,015</u>	<u>2,891,422</u>
<b>Licenses and Permits</b>					
Business licenses	20,450	20,450	18,680	(1,770)	21,460
Non-Business licenses	63,100	63,100	61,100	(2,000)	109,653
Total Licenses and Permits	<u>83,550</u>	<u>83,550</u>	<u>79,780</u>	<u>(3,770)</u>	<u>131,113</u>
<b>Intergovernmental Revenues</b>					
Local government aid	825,657	825,657	825,641	(16)	822,751
Market value credit			109	109	255
MSA street maintenance	70,000	70,000	70,636	636	70,764
Fire aid	50,000	50,000	52,711	2,711	52,609
Police aid	100,000	100,000	105,571	5,571	102,591
Other state aids	7,393	7,393	17,393	10,000	7,393
Total Intergovernmental	<u>1,053,050</u>	<u>1,053,050</u>	<u>1,072,061</u>	<u>19,011</u>	<u>1,056,363</u>
<b>Charges for Services</b>					
General government	275,350	275,350	275,370	20	275,615
Public safety	698,750	915,203	1,111,118	195,915	765,816
Streets and highways	10,000	10,000	25,168	15,168	17,719
Park fees	181,460	181,460	190,749	9,289	218,785
Total Charges for Services	<u>1,165,560</u>	<u>1,382,013</u>	<u>1,602,405</u>	<u>220,392</u>	<u>1,277,935</u>
<b>Fines and forfeits</b>					
	28,000	28,000	35,276	7,276	33,578
<b>Investment Income</b>					
	45,000	45,000	263,199	218,199	26,215
<b>Miscellaneous Revenues</b>					
Gift and contributions	3,000	28,402	33,838	5,436	68,445
Other	41,250	41,250	44,261	3,011	52,354
Sale of property			142,600	142,600	
Refunds and reimbursements	5,000	5,000	11,441	6,441	27,463
Total Miscellaneous Revenues	<u>49,250</u>	<u>74,652</u>	<u>232,140</u>	<u>157,488</u>	<u>148,262</u>
<b>TOTAL REVENUES</b>	<u>\$ 5,278,719</u>	<u>\$ 5,520,574</u>	<u>\$ 6,197,185</u>	<u>\$ 676,611</u>	<u>\$ 5,564,888</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, 2019

With Comparative Totals for the Year Ended December 31, 2018

	Budgeted Amounts		2019 Actual Amounts	Variance with Final Budget Positive (Negative)	2018 Actual Amounts
	Original	Final			
<b>EXPENDITURES</b>					
<b>General Government</b>					
<b>Mayor and City Council:</b>					
Personnel services	\$ 43,000	\$ 43,000	\$ 40,933	\$ 2,067	\$ 41,922
Supplies	1,500	4,500	2,374	2,126	2,221
Other services and charges	45,300	45,800	48,430	(2,630)	36,184
Capital outlay	35,000	15,000	6,000	9,000	16,063
Total Mayor and City Council	124,800	108,300	97,737	10,563	96,390
<b>City Administrator:</b>					
Personnel services	150,050	149,925	147,560	2,365	153,878
Supplies	550	175	238	(63)	972
Other services and charges	6,700	7,200	7,125	75	18,102
Total City Administrator	157,300	157,300	154,923	2,377	172,952
<b>City Clerk/Finance Director:</b>					
Personnel services	397,125	397,125	395,895	1,230	344,594
Supplies	4,000	4,000	2,581	1,419	3,967
Other services and charges	52,635	52,635	41,996	10,639	36,135
Total City Clerk/Finance Director	453,760	453,760	440,472	13,288	384,696
<b>Audit:</b>					
Other services and charges	25,000	25,000	24,525	475	24,025
<b>Legal:</b>					
Other services and charges	109,000	109,000	88,588	20,412	112,787
<b>Planning and Zoning:</b>					
Personnel services	165,150	165,150	167,015	(1,865)	157,944
Supplies	2,000	3,500	3,177	323	697
Other services and charges	110,550	119,550	98,948	20,602	116,833
Total Planning and Zoning	277,700	288,200	269,140	19,060	275,474
<b>Elections:</b>					
Personnel services	1,000	1,000		1,000	10,727
Supplies					1,647
Other services and charges	1,850	1,850	1,493	357	1,692
Capital outlay					11,943
Total Elections	2,850	2,850	1,493	1,357	26,009
<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	\$ 1,150,410	\$ 1,144,410	\$ 1,166,280	\$ (21,870)	\$ 1,181,735

**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, 2019

With Comparative Totals for the Year Ended December 31, 2018

	Budgeted Amounts		2019 Actual Amounts	Variance with Final Budget Positive (Negative)	2018 Actual Amounts
	Original	Final			
<b>EXPENDITURES</b>					
<b>Public Safety</b>					
<b>Police:</b>					
Personnel services	\$ 1,184,550	\$ 1,184,550	\$ 1,212,526	\$ (27,976)	\$ 1,176,851
Supplies	53,200	59,100	57,803	1,297	53,610
Other services and charges	61,000	61,000	79,319	(18,319)	105,613
Capital outlay	30,000	30,000	39,079	(9,079)	33,020
Total Police	1,328,750	1,334,650	1,388,727	(54,077)	1,369,094
<b>Fire:</b>					
Personnel services	91,950	91,950	97,989	(6,039)	82,351
Supplies	73,000	39,000	36,806	2,194	37,109
Other services and charges	146,225	146,225	95,471	50,754	109,605
Capital outlay	237,000	279,000	981,995	(702,995)	
Total Fire	548,175	556,175	1,212,261	(656,086)	229,065
<b>Ambulance:</b>					
Personnel services	656,555	848,555	932,346	(83,791)	713,266
Supplies	55,000	75,300	74,653	647	60,220
Other services and charges	100,982	130,135	133,050	(2,915)	121,330
Capital outlay	41,000	41,000	40,570	430	199,036
Total Ambulance	853,537	1,094,990	1,180,619	(85,629)	1,093,852
<b>Civil Defense:</b>					
Personnel services	25,570	25,570	23,484	2,086	24,016
Supplies	11,000	11,000	10,406	594	8,538
Other services and charges	4,500	4,500	3,785	715	3,600
Total Civil Defense	41,070	41,070	37,675	3,395	36,154
Total Public Safety	\$ 2,771,532	\$ 3,026,885	\$ 3,819,282	\$ (792,397)	\$ 2,728,165

**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, 2019

With Comparative Totals for the Year Ended December 31, 2018

	Budgeted Amounts		2019 Actual Amounts	Variance with Final Budget Positive (Negative)	2018 Actual Amounts
	Original	Final			
<b>EXPENDITURES</b>					
<b>Streets and Highways</b>					
Personnel services	\$ 428,150	\$ 428,150	\$ 388,597	\$ 39,553	\$ 335,074
Supplies	59,500	59,500	55,875	3,625	66,663
Other services and charges	265,074	346,898	242,065	104,833	109,997
Capital outlay	38,500	188,500	179,903	8,597	
Total Streets and Highways	791,224	1,023,048	866,440	156,608	511,734
<b>Culture and Recreation</b>					
<b>Tourism:</b>					
Other services and charges	110,000	110,000	70,456	39,544	71,721
Total Tourism	110,000	110,000	70,456	39,544	71,721
<b>Summer Recreation:</b>					
Personnel services	9,200	9,200	6,089	3,111	8,374
Supplies	750	750	137	613	710
Other services and charges	3,000	3,000	368	2,632	469
Total Summer Recreation	12,950	12,950	6,594	6,356	9,553
<b>Swimming Pool:</b>					
Personnel services					48,070
Supplies	10,000	29,157	29,157		19,356
Other services and charges	2,500	31,745	117,866	(86,121)	98,434
Capital outlay		20,000	18,986	1,014	11,338
Total Swimming Pool	12,500	80,902	166,009	(85,107)	177,198
<b>Hok-Si-La Park:</b>					
Personnel services	150,425	150,425	125,758	24,667	121,983
Supplies	32,800	45,824	44,679	1,145	28,098
Other services and charges	32,700	40,550	67,457	(26,907)	89,195
Capital outlay	6,000	6,000	9,052	(3,052)	83,273
Total Hok-Si-La Park	\$ 221,925	\$ 242,799	\$ 246,946	\$ (4,147)	\$ 322,549

**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, 2019

With Comparative Totals for the Year Ended December 31, 2018

	Budgeted Amounts		2019 Actual Amounts	Variance with Final Budget Positive (Negative)	2018 Actual Amounts
	Original	Final			
<b>Culture and Recreation (continued)</b>					
<b>Other Parks:</b>					
Personnel services	\$ 123,050	\$ 123,050	\$ 142,446	\$ (19,396)	\$ 170,740
Supplies	35,000	39,883	38,329	1,554	37,207
Other services and charges	18,650	18,650	55,124	(36,474)	56,900
Capital outlay	83,000	83,000	69,936	13,064	98,501
Total Other Parks	259,700	264,583	305,835	(41,252)	363,348
Total Culture and Recreation	617,075	711,234	795,840	(84,606)	944,369
<b>Economic Development</b>	25,000	25,000	24,147	853	24,979
<b>TOTAL EXPENDITURES</b>	5,355,241	5,930,577	6,671,989	(741,412)	5,390,982
Excess (deficiency) of revenues over (under) expenditures	(76,522)	(410,003)	(474,804)	(64,801)	173,906
<b>OTHER FINANCING SOURCES (USES)</b>					
Debt issuance			685,182	685,182	
Transfers in	810,000	960,000	810,000	(150,000)	4,490,177
Transfers out	(789,828)	(789,828)	(412,821)	377,007	(411,376)
Total Other Financing Sources (Uses)	20,172	170,172	1,082,361	912,189	4,078,801
<b>NET CHANGE IN FUND BALANCE</b>	(56,350)	(239,831)	607,557	847,388	4,252,707
<b>FUND BALANCE, beginning</b>	6,523,955	6,523,955	6,523,955		2,271,248
<b>FUND BALANCE, ending</b>	\$ 6,467,605	\$ 6,284,124	\$ 7,131,512	\$ 847,388	\$ 6,523,955

**See Notes to Financial Statements**

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**CITY OF LAKE CITY, MINNESOTA**  
**PROPRIETARY FUNDS**  
**STATEMENT OF NET POSITION**  
**December 31, 2019**  
*With Comparative Totals as of December 31, 2018*

	Business-Type Activities - Enterprise Funds			
	701	702	703	706
	Electric Fund	Water Fund	Sewer Fund	Storm Water Fund
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 6,208,825	\$ 1,049,562	\$ 559,630	\$ 132,156
Accounts receivable	1,198,665	38,091	58,734	7,080
Advances to other funds	157,469			
Inventories	590,516			
Prepaid expense	37,312	5,148	20,943	729
<b>Total Current Assets</b>	<b>8,192,787</b>	<b>1,092,801</b>	<b>639,307</b>	<b>139,965</b>
<b>Noncurrent Assets</b>				
Capital Assets				
Nondepreciable	9,900	80,844	63,344	110,501
Depreciable	16,842,988	4,238,489	12,399,540	2,651,414
Less: Accumulated depreciation	(10,813,387)	(2,362,657)	(8,414,546)	(1,387,766)
<b>Net Capital Assets</b>	<b>6,039,501</b>	<b>1,956,676</b>	<b>4,048,338</b>	<b>1,374,149</b>
Special Assessments		15,953		15,953
<b>Total Noncurrent Assets</b>	<b>6,039,501</b>	<b>1,972,629</b>	<b>4,048,338</b>	<b>1,390,102</b>
<b>Deferred Outflows of Resources</b>				
Deferred outflows from pension activity	54,962	16,480	19,088	1,688
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 14,287,250</b>	<b>\$ 3,081,910</b>	<b>\$ 4,706,733</b>	<b>\$ 1,531,755</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Current maturities of bonds payable	\$	\$ 65,000	\$ 368,000	\$ 40,000
Accounts payable	719,124			
Accrued liabilities	24,701	6,333	13,989	4,402
Advances from other funds				60,000
Interfund payables				
Customer deposits	79,772			
<b>Total Current Liabilities</b>	<b>823,597</b>	<b>71,333</b>	<b>381,989</b>	<b>104,402</b>
<b>Noncurrent Liabilities</b>				
Bonds payable, net of current maturities and discount		381,339	921,000	264,118
Compensated absences payable	38,138	26,485	26,484	
Net pension liability	510,919	146,606	181,538	17,590
<b>Total Liabilities</b>	<b>1,372,654</b>	<b>625,763</b>	<b>1,511,011</b>	<b>386,110</b>
<b>Deferred Inflows of Resources</b>				
Deferred inflows from pension activity	99,341	28,501	35,301	3,419
<b>NET POSITION</b>				
Net investment in capital assets	6,039,501	1,510,337	2,759,338	1,070,031
Unrestricted	6,775,754	917,309	401,083	72,195
<b>Total Net Position</b>	<b>12,815,255</b>	<b>2,427,646</b>	<b>3,160,421</b>	<b>1,142,226</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET PENSION</b>	<b>\$ 14,287,250</b>	<b>\$ 3,081,910</b>	<b>\$ 4,706,733</b>	<b>\$ 1,531,755</b>

**See Notes to Financial Statements**

710 Marina Fund	720 Garbage Fund	TOTALS		Governmental Activities - Internal Service Fund	
		2019	2018	2019	2018
\$ 6,332,904	\$ 66,134	\$ 14,349,211	\$ 12,822,233	\$	\$
32,058	40,055	1,374,683	1,650,801		
121,778		279,247	327,565		
43,711		634,227	616,955		
38,498	1,363	103,993	60,697	104,668	56,410
<u>6,568,949</u>	<u>107,552</u>	<u>16,741,361</u>	<u>15,478,251</u>	<u>104,668</u>	<u>56,410</u>
613,727		878,316	725,300		
6,740,384		42,872,815	42,456,216		
(4,021,038)		(26,999,394)	(25,979,726)		
<u>3,333,073</u>		<u>16,751,737</u>	<u>17,201,790</u>		
		31,906	39,663		
<u>3,333,073</u>		<u>16,783,643</u>	<u>17,241,453</u>		
22,990	1,327	116,535	214,219		
<u>\$ 9,925,012</u>	<u>\$ 108,879</u>	<u>\$ 33,641,539</u>	<u>\$ 32,933,923</u>	<u>\$ 104,668</u>	<u>\$ 56,410</u>
\$ 2,655		\$ 473,000	\$ 461,000	\$	\$
		721,779	883,166		
	4,019	53,444	60,918		
		60,000	70,000		
		79,772	89,016	133,443	31,704
<u>2,655</u>	<u>4,019</u>	<u>1,387,995</u>	<u>1,564,100</u>	<u>133,443</u>	<u>31,704</u>
48,831		1,566,457	2,038,934		
230,977	12,908	139,938	143,031		
<u>282,463</u>	<u>16,927</u>	<u>1,100,538</u>	<u>1,073,608</u>	<u>133,443</u>	<u>31,704</u>
44,910	2,508	213,980	300,274		
3,333,073		14,712,280	14,701,856		
6,264,566	89,444	14,520,351	13,112,120	(28,775)	24,706
<u>9,597,639</u>	<u>89,444</u>	<u>29,232,631</u>	<u>27,813,976</u>	<u>(28,775)</u>	<u>24,706</u>
<u>\$ 9,925,012</u>	<u>\$ 108,879</u>	<u>\$ 33,641,539</u>	<u>\$ 32,933,923</u>	<u>\$ 104,668</u>	<u>\$ 56,410</u>

**CITY OF LAKE CITY, MINNESOTA**  
**PROPRIETARY FUNDS**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND NET POSITION**  
**For the Year Ended December 31, 2019**  
*With Comparative Totals for the Year Ended December 31, 2018*

	Business-Type Activities - Enterprise Funds			
	701 Electric Fund	702 Water Fund	703 Sewer Fund	706 Storm Water Fund
<b>Operating Revenue</b>	\$ 11,924,316	\$ 749,871	\$ 1,384,691	\$ 139,862
<b>Operating Expenses</b>				
Salaries and benefits	836,792	247,164	269,676	19,392
Supplies	52,002	23,578	48,141	13,565
Other services and charges	10,435,864	213,356	555,715	19,433
Insurance	51,155	7,979	29,464	940
Depreciation	472,006	130,638	393,002	100,078
Total Operating Expenses	11,847,819	622,715	1,295,998	153,408
<b>Operating Income (Loss)</b>	76,497	127,156	88,693	(13,546)
<b>Nonoperating Income (Expense)</b>				
Miscellaneous income	399,365	284	1,342	50
Investment income	238,234	37,014	30,623	4,724
Special assessments		885		841
Sale of property			40,000	
Loss on disposal of capital assets				
Loss on disposal of inventory				
Interest expense		(13,869)	(45,150)	(11,139)
Total Nonoperating Income (Expense)	637,599	24,314	26,815	(5,524)
<b>Income (Loss) Before Transfers and     Capital Grant</b>	714,096	151,470	115,508	(19,070)
Transfers out	(180,000)	(22,500)	(22,500)	
Capital grant		10,000		
Change in net position	534,096	138,970	93,008	(19,070)
<b>Net Position, beginning</b>	12,281,159	2,288,676	3,067,413	1,161,296
<b>Net Position, ending</b>	\$ 12,815,255	\$ 2,427,646	\$ 3,160,421	\$ 1,142,226

**See Notes to Financial Statements**

710 Marina Fund	720 Garbage Fund	TOTALS		Governmental Activities - Internal Service Funds	
		2019	2018	2019	2018
\$ 2,014,662	\$ 587,944	\$ 16,801,346	\$ 18,856,860	\$ 400,000	\$ 400,000
432,129	15,642	1,820,795	1,784,018		
181,253	539	319,078	329,653	38,114	37,551
146,492	586,270	11,957,130	13,180,822	225,612	167,352
53,389		142,927	176,714	195,378	217,377
152,735		1,248,459	1,218,467		
965,998	602,451	15,488,389	16,689,674	459,104	422,280
1,048,664	(14,507)	1,312,957	2,167,186	(59,104)	(22,280)
11,608	6,090	418,739	26,387	5,623	14,229
260,665	5,247	576,507	153,324		
		1,726	2,133		
		40,000			
(1,116)		(1,116)			(170,758)
			(1,571)		
		(70,158)	(152,436)		
271,157	11,337	965,698	27,837	5,623	(156,529)
1,319,821	(3,170)	2,278,655	2,195,023	(53,481)	(178,809)
(645,000)		(870,000)	(4,381,216)		
674,821	(3,170)	1,408,655	(2,186,193)	(53,481)	(178,809)
8,922,818	92,614	27,813,976	30,000,169	24,706	203,515
\$ 9,597,639	\$ 89,444	\$ 29,222,631	\$ 27,813,976	\$ (28,775)	\$ 24,706

**CITY OF LAKE CITY, MINNESOTA**  
**ENTERPRISE FUNDS**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2019**  
*With Comparative Totals for the Year Ended December 31, 2018*

	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	\$ 12,566,575	\$ 767,255	\$ 1,399,775	\$ 140,275
Cash paid to suppliers	(10,682,883)	(247,741)	(641,931)	(34,216)
Cash paid to employees	(815,577)	(245,399)	(283,006)	(19,166)
Net Cash Provided By (Used In) Operating Activities	1,068,115	274,115	474,838	86,893
<b>Cash Flows From Noncapital Financing Activities</b>				
Advances from/ (to) other funds	(51,225)			(10,000)
Operating transfers out	(180,000)	(22,500)	(22,500)	
Net Cash Used In Noncapital Financing Activities	(231,225)	(22,500)	(22,500)	(10,000)
<b>Cash Flows From Capital and Related Financing Activities</b>				
Principal received on special assessments		5,322		4,161
Acquisition of capital assets	(184,194)	(112,610)	(467,004)	(13,101)
Cash received from grant		10,000		
Cash received for disposal of capital assets			40,000	
Interest paid on debt		(13,830)	(45,150)	(10,655)
Principal paid on debt		(67,500)	(356,000)	(37,500)
Net Cash Used In Capital and Related Financing Activities	(184,194)	(178,618)	(828,154)	(57,095)
<b>Cash Flows From Investing Activities</b>				
Investment income	238,234	37,014	30,623	4,724
Net Cash Provided By Investing Activities	238,234	37,014	30,623	4,724
<b>Increase (Decrease) in Cash and Cash Equivalents</b>				
	890,930	110,011	(345,193)	24,522
<b>Cash and Cash Equivalents, beginning</b>	5,317,895	939,551	904,823	107,634
<b>Cash and Cash Equivalents, ending</b>	\$ 6,208,825	\$ 1,049,562	\$ 559,630	\$ 132,156

**See Notes to Financial Statements**

Marina Fund	Garbage Fund	TOTALS		Governmental Activities - Internal Service Fund	
		2019	2018	2019	2018
\$ 2,018,907	\$ 594,172	\$ 17,486,959	\$ 18,535,433	\$ 405,623	\$ 414,229
(402,450)	(631,869)	(12,641,090)	(13,788,555)	(507,362)	(423,408)
(414,767)	(15,127)	(1,793,042)	(1,861,133)		
1,201,690	(52,824)	3,052,827	2,885,745	(101,739)	(9,179)
99,543		38,318	2,058,054	101,739	9,179
(645,000)		(870,000)	(4,381,216)		
(545,457)		(831,682)	(2,323,162)	101,739	9,179
(22,613)		9,483	20,200		
		(799,522)	(361,525)		
		10,000			
		40,000			
		(69,635)	(102,136)		
		(461,000)	(2,476,000)		
(22,613)		(1,270,674)	(2,919,461)		
260,665	5,247	576,507	153,324		
260,665	5,247	576,507	153,324		
894,285	(47,577)	1,526,978	(2,203,554)		
5,438,619	113,711	12,822,233	15,025,787		
\$ 6,332,904	\$ 66,134	\$ 14,349,211	\$ 12,822,233	\$	\$

**CITY OF LAKE CITY, MINNESOTA**  
**ENTERPRISE FUNDS**  
**STATEMENT OF CASH FLOWS**  
For the Year Ended December 31, 2019  
*With Comparative Totals for the Year Ended December 31, 2018*

**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>	\$ 76,497	\$ 127,156	\$ 88,693	\$ (13,546)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	472,006	130,638	393,002	100,078
Other	399,365	284	1,342	50
(Increase) Decrease In:				
Accounts receivable	252,138	17,100	13,742	363
Inventories	(9,099)			
Prepaid expenses	(15,130)	(2,828)	(8,611)	(278)
Increase (Decrease) In:				
Accounts payable	(119,633)			
Accrued liabilities	(2,494)	(792)	(3,837)	(468)
Pension related	16,947	4,546	7,322	694
Compensated absences	6,762	(1,989)	(16,815)	
Customer deposits	(9,244)			
<b>Net Cash Provided By (Used In) Operating Activities</b>	<b>\$ 1,068,115</b>	<b>\$ 274,115</b>	<b>\$ 474,838</b>	<b>\$ 86,893</b>
<b>Noncash Investing, Capital and Financing Activities</b>				
Amortization of bond discount/premium	\$	\$ 39	\$	\$ 484

**See Notes to Financial Statements**

Marina Fund	Garbage Fund	TOTALS		Governmental Activities - Internal Service Fund	
		2019	2018	2019	2018
\$ 1,048,664	\$ (14,507)	\$ 1,312,957	\$ 2,167,186	\$ (59,104)	\$ (22,280)
152,735		1,248,459	1,218,467		
11,608	6,090	418,739	24,816	5,623	14,229
(7,363)	138	276,118	(351,980)		1,592
(8,173)		(17,272)	(12,413)		
(15,798)	(651)	(43,296)	3,358	(48,258)	930
2,655	(44,409)	(161,387)	(90,740)		(3,650)
	117	(7,474)	(38,786)		
8,413	398	38,320	225		
8,949		(3,093)	(38,554)		
		(9,244)	4,166		
\$ 1,201,690	\$ (52,824)	\$ 3,052,827	\$ 2,885,745	\$ (101,739)	\$ (9,179)
\$	\$	\$ 523	\$ 50,300	\$	\$

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**CITY OF LAKE CITY, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

# 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 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, 2018 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**

Summary of Cash and Investments

As of December 31, 2019, the City's investments consisted of the following items, all of which are held in an internal investment pool:

Deposits	\$ 2,530,583
Investments	<u>22,033,962</u>
Cash and Investments Per Statement of Net Position	<u><u>\$ 24,564,545</u></u>

<u>Investment</u>	<u>Fair Value</u>	<u>Investment Rating</u>	
		<u>S&amp;P</u>	<u>MOODY</u>
Money Market Mutual Funds	\$ 4,260,452	N/A	N/A
Mutual Funds	260,814	N/A	N/A
Non-Negotiable CD's	12,450,911	N/A	N/A
US Treasury Bonds	58,549	AA+	AAA
Federal Home Loan Bank	1,256,493	AA+	AAA
Federal Farm Credit Bank	1,497,045	AA+	AAA
Federal Home Loan Mortgage Corp	<u>2,249,698</u>	AA+	AAA
	<u><u>\$ 22,033,962</u></u>		

**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

---

**2. Cash and Investments**

---

*Investments Authorized by Minnesota Statutes*

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

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

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

*Fair Value Measurements*

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

CITY OF LAKE CITY, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

---

2. Cash and Investments (Continued)

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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 2019 or 2018.

	Assets			
	Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Mutual Funds	\$ 260,814	\$	\$ 260,814	\$
Federal Home Loan Bank	1,256,493	1,256,493		
Federal Farm Credit Bank	1,497,045	1,497,045		
Federal Home Loan Mortgage Corp	2,249,698	2,249,698		
	<u>\$ 5,264,050</u>	<u>\$ 5,003,236</u>	<u>\$ 260,814</u>	<u>\$</u>

Collateralization of Cash Deposits

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

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

**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**2. Cash and Investments (Continued)**

Collateralization of Cash Deposits (continued)

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

Interest Rate Risk

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

	Fair Value	12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months
Money Market Mutual Funds	\$ 4,260,452	\$ 4,260,452	\$	\$	\$
Mutual Funds	260,814	260,814			
Non-Negotiable CD's	12,450,911	3,451,637	3,008,253	5,708,819	282,202
US Treasury Bonds	58,549			38,102	20,447
Federal Home Loan Bank	1,256,493	510,013			746,480
Federal Farm Credit Bank	1,497,045	1,497,045			
Federal Home Loan Mortgage Corp	2,249,698	2,249,698			
Total	\$ 22,033,962	\$ 12,229,659	\$ 3,008,253	\$ 5,746,921	\$ 1,049,129

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	57%
Federal Home Loan Bank	6%
Federal Home Loan Mortgage Corp	10%

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, 2019 totaled \$39,849.

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

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Certain funds had a deficit fund balance at December 31, 2019, as follows:

Special Revenue Funds:		
Tax increment TIF #13	\$	239,572
Tax increment TIF #16		2,314

These deficits will be eliminated through future tax levies.

Excess of expenditures over appropriations at the individual fund level during 2019 is as follows:

	Final Budget	Actual	Over Budget
Library	\$ 298,296	\$ 312,077	\$ 13,781

All excess expenditures were the result of planned processes.

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**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**5. Capital Assets**

Capital asset activity for the year ended December 31, 2019 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	1,045,543	447,024	624,598	867,969
Total capital assets, not being depreciated	<u>2,388,148</u>	<u>447,024</u>	<u>624,598</u>	<u>2,210,574</u>
Capital assets, being depreciated:				
Buildings	17,606,806	53,890		17,660,696
Improvements other than buildings	474,901			474,901
Infrastructure	18,586,567	630,597		19,217,164
Machinery and equipment	5,713,790	1,330,990	372,137	6,672,643
Total capital assets, being depreciated	<u>42,382,064</u>	<u>2,015,477</u>	<u>372,137</u>	<u>44,025,404</u>
Less accumulated depreciation for:				
Buildings	7,649,521	374,735		8,024,256
Improvements other than buildings	233,465	21,131		254,596
Infrastructure	9,877,953	543,649		10,421,602
Machinery and equipment	3,594,601	282,167	353,466	3,523,302
Total accumulated depreciation	<u>21,355,540</u>	<u>1,221,682</u>	<u>353,466</u>	<u>22,223,756</u>
Total capital assets, being depreciated, net	<u>21,026,524</u>	<u>793,795</u>	<u>18,671</u>	<u>21,801,648</u>
Governmental activities capital assets, net	<u>\$ 23,414,672</u>	<u>\$ 1,240,819</u>	<u>\$ 643,269</u>	<u>\$ 24,012,222</u>

**Governmental Activities:**

General government	\$ 362,322
Public safety	124,197
Streets and highways	598,152
Culture and recreation	137,011
Total depreciation expense - governmental activities	<u>\$ 1,221,682</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		153,016		153,016
Total capital assets, not being depreciated	725,300	153,016		878,316
Capital assets, being depreciated:				
Buildings and improvements	14,487,647	102,763		14,590,410
Distribution and collection system	24,397,580	117,470		24,515,050
Machinery and equipment	3,570,989	426,274	229,908	3,767,355
Total capital assets, being depreciated	42,456,216	646,507	229,908	42,872,815
Less accumulated depreciation for:				
Buildings and improvements	8,295,655	420,313		8,715,968
Distribution and collection system	14,788,682	687,643		15,476,325
Machinery and equipment	2,895,389	140,503	228,791	2,807,101
Total accumulated depreciation	25,979,726	1,248,459	228,791	26,999,394
Total capital assets, being depreciated, net	16,476,490	(601,952)	1,117	15,873,421
Business-type activities capital assets, net	\$ 17,201,790	\$ (448,936)	\$ 1,117	\$ 16,751,737

**Business-Type Activities:**

Electric	\$ 472,006
Water	130,638
Sewer	393,002
Stormwater	100,078
Marina	152,735
Total depreciation expense - business-type activities	\$ 1,248,459

**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, 2019 are as follows:

Fund	Due from various Counties	State of Minnesota	Total
General	\$ 23,343	\$ 6,642	\$ 29,985
Economic development authority	507		507
Total	<u>\$ 23,850</u>	<u>\$ 6,642</u>	<u>\$ 30,492</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, 2019.

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 2019 totaled \$24,147.

**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**8. Interfund Balances and Transfers**

The amounts advanced to and advanced from other funds as of December 31, 2019 at the individual fund level are summarized below:

	<u>Advances to Other Funds</u>	<u>Advances from Other Funds</u>
General Fund	\$ 174,996	\$ 152,357
Special Revenue Funds:		
Tax Increment TIF #13		239,572
Tax Increment TIF #16		2,314
Enterprise Fund:		
Electric	157,469	
Storm Water		60,000
Marina	121,778	
	<u>\$ 454,243</u>	<u>\$ 454,243</u>

Balances of interfund receivables and payables as of December 31, 2019 at the individual fund level for year-end cash deficiencies are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 133,443	\$
Internal Service Fund		133,443
	<u>\$ 133,443</u>	<u>\$ 133,443</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, 2019 were as follows:

Funds	Transfers In	Transfers Out
General Fund	\$ 810,000	\$ 412,821
Special Revenue:		
Library	60,000	
Capital Project Funds:		
Capital Projects	412,821	
Enterprise:		
Electric		180,000
Water		22,500
Sewer		22,500
Marina		645,000
	\$ 1,282,821	\$ 1,282,821

**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.

**General Obligation Revenue Bonds:**

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

**General Obligation Revenue Notes:**

The Public Facilities Notes of 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.

**Equipment Lease Payable:**

The Equipment Lease Payable was issued to fund the purchase of a ladder fire truck. It is a capital lease agreement with an annual interest rate of 4.51% and a final payment date of January 11, 2024.

**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, 2019 is as follows:

	Range of Interest Rates	Final Maturity	Balance December 31, 2019
<u>Governmental Activities</u>			
G.O. Improvement Bonds:			
G.O. Improvement Bonds of 2012A	0.4%-2.15%	2023	\$ 590,000
G.O. Improvement Bonds of 2013A	1.00%-2.35%	2024	815,000
G.O. Refunding Bonds of 2013B	1.5%-2.5%	2022	130,000
G.O. Crossover Refunding Bonds of 2015A	2.00%	2024	445,000
G.O. Street Reconstruction Bonds of 2018A	3.00%	2029	795,000
Equipment lease payable	4.51%	2024	685,182
Compensated Absences			376,149
<u>Business-Type Activities</u>			
G.O. Improvement Bonds:			
G.O. Crossover Refunding Bonds of 2015A	2.00%	2024	140,000
General Obligation Revenue Bonds:			
G.O. Utility Revenue Bonds of 2010A	2%-3.75%	2026	615,000
Public Facilities Note of 1999	2.86%	2020	78,000
Public Facilities Note of 2002	2.99%	2023	1,211,000
Compensated Absences			139,938
Sub-total			6,020,269
Less: Unamortized discount			(9,107)
Plus: Unamortized premiums			21,209
Total			\$ 6,032,371

**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, 2019:

	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	\$ 730,000	\$	\$ 140,000	\$ 590,000	\$ 140,000
Less: Unamortized Discount	(3,124)		(781)	(2,343)	
G.O. Improvement Bonds of 2013A	970,000		155,000	815,000	160,000
G.O. Refunding Bonds of 2013B	170,000		40,000	130,000	40,000
G.O. Crossover Refunding Bonds of 2015A	530,000		85,000	445,000	85,000
Plus: Amortized Premium	8,846		1,475	7,371	
G.O. Street Reconstruction Bonds of 2018A	795,000			795,000	70,000
Plus: Amortized Premium	11,617			11,617	
Equipment lease payable		685,182		685,182	194,098
Subtotal	3,212,339	685,182	420,694	3,476,827	689,098
Other liabilities:					
Compensated Absences	338,041	38,108		376,149	
Governmental Activities					
Long-term Liabilities	3,550,380	723,290	420,694	3,852,976	689,098
<b>BUSINESS-TYPE ACTIVITIES</b>					
General Obligation Bonds:					
G.O. Crossover Refunding Bonds of 2015A	170,000		30,000	140,000	25,000
Plus: Amortized Premium	2,666		445	2,221	
General Obligation Revenue Bonds:					
G.O. Utility Revenue Bonds of 2010A	690,000		75,000	615,000	80,000
Less: Unamortized Discount	(7,732)		(968)	(6,764)	
Public Facilities Note of 1999	153,000		75,000	78,000	78,000
Public Facilities Note of 2002	1,492,000		281,000	1,211,000	290,000
Subtotal	2,499,934		460,477	2,039,457	473,000
Other liabilities:					
Compensated Absences	143,031		3,093	139,938	
Business-type Activities					
Long-term Liabilities	2,642,965		463,570	2,179,395	473,000
Total	\$ 6,193,345	\$ 723,290	\$ 884,264	\$ 6,032,371	\$ 1,162,098

**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, 2019, excluding accrued compensated absences are summarized below.

Years	General Obligation Bonds		General Obligation Revenue Bonds		Other	
	Principal	Interest	Principal	Interest	Principal	Interest
<u>Governmental Activities</u>						
2020	\$ 495,000	\$ 59,644			\$ 194,098	\$ 30,902
2021	515,000	49,650			202,852	22,148
2022	520,000	38,706			212,001	12,999
2023	485,000	27,515			37,275	3,438
2024	340,000	17,915			38,956	1,757
2025-2029	420,000	38,550				
Totals	<u>\$ 2,775,000</u>	<u>\$ 231,980</u>			<u>\$ 685,182</u>	<u>\$ 71,244</u>

Business-Type Activities

2020	\$ 25,000	\$ 2,503	\$ 448,000	\$ 58,314
2021	25,000	1,971	378,000	44,912
2022	25,000	1,428	392,000	33,349
2023	35,000	862	401,000	21,279
2024	30,000	283	90,000	8,769
2025-2026			195,000	7,347
Totals	<u>\$ 140,000</u>	<u>\$ 7,047</u>	<u>\$ 1,904,000</u>	<u>\$ 173,970</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.

**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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**10. Commitments and Contingencies (Continued)**

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*Federal and State Funds*

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

*Tax Increment Districts*

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

*Risk Management*

The City is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries insurance for liability, property, and automotive insurance through the League of Minnesota Cities Insurance Trust (LMCIT). The City provides employee health insurance through a private insurance carrier. Settled claims resulting from these risks have not exceeded the insurance coverage in any of the past three years. There were no reductions in insurance coverage in 2019.

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 2019. 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)

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

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.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be fixed at 1 percent. Recipients that have been receiving the annuity or benefit for at least 36 months as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

Contributions

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

1. General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2019; 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, 2019, were \$229,380. 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)**

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

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Contributions (continued)

2. Police and Fire Fund Contributions

Plan members were required to contribute 10.8 percent of pay to 11.3 percent and the employer rates increased from 16.2 percent to 16.95 percent on January 1, 2019. The City's contributions to the Police and Fire Fund for the year ended December 31, 2019, were \$124,807. 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, 2019 the City reported a liability of \$2,388,431, 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 2019. 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 \$74,330. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018 through June 30, 2019 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019 the City's proportion share was 0.0432 percent which was an increase of 0.0012 percent from its proportion measured as of June 30, 2018.

City's proportionate share of net pension liability	\$ 2,388,431
State of Minnesota's proportionate share of the net pension liability associated with the City	\$ 74,330

For the year ended December 31, 2019 the City recognized pension expense of \$37,152 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$5,567 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.

**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

*Pension Costs (continued)*

At December 31, 2019, 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	\$ 66,068	\$
Difference between projected and actual investment earnings		243,544
Changes in actuarial assumptions		185,946
Changes in proportion	90,514	35,095
Contributions paid to PERA subsequent to the measurement date	109,306	
Total	<u>\$ 265,888</u>	<u>\$ 464,585</u>

The \$109,306 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, 2020. 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
2020	\$ (91,329)
2021	(190,745)
2022	(29,783)
2023	3,854

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

At December 31, 2019 the City reported a liability of \$760,125 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018 through June 30, 2019 relative to the total employer contributions received from all of PERA's participating employers. At December 31, 2019 the City's proportion was 0.0714 percent which was an increase of 0.0011 percent from its proportion measured as of June 30, 2018.

**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

*Pension Costs (continued)*

The City also recognized \$9,639 for the year ended December 31, 2019 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 until the plan is 90 percent funded or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90 percent funded, whichever occurs later. In addition, the state will pay \$4.5 million on October 1, 2018 and October 1, 2019 in direct state aid. Thereafter, by October 1 of each year, the state will pay \$9 million until full funding is reached or July 1, 2048, whichever is earlier.

For the year ended December 31, 2019, the City recognized pension expense of (\$207,148) for its proportionate share of the Police and Fire Plan’s pension expense.

At December 31, 2019, the City reported its proportionate share of the Police and Fire 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	\$ 24,252	\$ 116,673
Difference between projected and actual investment earnings		150,966
Changes in actuarial assumptions	636,084	469,429
Changes in proportion	19,522	33,443
Contributions paid to PERA subsequent to the measurement date	66,546	
Total	<u>\$ 746,404</u>	<u>\$ 770,511</u>

The \$66,546 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, 2020. 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
2020	\$ (234,303)
2021	172,286
2022	(27,542)
2023	(1,094)

**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

Total Pension Expense

Pension expense recognized by the City for the year ended December 31, 2019 is as follows:

General Employees Fund	\$ 42,719
Police and Fire Fund	(197,509)
	<u>\$ (154,790)</u>

Actuarial Assumptions

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions:

	<b>General Employees Plan</b>	<b>Police &amp; Fire Plan</b>
<b>Inflation</b>	2.50% per year	2.50% per year
<b>Active Member Payroll Growth</b>	3.25% per year	3.25% per year
<b>Investment Rate of Return</b>	7.50%	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, 2019 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. The most recent four-year experience study for Police and Fire Plan was completed in 2016. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2019:

**1. General Employees Fund**

Changes in Actuarial Assumptions:

- The morality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions:

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

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)

**2. Police and Fire Fund**

Changes in Actuarial Assumptions:

- The morality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions:

- There have been no changes since the prior valuation.

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	35.5%	5.10%
Private Markets	25.0%	5.90%
Fixed Income	20.0%	0.75%
International Equity	17.5%	5.90%
Cash	2.0%	0.00%
	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability in 2019 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)

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11. Defined Benefit Pension Plans – Statewide (Continued)

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Pension Liability Sensitivity

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

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

	General Employees Fund		Police and Fire Fund	
1% Lower	6.50%	\$ 3,926,452	6.50%	\$ 1,661,492
Current Discount Rate	7.50%	\$ 2,388,431	7.50%	\$ 760,125
1% Higher	8.50%	\$ 1,118,489	8.50%	\$ 15

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, 2019, membership includes 22 active members and 8 terminated employees entitled to benefit but not yet receiving them. The plan issues a stand-alone financial statement. This is the most recent financial statement available.

##### Benefits Provided

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

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

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

*Minnesota Statutes* Section 424A.10 provides for the payment of a supplemental benefit equal to 20% of a regular lump sum distribution up to a maximum of \$2,000. The supplemental benefit is in lieu of state income tax exclusion for lump sum distributions and will no longer be available if the state tax law is modified to exclude lump sum distributions from state income tax. The Association qualifies for these benefits.

##### Contributions

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

**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

Contributions (continued)

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

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

The Plan is funded in part by fire state aid and, if necessary, City contributions. The State of Minnesota distributed \$51,609 in fire state aid paid by the City to the Relief Association for the year ended December 31, 2019. 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, 2019 was \$18,325. The City made voluntary contributions of \$18,325 for the year ended December 31, 2019.

Pension Costs

At December 31, 2019, the City reported a net pension asset of \$216,636 for the Association's plan. The net pension asset was measured as of December 31, 2018. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the fire department as of December 31, 2019. 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 12/31/18	\$ 966,483	\$ 1,238,519	\$ (272,036)
Changes for the Year			
Service cost	55,068		55,068
Interest on pension liability	63,622		63,622
Actuarial experience (gains)/losses	(55,249)		(55,249)
Changes in assumptions	34,279		34,279
Net investment income		(27,614)	27,614
Contributions state and local		69,934	(69,934)
Benefit payments	(158,000)	(158,000)	
Net Changes	(60,280)	(115,680)	55,400
Balance End of Year 12/31/19	\$ 906,203	\$ 1,122,839	\$ (216,636)

**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

Pension Costs (continued)

At December 31, 2019, 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	\$	\$ 72,193
Changes in actuarial assumptions	35,441	
Difference between projected and actual investment earnings	65,370	
City contributions paid subsequent to measurement date		
Total	<u>\$ 100,811</u>	<u>\$ 72,193</u>

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
2020	\$ 15,381
2021	4,413
2022	4,413
2023	4,411

Actuarial Assumptions

The total pension liability at December 31, 2019, 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 6.00%
- 20 -Year Municipal bond yield 3.71%
- Inflation rate of 2.50%

The following changes in actuarial assumptions occurred during 2019:

- The expected investment return and discount rate decreased from 6.75% to 6.00% to reflect updated capital market assumptions.
- The mortality assumptions were updated from the rates used in the July 1, 2017 Minnesota PERA Police & Fire Plan actuarial valuation to the rates used in the July 1, 2018 Minnesota PERA Police & Fire Plan actuarial valuation.
- The inflation assumption decreased from 2.75% to 2.50%.

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 6.00%. 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>
	5.00%	6.00%	7.00%
Net pension asset	\$ (175,710)	\$ (216,636)	\$ (255,187)

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 (2.50%). All results are then rounded to the nearest quarter percentage point.

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

**CITY OF LAKE CITY, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

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*Asset Allocation:*

The long-term target asset allocation and long-term expected real rate of return is the following:

<u>Asset Class</u>	<u>Allocation at Measurement Date</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Long Term Expected Nominal Rate of Return</u>
Domestic equity	54.11%	4.76%	7.26%
International equity	0.00%	5.41%	7.91%
Fixed income	32.73%	2.01%	4.51%
Real estate and alternatives	0.00%	4.53%	7.03%
Cash and equivalents	13.16%	74.00%	3.24%
Total	100%		6.16%
Reduced for assumed investment expense			-0.05%
Net assumed investment return (rounded to 1/4%)			6.00%

The long-term return on assets has been set based on the plan's target investment allocation along with long-term return expectations by asset class. When there is sufficient historical evidence of market outperformance, historical average returns may be considered.

*Description of significant investment policy changes during the year:*

The Plan made no significant changes to their investment policy during the year.

*Pension Plan Fiduciary Net Position*

Detailed information about Caledonia Volunteer Fire Department Relief Association plan's fiduciary net position as of December 31, 2019, is available in a separately-issued financial report that includes financial statements and required supplementary information.

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**13. Subsequent Event**

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In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through June 24, 2020, the date the financial statements were available to be issued. As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to impact future operations, however, the potential impact is unknown at this time.

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**CITY OF LAKE CITY, MINNESOTA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2019**

**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	229,380	229,380		3,058,400	7.5%
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	124,807	124,807		770,414	16.2%
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 (Asset) as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0457%	\$ 2,146,757	\$	\$ 2,146,757	\$ 2,054,717	104.5%	78.7%
2015	0.0422%	2,187,023		2,187,023	2,478,070	88.3%	78.2%
2016	0.0411%	3,337,116	43,545	3,380,661	2,384,127	141.8%	68.9%
2017	0.0431%	2,751,476	34,629	2,786,105	2,664,000	104.6%	75.9%
2018	0.0420%	2,329,988	76,291	2,406,279	2,799,620	86.0%	79.5%
2019	0.0432%	2,388,431	74,330	2,462,761	2,939,260	83.8%	80.2%
2020							
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 (Asset) as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0700%	\$ 756,029	\$ 650,951	116.1%	87.1%
2015	0.0720%	818,089	662,842	123.4%	86.6%
2016	0.0720%	2,889,485	662,842	435.9%	68.9%
2017	0.0690%	931,582	699,645	133.2%	85.4%
2018	0.0703%	749,326	724,757	103.4%	88.8%
2019	0.0714%	760,125	755,809	100.6%	89.3%
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, 2019**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Total Pension Liability</b>					
Service cost	\$ 55,068	\$ 53,594	\$ 49,074	\$ 37,963	\$ 36,947
Interest	63,622	68,168	68,819	52,105	49,328
Difference between expected and actual experience	(55,249)		(32,761)		
Changes of assumptions	34,279		6,511		
Changes of benefit terms			42,180	137,593	
Benefit payments	(158,000)	(223,150)			(95,250)
Net change in total pension liability	(60,280)	(101,388)	133,823	227,661	(8,975)
Total Pension Liability - beginning of year	966,483	1,067,871	934,048	706,387	715,362
Total Pension Liability - end of year	<u>\$ 906,203</u>	<u>\$ 966,483</u>	<u>\$ 1,067,871</u>	<u>\$ 934,048</u>	<u>\$ 706,387</u>
<b>Plan Fiduciary Net Position</b>					
Contributions - State and local	\$ 69,934	\$ 86,113	\$ 74,127	\$ 73,941	\$ 72,756
Net investment income	(27,614)	139,004	86,871	5,784	72,741
Benefit payments	(158,000)	(223,150)			(95,250)
Administrative expense		(31)			(20)
Net change in plan fiduciary net position	(115,680)	1,936	160,998	79,725	50,227
Plan Fiduciary Net Position - beginning of year	1,238,519	1,236,583	1,075,585	995,860	945,633
Plan Fiduciary Net Position - end of year	<u>\$ 1,122,839</u>	<u>\$ 1,238,519</u>	<u>\$ 1,236,583</u>	<u>\$ 1,075,585</u>	<u>\$ 995,860</u>
<b>Net Pension Liability (Asset) - End of Year</b>	\$ (216,636)	\$ (272,036)	\$ (168,712)	\$ (141,537)	\$ (289,473)
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	123.91%	128.15%	115.80%	115.15%	140.98%

**CITY OF LAKE CITY, MINNESOTA**  
**COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES**  
**DECEMBER 31, 2019**

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**CITY OF LAKE CITY, MINNESOTA**

**NONMAJOR FUNDS**

**DECEMBER 31, 2019**

**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, 2019**

	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	\$ 114,280	\$ 405,420	\$	\$
Loans receivable		39,849		
Taxes receivable, delinquent	445			
Special assessments receivable: Deferred				
<b>TOTAL ASSETS</b>	<b>\$ 114,725</b>	<b>\$ 445,269</b>	<b>\$</b>	<b>\$</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>				
<b>Liabilities</b>				
Interfund payables	\$	\$	\$	\$
Total Liabilities				
<b>Deferred Inflows of Resources</b>				
Unavailable:				
Unavailable revenue	445	39,849		
<b>Fund Balance</b>				
Restricted:				
Creditors (debt covenants)				
Regulations		405,420		
Assigned:				
Fund assignments	114,280			
Unassigned				
<b>Total Fund Balance</b>	<b>114,280</b>	<b>405,420</b>		
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<b>\$ 114,725</b>	<b>\$ 445,269</b>	<b>\$</b>	<b>\$</b>

Special Revenue Funds

275		
2018	492	495
Small Cities Development Program Fund	Block 25 Redev TIF #13	Tax Increment TIF #16

\$ 265,893    \$                    \$

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\$ 265,893	\$	\$
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\$	\$ 239,572	\$ 2,314
	239,572	2,314

265,893

	(239,572)	(2,314)
265,893	(239,572)	(2,314)

\$ 265,893    \$                    \$

**CITY OF LAKE CITY, MINNESOTA  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
December 31, 2019**

	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	\$ 62,163	\$ 266,569	\$ 282,364	\$ 346,541	\$ 88,162
Loans receivable					
Taxes receivable, delinquent	184	593	953	1,113	477
Special assessments receivable:					
Deferred	29,429				
<b>TOTAL ASSETS</b>	<b>\$ 91,776</b>	<b>\$ 267,162</b>	<b>\$ 283,317</b>	<b>\$ 347,654</b>	<b>\$ 88,639</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>					
<b>Liabilities</b>					
Interfund payables	\$	\$	\$	\$	\$
Total Liabilities					
<b>Deferred Inflows of Resources</b>					
Unavailable:					
Deferred revenue	29,613	593	953	1,113	477
<b>Fund Balance</b>					
Restricted:					
Creditors (debt covenants)	62,163	266,569	282,364	346,541	88,162
Regulations					
Assigned:					
Fund assignments					
Unassigned					
Total Fund Balance	62,163	266,569	282,364	346,541	88,162
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<b>\$ 91,776</b>	<b>\$ 267,162</b>	<b>\$ 283,317</b>	<b>\$ 347,654</b>	<b>\$ 88,639</b>

Capital Projects Funds

400 Capital Projects	405 Mill & Overlay	Totals
\$ 1,472,844	\$ 129,327	\$ 3,433,563
		39,849
		3,765
		29,429
<u>\$ 1,472,844</u>	<u>\$ 129,327</u>	<u>\$ 3,506,606</u>
<u>\$</u>	<u>\$</u>	<u>\$ 241,886</u>
		241,886
		73,043
		1,045,799
		671,313
1,472,844	129,327	1,716,451
		(241,886)
<u>1,472,844</u>	<u>129,327</u>	<u>3,191,677</u>
<u>\$ 1,472,844</u>	<u>\$ 129,327</u>	<u>\$ 3,506,606</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, 2019**  
*With Comparative Totals for the Year Ended 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>REVENUES</b>				
Taxes:				
Property taxes	\$ 113,446	\$	\$	\$
Special assessments				
Intergovernmental revenues	54,331			
Charges for services	2,710			
Fines and forfeits	1,316			
Investment income	2,666	17,461		
Miscellaneous revenues	91,533	12,702		
<b>TOTAL REVENUES</b>	<b>266,002</b>	<b>30,163</b>		
<b>EXPENDITURES</b>				
Culture and recreation:				
Library	277,705			
Economic development				
Debt service:				
Principal retirement				
Interest and fiscal charges				
Capital outlay	34,372			
<b>TOTAL EXPENDITURES</b>	<b>312,077</b>			
Excess (deficiency) of revenues over (under) expenditures	(46,075)	30,163		
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out		(56,089)	(180,096)	(19,815)
Transfers in	60,000			
Total Other Financing Sources (Uses)	60,000	(56,089)	(180,096)	(19,815)
<b>Net change in fund balances</b>	<b>13,925</b>	<b>(25,926)</b>	<b>(180,096)</b>	<b>(19,815)</b>
<b>FUND BALANCE, beginning</b>	<b>100,355</b>	<b>431,346</b>	<b>180,096</b>	<b>19,815</b>
<b>FUND BALANCE, ending</b>	<b>\$ 114,280</b>	<b>\$ 405,420</b>	<b>\$</b>	<b>\$</b>

Special Revenue Funds

275			
2018	492	495	
Small Cities	Block 25	Tax	
Development	Redev	Increment	
Program Fund	TIF #13	TIF #16	
\$	\$	\$	2,222
2,280			
9,893	(26)	87	7,500
12,173	(26)	9,809	
2,280	1,192	1,883	
2,280	1,192	1,883	
9,893	(1,218)	7,926	
256,000			
256,000			
265,893	(1,218)	7,926	
	(238,354)	(10,240)	
\$ 265,893	\$ (239,572)	\$ (2,314)	

**CITY OF LAKE CITY, MINNESOTA**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balance**  
**For the Year Ended December 31, 2019**  
*With Comparative Totals for the Year Ended 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>REVENUES</b>					
Taxes:					
Property taxes	\$ 30,890	\$ 99,597	\$ 160,125	\$ 187,044	\$ 80,132
Special assessments	16,052				
Intergovernmental revenues					
Charges for services					
Fines and forfeits					
Investment income	1,224	8,013	7,024	8,926	1,530
Miscellaneous revenues					
<b>TOTAL REVENUES</b>	<b>48,166</b>	<b>107,610</b>	<b>167,149</b>	<b>195,970</b>	<b>81,662</b>
<b>EXPENDITURES</b>					
Culture and recreation:					
Library					
Economic development					
Debt service:					
Principal retirement	40,000	85,000	140,000	155,000	
Interest and fiscal charges	4,722	10,512	12,787	18,340	27,147
Capital outlay					
<b>TOTAL EXPENDITURES</b>	<b>44,722</b>	<b>95,512</b>	<b>152,787</b>	<b>173,340</b>	<b>27,147</b>
Excess (deficiency) of revenues over (under) expenditures	3,444	12,098	14,362	22,630	54,515
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers out					
Transfers in					
Total Other Financing Sources (Uses)					
<b>Net change in fund balances</b>	<b>3,444</b>	<b>12,098</b>	<b>14,362</b>	<b>22,630</b>	<b>54,515</b>
<b>FUND BALANCE, beginning</b>	<b>58,719</b>	<b>254,471</b>	<b>268,002</b>	<b>323,911</b>	<b>33,647</b>
<b>FUND BALANCE, ending</b>	<b>\$ 62,163</b>	<b>\$ 266,569</b>	<b>\$ 282,364</b>	<b>\$ 346,541</b>	<b>\$ 88,162</b>

Capital Projects Funds

400 Capital Projects	405 Mill & Overlay	Totals
\$	\$	\$ 673,456
		16,052
		56,611
		2,710
		1,316
49,703	5,322	111,823
		111,735
<u>49,703</u>	<u>5,322</u>	<u>973,703</u>
		277,705
		5,355
		420,000
		73,508
349,867		384,239
<u>349,867</u>		<u>1,160,807</u>
(300,164)	5,322	(187,104)
		(256,000)
412,821		728,821
<u>412,821</u>		<u>472,821</u>
112,657	5,322	285,717
1,360,187	124,005	2,905,960
<u>\$ 1,472,844</u>	<u>\$ 129,327</u>	<u>\$ 3,191,677</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, 2019**  
*(With Comparative Totals for the Year Ended December 31, 2018)*

	Budgeted Amounts		2019 Actual Amount	Variance With Budget Positive (Negative)	2018 Actual Amount
	Original	Final			
<b>REVENUES</b>					
<b>Property Tax Levy</b>					
Property tax collected	\$ 112,234	\$ 112,234	\$ 113,446	\$ 1,212	\$ 109,855
<b>Intergovernmental Revenues</b>					
County - library grants	54,332	54,332	54,331	(1)	51,320
Total Intergovernmental Revenues	54,332	54,332	54,331	(1)	51,320
<b>Charges For Services</b>					
Fines and forfeits	3,250	3,250	1,316	(1,934)	2,213
Other	2,250	2,250	2,710	460	2,109
Total Charges For Services	5,500	5,500	4,026	(1,474)	4,322
<b>Investment Income</b>					
			2,666	2,666	124
<b>Miscellaneous</b>					
Donations	500	11,132	12,783	1,651	15,597
Other			78,750	78,750	76,644
Total Miscellaneous	500	11,132	91,533	80,401	92,241
<b>Total Revenues</b>	<b>172,566</b>	<b>183,198</b>	<b>266,002</b>	<b>82,804</b>	<b>257,862</b>
<b>EXPENDITURES</b>					
Library services	253,566	264,946	277,705	(12,759)	269,585
Capital outlay	33,000	33,350	34,372	(1,022)	38,385
<b>Total Expenditures</b>	<b>286,566</b>	<b>298,296</b>	<b>312,077</b>	<b>(13,781)</b>	<b>307,970</b>
Excess (deficiency) of revenues over (under) expenditures	(114,000)	(115,098)	(46,075)	69,023	(50,108)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers out	(23,000)	(23,000)		23,000	
Transfers in			60,000	60,000	60,000
Total other financing sources (uses)	(23,000)	(23,000)	60,000	83,000	60,000
<b>Net Change in Fund Balance</b>	<b>(137,000)</b>	<b>(138,098)</b>	<b>13,925</b>	<b>152,023</b>	<b>9,892</b>
<b>Fund Balance, beginning</b>	<b>100,355</b>	<b>100,355</b>	<b>100,355</b>		<b>90,463</b>
<b>Fund Balance, ending</b>	<b>\$ (36,645)</b>	<b>\$ (37,743)</b>	<b>\$ 114,280</b>	<b>\$ 152,023</b>	<b>\$ 100,355</b>

**CITY OF LAKE CITY, MINNESOTA**  
**ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT**  
**BALANCE SHEET - COMPONENT UNIT**  
December 31, 2019 and 2018

	2019	2018
<b>Assets</b>		
Cash and investments	\$ 122,660	\$ 119,871
Taxes receivable delinquent	284	689
Due from other governmental units	507	383
Due from primary government	66,890	66,890
Prepaid expenditures	1,577	999
Property held for resale	235,000	235,000
<b>TOTAL ASSETS</b>	<b>\$ 426,918</b>	<b>\$ 423,832</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balance</b>		
<b>Liabilities</b>		
Accounts payable	\$ 8,279	\$ 6,681
Due to primary government	23	180
Total Liabilities	8,302	6,861
<b>Deferred Inflows of Resources</b>		
Unavailable revenue	235,284	235,689
<b>Fund Balance</b>		
Restricted:		
Economic development	183,332	181,282
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<b>\$ 426,918</b>	<b>\$ 423,832</b>
Fund Balance - Component Unit	\$ 183,332	
Amounts reported for governmental activities in the statement of net position are different because:		
Property held for resale is not expected to be sold soon enough to provide available resources, and therefore, is a deferred inflow of resources in the funds	235,000	
Other long-term assets are not available to pay for current-period expenditures and, therefore are unavailable in the funds	284	
Net Position - Component Unit	<b>\$ 418,616</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, 2019**  
*(With Comparative Totals for the Year Ended December 31, 2018)*

	Totals	
	2019	2018
<b>REVENUES</b>		
Property tax	\$ 72,534	\$ 72,734
Investment income	778	305
Payment from primary government		106,890
Miscellaneous	13,640	3,600
<b>Total Revenues</b>	<b>86,952</b>	<b>183,529</b>
<b>EXPENDITURES</b>		
Economic Development	84,902	137,622
<b>Total Expenditures</b>	<b>84,902</b>	<b>137,622</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>2,050</b>	<b>45,907</b>
<b>Fund Balance, beginning</b>	<b>181,282</b>	<b>135,375</b>
<b>Fund Balance, ending</b>	<b>\$ 183,332</b>	<b>\$ 181,282</b>
 Net Change in Fund Balance - Component Unit	 \$ 2,050	 \$ 45,907
 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.		
	<u>(405)</u>	<u>(149)</u>
 Change in Net Position - Component Unit	 \$ 1,645	 \$ 45,758

**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, 2019 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 24, 2020.

**Internal Control Over Financial Reporting**

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

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

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

Honorable Mayor and Common Council  
**City of Lake City, Minnesota**  
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### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Smith, Schafu and Associates, Ltd.*

Red Wing, Minnesota  
June 24, 2020

## 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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 24, 2020.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Lake City, Minnesota, failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

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 24, 2020