

CITY OF LAKE CITY, MINNESOTA
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2015

**CITY OF LAKE CITY, MINNESOTA
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YEAR ENDED DECEMBER 31, 2015**

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INTRODUCTORY SECTION

**CITY OF LAKE CITY, MINNESOTA
CITY OFFICIALS
DECEMBER 31, 2015**

ELECTED

<u>Title</u>	<u>Name</u>	<u>Term Expires</u>
Mayor	Joel Beckman	12/31/16
Council	Russell Boe	12/31/19
Council	Randall Klipfel	12/31/19
Council	Andru Peters	12/31/16
Council	Greg Schreck	12/31/19
Council	Mark Spence	12/31/16
Council	Marylou Waltman	12/31/16

APPOINTED

City Administrator	Mark Sievert
City Clerk	Kari Schreck
Finance Director/Treasurer	Barbara Pratt

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lake City, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City'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 City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Auditors' Responsibility (Continued)

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lake City, Minnesota, as of December 31, 2015, and the respective changes in financial position and cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter Regarding Change in Accounting Principle

During the year ended December 31, 2015, the City adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 68, *Accounting and Financial Reporting for Pensions* and the related GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. As a result of the implementation of these standards, the City reported a restatement for the change in accounting principle (see Note 11). Our auditors' opinion was not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

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

The combining fund statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 3, 2016, on our consideration of the City of Lake City, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Lake City, Minnesota's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Austin, Minnesota
August 3, 2016

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REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

As management of the City of Lake City, State of Minnesota, we offer readers of the City of Lake City's financial statements this narrative overview and analysis of the financial activities of the City of Lake City for the fiscal year ended December 31, 2015. We encourage readers to consider the information presented here in conjunction with the City's financial statements.

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 \$49,318,188 (*net position*). Of this amount, \$17,103,438 (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 \$2,607,654 primarily due to the operations of the electric utility and marina.
- As of the close of the current fiscal year, the City of Lake City's governmental funds reported combined ending fund balances of \$6,973,911. Approximately 66 percent of this total amount, or \$4,580,349, is available for use within the City's designations and policies.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,738,346 or 69 percent of total general fund expenditures.
- The City of Lake City total outstanding debt decreased by \$342,300 during the current fiscal year. Principal payments are made as scheduled and continue to reduce outstanding debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

Both of the government-wide financial statements distinguish functions of the City of Lake City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Lake City include general government, public safety, streets and highways, culture and recreation, and economic development. The business-type activities of the City of Lake City include the electric, water, sewer, storm water and garbage utilities as well as the operations of the City owned marina. The government-wide financial statements can be found on pages 16-18 of this report.

Additional financial information for the Economic Development Authority (EDA) can be found on pages 79-80. The EDA is reported as a component unit which is legally separate from the City but the City is financially accountable.

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

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

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

**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The City of Lake City maintains twenty-two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Library Fund which are considered to be major funds. Data from the other government funds are combined into a single, aggregate presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* on pages 70-77 in this report.

The City of Lake City adopts an annual appropriated budget for its general fund and library fund. Budgetary comparison statements have been provided for the general fund (pages 23-26) and the library fund (page 78) to demonstrate compliance with the budget.

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

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

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

The basic proprietary fund financial statements can be found on pages 27-34 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 35-66 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds can be found on pages 70-77 of this report.

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 \$49,318,188 at the close of the most recent fiscal year.

**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

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

City of Lake City's Statement of Net Position

	2015			2014		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Assets						
Current and Other	\$ 8,154,924	\$ 16,665,132	\$ 24,820,056	\$ 8,112,229	\$ 14,577,714	\$ 22,689,943
Capital Assets	20,247,147	20,130,080	40,377,227	18,480,419	21,139,683	39,620,102
Total Assets	<u>28,402,071</u>	<u>36,795,212</u>	<u>65,197,283</u>	<u>26,592,648</u>	<u>35,717,397</u>	<u>62,310,045</u>
Deferred Outflows of Resources	394,372	134,711	529,083	-	-	-
Liabilities						
Long-Term Outstanding	6,147,004	6,964,316	13,111,320	3,839,842	6,413,186	10,253,028
Other	1,100,790	1,819,925	2,920,715	805,447	2,026,233	2,831,680
Total Liabilities	<u>7,247,794</u>	<u>8,784,241</u>	<u>16,032,035</u>	<u>4,645,289</u>	<u>8,439,419</u>	<u>13,084,708</u>
Deferred Inflows of Resources	269,393	106,750	376,143	-	-	-
Net Position						
Net Investment in						
Capital Assets	16,646,560	13,890,570	30,537,130	14,613,946	14,013,764	28,627,710
Restricted	1,677,620	-	1,677,620	1,546,883	-	1,546,883
Unrestricted	2,955,076	14,148,362	17,103,438	5,786,530	13,264,214	19,050,744
Total Net Position	<u>\$ 21,279,256</u>	<u>\$ 28,038,932</u>	<u>\$ 49,318,188</u>	<u>\$ 21,947,359</u>	<u>\$ 27,277,978</u>	<u>\$ 49,225,337</u>

A portion of the City of Lake City's net position (3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (\$17,103,438) 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 \$904,637.

Business-type activities. Business-type activities increased the City of Lake City's net position by \$1,703,017.

**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

A condensed version of the Statement of Activities follows:

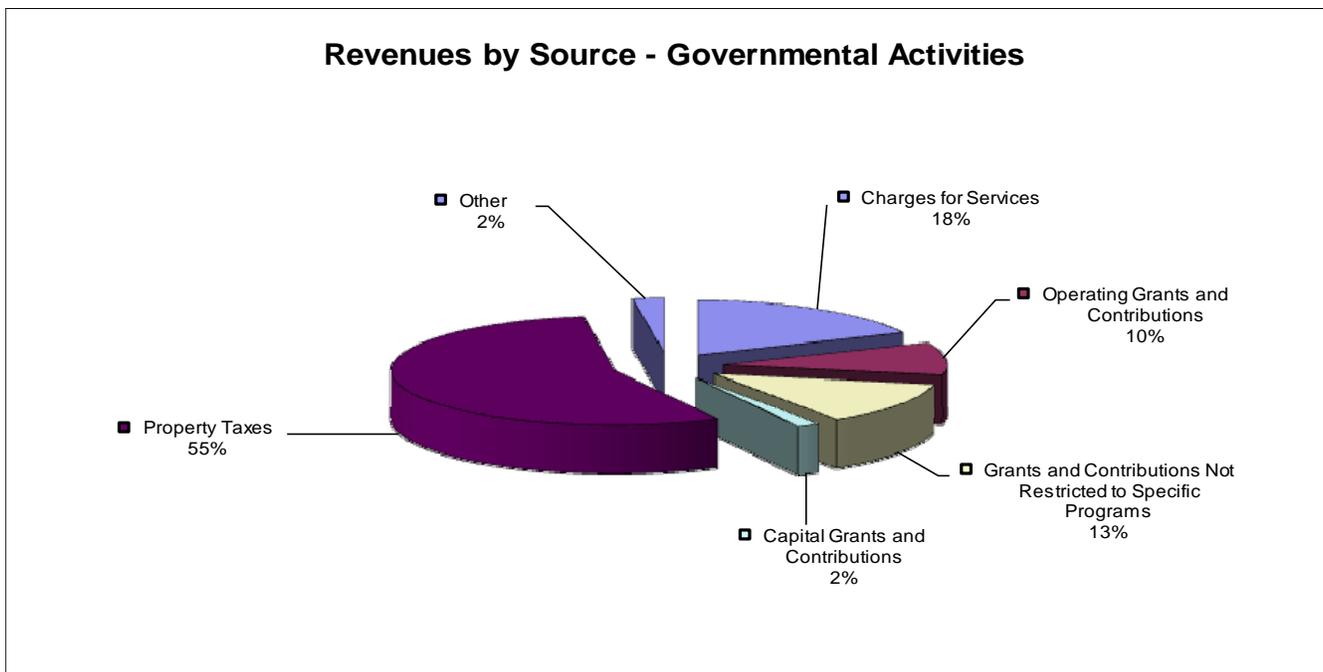
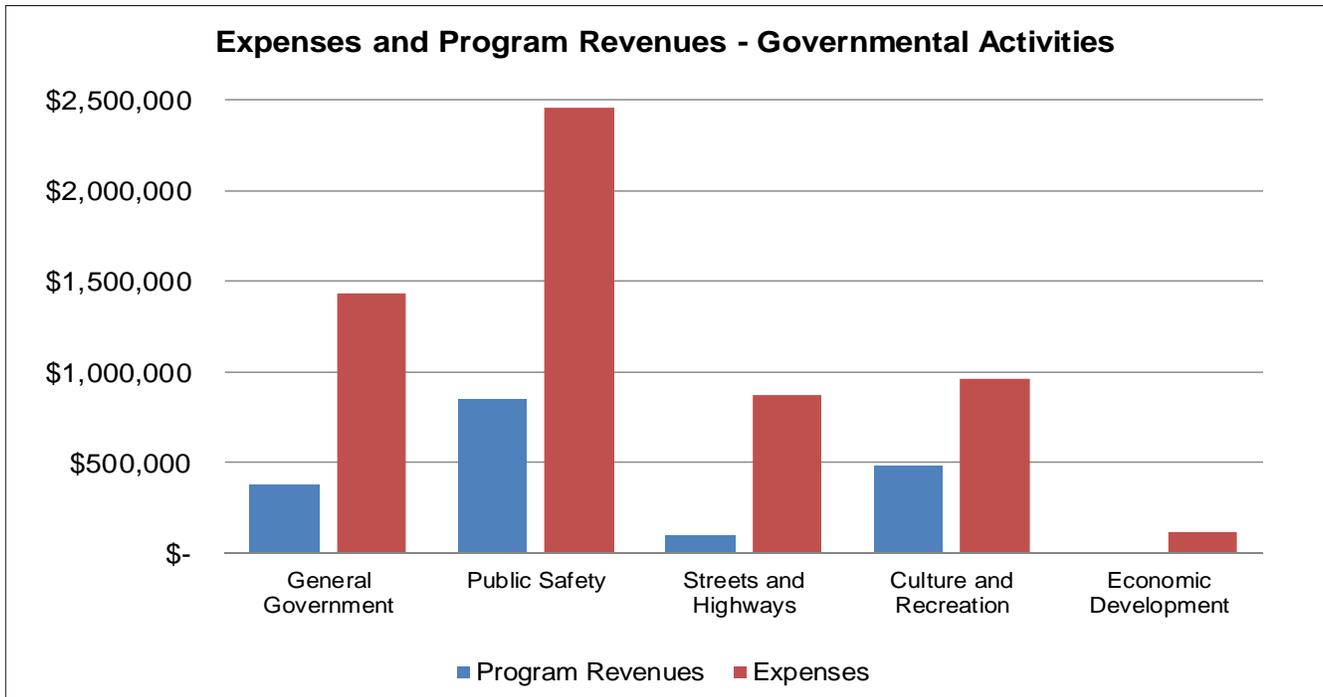
City of Lake City Change in Net Position

	2015			2014		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Revenues						
Program Revenues						
Charges for Services	\$ 1,107,562	\$ 18,042,393	\$ 19,149,955	\$ 1,088,981	\$ 17,933,862	\$ 19,022,843
Operating Grants And Contributions	588,137	-	588,137	480,159	-	480,159
Capital Grants & Contributions	99,056	45,265	144,321	124,491	4,813	129,304
General Revenues						
Property Taxes	3,180,366	-	3,180,366	3,065,712	-	3,065,712
Tax Increments	162,130	-	162,130	171,916	-	171,916
Grants & Contributions not Restricted to Specific Programs	768,486	-	768,486	751,721	-	751,721
Other	136,155	193,679	329,834	205,944	245,667	451,611
Total Revenues	6,041,892	18,281,337	24,323,229	5,888,924	18,184,342	24,073,266
Expenses						
General Government	1,427,910	-	1,427,910	1,416,414	-	1,416,414
Public Safety	2,457,398	-	2,457,398	2,260,110	-	2,260,110
Streets and Highways	871,911	-	871,911	1,129,491	-	1,129,491
Culture and Recreation	959,798	-	959,798	872,801	-	872,801
Economic Development	117,385	-	117,385	153,906	-	153,906
Interest on Long-Term Debt	118,975	-	118,975	90,099	-	90,099
Electric	-	11,995,095	11,995,095	-	12,193,723	12,193,723
Water	-	604,618	604,618	-	674,837	674,837
Sewer	-	1,406,412	1,406,412	-	1,463,812	1,463,812
Storm Water	-	201,691	201,691	-	205,133	205,133
Marina	-	976,657	976,657	-	992,781	992,781
Garbage	-	577,725	577,725	-	554,981	554,981
Total Expenses	5,953,377	15,762,198	21,715,575	5,922,821	16,085,267	22,008,088
Increase (Decrease) in Net Position Before Transfers and Other	88,515	2,519,139	2,607,654	(33,897)	2,099,075	2,065,178
Transfers	816,122	(816,122)	-	612,719	(612,719)	-
Increase in Net Position	904,637	1,703,017	2,607,654	578,822	1,486,356	2,065,178
Net Position - As Previously Stated	21,947,359	27,277,978	49,225,337	21,368,537	25,791,622	47,160,159
Restatement	(1,572,740)	(942,063)	(2,514,803)	-	-	-
Net Position - As Restated	20,374,619	26,335,915	46,710,534	21,368,537	25,791,622	47,160,159
Net Position - End of Year	\$ 21,279,256	\$ 28,038,932	\$ 49,318,188	\$ 21,947,359	\$ 27,277,978	\$ 49,225,337

**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

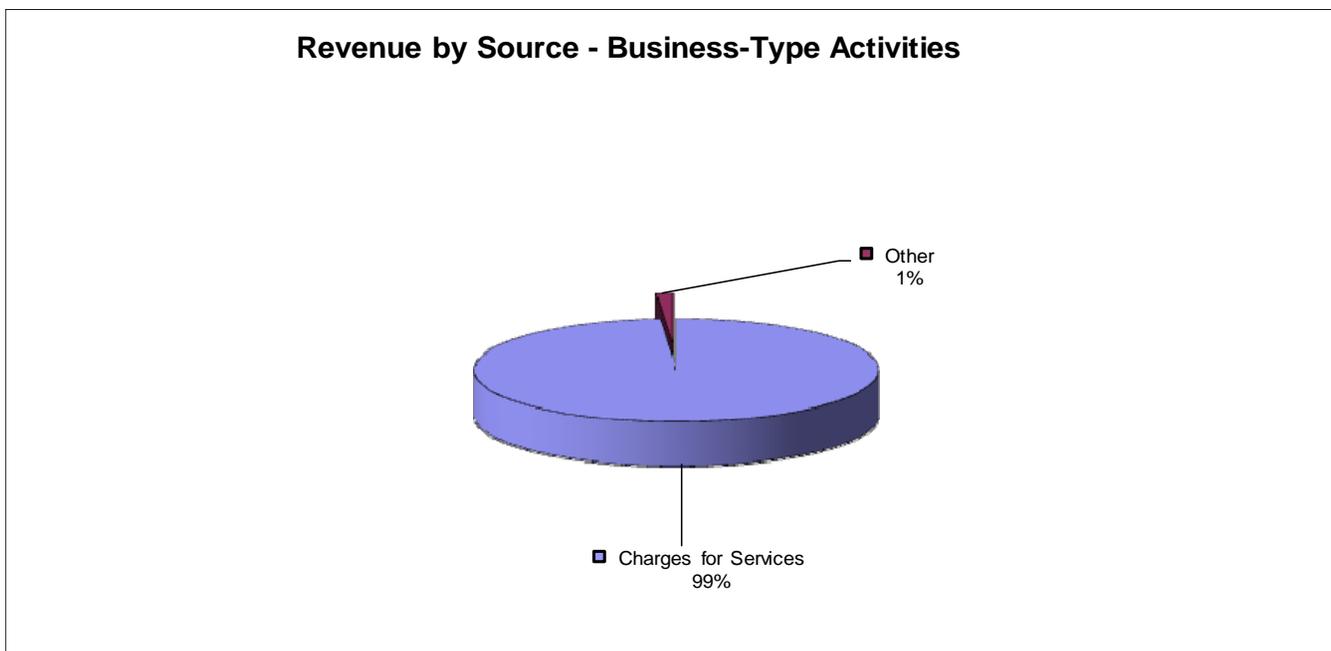
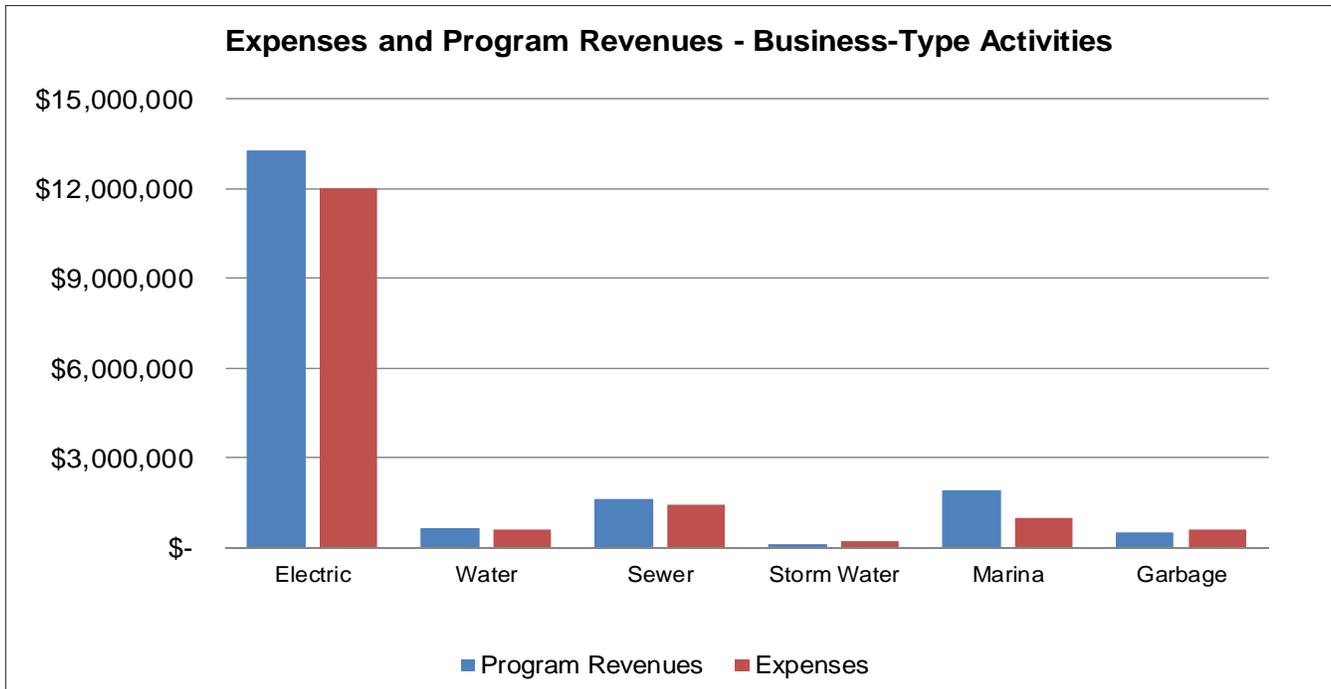
Below are specific graphs that provide comparisons of the governmental activities direct program revenues with their expenses. Any shortfalls in direct revenues are primarily supported by property tax levy or general state aid.



**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

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



**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

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

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

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

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

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

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

As of the end of the current fiscal year, the City of Lake City's governmental funds reported combined ending fund balances of \$6,973,911, a decrease of \$344,118. Approximately 66 percent of this total amount, or \$4,580,349, constitutes *unassigned or assigned fund balance*, which is available for spending at the government's discretion. The remainder of the total fund balance (\$2,393,562) is *nonspendable or restricted* to indicate that it is not available for new spending or is restricted as to how it will be spent.

The general fund is the chief operating fund of the City of Lake City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$3,738,346. 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 69 percent of total general fund expenditures.

**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (CONTINUED)

The General Fund's total fund balance decreased by \$26,812 during the current fiscal year.

The Library Funds' total fund balance decreased by \$1,576,748 due to the construction project for the new library building that took place in 2015. This project was funded through donations and previous transfers from the General Fund.

Proprietary funds. The City of Lake City's proprietary funds unrestricted balance are Electric - \$6,992,685, Water - \$655,018, Sewer - \$543,900, Storm Water – (\$39,809), Marina - \$5,845,199, and Garbage - \$151,369. All funds, except the storm water fund and garbage fund, had increases in total net position for the year. The storm water fund's decrease in net position for the year of \$77,585 was primarily due to depreciation which has not been factored in to the storm water fund user rates. The garbage fund had a decrease in net position of \$52,777.

General Fund Budgetary Highlights

The original 2015 general fund budget approved by the City anticipated an increase in general fund reserves of \$809,410. All differences between the original and final budgets in the general fund for the City in 2014 were approved by resolution amending the original budget.

Capital Asset and Debt Administration

Capital assets. The City of Lake City's investments in capital assets for its governmental and business-type activities as of December 31, 2015, amounts to \$40,377,227 (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 \$757,125, or 2 percent. The main reason for the increase was the construction associated with the new library.

**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (CONTINUED)

City of Lake City's Capital Assets

	Capital Assets December 31, 2015	Capital Assets December 31, 2014
Governmental Activities		
Land	\$ 1,351,940	\$ 1,351,940
Construction in Progress	1,776,347	88,413
Buildings and Improvements	6,258,878	6,116,321
Machinery and Equipment	1,559,863	1,417,875
Infrastructure	9,300,119	9,505,870
Total	20,247,147	18,480,419
Business-Type Activities		
Land	742,801	742,801
Buildings and Improvements	7,150,080	7,586,465
Machinery and Equipment	771,695	857,666
Distribution and Collection System	11,465,504	11,952,751
Total	20,130,080	21,139,683
Total Capital Assets	\$ 40,377,227	\$ 39,620,102

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

Long-term debt. At the end of the current fiscal year, the City of Lake City had \$10,760,095 in bonds and notes outstanding. Of this amount, \$8,432,604 comprises debt backed by the full faith and credit of the government and \$2,327,491 represents bonds secured solely by specified revenue sources.

City of Lake City's Long-Term Liabilities

	2015			2014
	Governmental Activities	Business- Type Activities	Total	Total
General Obligation Bonds	\$ 4,300,584	\$ 452,588	\$ 4,753,172	\$ 4,225,577
General Obligation Revenue Loans	-	2,802,852	2,802,852	3,215,718
General Obligation Revenue Bonds	-	876,580	876,580	939,140
Revenue Bonds	-	2,327,491	2,327,491	2,721,960
Compensated Absences	239,605	191,583	431,188	438,500
Net Pension Liability	2,005,565	999,546	3,005,111	3,653,656
Total	\$ 6,545,754	\$ 7,650,640	\$ 14,196,394	\$ 15,194,551

**CITY OF LAKE CITY, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2015**

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (CONTINUED)

The City of Lake City's total long-term liabilities decreased by \$998,157 during the current year. A total of \$1,269,867 in bonds and notes payable were retired during 2015. A more detailed breakdown of these obligations can be found in Note 7, beginning on pages 49-51.

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

Requests for Information

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

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BASIC FINANCIAL STATEMENTS

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**CITY OF LAKE CITY, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2015**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Economic Development Authority
ASSETS				
Cash and Investments	\$ 6,976,035	\$ 13,512,236	\$ 20,488,271	\$ 56,425
Cash with Escrow Agent	682,000	207,200	889,200	-
Interest Receivable	46,293	-	46,293	-
Accounts Receivable	62,797	1,701,477	1,764,274	-
Pledges Receivable	12,694	-	12,694	-
Taxes Receivable	39,400	-	39,400	-
Special Assessments Receivable	85,693	74,505	160,198	-
Loans Receivable	118,422	-	118,422	-
Internal Balances	(494,980)	494,980	-	-
Due from Other Governmental Units	278,721	-	278,721	1,262
Due from Primary Government	-	-	-	69,311
Prepaid Expenses	58,376	65,087	123,463	869
Property Held for Resale	-	-	-	235,000
Inventories	-	609,647	609,647	-
Net Pension Asset	289,473	-	289,473	-
Capital Assets:				
Nondepreciable	3,128,287	742,801	3,871,088	-
Depreciable, Net	17,118,860	19,387,279	36,506,139	-
Total Assets	<u>28,402,071</u>	<u>36,795,212</u>	<u>65,197,283</u>	<u>362,867</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension Related	394,372	134,711	529,083	-
LIABILITIES				
Accounts and Contracts Payable	426,723	894,145	1,320,868	61
Interest Payable	38,417	90,048	128,465	-
Accrued Liabilities	88,786	58,359	147,145	-
Deposits Payable	27,664	91,049	118,713	-
Due to Other Governments	51,138	-	51,138	-
Due to Component Unit	69,311	-	69,311	-
Noncurrent Liabilities:				
Due Within One Year	398,751	686,324	1,085,075	-
Due in More Than One Year	6,147,004	6,964,316	13,111,320	-
Total Liabilities	<u>7,247,794</u>	<u>8,784,241</u>	<u>16,032,035</u>	<u>61</u>
DEFERRED INFLOWS OF RESOURCES				
Pension Related	269,393	106,750	376,143	-
NET POSITION				
Net Investment in Capital Assets	16,646,560	13,890,570	30,537,130	-
Restricted for:				
Debt Service	582,145	-	582,145	-
Tax Increment Financing	434,100	-	434,100	-
Revolving Loans	661,375	-	661,375	-
Unrestricted	2,955,076	14,148,362	17,103,438	362,806
Total Net Position	<u>\$ 21,279,256</u>	<u>\$ 28,038,932</u>	<u>\$ 49,318,188</u>	<u>\$ 362,806</u>

See accompanying Notes to Financial Statements.

**CITY OF LAKE CITY, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015**

<u>Functions/Programs</u>	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$ 1,427,910	\$ 307,871	\$ 66,810	\$ -
Public Safety	2,457,398	553,923	290,316	-
Streets and Highways	871,911	12,650	63,898	21,909
Culture and Recreation	959,798	233,118	167,113	77,147
Economic Development	117,385	-	-	-
Interest on Long-Term Debt	118,975	-	-	-
Total Governmental Activities	5,953,377	1,107,562	588,137	99,056
Business-Type Activities:				
Electric Utility	11,995,095	13,290,882	-	-
Water Utility	604,618	617,351	-	43,162
Sewer Utility	1,406,412	1,598,551	-	236
Storm Water Utility	201,691	121,086	-	1,867
Marina	976,657	1,897,388	-	-
Garbage	577,725	517,135	-	-
Total Business-Type Activities	15,762,198	18,042,393	-	45,265
Total Primary Government	\$ 21,715,575	\$ 19,149,955	\$ 588,137	\$ 144,321
Total Component Unit	\$ 93,438	\$ 38,715	\$ -	\$ -

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

CHANGE IN NET POSITION

Net Position - Beginning of Year

Prior Period Adjustment

Net Position - As Restated

NET POSITION - END OF YEAR

Net (Expense) Revenue and
Change in Net Position

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Economic Development Authority
\$ (1,053,229)	\$ -	\$ (1,053,229)	\$ -
(1,613,159)	-	(1,613,159)	-
(773,454)	-	(773,454)	-
(482,420)	-	(482,420)	-
(117,385)	-	(117,385)	-
(118,975)	-	(118,975)	-
<u>(4,158,622)</u>	<u>-</u>	<u>(4,158,622)</u>	<u>-</u>
-	1,295,787	1,295,787	-
-	55,895	55,895	-
-	192,375	192,375	-
-	(78,738)	(78,738)	-
-	920,731	920,731	-
<u>-</u>	<u>(60,590)</u>	<u>(60,590)</u>	<u>-</u>
<u>-</u>	<u>2,325,460</u>	<u>2,325,460</u>	<u>-</u>
(4,158,622)	2,325,460	(1,833,162)	-
-	-	-	(54,723)
3,180,366	-	3,180,366	79,068
162,130	-	162,130	-
768,486	-	768,486	-
88,405	182,735	271,140	14
17,000	-	17,000	-
30,750	10,944	41,694	-
816,122	(816,122)	-	-
<u>5,063,259</u>	<u>(622,443)</u>	<u>4,440,816</u>	<u>79,082</u>
904,637	1,703,017	2,607,654	24,359
21,947,359	27,277,978	49,225,337	338,447
<u>(1,572,740)</u>	<u>(942,063)</u>	<u>(2,514,803)</u>	<u>-</u>
<u>20,374,619</u>	<u>26,335,915</u>	<u>46,710,534</u>	<u>338,447</u>
<u>\$ 21,279,256</u>	<u>\$ 28,038,932</u>	<u>\$ 49,318,188</u>	<u>\$ 362,806</u>

**CITY OF LAKE CITY, MINNESOTA
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	General Fund	Library Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 4,201,317	\$ 27,754	\$ 2,746,964	\$ 6,976,035
Cash with Escrow Agent	-	-	682,000	682,000
Interest Receivable	46,293	-	-	46,293
Accounts Receivable	62,797	-	-	62,797
Pledges Receivable	-	12,694	-	12,694
Taxes Receivable Delinquent	31,651	1,211	6,538	39,400
Special Assessments Receivable				
Delinquent	1,323	-	-	1,323
Noncurrent	-	-	84,370	84,370
Advances to Other Funds	55,000	-	-	55,000
Interfund Receivable	242,657	-	-	242,657
Loans Receivable	40,950	-	77,472	118,422
Due from Other Governmental Units	23,560	-	255,161	278,721
Total Assets	<u>\$ 4,705,548</u>	<u>\$ 41,659</u>	<u>\$ 3,852,505</u>	<u>\$ 8,599,712</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE				
LIABILITIES				
Accounts Payable	\$ 101,608	\$ 219,189	\$ 99,186	\$ 419,983
Accrued Liabilities	84,671	4,115	-	88,786
Deposits Payable	22,520	-	5,144	27,664
Advances from Other Funds	549,980	-	-	549,980
Interfund Payable	-	-	216,374	216,374
Due to Other Governmental Units	51,138	-	-	51,138
Due to Component Unit	69,311	-	-	69,311
Total Liabilities	<u>879,228</u>	<u>223,304</u>	<u>320,704</u>	<u>1,423,236</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	32,974	1,211	168,380	202,565
Total Deferred Inflows of Resources	<u>32,974</u>	<u>1,211</u>	<u>168,380</u>	<u>202,565</u>
FUND BALANCE				
Nonspendable:				
Advances to Other Funds	55,000	-	-	55,000
Restricted				
Debt Service	-	-	1,320,562	1,320,562
Tax Increment Financing	-	-	434,100	434,100
Revolving Loans	-	-	583,900	583,900
Assigned:				
Capital Projects	-	-	1,029,944	1,029,944
Unassigned	3,738,346	(182,856)	(5,085)	3,550,405
Total Fund Balance	<u>3,793,346</u>	<u>(182,856)</u>	<u>3,363,421</u>	<u>6,973,911</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 4,705,548</u>	<u>\$ 41,659</u>	<u>\$ 3,852,505</u>	<u>\$ 8,599,712</u>

See accompanying Notes to Financial Statements

**CITY OF LAKE CITY, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2015**

Total Fund Balances for Governmental Funds	\$ 6,973,911
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Governmental Funds - Capital Assets	39,605,972
Less: Accumulated Depreciation	(19,358,825)
Other long-term assets are not available to pay for current period expenditures and, therefore, are unavailable in the funds.	
Delinquent Property Taxes and Special Assessments	40,721
Noncurrent Special Assessments	84,369
Loans Receivable	77,475
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.	
	25,353
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	(4,300,587)
Compensated Absences	(239,602)
Accrued Interest	(38,417)
The City's Net Pension Asset, Net Pension Liability, and related deferred inflows and outflows of resources are recorded only on the statement of net position. Balances at year-end are:	
Net Pension Asset	289,473
Net Pension Liability	(2,005,566)
Deferred Outflows of Resources- Pension Related	394,372
Deferred Inflows of Resources- Pension Related	(269,393)
Net Position of Governmental Activities	<u>\$ 21,279,256</u>

See accompanying Notes to Financial Statements

**CITY OF LAKE CITY, MINNESOTA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2015**

	General Fund	Library Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 2,614,595	\$ 92,333	\$ 497,753	\$ 3,204,681
Tax Increments	-	-	162,130	162,130
Special Assessments	16,337	-	19,629	35,966
Licenses and Permits	97,213	-	-	97,213
Intergovernmental Revenues	1,123,550	48,716	-	1,172,266
Charges for Services	968,050	2,087	-	970,137
Fines and Forfeits	29,783	3,369	-	33,152
Investment Income	45,572	12,861	27,910	86,343
Gift and Contributions	91,521	267,660	-	359,181
Miscellaneous Revenues	14,841	139	54,879	69,859
Total Revenues	<u>5,001,462</u>	<u>427,165</u>	<u>762,301</u>	<u>6,190,928</u>
EXPENDITURES				
Current:				
General Government	1,144,811	-	-	1,144,811
Public Safety	2,242,298	-	-	2,242,298
Streets and Highways	492,626	-	-	492,626
Culture and Recreation	668,039	222,650	-	890,689
Economic Development	-	-	117,385	117,385
Miscellaneous	-	-	280	280
Capital Outlay	840,862	1,831,263	16,680	2,688,805
Debt Service:				
Principal	-	-	389,932	389,932
Interest and Fiscal Charges	-	-	113,137	113,137
Total Expenditures	<u>5,388,636</u>	<u>2,053,913</u>	<u>637,414</u>	<u>8,079,963</u>
Excess of Revenues Over Expenditures	(387,174)	(1,626,748)	124,887	(1,889,035)
OTHER FINANCING SOURCES (USES)				
Transfers In	766,122	50,000	411,828	1,227,950
Transfers Out	(405,760)	-	(6,068)	(411,828)
Bond Proceeds	-	-	700,000	700,000
Bond Premium	-	-	11,796	11,796
Proceeds From Sale of Property	-	-	17,000	17,000
Total Other Financing Sources (Uses)	<u>360,362</u>	<u>50,000</u>	<u>1,134,556</u>	<u>1,544,918</u>
NET CHANGE IN FUND BALANCES	(26,812)	(1,576,748)	1,259,443	(344,117)
Fund Balances - Beginning of Year	3,820,158	1,393,892	2,103,978	7,318,028
FUND BALANCES - END OF YEAR	<u>\$ 3,793,346</u>	<u>\$ (182,856)</u>	<u>\$ 3,363,421</u>	<u>\$ 6,973,911</u>

See accompanying Notes to Financial Statements

**CITY OF LAKE CITY, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015**

Net Change in Fund Balances - Total Governmental Funds	\$ (344,117)
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the asset.	
Capital Outlay	2,782,900
Depreciation Expense	(1,012,621)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, etc.) is to decrease net position.	
	(3,551)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Unavailable Revenue, December 31, 2015	202,565
Unavailable Revenue, December 31, 2014	(371,734)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Compensated Absences	13,693
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.	
	(16,422)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
Principal Retirement on Long-Term Debt	389,932
Proceeds from Debt Issuance	(700,000)
Long-Term Debt Premium	(11,796)
Long-Term Debt Discount	(2,244)
Change in Accrued Interest	(3,594)
Pension expenses on the governmental funds are measured by current year employee contributions. Pension expenditures on the statement of activities are measured by the change in net pension liability and the related deferred inflows and outflows of resources.	
	(18,374)
Change in Net Position of Governmental Activities	\$ 904,637

See accompanying Notes to Financial Statements.

**CITY OF LAKE CITY, MINNESOTA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2015**

	Original Budget	Final Budget	2015 Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes:				
General Property Taxes	\$ 2,414,526	\$ 2,414,526	\$ 2,482,533	\$ 68,007
Franchise Taxes	85,000	85,000	70,464	(14,536)
Lodging Tax	58,000	58,000	61,598	3,598
Total Taxes	<u>2,557,526</u>	<u>2,557,526</u>	<u>2,614,595</u>	<u>57,069</u>
Special Assessments	14,000	14,000	16,337	2,337
Licenses and Permits:				
Business Licenses	20,860	20,860	36,288	15,428
Non-Business Licenses	72,650	72,650	60,925	(11,725)
Total Licenses and Permits	<u>93,510</u>	<u>93,510</u>	<u>97,213</u>	<u>3,703</u>
Intergovernmental:				
Federal:				
Cops in School Grant	35,600	35,600	33,905	(1,695)
State:				
Local Government Aid	768,179	768,179	768,179	-
Market Value Credit Aid	-	-	307	307
MSA Street Maintenance	165,000	165,000	61,714	(103,286)
Police State Aid	68,000	68,000	79,756	11,756
Other Police Grants	-	6,705	14,728	8,023
Fire State Aid	50,000	50,000	157,568	107,568
PERA Aid	7,393	7,393	7,393	-
Total Intergovernmental	<u>1,094,172</u>	<u>1,100,877</u>	<u>1,123,550</u>	<u>22,673</u>
Charges for Services:				
General Government	212,050	212,050	210,597	(1,453)
Public Safety	528,400	528,400	517,572	(10,828)
Streets and Highways	6,000	6,000	12,640	6,640
Park Fees	217,125	217,125	227,241	10,116
Total Charges for Services	<u>963,575</u>	<u>963,575</u>	<u>968,050</u>	<u>4,475</u>
Fines and Forfeits	29,000	29,000	29,783	783
Investment Income	60,000	60,000	45,572	(14,428)
Gift and Contributions	4,500	36,791	91,521	54,730
Miscellaneous Revenues :				
Other	400	400	13,551	13,151
Refunds and Reimbursements	35,000	35,000	1,290	(33,710)
Total Miscellaneous	<u>35,400</u>	<u>35,400</u>	<u>14,841</u>	<u>(20,559)</u>
Total Revenues	4,851,683	4,890,679	5,001,462	110,783

See accompanying Notes to Financial Statements.

**CITY OF LAKE CITY, MINNESOTA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2015**

	Original Budget	Final Budget	2015 Actual	Variance with Final Budget Positive (Negative)
EXPENDITURES				
General Government:				
Mayor and City Council:				
Personnel Services	\$ 43,060	\$ 43,060	\$ 41,161	\$ 1,899
Supplies	2,500	5,500	4,216	1,284
Other Services and Charges	38,200	44,700	39,953	4,747
Total Mayor and City Council	<u>83,760</u>	<u>93,260</u>	<u>85,330</u>	<u>7,930</u>
City Administrator:				
Personnel Services	145,271	145,271	154,423	(9,152)
Supplies	1,400	3,561	2,333	1,228
Other Services and Charges	8,350	6,189	16,061	(9,872)
Total City Administrator	<u>155,021</u>	<u>155,021</u>	<u>172,817</u>	<u>(17,796)</u>
City Clerk/Finance Director:				
Personnel Services	300,761	300,761	308,157	(7,396)
Supplies	6,250	6,250	2,328	3,922
Other Services and Charges	35,600	35,600	30,399	5,201
Total City Clerk/Finance Director	<u>342,611</u>	<u>342,611</u>	<u>340,884</u>	<u>1,727</u>
Audit:				
Other Services and Charges	35,000	35,000	22,785	12,215
Legal:				
Other Services and Charges	127,200	127,200	104,358	22,842
Planning and Zoning:				
Personnel Services	247,174	253,974	252,872	1,102
Supplies	2,900	1,500	1,082	418
Other Services and Charges	72,125	66,725	63,928	2,797
Total Planning and Zoning	<u>322,199</u>	<u>322,199</u>	<u>317,882</u>	<u>4,317</u>
Elections:				
Supplies	1,000	671	13	658
Other Services and Charges	1,300	1,629	1,629	-
Total Elections	<u>2,300</u>	<u>2,300</u>	<u>1,642</u>	<u>658</u>
General Government Buildings:				
Other Services and Charges	-	-	98,888	(98,888)
Total General Government Buildings	<u>-</u>	<u>-</u>	<u>98,888</u>	<u>(98,888)</u>
Total General Government	1,068,091	1,077,591	1,144,586	(66,995)

See accompanying Notes to Financial Statements.

**CITY OF LAKE CITY, MINNESOTA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2015**

EXPENDITURES (CONTINUED)	Original Budget	Final Budget	2015 Actual	Variance with Final Budget Positive (Negative)
Public Safety:				
Police:				
Personnel Services	\$ 1,065,819	\$ 1,086,594	\$ 1,100,666	\$ (14,072)
Supplies	63,000	60,000	51,556	8,444
Other Services and Charges	43,550	32,980	69,601	(36,621)
Capital Outlay	28,000	28,000	28,427	(427)
Total Police	<u>1,200,369</u>	<u>1,207,574</u>	<u>1,250,250</u>	<u>(42,676)</u>
Fire:				
Personnel Services	105,366	105,366	87,729	17,637
Supplies	38,450	35,121	30,268	4,853
Other Services and Charges	87,200	87,200	215,441	(128,241)
Capital Outlay	130,702	130,702	310,409	(179,707)
Total Fire	<u>361,718</u>	<u>358,389</u>	<u>643,847</u>	<u>(285,458)</u>
Ambulance:				
Personnel Services	539,896	539,896	515,871	24,025
Supplies	47,500	49,500	45,091	4,409
Other Services and Charges	41,400	39,400	84,321	(44,921)
Capital Outlay	67,889	67,889	28,711	39,178
Total Ambulance	<u>696,685</u>	<u>696,685</u>	<u>673,994</u>	<u>22,691</u>
Civil Defense:				
Personnel Services	22,068	22,068	23,179	(1,111)
Supplies	8,190	8,365	1,488	6,877
Other Services and Charges	3,010	2,835	2,230	605
Total Civil Defense	<u>33,268</u>	<u>33,268</u>	<u>26,897</u>	<u>6,371</u>
Animal Control:				
Personnel Services	5,783	6,108	6,561	(453)
Supplies	400	75	-	75
Other Services and Charges	275	275	1	274
Total Animal Control	<u>6,458</u>	<u>6,458</u>	<u>6,562</u>	<u>(104)</u>
Total Public Safety	<u>2,298,498</u>	<u>2,302,374</u>	<u>2,601,550</u>	<u>(299,176)</u>
Streets and Highways:				
Personnel Services	334,351	334,351	308,967	25,384
Supplies	98,500	98,500	59,994	38,506
Other Services and Charges	141,200	141,200	123,665	17,535
Capital Outlay	296,000	349,000	367,083	(18,083)
Total Street and Highways	<u>870,051</u>	<u>923,051</u>	<u>859,709</u>	<u>63,342</u>

See accompanying Notes to Financial Statements.

**CITY OF LAKE CITY, MINNESOTA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2015**

	Original Budget	Final Budget	2015 Actual	Variance with Final Budget Positive (Negative)
EXPENDITURES (CONTINUED)				
Culture and Recreation:				
Tourism:				
Other Services and Charges	\$ 55,000	\$ 55,000	\$ 58,248	\$ (3,248)
Total Tourism	55,000	55,000	58,248	(3,248)
Participant Recreation:				
Personnel Services	53,933	53,933	52,391	1,542
Supplies	1,500	1,500	685	815
Other Services and Charges	6,950	6,950	1,673	5,277
Total Participant Recreation	62,383	62,383	54,749	7,634
Swimming Pool:				
Personnel Services	48,658	48,658	48,661	(3)
Supplies	11,000	15,200	13,847	1,353
Other Services and Charges	3,550	2,350	99,452	(97,102)
Capital Outlay	20,000	20,000	4,370	15,630
Total Swimming Pool	83,208	86,208	166,330	(80,122)
Hok-Si-La Park:				
Personnel Services	113,785	101,285	92,794	8,491
Supplies	20,500	13,900	18,359	(4,459)
Other Services and Charges	39,400	28,100	60,717	(32,617)
Capital Outlay	-	82,400	77,064	5,336
Total Hok-Si-La Park	173,685	225,685	248,934	(23,249)
Other Parks:				
Personnel Services	123,279	123,279	138,747	(15,468)
Supplies	38,000	38,000	19,025	18,975
Other Services and Charges	10,200	10,200	63,440	(53,240)
Capital Outlay	6,000	35,050	33,318	1,732
Total Other Parks	177,479	206,529	254,530	(48,001)
Total Culture and Recreation	551,755	635,805	782,791	(146,986)
Total Expenditures	4,788,395	4,938,821	5,388,636	(449,815)
Excess (Deficiency) of Revenues Over (Under) Expenditures	63,288	(48,142)	(387,174)	(339,032)
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	746,122	746,122	766,122	20,000
Operating Transfers Out	-	-	(405,760)	(405,760)
Total Other Financing Sources (Uses)	746,122	746,122	360,362	(385,760)
NET CHANGE IN FUND BALANCE	809,410	697,980	(26,812)	(724,792)
Fund Balance - Beginning of Year	3,820,158	3,820,158	3,820,158	-
FUND BALANCE - END OF YEAR	<u>\$ 4,629,568</u>	<u>\$ 4,518,138</u>	<u>\$ 3,793,346</u>	<u>\$ (724,792)</u>

See accompanying Notes to Financial Statements.

**CITY OF LAKE CITY, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 DECEMBER 31, 2015**

	Business-Type Activities - Enterprise Funds			
	Electric Fund	Water Fund	Sewer Fund	Storm Water Fund
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 6,065,430	\$ 768,117	\$ 713,257	\$ 51,205
Cash with Escrow Agent	-	207,200	-	-
Accounts Receivable	1,586,790	22,467	44,917	3,996
Advances to Other Funds	238,763	-	-	-
Inventories	590,338	-	-	-
Prepaid Expenses	18,970	3,476	16,117	1,196
Total Current Assets	<u>8,500,291</u>	<u>1,001,260</u>	<u>774,291</u>	<u>56,397</u>
NONCURRENT ASSETS				
Capital Assets				
Nondepreciable	23,401	4,273	-	97,400
Depreciable	16,488,333	4,159,983	12,175,109	2,651,415
Less: Accumulated Depreciation	<u>(9,034,745)</u>	<u>(1,890,179)</u>	<u>(7,169,022)</u>	<u>(939,615)</u>
Net Capital Assets	7,476,989	2,274,077	5,006,087	1,809,200
Special Assessments	-	35,660	11,285	27,560
Total Noncurrent Assets	<u>7,476,989</u>	<u>2,309,737</u>	<u>5,017,372</u>	<u>1,836,760</u>
Total Assets	15,977,280	3,310,997	5,791,663	1,893,157
DEFERRED OUTFLOWS OF RESOURCES				
Pension Related	63,534	16,448	21,446	2,435
LIABILITIES				
CURRENT LIABILITIES				
Current Maturities of				
Bonds Payable	170,000	56,249	425,075	35,000
Accounts Payable	817,999	4,158	19,974	263
Accrued Liabilities	77,909	16,797	36,356	5,944
Advances from Other Funds	-	-	-	100,000
Interfund Payables	-	-	-	-
Customer Deposits	91,049	-	-	-
Total Current Liabilities	<u>1,156,957</u>	<u>77,204</u>	<u>481,405</u>	<u>141,207</u>
NONCURRENT LIABILITIES				
Bonds Payable, Net of Current				
Maturities and Discount	2,157,491	834,630	2,377,775	403,290
Compensated Absences Payable	62,418	22,316	30,671	-
Net Pension Liability	471,418	122,045	159,126	18,065
Total Liabilities	<u>3,848,284</u>	<u>1,056,195</u>	<u>3,048,977</u>	<u>562,562</u>
DEFERRED INFLOWS OF RESOURCES				
Pension Related	50,347	13,034	16,995	1,929
NET POSITION				
Net Investment in Capital Assets	5,149,498	1,603,198	2,203,237	1,370,910
Unrestricted	6,992,685	655,018	543,900	(39,809)
Total Net Position	<u>\$ 12,142,183</u>	<u>\$ 2,258,216</u>	<u>\$ 2,747,137</u>	<u>\$ 1,331,101</u>

See accompanying Notes to Financial Statements.

Business-Type Activities - Enterprise Funds			Governmental
Marina	Garbage	Totals	Activities - Internal
Fund	Fund		Service Funds
\$ 5,727,191	\$ 187,036	\$ 13,512,236	\$ -
-	-	207,200	-
17,815	25,492	1,701,477	-
411,217	-	649,980	-
19,309	-	609,647	-
24,862	466	65,087	58,376
6,200,394	212,994	16,745,627	58,376
613,727	4,000	742,801	-
7,296,307	-	42,771,147	-
(4,350,307)	-	(23,383,868)	-
3,559,727	4,000	20,130,080	-
-	-	74,505	-
3,559,727	4,000	20,204,585	-
9,760,121	216,994	36,950,212	58,376
28,705	2,143	134,711	-
-	-	686,324	-
9,110	42,641	894,145	6,740
7,874	3,527	148,407	-
55,000	-	155,000	-
-	-	-	26,283
-	-	91,049	-
71,984	46,168	1,974,925	33,023
-	-	5,773,186	-
76,179	-	191,584	-
212,990	15,902	999,546	-
361,153	62,070	8,939,241	33,023
22,747	1,698	106,750	-
3,559,727	4,000	13,890,570	-
5,845,199	151,369	14,148,362	25,353
<u>\$ 9,404,926</u>	<u>\$ 155,369</u>	<u>\$ 28,038,932</u>	<u>\$ 25,353</u>

**CITY OF LAKE CITY, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN FUND NET POSITION
 YEAR ENDED DECEMBER 31, 2015**

	Business-Type Activities - Enterprise Funds			
	Electric Fund	Water Fund	Sewer Fund	Storm Water Fund
OPERATING REVENUES	\$ 13,290,882	\$ 617,351	\$ 1,598,551	\$ 121,086
OPERATING EXPENSES				
Salaries and Benefits	742,985	191,104	245,564	26,498
Supplies	47,753	23,655	29,273	22,163
Other Services and Charges	10,516,487	212,827	565,995	15,419
Insurance	50,061	12,938	31,312	2,172
Depreciation	502,523	134,953	442,978	119,897
Total Operating Expenses	<u>11,859,809</u>	<u>575,477</u>	<u>1,315,122</u>	<u>186,149</u>
Operating Income (Loss)	1,431,073	41,874	283,429	(65,063)
NONOPERATING INCOME (EXPENSE)				
Miscellaneous Income	4,311	-	-	213
Investment Income	82,438	10,079	8,560	940
Special Assessments	-	43,162	236	1,867
Loss on Disposal of Capital Assets	-	-	-	-
Loss on Disposal of Inventory	(17,305)	-	-	-
Intergovernmental Revenues	-	-	-	-
Interest Expense	(104,070)	(29,141)	(91,290)	(15,542)
Bond Issuance Costs	-	(13,911)	-	-
Total Nonoperating Income (Expense)	<u>(34,626)</u>	<u>10,189</u>	<u>(82,494)</u>	<u>(12,522)</u>
INCOME (LOSS) BEFORE TRANSFERS	1,396,447	52,063	200,935	(77,585)
Transfers Out	<u>(155,000)</u>	<u>(45,000)</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	1,241,447	7,063	200,935	(77,585)
Net Position - As Previously Stated	11,345,043	2,366,179	2,696,177	1,425,712
Restatement	<u>(444,307)</u>	<u>(115,026)</u>	<u>(149,975)</u>	<u>(17,026)</u>
Net Position - As Restated	<u>10,900,736</u>	<u>2,251,153</u>	<u>2,546,202</u>	<u>1,408,686</u>
NET POSITION - END OF YEAR	<u>\$ 12,142,183</u>	<u>\$ 2,258,216</u>	<u>\$ 2,747,137</u>	<u>\$ 1,331,101</u>

See accompanying Notes to Financial Statements.

Business-Type Activities - Enterprise Funds			Governmental
Marina	Garbage	Totals	Activities - Internal
Fund	Fund		Service Funds
\$ 1,897,388	\$ 517,135	\$ 18,042,393	\$ 441,323
443,998	22,458	1,672,607	853
194,328	884	318,056	21,851
116,694	552,821	11,980,243	259,826
64,255	1,562	162,300	178,350
152,566	-	1,352,917	-
<u>971,841</u>	<u>577,725</u>	<u>15,486,123</u>	<u>460,880</u>
925,547	(60,590)	2,556,270	(19,557)
2,000	4,420	10,944	1,071
77,325	3,393	182,735	2,064
-	-	45,265	-
-	-	-	-
-	-	(17,305)	-
-	-	-	-
(4,816)	-	(244,859)	-
-	-	(13,911)	-
<u>74,509</u>	<u>7,813</u>	<u>(37,131)</u>	<u>3,135</u>
1,000,056	(52,777)	2,519,139	(16,422)
(616,122)	-	(816,122)	-
383,934	(52,777)	1,703,017	(16,422)
9,221,734	223,133	27,277,978	41,775
(200,742)	(14,987)	(942,063)	-
<u>9,020,992</u>	<u>208,146</u>	<u>26,335,915</u>	<u>41,775</u>
<u>\$ 9,404,926</u>	<u>\$ 155,369</u>	<u>\$ 28,038,932</u>	<u>\$ 25,353</u>

**CITY OF LAKE CITY, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 YEAR ENDED DECEMBER 31, 2015**

	Business-Type Activities - Enterprise Funds			
	Electric Fund	Water Fund	Sewer Fund	Storm Water Fund
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	\$ 12,813,417	\$ 604,748	\$ 1,585,586	\$ 119,455
Payments to Employees	(726,866)	(186,481)	(238,946)	(25,965)
Payments to Suppliers	(10,475,426)	(246,609)	(671,145)	(40,834)
Net Cash Provided (Used) by Operating Activities	<u>1,611,125</u>	<u>171,658</u>	<u>675,495</u>	<u>52,656</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Advances from/(to) Other Funds	(67,797)	-	-	40,688
Operating Transfers Out	(155,000)	(45,000)	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(222,797)</u>	<u>(45,000)</u>	<u>-</u>	<u>40,688</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal Received on Special Assessments	-	37,210	7,531	4,014
Acquisition of Capital Assets	(240,834)	(34,845)	(42,004)	-
Cash Received from Bond Issuance	-	223,556	-	-
Cash Paid for Bond Issuance Costs	-	(13,911)	-	-
Cash Received for Disposal of Capital Assets	-	-	-	-
Intergovernmental Revenues	-	-	-	-
Interest Paid on Debt	(102,460)	(26,692)	(95,834)	(14,593)
Principal Paid on Debt	(165,000)	(52,570)	(412,866)	(32,500)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(508,294)</u>	<u>132,748</u>	<u>(543,173)</u>	<u>(43,079)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment Income	82,438	10,079	8,560	940
Increase in Cash with Escrow Agent	-	(207,200)	-	-
Net Cash Provided (Used) by Investing Activities	<u>82,438</u>	<u>(197,121)</u>	<u>8,560</u>	<u>940</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	962,472	62,285	140,882	51,205
Cash and Cash Equivalents - Beginning of Year	<u>5,102,958</u>	<u>705,832</u>	<u>572,375</u>	<u>-</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 6,065,430</u>	<u>\$ 768,117</u>	<u>\$ 713,257</u>	<u>\$ 51,205</u>

See accompanying Notes to Financial Statements.

Business-Type Activities - Enterprise Funds			Governmental
Marina	Garbage	Totals	Activities - Internal
Fund	Fund		Service Funds
\$ 1,898,694	\$ 519,876	\$ 17,541,776	\$ 442,394
(436,457)	(21,988)	(1,636,703)	(853)
<u>(360,659)</u>	<u>(551,185)</u>	<u>(12,345,858)</u>	<u>(465,213)</u>
1,101,578	(53,297)	3,559,215	(23,672)
(145,922)	-	(173,031)	21,608
<u>(616,122)</u>	-	<u>(816,122)</u>	-
(762,044)	-	(989,153)	21,608
-	-	48,755	-
(25,633)	-	(343,316)	-
-	-	223,556	-
-	-	(13,911)	-
-	-	-	-
-	-	-	-
(3,483)	-	(243,062)	-
<u>(235,000)</u>	-	<u>(897,936)</u>	-
(264,116)	-	(1,225,914)	-
77,325	3,393	182,735	2,064
-	-	(207,200)	-
<u>77,325</u>	<u>3,393</u>	<u>(24,465)</u>	<u>2,064</u>
152,743	(49,904)	1,319,683	-
<u>5,574,448</u>	<u>236,940</u>	<u>12,192,553</u>	-
<u>\$ 5,727,191</u>	<u>\$ 187,036</u>	<u>\$ 13,512,236</u>	<u>\$ -</u>

**CITY OF LAKE CITY, MINNESOTA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS (CONTINUED)
 YEAR ENDED DECEMBER 31, 2015**

	Business-Type Activities - Enterprise Funds			
	Electric Fund	Water Fund	Sewer Fund	Storm Water Fund
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ 1,431,073	\$ 41,874	\$ 283,429	\$ (65,063)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Depreciation	502,523	134,953	442,978	119,897
Other	(12,994)	-	-	213
(Increase) Decrease in				
Accounts Receivable	(471,003)	(12,603)	(12,965)	(1,844)
Inventories	101,580	-	-	-
Prepaid Expenses	666	253	778	130
Increase (Decrease) in				
Accounts Payable	12,787	2,311	(45,441)	(711)
Accrued Liabilities	23,842	247	98	(499)
Pension Related	13,924	3,605	4,700	533
Compensated Absences	2,195	1,018	1,918	-
Customer Deposits	6,532	-	-	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,611,125</u>	<u>\$ 171,658</u>	<u>\$ 675,495</u>	<u>\$ 52,656</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES				
Amortization of Bond Discount	\$ 3,329	\$ 1,220	\$ -	\$ 1,220

See accompanying Notes to Financial Statements.

<u>Business-Type Activities - Enterprise Funds</u>			<u>Governmental</u>
<u>Marina</u>	<u>Garbage</u>		<u>Activities - Internal</u>
<u>Fund</u>	<u>Fund</u>	<u>Totals</u>	<u>Service Funds</u>
\$ 925,547	\$ (60,590)	\$ 2,556,270	\$ (19,557)
152,566	-	1,352,917	-
2,000	4,420	(6,361)	1,071
(694)	(1,679)	(500,788)	-
-	-	101,580	-
6,346	41	8,214	67
6,841	514	(23,699)	(5,253)
1,431	3,527	28,646	-
6,290	470	29,522	-
1,251	-	6,382	-
-	-	6,532	-
<u>\$ 1,101,578</u>	<u>\$ (53,297)</u>	<u>\$ 3,559,215</u>	<u>\$ (23,672)</u>
\$ 2,200	\$ -	\$ 7,969	\$ -

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**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Reporting Entity

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

Accounting Principles Generally Accepted in the United States of America (GAAP) require that the City's financial statements include all funds, departments, agencies, boards, commissions, and other organizations which are not legally separate from the City. In addition, the City's financial statements are to include all component units – entities for which the City is financially accountable.

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

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

Discrete Presentation

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

Excluded Units

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

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The City reports the following major governmental funds:

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

The *library fund* accounts for the operation of the municipal library.

The City reports the following major proprietary funds:

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

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

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

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

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

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

Additionally, the government reports the following fund type:

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

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

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

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Budgets and Budgetary Accounting

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

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

1. The Finance Director submits a proposed operating budget to the City Council prior to the end of each year for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through the passage of a budget resolution.
4. Formal budgetary integration is employed as a management control device during the year for the General Fund and the Library Special Revenue Fund.
5. The City's department heads may make transfer of appropriation with approval of the City Council.

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

Cash and Investments

The City maintains all deposits in bank accounts in the name of the City. The deposits needed for day to day operations are invested on a short-term basis. Deposits not needed for short-term cash flows are invested according to the City's investment policy. Interest income is allocated to each fund based upon their relative cash balance.

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Cash and Investments (Continued)

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

Cash with Escrow Agent

Cash with escrow agent represent cash placed in an escrow account with Northland Trust Services for the cross-over refunding of the General Obligation Bonds, Series 2008A on February 1, 2016.

Property Taxes

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

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

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

Special Assessments

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

Short-Term Interfund Receivables and Payables

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

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Prepaid Expenditures

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

Property Held for Resale

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

Inventories

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

Property, Plant and Equipment

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

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

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

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

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

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

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 is June 30. For this purpose, plan contributions are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

For purposes of measuring the net pension asset, deferred outflows/inflows of resources, and expense associated with the City's requirement to contribute to the Lake City Fire Department Relief Association Plan, information about the Plan's fiduciary net position and additions to/deductions from the Lake City Fire Department Relief Association Plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, plan contributions are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 inflow of resources occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the City's year) under the modified accrual basis of accounting. Pension related deferred inflows are recorded in the current year, but the revenue will be recorded in subsequent years.

Net Position/Fund Balance

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

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

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

Unrestricted Net Position – This amount is all net position that does not meet the definition of "invested in capital assets, net of related debt" or "restricted net position."

The City classifies governmental fund balances as follows:

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

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

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

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Net Position/Fund Balance (Continued)

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

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

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

Interfund Transactions

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

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Deficit Fund Balances

Certain funds had deficit fund balances at December 31, 2015, as follows:

Special Revenue Funds:

Library	\$ (182,856)
New Highway 61 Coalition	(5,085)

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

**CITY OF LAKE CITY, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2015**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

Excess of Expenditures Over Budget

Expenditures exceeded budgeted amounts in the following fund:

	Budget	Actual
General Fund	\$ 4,938,821	\$ 5,388,636
Special Revenue Funds:		
Library	\$ 1,880,117	\$ 2,053,913

NOTE 3 CASH AND INVESTMENTS

Deposits

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

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

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

Minnesota Statutes require that all City deposits be protected by insurance, surety bond or collateral. The market value of the collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds. The City’s deposits in the depository banks at December 31, 2015 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

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

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Investments

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

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

Interest Rate Risk

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

Investment	Fair Value	12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Money Market Mutual Funds	\$ 3,471,019	\$ 3,471,019	\$ -	\$ -	\$ -
Mutual Funds	7,972	7,972	-	-	-
Negotiable CD's	9,466,864	1,549,526	303,768	5,139,265	2,474,305
US Treasury Bonds	63,733	-	-	-	63,733
Federal Home Loan Bank	500,618	-	-	-	500,618
Federal National Mortgage Association Notes	946,160	-	-	-	946,160
Federal Home Loan Mortgage Corp	1,495,650	-	-	1,495,650	-
Total	<u>\$ 15,952,016</u>	<u>\$ 5,028,517</u>	<u>\$ 303,768</u>	<u>\$ 6,634,915</u>	<u>\$ 3,984,816</u>

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Credit Risk

The City's investment policy limits its investment choices to those authorized by Minnesota Statute. The City's investment policy further limits investment choices by excluding reverse repurchase agreements and futures and options contract which are allowed under Minnesota Statute. In addition, the City's investment policy does not allow trading securities for speculation or realization of short-term gain or contract providing for compensation of an agent or fiduciary based upon the performance of the investment. As of December 31, 2015, the City's investments in United States Treasury Notes and Bonds were rated AAA by Moody's Investor Services; the investments in Federal Home Loan Bank obligations were rated AA+ and AAA by Standard & Poor's and Moody's Investor Services, respectively; the investments in Federal National Mortgage Association Notes obligations were rated AA+ and AAA by Standard & Poor's and Moody's Investor Services, respectively; the investments in Federal Home Loan Mortgage Corporate Notes were AA+ and AAA by Standard & Poor's and Moody's Investor Services, respectively. As of December 31, 2015, the City had invested \$3,471,019 in Money Market Mutual Funds which are unrated and \$7,972 in Mutual Funds which are unrated. Additionally, the City invested \$9,466,864 in negotiable certificates of deposit which are not rated.

Concentration of Credit Risk

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

Investment	Percent of Total
Federal Home Loan Mortgage Corporation	9%
Federal National Mortgage Association Notes	6%

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

Deposits	\$ 4,536,255
Cash with Escrow Agent	889,200
Investments	15,952,016
Total Cash and Investments	\$ 21,377,471
Cash and Investments	\$ 20,488,271
Cash with Escrow Agent	889,200
Cash and Investments Per Statement of Net Position	\$ 21,377,471

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 LOANS RECEIVABLE

Community Development Revolving Loan Fund

As part of the City's community development block grant program, the City has issued commercial rehabilitation loans to various individual businesses to be repaid in monthly installments with interest at 6 to 8% over a period of three to five years with a balloon payment required at maturity. Aggregate outstanding balances on these loans as of December 31, 2015 totaled \$77,472.

MIF Loan

The City entered into an economic development loan agreement with a local manufacturer. The loan is noninterest bearing and is being repaid at \$4,550 per month. A portion of the loan was forgivable and the conditions have been met. The remaining portion at December 31, 2015 is \$40,950. As part of the agreement with the Minnesota Investment Grant Fund, the amounts received on this loan must be remitted to the state. The amount due to the State of Minnesota at December 31, 2015 is \$40,950.

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities:					
Capital Assets, Not Being Depreciated:					
Land	\$ 1,351,940	\$ -	\$ -	\$ -	\$ 1,351,940
Construction in Progress	88,413	1,776,347	-	(88,413)	1,776,347
Total Capital Assets, Not Being Depreciated	1,440,353	1,776,347	-	(88,413)	3,128,287
Capital Assets, Being Depreciated:					
Buildings	12,309,504	284,185	-	88,413	12,682,102
Improvements Other than Buildings	447,083	27,818	-	-	474,901
Infrastructure	17,369,086	274,480	-	-	17,643,566
Machinery and Equipment	5,282,847	420,070	25,801	-	5,677,116
Total Capital Assets, Being Depreciated	35,408,520	1,006,553	25,801	88,413	36,477,685
Less Accumulated Depreciation For:					
Buildings	6,490,401	237,652	-	-	6,728,053
Improvements Other than Buildings	149,865	20,207	-	-	170,072
Infrastructure	7,863,216	480,231	-	-	8,343,447
Machinery and Equipment	3,864,972	274,531	22,250	-	4,117,253
Total Accumulated Depreciation	18,368,454	1,012,621	22,250	-	19,358,825
Total Capital Assets, Being Depreciated, Net	17,040,066	(6,068)	3,551	88,413	17,118,860
Governmental Activities Capital Assets, Net	\$ 18,480,419	\$ 1,770,279	\$ 3,551	\$ -	\$ 20,247,147

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5 CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-Type Activities:					
Capital Assets, Not Being Depreciated:					
Land	\$ 742,801	\$ -	\$ -	\$ -	\$ 742,801
Total Capital Assets, Not Being Depreciated	742,801	-	-	-	742,801
Capital Assets, Being Depreciated:					
Buildings and Improvements	14,902,983	-	-	-	14,902,983
Distribution and Collection System	23,787,711	292,100	-	-	24,079,811
Machinery and Equipment	3,737,145	51,215	-	-	3,788,360
Total Capital Assets, Being Depreciated	42,427,839	343,315	-	-	42,771,154
Less Accumulated Depreciation For:					
Buildings and Improvements	7,316,518	436,385	-	-	7,752,903
Distribution and Collection System	11,834,960	779,347	-	-	12,614,307
Machinery and Equipment	2,879,479	137,186	-	-	3,016,665
Total Accumulated Depreciation	22,030,957	1,352,918	-	-	23,383,875
Total Capital Assets, Being Depreciated, Net	20,396,882	(1,009,603)	-	-	19,387,279
Business-Type Activities Capital Assets, Net	<u>\$ 21,139,683</u>	<u>\$ (1,009,603)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,130,080</u>
	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Discretely Presented Component Unit					
Economic Development Authority:					
Capital Assets, Being Depreciated:					
Machinery and Equipment	\$ 63,380	\$ -	\$ -	\$ -	\$ 63,380
Total Capital Assets, Being Depreciated	63,380	-	-	-	63,380
Less Accumulated Depreciation For:					
Machinery and Equipment	63,380	-	-	-	63,380
Total Accumulated Depreciation	63,380	-	-	-	63,380
Total Capital Assets, Being Depreciated, Net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General Government	\$ 261,941
Public Safety	204,257
Streets and Highways	494,646
Culture and Recreation	51,777
Total Depreciation Expense - Governmental Activities	<u>\$ 1,012,621</u>
Business-Type Activities:	
Electric	\$ 502,524
Water	134,953
Sewer	442,978
Storm Water	119,897
Marina	152,566
Total Depreciation Expense - Business-Type Activities	<u>\$ 1,352,918</u>

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 6 INTERFUND BALANCES AND TRANSFERS

The amounts advanced to and advanced from other funds as of December 31, 2015 at the individual fund level are summarized below:

	<u>Advances to Other Funds</u>	<u>Advances From Other Funds</u>
Governmental Fund		
General Fund	\$ 55,000	\$ 549,980
Enterprise Funds		
Electric	238,763	-
Storm Water	-	100,000
Marina	411,217	55,000
Total Enterprise Funds	<u>649,980</u>	<u>155,000</u>
	<u>\$ 704,980</u>	<u>\$ 704,980</u>

Balances of interfund receivables and payables as of December 31, 2015 at the individual fund level for year-end cash deficiencies are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Governmental Funds		
General Fund	\$ 242,657	\$ -
Nonmajor Governmental Funds	-	216,374
Total Governmental Funds	<u>242,657</u>	<u>216,374</u>
Enterprise Fund		
Internal Service Fund	-	26,283
Total Enterprise Funds	<u>-</u>	<u>26,283</u>
	<u>\$ 242,657</u>	<u>\$ 242,657</u>

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

Operating transfers during the year ended December 31, 2015 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds		
General Fund	\$ 766,122	\$ (405,760)
Library Fund	50,000	-
Nonmajor Governmental Funds	411,828	(6,068)
Total Governmental Funds	<u>1,227,950</u>	<u>(411,828)</u>
Enterprise Funds		
Electric	-	(155,000)
Water	-	(45,000)
Marina	-	(616,122)
Total Enterprise Funds	<u>-</u>	<u>(816,122)</u>
	<u>\$ 1,227,950</u>	<u>\$ (1,227,950)</u>

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 7 LONG-TERM DEBT

A summary of long-term debt obligations outstanding at December 31, 2015 is as follows:

	<u>Range of Interest Rates</u>	<u>Final Maturity</u>	<u>Balance December 31, 2015</u>
<u>Government Activities</u>			
G.O. Improvement Bonds:			
G.O. Improvement Bonds of 2008A	4.00%-4.60%	2024	\$ 740,965
G.O. Improvement Bonds of 2012A	0.4%-2.15%	2023	1,150,000
G.O. Improvement Bonds of 2013A	1.00%-2.35%	2024	1,430,000
G.O. Refunding Bonds of 2013B	1.5%-2.5%	2022	285,000
G.O Crossover Refunding Bonds of 2015A	2.00%	2024	700,000
Plus: Unamortized Premiums			11,796
Less: Unamortized Discounts			(17,177)
Compensated Absences			239,605
Subtotal			<u>4,540,189</u>
<u>Business-Type Activities</u>			
G.O. Improvement Bonds:			
G.O. Improvement Bonds of 2008A	4.00%-4.60%	2024	\$ 229,032
G.O Crossover Refunding Bonds of 2015A	2.00%	2024	220,000
Revenue Bonds:			
Electric Revenue Bonds of 2010B	.85%-4.85%	2026	2,385,000
General Obligation Revenue Bonds:			
G.O. Utility Revenue Bonds of 2010A	2%-3.75%	2026	900,000
G.O. Revenue Loans:			
Public Facilities Loan of 1996	3.32%	2017	149,852
Public Facilities Loan of 1999	2.86%	2020	366,000
Public Facilities Loan of 2002	2.99%	2023	2,287,000
Plus: Unamortized Premiums			3,556
Less: Unamortized Discounts			(80,929)
Compensated Absences			191,583
Subtotal			<u>6,651,094</u>
Total			<u>\$ 11,191,283</u>

General Obligation Improvement Bonds

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

Revenue Bonds

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

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 7 LONG-TERM DEBT (CONTINUED)

General Obligation Utility Revenue Bonds

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

General Obligation Revenue Loans

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

General Obligation Refunding Bonds

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

General Obligation Crossover Refunding Bonds

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.

The following is a summary of changes in long-term debt obligations for the year ended December 31, 2015:

	Beginning Balance	Issuances	Payments	Ending Balance	Amount Due Within One Year
Governmental Activities					
Bonds and Notes Payable:					
General Obligation Bonds					
G.O. Improvement Bonds of 2008A	\$ 805,897	\$ -	\$ 64,932	\$ 740,965	\$ 68,751
Less: Unamortized Discount	(13,173)	-	(1,463)	(11,710)	-
G.O. Improvement Bonds of 2012A	1,285,000	-	135,000	1,150,000	140,000
Less: Unamortized Discount	(6,248)	-	(781)	(5,467)	-
G.O. Improvement Bonds of 2013A	1,580,000	-	150,000	1,430,000	150,000
G.O. Refunding Bonds of 2013B	325,000	-	40,000	285,000	40,000
G.O Crossover Refunding Bonds of 2015A	-	700,000	-	700,000	-
Plus: Unamortized Premium	-	11,796	-	11,796	-
Other Liabilities:					
Compensated Absences	253,298	-	13,693	239,605	-
Governmental Activities					
Long-Term Liabilities	4,229,774	711,796	401,381	4,540,189	398,751

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 7 LONG-TERM DEBT (CONTINUED)

	Beginning Balance	Issuances	Payments	Ending Balance	Amount Due Within One Year
Business-Type Activities					
Bonds and Notes Payable:					
Revenue Bonds:					
Marina Revenue Bonds of 2006	\$ 235,000	\$ -	\$ 235,000	\$ -	\$ -
Electric Revenue Bonds of 2010B	2,550,000	-	165,000	2,385,000	170,000
Less: Unamortized Discount	(63,040)	-	(5,531)	(57,509)	-
General Obligation Revenue Bonds:					
G.O. Utility Revenue Bonds of 2010A	965,000	-	65,000	900,000	70,000
Less: Unamortized Discount	(25,860)	-	(2,440)	(23,420)	-
General Obligation Bonds:					
G.O. Improvement Bonds of 2008A	249,101	-	20,069	229,032	21,249
G.O Crossover Refunding Bonds of 2015A	-	220,000	-	220,000	-
Plus: Unamortized Premium	-	3,556	-	3,556	-
General Obligation Revenue Loans:					
Public Facilities Loan of 1996	245,718	-	95,866	149,852	99,075
Public Facilities Loan of 1999	433,000	-	67,000	366,000	69,000
Public Facilities Loan of 2002	2,537,000	-	250,000	2,287,000	257,000
Other Liabilities:					
Compensated Absences	185,202	6,381	-	191,583	-
Business-Type Activities					
Long-Term Liabilities	7,311,121	229,937	889,964	6,651,094	686,324
Total General Long-Term Debt	<u>\$ 11,540,895</u>	<u>\$ 941,733</u>	<u>\$ 1,291,345</u>	<u>\$ 11,191,283</u>	<u>\$ 1,085,075</u>

The annual requirements to amortize long-term debt obligations outstanding at December 31, 2015, excluding accrued compensated absences are summarized below:

Governmental Activities

Year Ending December 31:	General Obligation Bonds		Total
	Principal	Interest	
2016	\$ 398,751	\$ 86,479	\$ 485,230
2017	492,571	83,353	575,924
2018	491,390	74,962	566,352
2019	500,210	65,470	565,680
2020	505,210	54,881	560,091
2021-2024	1,917,833	97,763	2,015,596
Total	<u>\$ 4,305,965</u>	<u>\$ 462,908</u>	<u>\$ 4,768,873</u>

Business-Type Activities

Year Ending December 31:	General Obligation Bonds		General Obligation Revenue Loans		General Obligation Revenue Bonds		Revenue Bonds		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2016	\$ 21,249	\$ 13,142	\$ 425,075	\$ 83,009	\$ 70,000	\$ 27,792	\$ 170,000	\$ 97,848	\$ 908,115
2017	47,430	13,150	386,777	70,034	70,000	26,173	180,000	92,373	885,937
2018	48,610	11,683	346,000	59,237	70,000	24,336	185,000	86,118	830,984
2019	54,791	10,142	356,000	48,987	75,000	22,249	195,000	78,888	841,057
2020	49,791	8,451	368,000	38,440	80,000	19,874	205,000	70,734	840,290
2021-2025	227,161	16,544	921,000	55,615	435,000	58,167	1,175,000	207,886	3,096,373
2026	-	-	-	-	100,000	1,875	275,000	6,669	383,544
Total	<u>\$ 449,032</u>	<u>\$ 73,112</u>	<u>\$ 2,802,852</u>	<u>\$ 355,322</u>	<u>\$ 900,000</u>	<u>\$ 180,466</u>	<u>\$ 2,385,000</u>	<u>\$ 640,516</u>	<u>\$ 7,786,300</u>

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 8 COMMITMENTS AND CONTINGENCIES

Litigation

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

Federal and State Funds

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

Tax Increment Districts

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

Risk Management

The City is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries insurance for liability, property, and automotive insurance through the League of Minnesota Cities Insurance Trust (LMCIT). The City provides employee health insurance through a private insurance carrier. Settled claims resulting from these risks have not exceeded the insurance coverage in any of the past three years. There were no reductions in insurance coverage in 2015.

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 2015. The amount of any liability in excess of plan assets may be assessed to participating Cities in a method and amount determined by the LMCIT.

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 8 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Purchase Power Agreement

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

NOTE 9 DEFINED BENEFIT PENSION PLANS

Plan Description

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

1. General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the City are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. Public Employees Police and Fire Fund (PEPFF)

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

Benefits Provided

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

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 9 DEFINED BENEFIT PENSION PLANS (CONTINUED)

Benefits Provided (Continued)

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

1. GERF Benefits

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

2. PEPFF Benefits

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

Contributions

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

1. GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The City contributions to the GERF for the year ended December 31, 2015, were \$166,453. The City contributions were equal to the required contributions as set by state statute.

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 9 DEFINED BENEFIT PENSION PLANS (CONTINUED)

Contributions

2. PEPFF Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2015. The City was required to contribute 16.20% of pay for PEPFF members in calendar year 2015. The City contributions to the PEPFF for the year ended December 31, 2015, were \$110,006. The City contributions were equal to the required contributions as set by state statute.

Pension Costs

1. GERF Pension Costs

At December 31, 2015, the City was allocated by the plan a liability of \$2,187,023 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City proportion of the net pension liability was based on the City contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City proportion was 0.0422%.

For the year ended December 31, 2015, the City recognized pension expense of \$250,422 for its proportionate share of the GERF's pension expense.

At December 31, 2015, the City's proportionate share of GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following source is as follows:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	\$ -	\$ 110,263
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	207,035	-
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	-	123,309
City Contributions Subsequent to the Measurement Date	87,713	-
Total	<u>\$ 294,748</u>	<u>\$ 233,572</u>

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 9 DEFINED BENEFIT PENSION PLANS (CONTINUED)

Pension Costs (Continued)

1. GERF Pension Costs (Continued)

Of the deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date, \$87,713 will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	Pension Expense Amount
2016	\$ (26,099)
2017	(26,099)
2018	(26,099)
2019	51,760

2. PEPFF Pension Costs

At December 31, 2015, the City was allocated by the plan a liability of \$818,089 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City proportion of the net pension liability was based on the City contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City proportion was 0.072%.

For the year ended December 31, 2015, the City recognized pension expense of \$144,576 for its proportionate share of the PEPFF's pension expense. The City also recognized \$104,352 for the year ended December 31, 2015, as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's on-behalf contributions to the PEPFF. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the PEPFF each year, starting in fiscal year 2014.

At December 31, 2015, the City's proportionate share of PEPFF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources is as follows:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ -	\$ 132,667
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	142,538	-
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	18,001	-
City Contributions Subsequent to the Measurement Date	53,070	-
Total	\$ 213,609	\$ 132,667

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 9 DEFINED BENEFIT PENSION PLANS (CONTINUED)

Pension Costs (Continued)

2. PEPFF Pension Costs (Continued)

Of the deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date, \$53,070 will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	Pension Expense Amount
2016	\$ 12,701
2017	12,701
2018	12,701
2019	12,701
2020	(22,932)

Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per Year
Salary Increases	3.50% Average, Including Inflation
Investment Rate of Return	7.90%, Net of Pension Plan Investment Expense

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Benefit increases for retirees are assumed to be 1% effective every January 1st through 2026 and 2.5% thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GEF was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

The following changes in actuarial assumptions occurred in 2015: the discount rate was changed from 8.0% through June 30, 2017 and 8.5% thereafter to 8.0% for all years, the inflation assumption was changed from 3.0% to 2.75%, the payroll growth assumption was changed from 3.75% to 3.5%, assumed increases in member salaries were decreased by 0.25% at all ages and the assumed postretirement benefit increase rate was changed from 1.0% per year through 2026 and 2.5% thereafter to 1.0% per year through 2034 and 2.5% per year thereafter.

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 9 DEFINED BENEFIT PENSION PLANS (CONTINUED)

Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

Discount Rate

The discount rate used to measure the total pension liability was 7.9%. for GERF and PEPFF. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity

The following presents the City 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 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:

Description	1% Decrease (6.9%)	Current Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
City's Proportionate Share of the GERF Net Pension Liability	\$ 3,438,778	\$ 2,187,023	\$ 1,153,266
City's Proportionate Share of the PEPFF Net Pension Liability	1,594,463	818,089	176,668

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 9 DEFINED BENEFIT PENSION PLANS (CONTINUED)

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; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

NOTE 10 DEFINED BENEFIT PENSION PLAN – FIRE RELIEF ASSOCIATION

Plan Description

Firefighters of the City of Lake City are members of the Lake City Fire Department Relief Association. The Association is the administrator of the single-employer defined benefit pension plan available to firefighters. The plan is administered pursuant to Minnesota Statutes Chapter 69, Chapter 424A, and the Association's by-laws. As of December 31, 2014, membership includes 22 active participants and 7 terminated employees entitled to benefit but not yet receiving them. The plan issues a stand-alone financial statement.

Benefits Provided

Authority for payment of pension benefits is established in *Minnesota Statutes* §69.77 and may be amended only by the Minnesota State Legislature. Each member who is at least 50 years of age, has retired from the Fire Department, has served at least 20 years of active service with such department before retirement shall be entitled to a lump sum service pension in the amount of \$4,500 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 \$4,500 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.

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 10 DEFINED BENEFIT PENSION PLAN - FIRE RELIEF ASSOCIATION (CONTINUED)

Benefits Provided (Continued)

Minnesota Statutes Section 424A.10 provides for the payment of a supplemental benefit equal to 10% of a regular lump sum distribution up to a maximum of \$1,000. The supplemental benefit is in lieu of state income tax exclusion for lump sum distributions and will no longer be available if 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 (i.e. there are no covered payroll percentage calculations). 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 to the City \$52,031 in fire state aid paid by the City to the Relief Association for the year ended December 31, 2015. Required employer contributions are calculated annually based on statutory provisions. The City's statutorily-required contribution to the plan for the year ended December 31, 2015 was \$7,980.

Pension Costs

At December 31, 2015, the City reported an asset of \$289,473 for the Association's net pension asset. The net pension asset was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 10 DEFINED BENEFIT PENSION PLAN - FIRE RELIEF ASSOCIATION (CONTINUED)

Pension Costs (Continued)

As a result of its requirement to contribute to the Relief Association, the City recognized expense of \$23,458 for the year ended December 31, 2015. At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ -	\$ -
Changes in Actuarial Assumptions	-	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	-
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	-	9,904
City Contributions Subsequent to the Measurement Date	20,726	-
Total	<u>\$ 20,726</u>	<u>\$ 9,904</u>

The City contributions to the Association subsequent to the measurement date, \$20,726 reported as deferred outflows of resources will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to the Association's pension will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	<u>Pension Expense Amount</u>
2016	\$ (2,476)
2017	(2,476)
2018	(2,476)
2019	(2,476)

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 10 DEFINED BENEFIT PENSION PLAN - FIRE RELIEF ASSOCIATION (CONTINUED)

Actuarial Assumptions

The actuarial total pension liability was determined as of December 31, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	12/31/2014
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar Closed
Actuarial Assumptions:	
Discount Rate	7.00%
Investment Rate of Return	7.00%
20-Year Municipal Bond Yield	3.56%
Age of Service Retirement	50

The best-estimate of expected future real rates of return were developed by aggregating data from several published capital market assumption surveys and deriving a single best-estimate based on the average survey values. These capital market assumptions reflect both historical market experience as well as diverse views regarding anticipated future returns. The expected inflation assumption was developed based on an analysis of historical experience blended with forward-looking expectations available in market data.

Best estimates of geometric real and nominal rates of return for each major asset class included in the pension plan's asset allocation as of December 31, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	58%	5.52%
International Equity	0%	5.78%
Bonds	34%	2.12%
Alternative Assets	0%	4.12%
Cash	8%	0.82%
Totals	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. Assets were projected using expected benefit payments and expected asset returns. Expected benefit payments were discounted by year using expected assets return 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.

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 10 DEFINED BENEFIT PENSION PLAN - FIRE RELIEF ASSOCIATION (CONTINUED)

Pension Liability Sensitivity

The following presents the City of Lake City's proportionate share of the net pension liability of the Association, calculated using the discount rate of 7.00%, as well as what the Association's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

Description	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
Net Pension Liability (Asset)	\$ (258,186)	\$ (289,473)	\$ (319,138)

Plan's Fiduciary Net Position

Information about the Plan's fiduciary net position is as follows:

Assets

Cash and Investments	\$ 993,860
Accounts Receivable	2,000
Total Assets	<u>995,860</u>

Net Position

Unrestricted	<u>\$ 995,860</u>
--------------	-------------------

Revenues

State Aid (regular, supplemental and 10% reimbursement)	\$ 52,031
Municipal Contribution	20,725
Interest	72,741
Total Revenues	<u>145,497</u>

Expenses

Pension Distributions	(95,250)
Administrative	(20)
Total Expenses	<u>(95,270)</u>

Change in Net Position	50,227
Beginning Net Position	945,633
Ending Net Position	<u>\$ 995,860</u>

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 10 DEFINED BENEFIT PENSION PLAN - FIRE RELIEF ASSOCIATION (CONTINUED)

Plan's Fiduciary Net Position Continued

Information about the change in the Plan's net pension liability is as follows:

	<u>Measurement Date December 31, 2014</u>
<u>Total Pension Liability</u>	
Service Cost	\$ 36,947
Interest	49,328
Benefit Payments, Including Member Refunds	(95,250)
Net Change in Total Pension Liability	<u>(8,975)</u>
Total Pension Liability - Beginning	715,362
Total Pension Liability - Ending (a)	<u>706,387</u>
<u>Plan Fiduciary Net Position</u>	
Contributions - State and local	72,756
Net Investment Income	72,741
Benefit Payments	(95,250)
Administrative Expenses	(20)
Net Change in Fiduciary Net Position	<u>50,227</u>
Fiduciary Net Position - Beginning	<u>945,633</u>
Fiduciary Net Position - Ending (b)	<u>995,860</u>
Association's Net Pension Liability/(Asset) - Ending (a) - (b)	<u><u>\$ (289,473)</u></u>

NOTE 11 RESTATEMENT FOR A CHANGE IN ACCOUNTING PRINCIPLE

During the year ended December 31, 2015, the City adopted GASB Statement No. 68 *Accounting and Financial Reporting for Pensions* and the related GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. These pronouncements require the restatement of the December 31, 2014, net position as shown below.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net Position, December 31, 2014, as Previously Reported	\$ 21,947,359	\$ 27,277,978
Cumulative Affect of Application of GASB 68, Net Pension Liability	(1,691,372)	(981,142)
Cumulative Affect of Application of GASB 71, Deferred Outflow of Resources for City Contributions Made to the Plan After Measurement Period	118,632	39,079
Net Position, December 31, 2014, as Restated	<u><u>\$ 20,374,619</u></u>	<u><u>\$ 26,335,915</u></u>

**CITY OF LAKE CITY, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 11 RESTATEMENT FOR A CHANGE IN ACCOUNTING PRINCIPLE (CONTINUED)

	<u>Electric Fund</u>	<u>Water Fund</u>
Net Position, December 31, 2014, as Previously Reported	\$ 11,345,043	\$ 2,366,179
Cumulative Affect of Application of GASB 68, Net Pension Liability	(462,738)	(119,798)
Cumulative Affect of Application of GASB 71, Deferred Outflow of Resources for City Contributions Made to the Plan After Measurement Period	18,431	4,772
Net Position, December 31, 2014, as Restated	<u>\$ 10,900,736</u>	<u>\$ 2,251,153</u>

	<u>Sewer Fund</u>	<u>Storm Water Fund</u>
Net Position, December 31, 2014, as Previously Reported	\$ 2,696,177	\$ 1,425,712
Cumulative Affect of Application of GASB 68, Net Pension Liability	(156,196)	(17,732)
Cumulative Affect of Application of GASB 71, Deferred Outflow of Resources for City Contributions Made to the Plan After Measurement Period	6,221	706
Net Position, December 31, 2014, as Restated	<u>\$ 2,546,202</u>	<u>\$ 1,408,686</u>

	<u>Marina Fund</u>	<u>Garbage Fund</u>
Net Position, December 31, 2014, as Previously Reported	\$ 9,221,734	\$ 223,133
Cumulative Affect of Application of GASB 68, Net Pension Liability	(209,069)	(15,609)
Cumulative Affect of Application of GASB 71, Deferred Outflow of Resources for City Contributions Made to the Plan After Measurement Period	8,327	622
Net Position, December 31, 2014, as Restated	<u>\$ 9,020,992</u>	<u>\$ 208,146</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LAKE CITY, MINNESOTA
SCHEDULE OF CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

General Employees Retirement Fund (GERF)

Measurement Date	6/30/2015
City's Proportion of the Net Pension Liability	0.0422%
City's Proportionate Share of the Net Pension Liability	\$ 2,187,023
City's Covered-Employee Payroll	\$ 2,478,070
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll	88.26%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.20%

Public Employees Police & Fire Fund (PEPFF)

Measurement Date	6/30/2015
City's Proportion of the Net Pension Liability	0.0720%
City's Proportionate Share of the Net Pension Liability	\$ 818,089
City's Covered-Employee Payroll	\$ 662,842
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll	123.42%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.60%

**CITY OF LAKE CITY, MINNESOTA
SCHEDULE OF CITY PENSION CONTRIBUTIONS**

	2015	2014
General Employees Retirement Fund (GERF)		
Statutorily Required Contribution	\$ 166,453	\$ 148,967
Contributions in Relation to the Statutorily Required Contribution	(166,453)	(148,967)
Contribution Deficiency (Excess)	\$ -	\$ -
City's Covered-Employee Payroll	\$ 2,219,373	\$ 2,054,717
Contributions as a Percentage of Covered Employee Payroll	7.50%	7.25%
Public Employees Police & Fire Fund (PEPFF)		
Statutorily Required Contribution	\$ 110,006	\$ 99,525
Contributions in Relation to the Statutorily Required Contribution	(110,006)	(99,525)
Contribution Deficiency (Excess)	\$ -	\$ -
City's Covered-Employee Payroll	\$ 679,049	\$ 650,490
Contributions as a Percentage of Covered Employee Payroll	16.20%	15.30%

**CITY OF LAKE CITY, MINNESOTA
SCHEDULE OF CHANGES IN THE NET PENSION ASSET AND
RELATED RATIOS – FIRE RELIEF ASSOCIATION**

	<u>Measurement Date December 31, 2014</u>
<u>Total Pension Liability</u>	
Service Cost	\$ 36,947
Interest	49,328
Benefit Payments, Including Member Refunds	(95,250)
Net Change in Total Pension Liability	<u>(8,975)</u>
Total Pension Liability - Beginning	715,362
Total Pension Liability - Ending (a)	<u>706,387</u>
<u>Plan Fiduciary Net Position</u>	
Contributions - State and local	72,756
Net Investment Income	72,741
Benefit Payments	(95,250)
Administrative Expenses	(20)
Net Change in Fiduciary Net Position	<u>50,227</u>
Fiduciary Net Position - Beginning	<u>945,633</u>
Fiduciary Net Position - Ending (b)	<u>995,860</u>
Association's Net Pension Liability/(Asset) - Ending (a) - (b)	<u><u>\$ (289,473)</u></u>
Fiduciary Net Position as a Percentage of the total pension Asset	140.98%
Covered-Employee Payroll	N/A
Net Pension Liability/(Asset) as a Percentage of Covered-Employee	N/A

COMBINING FUND STATEMENTS

**CITY OF LAKE CITY, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2015**

	New Highway 61 Coalition	Community Development Revolving Loan Fund	Business Development Revolving Loan Fund	Small Cities Development Program Fund
ASSETS				
Cash and Investments	\$ 4,245	\$ 389,623	\$ 175,021	\$ 19,256
Cash with Escrow Agent	-	-	-	-
Loans Receivable	-	77,472	-	-
Due From Other Governmental Units	-	-	-	-
Taxes Receivable Delinquent	-	-	-	-
Special Assessments Deferred	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 4,245</u>	<u>\$ 467,095</u>	<u>\$ 175,021</u>	<u>\$ 19,256</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 4,186	\$ -	\$ -	\$ -
Deposits Payable	5,144	-	-	-
Interfund Payables	-	-	-	-
Total Liabilities	<u>9,330</u>	<u>-</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	-	77,472	-	-
Total Deferred Inflows of Resources	<u>-</u>	<u>77,472</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Restricted for:				
Debt Service	-	-	-	-
Tax Increment Financing	-	-	-	-
Revolving Loans	-	389,623	175,021	19,256
Assigned for:				
Capital Projects	-	-	-	-
Unassigned	(5,085)	-	-	-
Total Fund Balances	<u>(5,085)</u>	<u>389,623</u>	<u>175,021</u>	<u>19,256</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 4,245</u>	<u>\$ 467,095</u>	<u>\$ 175,021</u>	<u>\$ 19,256</u>

Special Revenue Funds

Bergstad Housing TIF #1	Tax Increment #4 Downtown	Pepin Heights TIF #12	Block 25 Redevelopment TIF #13	Pepin Manufacturing TIF #14	HNT Expansion #3 TIF #15
\$ -	\$ 438,760	\$ -	\$ -	\$ 27,471	\$ 56,063
-	-	-	-	-	-
-	-	-	-	-	-
-	1,719	-	-	-	-
-	-	-	-	-	-
<u>\$ -</u>	<u>\$ 440,479</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,471</u>	<u>\$ 56,063</u>
\$ -	\$ 4,660	\$ -	\$ -	\$ 27,471	\$ 56,063
-	-	-	-	-	-
-	-	-	-	-	-
-	4,660	-	-	27,471	56,063
-	1,719	-	-	-	-
-	1,719	-	-	-	-
-	-	-	-	-	-
-	434,100	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ -</u>	<u>\$ 440,479</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,471</u>	<u>\$ 56,063</u>

**CITY OF LAKE CITY, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET (CONTINUED)
DECEMBER 31, 2015**

	Debt Service Funds				
	316 Peters 4th and 5th Street Improvement	2006 Street Improvement	2008 Street Improvement	2013A Improvement Bonds	2012 Street Improvement
ASSETS					
Cash and Investments	\$ 16,062	\$ 49,379	\$ 225,278	\$ 188,534	\$ 159,309
Cash with Escrow Agent	-	-	682,000	-	-
Loans Receivable	-	-	-	-	-
Due From Other Governmental Units	-	-	-	-	-
Taxes Receivable Delinquent	-	439	1,309	1,550	1,521
Special Assessments Deferred	5,439	78,931	-	-	-
	<u>5,439</u>	<u>78,931</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 21,501</u>	<u>\$ 128,749</u>	<u>\$ 908,587</u>	<u>\$ 190,084</u>	<u>\$ 160,830</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -
Deposits Payable	-	-	-	-	-
Interfund Payables	-	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue	5,439	79,370	1,309	1,550	1,521
Total Deferred Inflows of Resources	<u>5,439</u>	<u>79,370</u>	<u>1,309</u>	<u>1,550</u>	<u>1,521</u>
FUND BALANCES					
Restricted for:					
Debt Service	16,062	49,379	907,278	188,534	159,309
Tax Increment Financing	-	-	-	-	-
Revolving Loans	-	-	-	-	-
Assigned for:					
Capital Projects	-	-	-	-	-
Unassigned	-	-	-	-	-
Total Fund Balances	<u>16,062</u>	<u>49,379</u>	<u>907,278</u>	<u>188,534</u>	<u>159,309</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 21,501</u>	<u>\$ 128,749</u>	<u>\$ 908,587</u>	<u>\$ 190,084</u>	<u>\$ 160,830</u>

Capital Project Funds

2009 7th Street Improvement	2012 Improvement Fund	2013 Street Improvement	Monroe Street Improvement Fund	Capital Projects	Total Other Governmental Funds
\$ 33,494	\$ 78,561	\$ 95,799	\$ -	\$ 790,109	\$ 2,746,964
-	-	-	-	-	682,000
-	-	-	-	-	77,472
-	-	-	255,161	-	255,161
-	-	-	-	-	6,538
-	-	-	-	-	84,370
<u>\$ 33,494</u>	<u>\$ 78,561</u>	<u>\$ 95,799</u>	<u>\$ 255,161</u>	<u>\$ 790,109</u>	<u>\$ 3,852,505</u>
\$ -	\$ -	\$ -	\$ -	\$ 6,806	\$ 99,186
-	-	-	-	-	5,144
-	-	-	216,374	-	216,374
-	-	-	216,374	6,806	320,704
-	-	-	-	-	168,380
-	-	-	-	-	168,380
-	-	-	-	-	1,320,562
-	-	-	-	-	434,100
-	-	-	-	-	583,900
33,494	78,561	95,799	38,787	783,303	1,029,944
-	-	-	-	-	(5,085)
<u>33,494</u>	<u>78,561</u>	<u>95,799</u>	<u>38,787</u>	<u>783,303</u>	<u>3,363,421</u>
<u>\$ 33,494</u>	<u>\$ 78,561</u>	<u>\$ 95,799</u>	<u>\$ 255,161</u>	<u>\$ 790,109</u>	<u>\$ 3,852,505</u>

**CITY OF LAKE CITY, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2015**

	Special Revenue Funds					
	New Highway 61 Coalition	Community Development Revolving Loan Fund	Business Development Revolving Loan Fund	Small Cities Development Program Fund	Bergstad Housing TIF #1	Tax Increment #4 Downtown
REVENUES						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Tax Increments	-	-	-	-	-	111,533
Special Assessments	-	-	-	-	-	-
Earnings on Investments	57	5,163	2,486	273	-	5,644
Miscellaneous	-	36,261	-	-	-	-
Total Revenues	<u>57</u>	<u>41,424</u>	<u>2,486</u>	<u>273</u>	<u>-</u>	<u>117,177</u>
EXPENDITURES						
Economic Development	26,980	1,008	-	-	2,180	5,460
Debt Service						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-
Total Expenditures	<u>26,980</u>	<u>1,008</u>	<u>-</u>	<u>-</u>	<u>2,180</u>	<u>5,460</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(26,923)	40,416	2,486	273	(2,180)	111,717
OTHER FINANCING SOURCES						
Transfers In	21,670	-	-	-	-	-
Transfers Out	-	-	-	-	-	(3,149)
Proceeds From Sale of Property	-	-	-	-	-	-
Bond Proceeds	-	-	-	-	-	-
Bond Premium	-	-	-	-	-	-
Total Other Financing Sources	<u>21,670</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,149)</u>
NET CHANGE IN FUND BALANCES	(5,253)	40,416	2,486	273	(2,180)	108,568
Fund Balances - Beginning of Year	168	349,207	172,535	18,983	2,180	325,532
FUND BALANCES - END OF YEAR	<u>\$ (5,085)</u>	<u>\$ 389,623</u>	<u>\$ 175,021</u>	<u>\$ 19,256</u>	<u>\$ -</u>	<u>\$ 434,100</u>

Special Revenue Funds

Pepin Heights TIF #12	Block 25 Redevelopment TIF #13	Pepin Manufacturing TIF #14	HNT Expansion #3 TIF #15
\$ -	\$ -	\$ -	\$ -
-	-	15,712	34,885
-	-	-	-
-	-	-	-
-	-	16,434	-
-	-	32,146	34,885
737	736	28,271	52,013
-	-	-	-
-	-	-	-
-	-	-	-
737	736	28,271	52,013
(737)	(736)	3,875	(17,128)
2,919	3,149	-	-
-	-	-	-
-	-	-	-
-	-	-	-
2,919	3,149	-	-
2,182	2,413	3,875	(17,128)
(2,182)	(2,413)	(3,875)	17,128
\$ -	\$ -	\$ -	\$ -

**CITY OF LAKE CITY, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES (CONTINUED)
YEAR ENDED DECEMBER 31, 2015**

	Debt Service Funds				
	316 Peters 4th and 5th Street Improvement	2006 Street Improvement	2008 Street Improvement	2013A Improvement Bonds	2012 Street Improvement
REVENUES					
Taxes	\$ -	\$ 34,213	\$ 109,422	\$ 186,303	\$ 167,815
Tax Increments	-	-	-	-	-
Special Assessments	3,256	16,373	-	-	-
Earnings on Investments	193	281	2,204	3,231	841
Miscellaneous	-	-	-	-	-
Total Revenues	3,449	50,867	111,626	189,534	168,656
EXPENDITURES					
Economic Development	-	-	-	-	-
Debt Service					
Principal	-	40,000	64,932	150,000	135,000
Interest	-	7,050	64,089	24,670	17,328
Miscellaneous	-	-	-	-	-
Capital Outlay	-	-	-	-	-
Total Expenditures	-	47,050	129,021	174,670	152,328
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,449	3,817	(17,395)	14,864	16,328
OTHER FINANCING SOURCES					
Transfers In	-	-	-	-	-
Transfers Out	-	-	-	-	-
Proceeds From Sale of Property	-	-	-	-	-
Bond Proceeds	-	-	700,000	-	-
Bond Premium	-	-	11,796	-	-
Total Other Financing Sources	-	-	711,796	-	-
NET CHANGE IN FUND BALANCES	3,449	3,817	694,401	14,864	16,328
Fund Balances - Beginning of Year	12,613	45,562	212,877	173,670	142,981
FUND BALANCES - END OF YEAR	\$ 16,062	\$ 49,379	\$ 907,278	\$ 188,534	\$ 159,309

Capital Project Funds

2009 7th Street Improvement	2012 Improvement Fund	2013 Street Improvement	Monroe Street Improvement Fund	Capital Projects	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 497,753
-	-	-	-	-	162,130
-	-	-	-	-	19,629
509	2,933	(2,569)	919	5,745	27,910
-	2,184	-	-	-	54,879
509	5,117	(2,569)	919	5,745	762,301
-	-	-	-	-	117,385
-	-	-	-	-	389,932
-	-	-	-	-	113,137
-	-	280	-	-	280
-	-	-	-	16,680	16,680
-	-	280	-	16,680	637,414
509	5,117	(2,849)	919	(10,935)	124,887
-	-	-	-	384,090	411,828
-	-	-	-	(2,919)	(6,068)
-	-	-	-	17,000	17,000
-	-	-	-	-	700,000
-	-	-	-	-	11,796
-	-	-	-	398,171	1,134,556
509	5,117	(2,849)	919	387,236	1,259,443
32,985	73,444	98,648	37,868	396,067	2,103,978
\$ 33,494	\$ 78,561	\$ 95,799	\$ 38,787	\$ 783,303	\$ 3,363,421

**CITY OF LAKE CITY, MINNESOTA
LIBRARY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE
IN FUND BALANCES – BUDGET AND ACTUAL – LIBRARY FUND
YEAR ENDED DECEMBER 31, 2015**

	Budgeted Amounts		2015 Actual	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
REVENUES				
Taxes	\$ 90,000	\$ 90,000	\$ 92,333	\$ 2,333
Intergovernmental Revenues	48,000	48,000	48,716	716
Charges for Services	2,500	2,500	2,087	(413)
Fines and Forfeits	4,500	4,500	3,369	(1,131)
Gifts and Contributions	73,000	77,650	267,660	190,010
Earnings on Investments	3,000	3,000	12,861	9,861
Miscellaneous	-	-	139	139
Total Revenues	<u>221,000</u>	<u>225,650</u>	<u>427,165</u>	<u>201,515</u>
EXPENDITURES				
Library Services	225,467	228,537	222,650	5,887
Capital Outlay	850,000	1,651,580	1,831,263	(179,683)
Total Expenditures	<u>1,075,467</u>	<u>1,880,117</u>	<u>2,053,913</u>	<u>(173,796)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(854,467)	(1,654,467)	(1,626,748)	27,719
OTHER FINANCING SOURCES				
Transfers In	600,000	600,000	50,000	(550,000)
NET CHANGE IN FUND BALANCE	(254,467)	(1,054,467)	(1,576,748)	(522,281)
Fund Balance - Beginning of Year	<u>1,393,892</u>	<u>1,393,892</u>	<u>1,393,892</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 1,139,425</u>	<u>\$ 339,425</u>	<u>\$ (182,856)</u>	<u>\$ (522,281)</u>

**CITY OF LAKE CITY, MINNESOTA
ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT
BALANCE SHEET – COMPONENT UNIT –
ECONOMIC DEVELOPMENT AUTHORITY
DECEMBER 31, 2015**

ASSETS

Cash and Investments	\$ 56,425
Prepaid Expenditures	869
Taxes Receivable Delinquent	871
Due From Primary Government	69,311
Due From Other Governmental Units	391
Property Held for Resale	235,000
Total Assets	\$ 362,867

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$ 61
Total Liabilities	61

DEFERRED INFLOWS OF RESOURCES

Unavailable Revenue	235,871
Total Deferred Inflows of Resources	235,871

FUND BALANCES

Restricted for:	
Economic Development	126,935
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 362,867

Fund Balances - Component Unit	\$ 126,935
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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
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Other long-term assets are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.	871
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Net Position - Component Unit	\$ 362,806
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**CITY OF LAKE CITY, MINNESOTA
ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2015**

REVENUES

Taxes	\$	79,212
Investment Income		14
Payment From Primary Government		30,900
Miscellaneous		7,815
Total Revenues		117,941

EXPENDITURES

Economic Development		93,438
Total Expenditures		93,438
Net Change in Fund Balances		24,503
Fund Balances - Beginning		102,432
Fund Balances - Ending	\$	126,935

Net Change in Fund Balance - Component Unit	\$	24,503
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Amounts reported for governmental activities in the statement of activities are different because:

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(144)
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Change in Net Position - Component Unit	\$	24,359
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OTHER REPORTS SECTION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lake City, State of Minnesota as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City of Lake City, Minnesota's basic financial statements and have issued our report thereon dated August 3, 2016.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in the accompanying schedule of findings and responses listed as items 2015-001 and 2015-002 to be material weaknesses.

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

Compliance and Other Matters

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

City of Lake City's Responses to Findings

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

Purpose of this Report

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



CliftonLarsonAllen LLP

Austin, Minnesota
August 3, 2016

INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

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 audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompany financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lake City, Minnesota as of and for the year ended December 31, 2015, and the related notes to the financial statements and have issued our report thereon dated August 3, 2016.

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

In connection with our audit, nothing came to our attention that caused us to believe that the City of Lake City, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as stated in the Schedule of Findings and Responses as item 2015-003. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Lake City, Minnesota's noncompliance with the above-referenced provisions.

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

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



CliftonLarsonAllen LLP

Austin, Minnesota
August 3, 2016

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**CITY OF LAKE CITY, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2015**

FINDING: 2015-001 ANNUAL FINANCIAL REPORTING UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

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

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

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

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

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

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

**CITY OF LAKE CITY, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2015**

**FINDING: 2015-001 ANNUAL FINANCIAL REPORTING UNDER GENERALLY ACCEPTED
ACCOUNTING PRINCIPLES (GAAP) (CONTINUED)**

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

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

Official Responsible for Ensuring CAP:

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

Planned Completion Date for CAP:

December 31, 2016

Plan to Monitor Completion of CAP:

The City Council will be monitoring this corrective action plan.

**CITY OF LAKE CITY, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2015**

FINDING: 2015-002 ADJUSTING JOURNAL ENTRIES

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

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

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

Official Responsible for Ensuring CAP:

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

Planned Completion Date for CAP:

December 31, 2016

Plan to Monitor Completion of CAP:

The City Council will be monitoring this corrective action plan.

**CITY OF LAKE CITY, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2015**

FINDING: 2015-003 UNCOLLATERALIZED DEPOSITS

Minnesota State Statute 118A.03 requires the City to have deposits in excess of FDIC or FSLIC insurance protected by a bond or collateral of which market value should be at least ten percent more than the excess deposits. The City did not have adequate collateral for its deposits at June 30, 2015.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding

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

Official Responsible for Ensuring CAP

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

Planned Completion Date for CAP

The completion date is immediately.

Plan to Monitor Completion of CAP

The City Council will be monitoring this corrective action plan.