

**CITY OF LAKE CITY, MINNESOTA**  
**FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**  
**YEAR ENDED DECEMBER 31, 2013**



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## **INTRODUCTORY SECTION**



**CITY OF LAKE CITY, MINNESOTA  
CITY OFFICIALS  
DECEMBER 31, 2013**

**ELECTED**

<u>Title</u>	<u>Name</u>	<u>Term Expires</u>
Mayor	Joel Beckman	01/14/17
Council	Marylou Waltman	01/14/17
Council	Phil Gartner	01/10/15
Council	Matt Powers	01/10/15
Council	Mark Spence	01/14/17
Council	Gene Durand	01/10/15
Council	Andru Peters	01/14/17

**APPOINTED**

City Administrator	Ron Johnson
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, 2013, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Honorable Mayor and  
Members of the City Council  
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, 2013, 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 the Correction of an Error***

As described in Note 12 to the financial statements, the City has restated its 2013 beginning net position for the Internal Service Fund and for the Governmental Activities. The City also has restated its 2013 beginning net position for the Electric Fund and for the Business-Type Activities. These restatements are due to an overstatement of expenses in the Internal Service Fund, and an understatement of revenue in the Electric Fund. Our opinion is unmodified 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, 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.

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.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 9, 2014, 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  
July 9, 2014

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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, 2013**

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, 2013. We encourage readers to consider the information presented here in conjunction with the City's financial statements.

**New Accounting Pronouncement.** The City implemented GASB 65, *Items Previously Reported as Assets and Liabilities*, in fiscal year 2013. This standard provides guidance related to certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources.

### **FINANCIAL HIGHLIGHTS**

- The assets of the City of Lake City exceeded its liabilities at the close of the most recent fiscal year by \$47,160,159 (*net position*). Of this amount, \$16,641,748 (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 \$3,273,047 primarily due to the transfer of the City Hall building from the EDA to the City upon payoff of the related bond and additional investments in capital assets.
- As of the close of the current fiscal year, the City of Lake City's governmental funds reported combined ending fund balances of \$6,377,943. Approximately 82 percent of this total amount, or \$5,232,201, 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 \$4,527,810 or 92 percent of total general fund expenditures.
- The City of Lake City total outstanding debt increased by \$562,068 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.

**CITY OF LAKE CITY, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2013**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

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

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

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

Additional financial information for the Economic Development Authority (EDA) can be found on pages 65-66. 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, 2013**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

The City of Lake City maintains twenty-four 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, 2013 Street Improvement Fund, and the Monroe Street Improvement 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 56-63 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 64) 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 35-55 of this report.

***Other information.*** The combining statements referred to earlier in connection with nonmajor governmental funds can be found on pages 56-63 of this report.

**CITY OF LAKE CITY, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2013**

**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 exceeded liabilities by \$47,160,159 at the close of the most recent fiscal year.

By far the largest portion of the City of Lake City's net position (62 percent) reflects its 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**

	2013			2012		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
<b>Assets</b>						
Current and Other	\$ 7,259,867	\$ 12,868,208	\$ 20,128,075	\$ 7,271,754	\$ 11,300,828	\$ 18,572,582
Capital Assets	19,016,924	22,275,736	41,292,660	15,649,136	23,352,770	39,001,906
Total Assets	26,276,791	35,143,944	61,420,735	22,920,890	34,653,598	57,574,488
<b>Liabilities</b>						
Long-Term Outstanding	4,190,389	7,283,900	11,474,289	3,026,492	8,999,110	12,025,602
Other	717,865	2,068,422	2,786,287	664,757	1,164,273	1,829,030
Total Liabilities	4,908,254	9,352,322	14,260,576	3,691,249	10,163,383	13,854,632
<b>Net Position</b>						
Invested in Capital Assets, Net of Related Debt	14,915,623	14,302,785	29,218,408	12,942,285	14,584,923	27,527,208
Restricted	1,300,003	-	1,300,003	928,161	-	928,161
Unrestricted	5,152,911	11,488,837	16,641,748	5,359,195	9,905,292	15,264,487
Total Net Position	\$ 21,368,537	\$ 25,791,622	\$ 47,160,159	\$ 19,229,641	\$ 24,490,215	\$ 43,719,856

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* (\$16,641,748) 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 \$2,094,405.

**Business-type activities.** Business-type activities increased the City of Lake City's net position by \$1,178,642.

**CITY OF LAKE CITY, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2013**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

A condensed version of the Statement of Activities follows:

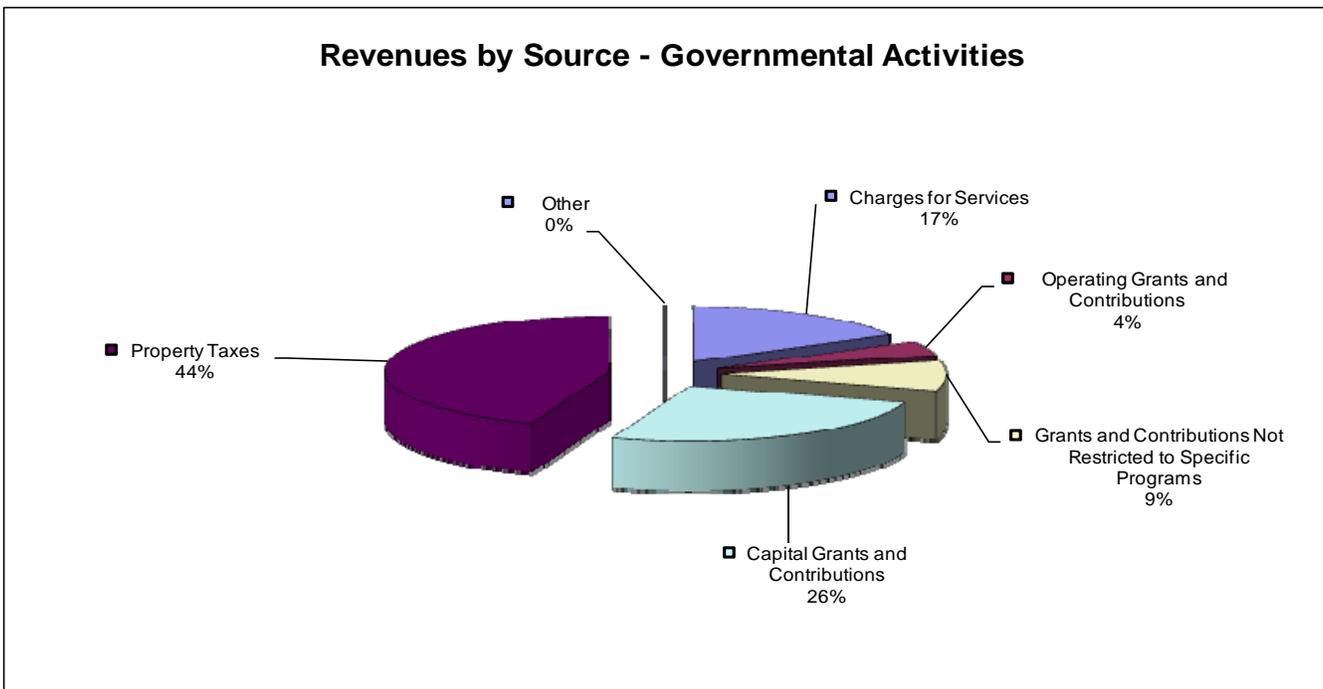
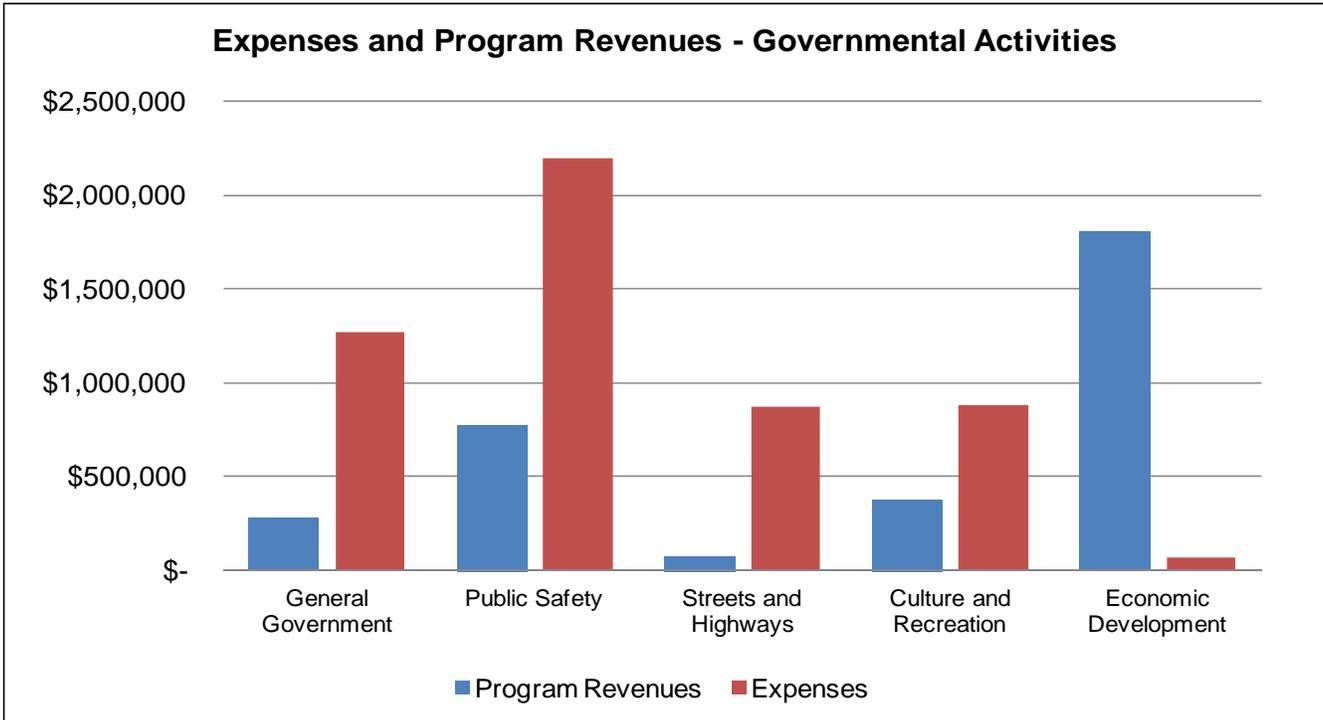
**City of Lake City Change in Net Position**

	2013			2012		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
<b>Revenues</b>						
Program Revenues						
Charges for Services	\$ 1,185,943	\$ 17,974,412	\$ 19,160,355	\$ 902,642	\$ 17,652,923	\$ 18,555,565
Operating Grants And Contributions	305,644	-	305,644	1,507,493	-	1,507,493
Capital Grants & Contributions	1,812,508	15,361	1,827,869	21,353	30,024	51,377
General Revenues						
Property Taxes	2,941,610	-	2,941,610	2,888,083	-	2,888,083
Tax Increments	180,274	-	180,274	178,448	-	178,448
Grants & Contributions not Restricted to Specific Programs	610,467	-	610,467	610,465	-	610,465
Other	3,592	(57,555)	(53,963)	168,337	99,592	267,929
Total Revenues	7,040,038	17,932,218	24,972,256	6,276,821	17,782,539	24,059,360
<b>Expenses</b>						
General Government	1,267,526	-	1,267,526	928,497	-	928,497
Public Safety	2,198,180	-	2,198,180	2,002,344	-	2,002,344
Streets and Highways	868,330	-	868,330	891,333	-	891,333
Culture and Recreation	879,111	-	879,111	678,370	-	678,370
Economic Development	66,847	-	66,847	100,137	-	100,137
Interest on Long-Term Debt	133,358	-	133,358	57,257	-	57,257
Unallocated Utilities and Ins.	-	-	-	334,489	-	334,489
Electric	-	12,461,745	12,461,745	-	12,081,830	12,081,830
Water	-	668,457	668,457	-	695,990	695,990
Sewer	-	1,416,946	1,416,946	-	1,303,824	1,303,824
Storm Water	-	209,134	209,134	-	210,788	210,788
Marina	-	988,508	988,508	-	1,144,308	1,144,308
Garbage	-	541,067	541,067	-	450,685	450,685
Total Expenses	5,413,352	16,285,857	21,699,209	4,992,427	15,887,425	20,879,852
Increase in Net Position Before Transfers and Other	1,626,686	1,646,361	3,273,047	1,284,394	1,895,114	3,179,508
Transfers	467,719	(467,719)	-	590,471	(590,471)	-
Increase in Net Position	2,094,405	1,178,642	3,273,047	1,874,865	1,304,643	3,179,508
Net Position - As Previously Stated	19,229,641	24,490,215	43,719,856	17,354,776	23,185,572	40,540,348
Prior Period Adjustment	44,491	122,765	167,256	-	-	-
Net Position - As Restated	19,274,132	24,612,980	43,887,112	17,354,776	23,185,572	40,540,348
Net Position - End of Year	\$ 21,368,537	\$ 25,791,622	\$ 47,160,159	\$ 19,229,641	\$ 24,490,215	\$ 43,719,856

**CITY OF LAKE CITY, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2013**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

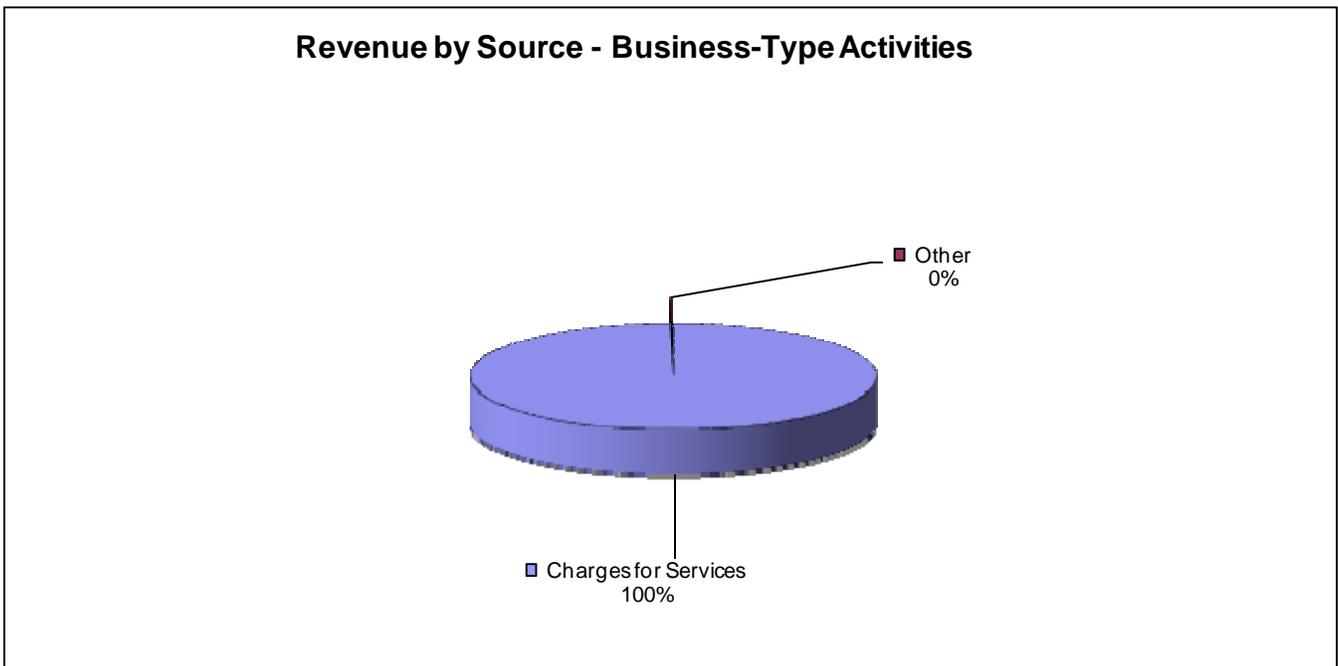
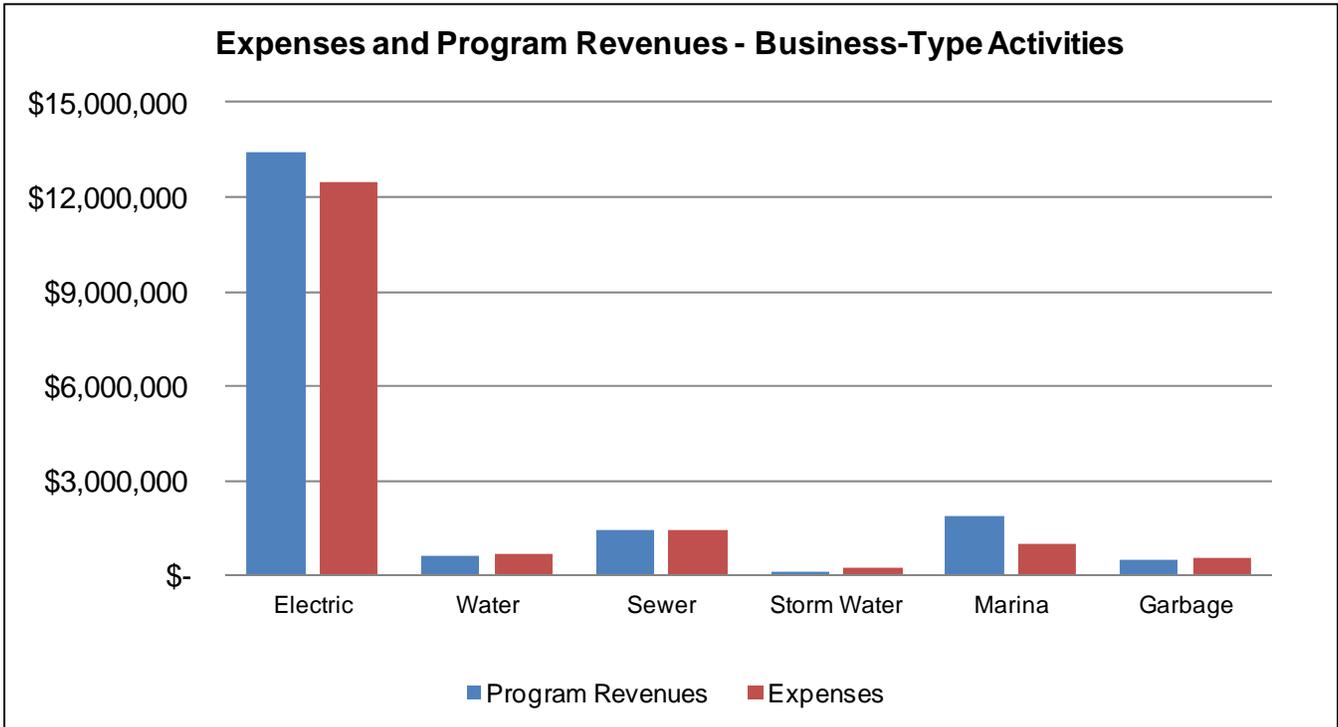
Below are specific graphs that provide comparisons of the governmental activities direct program revenues with their expenses. Any shortfalls in direct revenues are primarily supported by property tax levy or general state aid.



**CITY OF LAKE CITY, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2013**

**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, 2013**

**FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

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

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

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

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

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

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

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

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

As of the end of the current fiscal year, the City of Lake City's governmental funds reported combined ending fund balances of \$6,377,943, an increase of \$352,188. Approximately 75 percent of this total amount, or \$4,814,908, constitutes *unassigned or assigned fund balance*, which is available for spending at the government's discretion. Approximately 1 percent of this total amount, or \$417,293, is *committed* for the purpose of being used for the Library. The remainder of the total fund balance (\$1,145,742) 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 \$4,527,810. 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 92 percent of total general fund expenditures.

**CITY OF LAKE CITY, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2013**

**FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (CONTINUED)**

The general fund's total fund balance increased by \$339,354 during the current fiscal year. This year's increase was primarily due to an increase in the transfers into the general fund from other funds.

The 2013 Street Improvement Fund fund balance increased \$108,555, which is the extent that bond proceeds exceeded the construction costs for that project.

The Monroe Street Improvement Fund decreased \$56,010 as the project was completed in 2013 with the remaining costs incurred during the year.

The debt service funds have a total fund balance of \$412,521 all of which is restricted for the payment of debt service. These fund balances increased by \$173,651 which is mainly due to additional property tax collections.

**Proprietary funds.** The City of Lake City's proprietary funds unrestricted balance are Electric - \$4,653,995, Water - \$824,214, Sewer - \$626,207, Storm Water – (\$23,743), Marina - \$5,165,317, and Garbage - \$242,847. All funds, except the water fund, storm water fund, and garbage fund, had increases in total net position for the year. The water fund and storm water fund's decrease in net position for the year of \$84,035 and \$106,378 respectively, were primarily due to depreciation which has not been factored in to the water or storm water fund user rates. The garbage fund had a decrease in net position of \$19,395.

**General Fund Budgetary Highlights**

The original 2013 general fund budget approved by the City anticipated an increase in general fund reserves of \$296,230. All differences between the original and final budgets in the general fund for the City in 2013 were approved by resolution amending the original budget. Select unspent budgeted amounts from 2012 were carried over to the 2013 budget by resolution.

**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, 2013, amounts to \$41,292,660 (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 \$2,290,754, or 6 percent.

**CITY OF LAKE CITY, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2013**

**FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS (CONTINUED)**

**City of Lake City's Capital Assets**

	Capital Assets December 31, 2013	Capital Assets December 31, 2012
	<u>                    </u>	<u>                    </u>
<b>Governmental Activities</b>		
Land	\$ 1,351,940	\$ 1,303,791
Buildings and Improvements	6,369,780	4,596,216
Machinery and Equipment	1,311,503	969,382
Infrastructure	9,983,701	8,779,747
Total	<u>19,016,924</u>	<u>15,649,136</u>
<b>Business-Type Activities</b>		
Land	742,801	742,801
Buildings and Improvements	8,030,392	8,481,488
Machinery and Equipment	992,917	1,109,340
Distribution and Collection System	12,509,626	13,019,141
Total	<u>22,275,736</u>	<u>23,352,770</u>
Total Capital Assets	<u>\$ 41,292,660</u>	<u>\$ 39,001,906</u>

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 \$12,187,114 in bonds and notes outstanding. Of this amount, \$9,201,784 comprises debt backed by the full faith and credit of the government and \$2,985,330 represents bonds secured solely by specified revenue sources.

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

	<u>2013</u>			<u>2012</u>
	Governmental Activities	Business- Type Activities	Total	Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
General Obligation Bonds	\$ 4,214,164	\$ 269,168	\$ 4,483,332	\$ 2,996,089
General Obligation Revenue Loans	-	3,716,672	3,716,672	4,202,991
General Obligation Revenue Bonds	-	1,001,780	1,001,780	1,064,420
Revenue Bonds	-	2,985,330	2,985,330	3,243,700
Compensated Absences	233,583	166,973	400,556	518,402
Total	<u>\$ 4,447,747</u>	<u>\$ 8,139,923</u>	<u>\$ 12,587,670</u>	<u>\$ 12,025,602</u>

The City of Lake City's total outstanding debt increased by \$562,068 during the current year. A total of \$1,276,321 in bonds and notes payable were retired during 2013. A more detailed breakdown of these obligations can be found in Note 7, beginning on pages 50-52.

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

**CITY OF LAKE CITY, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2013**

**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, 2013**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Economic Development Authority
<b>ASSETS</b>				
Cash and Investments	\$ 6,148,298	\$ 10,381,294	\$ 16,529,592	\$ 87,212
Interest Receivable	22,878	1,328,790	1,351,668	-
Accounts Receivable	81,669	-	81,669	-
Taxes Receivable	62,644	-	62,644	-
Special Assessments Receivable	99,752	77,858	177,610	-
Loans Receivable	399,000	-	399,000	-
Internal Balances	(272,493)	272,493	-	-
Due from Other Governmental Units	665,420	-	665,420	25,933
Due from Primary Government	-	-	-	44
Prepaid Expenses	52,699	70,498	123,197	495
Inventories	-	737,275	737,275	-
Capital Assets:				
Nondepreciable	1,351,940	742,801	2,094,741	-
Depreciable, Net	17,664,984	21,532,935	39,197,919	-
Total Assets	<u>26,276,791</u>	<u>35,143,944</u>	<u>61,420,735</u>	<u>113,684</u>
<b>LIABILITIES</b>				
Accounts and Contracts Payable	157,788	1,000,319	1,158,107	61
Interest Payable	39,589	104,558	144,147	-
Accrued Liabilities	85,030	32,272	117,302	-
Deposits Payable	19,599	75,250	94,849	-
Due to Other Governments	158,457	-	158,457	-
Due to Component Unit	44	-	44	-
Noncurrent Liabilities:				
Due Within One Year	257,358	856,023	1,113,381	-
Due in More Than One Year	4,190,389	7,283,900	11,474,289	-
Total Liabilities	<u>4,908,254</u>	<u>9,352,322</u>	<u>14,260,576</u>	<u>61</u>
<b>NET POSITION</b>				
Net Investment in Capital Assets	14,915,623	14,302,785	29,218,408	-
Restricted for:				
Debt Service	372,932	-	372,932	-
Tax Increment Financing	225,800	-	225,800	-
Revolving Loans	700,048	-	700,048	-
Other Purposes	1,223	-	1,223	-
Unrestricted	<u>5,152,911</u>	<u>11,488,837</u>	<u>16,641,748</u>	<u>113,623</u>
Total Net Position	<u>\$ 21,368,537</u>	<u>\$ 25,791,622</u>	<u>\$ 47,160,159</u>	<u>\$ 113,623</u>

See accompanying Notes to Financial Statements.

**CITY OF LAKE CITY, MINNESOTA  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2013**

<u>Functions/Programs</u>	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General Government	\$ 1,267,526	\$ 267,140	\$ 7,393	\$ -
Public Safety	2,198,180	669,035	104,688	-
Streets and Highways	868,330	17,435	52,641	3,613
Culture and Recreation	879,111	232,333	140,922	-
Economic Development	66,847	-	-	1,808,895
Interest on Long-Term Debt	133,358	-	-	-
Total Governmental Activities	5,413,352	1,185,943	305,644	1,812,508
Business-Type Activities				
Electric Utility	12,461,745	13,449,683	-	-
Water Utility	668,457	639,643	-	-
Sewer Utility	1,416,946	1,408,314	-	15,361
Storm Water Utility	209,134	102,930	-	-
Marina	988,508	1,854,444	-	-
Garbage	541,067	519,398	-	-
Total Business-Type Activities	16,285,857	17,974,412	-	15,361
Total Primary Government	\$ 21,699,209	\$ 19,160,355	\$ 305,644	\$ 1,827,869
Total Component Unit	\$ 1,901,522	\$ 30,900	\$ -	\$ -

General Revenues:  
    General Property Taxes  
    Tax Increments  
    Grants and Contributions Not Restricted to Specific Programs  
    Investment Earnings  
    Miscellaneous  
Transfers  
    Total General Revenues and Transfers  
Change in Net Position

Net Position - As Previously Stated  
    Prior Period Adjustment  
Net Position - As Restated  
Net Position - Ending

Net (Expense) Revenue and  
Change in Net Position

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Economic Development Authority
\$ (992,993)	\$ -	\$ (992,993)	\$ -
(1,424,457)	-	(1,424,457)	-
(794,641)	-	(794,641)	-
(505,856)	-	(505,856)	-
1,742,048	-	1,742,048	-
(133,358)	-	(133,358)	-
<u>(2,109,257)</u>	<u>-</u>	<u>(2,109,257)</u>	<u>-</u>
-	987,938	987,938	-
-	(28,814)	(28,814)	-
-	6,729	6,729	-
-	(106,204)	(106,204)	-
-	865,936	865,936	-
-	(21,669)	(21,669)	-
<u>-</u>	<u>1,703,916</u>	<u>1,703,916</u>	<u>-</u>
(2,109,257)	1,703,916	(405,341)	-
-	-	-	(1,870,622)
2,941,610	-	2,941,610	20,977
180,274	-	180,274	-
610,467	-	610,467	-
(55,848)	(74,712)	(130,560)	139
59,440	17,157	76,597	-
<u>467,719</u>	<u>(467,719)</u>	<u>-</u>	<u>-</u>
<u>4,203,662</u>	<u>(525,274)</u>	<u>3,678,388</u>	<u>21,116</u>
2,094,405	1,178,642	3,273,047	(1,849,506)
19,229,641	24,490,215	43,719,856	1,963,129
44,491	122,765	167,256	-
<u>19,274,132</u>	<u>24,612,980</u>	<u>43,887,112</u>	<u>1,963,129</u>
<u>\$ 21,368,537</u>	<u>\$ 25,791,622</u>	<u>\$ 47,160,159</u>	<u>\$ 113,623</u>

**CITY OF LAKE CITY, MINNESOTA  
BALANCE SHEET – GOVERNMENT FUNDS  
DECEMBER 31, 2013**

	General Fund	2013 Street Improvement	Monroe Street Improvement Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and Investments	\$ 4,317,113	\$ 100,026	\$ -	\$ 1,729,142	\$ 6,146,281
Interest Receivable	22,878	-	-	-	22,878
Accounts Receivable	81,669	-	-	-	81,669
Taxes Receivable Delinquent	52,725	2,597	-	7,322	62,644
Special Assessments Receivable					
Delinquent	1,325	-	-	-	1,325
Noncurrent	-	-	-	98,427	98,427
Advances to Other Funds	55,000	-	-	-	55,000
Interfund Receivable	616,979	-	-	-	616,979
Loans Receivable	150,150	-	-	248,850	399,000
Due from Other Governmental Units	24,855	-	640,565	-	665,420
Total Assets	<u>\$ 5,322,694</u>	<u>\$ 102,623</u>	<u>\$ 640,565</u>	<u>\$ 2,083,741</u>	<u>\$ 8,149,623</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>					
<b>LIABILITIES</b>					
Accounts Payable	\$ 81,821	\$ 375	\$ -	\$ 65,637	\$ 147,833
Retainage Payable	-	-	-	5,000	5,000
Accrued Liabilities	82,432	-	-	2,598	85,030
Interfund Payable					
Deposits Payable	14,455	-	-	5,144	19,599
Advances from Other Funds	348,626	-	-	-	348,626
Interfund Payable	-	-	594,320	1,526	595,846
Due to Other Governmental Units	158,457	-	-	-	158,457
Due to Component Unit	44	-	-	-	44
Total Liabilities	<u>685,835</u>	<u>375</u>	<u>594,320</u>	<u>79,905</u>	<u>1,360,435</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Revenue	54,049	2,597	-	354,599	411,245
Total Deferred Inflows of Resources	<u>54,049</u>	<u>2,597</u>	<u>-</u>	<u>354,599</u>	<u>411,245</u>
<b>FUND BALANCE</b>					
Nonspendable:					
Advances to Other Funds	55,000	-	-	-	55,000
Restricted:					
Debt Service	-	-	-	412,521	412,521
Tax Increment Financing	-	-	-	225,800	225,800
Revolving Loans	-	-	-	451,198	451,198
Other Purposes	-	-	-	1,223	1,223
Committed:					
Library	-	-	-	417,293	417,293
Assigned:					
Capital Projects	-	99,651	46,245	148,708	294,604
Unassigned	4,527,810	-	-	(7,506)	4,520,304
Total Fund Balance	<u>4,582,810</u>	<u>99,651</u>	<u>46,245</u>	<u>1,649,237</u>	<u>6,377,943</u>
Total Liabilities Deferred Inflows of Resources and Fund Balance	<u>\$ 5,322,694</u>	<u>\$ 102,623</u>	<u>\$ 640,565</u>	<u>\$ 2,083,741</u>	<u>\$ 8,149,623</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, 2013**

Total Fund Balances for Governmental Funds	\$ 6,377,943
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	36,826,223
Less: Accumulated Depreciation	(17,809,299)
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	63,969
Noncurrent Special Assessments	98,427
Loans Receivable	248,849
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.	
	49,761
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	(4,214,164)
Compensated Absences	(233,583)
Accrued Interest	(39,589)
	\$ 21,368,537
Net Position of Governmental Activities	\$ 21,368,537

**CITY OF LAKE CITY, MINNESOTA  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES  
YEAR ENDED DECEMBER 31, 2013**

	General Fund	2013 Street Improvement	Monroe Street Improvement Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Taxes	\$ 2,550,238	\$ -	\$ -	\$ 382,133	\$ 2,932,371
Tax Increments	-	-	-	180,274	180,274
Special Assessments	882	-	-	28,181	29,063
Licenses and Permits	59,432	-	-	-	59,432
Intergovernmental Revenues	825,672	-	-	63,371	889,043
Charges for Services	989,344	-	-	2,818	992,162
Fines and Forfeits	59,918	-	-	4,646	64,564
Investment Income	(33,292)	(4,308)	(3,406)	(14,842)	(55,848)
Miscellaneous Revenues	234,347	-	-	99,759	334,106
Total Revenues	<u>4,686,541</u>	<u>(4,308)</u>	<u>(3,406)</u>	<u>746,340</u>	<u>5,425,167</u>
<b>EXPENDITURES</b>					
Current:					
General Government	977,382	-	-	-	977,382
Public Safety	2,021,005	-	-	-	2,021,005
Streets and Highways	477,827	-	-	-	477,827
Culture and Recreation	649,989	-	-	175,732	825,721
Economic Development	-	-	-	91,847	91,847
Miscellaneous	-	2,006	-	2,109	4,115
Capital Outlay	788,703	1,404,564	52,604	279,078	2,524,949
Debt Service:					
Principal	-	-	-	94,932	94,932
Interest and Fiscal Charges	-	36,208	-	86,712	122,920
Total Expenditures	<u>4,914,906</u>	<u>1,442,778</u>	<u>52,604</u>	<u>730,410</u>	<u>7,140,698</u>
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	(228,365)	(1,447,086)	(56,010)	15,930	(1,715,531)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers In	567,719	-	-	50,000	617,719
Transfers Out	-	-	-	(150,000)	(150,000)
Bond Proceeds	-	1,555,641	-	389,359	1,945,000
Payment to Refunded Bond Agent	-	-	-	(345,000)	(345,000)
Total Other Financing Sources (Uses)	<u>567,719</u>	<u>1,555,641</u>	<u>-</u>	<u>(55,641)</u>	<u>2,067,719</u>
Net Change in Fund Balances	339,354	108,555	(56,010)	(39,711)	352,188
Fund Balances - Beginning	<u>4,243,456</u>	<u>(8,904)</u>	<u>102,255</u>	<u>1,688,948</u>	<u>6,025,755</u>
Fund Balances - Ending	<u>\$ 4,582,810</u>	<u>\$ 99,651</u>	<u>\$ 46,245</u>	<u>\$ 1,649,237</u>	<u>\$ 6,377,943</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, 2013**

Net Change in Fund Balances - Total Governmental Funds	\$ 352,188
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	2,584,297
Contributed Capital Assets	1,808,895
Depreciation Expense	(1,025,324)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, etc.) is to decrease net position.	
	(80)
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, 2013	411,245
Unavailable Revenue, December 31, 2012	(590,070)
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	86,058
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.	
	(17,297)
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	439,932
Proceeds from Debt Issuance	(1,945,000)
Long-Term Debt Discount	(2,245)
Change in Accrued Interest	(8,194)
Change in Net Position of Governmental Activities	\$ 2,094,405

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, 2013**

	Original Budget	Final Budget	2013 Actual	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes				
General Property Taxes	\$ 2,352,640	\$ 2,352,640	\$ 2,407,211	\$ 54,571
Franchise Taxes	94,000	94,000	84,052	(9,948)
Lodging Tax	50,000	66,568	58,975	(7,593)
Total Taxes	<u>2,496,640</u>	<u>2,513,208</u>	<u>2,550,238</u>	<u>37,030</u>
Special Assessments	-	-	882	882
Licenses and Permits				
Business Licenses	18,500	18,500	21,575	3,075
Non-Business Licenses	59,350	59,350	37,857	(21,493)
Total Licenses and Permits	<u>77,850</u>	<u>77,850</u>	<u>59,432</u>	<u>(18,418)</u>
Intergovernmental				
Federal:				
Cops in School Grant	34,000	34,000	35,644	1,644
State:				
Local Government Aid	244,139	244,139	610,347	366,208
Market Value Credit Aid	-	-	120	120
MSA Street Maintenance	55,000	55,000	52,641	(2,359)
Police State Aid	70,000	70,000	69,044	(956)
Fire State Aid	-	44,725	50,483	5,758
PERA Aid	7,393	7,393	7,393	-
Total Intergovernmental	<u>410,532</u>	<u>455,257</u>	<u>825,672</u>	<u>370,415</u>
Charges for Services				
General Government	220,150	220,150	204,087	(16,063)
Public Safety	508,400	520,450	552,963	32,513
Streets and Highways	3,100	3,100	7,634	4,534
Park Fees	206,050	206,050	224,660	18,610
Total Charges for Services	<u>937,700</u>	<u>949,750</u>	<u>989,344</u>	<u>39,594</u>
Fines and Forfeits	20,500	20,500	59,918	39,418
Investment Income	65,000	65,000	(33,292)	(98,292)
Miscellaneous Revenues				
Other	200	200	12,682	12,482
Donations	26,500	50,113	20,829	(29,284)
Refunds and Reimbursements	50,000	50,000	200,836	150,836
Total Miscellaneous	<u>76,700</u>	<u>100,313</u>	<u>234,347</u>	<u>134,034</u>
Total Revenues	4,084,922	4,181,878	4,686,541	504,663

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, 2013**

	Original Budget	Final Budget	2013 Actual	Variance with Final Budget Positive (Negative)
<b>EXPENDITURES</b>				
General Government -				
Mayor and City Council:				
Personnel Services	\$ 45,751	\$ 45,751	\$ 40,403	\$ 5,348
Supplies	3,800	3,800	1,741	2,059
Other Services and Charges	33,500	33,500	24,991	8,509
Capital Outlay	-	145,208	145,208	-
Total Mayor and City Council	<u>83,051</u>	<u>228,259</u>	<u>212,343</u>	<u>15,916</u>
City Administrator:				
Personnel Services	143,712	143,712	140,345	3,367
Supplies	1,000	1,600	1,265	335
Other Services and Charges	8,840	8,240	6,064	2,176
Total City Administrator	<u>153,552</u>	<u>153,552</u>	<u>147,674</u>	<u>5,878</u>
City Clerk/Finance Director:				
Personnel Services	299,245	299,245	249,375	49,870
Supplies	8,250	8,250	5,288	2,962
Other Services and Charges	33,470	30,970	25,654	5,316
Total City Clerk/Finance Director	<u>340,965</u>	<u>338,465</u>	<u>280,317</u>	<u>58,148</u>
Audit:				
Other Services and Charges	<u>37,500</u>	<u>37,500</u>	<u>30,321</u>	<u>7,179</u>
Legal:				
Other Services and Charges	<u>82,920</u>	<u>110,420</u>	<u>103,485</u>	<u>6,935</u>
Planning and Zoning:				
Personnel Services	234,854	234,854	227,592	7,262
Supplies	3,200	3,200	2,379	821
Other Services and Charges	76,025	76,025	46,041	29,984
Total Planning and Zoning	<u>314,079</u>	<u>314,079</u>	<u>276,012</u>	<u>38,067</u>
Elections:				
Personnel Services	5,000	5,000	-	5,000
Supplies	2,000	2,000	1,291	709
Other Services and Charges	3,600	3,600	1,040	2,560
Total Elections	<u>10,600</u>	<u>10,600</u>	<u>2,331</u>	<u>8,269</u>
General Government Buildings:				
Other Services and Charges	-	70,107	70,107	-
Total General Government Buildings	<u>-</u>	<u>70,107</u>	<u>70,107</u>	<u>-</u>
Total General Government	1,022,667	1,262,982	1,122,590	140,392

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, 2013**

Expenditures: - (Cont'd.)	Original Budget	Final Budget	2013 Actual	Variance with Final Budget Positive (Negative)
Public Safety				
Police:				
Personnel Services	\$ 1,074,086	\$ 1,072,982	\$ 1,036,920	\$ 36,062
Supplies	60,100	73,600	61,926	11,674
Other Services and Charges	44,020	68,071	82,304	(14,233)
Capital Outlay	30,500	30,500	30,377	123
Total Police	<u>1,208,706</u>	<u>1,245,153</u>	<u>1,211,527</u>	<u>33,626</u>
Fire:				
Personnel Services	100,717	95,917	87,275	8,642
Supplies	37,200	37,000	44,549	(7,549)
Other Services and Charges	37,125	95,621	96,656	(1,035)
Capital Outlay	65,600	74,663	292,845	(218,182)
Total Fire	<u>240,642</u>	<u>303,201</u>	<u>521,325</u>	<u>(218,124)</u>
Ambulance:				
Personnel Services	542,911	542,911	462,816	80,095
Supplies	50,500	49,752	48,426	1,326
Other Services and Charges	40,400	70,356	64,321	6,035
Capital Outlay	101,000	115,398	245,746	(130,348)
Total Ambulance	<u>734,811</u>	<u>778,417</u>	<u>821,309</u>	<u>(42,892)</u>
Civil Defense:				
Personnel Services	16,363	16,363	16,363	-
Supplies	8,600	8,600	7,765	835
Other Services and Charges	2,800	2,800	2,013	787
Capital Outlay	-	6,000	5,920	80
Total Civil Defense	<u>27,763</u>	<u>33,763</u>	<u>32,061</u>	<u>1,702</u>
Animal Control:				
Personnel Services	6,104	6,104	5,659	445
Supplies	400	400	102	298
Other Services and Charges	825	4,162	3,337	825
Total Animal Control	<u>7,329</u>	<u>10,666</u>	<u>9,098</u>	<u>1,568</u>
Total Public Safety	<u>2,219,251</u>	<u>2,371,200</u>	<u>2,595,320</u>	<u>(224,120)</u>
Streets and Highways -				
Personnel Services	342,843	342,843	315,760	27,083
Supplies	91,100	89,100	48,945	40,155
Other Services and Charges	114,300	116,300	113,122	3,178
Capital Outlay	25,000	42,000	37,026	4,974
Total Street and Highways	<u>573,243</u>	<u>590,243</u>	<u>514,853</u>	<u>75,390</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, 2013**

	Original Budget	Final Budget	2013 Actual	Variance with Final Budget Positive (Negative)
Expenditures: - (Cont'd.)				
Culture and Recreation				
Tourism:				
Other Services and Charges	\$ 38,000	\$ 54,568	\$ 54,568	\$ -
Total Tourism	38,000	54,568	54,568	-
Participant Recreation:				
Personnel Services	39,292	57,942	57,786	156
Supplies	2,000	850	199	651
Other Services and Charges	1,350	1,350	319	1,031
Total Participant Recreation	42,642	60,142	58,304	1,838
Swimming Pool:				
Personnel Services	51,631	51,631	42,821	8,810
Supplies	17,000	16,000	7,199	8,801
Other Services and Charges	3,525	82,746	81,080	1,666
Total Swimming Pool	72,156	150,377	131,100	19,277
Hok-Si-La Park:				
Personnel Services	115,170	115,170	104,554	10,616
Supplies	20,200	20,200	18,393	1,807
Other Services and Charges	36,450	68,802	72,404	(3,602)
Capital Outlay	32,000	32,000	25,314	6,686
Total Hok-Si-La Park	203,820	236,172	220,665	15,507
Other Parks:				
Personnel Services	127,832	127,832	106,437	21,395
Supplies	46,100	47,810	47,597	213
Other Services and Charges	9,700	57,685	56,632	1,053
Capital Outlay	6,000	6,840	6,840	-
Total Other Parks	189,632	240,167	217,506	22,661
Total Culture and Recreation	546,250	741,426	682,143	59,283
Total Expenditures	4,361,411	4,965,851	4,914,906	50,945
Deficiency of Revenues Under Expenditures	(276,489)	(783,973)	(228,365)	555,608
<b>OTHER FINANCING SOURCES</b>				
Operating Transfers In	572,719	572,719	567,719	(5,000)
Net Change in Fund Balance	296,230	(211,254)	339,354	550,608
Fund Balance - Beginning	4,243,456	4,243,456	4,243,456	-
Fund Balance - Ending	\$ 4,539,686	\$ 4,032,202	\$ 4,582,810	\$ 550,608

See accompanying Notes to Financial Statements.

**CITY OF LAKE CITY, MINNESOTA  
 PROPRIETARY FUNDS  
 STATEMENT OF NET POSITION  
 DECEMBER 31, 2013**

	Business-Type Activities - Enterprise Funds			
	Electric Fund	Water Fund	Sewer Fund	Storm Water Fund
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and Cash Equivalents	\$ 3,747,281	\$ 799,737	\$ 701,622	\$ -
Accounts Receivable	1,207,121	16,555	53,065	3,188
Advances to Other Funds	-	-	-	-
Inventories	717,966	-	-	-
Prepaid Expenses	19,348	3,506	15,129	1,109
<b>Total Current Assets</b>	<b>5,691,716</b>	<b>819,798</b>	<b>769,816</b>	<b>4,297</b>
<b>Noncurrent Assets</b>				
Capital Assets				
Nondepreciable	23,401	4,273	-	97,400
Depreciable	16,077,979	4,115,258	12,109,909	2,651,415
Less: Accumulated Depreciation	(8,028,061)	(1,655,594)	(6,274,330)	(699,820)
<b>Net Capital Assets</b>	<b>8,073,319</b>	<b>2,463,937</b>	<b>5,835,579</b>	<b>2,048,995</b>
Special Assessments	-	59,274	18,584	-
<b>Total Noncurrent Assets</b>	<b>8,073,319</b>	<b>2,523,211</b>	<b>5,854,163</b>	<b>2,048,995</b>
<b>Total Assets</b>	<b>13,765,035</b>	<b>3,343,009</b>	<b>6,623,979</b>	<b>2,053,292</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Current Maturities of				
Bonds Payable	160,000	52,569	500,954	32,500
Accounts Payable	852,184	16,960	88,493	421
Accrued Liabilities	61,053	15,595	45,297	6,486
Advances from Other Funds	-	-	-	-
Interfund Payables	-	-	-	21,133
Customer Deposits	75,250	-	-	-
<b>Total Current Liabilities</b>	<b>1,148,487</b>	<b>85,124</b>	<b>634,744</b>	<b>60,540</b>
<b>Non Current Liabilities</b>				
Bonds Payable, Net of Current Maturities and Discount	2,483,630	717,491	3,215,717	468,390
Compensated Absences Payable	49,234	22,303	28,403	-
<b>Total Liabilities</b>	<b>3,681,351</b>	<b>824,918</b>	<b>3,878,864</b>	<b>528,930</b>
<b>NET POSITION</b>				
Net Investment in Capital Assets	5,429,689	1,693,877	2,118,908	1,548,105
Unrestricted	4,653,995	824,214	626,207	(23,743)
<b>Total Net Position</b>	<b>\$ 10,083,684</b>	<b>\$ 2,518,091</b>	<b>\$ 2,745,115</b>	<b>\$ 1,524,362</b>

See accompanying Notes to Financial Statements.

Business-Type Activities - Enterprise Funds			Governmental
Marina	Garbage	Totals	Activities - Internal
Fund	Fund		Service Funds
\$ 4,880,052	\$ 252,602	\$ 10,381,294	\$ 2,017
20,424	28,437	1,328,790	-
348,626	-	348,626	-
19,309	-	737,275	-
30,998	408	70,498	52,699
<u>5,299,409</u>	<u>281,447</u>	<u>12,866,483</u>	<u>54,716</u>
613,727	4,000	742,801	-
7,270,676	-	42,225,237	-
(4,034,497)	-	(20,692,302)	-
<u>3,849,906</u>	<u>4,000</u>	<u>22,275,736</u>	<u>-</u>
-	-	77,858	-
<u>3,849,906</u>	<u>4,000</u>	<u>22,353,594</u>	<u>-</u>
9,149,315	285,447	35,220,077	54,716
110,000	-	856,023	-
4,561	37,700	1,000,319	4,955
7,499	900	136,830	-
55,000	-	55,000	-
-	-	21,133	-
-	-	75,250	-
<u>177,060</u>	<u>38,600</u>	<u>2,144,555</u>	<u>4,955</u>
231,700	-	7,116,928	-
67,032	-	166,972	-
<u>475,792</u>	<u>38,600</u>	<u>9,428,455</u>	<u>4,955</u>
3,508,206	4,000	14,302,785	-
5,165,317	242,847	11,488,837	49,761
<u>\$ 8,673,523</u>	<u>\$ 246,847</u>	<u>\$ 25,791,622</u>	<u>\$ 49,761</u>

**CITY OF LAKE CITY, MINNESOTA  
ENTERPRISE FUNDS  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET POSITION  
YEAR ENDED DECEMBER 31, 2013**

	Business-Type Activities - Enterprise Funds			
	Electric Fund	Water Fund	Sewer Fund	Storm Water Fund
<b>OPERATING REVENUES</b>	\$ 13,449,683	\$ 639,643	\$ 1,408,314	\$ 102,930
<b>OPERATING EXPENSES</b>				
Salaries and Benefits	677,706	251,655	179,027	31,621
Supplies	39,531	24,915	34,848	16,804
Other Services and Charges	11,044,127	221,198	599,206	21,692
Insurance	55,420	16,082	31,209	2,318
Depreciation	510,579	125,962	452,056	119,897
Total Operating Expenses	<u>12,327,363</u>	<u>639,812</u>	<u>1,296,346</u>	<u>192,332</u>
Operating Income (Loss)	1,122,320	(169)	111,968	(89,402)
<b>NONOPERATING INCOME (EXPENSE)</b>				
Miscellaneous Income	9,001	-	-	-
Investment Income	(36,822)	(10,221)	(7,088)	(174)
Special Assessments	-	-	15,361	-
Gain on Sale of Capital Assets	-	-	-	-
Loss on Disposal of Inventory	(21,001)	-	-	-
Intergovernmental Revenues	-	-	-	-
Interest Expense	(113,381)	(28,645)	(120,600)	(16,802)
Total Nonoperating Income (Expense)	<u>(162,203)</u>	<u>(38,866)</u>	<u>(112,327)</u>	<u>(16,976)</u>
<b>Income (Loss) Before Transfers and Contributions</b>	960,117	(39,035)	(359)	(106,378)
Transfers In	-	-	150,000	-
Transfers Out	(155,000)	(45,000)	-	-
Change in Net Position	805,117	(84,035)	149,641	(106,378)
<b>Net Position - Beginning of Year as Previously Stated</b>	9,155,802	2,602,126	2,595,474	1,630,740
Prior Period Adjustment	122,765	-	-	-
Net Position - Beginning of Year as Restated	<u>9,278,567</u>	<u>2,602,126</u>	<u>2,595,474</u>	<u>1,630,740</u>
<b>Net Position - Ending</b>	<u>\$ 10,083,684</u>	<u>\$ 2,518,091</u>	<u>\$ 2,745,115</u>	<u>\$ 1,524,362</u>

See accompanying Notes to Financial Statements.

Business-Type Activities - Enterprise Funds			Governmental
Marina	Garbage	Totals	Activities - Internal
Fund	Fund		Service Funds
\$ 1,854,444	\$ 519,398	\$ 17,974,412	\$ 316,000
376,841	10,984	1,527,834	1,290
260,510	814	377,422	25,147
91,944	527,795	12,505,962	136,673
72,369	1,474	178,872	179,988
168,819	-	1,377,313	-
<u>970,483</u>	<u>541,067</u>	<u>15,967,403</u>	<u>343,098</u>
883,961	(21,669)	2,007,009	(27,098)
2,250	5,906	17,157	9,801
(16,775)	(3,632)	(74,712)	-
-	-	15,361	-
2,595	-	2,595	-
-	-	(21,001)	-
-	-	-	-
(20,620)	-	(300,048)	-
<u>(32,550)</u>	<u>2,274</u>	<u>(360,648)</u>	<u>9,801</u>
851,411	(19,395)	1,646,361	(17,297)
-	-	150,000	-
(417,719)	-	(617,719)	-
433,692	(19,395)	1,178,642	(17,297)
8,239,831	266,242	24,490,215	22,567
-	-	122,765	44,491
<u>8,239,831</u>	<u>266,242</u>	<u>24,612,980</u>	<u>67,058</u>
<u>\$ 8,673,523</u>	<u>\$ 246,847</u>	<u>\$ 25,791,622</u>	<u>\$ 49,761</u>

**CITY OF LAKE CITY, MINNESOTA  
ENTERPRISE FUNDS  
STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2013**

	Business-Type Activities - Enterprise Funds			
	Electric Fund	Water Fund	Sewer Fund	Storm Water Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from Customers	\$ 13,515,501	\$ 640,350	\$ 1,408,760	\$ 101,230
Payments to Employees	(689,785)	(253,414)	(172,791)	(31,621)
Payments to Suppliers	(11,171,026)	(244,451)	(629,079)	(40,481)
Net Cash Provided (Used) by Operating Activities	<u>1,654,690</u>	<u>142,485</u>	<u>606,890</u>	<u>29,128</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Advances from/(to) Other Funds	(25,900)	-	-	19,422
Operating Transfers In	-	-	150,000	-
Operating Transfers Out	(155,000)	(45,000)	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(180,900)</u>	<u>(45,000)</u>	<u>150,000</u>	<u>19,422</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Principal Received on Special Assessments	-	8,153	1,589	-
Acquisition of Capital Assets	(106,848)	(138,402)	(43,417)	-
Cash Received for Disposal of Capital Assets	-	-	-	-
Interest Paid on Debt	(108,883)	(28,071)	(126,194)	(15,893)
Principal Paid on Debt	(155,000)	(52,568)	(486,320)	(32,500)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(370,731)</u>	<u>(210,888)</u>	<u>(654,342)</u>	<u>(48,393)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investment Income	(36,822)	(10,221)	(7,088)	(174)
Net Increase (Decrease) in Cash and Cash Equivalents	1,066,237	(123,624)	95,460	(17)
Cash and Cash Equivalents - Beginning	<u>2,681,044</u>	<u>923,361</u>	<u>606,162</u>	<u>17</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 3,747,281</u></u>	<u><u>\$ 799,737</u></u>	<u><u>\$ 701,622</u></u>	<u><u>\$ -</u></u>

See accompanying Notes to Financial Statements.

Business-Type Activities - Enterprise Funds			Governmental
Marina	Garbage	Totals	Activities - Internal
Fund	Fund		Service Funds
\$ 2,193,873	\$ 525,683	\$ 18,385,397	\$ 316,000
(401,030)	(10,984)	(1,559,625)	(1,290)
(421,646)	(534,251)	(13,040,934)	(339,446)
<u>1,371,197</u>	<u>(19,552)</u>	<u>3,784,838</u>	<u>(24,736)</u>
(181,356)	-	(187,834)	-
-	-	150,000	-
<u>(417,719)</u>	<u>-</u>	<u>(617,719)</u>	<u>-</u>
(599,075)	-	(655,553)	-
-	-	9,742	-
(14,533)	-	(303,200)	-
5,512	-	5,512	-
(19,915)	-	(298,956)	-
<u>(110,000)</u>	<u>-</u>	<u>(836,388)</u>	<u>-</u>
(138,936)	-	(1,423,290)	-
<u>(16,775)</u>	<u>(3,632)</u>	<u>(74,712)</u>	<u>-</u>
616,411	(23,184)	1,631,283	(24,736)
<u>4,263,641</u>	<u>275,786</u>	<u>8,750,011</u>	<u>26,753</u>
<u>\$ 4,880,052</u>	<u>\$ 252,602</u>	<u>\$ 10,381,294</u>	<u>\$ 2,017</u>

**CITY OF LAKE CITY, MINNESOTA  
ENTERPRISE FUNDS  
STATEMENT OF CASH FLOWS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2013**

	Business-Type Activities - Enterprise Funds			
	Electric Fund	Water Fund	Sewer Fund	Storm Water Fund
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>				
Operating Income (Loss)	\$ 1,122,320	\$ (169)	\$ 111,968	\$ (89,402)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Depreciation	510,579	125,962	452,056	119,897
Other	9,001	-	-	-
(Increase) Decrease in				
Accounts Receivable	58,144	707	446	(1,700)
Inventories	(38,452)	-	-	-
Prepaid Expenses	2,085	2,452	(2,235)	197
Increase (Decrease) in				
Accounts Payable	973	15,297	37,044	136
Accrued Liabilities	3,446	(5)	1,375	-
Compensated Absences	(12,079)	(1,759)	6,236	-
Customer Deposits	(1,327)	-	-	-
Net Cash Provided (Used) by Operating Activities	\$ 1,654,690	\$ 142,485	\$ 606,890	\$ 29,128
 <b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>				
Amortization of Bond Issuance Costs	\$ 5,531	\$ 1,180	\$ -	\$ 1,180

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>
\$ 883,961	\$ (21,669)	\$ 2,007,009	\$ (27,098)
168,819	-	1,377,313	-
2,250	5,906	17,157	9,801
337,179	379	395,155	-
-	-	(38,452)	-
33	(109)	2,423	(8,208)
1,380	(4,063)	50,767	769
1,764	4	6,584	-
(24,189)	-	(31,791)	-
-	-	(1,327)	-
<u>\$ 1,371,197</u>	<u>\$ (19,552)</u>	<u>\$ 3,784,838</u>	<u>\$ (24,736)</u>
\$ 1,100	\$ -	\$ 8,991	\$ -

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**CITY OF LAKE CITY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**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, 2013**

**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, 2013**

**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 *2013 Street Improvement fund* accounts for the resources and costs for street improvement projects.

The *Monroe Street Improvement fund* accounts for the resources and costs for the Monroe street improvement project.

The City reports the following major proprietary funds:

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

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

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

The *storm water utility fund* accounts for the 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, 2013**

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

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.

**CITY OF LAKE CITY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**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)**

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".

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.

Inventories

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

**CITY OF LAKE CITY, MINNESOTA  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2013**

**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)**

*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.

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

*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.

**CITY OF LAKE CITY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**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)**

*Long-Term Obligations (Continued)*

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.

*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.

*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. 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. The city does not have deferred inflows of resources to report in its proprietary fund financial statements in the current year.

*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."

**CITY OF LAKE CITY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**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)*

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.

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.

**CITY OF LAKE CITY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Deficit Fund Balances**

Certain funds had deficit fund balances at December 31, 2013, as follows:

Special Revenue Funds:	
Heat N' Glo TIF #9	\$ (32)
Pepin Heights TIF #12	(1,281)
Block 25 Redevelopment TIF #13	(1,494)
Pepin Manufacturing TIF #14	(4,699)

All deficit balances are part of planned expenditures and will be eliminated with transfers in future years.

**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's deposits were not exposed to custodial credit risk at December 31, 2013.

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, 2013 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, 2013**

**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.

<u>Investment</u>	<u>Fair Value</u>	<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More Than 60 Months</u>
Money Market Mutual Funds	\$ 3,166,270	\$ 3,166,270	\$ -	\$ -	\$ -
Negotiable CD’s	5,050,051	948,179	240,432	1,987,144	1,874,296
US Treasury Notes	25,505	17,079	8,426	-	-
US Treasury Bonds	61,640	-	-	-	61,640
Federal Home Loan Bank	3,633,079	-	-	-	3,633,079
Federal Home Loan Mortgage Corp	368,460	-	-	-	368,460
	<u>\$ 12,305,005</u>	<u>\$ 4,131,528</u>	<u>\$ 248,858</u>	<u>\$ 1,987,144</u>	<u>\$ 5,937,475</u>

**CITY OF LAKE CITY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**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, 2013, 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 Home Loan Mortgage Corporate Notes were AA+ and AAA by Standard & Poor's and Moody's Investor Services, respectively. As of December 31, 2013, the City had invested \$3,166,270 in Money Market Mutual Funds which are unrated. Additionally, the City invested \$5,050,051 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	Ratings	Percent of Total
Money Market Mutual Funds	Unrated	26%
Federal Home Loan Bank	AAA	30%

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

Deposits	\$ 4,224,587
Investments	12,305,005
Cash and Investments Per Statement of Net Position	<u>\$ 16,529,592</u>

**NOTE 4 LOANS RECEIVABLE**

**Business Development Revolving Loan Fund**

The City originally entered into an economic development loan agreement with a local manufacturer. The loan was paid off during the year ended December 31, 2005. Repayment proceeds from the loan were used to provide for various commercial rehabilitation loans as part of the City's downtown redevelopment. The outstanding balance on these loans as of December 31, 2013 total \$14,255.

**CITY OF LAKE CITY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**NOTE 4 LOANS RECEIVABLE (CONTINUED)**

**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, 2013 totaled \$234,595.

**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, 2013 is \$150,150. 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, 2013 is \$150,150.

**NOTE 5 CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
<b>Governmental Activities:</b>					
Capital Assets, Not Being Depreciated:					
Land	\$ 1,303,791	\$ 48,149	\$ -	\$ -	\$ 1,351,940
Total Capital Assets, Not Being Depreciated	1,303,791	48,149	-	-	1,351,940
Capital Assets, Being Depreciated:					
Buildings	9,830,785	170,303	-	2,308,416	12,309,504
Improvements Other than Buildings	400,525	46,558	-	-	447,083
Infrastructure	15,733,992	1,635,094	-	-	17,369,086
Machinery and Equipment	4,749,813	684,193	85,396	-	5,348,610
Total Capital Assets, Being Depreciated	30,715,115	2,536,148	85,396	2,308,416	35,474,283
Less Accumulated Depreciation For:					
Buildings	5,525,471	231,968	-	499,521	6,256,960
Improvements Other than Buildings	109,623	20,224	-	-	129,847
Infrastructure	6,954,245	431,140	-	-	7,385,385
Machinery and Equipment	3,780,431	341,992	85,316	-	4,037,107
Total Accumulated Depreciation	16,369,770	1,025,324	85,316	499,521	17,809,299
Total Capital Assets, Being Depreciated, Net	14,345,345	1,510,824	80	1,808,895	17,664,984
Governmental Activities Capital Assets, Net	<u>\$ 15,649,136</u>	<u>\$ 1,558,973</u>	<u>\$ 80</u>	<u>\$ 1,808,895</u>	<u>\$ 19,016,924</u>

**CITY OF LAKE CITY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**NOTE 5 CAPITAL ASSETS (CONTINUED)**

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
<b>Business-Type Activities:</b>					
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	23,317,217	256,907	-	-	23,574,124
Machinery and Equipment	3,710,926	46,293	9,084	-	3,748,135
Total Capital Assets, Being Depreciated	41,931,126	303,200	9,084	-	42,225,242
Less Accumulated Depreciation For:					
Buildings and Improvements	6,421,495	451,096	-	-	6,872,591
Distribution and Collection System	10,298,076	766,422	-	-	11,064,498
Machinery and Equipment	2,601,586	159,795	6,163	-	2,755,218
Total Accumulated Depreciation	19,321,157	1,377,313	6,163	-	20,692,307
Total Capital Assets, Being Depreciated, Net	22,609,969	(1,074,113)	2,921	-	21,532,935
Business-Type Activities Capital Assets, Net	\$ 23,352,770	\$ (1,074,113)	\$ 2,921	\$ -	\$ 22,275,736
	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
<b>Discretely Presented Component Unit</b>					
<b>Economic Development Authority:</b>					
Capital Assets, Being Depreciated:					
Buildings and Improvements	\$ 2,308,416	\$ -	\$ -	\$ (2,308,416)	\$ -
Machinery and Equipment	63,380	-	-	-	63,380
Total Capital Assets, Being Depreciated	2,371,796	-	-	(2,308,416)	63,380
Less Accumulated Depreciation For:					
Buildings and Improvements	499,521	-	-	(499,521)	-
Machinery and Equipment	63,380	-	-	-	63,380
Total Accumulated Depreciation	562,901	-	-	(499,521)	63,380
Total Capital Assets, Being Depreciated, Net	\$ 1,808,895	\$ -	\$ -	\$ (1,808,895)	\$ -

Depreciation expense was charged to functions/programs as follows:

<b>Governmental Activities:</b>	
General Government	\$ 284,427
Public Safety	237,314
Streets and Highways	464,748
Culture and Recreation	38,835
Total Depreciation Expense - Governmental Activities	<u>\$ 1,025,324</u>
<b>Business-Type Activities:</b>	
Electric	\$ 510,579
Water	125,962
Sewer	452,056
Storm Water	119,897
Marina	168,819
Total Depreciation Expense - Business-Type Activities	<u>\$ 1,377,313</u>

**CITY OF LAKE CITY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**NOTE 6 INTERFUND BALANCES AND TRANSFERS**

The amounts advanced to and advanced from other funds as of December 31, 2013 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	\$ 348,626
Enterprise Fund		
Marina	348,626	55,000
	<u>\$ 403,626</u>	<u>\$ 403,626</u>

Balances of interfund receivables and payables as of December 31, 2013 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	\$ 616,979	\$ -
Monroe Street Improvement		594,320
Nonmajor Governmental Funds	-	1,526
Total Governmental Funds	<u>616,979</u>	<u>595,846</u>
Enterprise Fund		
Storm Water	-	21,133
	<u>\$ 616,979</u>	<u>\$ 616,979</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, 2013 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds		
General Fund	\$ 567,719	\$ -
Nonmajor Governmental Funds	50,000	(150,000)
Total Governmental Funds	<u>617,719</u>	<u>(150,000)</u>
Enterprise Funds		
Electric	-	(155,000)
Water	-	(45,000)
Sewer	150,000	-
Marina	-	(417,719)
Total Enterprise Funds	<u>150,000</u>	<u>(617,719)</u>
	<u>\$ 767,719</u>	<u>\$ (767,719)</u>

**CITY OF LAKE CITY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**NOTE 7 LONG-TERM DEBT**

A summary of long-term debt obligations outstanding at December 31, 2013 is as follows:

	Range of Interest Rates	Final Maturity	Balance December 31, 2013
<u>Government Activities</u>			
G.O. Improvement Bonds:			
G.O. Improvement Bonds of 2008A	4.00%-4.60%	2024	\$ 870,829
G.O. Improvement Bonds of 2012A	0.4%-2.15%	2023	1,420,000
G.O. Improvement Bonds of 2013A	1.00%-2.35%	2024	1,580,000
G.O. Refunding Bonds of 2013B	1.5%-2.5%	2022	365,000
Less: Unamortized Discounts			(21,665)
Compensated Absences			233,583
Subtotal			4,447,747
<u>Business-Type Activities</u>			
G.O. Improvement Bonds:			
G.O. Improvement Bonds of 2008A	4.00%-4.60%	2024	269,168
Revenue Bonds:			
Marina Revenue Bonds of 2006	4.05%-4.45%	2016	345,000
Electric Revenue Bonds of 2010B	.85%-4.85%	2026	2,710,000
General Obligation Revenue Bonds:			
G.O. Utility Revenue Bonds of 2010A	2%-3.75%	2026	1,030,000
G.O. Revenue Loans:			
Public Facilities Loan of 1993	3.74%	2014	100,194
Public Facilities Loan of 1996	3.32%	2017	338,478
Public Facilities Loan of 1999	2.86%	2020	498,000
Public Facilities Loan of 2002	2.99%	2023	2,780,000
Less: Unamortized Discounts			(97,890)
Compensated Absences			166,973
Subtotal			8,139,923
Total			\$ 12,587,670

**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 Marina Revenue Bonds are payable primarily from the revenues generated through charges to customers at the Marina. They are recorded as liabilities in the Marina Enterprise Fund and are backed by the full faith and credit of the City.

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, 2013**

**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 1993, 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. Improvement 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.

The following is a summary of changes in long-term debt obligations for the year ended December 31, 2013:

	Beginning Balance	Issuances	Payments	Ending Balance	Amount Due Within One Year
<b>Governmental Activities</b>					
Bonds and Notes Payable:					
General Obligation Bonds					
G.O. Improvement Bonds of 2006A	\$ 375,000	\$ -	\$ 375,000	\$ -	\$ -
G.O. Improvement Bonds of 2008A	935,761	-	64,932	870,829	64,932
Less: Unamortized Discount	(16,100)	-	(1,464)	(14,636)	-
G.O. Improvement Bonds of 2012A	1,420,000	-	-	1,420,000	135,000
Less: Unamortized Discount	(7,810)	-	(781)	(7,029)	-
G.O. Improvement Bonds of 2013A	-	1,580,000	-	1,580,000	-
G.O. Refunding Bonds of 2013B	-	365,000	-	365,000	40,000
Other Liabilities:					
Compensated Absences	319,641	-	86,058	233,583	17,426
Governmental Activities					
Long-Term Liabilities	3,026,492	1,945,000	523,745	4,447,747	257,358

**CITY OF LAKE CITY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**NOTE 7 LONG-TERM DEBT (CONTINUED)**

	Beginning Balance	Issuances	Payments	Ending Balance	Amount Due Within One Year
<b>Business-Type Activities</b>					
Bonds and Notes Payable:					
Revenue Bonds:					
Marina Revenue Bonds of 2006	\$ 455,000	\$ -	\$ 110,000	\$ 345,000	\$ 110,000
Electric Revenue Bonds of 2010B	2,865,000	-	155,000	2,710,000	160,000
Less: Unamortized Discount	(76,300)	-	(6,630)	(69,670)	-
General Obligation Revenue Bonds:					
G.O. Utility Revenue Bonds of 2010A	1,095,000	-	65,000	1,030,000	65,000
Less: Unamortized Discount	(30,580)	-	(2,360)	(28,220)	-
General Obligation Bonds:					
G.O. Improvement Bonds of 2008A	289,238	-	20,070	269,168	20,069
General Obligation Revenue Loans:					
Public Facilities Loan of 1993	196,760	-	96,566	100,194	100,194
Public Facilities Loan of 1996	428,231	-	89,753	338,478	92,760
Public Facilities Loan of 1999	562,000	-	64,000	498,000	65,000
Public Facilities Loan of 2002	3,016,000	-	236,000	2,780,000	243,000
Other Liabilities:					
Compensated Absences	198,761	-	31,788	166,973	-
Business-Type Activities Long-Term Liabilities	<u>8,999,110</u>	<u>-</u>	<u>859,187</u>	<u>8,139,923</u>	<u>856,023</u>
Total General Long-Term Debt	<u>\$ 12,025,602</u>	<u>\$ 1,945,000</u>	<u>\$ 1,382,932</u>	<u>\$ 12,587,670</u>	<u>\$ 1,113,381</u>

The annual requirements to amortize long-term debt obligations outstanding at December 31, 2013, excluding accrued compensated absences are summarized below:

Governmental Activities

Year Ending December 31:	General Obligation Bonds		Total
	Principal	Interest	
2014	\$ 239,932	\$ 90,194	\$ 330,126
2015	389,932	80,888	470,820
2016	398,751	75,357	474,108
2017	407,571	69,353	476,924
2018	406,390	62,662	469,052
2019-2023	2,127,784	176,412	2,304,196
2024	265,469	4,201	269,670
Total	<u>\$ 4,235,829</u>	<u>\$ 559,067</u>	<u>\$ 4,794,896</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	
2014	\$ 20,069	\$ 11,275	\$ 500,954	\$ 110,658	\$ 65,000	\$ 30,486	\$ 270,000	\$ 121,268	\$ 1,129,710
2015	20,069	10,472	412,865	95,609	65,000	29,186	280,000	112,860	1,026,061
2016	21,249	9,646	425,075	83,009	70,000	27,792	290,000	103,188	1,029,959
2017	22,430	8,750	386,778	70,034	70,000	26,173	180,000	92,373	856,538
2018	23,610	7,783	346,000	59,237	70,000	24,336	185,000	86,118	802,084
2019-2023	132,216	22,277	1,645,000	143,042	405,000	86,049	1,070,000	306,611	3,810,195
2024-2026	29,525	660	-	-	285,000	16,116	780,000	57,565	1,168,866
Total	<u>\$ 269,168</u>	<u>\$ 70,863</u>	<u>\$ 3,716,672</u>	<u>\$ 561,589</u>	<u>\$ 1,030,000</u>	<u>\$ 240,138</u>	<u>\$ 3,055,000</u>	<u>\$ 879,983</u>	<u>\$ 9,823,413</u>

On July 15, 2013, the City of Lake City issued \$365,000 of G.O. Improvement Refunding Bonds, Series 2013B. The proceeds were used refund, in advance of maturity, \$345,000 of the outstanding maturities of the City's G.O. Improvement Bonds, Series 2006A. The refunding resulted in an economic savings of \$15,875 for the City, with a present value of \$14,490. Future tax levy and special assessment revenues are dedicated to retire these bonds.

**CITY OF LAKE CITY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**NOTE 8 OPERATING LEASES**

The City has entered into agreements to lease City owned farmland. The lease terms are for 3 years ending in 2014. The City will receive future minimum lease payments of \$27,028 in 2014. The City received \$27,028 for these lease agreements in 2013.

**NOTE 9 COMMITMENTS AND CONTINGENCIES**

**Litigation**

The City is subject to potential litigation involving various personal injury and property loss claims. The City intends to contest vigorously any litigation, which may result from these claims. In addition, management believes no material uninsured loss will result from these claims.

**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 2013.

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 2013. 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, 2013**

**NOTE 9 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 10 RESTRICTED NET POSITION**

At December 31, 2013 the City of Lake City had the following restricted net position for other purposes:

	Governmental Activities
New Highway 61 Coalition	\$ 44
Wells Trust Scholarship	1,179
Total	\$ 1,223

All restricted net positions for other purposes were restricted via donor restrictions.

**NOTE 11 DEFINED BENEFIT PENSION PLANS - STATEWIDE**

Plan Description

All full-time and certain part-time employees of the City of Lake City are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employee Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356.

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. All new members must participate in the Coordinated Plan. All police officers, fire-fighters and peace officers who qualify for membership by statute are covered by the PEPFF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement 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.

**CITY OF LAKE CITY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**NOTE 11 DEFINED BENEFIT PENSION PLANS - STATEWIDE (CONTINUED)**

**Plan Description (Continued)**

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF and PEPFF. That report may be obtained on the internet at [www.mnpera.org](http://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.

**Funding Policy**

*Minnesota Statutes Chapter 353* sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2013. PEPFF members are required to contribute 9.6% of their annual covered salary in 2013. In 2013, the City of Lake City is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.25% for Coordinated Plan members, and 14.4% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2013, 2012, and 2011 were \$173,285, \$154,647, and \$149,410, respectively. The City's contributions to the Public Employees Police & Fire Fund for the years ending December 31, 2013, 2012, and 2011 were \$90,221, \$96,742, and \$100,451, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

**Lake City Fire Department Relief Association**

*Plan Description -*

Public Employee Retirement System (PERS) is a single-employer defined benefit pension plan administered by the Lake City Fire Department Relief Association. The Plan provides retirement, disability, and death benefits to plan members and beneficiaries. The Lake City Fire Department Relief Association has an annual audit. The audit report may be obtained by contacting the Lake City Firefighters' Relief Association.

*Funding Policy -*

The funding policy provides for periodic City contributions at actuarially determined rates that are sufficient to accumulate assets to pay benefits when due. City contribution rates are determined using the entry age normal cost actuarial funding method. Total City contributions for the years ended December 31, 2013, 2012, and 2011 were \$71,208, \$55,352, and \$62,366, respectively.

**CITY OF LAKE CITY, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**NOTE 12 PRIOR PERIOD ADJUSTMENT**

At December 31, 2012, the Internal Service Fund did not record prepaid expenditures for insurance premiums. As a result the prior year financial statements overstated expenditures in the Internal Service Fund. Additionally, the Electric Fund did not record a receivable for one of the City's industrial accounts. As a result the prior year financial statements understated revenues in the Electric Fund. As a result, January 1, 2013 net position is being restated. The impact of these restatements is as follows:

	<u>As Previously Reported</u>	<u>Restatement</u>	<u>As Restated</u>
Internal Service Fund	<u>\$ 22,567</u>	<u>\$ 44,491</u>	<u>\$ 67,058</u>
Governmental Activities	<u>\$ 19,229,641</u>	<u>\$ 44,491</u>	<u>\$ 19,274,132</u>
Proprietary Fund: Electric Utility	<u>\$ 9,155,802</u>	<u>\$ 122,765</u>	<u>\$ 9,278,567</u>
Business-Type Activities	<u>\$ 24,490,215</u>	<u>\$ 122,765</u>	<u>\$ 24,612,980</u>

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## **COMBINING FUND STATEMENTS**

**CITY OF LAKE CITY, MINNESOTA  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
DECEMBER 31, 2013**

	Special Revenue Funds					
	Library	New Highway 61 Coalition	Community Development Revolving Loan Fund	Business Development Revolving Loan Fund	Heat 'N Glo TIF #9	Bergstad Housing TIF #1
<b>ASSETS</b>						
Cash and Investments	\$ 425,074	\$ 5,188	\$ 296,619	\$ 154,579	\$ -	\$ 10,395
Loans Receivable	-	-	234,595	14,255	-	-
Due From Other Governmental Units	-	-	-	-	-	-
Taxes Receivable Delinquent	1,979	-	-	-	-	-
Special Assessments Deferred	-	-	-	-	-	-
<b>Total Assets</b>	<b>\$ 427,053</b>	<b>\$ 5,188</b>	<b>\$ 531,214</b>	<b>\$ 168,834</b>	<b>\$ -</b>	<b>\$ 10,395</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>						
<b>LIABILITIES</b>						
Accounts Payable	\$ 5,183	\$ -	\$ -	\$ -	\$ -	\$ 8,401
Retainage Payable	-	-	-	-	-	-
Accrued Liabilities	2,598	-	-	-	-	-
Deposits Payable	-	5,144	-	-	-	-
Interfund Payables	-	-	-	-	32	-
<b>Total Liabilities</b>	<b>7,781</b>	<b>5,144</b>	<b>-</b>	<b>-</b>	<b>32</b>	<b>8,401</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable Revenue	1,979	-	234,595	14,255	-	-
<b>Total Deferred Inflows of Resources</b>	<b>1,979</b>	<b>-</b>	<b>234,595</b>	<b>14,255</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCES</b>						
Restricted for:						
Debt Service	-	-	-	-	-	-
Tax Increment Financing	-	-	-	-	-	1,994
Revolving Loans	-	-	296,619	154,579	-	-
Other Purposes	-	44	-	-	-	-
Assigned for:						
Capital Projects	-	-	-	-	-	-
Committed for:						
Library	417,293	-	-	-	-	-
Unassigned:						
	-	-	-	-	(32)	-
<b>Total Fund Balances</b>	<b>417,293</b>	<b>44</b>	<b>296,619</b>	<b>154,579</b>	<b>(32)</b>	<b>1,994</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 427,053</b>	<b>\$ 5,188</b>	<b>\$ 531,214</b>	<b>\$ 168,834</b>	<b>\$ -</b>	<b>\$ 10,395</b>

Special Revenue Funds

Tax Increment #4 Downtown	Pepin Heights TIF #12	Block 25 Redevelopment TIF #13	Pepin Manufacturing TIF #14	HNT Expansion #3 TIF #15	Wells Trust Scholarship	Pepin Plaza Apartments
\$ 209,069	\$ 1,943	\$ -	\$ 9,726	\$ 46,633	\$ 1,179	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
548	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 209,617</u>	<u>\$ 1,943</u>	<u>\$ -</u>	<u>\$ 9,726</u>	<u>\$ 46,633</u>	<u>\$ 1,179</u>	<u>\$ -</u>
\$ -	\$ 3,224	\$ -	\$ 14,425	\$ 31,896	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	1,494	-	-	-	-
-	3,224	1,494	14,425	31,896	-	-
548	-	-	-	-	-	-
<u>548</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-	-
209,069	-	-	-	14,737	-	-
-	-	-	-	-	-	-
-	-	-	-	-	1,179	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	(1,281)	(1,494)	(4,699)	-	-	-
<u>209,069</u>	<u>(1,281)</u>	<u>(1,494)</u>	<u>(4,699)</u>	<u>14,737</u>	<u>1,179</u>	<u>-</u>
<u>\$ 209,617</u>	<u>\$ 1,943</u>	<u>\$ -</u>	<u>\$ 9,726</u>	<u>\$ 46,633</u>	<u>\$ 1,179</u>	<u>\$ -</u>

**CITY OF LAKE CITY, MINNESOTA  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET (CONTINUED)  
DECEMBER 31, 2013**

	Debt Service Funds				
	316 Peters 4th and 5th Street Improvement	2006 Street Improvement	2008 Street Improvement	2013A Refunding Bonds	2012 Street Improvement
<b>ASSETS</b>					
Cash and Investments	\$ 8,022	\$ 42,770	\$ 205,626	\$ 25,951	\$ 130,152
Loans Receivable	-	-	-	-	-
Due From Other Governmental Units	-	-	-	-	-
Taxes Receivable Delinquent	-	540	1,750	-	2,505
Special Assessments Deferred	8,820	89,607	-	-	-
<b>Total Assets</b>	<b>\$ 16,842</b>	<b>\$ 132,917</b>	<b>\$ 207,376</b>	<b>\$ 25,951</b>	<b>\$ 132,657</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -
Retainage Payable	-	-	-	-	-
Accrued Liabilities	-	-	-	-	-
Deposits Payable	-	-	-	-	-
Interfund Payables	-	-	-	-	-
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Revenue	8,820	90,147	1,750	-	2,505
<b>Total Deferred Inflows of Resources</b>	<b>8,820</b>	<b>90,147</b>	<b>1,750</b>	<b>-</b>	<b>2,505</b>
<b>FUND BALANCES</b>					
Restricted for:					
Debt Service	8,022	42,770	205,626	25,951	130,152
Tax Increment Financing	-	-	-	-	-
Revolving Loans	-	-	-	-	-
Other Purposes	-	-	-	-	-
Assigned for:					
Capital Projects	-	-	-	-	-
Committed for:					
Library	-	-	-	-	-
Unassigned:					
<b>Total Fund Balances</b>	<b>8,022</b>	<b>42,770</b>	<b>205,626</b>	<b>25,951</b>	<b>130,152</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 16,842</b>	<b>\$ 132,917</b>	<b>\$ 207,376</b>	<b>\$ 25,951</b>	<b>\$ 132,657</b>

<u>Capital Project Funds</u>			
<u>2009 7th Street Improvement</u>	<u>2012 Improvement Fund</u>	<u>Capital Projects</u>	<u>Total Other Governmental Funds</u>
\$ 37,134	\$ 74,704	\$ 44,378	\$ 1,729,142
-	-	-	248,850
-	-	-	-
-	-	-	7,322
-	-	-	98,427
<u>\$ 37,134</u>	<u>\$ 74,704</u>	<u>\$ 44,378</u>	<u>\$ 2,083,741</u>
\$ -	\$ -	\$ 2,508	\$ 65,637
5,000	-	-	5,000
-	-	-	2,598
-	-	-	5,144
-	-	-	1,526
<u>5,000</u>	<u>-</u>	<u>2,508</u>	<u>79,905</u>
-	-	-	354,599
-	-	-	354,599
-	-	-	412,521
-	-	-	225,800
-	-	-	451,198
-	-	-	1,223
32,134	74,704	41,870	148,708
-	-	-	417,293
-	-	-	(7,506)
<u>32,134</u>	<u>74,704</u>	<u>41,870</u>	<u>1,649,237</u>
<u>\$ 37,134</u>	<u>\$ 74,704</u>	<u>\$ 44,378</u>	<u>\$ 2,083,741</u>

**CITY OF LAKE CITY, MINNESOTA  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGE IN FUND BALANCES  
YEAR ENDED DECEMBER 31, 2013**

	Special Revenue Funds					
	Library	New Highway 61 Coalition	Community Development Revolving Loan Fund	Business Development Revolving Loan Fund	Heat 'N Glo TIF #9	Bergstad Housing TIF #1
<b>REVENUES</b>						
Taxes	\$ 91,637	\$ -	\$ -	\$ -	\$ -	\$ -
Tax Increments	-	-	-	-	-	9,334
Special Assessments	-	-	-	-	-	-
Intergovernmental	63,371	-	-	-	-	-
Charges for Services	2,818	-	-	-	-	-
Fines and forfeits	4,646	-	-	-	-	-
Earnings on Investments	(4,324)	(63)	(3,577)	(1,878)	(11)	(63)
Miscellaneous	76,841	-	22,918	-	-	-
<b>Total Revenues</b>	<b>234,989</b>	<b>(63)</b>	<b>19,341</b>	<b>(1,878)</b>	<b>(11)</b>	<b>9,271</b>
<b>EXPENDITURES</b>						
Culture and Recreation						
Library	175,732	-	-	-	-	-
Economic Development	-	-	25,339	-	1,756	11,557
Debt Service						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Capital Outlay	49,579	-	-	-	-	-
<b>Total Expenditures</b>	<b>225,311</b>	<b>-</b>	<b>25,339</b>	<b>-</b>	<b>1,756</b>	<b>11,557</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	9,678	(63)	(5,998)	(1,878)	(1,767)	(2,286)
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers In	50,000	-	-	-	-	-
Transfers Out	-	-	-	-	-	-
Bond Proceeds	-	-	-	-	-	-
Payment to Refunded Bond Agent	-	-	-	-	-	-
<b>Total Other Financing     Sources (Uses)</b>	<b>50,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>59,678</b>	<b>(63)</b>	<b>(5,998)</b>	<b>(1,878)</b>	<b>(1,767)</b>	<b>(2,286)</b>
Fund Balances - Beginning	357,615	107	302,617	156,457	1,735	4,280
Fund Balances - Ending	<u>\$ 417,293</u>	<u>\$ 44</u>	<u>\$ 296,619</u>	<u>\$ 154,579</u>	<u>\$ (32)</u>	<u>\$ 1,994</u>

Special Revenue Funds

Tax Increment #4 Downtown	Pepin Heights TIF #12	Block 25 Redevelopment TIF #13	Pepin Manufacturing TIF #14	HNT Expansion #3 TIF #15	Wells Trust Scholarship	Pepin Plaza Apartments
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
115,890	3,582	-	16,028	35,440	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
(2,445)	(9)	(6)	(50)	(173)	(16)	1,109
-	-	-	-	-	-	-
<u>113,445</u>	<u>3,573</u>	<u>(6)</u>	<u>15,978</u>	<u>35,267</u>	<u>(16)</u>	<u>1,109</u>
-	-	-	-	-	-	-
716	3,940	716	15,211	32,612	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	1,000	1,109
-	-	-	-	-	-	-
<u>716</u>	<u>3,940</u>	<u>716</u>	<u>15,211</u>	<u>32,612</u>	<u>1,000</u>	<u>1,109</u>
112,729	(367)	(722)	767	2,655	(1,016)	-
-	-	-	-	-	-	-
(150,000)	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>(150,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(37,271)	(367)	(722)	767	2,655	(1,016)	-
246,340	(914)	(772)	(5,466)	12,082	2,195	-
<u>\$ 209,069</u>	<u>\$ (1,281)</u>	<u>\$ (1,494)</u>	<u>\$ (4,699)</u>	<u>\$ 14,737</u>	<u>\$ 1,179</u>	<u>\$ -</u>

**CITY OF LAKE CITY, MINNESOTA  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGE IN FUND BALANCES (CONTINUED)  
YEAR ENDED DECEMBER 31, 2013**

	Debt Service Funds				
	316 Peters 4th and 5th Street Improvement	2006 Street Improvement	2008 Street Improvement	2013A Refunding Bonds	2012 Street Improvement
<b>REVENUES</b>					
Taxes	\$ -	\$ 33,253	\$ 107,713	\$ -	\$ 149,530
Tax Increments	-	-	-	-	-
Special Assessments	3,895	16,772	-	-	-
Intergovernmental	-	-	-	-	-
Charges for Services	-	-	-	-	-
Fines and forfeits	-	-	-	-	-
Earnings on Investments	(62)	50	(1,807)	1,592	-
Miscellaneous	-	-	-	-	-
Total Revenues	<u>3,833</u>	<u>50,075</u>	<u>105,906</u>	<u>1,592</u>	<u>149,530</u>
<b>EXPENDITURES</b>					
Culture and Recreation					
Library	-	-	-	-	-
Economic Development	-	-	-	-	-
Debt Service					
Principal	-	30,000	64,932	-	-
Interest	-	27,832	39,502	-	19,378
Miscellaneous	-	-	-	-	-
Capital Outlay	-	-	-	-	-
Total Expenditures	<u>-</u>	<u>57,832</u>	<u>104,434</u>	<u>-</u>	<u>19,378</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,833	(7,757)	1,472	1,592	130,152
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers In	-	-	-	-	-
Transfers Out	-	-	-	-	-
Bond Proceeds	-	365,000	-	24,359	-
Payment to Refunded Bond Agent	-	(345,000)	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>20,000</u>	<u>-</u>	<u>24,359</u>	<u>-</u>
Net Change in Fund Balances	3,833	12,243	1,472	25,951	130,152
Fund Balances - Beginning	<u>4,189</u>	<u>30,527</u>	<u>204,154</u>	<u>-</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 8,022</u>	<u>\$ 42,770</u>	<u>\$ 205,626</u>	<u>\$ 25,951</u>	<u>\$ 130,152</u>

Capital Project Funds			
2009 7th Street Improvement	2012 Improvement Fund	Capital Projects	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 382,133
-	-	-	180,274
7,514	-	-	28,181
-	-	-	63,371
-	-	-	2,818
-	-	-	4,646
(399)	(1,617)	(1,093)	(14,842)
-	-	-	99,759
<u>7,115</u>	<u>(1,617)</u>	<u>(1,093)</u>	<u>746,340</u>
-	-	-	175,732
-	-	-	91,847
-	-	-	94,932
-	-	-	86,712
-	-	-	2,109
-	178,126	51,373	279,078
-	<u>178,126</u>	<u>51,373</u>	<u>730,410</u>
7,115	(179,743)	(52,466)	15,930
-	-	-	50,000
-	-	-	(150,000)
-	-	-	389,359
-	-	-	<u>(345,000)</u>
-	-	-	(55,641)
7,115	(179,743)	(52,466)	(39,711)
25,019	254,447	94,336	1,688,948
<u>\$ 32,134</u>	<u>\$ 74,704</u>	<u>\$ 41,870</u>	<u>\$ 1,649,237</u>

**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, 2013**

	Budgeted Amounts		2013 Actual	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
<b>REVENUES</b>				
Taxes	\$ 90,000	\$ 90,000	\$ 91,637	\$ 1,637
Intergovernmental Revenues	48,800	48,800	63,371	14,571
Charges for Services	2,000	2,000	2,818	818
Fines and Forfeits	5,000	5,000	4,646	(354)
Investment Income	4,000	4,000	(4,324)	(8,324)
Donations	66,000	67,373	76,841	9,468
Total Revenues	<u>215,800</u>	<u>217,173</u>	<u>234,989</u>	<u>17,816</u>
<b>EXPENDITURES</b>				
Library Services	209,636	209,525	175,732	33,793
Capital Outlay	30,000	48,784	49,579	(795)
Total Expenditures	<u>239,636</u>	<u>258,309</u>	<u>225,311</u>	<u>32,998</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(23,836)	(41,136)	9,678	50,814
<b>OTHER FINANCING SOURCES</b>				
Transfers In	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>-</u>
Net Change in Fund Balance	26,164	8,864	59,678	50,814
Fund Balance - Beginning	<u>357,615</u>	<u>357,615</u>	<u>357,615</u>	<u>-</u>
Fund Balance - Ending	<u><u>\$ 383,779</u></u>	<u><u>\$ 366,479</u></u>	<u><u>\$ 417,293</u></u>	<u><u>\$ 50,814</u></u>

**CITY OF LAKE CITY, MINNESOTA  
ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT  
COMBINING BALANCE SHEET COMPONENT UNIT –  
ECONOMIC DEVELOPMENT AUTHORITY  
DECEMBER 31, 2013**

	<u>Economic Development</u>	<u>City Hall Project</u>	<u>Totals</u>
<b>ASSETS</b>			
Cash and Investments	\$ 83,233	\$ 3,979	\$ 87,212
Prepaid Expenditures	495	-	495
Taxes Receivable Delinquent	750	-	750
Due From Primary Government	44	-	44
Due From Other Governmental Units	25,183	-	25,183
Total Assets	<u>\$ 109,705</u>	<u>\$ 3,979</u>	<u>\$ 113,684</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>			
<b>LIABILITIES</b>			
Accounts Payable	\$ 61	\$ -	\$ 61
Total Liabilities	<u>61</u>	<u>-</u>	<u>61</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable Revenue	750	-	750
Total Deferred Inflows of Resources	<u>750</u>	<u>-</u>	<u>750</u>
<b>FUND BALANCES</b>			
Restricted for:			
Economic Development	<u>108,894</u>	<u>3,979</u>	<u>112,873</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 109,705</u>	<u>\$ 3,979</u>	<u>\$ 113,684</u>
Fund Balances - Component Unit			\$ 112,873
Amounts reported for governmental activities in the statement of net position are different because:			
Other long-term assets are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.			<u>750</u>
Net Position - Component Unit			<u>\$ 113,623</u>

**CITY OF LAKE CITY, MINNESOTA  
ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGE IN FUND BALANCES  
YEAR ENDED DECEMBER 31, 2013**

	Economic Development	City Hall Project	Totals
<b>REVENUES</b>			
Taxes	\$ 20,969	\$ -	\$ 20,969
Investment Income	188	(49)	139
Payment From Primary Government	30,900	-	30,900
Total Revenues	<u>52,057</u>	<u>(49)</u>	<u>52,008</u>
<b>EXPENDITURES</b>			
Economic Development	92,535	92	92,627
Total Expenditures	<u>92,535</u>	<u>92</u>	<u>92,627</u>
Net Change in Fund Balances	(40,478)	(141)	(40,619)
Fund Balances - Beginning	149,372	4,120	153,492
Fund Balances - Ending	<u>\$ 108,894</u>	<u>\$ 3,979</u>	<u>\$ 112,873</u>

Net Change in Fund Balance - Component Unit \$ (40,619)

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

Governmental funds do not report transfers of capital assets.  
Governmental activities report transfers of capital assets from a discretely presented component unit to the primary government as an expense.

Capital assets transferred to the governmental activities (1,808,895)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 8

Change in Net Position - Component Unit \$ (1,849,506)

## **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  
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, 2013, 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 July 9, 2014.

**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 entity'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 2013-001 and 2013-002 to be material weaknesses.

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

**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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Austin, Minnesota  
July 9, 2014

## INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, 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, State of Minnesota as of and for the year ended December 31, 2013, and the related notes to the financial statements and have issued our report thereon dated July 9, 2014.

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. Our audit considered all of the listed categories.

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

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  
July 9, 2014

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**CITY OF LAKE CITY, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2013**

**FINDING: 2013-001 ANNUAL FINANCIAL REPORTING UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)**

**Condition:** The City has adopted an internal control policy to review the financial statements prepared by the auditors. This control includes review of a draft copy of the financial statements by the Finance Director/Treasurer and the City Administrator, along with comparing other financial information to the draft prepared by auditors. This review is not thorough enough to catch misstatements that are possible within the financial statements, as there was a restatement of the prior year financial statements. The City has not adopted a control over disclosures or accrual information included in the annual financial report. Therefore the potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the City's internal controls.

**Criteria:** The City should be able to prevent or detect a material misstatement in the annual financial statements including footnote disclosures.

**Context:** The City has a limited number of staff.

**Effect:** The potential exists that a material misstatement 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.

**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, 2014.

**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, 2013**

**FINDING: 2013-002 ADJUSTING JOURNAL ENTRIES**

- Condition:** The audit firm proposed and the City posted to its general ledger journal entries to correct certain year-end account balances, in particular to properly record bond proceeds related to the two debt issuances in 2013.
- Criteria:** The City should have controls in place to properly record transactions in the general ledger.
- Context:** The two debt issuances in 2013 were related to governmental funds and were recorded as if they were enterprise fund debt.
- Effect:** Year-end balances were materially misstated and the misstatements were not detected by the City's internal controls.
- Cause:** The City's staff was unaware recording bond proceeds for governmental fund debt differs from the manner in which enterprise fund debt is recorded.
- 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, 2014.

**Plan to Monitor Completion of CAP:**

The City Council will be monitoring this corrective action plan.