

**CITY OF LAKE CRYSTAL  
LAKE CRYSTAL, MINNESOTA**

**AUDITED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
DECEMBER 31, 2018**

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CITY OF LAKE CRYSTAL, MINNESOTA

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CITY OF LAKE CRYSTAL, MINNESOTA

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CITY OF LAKE CRYSTAL, MINNESOTA  
ELECTED AND APPOINTED OFFICIALS  
FOR THE YEAR ENDED DECEMBER 31, 2018

ELECTED

| <u>Name</u>      | <u>Title</u>   | <u>Term Expires</u> |
|------------------|----------------|---------------------|
| Brad Ahrenstorff | Mayor          | December 31, 2018   |
| Roger Hoechst    | Council Member | December 31, 2018   |
| Gina Cooper      | Council Member | December 31, 2018   |
| Todd Wiens       | Council Member | December 31, 2020   |
| Larry Schultz    | Council Member | December 31, 2020   |

APPOINTED

| <u>Name</u>   | <u>Title</u>                          |
|---------------|---------------------------------------|
| Dennis McCoy  | Utilities Commissioner<br>Chairperson |
| Brad Nelson   | Utilities Commissioner<br>Member      |
| Don Johnson   | Utilities Commissioner<br>Member      |
| Taylor Gronau | City Administrator                    |

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# Burkhardt & Burkhardt, Ltd.

Certified Public Accountants

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## INDEPENDENT AUDITOR'S REPORT

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

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lake Crystal, Minnesota, as of and for the year ended December 31, 2018, 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lake Crystal, Minnesota, as of December 31, 2018 and the respective changes in financial position, and, where applicable, 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.

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***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management’s discussion and analysis and pension liability schedules 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***

The supplemental information as listed in the table of contents under supplemental section is the responsibility of management and was derived from and relates 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 supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***Prior Year Comparative Information***

We have previously audited the City’s 2017 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information in our report dated June 11, 2018. In our opinion, the partial comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Burkhardt & Burkhardt, Ltd.*

Burkhardt & Burkhardt, Ltd  
Mankato, Minnesota  
May 20, 2019

## MANAGEMENT'S DISCUSSION AND ANALYSIS

## **MANAGEMENT'S DISCUSISON AND ANALYSIS**

As management of the City of Lake Crystal, we offer readers of the City of Lake Crystal's financial statements this narrative overview and analysis of the financial activities of the City of Lake Crystal for the fiscal year ended December 31, 2018.

### **FINANCIAL HIGHLIGHTS**

Key financial highlights for the 2018 fiscal year include the following:

- (1) The assets and deferred outflows of resources of the City of Lake Crystal exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$23,667,433 (net position). Of this amount, \$6,490,792 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- (2) Capital assets, less depreciation, total \$16,080,774, representing a broad base of city-wide infrastructure.
- (3) As of the close of the current fiscal year, the City of Lake Crystal's governmental funds reported combined ending fund balances of \$4,487,137. \$3,536,129 of this total amount, over 79%, is available for use within the City's designations.
- (4) At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,761,177 or 110% of total general fund expenditures.
- (5) The City of Lake Crystal had a net decrease in the existing debt principal in the governmental activities of \$336,000 and a net decrease in the existing debt principal in the business-type activities of \$551,000 during the current fiscal year.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the City's basic financial statements, which consist of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of combining and individual fund financial statements and schedules that further explains and supports the information in the financial statements. Figure 1 shows how the required parts of the annual report are arranged and relate to one another. In addition to these required elements, we have included a section with combining and individual fund financial statements and schedules that provide details about nonmajor governmental funds, which are added together and presented in single columns in the basic financial statements.

**FIGURE 1 – REQUIRED COMPONENTS OF THE CITY'S ANNUAL FINANCIAL REPORT**

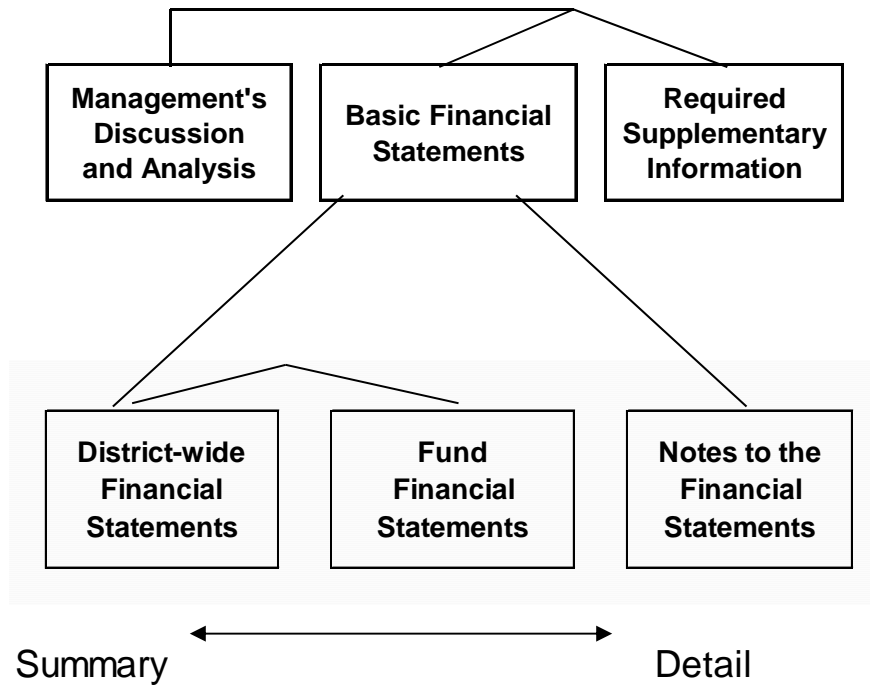


Figure 2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of the overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

**Figure 2  
Major features of the Government-wide and Fund Financial Statements**

|  | <b>Fund Financial Statements</b>   |  |   |
|--|--|--|---|
|  | <b>Government-wide Statements</b>  | <b>Governmental Funds</b>  | <b>Proprietary Funds</b>  |
| Scope                                  | Entire City government (except fiduciary funds) and the City’s component units                                   | The activities of the City that are not proprietary or fiduciary, such as police, fire and parks   | Activities the City operates similar to private businesses, such as the water and sewer system  |
| Require financial statements           | <ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Activities</li> </ul> | <ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenue, Expenditures, and Changes in Fund Balances</li> </ul>  | <ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Revenues, Expenses and Changes in Net Position</li> <li>• Statement of Cash Flows</li> </ul> |
| Accounting Basis and measurement focus | Accrual accounting and economic resources focus  | Modified accrual accounting and current financial resources focus  | Accrual accounting and economic resources focus   |
| Type of asset/liability information    | All assets and liabilities, both financial and capital, and short-term and long-term                             | Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital asset included   | All assets and liabilities, both financial and capital, and short-term and long-term  |
| Type of inflow/outflow information     | All revenues and expenses during year, regardless or when cash is received or paid                               | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter | All revenues and expenses during the year; regardless of when cash is received or paid  |

**Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the City of Lake Crystal’s finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the City of Lake Crystal’s assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Lake Crystal is improving or 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 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). The 2018 Statement provides for an increase in net position in the governmental funds and a slight decrease in the business-type activities, as the investment in capital assets in both governmental and business activities increased.

Both of the government-wide financial statements distinguish functions of the City of Lake Crystal 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 Crystal include general government, public safety, public works, parks and recreation and interest on long-term debt. The business-type activities of the City of Lake Crystal include the electric, water and sewer utilities.

The government wide financial statements can be found on pages 18 and 19 of this report.

## **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 Crystal, 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 Crystal 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 City's near-term financial decisions. The Governmental Funds Balance Sheet and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Lake Crystal maintains ten individual governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General fund, Southwest Street & Utility Project fund, and Debt Service fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Lake Crystal adopts an annual appropriated budget for its General, Special Revenue and Capital Projects funds. A budgetary comparison statement has been provided for the General fund to demonstrate compliance with this budget.

The basic governmental funds financial statements can be found on pages 21 - 27 of this report.

### **Proprietary Funds**

The City of Lake Crystal maintains three types of Proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the governmental-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The Proprietary funds financial statements provide separate information for the Enterprise funds, all of which are considered to be major funds of the City of Lake Crystal.

The basic Proprietary fund financial statements can be found on pages 28 - 30 of this report.

## **Notes to the Financial Statements**

The notes provided 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 31 - 64 of this report.

## **Required Supplementary Information**

In addition to the basic financial statements and accompanying notes, this report also present certain required supplementary information concerning the City of Lake Crystal's share of net pension liabilities for defined benefits plans and schedules of contributions. Required supplementary information can be found starting on page 66 of this report.

## Other Information

The combining statements and schedules referred to earlier on connection with nonmajor governmental fund are presented following the notes to the financial statements. Combining and individual fund financial statements and schedules start on page 54 of this report.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Lake Crystal, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$23,667,433 at the close of the most recent fiscal year.

By far the largest portion of the City of Lake Crystal's net position reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City of Lake Crystal uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Lake Crystal'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.

A condensed version of the Statement of Net Position at December 31, 2018 follows:

### City of Lake Crystal's Summary of Net Position

|   | Governmental Activities |                      |                        | Business-type Activities |                      |                        |
|---|-------------------------|----------------------|------------------------|--------------------------|----------------------|------------------------|
|   | <i>2018</i>             | <i>2017</i>          | Increase<br>(Decrease) | <i>2018</i>              | <i>2017</i>          | Increase<br>(Decrease) |
| <i>Assets</i>   |                         |                      |                        |                          |                      |                        |
| Current and other assets  | \$ 5,117,503            | \$ 5,506,656         | \$ (389,153)           | \$ 4,092,547             | \$ 4,375,151         | (282,604)              |
| Capital assets  | 9,781,576               | 9,559,548            | 222,028                | 11,836,481               | 11,728,616           | 107,865                |
|   | <u>14,899,079</u>       | <u>15,066,204</u>    | <u>(167,125)</u>       | <u>15,929,028</u>        | <u>16,103,767</u>    | <u>(174,739)</u>       |
| <i>Deferred Outflows of Resources</i>   |                         |                      |                        |                          |                      |                        |
| Pension plan deferments   | 455,216                 | 552,143              | (96,927)               | 162,413                  | 199,587              | (37,174)               |
| Deferred refunding debits   | 11,218                  | 14,074               | (2,856)                | 25,068                   | 27,595               | (2,527)                |
|   | <u>466,434</u>          | <u>566,217</u>       | <u>(99,783)</u>        | <u>187,481</u>           | <u>227,182</u>       | <u>(39,701)</u>        |
| <i>Liabilities</i>  |                         |                      |                        |                          |                      |                        |
| Current liabilities   | 593,997                 | 724,998              | (131,001)              | 845,599                  | 821,887              | 23,712                 |
| Long-term liabilities   | 1,854,885               | 2,252,535            | (397,650)              | 3,796,937                | 4,427,042            | (630,105)              |
|   | <u>2,448,882</u>        | <u>2,977,533</u>     | <u>(528,651)</u>       | <u>4,642,536</u>         | <u>5,248,929</u>     | <u>(606,393)</u>       |
| <i>Deferred Inflows of Resources</i>  |                         |                      |                        |                          |                      |                        |
| Pension plan deferments   | 544,235                 | 597,404              | (53,169)               | 178,936                  | 190,942              | (12,006)               |
|   | <u>544,235</u>          | <u>597,404</u>       | <u>(53,169)</u>        | <u>178,936</u>           | <u>190,942</u>       | <u>(12,006)</u>        |
| <b>Excess of total assets and deferred outflows of resources over total liabilities and deferred inflows of resources</b> | <b>\$ 12,372,396</b>    | <b>\$ 12,057,484</b> | <b>\$ 314,912</b>      | <b>\$ 11,295,037</b>     | <b>\$ 10,891,078</b> | <b>403,959</b>         |
| <i>Net Position</i>   |                         |                      |                        |                          |                      |                        |
| Net Investment in   |                         |                      |                        |                          |                      |                        |
| Capital Assets  | \$ 8,102,905            | \$ 7,539,557         | 563,348                | \$ 7,977,869             | \$ 7,299,426         | 678,443                |
| Restricted  | 951,867                 | 739,583              | 212,284                | 144,000                  | 144,000              | -                      |
| Unrestricted  | 3,317,624               | 3,778,344            | (460,720)              | 3,173,168                | 3,447,652            | (274,484)              |
| <b>Total net position</b>   | <b>\$ 12,372,396</b>    | <b>\$ 12,057,484</b> | <b>\$ 314,912</b>      | <b>\$ 11,295,037</b>     | <b>\$ 10,891,078</b> | <b>\$ 403,959</b>      |

A portion of the City of Lake Crystal's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$6,490,792 may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Lake Crystal 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 separate governmental and business-type activities.

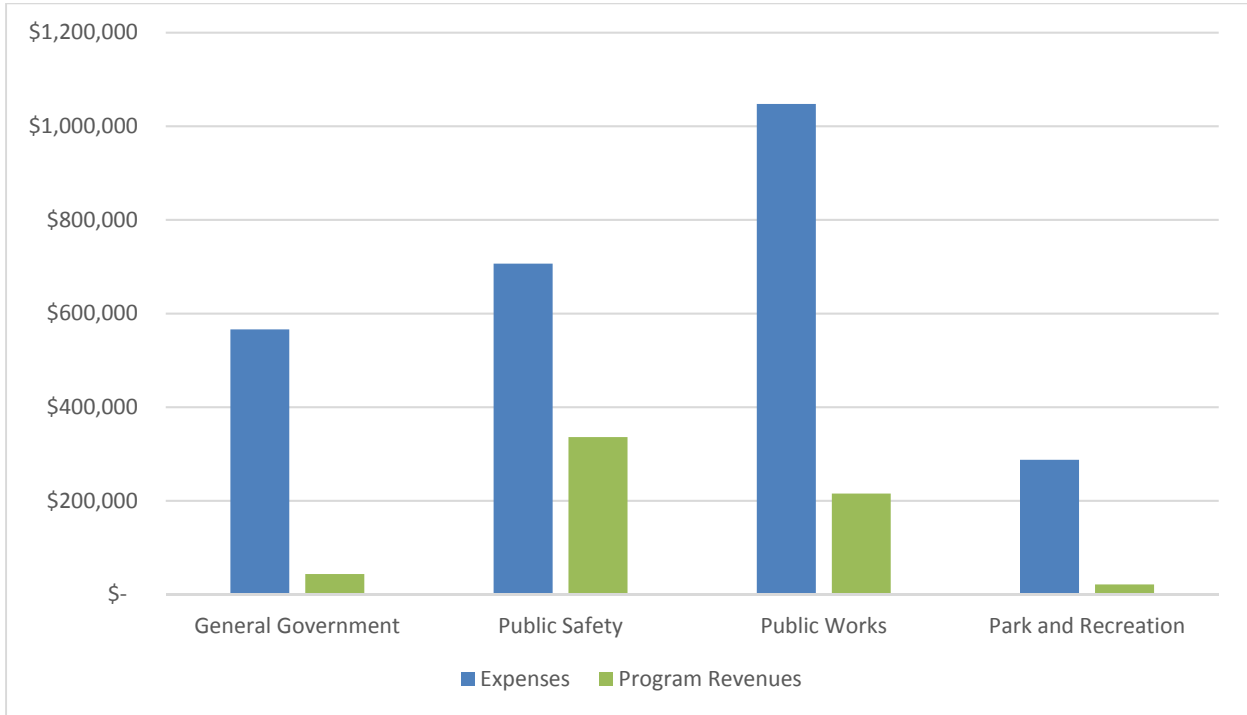
Governmental and business-type activities increased the City of Lake Crystal's net position by \$718,863. Key elements of this increase are as follows:

### City of Lake Crystal's Changes in Net Position

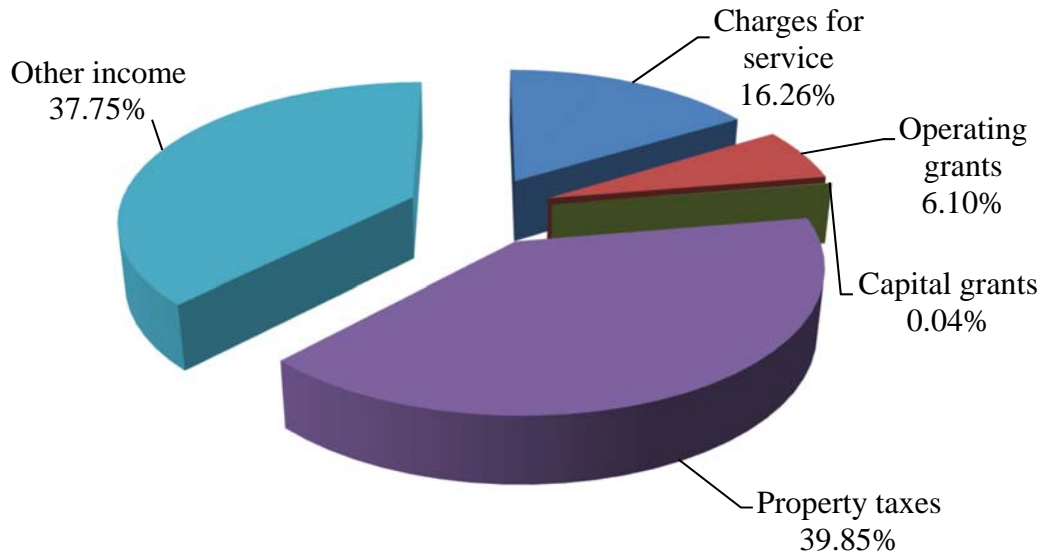
|                                    | Governmental Activities |                      |                        | Business-type Activities |                      |                        |
|------------------------------------|-------------------------|----------------------|------------------------|--------------------------|----------------------|------------------------|
|                                    | <u>2018</u>             | <u>2017</u>          | Increase<br>(Decrease) | <u>2018</u>              | <u>2017</u>          | Increase<br>(Decrease) |
| <i>Revenues</i>                    |                         |                      |                        |                          |                      |                        |
| Program revenues                   |                         |                      |                        |                          |                      |                        |
| Charges for services               | \$ 447,196              | \$ 447,528           | \$ (332)               | \$ 4,479,694             | \$ 4,456,135         | \$ 23,559              |
| Operating grants and contributions | 167,642                 | 131,552              | 36,090                 | -                        | -                    | -                      |
| Capital grants and contributions   | 1,146                   | (4,651)              | 5,797                  | -                        | -                    | -                      |
| General revenues                   |                         |                      |                        |                          |                      |                        |
| Property taxes                     | 1,095,664               | 1,241,808            | (146,144)              | -                        | -                    | -                      |
| Intergovernmental                  | 857,131                 | 881,347              | (24,216)               | -                        | -                    | -                      |
| Other sources                      | 180,970                 | 100,102              | 80,868                 | 5,759                    | 47,936               | (42,177)               |
| Total Revenue                      | <u>2,749,749</u>        | <u>2,797,686</u>     | <u>(47,937)</u>        | <u>4,485,453</u>         | <u>4,504,071</u>     | <u>(18,618)</u>        |
| <i>Expenses</i>                    |                         |                      |                        |                          |                      |                        |
| General Government                 | 565,891                 | 660,284              | (94,393)               | -                        | -                    | -                      |
| Public Safety                      | 706,548                 | 687,407              | 19,141                 | -                        | -                    | -                      |
| Public Works                       | 1,047,455               | 843,782              | 203,673                | -                        | -                    | -                      |
| Park and Recreation                | 287,443                 | 273,398              | 14,045                 | -                        | -                    | -                      |
| Electric                           | -                       | -                    | -                      | 2,631,605                | 2,595,000            | 36,605                 |
| Water                              | -                       | -                    | -                      | 648,888                  | 671,916              | (23,028)               |
| Sewer                              | -                       | -                    | -                      | 580,160                  | 469,450              | 110,710                |
| Interest on long-term debt         | 48,349                  | 93,518               | (45,169)               | -                        | -                    | -                      |
| Total Expenses                     | <u>2,655,686</u>        | <u>2,558,389</u>     | <u>97,297</u>          | <u>3,860,653</u>         | <u>3,736,366</u>     | <u>124,287</u>         |
| Transfer                           | 220,838                 | 218,514              | 2,324                  | (220,838)                | (218,514)            | (2,324)                |
| Change in Net Position             | 314,901                 | 457,811              | (142,910)              | 403,962                  | 549,191              | (145,229)              |
| Net position - January 1           | 12,057,495              | 11,599,684           | 457,811                | 10,891,075               | 10,341,884           | 549,191                |
| Net position - December 31         | <u>\$ 12,372,396</u>    | <u>\$ 12,057,495</u> | <u>\$ 314,901</u>      | <u>\$ 11,295,037</u>     | <u>\$ 10,891,075</u> | <u>\$ 403,962</u>      |



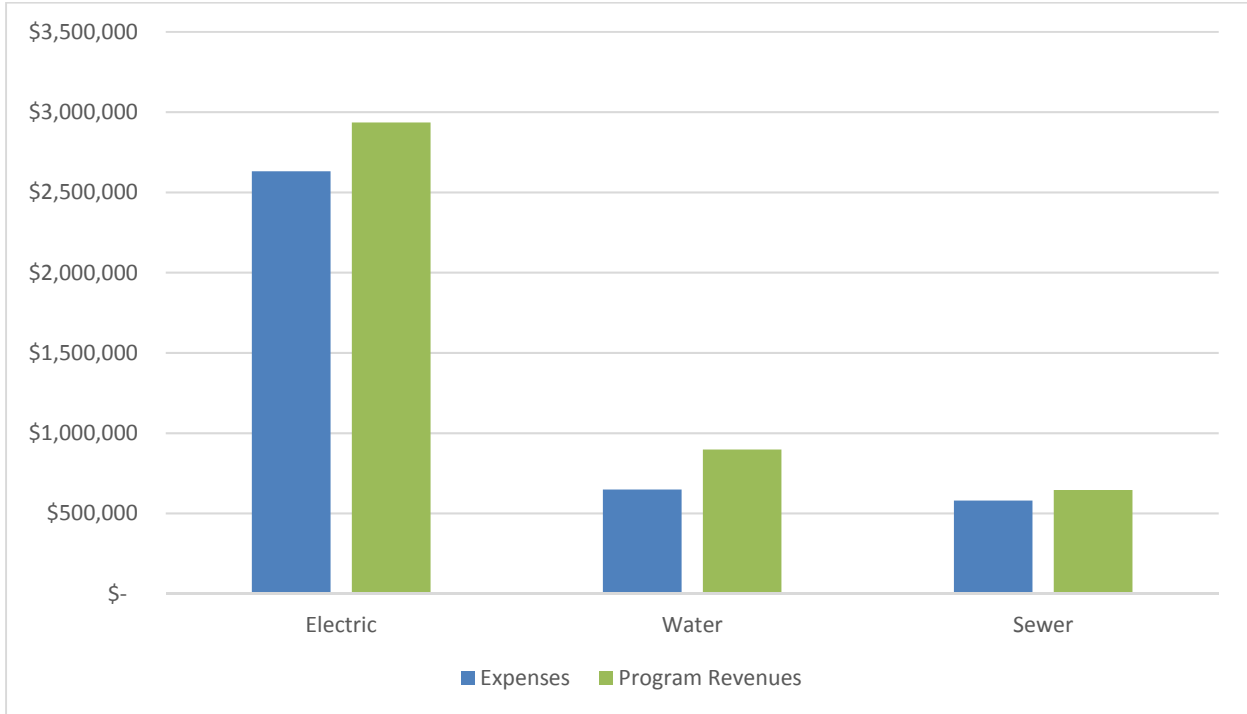
## Expenses and Program Revenues – Governmental Activities



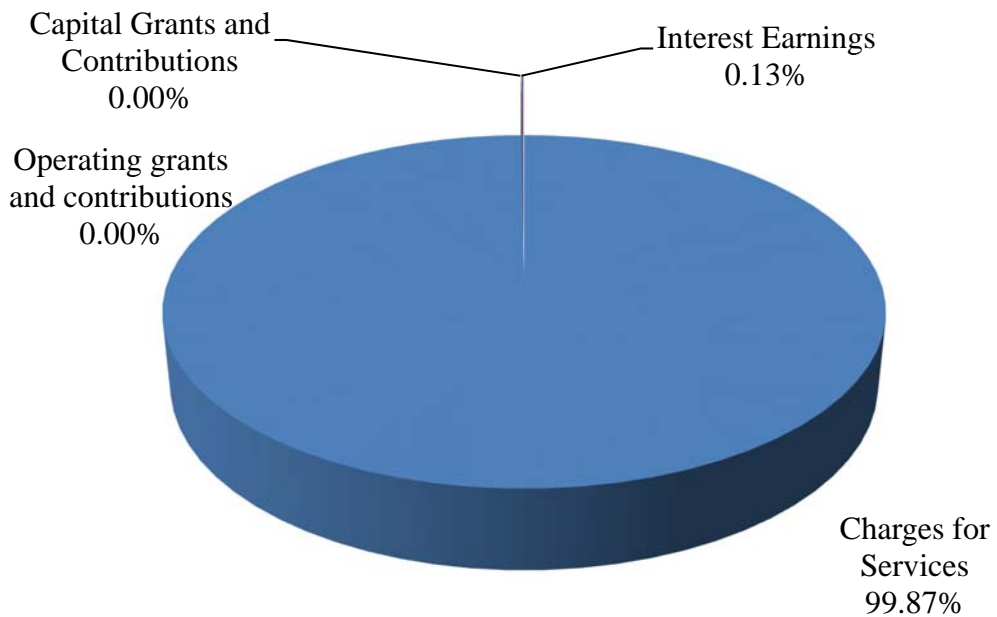
## Revenues by Source – Governmental Activities



## Expenses and Program Revenues – Business-Type Activities



## Revenue by Source – Business-Type Activities



## FUND FINANCIAL ANALYSIS

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

### **Governmental Funds**

The focus of the City of Lake Crystal'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 Crystal's financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City of Lake Crystal's governmental funds reported combined ending fund balances of \$4,487,137. The unreserved fund balance constitutes \$3,693,531 of the total combined ending fund balance. The remainder of the fund balance is reserved, and is not available for new spending because it has already been committed to debt service payments and special revenue funds and other restrictions in the amount of \$793,606.

The General fund is the chief operating fund of the City. At the end of the current year, the fund balance of the General fund was \$3,350,538. As a measure of the General fund's liquidity, it may be useful to compare total fund balance to total expenditures. Total unassigned fund balance represents 150% of total 2018 actual expenditures. The General fund balance decreased \$7,205, during the year, primarily due to capital improvements related Robinson Park and sidewalk installation.

The Southwest Street & Utility Project fund had a fund balance of \$(129,564). The fund was established to account for project costs relating to the construction activity of the street and utility improvement for Southwest Street. The project was not let for bids as of December 31, 2018.

The Debt Service fund had a fund balance of \$561,169. The fund was established to properly account for the resources necessary to meet debt service requirements.

### **Proprietary Funds**

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Other factors concerning the finance of the fund have already been addressed in the discussion of the City's business-type activities.

The City of Lake Crystal's Proprietary funds have unrestricted net position as follows:

|               |              |
|---------------|--------------|
| Electric fund | \$ 2,167,586 |
| Water fund    | \$ 5,535,261 |
| Sewer fund    | \$ 3,448,190 |

## BUDGETARY HIGHLIGHTS

### **General Fund.**

The City of Lake Crystal decreased its general tax levy collectible in 2018 by 2.5% from the 2017 levy. Local government aid from the state has stabilized and with budget surpluses at the state level the last few years it appears that source of revenue is in good shape. There were no budget amendments during the year. The City budgeted revenues to exceed expenditures by \$60,250.

Revenues were over the budgeted sources by \$104,942, with the following significant variances:

- Fire department grants provided by FEMA were over budget by \$95,092

Expenditures were over the budgeted appropriations by \$226,634, with the following significant variances:

- Public safety was over budget for capital outlay by \$107,204, primarily for purchase of air pack with unbudgeted grant proceeds
- Park and recreation was over budget for capital outlay by \$193,003, primarily related to improvements to Robinson Park and sidewalk installation.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### CAPITAL ASSETS

The city continued to invest in capital equipment to provide the best services for its residents. Many donations and grants were obtained to help offset purchase costs. All bonded debt was reduced with annual payments.

The City of Lake Crystal's investment in capital assets for its governmental and business-type activities as of December 31, 2018 amounts to \$21,618,057(net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, and infrastructure.

Major capital asset events during the current fiscal year included the following:

- 2018 Chevy Silverado
- Generator and fuel tanks
- Water tower renovations
- Sidewalk improvements
- Abbott Field renovation
- Robinson Park comfort station and train improvements
- Air packs for the fire department

|                         | <u>Governmental Activities</u> |                             |                          | <u>Business-type Activities</u> |                             |                          |
|-------------------------|--------------------------------|-----------------------------|--------------------------|---------------------------------|-----------------------------|--------------------------|
|                         | <u>2018</u>                    | <u>2017</u>                 | Increase<br>(Decrease)   | <u>2018</u>                     | <u>2017</u>                 | Increase<br>(Decrease)   |
| Land and Improvements   | \$ 501,358                     | \$ 501,358                  | \$ -                     | \$ 31,700                       | \$ 31,700                   | \$ -                     |
| Buildings               | 6,201,582                      | 6,024,932                   | 176,650                  | 7,897,139                       | 7,488,615                   | 408,524                  |
| Equipment               | 2,347,728                      | 2,232,899                   | 114,829                  | 3,084,659                       | 3,025,107                   | 59,552                   |
| Infrastructure          | 5,891,531                      | 5,831,334                   | 60,197                   | 10,066,484                      | 10,066,484                  | -                        |
| Construction in process | 164,821                        | -                           | 164,821                  | 62,559                          | 62,559                      | -                        |
| <b>Total</b>            | <b><u>\$ 15,107,019</u></b>    | <b><u>\$ 14,590,522</u></b> | <b><u>\$ 516,497</u></b> | <b><u>\$ 21,142,540</u></b>     | <b><u>\$ 20,674,464</u></b> | <b><u>\$ 468,076</u></b> |

### LONG-TERM DEBT

At the end of the fiscal year, the City of Lake Crystal had total long-term debt of \$6,572,822. This consisted of \$495,000 for special assessment bonds, \$2,911,000 for G.O. revenue bonds, \$1,110,000 for revenue bonds, \$905,000 for G.O. capital improvement bonds, \$910,504 for net pension liability, \$96,748 for compensated absences, and \$144,570 for bond premiums. State statutes limits the amount of general obligation debt a Minnesota city may issue to 3% (percent) of the total estimated market value. More detailed information on the City's long-term debt is presented in the Notes to the Financial Statement.

Key elements of long-term debt are as follows:

|  | <u>2018</u>         | <u>2017</u>         | Increase<br>(Decrease) |
|--|---------------------|---------------------|------------------------|
| <b>Governmental Activities:</b>              |                     |                     |                        |
| General Obligation Bonds                     | \$ 1,400,000        | \$ 1,670,000        | \$ (270,000)           |
| Revenue Bonds                                | <u>260,000</u>      | <u>326,000</u>      | <u>(66,000)</u>        |
| Total Governmental Activities Long-Term Debt | 1,660,000           | 1,996,000           | (336,000)              |
| <b>Business-type Activities:</b>             |                     |                     |                        |
| General Obligation Revenue Bonds             | 2,911,000           | 3,337,000           | (426,000)              |
| Revenue Bonds                                | <u>850,000</u>      | <u>975,000</u>      | <u>(125,000)</u>       |
| Total Long-Term Debt                         | <u>\$ 5,421,000</u> | <u>\$ 6,308,000</u> | <u>\$ (887,000)</u>    |
| <b>Bonded Debt:</b>                          |                     |                     |                        |
| General Obligation Bonds                     | \$ 1,400,000        | \$ 1,670,000        | \$ (270,000)           |
| General Obligation Revenue Bonds             | 2,911,000           | 3,337,000           | (426,000)              |
| Revenue Bonds                                | <u>1,110,000</u>    | <u>1,301,000</u>    | <u>(191,000)</u>       |
| Total Bonded Debt                            | <u>\$ 5,421,000</u> | <u>\$ 6,308,000</u> | <u>\$ (887,000)</u>    |

### **FACTORS BEARING ON THE CITY'S FUTURE**

The economic outlook for Blue Earth County remains stable. The agricultural economy around the Lake Crystal area remains strong with continued strong land prices. The tax capacity of the City of Lake Crystal increased by \$27,696 or 1.8% between 2018 and 2019. This was despite the demolition of grain facilities and the reduction in the assessed value of an assisted living facility. New construction, particularly home construction, offset these reductions. New construction was strong again in 2018, with 7 permits approved for new homes. Initial indications are that tax capacity is expected to remain stable with potential for slight growth going forward. All of these factors were considered in preparing the City of Lake Crystal's budget for 2019 and will be for the 2020 fiscal year as well.

For the 2019 fiscal year, general fund revenue and expenditure projections remained conservative. The 2019 general fund budget for both revenues and expenditures is \$2,571,433. The 2019 general fund budget includes funding for the following:

- \$175,000 for the purchase of an ambulance
- \$55,000 for the purchase of a police squad
- \$15,000 for the purchase of new lawn mowers
- \$12,500 for the purchase of a new vac-tron
- \$25,000 for sidewalk maintenance projects
- \$147,000 for street maintenance projects

The 2019 proprietary fund (electric, water, sewer) budget is \$4,581,651 for revenues and \$4,611,913 for expenditures, resulting in a net loss of \$29,975. Reflected in the 2019 budget is a 1% general rate increase in electric, water and sewer rates, respectively. The 2019 proprietary fund budget includes funding for the following:

- \$1,791,860 for purchased power
- \$691,297 for debt expense (principal and interest)
- \$229,229 for franchise fees paid to the City Debt Service Fund
- \$120,000 for depreciation expense
- \$177,000 for electric supplies and maintenance (power plant, reconstruction project, etc.)
- \$37,500 for the purchase of a new vac-tron

The 2019/2020 Southwest Street and Utility Improvement Project was approved and started in 2019. The project is expected to be substantially complete by October 2020. The City issued 20-year bonds to finance the water and sewer collection system improvements. The bonds will add approximately \$133,855 in debt service payments beginning in 2020. Improvements to the electric distribution system will also be completed with the project. The total expected cost for these improvements is \$220,000 and will be paid for through the 2019 and 2020 annual budgets.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City of Lake Crystal's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Administrator, City of Lake Crystal, 100 E. Robinson St., Lake Crystal, MN, 56055.

## BASIC FINANCIAL STATEMENTS

## CITY OF LAKE CRYSTAL, MINNESOTA

STATEMENT OF NET POSITION  
December 31, 2018

|  | Governmental<br>Activities | Business-Type<br>Activities | Total                |
|--|----------------------------|-----------------------------|----------------------|
| <b>ASSETS AND DEFERRED<br/>OUTFLOWS OF RESOURCES</b>                         |                            |                             |                      |
| <b>Assets:</b>   |                            |                             |                      |
| Cash and Cash Equivalents  | \$ 3,748,571               | \$ 2,448,449                | \$ 6,197,020         |
| Investments  | 652,825                    | 1,132,196                   | 1,785,021            |
| Receivables:   |                            |                             |                      |
| Property Taxes   | 56,975                     | 0                           | 56,975               |
| Special Assessments  | 156,473                    | 0                           | 156,473              |
| Accounts, Net  | 143,708                    | 460,760                     | 604,468              |
| Notes, Net   | 9,899                      | 0                           | 9,899                |
| Prepaid Expenses   | 107,402                    | 76,051                      | 183,453              |
| Internal Balances  | 138,158                    | (138,158)                   | 0                    |
| Inventory  | 0                          | 113,249                     | 113,249              |
| Net Pension Asset  | 103,492                    | 0                           | 103,492              |
| Capital Assets, Net  | 9,781,576                  | 11,836,481                  | 21,618,057           |
| Total Assets   | <u>14,899,079</u>          | <u>15,929,028</u>           | <u>30,828,107</u>    |
| <b>Deferred Outflows of Resources:</b>                                       |                            |                             |                      |
| Pension Plan Deferments  | 455,216                    | 162,413                     | 617,629              |
| Deferred Refunding Debits  | 11,218                     | 25,068                      | 36,286               |
|  | <u>466,434</u>             | <u>187,481</u>              | <u>653,915</u>       |
| <b>TOTAL ASSETS AND DEFERRED<br/>OUTFLOWS OF RESOURCES</b>                   | <u>\$ 15,365,513</u>       | <u>\$ 16,116,509</u>        | <u>\$ 31,482,022</u> |
| <b>LIABILITIES, DEFERRED INFLOWS OF<br/>RESOURCES AND NET POSITION</b>       |                            |                             |                      |
| <b>Liabilities:</b>  |                            |                             |                      |
| Accounts Payable   | \$ 243,029                 | \$ 231,541                  | \$ 474,570           |
| Accrued Expenses   | 17,968                     | 26,058                      | 44,026               |
| Current Portion of Long-term Debt  | 333,000                    | 588,000                     | 921,000              |
| Compensated Absences   | 42,147                     | 54,601                      | 96,748               |
| Net Pension Liability  | 455,849                    | 454,655                     | 910,504              |
| Long-term Debt, Less Current Portion   | 1,356,889                  | 3,287,681                   | 4,644,570            |
| Total Liabilities  | <u>2,448,882</u>           | <u>4,642,536</u>            | <u>7,091,418</u>     |
| <b>Deferred Inflows of Resources:</b>  |                            |                             |                      |
| Pension Plan Deferments  | 544,235                    | 178,936                     | 723,171              |
|  | <u>544,235</u>             | <u>178,936</u>              | <u>723,171</u>       |
| <b>Net Position:</b>   |                            |                             |                      |
| Net Investment in Capital Assets   | 8,102,905                  | 7,977,869                   | 16,080,774           |
| Restricted   | 951,867                    | 144,000                     | 1,095,867            |
| Unrestricted   | 3,317,624                  | 3,173,168                   | 6,490,792            |
| Total Net Position   | <u>12,372,396</u>          | <u>11,295,037</u>           | <u>23,667,433</u>    |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF<br/>RESOURCES AND NET POSITION</b> | <u>\$ 15,365,513</u>       | <u>\$ 16,116,509</u>        | <u>\$ 31,482,022</u> |

The Notes to the Financial Statements are an Integral Part of this Statement.



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CITY OF LAKE CRYSTAL, MINNESOTA

STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2018

| Functions/Programs               | Expenses            | Program Revenues     |                                    |                                  |
|----------------------------------|---------------------|----------------------|------------------------------------|----------------------------------|
|                                  |                     | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| <b>GOVERNMENTAL ACTIVITIES:</b>  |                     |                      |                                    |                                  |
| General Government               | \$ 565,891          | \$ 43,314            | \$ 150                             | \$ 0                             |
| Public Safety                    | 706,548             | 208,917              | 127,016                            | 0                                |
| Public Works                     | 1,047,455           | 194,965              | 19,212                             | 1,146                            |
| Parks and Recreation             | 287,443             | 0                    | 21,264                             | 0                                |
| Interest on Long-term Debt       | 48,349              | 0                    | 0                                  | 0                                |
| Total Governmental Activities    | <u>2,655,686</u>    | <u>447,196</u>       | <u>167,642</u>                     | <u>1,146</u>                     |
| <b>BUSINESS-TYPE ACTIVITIES:</b> |                     |                      |                                    |                                  |
| Electric                         | 2,631,605           | 2,935,541            | 0                                  | 0                                |
| Water                            | 648,888             | 898,433              | 0                                  | 0                                |
| Sewer                            | 580,160             | 645,720              | 0                                  | 0                                |
| Total Business-Type Activities   | <u>3,860,653</u>    | <u>4,479,694</u>     | <u>0</u>                           | <u>0</u>                         |
| Total Primary Government         | <u>\$ 6,516,339</u> | <u>\$ 4,926,890</u>  | <u>\$ 167,642</u>                  | <u>\$ 1,146</u>                  |

General Revenues:

Property Taxes, levied for General Purposes  
 Property Taxes, levied for Debt Service  
 Franchise Fees  
 Intergovernmental  
 Interest and Investment Earnings  
 Other Income  
 Transfers  
 Total General Revenues

Changes in Net Position

Net Position - Beginning

Net Position - Ending

The Notes to the Consolidated Financial Statements are an Integral Part of this Statement.

Net (Expenses) Revenues and  
Changes in Net Position

Primary Government

| Governmental<br>Activities | Business-Type<br>Activities | Total                |
|----------------------------|-----------------------------|----------------------|
| \$ (522,427)               | \$ 0                        | \$ (522,427)         |
| (370,615)                  | 0                           | (370,615)            |
| (832,132)                  | 0                           | (832,132)            |
| (266,179)                  | 0                           | (266,179)            |
| (48,349)                   | 0                           | (48,349)             |
| <u>(2,039,702)</u>         | <u>0</u>                    | <u>(2,039,702)</u>   |
| 0                          | 303,936                     | 303,936              |
| 0                          | 249,545                     | 249,545              |
| 0                          | 65,560                      | 65,560               |
| <u>0</u>                   | <u>619,041</u>              | <u>619,041</u>       |
| <u>(2,039,702)</u>         | <u>619,041</u>              | <u>(1,420,661)</u>   |
| 981,915                    | 0                           | 981,915              |
| 113,749                    | 0                           | 113,749              |
| 96,781                     | 0                           | 96,781               |
| 857,131                    | 0                           | 857,131              |
| 8,364                      | 5,759                       | 14,123               |
| 75,825                     | 0                           | 75,825               |
| 220,838                    | (220,838)                   | 0                    |
| <u>2,354,603</u>           | <u>(215,079)</u>            | <u>2,139,524</u>     |
| 314,901                    | 403,962                     | 718,863              |
| <u>12,057,495</u>          | <u>10,891,075</u>           | <u>22,948,570</u>    |
| <u>\$ 12,372,396</u>       | <u>\$ 11,295,037</u>        | <u>\$ 23,667,433</u> |

The Notes to the Financial Statements are an Integral Part of this Statement.

CITY OF LAKE CRYSTAL, MINNESOTA

BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2018

|  | General                    | Debt<br>Service<br>Funds | Southwest<br>Street & Utility<br>Project |
|--|----------------------------|--------------------------|--|
| <b>ASSETS</b>  |                            |                          |  |
| Cash and Cash Equivalents  | \$ 2,984,623               | \$ 339,729               | \$ 63,716                                |
| Investments  | 310,702                    | 0                        | 0  |
| Receivables:   |                            |                          |  |
| Property Taxes   | 50,822                     | 6,153                    | 0  |
| Special Assessments  | 0                          | 156,473                  | 0  |
| Franchise Fee  | 70,022                     | 0                        | 0  |
| Accounts   | 73,623                     | 0                        | 0  |
| Notes  | 0                          | 0                        | 0  |
| Interest   | 32                         | 31                       | 0  |
| Due From Other Funds   | 17,319                     | 220,838                  | 0  |
| Prepaid Expenses   | 107,402                    | 0                        | 0  |
| Interfund Advance  | 50,000                     | 0                        | 0  |
| <b>TOTAL ASSETS</b>  | <b><u>\$ 3,664,545</u></b> | <b><u>\$ 723,224</u></b> | <b><u>\$ 63,716</u></b>                  |
| <b>LIABILITIES, DEFERRED INFLOWS<br/>OF RESOURCES AND FUND BALANCE</b>       |                            |                          |  |
| <b>Liabilities:</b>  |                            |                          |  |
| Accounts Payable   | \$ 190,668                 | \$ 1,550                 | \$ 43,280                                |
| Accrued Expenses   | 15,725                     | 0                        | 0  |
| Interfund Advance  | 0                          | 0                        | 150,000                                  |
| Total Liabilities  | <u>206,393</u>             | <u>1,550</u>             | <u>193,280</u>                           |
| <b>Deferred Inflows of Resources:</b>  |                            |                          |  |
| Unavailable Revenue  | <u>107,614</u>             | <u>160,505</u>           | <u>0</u>                                 |
| <b>Fund Balance:</b>   |                            |                          |  |
| Nonspendable   | 157,402                    | 0                        | 0  |
| Restricted   | 0                          | 561,169                  | 0  |
| Committed  | 0                          | 0                        | 0  |
| Assigned   | 431,959                    | 0                        | 0  |
| Unassigned   | 2,761,177                  | 0                        | (129,564)                                |
| Total Fund Balance   | <u>3,350,538</u>           | <u>561,169</u>           | <u>(129,564)</u>                         |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS<br/>OF RESOURCES AND FUND BALANCE</b> | <b><u>\$ 3,664,545</u></b> | <b><u>\$ 723,224</u></b> | <b><u>\$ 63,716</u></b>                  |

The Notes to the Financial Statements are an Integral Part of this Statement.

| Other<br>Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Fund |
|--|-------------------------------|
| \$ 360,497                                 | \$ 3,748,565                  |
| 342,123                                    | 652,825                       |
| 0  | 56,975                        |
| 0  | 156,473                       |
| 0  | 70,022                        |
| 0  | 73,623                        |
| 9,899                                      | 9,899                         |
| 0  | 63                            |
| 0  | 238,157                       |
| 0  | 107,402                       |
| 0  | 50,000                        |
| <u>\$ 712,519</u>                          | <u>\$ 5,164,004</u>           |

|              |                |
|--------------|----------------|
| \$ 7,525     | \$ 243,023     |
| 0            | 15,725         |
| 0            | 150,000        |
| <u>7,525</u> | <u>408,748</u> |

|          |                |
|----------|----------------|
| <u>0</u> | <u>268,119</u> |
|----------|----------------|

|                |                  |
|----------------|------------------|
| 0              | 157,402          |
| 232,437        | 793,606          |
| 182,572        | 182,572          |
| 289,985        | 721,944          |
| 0              | 2,631,613        |
| <u>704,994</u> | <u>4,487,137</u> |

|                   |                     |
|-------------------|---------------------|
| <u>\$ 712,519</u> | <u>\$ 5,164,004</u> |
|-------------------|---------------------|

The Notes to the Financial Statements are an Integral Part of this Statement.

CITY OF LAKE CRYSTAL, MINNESOTA

RECONCILIATION OF THE BALANCE SHEET TO THE  
STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS  
December 31, 2018

|  |                      |
|--|----------------------|
| Total Fund Balances - Governmental Funds   | \$ 4,487,137         |
| 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 as assets in Governmental Funds.   |                      |
| Cost of capital assets:  | 15,107,019           |
| Less: accumulated depreciation   | (5,325,442)          |
| Long-term liabilities, including compensated absences, are not due and payable in the current period and therefore are not reported as liabilities in the Governmental Funds.                          |                      |
| Bonds payable  | (1,660,000)          |
| Compensated absences   | (42,148)             |
| Bond premiums on long-term debt are recognized as revenue in the Governmental Funds but as a decrease in the Statement of Net Position   |                      |
|  | (29,889)             |
| The deferral of loss on advance debt refunding is expensed in the Governmental Funds but is capitalized and amortized in the Statement of Net Position   |                      |
|  | 11,218               |
| Long-term receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the Funds.                   |                      |
| Delinquent property taxes  | 38,187               |
| Special assessments  | 156,473              |
| Accounts receivable, net   | 73,459               |
| Net pension liabilities are not recognized under the current financial resource measurement focus and, therefore, has no effect on fund balance  |                      |
| Net pension liability - general employees retirement pension fund  | (283,174)            |
| Net pension liability - public employees police and fire pension fund  | (172,675)            |
| Net pension liability - volunteer firemen's relief pension fund  | 103,492              |
| Deferred inflows and outflows of resources related to the pension liabilities are not recognized under the current financial resource measurement focus and, therefore, have no effect on fund balance |                      |
| Deferred outflows of resources related to pensions   | 455,215              |
| Deferred inflows of resources related to pensions  | (544,235)            |
| Governmental funds do not report a liability for accrued interest payable until due and payable.   |                      |
|  | <u>(2,243)</u>       |
| Total Net Position - Governmental Activities   | <u>\$ 12,372,396</u> |

The Notes to the Financial Statements are an Integral Part of this Statement.

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CITY OF LAKE CRYSTAL, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2018

|  | General             | Debt<br>Service<br>Funds | Southwest<br>Street & Utility<br>Project |
|--|---------------------|--------------------------|--|
| <b>Revenues:</b>                             |                     |                          |  |
| Property Taxes                               | \$ 989,773          | \$ 114,980               | \$ 0                                     |
| Franchise Fees                               | 96,781              | 0                        | 0  |
| Special Assessments                          | 0                   | 14,290                   | 0  |
| Intergovernmental Revenue                    | 936,455             | 0                        | 0  |
| Licenses                                     | 35,325              | 0                        | 0  |
| Charges for Services                         | 366,751             | 0                        | 0  |
| Fines  | 5,184               | 0                        | 0  |
| Other Income                                 | 167,964             | 545                      | 37                                       |
| Total Revenues                               | <u>2,598,233</u>    | <u>129,815</u>           | <u>37</u>                                |
| <b>Expenditures:</b>                         |                     |                          |  |
| Current:                                     |                     |                          |  |
| General Government                           | 520,837             | 0                        | 0  |
| Public Safety                                | 630,797             | 0                        | 0  |
| Public Works                                 | 743,730             | 0                        | 0  |
| Parks and Recreation                         | 206,414             | 0                        | 0  |
| Cemetery                                     | 13,113              | 0                        | 0  |
| Capital Outlay:                              |                     |                          |  |
| General Government                           | 1,022               | 0                        | 0  |
| Public Safety                                | 131,704             | 0                        | 0  |
| Public Works                                 | 61,055              | 0                        | 129,601                                  |
| Park and Recreation                          | 203,003             | 0                        | 0  |
| Debt Service:                                |                     |                          |  |
| Principal                                    | 0                   | 336,000                  | 0  |
| Interest and Fees                            | 0                   | 54,186                   | 0  |
| Total Expenditures                           | <u>2,511,675</u>    | <u>390,186</u>           | <u>129,601</u>                           |
| Excess of Revenues Over (Under) Expenditures | <u>86,558</u>       | <u>(260,371)</u>         | <u>(129,564)</u>                         |
| <b>Other Financing Sources (Uses):</b>       |                     |                          |  |
| Operating Transfers Out                      | (108,053)           | 280,772                  | 0  |
| Operating Transfers In                       | 14,290              | 0                        | 0  |
| Total Other Financing Sources (Uses)         | <u>(93,763)</u>     | <u>280,772</u>           | <u>0</u>                                 |
| Change in Fund Balance                       | (7,205)             | 20,401                   | (129,564)                                |
| Fund Balance - January 1                     | <u>3,357,743</u>    | <u>540,768</u>           | <u>0</u>                                 |
| Fund Balance - December 31                   | <u>\$ 3,350,538</u> | <u>\$ 561,169</u>        | <u>\$ (129,564)</u>                      |

The Notes to the Financial Statements are an Integral Part of this Statement.



| Other<br>Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Fund |
|--|-------------------------------|
| \$ 0                                       | \$ 1,104,753                  |
| 0  | 96,781                        |
| 0  | 14,290                        |
| 0  | 936,455                       |
| 0  | 35,325                        |
| 0  | 366,751                       |
| 0  | 5,184                         |
| 4,479                                      | 173,025                       |
| <u>4,479</u>                               | <u>2,732,564</u>              |
| 265  | 521,102                       |
| 0  | 630,797                       |
| 0  | 743,730                       |
| 0  | 206,414                       |
| 0  | 13,113                        |
| 0  | 1,022                         |
| 0  | 131,704                       |
| 207,026                                    | 397,682                       |
| 0  | 203,003                       |
| 0  | 336,000                       |
| 0  | 54,186                        |
| <u>207,291</u>                             | <u>3,238,753</u>              |
| <u>(202,812)</u>                           | <u>(506,189)</u>              |
| 33,829                                     | 206,548                       |
| <u>0</u>                                   | <u>14,290</u>                 |
| <u>33,829</u>                              | <u>220,838</u>                |
| (168,983)                                  | (285,351)                     |
| <u>873,977</u>                             | <u>4,772,488</u>              |
| <u>\$ 704,994</u>                          | <u>\$ 4,487,137</u>           |

The Notes to the Financial Statements are an Integral Part of this Statement.

CITY OF LAKE CRYSTAL, MINNESOTA

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2018

|   |                   |
|---|-------------------|
| Total Net Change in Fund Balances - Governmental Funds  | \$ (285,351)      |
| Amounts reported for Governmental Activities in the Statement of Activities are different because:  |                   |
| Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.  |                   |
| Capital outlay  | 578,552           |
| Depreciation expense  | (356,525)         |
| The issuance of long-term debt provides current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond and note principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Position.   |                   |
| Principal payments  | 336,000           |
| Bond premiums and deferred refunding losses on long-term debt are recognized as revenues and expenditures in the Governmental Funds. However, in the Statement of Activities those revenues and expenditures are allocated over the life of the debt and amortized as a decrease or increase in interest expense.   |                   |
| Amortization of bond premiums   | 8,177             |
| Amortization of deferred refunding loss   | (2,856)           |
| Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. |                   |
|   | 516               |
| Certain revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.  |                   |
| Delinquent property taxes   | (9,089)           |
| Special assessments   | (13,144)          |
| Accounts receivable   | 39,935            |
| Pension expense in the Statement of Activities is recognized as the change in net pension liabilities, including the amortization of layered deferred inflows and deferred outflows of resources of the current and prior periods, this does not require the use of current financial resources, and therefore is not reported in the government funds.                                     |                   |
| Pension expense   | 24,026            |
| Some expenses 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  | <u>(5,344)</u>    |
| Change in Net Position - Governmental Activities  | <u>\$ 314,901</u> |

The Notes to the Financial Statements are an Integral Part of this Statement.

CITY OF LAKE CRYSTAL, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND

For the Year Ended December 31, 2018

|  | Budget           |                  | Actual              | Over (Under)<br>Final<br>Budget |
|--|------------------|------------------|---------------------|---------------------------------|
|  | Original         | Final            |                     |                                 |
| <b>Revenues:</b>                             |                  |                  |                     |                                 |
| Property Taxes                               | \$ 967,046       | \$ 967,046       | \$ 989,773          | \$ 22,727                       |
| Franchise Fees                               | 75,000           | 75,000           | 96,781              | 21,781                          |
| Intergovernmental Revenue                    | 882,874          | 882,874          | 936,455             | 53,581                          |
| Licenses                                     | 29,510           | 29,510           | 35,325              | 5,815                           |
| Charges for Services                         | 381,645          | 381,645          | 366,751             | (14,894)                        |
| Fines  | 15,000           | 15,000           | 5,184               | (9,816)                         |
| Other Income                                 | 142,216          | 142,216          | 167,964             | 25,748                          |
| Total Revenues                               | <u>2,493,291</u> | <u>2,493,291</u> | <u>2,598,233</u>    | <u>104,942</u>                  |
| <b>Expenditures:</b>                         |                  |                  |                     |                                 |
| Current:                                     |                  |                  |                     |                                 |
| General Government                           | 552,178          | 552,178          | 520,837             | (31,341)                        |
| Public Safety                                | 620,811          | 620,811          | 630,797             | 9,986                           |
| Public Works                                 | 782,706          | 782,706          | 743,730             | (38,976)                        |
| Parks and Recreation                         | 222,646          | 222,646          | 206,414             | (16,232)                        |
| Cemetery                                     | 16,200           | 16,200           | 13,113              | (3,087)                         |
| Capital Outlay:                              |                  |                  |                     |                                 |
| General Government                           | 6,000            | 6,000            | 1,022               | (4,978)                         |
| Public Safety                                | 24,500           | 24,500           | 131,704             | 107,204                         |
| Public Works                                 | 50,000           | 50,000           | 61,055              | 11,055                          |
| Park and Recreation                          | 10,000           | 10,000           | 203,003             | 193,003                         |
| Total Expenditures                           | <u>2,285,041</u> | <u>2,285,041</u> | <u>2,511,675</u>    | <u>226,634</u>                  |
| Excess of Revenues Over (Under) Expenditures | 208,250          | 208,250          | 86,558              | (121,692)                       |
| <b>Other Financing Sources (Uses):</b>       |                  |                  |                     |                                 |
| Operating Transfers Out                      | (148,000)        | (148,000)        | (108,053)           | (39,947)                        |
| Operating Transfers In                       | 0                | 0                | 14,290              | 14,290                          |
| Total Other Financing Sources (Uses)         | <u>(148,000)</u> | <u>(148,000)</u> | <u>(93,763)</u>     | <u>54,237</u>                   |
| Change in Fund Balance                       | <u>\$ 60,250</u> | <u>\$ 60,250</u> | (7,205)             | <u>\$ (67,455)</u>              |
| Fund Balance - January 1                     |                  |                  | <u>3,357,743</u>    |                                 |
| Fund Balance - December 31                   |                  |                  | <u>\$ 3,350,538</u> |                                 |

The Notes to the Financial Statements are an Integral Part of this Statement.

## CITY OF LAKE CRYSTAL, MINNESOTA

STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
December 31, 2018

| <b>ASSETS AND DEFERRED<br/>OUTFLOWS OF RESOURCES</b>                   | Electric            | Water               | Sewer               | Totals               |
|--|---------------------|---------------------|---------------------|----------------------|
| <b>Current Assets:</b>   |                     |                     |                     |                      |
| Cash and Cash Equivalents  | \$ 556,441          | \$ 1,750,818        | \$ 141,190          | \$ 2,448,449         |
| Investments  | 217,506             | 348,592             | 566,098             | 1,132,196            |
| Accounts Receivable, Net   | 322,587             | 62,498              | 75,264              | 460,349              |
| Interest Receivable  | 0                   | 411                 | 0                   | 411                  |
| Inventory  | 95,640              | 17,609              | 0                   | 113,249              |
| Prepaid Expenses   | 43,021              | 15,579              | 17,451              | 76,051               |
| Total Current Assets   | <u>1,235,195</u>    | <u>2,195,507</u>    | <u>800,003</u>      | <u>4,230,705</u>     |
| <b>Noncurrent Assets:</b>  |                     |                     |                     |                      |
| Advance To Other Funds   | 0                   | 50,000              | 50,000              | 100,000              |
| Property and Equipment   | 6,552,374           | 7,751,014           | 6,839,152           | 21,142,540           |
| Less: Accumulated Depreciation   | <u>(3,984,785)</u>  | <u>(2,246,791)</u>  | <u>(3,074,483)</u>  | <u>(9,306,059)</u>   |
| Total Assets   | <u>3,802,784</u>    | <u>7,749,730</u>    | <u>4,614,672</u>    | <u>16,167,186</u>    |
| <b>Deferred Outflows of Resources:</b>                                 |                     |                     |                     |                      |
| Pension Plan Deferments  | 90,833              | 49,271              | 22,309              | 162,413              |
| Deferred Amount on Bond Refunding                                      | <u>0</u>            | <u>0</u>            | <u>25,068</u>       | <u>25,068</u>        |
| TOTAL ASSETS AND DEFERRED<br>OUTFLOWS OF RESOURCES                     | <u>\$ 3,893,617</u> | <u>\$ 7,799,001</u> | <u>\$ 4,662,049</u> | <u>\$ 16,354,667</u> |
| <b>LIABILITIES, DEFERRED INFLOWS OF<br/>RESOURCES AND NET POSITION</b> |                     |                     |                     |                      |
| <b>Current Liabilities:</b>  |                     |                     |                     |                      |
| Accounts Payable   | \$ 176,407          | \$ 22,382           | \$ 32,753           | \$ 231,542           |
| Due to Other Funds   | 161,394             | 44,667              | 32,096              | 238,157              |
| Accrued Expenses   | 9,914               | 9,314               | 6,830               | 26,058               |
| Current Portion of Long-term Debt                                      | <u>125,000</u>      | <u>315,000</u>      | <u>148,000</u>      | <u>588,000</u>       |
| Total Current Liabilities  | <u>472,715</u>      | <u>391,363</u>      | <u>219,679</u>      | <u>1,083,757</u>     |
| <b>Noncurrent Liabilities:</b>   |                     |                     |                     |                      |
| Compensated Absences   | 22,472              | 22,330              | 9,799               | 54,601               |
| Net Pension Liability  | 254,275             | 137,929             | 62,451              | 454,655              |
| Bonds Payable, Less Current Portion                                    | <u>732,495</u>      | <u>1,657,834</u>    | <u>897,352</u>      | <u>3,287,681</u>     |
| Total Liabilities  | <u>1,481,957</u>    | <u>2,209,456</u>    | <u>1,189,281</u>    | <u>4,880,694</u>     |
| <b>Deferred Inflows of Resources:</b>                                  |                     |                     |                     |                      |
| Pension Plan Deferments  | <u>100,074</u>      | <u>54,284</u>       | <u>24,578</u>       | <u>178,936</u>       |
| <b>Net Position:</b>   |                     |                     |                     |                      |
| Net Investment in Capital Assets                                       | 1,710,094           | 3,531,389           | 2,736,386           | 7,977,869            |
| Restricted   | 144,000             | 0                   | 0                   | 144,000              |
| Unrestricted   | <u>457,492</u>      | <u>2,003,872</u>    | <u>711,804</u>      | <u>3,173,168</u>     |
| Total Net Position   | <u>2,311,586</u>    | <u>5,535,261</u>    | <u>3,448,190</u>    | <u>11,295,037</u>    |
| TOTAL LIABILITIES, DEFERRED INFLOWS<br>OF RESOURCES AND NET POSITION   | <u>\$ 3,893,617</u> | <u>\$ 7,799,001</u> | <u>\$ 4,662,049</u> | <u>\$ 16,354,667</u> |

The Notes to the Financial Statements are an Integral Part of this Statement.

## CITY OF LAKE CRYSTAL, MINNESOTA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS

For the Year Ended December 31, 2018

|                                       | Electric            | Water               | Sewer               | Totals               |
|---------------------------------------|---------------------|---------------------|---------------------|----------------------|
| <b>Operating Revenue:</b>             |                     |                     |                     |                      |
| Charges for Services                  | \$ 2,856,706        | \$ 891,422          | \$ 636,607          | \$ 4,384,735         |
| <b>Operating Expenses:</b>            |                     |                     |                     |                      |
| Production                            | 1,944,098           | 351,095             | 236,080             | 2,531,273            |
| Distribution                          | 328,234             | 20,231              | 86,615              | 435,080              |
| Administration                        | 196,843             | 110,067             | 89,578              | 396,488              |
| Depreciation                          | 138,032             | 111,424             | 140,891             | 390,347              |
| Total Operating Expenses              | <u>2,607,207</u>    | <u>592,817</u>      | <u>553,164</u>      | <u>3,753,188</u>     |
| Income (Loss) from Operations         | <u>249,499</u>      | <u>298,605</u>      | <u>83,443</u>       | <u>631,547</u>       |
| <b>Nonoperating Revenue (Expense)</b> |                     |                     |                     |                      |
| Interest Income                       | 4,256               | 13,228              | 12,127              | 29,611               |
| Investments - Fair Value Adjustment   | (2,264)             | (9,662)             | (11,926)            | (23,852)             |
| Interest and Fiscal Expense           | (24,398)            | (56,071)            | (26,996)            | (107,465)            |
| Miscellaneous Income                  | 78,835              | 7,011               | 9,113               | 94,959               |
| Total Nonoperating Revenue (Expense)  | <u>56,429</u>       | <u>(45,494)</u>     | <u>(17,682)</u>     | <u>(6,747)</u>       |
| Income Before Transfers               | 305,928             | 253,111             | 65,761              | 624,800              |
| Transfers Out                         | <u>(144,075)</u>    | <u>(44,667)</u>     | <u>(32,096)</u>     | <u>(220,838)</u>     |
| Change in Net Position                | 161,853             | 208,444             | 33,665              | 403,962              |
| Net Position - January 1              | <u>2,149,733</u>    | <u>5,326,817</u>    | <u>3,414,525</u>    | <u>10,891,075</u>    |
| Net Position- December 31             | <u>\$ 2,311,586</u> | <u>\$ 5,535,261</u> | <u>\$ 3,448,190</u> | <u>\$ 11,295,037</u> |

The Notes to the Financial Statements are an Integral Part of this Statement.

## CITY OF LAKE CRYSTAL, MINNESOTA

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 For the Year Ended December 31, 2018

|  | Electric          | Water               | Sewer             | Totals              |
|--|-------------------|---------------------|-------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                   |                     |                   |                     |
| Receipts From Customers and Users  | \$ 2,897,448      | \$ 916,745          | \$ 640,971        | \$ 4,455,164        |
| Payments to Suppliers  | (2,117,150)       | (284,816)           | (310,554)         | (2,712,520)         |
| Payments to Employees  | (385,454)         | (195,276)           | (90,052)          | (670,782)           |
| Other Receipts   | 78,835            | 7,011               | 9,113             | 94,959              |
| Net Cash Provided by Operating Activities  | <u>473,679</u>    | <u>443,664</u>      | <u>249,478</u>    | <u>1,166,821</u>    |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>  |                   |                     |                   |                     |
| Operating Transfers  | (136,690)         | (50,509)            | (31,316)          | (218,515)           |
| Advances (To) From Other Funds   | 0                 | (50,000)            | (50,000)          | (100,000)           |
| Net Cash Provided (Used) by Noncapital Activities  | <u>(136,690)</u>  | <u>(100,509)</u>    | <u>(81,316)</u>   | <u>(318,515)</u>    |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>                               |                   |                     |                   |                     |
| Purchases of Capital Assets  | (27,919)          | (443,561)           | (26,721)          | (498,201)           |
| Principal Payments on Bonds and Loans  | (125,000)         | (285,000)           | (141,000)         | (551,000)           |
| Interest Payments on Bonds   | (26,105)          | (78,661)            | (26,302)          | (131,068)           |
| Net Cash Used by Capital Activities  | <u>(179,024)</u>  | <u>(807,222)</u>    | <u>(194,023)</u>  | <u>(1,180,269)</u>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                   |                     |                   |                     |
| Interest Received  | 533               | 6,809               | 161               | 7,503               |
| Net Increase (Decrease) in Cash and Cash Equivalents   | 158,498           | (457,258)           | (25,702)          | (324,462)           |
| Cash and Cash Equivalents - January 1  | 397,948           | 2,208,074           | 166,890           | 2,772,912           |
| Cash and Cash Equivalents - December 31  | <u>\$ 556,441</u> | <u>\$ 1,750,818</u> | <u>\$ 141,190</u> | <u>\$ 2,448,449</u> |
| <b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</b> |                   |                     |                   |                     |
| Operating Income (Loss)  | \$ 249,499        | \$ 298,605          | \$ 83,443         | \$ 631,547          |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:        |                   |                     |                   |                     |
| Other Operating Receipts   | 78,835            | 7,011               | 9,113             | 94,959              |
| Depreciation   | 138,032           | 111,424             | 140,891           | 390,347             |
| (Increase) Decrease in Receivables   | 40,742            | 25,323              | 4,364             | 70,429              |
| (Increase) Decrease in Inventory   | (3,854)           | (464)               | 0                 | (4,318)             |
| (Increase) Decrease in Prepaid Expenses  | (3,929)           | (2,597)             | (5,755)           | (12,281)            |
| (Increase) Decrease in Pension Resources   | 14,247            | 7,586               | 3,335             | 25,168              |
| Increase (Decrease) in Net Pension Liability   | (21,598)          | (3,894)             | 3,686             | (21,806)            |
| Increase (Decrease) in Accounts Payable  | (19,435)          | (2,263)             | 9,199             | (12,499)            |
| Increase (Decrease) in Due to Other Funds  | 246               | 0                   | 0                 | 246                 |
| Increase (Decrease) in Compensated Absences  | (578)             | 1,688               | 694               | 1,804               |
| Increase (Decrease) in Accrued Expenses  | 1,472             | 1,245               | 508               | 3,225               |
| Net Cash Provided by Operating Activities  | <u>\$ 473,679</u> | <u>\$ 443,664</u>   | <u>\$ 249,478</u> | <u>\$ 1,166,821</u> |

The Notes to the Financial Statements are an Integral Part of this Statement.

CITY OF LAKE CRYSTAL, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**A. Reporting entity**

The City of Lake Crystal, Minnesota (the City) operates under the "Optional Plan A" form of government as defined in Minnesota statutes. Under this plan, the government of the City is directed by a City Council composed of an elected Mayor and four elected City Council Members. The City Council exercises legislative authority and determines all matters of policy. The City Council appoints personnel responsible for the proper administration of all affairs relating to the City.

The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. As required by accounting principles generally accepted in the United States of America, these financial statements present the City and its component units, entities for which the City is considered to be 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. Blended component units, although legally separate entities are in substance, part of the City's operations and so data from these units are combined with data of the City. Each discretely presented component unit, on the other hand, is reported in a separate column in the financial statements to emphasize it is legally from the City. Included in the City's reporting entity, based upon the application of these criteria, are the following blended component units. The blended component units presented have a December 31 year end.

***Economic Development Authority.*** The Economic Development Authority (the EDA) was created pursuant to Minnesota statutes 469.090 through 469.108. The five member Board of Directors carries out economic and industrial development and redevelopment within the City in accordance with policies established by the City. Separate financial statements are not issued for this component unit.

***Municipal Utilities Commission.*** The Lake Crystal Municipal Utilities Commission (the Commission) serves all the citizens of the City and is governed by a Commission comprised of three Council approved members who serve overlapping three-year terms. The Minnesota statutes provide the Council all the discretionary authority necessary to operate the utilities except as its powers have been delegated to the Commission. The utility funds are included with the enterprise funds of this report. Separate financial statements are not issued for this component unit.

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the City. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. *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. Internally dedicated revenues are reported as general revenues rather than as program 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. Aggregate information for the remaining nonmajor governmental funds is reported in a single column in the fund financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(Continued)

**C. 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 and the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Property taxes, franchise taxes, licenses 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.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred inflows of resources in the fund financial statements.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.



CITY OF LAKE CRYSTAL, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(Continued)

The City reports the following major governmental funds:

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

The *Debt Service fund* accounts for the servicing of general long-term debt not being financed by proprietary funds.

The *Southwest Street & Utility Capital Project fund* accounts for the construction activity related to the street and utility improvement for Southwest Street.

The City reports the following major proprietary funds:

The *Electric fund* accounts for the costs associated with the City's electric utility system and insures that user charges are sufficient to meet those costs.

The *Water fund* accounts for the costs associated with the City's water utility system and insures that user charges are sufficient to meet those costs.

The *Sewer fund* accounts for the costs associated with the City's sewer utility system and insures that user charges are sufficient to meet those costs.

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

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City 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 on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(Continued)

**D. Assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position/fund balance**

*Deposits and investments*

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

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

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
6. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
7. Repurchase or reverse repurchase 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.
8. Guaranteed Investment Contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

Investments are generally stated at fair value, except for investments in certain external investment pools, which are stated at amortized cost. Short-term, highly liquid debt instruments (including commercial paper, bankers' acceptance, and U.S. treasury and agency obligations) purchased with a remaining maturity of one year or less are also reported at amortized cost. Investment income is accrued at the Balance Sheet date.

The City categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

CITY OF LAKE CRYSTAL, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(Continued)

**Level 1** – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities.

**Level 2** – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.

**Level 3** – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants and would use in pricing the asset.

Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

See Note 3 for the City's recurring fair value measurements as of December 31, 2018. The City has not adopted a formal investment policy.

***Property taxes***

The City Council annually adopts a tax levy and certifies it to the County in December for collection in the following year. The County is responsible for collecting all property taxes for the City. These taxes attach an enforceable lien on taxable property within the City on January 1 and are payable by the property owners in two installments. The taxes are collected by the County Treasurer and tax settlements are made to the City during January, June and December each year.

Taxes payable on homestead property, as defined by Minnesota statutes, were partially reduced by a market value credit aid. The credit is paid to the City by the State in lieu of taxes levied against the homestead property. The State remits this credit in two equal installments in October and December each year.

Delinquent taxes receivable include the past six years' uncollected taxes. Delinquent taxes have been offset by a deferred inflow of resources for delinquent taxes not received within 60 days after year end in the fund financial statements.

***Accounts receivable***

Accounts receivable include amounts billed for services provided before year end. Unbilled utility enterprise fund receivables are also included for services provided in 2018. The City annually certifies delinquent water and sewer accounts to the County for collection in the following year. Therefore, there has been no allowance for doubtful accounts established.

***Notes receivable***

Notes receivable represents loans made to various commercial entities throughout the City. An allowance has been established and was determined based on historical bad debt experience related to the nature of the receivable balance.

***Special assessments***

Special assessments represent the financing for public improvements paid for by benefiting property owners. These assessments are recorded as receivables upon certification to the County. Special assessments are recognized as revenue when they are received in cash or within 60 days after year end. All governmental special assessments receivable are offset by a deferred inflow of resources in the fund financial statements.

CITY OF LAKE CRYSTAL, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(Continued)

***Land held for resale***

Land held for resale is carried at the lower of cost or net realizable value.

***Inventory and Prepaid items***

All inventories are stated at the lower of cost or market on the first-in, first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

***Interfund receivables and payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

***Capital assets***

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than the thresholds below (amount not rounded) and an estimated useful life in excess of one year. For financial statement purposes only, a capitalization threshold is established for each capital asset category as follows:

| <u>Assets</u>              | <u>Capitalization<br/>Threshold</u> |
|----------------------------|-------------------------------------|
| Land improvements          | \$ 10,000                           |
| Buildings and improvements | 25,000                              |
| Infrastructure             | 100,000                             |
| Machinery and equipment    | 5,000                               |

As the City constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. 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. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the City values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant, and equipment of the City, as well as component units, are depreciated using the straight line method over the following estimated useful lives:

| <u>Assets</u>              | <u>Useful Lives in<br/>Years</u> |
|----------------------------|----------------------------------|
| Buildings and improvements | 15 to 75                         |
| Infrastructure             | 20 to 60                         |
| Machinery and equipment    | 3 to 15                          |

CITY OF LAKE CRYSTAL, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(Continued)

***Compensated absences/Severance benefits***

It is the City's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. Upon retirement or termination, employees in good standing are entitled to payout for the lesser of their vacation balance or 20 days. The City pays out sick leave benefits at 50% upon retirement for employees whom have reached 15 years of service and age 55. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The General fund is typically used to liquidate governmental compensated absences payable.

***Deferred outflows/inflows of resources***

In addition to liabilities, the statement of financial position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

In addition to assets, the statement of financial position and fund financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of resources that is applicable to future reporting period(s) and so will not be recognized as an outflow of resources (expense) until that time.

***Pensions***

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA), Lake Crystal Volunteer Firemen's Relief Association (VFRA) and additions to/deductions from PERA's fiduciary net position and VFRA's fiduciary net position have been determined on the same basis as they are reported by PERA and VFRA, except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

PERA has a special funding situation for their public employees police and fire pension fund in the State of Minnesota contributes \$9 million annually on October 1 until both PEPFF and MSRS State Patrol become 90% funded (on a Market Value of Asset Basis).

***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 statement of net position. Bond premiums and discounts are delayed 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.

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

CITY OF LAKE CRYSTAL, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(Continued)

***Net position***

In the government-wide financial statements, net position represents the difference between assets and liabilities. Net position is displayed in three components:

- a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- b. Restricted net position - Consist of net position balances restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net position - All other net position balances that do not meet the definition of “restricted” or “net investment in capital assets”.

***Fund balance***

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources reported in the governmental funds. These classifications are defined as follows:

*Nonspendable* - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

*Restricted* - Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

*Committed* - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council, which is the City’s highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the City Council modifies or rescinds the commitment by resolution.

*Assigned* - Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. In the General fund, assigned amounts represent intended uses established by the City Council itself or by an official to which the governing body delegates the authority. The City Council has adopted a fund balance policy which delegates the authority to assign amounts for specific purposes to the City Administrator.

*Unassigned* - The residual classification for the General fund and also negative residual amounts in other funds.

The City considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The City has formally adopted a fund balance policy for the General fund. The City’s policy is to maintain a minimum unassigned fund balance of 50 percent of budgeted operating expenditures for cash-flow timing needs.

CITY OF LAKE CRYSTAL, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

**A. Budgetary information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General fund. All annual appropriations lapse at fiscal year-end. The City does not use encumbrance accounting.

On or before July 1 of each year, all departments of the City submit requests for appropriations to the City Administrator so that a budget may be prepared. Before September 15, the proposed budget is presented to the City Council for review. The City Council holds public hearings and a final budget is prepared and adopted in December.

The appropriated budget is prepared by fund, function and department. The City's department heads, with the approval of the City Administrator, may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. Budgeted amounts are as originally adopted or as amended by the City Council. There were no budget amendments during the year.

**B. Excess of Expenditures over Appropriations**

For the year ended December 31, 2018, the General fund had expenditures over appropriations of \$226,634. Excess expenditures over appropriations was funded by additional revenues and available fund balance.

**C. Deficit Fund Equity**

The following fund had a fund equity deficit at December 31, 2018: Southwest Street & Utility Project, \$129,564.

CITY OF LAKE CRYSTAL, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 3 DETAILED NOTES ON ALL FUNDS

**A. Deposits and investments**

*Deposits*

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the City's deposits and investments may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the City Council, the City maintains deposits at those depository banks, all of which are members of the Federal Reserve System.

Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- Time deposits that are fully insured by any federal agency

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an 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. The selection should be approved by the government entity.

At December 31, 2018, the carrying amount of deposits was \$6,197,020 and the bank balance was \$6,198,865. Of the bank balance, \$500,000 was covered by federal depository insurance. The remaining balance was covered by collateral held by the City's agent in the City's name.



CITY OF LAKE CRYSTAL, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 3 DETAILED NOTES ON ALL FUNDS – (Continued)

**Investments**

Investments are subject to various risks, the following of which are considered the most significant:

*Custodial Credit Risk* – For investments, this is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer) the City would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in investment pools and money markets are not evidenced by securities that exist in physical or book entry form and, therefore, are not subject to custodial credit risk disclosures. Although the City’s investment policies do not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments, or by the control of who holds the securities.

*Credit Risk* – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes 118A.07 limit the City’s investments.

*Concentration Risk* – This is the risk associated with investing a significant portion of the City’s investments (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The City’s investment policies do not address concentration risk.

Negotiable certificates of deposit:

|                  |      |
|------------------|------|
| Capital One Bank | 7.7% |
| BMO Harris Bank  | 5.6% |

*Interest Rate Risk* – This is the risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The City’s investment policies do not limit the maturities of investments; however, when purchasing investments the City considers such things as interest rates and cash flow needs.

As of December 31, 2018, the City had the following investments that are insured or registered, or securities held by the City’s agent in the City’s name:

| Deposit/Investments                    | Credit Risk |        | Fair Value<br>Measurements<br>Using | Interest Risk -<br>Maturity Duration in Years |         | Total               |
|--|-------------|--------|-------------------------------------|---|---------|---------------------|
|  | Rating      | Agency |                                     | Less Than 1                                   | 1 to 5  |                     |
| Pooled investment at amortized cost    |             |        |                                     |   |         |                     |
| Broker money market funds              | N/R         | N/R    | N/A                                 | N/A   | N/A     | \$ 5,377            |
| Investment pools/mutual funds          |             |        |                                     |   |         |                     |
| U.S. Government money market           | N/R         | N/R    | NAV                                 | N/A   | N/A     | 10,004              |
| Unlisted real estate investment trusts | N/R         | N/R    | NAV                                 | N/A   | N/A     | 84,646              |
| Mutual funds                           | N/R         | N/R    | Level 1                             | N/A   | N/A     | 1,243,596           |
| Negotiable certificates of deposit     | N/R         | N/R    | Level 2                             | -   | 237,677 | 237,677             |
| Federal government securities          | AA+         | S&P    | Level 2                             | -   | 96,393  | 96,393              |
| Real estate                            | N/R         | N/R    | Level 3                             | N/A   | N/A     | 107,328             |
| <b>Total investments</b>               |             |        |                                     |   |         | <b>\$ 1,785,021</b> |

NAV - Investments measured at the net asset value

N/A - Not applicable

N/R - Not rated

Approximately 5% or \$84,646 of the City’s investments are held with investments that have no specific statutory authority.

CITY OF LAKE CRYSTAL, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 3 DETAILED NOTES ON ALL FUNDS – (Continued)

The City's investment in certain money market funds are measured at the net asset value (NAV) per share provided by the pool, which approximates fair value in accordance with Rule 2a-7 of the Investment Company Act of 1940. The NAV method of valuation values a security at its cost on the date of purchase and thereafter assumes a constant amortization to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of the investments. For money market investments valued at the NAV, there are no unfunded commitments, redemption frequency is daily and there is no redemption notice.

The City's investment in certain real estate funds includes 3 real estate funds that invest primarily in U.S. commercial real estate. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the City's ownership interest in partners' capital. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next eight to ten years. Because it is not probable that any individual investment will be sold, the fair value of each individual investment has been determined using the NAV per share (or its equivalent) of the City's ownership interest in partners' capital. Once it has been determined which investments will be sold and whether those investments will be sold individually or in a group, the investments will be sold in an auction process. The investee fund's management is required to approve of the buyer before the sale of the investments can be completed.

A reconciliation of cash and investment as shown on the Statement of Net Position for the City is as follows:

|                                    | Governmental<br>Funds       | Proprietary<br>Funds        |
|------------------------------------|-----------------------------|-----------------------------|
|                                    | <u>                    </u> | <u>                    </u> |
| Carrying amount of demand deposits | \$ 3,316,500                | \$ 1,576,643                |
| Time deposits                      | 431,996                     | 871,706                     |
| Petty Cash                         | 75                          | 100                         |
|                                    | <u>                    </u> | <u>                    </u> |
| Cash and Cash equivalents          | 3,748,571                   | 2,448,449                   |
| Investments                        | 652,825                     | 1,132,196                   |
|                                    | <u>                    </u> | <u>                    </u> |
| Total cash and investments         | <u>\$ 4,401,396</u>         | <u>\$ 3,580,645</u>         |

CITY OF LAKE CRYSTAL, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 3 DETAILED NOTES ON ALL FUNDS – (Continued)

**B. Receivables**

Taxes receivables as of the year-end for the City are reported on the Statement of Net Position. There are no estimates for allowances for uncollectible property tax and special assessment receivables.

Accounts receivable on the statement of net position consist of the following:

| Nature of Receivable       | Receivable<br>Balance | Allowance for<br>Uncollectibles | Total      |
|----------------------------|-----------------------|---------------------------------|------------|
| Ambulance calls            | \$ 47,046             | \$ (10,002)                     | \$ 37,044  |
| Delinquent ambulance calls | 81,469                | (81,469)                        | -          |
| Fire department contracts  | 36,415                | -                               | 36,415     |
| Fire assistance            | 227                   | -                               | 227        |
| Franchise Fees             | 70,022                | -                               | 70,022     |
| <br>                       |                       |                                 |            |
| Total                      | \$ 235,179            | \$ (91,471)                     | \$ 143,708 |

Notes receivable represents loans made to various commercial entities throughout the City. These loans all carry an interest rate of 3% and are collectible in monthly installments with varying maturities. There is no collateral securing these notes. The amount shown on the Statement of Net Position is net of an allowance of \$57,161. The allowance was determined based on historical bad debt experience related to the nature of the receivable balance.

Governmental funds report *deferred inflows of resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred inflows* and *unearned revenue* reported in the governmental funds were as follows:

|  | Unavailable | Unearned |
|--|-------------|----------|
| Special assessment not yet due                       | \$ 156,473  | \$ -     |
| Delinquent property taxes - debt service fund        | 4,032       | -        |
| Delinquent property taxes - general fund             | 34,155      | -        |
| Charges for services                                 | 73,459      | -        |
| <br>   |             |          |
| Total deferred inflows of resources/unearned revenue | \$ 268,119  | \$ -     |

The only receivables not expected to be collectible within one year are the following: General Fund: \$20,000, Debt Service Fund: \$2,500, respectively. Debt Service Fund special assessments: \$142,183. General Fund: \$10,847 of charges for services.

CITY OF LAKE CRYSTAL, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 3 DETAILED NOTES ON ALL FUNDS – (Continued)

**C. Capital assets**

Capital asset activity for the City for the year ended December 31, 2018 was as follows:

|  | Beginning<br>Balance | Increases      | Decreases    | Ending<br>Balance |
|--|----------------------|----------------|--------------|-------------------|
| <b>Governmental activities</b>                     |                      |                |              |                   |
| Capital assets not being depreciated               |                      |                |              |                   |
| Land   | \$ 501,358           | \$ -           | \$ -         | \$ 501,358        |
| Construction in progress                           | -                    | 164,821        | -            | 164,821           |
| <br>Total capital assets<br>not being depreciated  | <br>501,358          | <br>164,821    | <br>-        | <br>666,179       |
| Capital assets being depreciated                   |                      |                |              |                   |
| Buildings and Improvements                         | 6,025,932            | 182,250        | (6,600)      | 6,201,582         |
| Infrastructure                                     | 5,831,335            | 60,196         | -            | 5,891,531         |
| Machinery and equipment                            | 2,231,899            | 171,285        | (55,456)     | 2,347,728         |
| <br>Total capital assets<br>being depreciated      | <br>14,089,166       | <br>413,731    | <br>(62,056) | <br>14,440,841    |
| Less accumulated depreciation for                  |                      |                |              |                   |
| Buildings and Improvements                         | (1,556,841)          | (105,097)      | 6,080        | (1,655,858)       |
| Infrastructure                                     | (1,992,040)          | (130,966)      | -            | (2,123,006)       |
| Machinery and equipment                            | (1,482,093)          | (119,943)      | 55,456       | (1,546,580)       |
| <br>Total accumulated<br>depreciation              | <br>(5,030,974)      | <br>(356,006)  | <br>61,536   | <br>(5,325,444)   |
| <br>Total capital assets<br>being depreciated, net | <br>9,058,192        | <br>57,725     | <br>(520)    | <br>9,115,397     |
| <br>Governmental activities<br>capital assets, net | <br>\$ 9,559,550     | <br>\$ 222,546 | <br>\$ (520) | <br>\$ 9,781,576  |

CITY OF LAKE CRYSTAL, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 3 DETAILED NOTES ON ALL FUNDS – (Continued)

|   | Beginning<br>Balance | Increases      | Decreases    | Ending<br>Balance |
|---|----------------------|----------------|--------------|-------------------|
| <b>Business-type activities</b>                     |                      |                |              |                   |
| Capital assets not being depreciated                |                      |                |              |                   |
| Land  | \$ 31,700            | \$ -           | \$ -         | \$ 31,700         |
| Construction in progress                            | 62,559               | -              | -            | 62,559            |
| <br>Total capital assets<br>not being depreciated   | <br>94,259           | <br>-          | <br>-        | <br>94,259        |
| Capital assets being depreciated                    |                      |                |              |                   |
| Buildings and improvements                          | 7,488,615            | 408,524        | -            | 7,897,139         |
| Distribution system                                 | 10,066,484           | -              | -            | 10,066,484        |
| Machinery and equipment                             | 3,025,107            | 89,689         | (30,137)     | 3,084,659         |
| <br>Total capital assets<br>being depreciated       | <br>20,580,206       | <br>498,213    | <br>(30,137) | <br>21,048,282    |
| Less accumulated depreciation for                   |                      |                |              |                   |
| Buildings and improvements                          | (3,483,989)          | (163,879)      | -            | (3,647,868)       |
| Distribution system                                 | (3,011,244)          | (149,148)      | -            | (3,160,392)       |
| Machinery and equipment                             | (2,450,616)          | (77,321)       | 30,137       | (2,497,800)       |
| <br>Total accumulated<br>depreciation               | <br>(8,945,849)      | <br>(390,348)  | <br>30,137   | <br>(9,306,060)   |
| <br>Total capital assets<br>being depreciated, net  | <br>11,634,357       | <br>107,865    | <br>-        | <br>11,742,222    |
| <br>Business-type activities<br>capital assets, net | <br>\$ 11,728,616    | <br>\$ 107,865 | <br>\$ -     | <br>\$ 11,836,481 |

Depreciation expense was charged to functions/programs of the City as follows:

|  |                |
|--|----------------|
| <b>Governmental activities</b>                           |                |
| General government                                       | \$ 40,159      |
| Public safety  | 92,321         |
| Public works   | 155,047        |
| Parks and recreation                                     | 68,479         |
| <br>Total depreciation expense - governmental activities | <br>\$ 356,006 |

CITY OF LAKE CRYSTAL, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 3 DETAILED NOTES ON ALL FUNDS – (Continued)

|   |                              |
|---|------------------------------|
| <b>Business-type activities</b>                           |                              |
| Electric  | \$ 138,032                   |
| Water   | 111,424                      |
| Sewer   | <u>140,892</u>               |
| <br>Total depreciation expense - business-type activities | <br><u><u>\$ 390,348</u></u> |

**D. Long-term debt**

General Obligation Revenue Bonds

The City issued general obligation revenue bonds where the government pledges income derived from the acquired or constructed assets to pay debt service requirements. The City is obligated to levy ad valorem taxes in the event that anticipated income from the acquired or constructed assets will not be sufficient to cover debt service requirements. G.O. Revenue Bonds currently outstanding are as follows:

| Description                                | Authorized<br>and Issued | Interest<br>Rate | Issue<br>Date | Maturity<br>Date | Balance at<br>Year End         |
|--|--------------------------|------------------|---------------|------------------|--------------------------------|
| G.O. Wastewater Revenue                    |                          |                  |               |                  |                                |
| Bonds of 2003A                             | \$ 1,571,616             | 2.34%            | 10/3/03       | 8/20/23          | \$ 486,000                     |
| G.O. Crossover Refunding                   |                          |                  |               |                  |                                |
| Bonds of 2012A                             | 755,000                  | 2.00 - 2.50      | 4/4/12        | 12/15/27         | 550,000                        |
| G.O. Refunding                             |                          |                  |               |                  |                                |
| Bonds of 2017B                             | 2,160,000                | 3.00             | 9/14/17       | 12/1/24          | <u>1,875,000</u>               |
| <br>Total general obligation revenue bonds |                          |                  |               |                  | <br><u><u>\$ 2,911,000</u></u> |

Revenue Bonds

The City issued revenue bonds where the government pledges income derived from the acquired or constructed assets to pay debt service requirements. Revenue Bonds currently outstanding are as follows:

| Description                | Authorized<br>and Issued | Interest<br>Rate | Issue<br>Date | Maturity<br>Date | Balance at<br>Year End         |
|----------------------------|--------------------------|------------------|---------------|------------------|--------------------------------|
| Gross Revenue Recreational |                          |                  |               |                  |                                |
| Facilities Refunding       |                          |                  |               |                  |                                |
| Bonds of 2015A             | \$ 515,000               | 2.40%            | 2/19/15       | 12/15/21         | \$ 260,000                     |
| Electric Revenue           |                          |                  |               |                  |                                |
| Refunding Bonds of 2014B   | 1,440,000                | 2.00 - 3.10      | 6/3/14        | 12/1/24          | <u>850,000</u>                 |
| <br>Total revenue bonds    |                          |                  |               |                  | <br><u><u>\$ 1,110,000</u></u> |

CITY OF LAKE CRYSTAL, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 3 DETAILED NOTES ON ALL FUNDS – (Continued)

General Obligation Improvement Bonds

The City issues general obligation improvement bonds to finance various improvements and will be repaid primarily from special assessments levied on the properties benefiting from the improvements. Some issues, however, are partly financed by ad valorem tax levies. All special assessment debt is backed by the full faith and credit of the City. General obligation special assessment bonds currently outstanding are as follows:

| Description                                       | Authorized and Issued | Interest Rate | Issue Date | Maturity Date | Balance at Year End |
|---|-----------------------|---------------|------------|---------------|---------------------|
| G.O. Crossover Refunding                          |                       |               |            |               |                     |
| Bonds of 2012A                                    | 520,000               | 2.00 - 2.50%  | 4/4/12     | 12/15/27      | \$ 220,000          |
| G.O. Refunding                                    |                       |               |            |               |                     |
| Bonds of 2014A                                    | 1,075,000             | 2.00          | 3/18/14    | 12/1/20       | <u>275,000</u>      |
| Total general obligation special assessment bonds |                       |               |            |               | <u>\$ 495,000</u>   |

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation bonds currently outstanding are as follows:

| Description                    | Authorized and Issued | Interest Rate | Issue Date | Maturity Date | Balance at Year End |
|--------------------------------|-----------------------|---------------|------------|---------------|---------------------|
| G.O. Capital Improvement Plan  |                       |               |            |               |                     |
| Bonds of 2017A                 | \$ 960,000            | 1.13-3.00%    | 6/1/17     | 12/15/32      | <u>\$ 905,000</u>   |
| Total general obligation bonds |                       |               |            |               | <u>\$ 905,000</u>   |

Annual debt service requirements to maturity for general obligation bonds are as follows:

| Year Ending<br>December 31 | Governmental Activities |                   |                     | Business-Type Activities |                   |                     |
|----------------------------|-------------------------|-------------------|---------------------|--------------------------|-------------------|---------------------|
|                            | Principal               | Interest          | Total               | Principal                | Interest          | Total               |
| 2019                       | \$ 333,000              | \$ 37,699         | \$ 370,699          | \$ 588,000               | \$ 103,027        | \$ 691,027          |
| 2020                       | 339,000                 | 31,248            | 370,248             | 605,000                  | 87,801            | 692,801             |
| 2021                       | 258,000                 | 24,552            | 282,552             | 627,000                  | 71,803            | 698,803             |
| 2022                       | 60,000                  | 19,260            | 79,260              | 649,000                  | 54,233            | 703,233             |
| 2023                       | 60,000                  | 18,180            | 78,180              | 672,000                  | 36,017            | 708,017             |
| 2024-2028                  | 320,000                 | 71,250            | 391,250             | 620,000                  | 26,855            | 646,855             |
| 2029-2032                  | 290,000                 | 22,050            | 312,050             | -                        | -                 | -                   |
| Total                      | <u>\$ 1,660,000</u>     | <u>\$ 224,239</u> | <u>\$ 1,884,239</u> | <u>\$ 3,761,000</u>      | <u>\$ 379,736</u> | <u>\$ 4,140,736</u> |

CITY OF LAKE CRYSTAL, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 3 DETAILED NOTES ON ALL FUNDS – (Continued)

Changes in long-term liabilities

During the year ended December 31, 2018, the following changes occurred in long-term liabilities.

|   | Beginning<br>Balance | Increases           | Decreases             | Ending<br>Balance   | Due Within<br>One Year |
|---|----------------------|---------------------|-----------------------|---------------------|------------------------|
| <b>Governmental activities:</b>                 |                      |                     |                       |                     |                        |
| GO special assessment bonds                     | \$ 710,000           | \$ -                | \$ (215,000)          | \$ 495,000          | \$ 210,000             |
| Revenue bonds                                   | 326,000              | -                   | (66,000)              | 260,000             | 68,000                 |
| GO capital improvement bonds                    | 960,000              | -                   | (55,000)              | 905,000             | 55,000                 |
| Net Pension Liability                           | 517,666              | 983,449             | (1,045,266)           | 455,849             | -                      |
| Compensated absences                            | 36,803               | 42,147              | (36,803)              | 42,147              | -                      |
| Bond Premium                                    | 38,066               | -                   | (8,177)               | 29,889              | -                      |
|   |                      |                     |                       |                     |                        |
| Governmental activity<br>long-term liabilities  | <u>\$ 2,588,535</u>  | <u>\$ 1,025,596</u> | <u>\$ (1,426,246)</u> | <u>\$ 2,187,885</u> | <u>\$ 333,000</u>      |
| <b>Business-type activities:</b>                |                      |                     |                       |                     |                        |
| GO revenue bonds                                | \$ 3,337,000         | \$ -                | \$ (426,000)          | \$ 2,911,000        | \$ 463,000             |
| Revenue bonds                                   | 975,000              | -                   | (125,000)             | 850,000             | 125,000                |
| Net Pension Liability                           | 476,461              | 402,938             | (424,744)             | 454,655             | -                      |
| Compensated absences                            | 52,796               | 54,601              | (52,796)              | 54,601              | -                      |
| Bond Premium                                    | 136,785              | -                   | (22,104)              | 114,681             | -                      |
|   |                      |                     |                       |                     |                        |
| Business-type activity<br>long-term liabilities | <u>\$ 4,978,042</u>  | <u>\$ 457,539</u>   | <u>\$ (1,050,644)</u> | <u>\$ 4,384,937</u> | <u>\$ 588,000</u>      |

Conduit debt obligation

During 2014, the City and the City of Owatonna entered into a joint powers agreement to authorize and sell revenue bonds in the form of notes or other obligations for the purpose of refinancing the cost of the acquisition, construction and equipping of certain senior housing assisted living facilities. Second Century Housing (nonprofit corp.) and Owatonna Senior Living (limited liability corp.) issued \$6,775,000 in Housing and Health Care Revenue Refunding Bonds of 2014B using the City's bonding rights. In 2018, the city and Owatonna Senior Living and the City of St. Peter entered into a joint powers agreement to authorize and sell revenue refunding bonds to refund the outstanding bonds through issuance of Series 2018A and Series 2018B bonds. The balance outstanding at December 31, 2018 is unknown. The City is in no way liable for the repayment of these bonds.



CITY OF LAKE CRYSTAL, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 3 DETAILED NOTES ON ALL FUNDS – (Continued)

**E. Interfund receivables, payables, and transfers**

Interfund transfers

Interfund transfers for the year ended December 31, 2018, consisted of the following:

| Transferred To            | Transferred From |              |            |           |           |            |
|---------------------------|------------------|--------------|------------|-----------|-----------|------------|
|                           | General          | Debt Service | Electric   | Water     | Sewer     | Total      |
| Debt Service              | \$ 74,224        | \$ -         | \$ 144,075 | \$ 44,667 | \$ 32,096 | \$ 295,063 |
| City Hall Capital Project | 8,829            | -            | -          | -         | -         | 8,829      |
| General                   | -                | 14,290       | -          | -         | -         | 14,290     |
| Capital Project           | 25,000           | -            | -          | -         | -         | 25,000     |
| Total                     | \$ 108,053       | \$ 14,290    | \$ 144,075 | \$ 44,667 | \$ 32,096 | \$ 343,182 |

Transfer to the Debt Service fund was budgeted in the prior fiscal year and is used to support debt service in that fund. The enterprise funds make an annual transfer to debt service, as required by ordinance, of 5% of gross revenue in the respective funds. The transfer from the General fund to the City Hall Project fund was to help finance the project costs. General fund transfer to the capital project funds were for resources to complete infrastructure improvements. The debt service fund transferred residual fund balance remaining after bond payoff.

Internal Balances

| Fund Type and Fund                 | Due To<br>Other Funds | Due From<br>Other Funds | Advance To<br>Other Funds | Advance From<br>Other Funds |
|------------------------------------|-----------------------|-------------------------|---------------------------|-----------------------------|
| General Fund                       | \$ -                  | \$ 17,319               | \$ 50,000                 | \$ -                        |
| Debt Service                       | -                     | 220,838                 | -                         | -                           |
| Southwest Street & Utility Project | -                     | -                       | -                         | 150,000                     |
| Electric                           | 161,394               | -                       | -                         | -                           |
| Water                              | 44,667                | -                       | 50,000                    | -                           |
| Sewer                              | 32,096                | -                       | 50,000                    | -                           |
| Total                              | \$ 238,157            | \$ 238,157              | \$ 150,000                | \$ 150,000                  |

In 2018, the general, water and sewer funds advanced southwest street & utility fund \$150,000. The interfund loan will be repaid with bond proceeds and is expected to fully mature in 2019.

The outstanding balances for Due to/Due from between funds result mainly from the time lag between the date's interfund goods and services are provided, or reimbursable expenditures occur, and when payments between funds are made.

CITY OF LAKE CRYSTAL, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 3 DETAILED NOTES ON ALL FUNDS – (Continued)

**F. Net Position/Fund Balance**

Governmental Fund Balances

Governmental fund balances reported on the fund financial statements at December 31, 2018 included the following:

|                            | General                    | Debt<br>Service          | Southwest<br>Street &<br>Utility | Other<br>Nonmajor<br>Governmental | Total Fund                 |
|----------------------------|----------------------------|--------------------------|----------------------------------|-----------------------------------|----------------------------|
| Nonspendable:              |                            |                          |                                  |                                   |                            |
| Prepaid expense            | \$ 107,402                 | \$ -                     | \$ -                             | \$ -                              | \$ 107,402                 |
| Long-term receivable       | 50,000                     | -                        | -                                | -                                 | 50,000                     |
| Total nonspendable         | <u>157,402</u>             | <u>-</u>                 | <u>-</u>                         | <u>-</u>                          | <u>157,402</u>             |
| Restricted:                |                            |                          |                                  |                                   |                            |
| Debt service               | -                          | 561,169                  | -                                | -                                 | 561,169                    |
| Minnesota investment funds | -                          | -                        | -                                | 215,558                           | 215,558                    |
| Small cities development   | -                          | -                        | -                                | 16,879                            | 16,879                     |
| Total restricted           | <u>-</u>                   | <u>561,169</u>           | <u>-</u>                         | <u>232,437</u>                    | <u>793,606</u>             |
| Committed:                 |                            |                          |                                  |                                   |                            |
| Economic development       | -                          | -                        | -                                | 182,572                           | 182,572                    |
| Assigned:                  |                            |                          |                                  |                                   |                            |
| Cemetery                   | 148,159                    | -                        | -                                | -                                 | 148,159                    |
| Police forfeiture          | (43)                       | -                        | -                                | -                                 | (43)                       |
| Donated fire services      | 24,969                     | -                        | -                                | -                                 | 24,969                     |
| Ambulance operations       | 119,794                    | -                        | -                                | -                                 | 119,794                    |
| Fire relief                | 126,624                    | -                        | -                                | -                                 | 126,624                    |
| Fire equipment             | 12,456                     | -                        | -                                | -                                 | 12,456                     |
| Capital projects           | -                          | -                        | -                                | 289,985                           | 289,985                    |
| Total assigned             | <u>431,959</u>             | <u>-</u>                 | <u>-</u>                         | <u>289,985</u>                    | <u>721,944</u>             |
| Unassigned:                |                            |                          |                                  |                                   |                            |
| Capital projects           | -                          | -                        | (129,564)                        | -                                 | (129,564)                  |
| General fund               | 2,761,177                  | -                        | -                                | -                                 | 2,761,177                  |
| Total unassigned           | <u>2,761,177</u>           | <u>-</u>                 | <u>(129,564)</u>                 | <u>-</u>                          | <u>2,631,613</u>           |
| <b>Total fund balance</b>  | <b><u>\$ 3,350,538</u></b> | <b><u>\$ 561,169</u></b> | <b><u>\$ (129,564)</u></b>       | <b><u>\$ 704,994</u></b>          | <b><u>\$ 4,487,137</u></b> |

CITY OF LAKE CRYSTAL, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 3 DETAILED NOTES ON ALL FUNDS – (Continued)

Governmental Activities Net Position

Governmental activities net position reported on the government-wide statement of net position at December 31, 2018 includes the following:

Net Investment in Capital Assets:

|  |                  |
|--|------------------|
| Land                                   | \$ 501,358       |
| Construction in progress               | 164,821          |
| Buildings and improvements             | 6,201,582        |
| Infrastructure                         | 5,891,531        |
| Machinery and equipment                | 2,347,728        |
| Less: accumulated depreciation         | (5,325,444)      |
| Less: long-term debt outstanding       | (1,660,000)      |
| Less: bond premiums                    | (29,889)         |
| Add: deferred amount on refunding      | 11,218           |
| Total Net Investment in Capital Assets | <u>8,102,905</u> |

Restricted for:

|                            |                |
|----------------------------|----------------|
| Debt Service               | 719,430        |
| Minnesota investment funds | 215,558        |
| Small cities development   | 16,879         |
| Total restricted           | <u>951,867</u> |

Unrestricted

3,317,624

Total Governmental Activities Net Position

\$ 12,372,396

Business-Type Activities Net Position

Business-type activities net position reported on the government-wide statement of net position at December 31, 2018 includes the following:

Net Investment in Capital Assets:

|  |                  |
|--|------------------|
| Land                                   | \$ 31,700        |
| Construction in progress               | 62,559           |
| Buildings and improvements             | 7,897,139        |
| Distribution system                    | 10,066,485       |
| Machinery and equipment                | 3,084,659        |
| Less: accumulated depreciation         | (9,306,060)      |
| Less: long-term debt outstanding       | (3,761,000)      |
| Less: bond premiums                    | (114,681)        |
| Add: deferred amount on refunding      | 25,068           |
| Total Net Investment in Capital Assets | <u>7,977,869</u> |

Restricted for:

|              |         |
|--------------|---------|
| Debt Service | 144,000 |
|--------------|---------|

Unrestricted

3,173,168

Total Business-Type Activities Net Position

\$ 11,295,037

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018Note 4 DEFINED BENEFIT PENSION PLANS – STATEWIDE**PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION****A. Plan Description**

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

*General Employees Retirement Plan (GERF)*

All full-time and certain part-time employees of the City are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

*Public Employees Police and Fire Fund (PEPFF)*

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

**B. Benefits Provided**

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

*GERF Benefits*

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% for each of the first 10 years of service and 1.7% for each additional year. The rates are 2.2% and 2.7%, respectively, for Basic members. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service, and 2.7% for Basic members. The accrual rates for former MERF members is 2.0% for each of the first 10 years of service and 2.5% for each additional year. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989 normal retirement age is the age for unreduced Social Security benefits capped at 66.

Beginning January 1, 2019, benefit recipients will receive a future annual increase equal to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

*PEPFF Benefits*

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

CITY OF LAKE CRYSTAL, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 4 DEFINED BENEFIT PENSION PLANS-(Continued)

Beginning in 2019, the COLA will be fixed at 1 percent. Under funding measurements from 2017, the 2.5 percent COLA trigger was never expected to occur and was subsequently removed from law. Post retirement increases are given each year except for annuitants who have been receiving a benefit for only 31 to 41 months. These annuitants will receive a prorated amount of the increase on a sliding scale.

**C. Contributions**

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

*GERF Contributions*

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2018; the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2018 were \$70,055. The City's contributions were equal to the required contributions as set by state statute.

*PEPFF Contributions*

Legislation increased both employee and employer contribution rates in the Police and Fire Plan. Employee rates increased from 10.80 percent of pay to 11.30 percent and employer rates increase from 16.20 percent to 16.95 percent on January 1, 2018. On January 1, 2020 employee rates increase to 11.80 percent and employer rates increase to 17.70 percent. The City's contributions to the Police and Fire Fund for the year ended December 31, 2018 were \$28,192. The City's contributions were equal to the required contributions as set by state statute.

**D. Pension Costs**

*GERF Pension Costs*

At December 31, 2018, the City reported a liability of \$737,829 for its proportionate share of the GERF's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$24,314. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the City's proportion was 0.0133% which was an increase of .0009% from its proportion measured as of June 30, 2017. For the year ended December 31, 2018, the City recognized pension revenue of \$12,601 for its proportionate share of GERF's pension expense. In addition, the City recognized an additional \$5,670 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

Post-retirement benefit increases were changed from 1.0% per year with a provision to increase to 2.5% upon attainment of a 90% funding ratio to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, beginning January 1, 2019.

At December 31, 2018, the City reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources from the following sources:

CITY OF LAKE CRYSTAL, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 4 DEFINED BENEFIT PENSION PLANS-(Continued)

|  | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows of<br/>Resources</u> |
|--|---|--|
| Differences between expected and actual experience                       | \$ 19,529                                 | \$ 21,519                                |
| Net difference between projected and actual earnings on plan investments | 94,328                                    | 169,722                                  |
| Changes in actuarial assumptions   | 70,481                                    | 82,903                                   |
| Changes in proportion  | 44,388                                    | 16,239                                   |
| Contributions paid to PERA subsequent to the measurement date            | 34,845                                    | -  |
| <b>Total</b>   | <u>\$ 263,571</u>                         | <u>\$ 290,383</u>                        |

\$34,845 reported as deferred outflows of resources related to pensions resulting from City contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

| <u>Year ended December 31:</u> | <u>Pension Expense</u> |
|--------------------------------|------------------------|
| 2019                           | \$ 32,908              |
| 2020                           | \$ (33,662)            |
| 2021                           | \$ (45,505)            |
| 2022                           | \$ (15,400)            |
| 2023                           | -                      |
| Thereafter                     | -                      |

*PEPFF Pension Costs*

At December 31, 2018, the City reported a liability of \$172,675 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the City's proportion was 0.0162% which was an increase of .0012% from its proportion measured as of June 30, 2017.

Beginning in January 1, 2019, the COLA will be fixed at 1 percent. Under funding measurements from 2017, the 2.5 percent COLA trigger was never expected to occur and was subsequently removed from law.

For the year ended December 31, 2018, the City recognized pension revenue of \$2,280 for its proportionate share of the PEPFF's pension expense. The City also recognized \$1,458 for the year ended December 31, 2018, as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's on-behalf contributions to the PEPFF. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the PEPFF each year, starting in fiscal year 2014.

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

CITY OF LAKE CRYSTAL, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 4 DEFINED BENEFIT PENSION PLANS-(Continued)

|  | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows of<br/>Resources</u> |
|--|---|--|
| Differences between expected and actual experience                       | \$ 6,960                                  | \$ 42,362                                |
| Net difference between projected and actual earnings on plan investments | 45,599                                    | 81,766                                   |
| Changes in actuarial assumptions   | 214,678                                   | 254,201                                  |
| Changes in proportion  | 13,501                                    | 11,362                                   |
| Contributions paid to PERA subsequent to the measurement date            | 14,154                                    | -  |
| <b>Total</b>   | <u>\$ 294,892</u>                         | <u>\$ 389,691</u>                        |

\$14,154 reported as deferred outflows of resources related to pensions resulting from City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year ended December 31:</u> | <u>Pension Expense</u> |
|--------------------------------|------------------------|
| 2019                           | \$ (5,277)             |
| 2020                           | \$ (13,295)            |
| 2021                           | \$ (26,115)            |
| 2022                           | \$ (66,396)            |
| 2023                           | \$ 2,131               |
| Thereafter                     |                        |

**E. Actuarial Assumptions**

*GERF and PEPFF*

The total pension liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions:

**Key Methods and Assumptions Used in Valuation of Total Pension Liability**

**Actuarial Information:**

|                       |                  |
|-----------------------|------------------|
| Measurement Date      | June 30, 2018    |
| Valuation Date        | July 1, 2018     |
| Actuarial Cost Method | Entry Age Normal |

**Actuarial Assumption:**

|                           |                                 |
|---------------------------|---------------------------------|
| Investment Rate of Return | 7.50%                           |
| Inflation                 | 2.50% per year                  |
| Projected Salary Increase | 3.25% after 26 years of service |

The total pension liability for each of the defined benefit cost-sharing plans was determined by an actuarial valuation as of June 30, 2018, using the entry age normal actuarial cost method. Inflation is assumed to be 2.50 percent for the General Employees and Police and Fire Plans. Salary growth assumptions in the General Employees Plan decrease in annual increments from 11.25 percent after one year of service, to 3.25 percent after 26 years of service. In the Police and Fire Plan, salary growth assumptions decrease from 12.25 percent after one year of service to 3.25 percent after 25 years of service

CITY OF LAKE CRYSTAL, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 4 DEFINED BENEFIT PENSION PLANS-(Continued)

Mortality rates for all plans are based on RP-2014 mortality tables. The tables are adjusted slightly to fit PERA's experience. Actuarial assumptions for the General Employees Plan are reviewed every four to six years. The most recent six-year experience study for the General Employees Plan was completed in 2015. The most recent four-year experience study for the Police and Fire Plan was completed in 2016. Economic assumptions were updated in 2014 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2018:

**General Employees Fund**

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

**Police and Fire Fund**

- The mortality projection scale was changed from MP-2016 to MP-2017.

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

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

**F. Discount Rate**

*GERF and PEPFF*

The discount rate used to measure the total pension liability in 2018 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund and the Police and Fire Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.



CITY OF LAKE CRYSTAL, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 4 DEFINED BENEFIT PENSION PLANS-(Continued)

**G. Pension Liability Sensitivity**

*GERF and PEPFF*

The following presents the City's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

| Plan   | City's proportionate share of NPL |              |            |              |
|--|-----------------------------------|--------------|------------|--------------|
|  | Rate                              | 1 % Decrease | Current    | 1 % Increase |
| City's proportionate share of the GERF net pension liability:  | Rate                              | (6.50%)      | (7.50%)    | (8.50%)      |
|  |                                   | \$ 1,199,067 | \$ 737,829 | \$ 357,091   |
| City's proportionate share of the PEPFF net pension liability: | Rate                              | (6.50%)      | (7.50%)    | (8.50%)      |
|  |                                   | \$ 370,227   | \$ 172,675 | \$ 9,309     |

**H. Pension Plan Fiduciary Net Position**

Detailed information about each defined benefit pension plan's fiduciary net position is available in a separately-issued PERA financial report. 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.

**VOLUNTEER FIREMEN'S RELIEF ASSOCIATION**

**A. Plan Description**

*Fire Relief Association*

All active or probationary members of the Lake Crystal Fire Department are covered by a Defined Benefit Plan (the Plan) administered by the Lake Crystal Firefighters' Relief Association (the Association). The Plan is a single employer retirement plan and is established and administered in accordance with Minnesota statute, chapter 69.

The Association issues a publicly available financial report. The report may be obtained by writing to Lake Crystal Firefighters' Relief Association, P.O. Box 200, Lake Crystal, Minnesota 56055.

The Association maintains a separate Special fund to accumulate assets to fund the retirement benefits earned by the Department's membership. Funding for the Association is derived from an insurance premium tax in accordance with the Volunteer Firefighter's Relief Association Financing Guidelines Act of 1971 (chapter 261 as amended by chapter 509 of Minnesota statutes 1980). Funds are also derived from investment income.

If a member is terminated prior to age 50 with at least 5 years of service a deferred lump sum pension payable will be established based on the lump sum pension formula and service at date of termination reduced for less than 20 years of service. For members that terminate with at least 5 years of service, the Association will pay interest on the deferred service pensions during the period of deferral at the rate established by the Board of Trustees based on date of termination. If a member dies before payment, the benefit will be paid to the participant's beneficiary.

The disability lump sum pension is payable immediately based on the lump sum pension formula and service at date of disability without regard to vesting.

A survivor benefit is paid based on years of service (not less than 5 years) times the lump sum rate in effect at the time of death without regard to vesting, payable to named beneficiary plus a Supplemental Benefit in the amount of 20% of the total benefit paid, but not more than \$2,000.

CITY OF LAKE CRYSTAL, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 4 DEFINED BENEFIT PENSION PLANS-(Continued)

| Summary of Participant Data                                    |           |
|--|-----------|
| Active members   | 25        |
| Inactive members entitled to future benefits                   | 1         |
| Inactive members or beneficiaries currently receiving benefits | 0         |
| Total number of participants                                   | <u>26</u> |

**B. Benefits Provided**

*Relief Association Benefits*

Benefits are provided to Fire Department members who reach the age of 50 or have 20 years of service. The benefit upon retirement is a lump sum payment of \$2,000 (effective January 1, 2016) per year of service plus a Supplemental Benefit of 10% of the regular lump sum distribution, but not more than \$1,000. If a member is both age 50 and has completed 5 years of service, but not 20 years of service, the lump sum pension will be reduced by 4% for each year of service less than 20 years.

**C. Contributions**

*Relief Association Contributions*

The pension plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in Minnesota Statutes, and voluntary City contributions. The State of Minnesota contributed \$33,661 in fire state aid to the plan for the year ended December 31, 2018. Required employer contributions are calculated annually based on statutory provisions. There were no statutorily-required contributions to the pension plan for the year ended December 31, 2018. In addition, the City made voluntary contributions of \$3,750 to the plan.

**D. Pension Costs**

*Relief Association Costs*

At December 31, 2017, the Association reported an asset of \$103,492. The net pension asset was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

CITY OF LAKE CRYSTAL, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 4 DEFINED BENEFIT PENSION PLANS-(Continued)

The following table presents the changes in net pension liability during the year:

|  | Increase (Decrease)            |                                    |  |
|--|--------------------------------|------------------------------------|--|
|  | Total Pension Liability<br>(a) | Plan Fiduciary Net Position<br>(b) | Net Pension Liability<br>(c) = (a) - (b) |
| <b>Balance at Previous<br/>Fiscal Year 12/31/2017</b>      | \$ 588,593                     | \$ 686,115                         | \$ (97,522)                              |
| <b>Changes for the year:</b>                               |                                |                                    |  |
| Service cost   | 26,185                         | -                                  | 26,185                                   |
| Interest   | 33,813                         | -                                  | 33,813                                   |
| Differences between expected<br>and actual experience      | -                              | -                                  | -  |
| Changes of assumptions                                     | 2,482                          | -                                  | 2,482                                    |
| Changes of benefit terms                                   | -                              | -                                  | -  |
| Contributions - State and local                            | -                              | 37,411                             | (37,411)                                 |
| Contributions - Donation and<br>other income               | -                              | -                                  | -  |
| Contributions - Member                                     | -                              | -                                  | -  |
| Net investment incomes                                     | -                              | 32,839                             | (32,839)                                 |
| Other additions (e.g. receivables)                         | -                              | -                                  | -  |
| Benefit payments, including<br>member contribution refunds | -                              | -                                  | -  |
| Administrative expense                                     | -                              | (1,800)                            | 1,800                                    |
| Other deductions (e.g. payables)                           | -                              | -                                  | -  |
| <b>Net changes</b>   | <b>62,480</b>                  | <b>68,450</b>                      | <b>(5,970)</b>                           |
| <b>Balance at Current<br/>Fiscal Year 12/31/2018</b>       | <b>\$ 651,073</b>              | <b>\$ 754,565</b>                  | <b>\$ (103,492)</b>                      |

There were no provision changes during the measurement period.

For the year ended December 31, 2018 the City recognized pension expense of \$32,285.

At December 31, 2016, the Association reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|---|---|--|
| Differences between expected and actual experience                          | \$ -                                      | \$ 33,618                                |
| Net difference between projected and actual earnings<br>on plan investments | 39,289                                    | -  |
| Changes in actuarial assumptions  | 16,127                                    | 9,479                                    |
| Contributions made subsequent to measurement date                           | 3,750                                     | -  |
| <b>Total</b>  | <b>\$ 59,166</b>                          | <b>\$ 43,097</b>                         |

CITY OF LAKE CRYSTAL, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 4 DEFINED BENEFIT PENSION PLANS-(Continued)

\$3,750 reported as deferred outflows of resources related to pensions resulting from City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year ended December 31:</u> | <u>Pension<br/>Expense</u> |
|--------------------------------|----------------------------|
| 2019                           | \$ 11,573                  |
| 2020                           | \$ 11,435                  |
| 2021                           | \$ 1,920                   |
| 2022                           | \$ (3,347)                 |
| 2023                           | \$ (4,427)                 |
| Thereafter                     | \$ (4,834)                 |

**E. Actuarial Assumptions**

*Relief Association*

The total pension liability in the December 31, 2017, actuarial valuation was determined using the following actuarial assumptions:

**Key Methods and Assumptions Used in Valuation of Total Pension Liability**

**Actuarial Information:**

|                       |                   |
|-----------------------|-------------------|
| Measurement Date      | December 31, 2017 |
| Valuation Date        | December 31, 2016 |
| Actuarial Cost Method | Entry Age Normal  |

**Actuarial Assumption:**

|                           |                |
|---------------------------|----------------|
| Investment Rate of Return | 5.25%          |
| Inflation                 | 2.75% per year |
| Lump Sum Benefit Increase | N/A*           |

\* GASB rules require that accrued liabilities be based on the terms of the plan if effect on the measurement date. Therefore, the actuary has not reflected any future lump sum multiplier increases even though the Relief Association may have a history of regular benefit increases. Potential increases are contingent on future benefit agreements and statutory average available financing requirements. Any future increases will be reflected at the time they are approved.

Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments as follows:

Active: RP-2000 non-annuitant generational mortality projected with scale AA white collar adjustment, male rates set back 2 years, female rates set back 2 years.

Retirees: RP-2000 annuitant generational mortality projected with scale AA, white collar adjustments, without age adjustments.

Disabled: RP-2000 healthy annuitant mortality table, white collar adjustment, set forward eight years for males and females.

Actuarial assumptions used in the December 31, 2017, valuation were based on the most recent Minnesota PERA Police & Fire Plan actuarial valuation.

CITY OF LAKE CRYSTAL, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 4 DEFINED BENEFIT PENSION PLANS-(Continued)

The following changes in actuarial assumptions occurred in 2016:

- The discount rate was reduced from 5.50% to 5.25%

The long-term expected rate of return on pension plan investments is 5.25%. The actuary used a building-block method in which best-estimate ranges of expected future rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These asset class estimates are combined to produce the portfolio long-term expected rate of return by weighting the expected future real rates of return by the current asset allocation percentage (or target allocation, if available) and by adding expected inflation (2.75%) All results are then rounded to the nearest quarter percentage point.

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

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

| Asset Class                            | Allocation at<br>Measurement<br>Date | Long-Term<br>Expected Real<br>Rate of Return | Long-Term<br>Expected Nominal<br>Rate of Return |
|--|--------------------------------------|--|---|
| Domestic Equity                        | 21.64%                               | 5.39%  | 8.14%   |
| International Equity                   | 4.49%                                | 5.20%  | 7.95%   |
| Fixed Income                           | 29.04%                               | 1.98%  | 4.73%   |
| Real estate and alternative            | 11.79%                               | 4.25%  | 7.00%   |
| Cash and equivalents                   | 33.04%                               | 0.79%  | 3.54%   |
| Total                                  | 100.00%                              |  | 5.87%   |
| Reduced for assumed investment expense |                                      |  | (0.50%)   |
| Net assumed investment return          |                                      |  | 5.25%   |

**F. Discount Rate**

*Relief Association*

The discount rate used to measure the total pension liability was 5.25%. The liability discount rate was developed using the alternative method described in paragraph 43 of GASB 67, which states that "if the evaluations required by paragraph 41 can be made with sufficient reliability without a separate projection of cash flows into and out of the pension plan, alternative methods may be applied in make the evaluation." The actuary believes that the plan's current overfunded status, combined with statutory funding requirements, provide sufficient reliability that projected plan assets will be adequate to pay future retiree benefits. Therefore, they have used the plan's long-term expected investment return as the liability discount rate.

CITY OF LAKE CRYSTAL, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 4 DEFINED BENEFIT PENSION PLANS-(Continued)

**G. Pension Liability Sensitivity**

*Relief Association*

The following presents the Association’s net pension liability for plans it participates in, calculated using the discount rate disclosed in the preceding paragraphs, as well as what the Association’s net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

| Association’s Net Pension Liability |              |                    |
|-------------------------------------|--------------|--------------------|
| 1 Percent Decrease                  | Current      | 1 Percent Increase |
| (4.25%)                             | (5.25%)      | (6.25%)            |
| \$ (93,499)                         | \$ (103,492) | \$ (113,371)       |

**H. Pension Plan Fiduciary Net Position**

Detailed information about the relief association’s defined benefit pension plan’s fiduciary net position is available in a separately-issued financial report. That report may be obtained by writing to the City of Lake Crystal at 100 E Robinson St Lake Crystal, Minnesota, 56055; or by calling (507) 726-2538.

Note 5 OTHER INFORMATION

**A. 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 for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT), which is a risk sharing pool with approximately 800 other governmental units. The City pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self-sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the City’s coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The City’s management is not aware of any incurred but not reported claims.

**B. Legal debt margin**

In accordance with Minnesota statutes, the City may not incur or be subject to net debt in excess of 3 percent of the market value of taxable property within the City. Net debt is payable solely from ad valorem taxes and therefore, excludes debt financed partially or entirely by special assessments, enterprise fund revenues, or tax increments. The City has no debt outstanding subjected to this limit at December 31, 2018.

**C. Concentrations**

The City receives a significant amount of its annual General fund revenues from the State of Minnesota from the Local Government Aid (LGA). The amount received in 2018 was \$722,639 for LGA. This accounted for 28 percent of General fund revenues.

The City receives a significant amount of its water revenues from a single customer. During the year ended December 31, 2018 the amount received was \$660,367. This accounted for 74 percent of the water fund’s operating revenue.

CITY OF LAKE CRYSTAL, MINNESOTA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 5 OTHER INFORMATION – (Continued)

**D. Commitments**

*Power Purchase Contract*

The Lake Crystal Municipal Utilities Commission (Commission) entered into a purchase agreement, effective November 1, 2006 and expiring December 31, 2025, with Heartland Consumer Power District (Heartland) to purchase and receive all electric power which the Commission shall require for the operation of its municipal electrical system at rates established by Heartland per their applicable schedules. Payments are made monthly per the agreement set forth and increases per said agreement. On or before January 1, 2021, and on or before January 1 of every year thereafter, either Party may notify the other that this Agreement shall terminate at 11:59 P.M. Central Standard Time on the 31<sup>st</sup> day of December, of the 5<sup>th</sup> year following such notice, but in no case shall this Agreement terminate prior to December 31, 2025, except as provided by the Agreement.

*Capacity Purchase Agreement*

On October 1, 2007 and ending on December 31, 2026, the Commission entered into a Participation Power Sale and Interchange (PSI) Agreement with Heartland Consumer Power District (Heartland) whereby Heartland is entitled to purchase power from the Commission up to 5,825 kW per month per year starting at \$1.52 per kW per month and increasing incrementally throughout the agreement as stated by the schedule in said agreement. By no later than November 1, 2026, Heartland shall give the Commission notice in writing, either an offer to purchase (with kW per month per year pricing) the maximum available Firm Accredited Capacity (5,825 kW) for five more years, or notice of “no interest to purchase,” giving the Commission the time and ability to market the capacity to other interested parties.

*Nonexchange Financial Guarantees*

Chapter 469 of the Minnesota Statutes as amended authorizes the Economic Development Authority to make loans to prospective private businesses. This Statute also permits EDAs to extend nonexchange financial guarantees on certain debt issued by unrelated entities located within the government’s physical boundaries. In accordance with the statute, the EDA has guaranteed certain debt of the various businesses, which are legally separate entities located within the City boundaries but is not a component unit of the City or part of the City’s financial reporting entity.

Note 6 TAX ABATEMENT

As of December 31, 2018, the City has three agreements entered into by the City that abates City property taxes as follows:

**Kevin’s Market:**

The City entered into a tax abatement agreement on January 1, 2007 with a developer in which the developer incurs costs for site improvement costs. In return, the City will reimburse the developer an estimated \$13,808 per year and at \$207,122 over the fifteen-year program. The agreement was negotiated under state law (Minnesota Statute 469.1812-469.1815) and has a maximum duration through 2021. In any year, the total amount of property taxes abated by the City, by this and other resolutions, does not exceed the greater of ten percent (10%) of the current levy or \$200,000. The amount abated in 2018 was \$11,111.

CITY OF LAKE CRYSTAL, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 6 TAX ABATEMENT – (Continued)

**Champlin Bus Service:**

The City entered into a tax abatement agreement on January 1, 2012 with a developer in which the developer incurs costs for site improvement costs. In return, the City will reimburse the developer an estimated \$5,535 per year and at \$55,353 over the ten-year program. The agreement was negotiated under state law (Minnesota Statute 469.1812-469.1815) and has a maximum duration through 2021. In any year, the total amount of property taxes abated by the City, by this and other resolutions, does not exceed the greater of ten percent (10%) of the current levy or \$200,000. The amount abated in 2018 was \$5,535.

**Jackson Multi-Family Development Project:**

The City entered into a tax abatement agreement on January 1, 2018 with a developer in which the developer incurs costs for site improvement costs. In return, the City will reimburse the developer an estimated \$6,268 per year and at \$31,340 over the five-year program. The agreement was negotiated under state law (Minnesota Statute 469.1812-469.1815) and has a maximum duration through 2021. In any year, the total amount of property taxes abated by the City, by this and other resolutions, does not exceed the greater of ten percent (10%) of the current levy or \$200,000. The amount abated in 2018 was \$6,268.

|                               | Kevin's<br>Market | Champlin Bus<br>Service | Jackson<br>Multi-Family<br>Development<br>Project |
|-------------------------------|-------------------|-------------------------|---|
| Year of initiation            | 1/7/2007          | 1/1/2012                | 1/1/2017  |
| Year of termination           | 12/31/2021        | 12/31/2021              | 12/31/2021  |
| Estimated abatement per year  | 13,808            | 5,535                   | 6,268   |
| Total allowed abatement       | 207,122           | 55,353                  | 31,340  |
| Amount abated in current year | 11,111            | 5,535                   | 6,268   |



REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LAKE CRYSTAL, MINNESOTA

SCHEDULE OF CITY'S PROPORTIONARE SHARE OF NET PENSION LIABILITY  
 GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN  
 Year Ended December 31, 2018

| City Fiscal<br>Year-End Date | PERA Fiscal<br>Year-End Date<br>(Measurement<br>Date) | City's<br>Proportion<br>of the Net<br>Pension<br>Liability | City's<br>Proportionate<br>Share of the<br>Net Penion<br>Liability | State's<br>Proportionate<br>Share of the<br>Net Pension<br>Liability<br>Associated with<br>the City | Total        | City's<br>Covered<br>Payroll | City's<br>Proportionate<br>Share of the<br>Net Pension<br>Liability as a<br>Percentage of<br>Covered<br>Payroll | Plan Fiduciary<br>Net Position<br>as a<br>Percentage<br>of the Total<br>Pension<br>Liability |
|------------------------------|---|--|--|---|--------------|------------------------------|---|--|
| 12/31/2018                   | 6/30/2018   | 0.0133%  | \$ 737,829   | \$ 24,314   | \$ 762,143   | \$ 930,544                   | 81.9%   | 79.5%  |
| 12/31/2017                   | 6/30/2017   | 0.0124%  | \$ 791,608   | \$ 9,950  | \$ 801,558   | \$ 786,945                   | 101.9%  | 75.9%  |
| 12/31/2016                   | 6/30/2016   | 0.0128%  | \$ 1,039,297   | \$ 13,609   | \$ 1,052,906 | \$ 765,122                   | 137.6%  | 68.9%  |
| 12/31/2015                   | 6/30/2015   | 0.0127%  | \$ 658,180   | \$ -  | \$ 658,180   | \$ 742,346                   | 88.7%   | 78.2%  |

SCHEDULE OF CITY'S CONTRIBUTIONS  
 GENERAL EMPLOYEES RETIREMENT FUND PENSION PLAN  
 Year Ended December 31, 2018

| City Fiscal<br>Year-End Date | PERA Fiscal<br>Year-End Date<br>(Measurement<br>Date) | Statutorily<br>Required<br>Contributions | Contributions<br>in Relation to<br>the Statutorily<br>Required<br>Contributions | Contribution<br>Deficiency<br>(Excess) | City's<br>Covered<br>Payroll | Contributions<br>as a<br>Percentage<br>of Covered<br>Payroll |
|------------------------------|---|--|---|--|------------------------------|--|
| 12/31/2018                   | 6/30/2018   | \$ 67,174                                | \$ 67,174   | \$ -                                   | \$ 895,653                   | 7.50%  |
| 12/31/2017                   | 6/30/2017   | \$ 59,888                                | \$ 59,888   | \$ -                                   | \$ 798,507                   | 7.50%  |
| 12/31/2016                   | 6/30/2016   | \$ 59,673                                | \$ 59,673   | \$ -                                   | \$ 795,640                   | 7.50%  |
| 12/31/2015                   | 6/30/2015   | \$ 54,926                                | \$ 54,926   | \$ -                                   | \$ 732,347                   | 7.50%  |

Note 1: **Change of Assumptions.** The morality projection scale was changed from MP-2015 to MP-2017. The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

Note 2: The Commission implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2015 measurement date). This information is not available for previous fiscal years.

CITY OF LAKE CRYSTAL, MINNESOTA

SCHEDULE OF CITY'S PROPORTIONARE SHARE OF NET PENSION LIABILITY  
PUBLIC EMPLOYEES POLICE AND FIRE FUND PENSION PLAN  
Year Ended December 31, 2018

| City Fiscal<br>Year-End Date | PERA Fiscal<br>Year-End Date<br>(Measurement<br>Date) | City's<br>Proportion<br>of the Net<br>Pension<br>Liability | City's<br>Proportionate<br>Share of the<br>Net Penion<br>Liability | State's<br>Proportionate<br>Share of the<br>Net Pension<br>Liability<br>Associated with<br>the City | Total      | City's<br>Covered<br>Payroll | City's<br>Proportionate<br>Share of the<br>Net Pension<br>Liability as a<br>Percentage of<br>Covered<br>Payroll | Plan Fiduciary<br>Net Position<br>as a<br>Percentage<br>of the Total<br>Pension<br>Liability |
|------------------------------|---|--|--|---|------------|------------------------------|---|--|
| 12/31/2018                   | 6/30/2018   | 0.0162%  | \$ 172,675   | \$ -  | \$ 172,675 | \$ 175,030                   | 98.7%   | 88.8%  |
| 12/31/2017                   | 6/30/2017   | 0.0153%  | \$ 202,518   | \$ -  | \$ 202,518 | \$ 193,981                   | 104.4%  | 85.4%  |
| 12/31/2016                   | 6/30/2016   | 0.0152%  | \$ 601,976   | \$ -  | \$ 601,976 | \$ 181,302                   | 332.0%  | 63.9%  |
| 12/31/2015                   | 6/30/2015   | 0.0168%  | \$ 193,160   | \$ -  | \$ 193,160 | \$ 190,205                   | 101.6%  | 86.6%  |

SCHEDULE OF CITY'S CONTRIBUTIONS  
PUBLIC EMPLOYEES POLICE AND FIRE FUND PENSION PLAN  
Year Ended December 31, 2018

| City Fiscal<br>Year-End Date | PERA Fiscal<br>Year-End Date<br>(Measurement<br>Date) | Statutorily<br>Required<br>Contributions | Contributions<br>in Relation to<br>the Statutorily<br>Required<br>Contributions | Contribution<br>Deficiency<br>(Excess) | City's<br>Covered<br>Payroll | Contributions<br>as a<br>Percentage<br>of Covered<br>Payroll |
|------------------------------|---|--|---|--|------------------------------|--|
| 12/31/2018                   | 6/30/2018   | \$ 27,638                                | \$ 27,638   | \$ -                                   | \$ 170,605                   | 16.2%  |
| 12/31/2017                   | 6/30/2017   | \$ 25,374                                | \$ 25,374   | \$ -                                   | \$ 156,630                   | 16.2%  |
| 12/31/2016                   | 6/30/2016   | \$ 23,724                                | \$ 23,724   | \$ -                                   | \$ 146,444                   | 16.2%  |
| 12/31/2015                   | 6/30/2015   | \$ 24,286                                | \$ 24,286   | \$ -                                   | \$ 149,914                   | 16.2%  |

Note 1: **Change of Assumptions.** 1) The morality projection scale was changed from MP-2016 to MP-2017.

Note 2: The City implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2015 measurement date). This information is not available for previous fiscal years.

CITY OF LAKE CRYSTAL, MINNESOTA

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
LAKE CRYSTAL FIREFIGHTERS' RELIEF ASSOCIATION  
(Last 10 Fiscal Years)

| <b>Total Pension Liability</b>                          | <b>2018</b>         | <b>2017</b>        | <b>2016</b>        | <b>2015</b>        |
|---|---------------------|--------------------|--------------------|--------------------|
| Service cost  | \$ 26,185           | \$ 24,732          | \$ 25,906          | \$ 25,213          |
| Interest  | 33,813              | 40,191             | 30,667             | 27,591             |
| Difference between expected and actual experience       | -                   | (44,074)           | -                  | -                  |
| Changes of assumptions                                  | 2,482               | 18,325             | (14,594)           | -                  |
| Changes in benefit terms                                | -                   | -                  | -                  | -                  |
| Benefit payments, including member contribution refunds | -                   | -                  | -                  | -                  |
| <b>Net change in total pension liability</b>            | <b>62,480</b>       | <b>39,174</b>      | <b>41,979</b>      | <b>52,804</b>      |
| <b>Total Pension Liability - beginning of year</b>      | <b>588,593</b>      | <b>549,419</b>     | <b>507,440</b>     | <b>454,636</b>     |
| <b>Total Pension Liability - end of year</b>            | <b>\$ 651,073</b>   | <b>\$ 588,593</b>  | <b>\$ 549,419</b>  | <b>\$ 507,440</b>  |
| <b>Plan Fiduciary Net Position</b>                      |                     |                    |                    |                    |
| Contributions - state and local                         | \$ 37,411           | \$ 41,971          | \$ 48,695          | \$ 66,601          |
| Contributions - donation and other income               | -                   | -                  | -                  | -                  |
| Contributions - member                                  | -                   | -                  | -                  | -                  |
| Net investment income                                   | 32,839              | 18,264             | (13,278)           | 30,015             |
| Other additions (e.g. receivable)                       | -                   | -                  | -                  | -                  |
| Benefit payments, including member contribution refunds | -                   | -                  | -                  | -                  |
| Administrative expenses                                 | (1,800)             | (1,800)            | (1,800)            | (6,435)            |
| Other deductions (e.g. payables)                        | -                   | -                  | -                  | -                  |
| <b>Net change in plan fiduciary net position</b>        | <b>68,450</b>       | <b>58,435</b>      | <b>33,617</b>      | <b>90,181</b>      |
| <b>Plan Fiduciary Net Position - beginning of year</b>  | <b>686,115</b>      | <b>627,680</b>     | <b>594,063</b>     | <b>503,882</b>     |
| <b>Plan Fiduciary Net Position - end of year</b>        | <b>\$ 754,565</b>   | <b>\$ 686,115</b>  | <b>\$ 627,680</b>  | <b>\$ 594,063</b>  |
| <b>Net Pension (Asset) Liability - end of year</b>      | <b>\$ (103,492)</b> | <b>\$ (97,522)</b> | <b>\$ (78,261)</b> | <b>\$ (86,623)</b> |
| <b>FNP as a percentage of the TPL</b>                   | <b>115.90%</b>      | <b>116.57%</b>     | <b>114.24%</b>     | <b>117.07%</b>     |

**Note:** Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

CITY OF LAKE CRYSTAL, MINNESOTA

SCHEDULE OF CONTRIBUTIONS AND NET PENSION LIABILITY AS A PERCENT OF PAYROLL  
 LAKE CRYSTAL FIREFIGHTERS' RELIEF ASSOCIATION  
 (Last 10 Fiscal Years)

| <b>Fiscal year ending</b> | <b>Actuarially<br/>determined<br/>contribution</b> | <b>Contributions<br/>in relation to<br/>the ADC</b> | <b>Contribution<br/>deficiency<br/>(excess)</b> | <b>Payroll</b> | <b>Contributions<br/>as a percentage<br/>of payroll</b> | <b>NPL as a<br/>percent of<br/>payroll</b> |
|---------------------------|--|---|---|----------------|---|--|
| December 31, 2018         | -  | \$ 3,750  | \$ (3,750)                                      | -              | -   | -  |
| December 31, 2017         | -  | \$ 7,500  | \$ (7,500)                                      | -              | -   | -  |
| December 31, 2016         | -  | \$ 11,868   | \$ (11,868)                                     | -              | -   | -  |
| December 31, 2015         | -  | \$ 32,882   | \$ (32,882)                                     | -              | -   | -  |

**Note:** Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

SUPPLEMENTARY INFORMATION SECTION

CITY OF LAKE CRYSTAL, MINNESOTA

COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 December 31, 2018

|   | Special Revenue Funds |  | Capital Project Funds       |                                 | Total<br>Nonmajor<br>Governmental<br>Funds |
|---|-----------------------|--|-----------------------------|---------------------------------|--|
|   | EDA<br>Fund           | Small Cities<br>Development<br>Program | Capital<br>Projects<br>Fund | City Hall<br>Capital<br>Project |  |
| <b>ASSETS</b>                                 |                       |  |                             |                                 |  |
| Cash and Cash Equivalents                     | \$ 283,802            | \$ 13,980                              | \$ 62,715                   | \$ 0                            | \$ 360,497                                 |
| Investments                                   | 107,328               | 0                                      | 234,795                     | 0                               | 342,123                                    |
| Notes Receivable - Less Allowance             | <u>7,000</u>          | <u>2,899</u>                           | <u>0</u>                    | <u>0</u>                        | <u>9,899</u>                               |
| <b>TOTAL ASSETS</b>                           | <u>\$ 398,130</u>     | <u>\$ 16,879</u>                       | <u>\$ 297,510</u>           | <u>\$ 0</u>                     | <u>\$ 712,519</u>                          |
| <b>LIABILITIES AND FUND</b>                   |                       |  |                             |                                 |  |
| <b>Liabilities:</b>                           |                       |  |                             |                                 |  |
| Accounts Payable                              | <u>\$ 0</u>           | <u>\$ 0</u>                            | <u>\$ 7,525</u>             | <u>\$ 0</u>                     | <u>\$ 7,525</u>                            |
| <b>Fund Balance:</b>                          |                       |  |                             |                                 |  |
| Restricted:                                   |                       |  |                             |                                 |  |
| Minnesota Investment Funds                    | 215,558               | 0                                      | 0                           | 0                               | 215,558                                    |
| Small Cities Development Program              | 0                     | 16,879                                 | 0                           | 0                               | 16,879                                     |
| Committed for:                                |                       |  |                             |                                 |  |
| Economic Development                          | 182,572               | 0                                      | 0                           | 0                               | 182,572                                    |
| Assigned for:                                 |                       |  |                             |                                 |  |
| Capital Projects                              | <u>0</u>              | <u>0</u>                               | <u>289,985</u>              | <u>0</u>                        | <u>289,985</u>                             |
| Total Fund Balance                            | <u>398,130</u>        | <u>16,879</u>                          | <u>289,985</u>              | <u>0</u>                        | <u>704,994</u>                             |
| <b>TOTAL LIABILITIES<br/>AND FUND BALANCE</b> | <u>\$ 398,130</u>     | <u>\$ 16,879</u>                       | <u>\$ 297,510</u>           | <u>\$ 0</u>                     | <u>\$ 712,519</u>                          |

CITY OF LAKE CRYSTAL, MINNESOTA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended December 31, 2018

|  | Special Revenue Funds |  | Capital Project Funds       |                                 | Total<br>Nonmajor<br>Governmental<br>Funds |
|--|-----------------------|--|-----------------------------|---------------------------------|--|
|  | EDA<br>Fund           | Small Cities<br>Development<br>Program | Capital<br>Projects<br>Fund | City Hall<br>Capital<br>Project |  |
| <b>Revenues:</b>                           |                       |  |                             |                                 |  |
| Interest Income                            | \$ 565                | \$ 191                                 | \$ (1,668)                  | \$ 34                           | \$ (878)                                   |
| Miscellaneous Revenue                      | 0                     | 0                                      | 0                           | 5,357                           | 5,357                                      |
| <b>Expenditures:</b>                       |                       |  |                             |                                 |  |
| General Government                         | 265                   | 0                                      | 0                           | 0                               | 265  |
| Capital Outlay                             | 0                     | 0                                      | 166,112                     | 40,914                          | 207,026                                    |
| Excess of Revenue Over (Under) Expenditure | 300                   | 191                                    | (167,780)                   | (35,523)                        | (202,812)                                  |
| <b>Other Financing Sources (Uses):</b>     |                       |  |                             |                                 |  |
| Transfer In                                | 0                     | 0                                      | 25,000                      | 8,829                           | 33,829                                     |
| Change in Fund Balance                     | 300                   | 191                                    | (142,780)                   | (26,694)                        | (168,983)                                  |
| Fund Balance - January 1                   | 397,830               | 16,688                                 | 432,765                     | 26,694                          | 873,977                                    |
| Fund Balance - December 31                 | <u>\$ 398,130</u>     | <u>\$ 16,879</u>                       | <u>\$ 289,985</u>           | <u>\$ 0</u>                     | <u>\$ 704,994</u>                          |



CITY OF LAKE CRYSTAL, MINNESOTA

COMBINING BALANCE SHEET  
DEBT SERVICES FUNDS  
December 31, 2018

|  | Debt<br>Service   | 2015A<br>Recreation<br>Center<br>Bonds | 2017A<br>G.O. CIP<br>Bonds | Total<br>Debt Service<br>Funds |
|--|-------------------|--|----------------------------|--------------------------------|
| <b>ASSETS</b>  |                   |  |                            |                                |
| Cash and Cash Equivalents  | \$ 285,755        | \$ 51,959                              | \$ 2,015                   | \$ 339,729                     |
| Receivables:   |                   |  |                            |                                |
| Property Taxes   | 4,949             | 0                                      | 1,204                      | 6,153                          |
| Special Assessments  | 156,473           | 0                                      | 0                          | 156,473                        |
| Interest   | 0                 | 31                                     | 0                          | 31                             |
| Due From Other Funds   | 220,838           | 0                                      | 0                          | 220,838                        |
| <b>TOTAL ASSETS</b>  | <u>\$ 668,015</u> | <u>\$ 51,990</u>                       | <u>\$ 3,219</u>            | <u>\$ 723,224</u>              |
| <b>LIABILITIES, DEFERRED INFLOWS<br/>OF RESOURCES AND FUND BALANCE</b>       |                   |  |                            |                                |
| <b>Liabilities:</b>  |                   |  |                            |                                |
| Accounts Payable   | \$ 775            | \$ 0                                   | \$ 775                     | \$ 1,550                       |
| <b>Deferred Inflows of Resources:</b>  |                   |  |                            |                                |
| Unavailable Revenue  | 160,505           | 0                                      | 0                          | 160,505                        |
| <b>Fund Balance:</b>   |                   |  |                            |                                |
| Restricted   | 506,735           | 51,990                                 | 2,444                      | 561,169                        |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS<br/>OF RESOURCES AND FUND BALANCE</b> | <u>\$ 668,015</u> | <u>\$ 51,990</u>                       | <u>\$ 3,219</u>            | <u>\$ 723,224</u>              |

CITY OF LAKE CRYSTAL, MINNESOTA

COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE - DEBT SERVICE FUNDS

For the Year Ended December 31, 2018

|  | Debt<br>Service   | 2015A<br>Recreation<br>Center<br>Bonds | 2017A<br>G.O. CIP<br>Bonds | Total<br>Debt Service<br>Funds |
|--|-------------------|--|----------------------------|--------------------------------|
| <b>Revenues:</b>                             |                   |  |                            |                                |
| Property Taxes                               | \$ 34,600         | \$ 0                                   | \$ 80,380                  | \$ 114,980                     |
| Special Assessments                          | 14,290            | 0                                      | 0                          | 14,290                         |
| Other Income                                 | 361               | 174                                    | 10                         | 545                            |
| Total Revenues                               | <u>49,251</u>     | <u>174</u>                             | <u>80,390</u>              | <u>129,815</u>                 |
| <b>Expenditures:</b>                         |                   |  |                            |                                |
| Debt Service:                                |                   |  |                            |                                |
| Principal                                    | 215,000           | 66,000                                 | 55,000                     | 336,000                        |
| Interest and Fees                            | 23,009            | 8,224                                  | 22,953                     | 54,186                         |
| Total Expenditures                           | <u>238,009</u>    | <u>74,224</u>                          | <u>77,953</u>              | <u>390,186</u>                 |
| Excess of Revenues Over (Under) Expenditures | (188,758)         | (74,050)                               | 2,437                      | (260,371)                      |
| <b>Other Financing Sources (Uses):</b>       |                   |  |                            |                                |
| Operating Transfers                          | <u>206,548</u>    | <u>74,224</u>                          | <u>0</u>                   | <u>280,772</u>                 |
| Change in Fund Balance                       | 17,790            | 174                                    | 2,437                      | 20,401                         |
| Fund Balance - January 1                     | <u>488,945</u>    | <u>51,816</u>                          | <u>7</u>                   | <u>540,768</u>                 |
| Fund Balance - December 31                   | <u>\$ 506,735</u> | <u>\$ 51,990</u>                       | <u>\$ 2,444</u>            | <u>\$ 561,169</u>              |

CITY OF LAKE CRYSTAL, MINNESOTA

BALANCE SHEET

GENERAL FUND

December 31, 2018

(With Comparative Amounts for December 31, 2017)

|  | <u>2018</u>                | <u>2017</u>                |
|--|----------------------------|----------------------------|
| <b>ASSETS</b>  |                            |                            |
| Cash and Cash Equivalents  | \$ 2,984,623               | \$ 2,843,482               |
| Investments  | 310,702                    | 330,816                    |
| Receivables:   |                            |                            |
| Property Taxes   | 50,822                     | 132,222                    |
| Franchise Fee  | 70,022                     | 59,869                     |
| Accounts   | 73,623                     | 119,854                    |
| Interest   | 32                         | 1,594                      |
| Due From Other Funds   | 17,319                     | 17,074                     |
| Prepaid Expenses   | 107,402                    | 96,440                     |
| Advance to Other Funds   | <u>50,000</u>              | <u>389</u>                 |
| <b>TOTAL ASSETS</b>  | <u><u>\$ 3,664,545</u></u> | <u><u>\$ 3,601,740</u></u> |
| <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>       |                            |                            |
| <b>Liabilities:</b>  |                            |                            |
| Accounts Payable   | \$ 190,668                 | \$ 154,758                 |
| Accrued Expenses   | 15,725                     | 13,702                     |
| Total Liabilities  | <u>206,393</u>             | <u>168,460</u>             |
| <b>Deferred Inflows of Resources:</b>                                    |                            |                            |
| Unavailable Revenue  | <u>107,614</u>             | <u>75,537</u>              |
| <b>Fund Balance:</b>   |                            |                            |
| Nonspendable for:  |                            |                            |
| Interfund Advance  | 50,000                     | 0                          |
| Prepaid Expense  | 107,402                    | 96,440                     |
| Assigned for:  |                            |                            |
| Cemetery   | 148,159                    | 154,435                    |
| Public Safety  | 283,800                    | 241,905                    |
| Unassigned   | 2,761,177                  | 2,864,963                  |
| Total Fund Balance   | <u>3,350,538</u>           | <u>3,357,743</u>           |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b> | <u><u>\$ 3,664,545</u></u> | <u><u>\$ 3,601,740</u></u> |

CITY OF LAKE CRYSTAL, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended December 31, 2018

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

|                                  | Budget           |                  | 2018<br>Actual<br>Amounts | Over (Under)<br>Final<br>Budget | 2017<br>Actual<br>Amounts |
|----------------------------------|------------------|------------------|---------------------------|---------------------------------|---------------------------|
|                                  | Original         | Final            |                           |                                 |                           |
| <b>Revenues:</b>                 |                  |                  |                           |                                 |                           |
| Taxes:                           |                  |                  |                           |                                 |                           |
| Property Taxes                   | \$ 967,046       | 967,046          | \$ 989,773                | \$ 22,727                       | \$ 1,081,506              |
| Franchise Taxes                  | 75,000           | 75,000           | 96,781                    | 21,781                          | 84,152                    |
| Total Taxes                      | <u>1,042,046</u> | <u>1,042,046</u> | <u>1,086,554</u>          | <u>44,508</u>                   | <u>1,165,658</u>          |
| Intergovernmental Revenue:       |                  |                  |                           |                                 |                           |
| Local Government Aid             | 745,545          | 745,545          | 745,545                   | 0                               | 722,639                   |
| PERA Rate Increase Aid           | 3,000            | 3,000            | 2,912                     | (88)                            | 2,912                     |
| State Police Aid                 | 21,500           | 21,500           | 26,100                    | 4,600                           | 24,406                    |
| Police Grants                    | 200              | 200              | 9,656                     | 9,456                           | 300                       |
| Fire Relief 2% State Aid         | 30,000           | 30,000           | 34,012                    | 4,012                           | 33,661                    |
| Fire Department Grants           | 2,500            | 2,500            | 97,592                    | 95,092                          | 9,040                     |
| Street Aid                       | 19,609           | 19,609           | 19,212                    | (397)                           | 19,609                    |
| Grant Receipts                   | 60,520           | 60,520           | 1,426                     | (59,094)                        | 10,175                    |
| Total Intergovernmental Revenue  | <u>882,874</u>   | <u>882,874</u>   | <u>936,455</u>            | <u>53,581</u>                   | <u>822,742</u>            |
| Licenses                         | <u>29,510</u>    | <u>29,510</u>    | <u>35,325</u>             | <u>5,815</u>                    | <u>35,541</u>             |
| Charges for Services:            |                  |                  |                           |                                 |                           |
| Rural Fire Department Receipts   | 40,000           | 40,000           | 19,121                    | (20,879)                        | 42,737                    |
| Ambulance Rescue Squad           | 125,000          | 125,000          | 144,676                   | 19,676                          | 132,776                   |
| Refuse Collection Fees           | 193,650          | 193,650          | 194,965                   | 1,315                           | 199,379                   |
| Supplies and Services            | 825              | 825              | 2,164                     | 1,339                           | 1,159                     |
| Cemetery Fees                    | 21,370           | 21,370           | 4,250                     | (17,120)                        | 9,150                     |
| Rental                           | 800              | 800              | 1,575                     | 775                             | 750                       |
| Total Charges for Services       | <u>381,645</u>   | <u>381,645</u>   | <u>366,751</u>            | <u>(14,894)</u>                 | <u>385,951</u>            |
| Fines                            | <u>15,000</u>    | <u>15,000</u>    | <u>5,184</u>              | <u>(9,816)</u>                  | <u>10,191</u>             |
| Other Income:                    |                  |                  |                           |                                 |                           |
| Insurance Dividend               | 15,000           | 15,000           | 6,082                     | (8,918)                         | 9,419                     |
| Donations                        | 2,500            | 2,500            | 90,475                    | 87,975                          | 53,876                    |
| Miscellaneous Income             | 119,716          | 119,716          | 68,829                    | (50,887)                        | 93,666                    |
| Adjust Investments to Fair Value | 0                | 0                | (8,612)                   | (8,612)                         | 1,522                     |
| Interest Income                  | 5,000            | 5,000            | 11,190                    | 6,190                           | 24,638                    |
| Total Other Income               | <u>142,216</u>   | <u>142,216</u>   | <u>167,964</u>            | <u>25,748</u>                   | <u>183,121</u>            |
| Total Revenues                   | <u>2,493,291</u> | <u>2,493,291</u> | <u>2,598,233</u>          | <u>104,942</u>                  | <u>2,603,204</u>          |
| <b>Current Expenditures:</b>     |                  |                  |                           |                                 |                           |
| General Government:              |                  |                  |                           |                                 |                           |
| Mayor and Council:               |                  |                  |                           |                                 |                           |
| Salaries                         | 14,700           | 14,700           | 14,700                    | 0                               | 14,700                    |
| Election Salaries                | 4,000            | 4,000            | 2,494                     | (1,506)                         | 0                         |
| Travel, Conferences, and Schools | 500              | 500              | 375                       | (125)                           | 0                         |
| General Supplies                 | 1,500            | 1,500            | 2,052                     | 552                             | 500                       |
| Pera                             | 465              | 465              | 330                       | (135)                           | 330                       |
| Social Security/Medicare         | 1,125            | 1,125            | 715                       | (410)                           | 715                       |

CITY OF LAKE CRYSTAL, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended December 31, 2018

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

|   | Budget         |                | 2018<br>Actual<br>Amounts | Over (Under)<br>Final<br>Budget | 2017<br>Actual<br>Amounts |
|---|----------------|----------------|---------------------------|---------------------------------|---------------------------|
|   | Original       | Final          |                           |                                 |                           |
| <b>Current Expenditures (Continued):</b>  |                |                |                           |                                 |                           |
| Government Building:                      |                |                |                           |                                 |                           |
| General Supplies                          | \$ 8,000       | \$ 8,000       | \$ 14,945                 | \$ 6,945                        | \$ 9,083                  |
| Utilities                                 | 10,500         | 10,500         | 9,718                     | (782)                           | 6,573                     |
| Building Repairs                          | 3,000          | 3,000          | 660                       | (2,340)                         | 1,207                     |
| Janitor Services                          | 10,000         | 10,000         | 12,970                    | 2,970                           | 9,625                     |
| Finance:                                  |                |                |                           |                                 |                           |
| Salaries                                  | 31,500         | 31,500         | 44,404                    | 12,904                          | 31,664                    |
| FT Hourly Salaries                        | 79,012         | 79,012         | 77,691                    | (1,321)                         | 71,322                    |
| Part Time Hourly Salaries                 | 0              | 0              | 0                         | 0                               | 1,617                     |
| Safety Program Expense                    | 8,100          | 8,100          | 8,079                     | (21)                            | 8,205                     |
| Building Inspector                        | 23,750         | 23,750         | 28,152                    | 4,402                           | 28,737                    |
| Contracted services                       | 1,000          | 1,000          | 3,006                     | 2,006                           | 7,745                     |
| Legal Fees                                | 12,000         | 12,000         | 6,027                     | (5,973)                         | 10,060                    |
| Abatement                                 | 40,000         | 40,000         | 20,125                    | (19,875)                        | 24,404                    |
| Computer Expense                          | 4,000          | 4,000          | 4,137                     | 137                             | 3,933                     |
| Telephone                                 | 1,200          | 1,200          | 1,723                     | 523                             | 1,273                     |
| Printing                                  | 10,000         | 10,000         | 6,334                     | (3,666)                         | 9,503                     |
| Travel, Conferences, and Schools          | 7,000          | 7,000          | 4,500                     | (2,500)                         | 3,544                     |
| Equipment Repair                          | 1,000          | 1,000          | 1,227                     | 227                             | 1,407                     |
| Professional Services                     | 8,200          | 8,200          | 7,787                     | (413)                           | 7,713                     |
| Office Supplies                           | 2,500          | 2,500          | 2,386                     | (114)                           | 2,175                     |
| General Supplies                          | 2,000          | 2,000          | 966                       | (1,034)                         | 2,531                     |
| Membership Dues                           | 500            | 500            | 180                       | (320)                           | 180                       |
| Pera - Employer Share                     | 8,336          | 8,336          | 9,157                     | 821                             | 7,724                     |
| Social Security/Medicare - Employer Share | 8,502          | 8,502          | 8,912                     | 410                             | 7,437                     |
| Other Expenditures:                       |                |                |                           |                                 |                           |
| Legal Expense                             | 0              | 0              | 1,600                     | 1,600                           | 0                         |
| Uncollectible Accounts                    | 0              | 0              | 0                         | 0                               | 1,626                     |
| Grant Projects                            | 1,520          | 1,520          | 1,184                     | (336)                           | 12,101                    |
| Minnesota Surcharge                       | 1,500          | 1,500          | 1,653                     | 153                             | 1,539                     |
| Insurance Expense                         | 108,000        | 108,000        | 98,117                    | (9,883)                         | 98,329                    |
| Membership Dues                           | 7,000          | 7,000          | 8,960                     | 1,960                           | 9,088                     |
| Miscellaneous Expense                     | 10,000         | 10,000         | 18,072                    | 8,072                           | 7,140                     |
| Economic Development                      | 5,000          | 5,000          | 1,676                     | (3,324)                         | 12,764                    |
| Health Insurance                          | 106,768        | 106,768        | 94,255                    | (12,513)                        | 89,044                    |
| Engineering Costs                         | 10,000         | 10,000         | 1,568                     | (8,432)                         | 7,557                     |
| Total General Government                  | <u>552,178</u> | <u>552,178</u> | <u>520,837</u>            | <u>(31,341)</u>                 | <u>513,095</u>            |

CITY OF LAKE CRYSTAL, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended December 31, 2018

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

|   | Budget   |          | 2018<br>Actual<br>Amounts | Over (Under)<br>Final<br>Budget | 2017<br>Actual<br>Amounts |
|---|----------|----------|---------------------------|---------------------------------|---------------------------|
|   | Original | Final    |                           |                                 |                           |
| <b>Current Expenditures (Continued):</b>  |          |          |                           |                                 |                           |
| Public Safety:                            |          |          |                           |                                 |                           |
| Ambulance Department:                     |          |          |                           |                                 |                           |
| Salaries                                  | \$ 6,050 | \$ 6,050 | \$ 5,775                  | \$ (275)                        | \$ 5,775                  |
| Rent Expense                              | 7,200    | 7,200    | 8,361                     | 1,161                           | 2,100                     |
| Uncollectible Accounts                    | 1,000    | 1,000    | 44,775                    | 43,775                          | 1,481                     |
| Annual Pay                                | 52,000   | 52,000   | 53,629                    | 1,629                           | 46,422                    |
| Billing Service                           | 7,200    | 7,200    | 7,772                     | 572                             | 7,693                     |
| Computer expense                          | 200      | 200      | 524                       | 324                             | 262                       |
| Telephone                                 | 3,500    | 3,500    | 3,085                     | (415)                           | 2,114                     |
| Travel, Conferences, and Schools          | 14,800   | 14,800   | 10,544                    | (4,256)                         | 6,981                     |
| Equipment Repair                          | 3,500    | 3,500    | 9,396                     | 5,896                           | 2,271                     |
| General Supplies                          | 16,000   | 16,000   | 15,242                    | (758)                           | 15,999                    |
| Utilities                                 | 515      | 515      | 1,034                     | 519                             | 529                       |
| Vehicle Gas and Oil                       | 3,000    | 3,000    | 3,131                     | 131                             | 2,254                     |
| Clothing                                  | 3,000    | 3,000    | 1,336                     | (1,664)                         | 1,408                     |
| Insurance-Property & Liability            | 10,600   | 10,600   | 0                         | (10,600)                        | 0                         |
| Donated Funds Expenses                    | 0        | 0        | 0                         | 0                               | 523                       |
| Membership Dues                           | 750      | 750      | 389                       | (361)                           | 1,048                     |
| Medicare and Social Security              | 4,354    | 4,354    | 4,544                     | 190                             | 3,993                     |
| Collection Agency Fees                    | 7,600    | 7,600    | 657                       | (6,943)                         | 937                       |
| Police Department:                        |          |          |                           |                                 |                           |
| FT Hourly Salaries                        | 175,905  | 175,905  | 175,030                   | (875)                           | 164,954                   |
| Part-Time Hourly Salaries                 | 35,838   | 35,838   | 30,263                    | (5,575)                         | 29,027                    |
| Consulting Fees                           | 12,000   | 12,000   | 7,107                     | (4,893)                         | 7,711                     |
| Legal Expense                             | 10,000   | 10,000   | 4,749                     | (5,251)                         | 4,449                     |
| Record Keeping                            | 3,200    | 3,200    | 2,064                     | (1,136)                         | 2,306                     |
| Computer Expense                          | 3,500    | 3,500    | 2,544                     | (956)                           | 2,816                     |
| Telephone                                 | 3,000    | 3,000    | 2,606                     | (394)                           | 2,361                     |
| Travel, Conferences, and Schools          | 3,500    | 3,500    | 3,043                     | (457)                           | 2,903                     |
| Equipment Repair                          | 3,500    | 3,500    | 3,952                     | 452                             | 2,024                     |
| General Supplies                          | 7,000    | 7,000    | 8,107                     | 1,107                           | 4,873                     |
| Utilities                                 | 5,500    | 5,500    | 4,611                     | (889)                           | 3,964                     |
| Care of Cats and Dogs                     | 1,000    | 1,000    | 219                       | (781)                           | 407                       |
| Gas and Oil                               | 14,500   | 14,500   | 13,712                    | (788)                           | 9,801                     |
| Maintenance and Repairs                   | 7,000    | 7,000    | 4,376                     | (2,624)                         | 9,503                     |
| Clothing                                  | 4,500    | 4,500    | 2,977                     | (1,523)                         | 2,024                     |
| Membership Dues                           | 0        | 0        | 250                       | 250                             | 360                       |
| Pera - Employer Share                     | 34,938   | 34,938   | 30,348                    | (4,590)                         | 28,689                    |
| Social Security/Medicare - Employer Share | 5,795    | 5,795    | 4,808                     | (987)                           | 4,405                     |
| Towing Fees                               | 500      | 500      | 668                       | 168                             | 321                       |

CITY OF LAKE CRYSTAL, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended December 31, 2018

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

|   | Budget         |                | 2018<br>Actual<br>Amounts | Over (Under)<br>Final<br>Budget | 2017<br>Actual<br>Amounts |
|---|----------------|----------------|---------------------------|---------------------------------|---------------------------|
|   | Original       | Final          |                           |                                 |                           |
| <b>Current Expenditures (Continued):</b>  |                |                |                           |                                 |                           |
| Fire Department:                          |                |                |                           |                                 |                           |
| Salaries                                  | \$ 9,225       | \$ 9,225       | \$ 9,000                  | \$ (225)                        | \$ 9,000                  |
| Equipment reserve expense                 | 3,500          | 3,500          | 0                         | (3,500)                         | 0                         |
| Annual Pay                                | 30,000         | 30,000         | 24,664                    | (5,336)                         | 31,982                    |
| Telephone                                 | 1,000          | 1,000          | 1,005                     | 5                               | 938                       |
| Travel, Conferences, and Schools          | 7,500          | 7,500          | 3,719                     | (3,781)                         | 8,177                     |
| Equipment Repair                          | 5,000          | 5,000          | 19,804                    | 14,804                          | 2,729                     |
| General Supplies                          | 12,500         | 12,500         | 10,288                    | (2,212)                         | 3,444                     |
| Utilities                                 | 6,180          | 6,180          | 5,498                     | (682)                           | 5,480                     |
| Janitor Sevices                           | 2,000          | 2,000          | 699                       | (1,301)                         | 1,870                     |
| Gas and Oil                               | 1,000          | 1,000          | 754                       | (246)                           | 1,003                     |
| Maintenance and Repairs                   | 1,000          | 1,000          | 792                       | (208)                           | 1,303                     |
| Property & Liability Insurance            | 1,000          | 1,000          | 527                       | (473)                           | 915                       |
| Fire Relief Pension Expense               | 40,790         | 40,790         | 43,062                    | 2,272                           | 44,061                    |
| Donated Funds Expenditure                 | 0              | 0              | 6,970                     | 6,970                           | 5,366                     |
| Retirement Shortfall                      | 0              | 0              | 0                         | 0                               | 7                         |
| Rural Fire Department Expenses            | 20,000         | 20,000         | 28,394                    | 8,394                           | 14,387                    |
| Membership Dues                           | 750            | 750            | 649                       | (101)                           | 613                       |
| Social Security/Medicare - Employer Share | 3,001          | 3,001          | 2,575                     | (426)                           | 3,135                     |
| Civil Defense:                            |                |                |                           |                                 |                           |
| Salaries                                  | 300            | 300            | 250                       | (50)                            | 250                       |
| Travel, Conferences, & School             | 100            | 100            | 0                         | (100)                           | 0                         |
| Equipment Repair                          | 2,500          | 2,500          | 500                       | (2,000)                         | 500                       |
| General Supplies                          | 1,000          | 1,000          | 0                         | (1,000)                         | 0                         |
| Social Security/Medicare - Employer Share | 20             | 20             | 19                        | (1)                             | 19                        |
| Total Public Safety                       | <u>620,811</u> | <u>620,811</u> | <u>630,797</u>            | <u>9,986</u>                    | <u>519,867</u>            |
| Public Works:                             |                |                |                           |                                 |                           |
| Streets:                                  |                |                |                           |                                 |                           |
| Salaries                                  | 72,261         | 72,261         | 72,975                    | 714                             | 69,064                    |
| Full-time Hourly Salaries                 | 152,532        | 152,532        | 142,587                   | (9,945)                         | 131,346                   |
| Part-time Salaries                        | 12,209         | 12,209         | 8,896                     | (3,313)                         | 12,131                    |
| State aid expense                         | 19,609         | 19,609         | 19,609                    | 0                               | 19,609                    |
| Telephone                                 | 2,000          | 2,000          | 1,660                     | (340)                           | 1,823                     |
| Travel, Conferences, and Schools          | 1,000          | 1,000          | 600                       | (400)                           | 190                       |
| Equipment Repair                          | 17,850         | 17,850         | 25,891                    | 8,041                           | 18,497                    |
| General Supplies                          | 15,000         | 15,000         | 13,371                    | (1,629)                         | 14,896                    |
| Equipment Rental                          | 1,000          | 1,000          | 0                         | (1,000)                         | 210                       |
| Utilities                                 | 10,000         | 10,000         | 9,368                     | (632)                           | 7,577                     |
| Vehicle Gas and Oil                       | 20,000         | 20,000         | 26,483                    | 6,483                           | 16,036                    |
| Maintenance and Repairs                   | 172,351        | 172,351        | 134,036                   | (38,315)                        | 161,820                   |
| Clothing                                  | 1,250          | 1,250          | 1,191                     | (59)                            | 1,471                     |
| Postage & Freight                         | 100            | 100            | 0                         | (100)                           | 0                         |
| Membership dues                           | 100            | 100            | 0                         | (100)                           | 100                       |
| Miscellaneous Expense                     | 45,000         | 45,000         | 46,517                    | 1,517                           | 0                         |
| Snow Removal                              | 8,000          | 8,000          | 8,028                     | 28                              | 2,375                     |
| Pera                                      | 17,775         | 17,775         | 16,167                    | (1,608)                         | 15,217                    |
| Medicare and Social Security              | 18,131         | 18,131         | 16,571                    | (1,560)                         | 15,846                    |
| Street Lighting                           | 18,000         | 18,000         | 17,843                    | (157)                           | 17,542                    |

CITY OF LAKE CRYSTAL, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended December 31, 2018

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

|  | Budget         |                | 2018<br>Actual<br>Amounts | Over (Under)<br>Final<br>Budget | 2017<br>Actual<br>Amounts |
|--|----------------|----------------|---------------------------|---------------------------------|---------------------------|
|  | Original       | Final          |                           |                                 |                           |
| <b>Current Expenditures (Continued):</b> |                |                |                           |                                 |                           |
| Sanitation:                              |                |                |                           |                                 |                           |
| Part-time Hourly Salaries                | \$ 4,000       | \$ 4,000       | \$ 4,007                  | \$ 7                            | \$ 2,342                  |
| Refuse Disposal Fees                     | 126,225        | 126,225        | 127,053                   | 828                             | 130,830                   |
| Recycling Fees                           | 43,758         | 43,758         | 45,430                    | 1,672                           | 43,683                    |
| Pera Employer Share                      | 325            | 325            | 301                       | (24)                            | 176                       |
| Medicare and Social Security             | 330            | 330            | 306                       | (24)                            | 179                       |
| Weeds:                                   |                |                |                           |                                 |                           |
| General Supplies                         | 3,500          | 3,500          | 4,632                     | 1,132                           | 1,591                     |
| Insect and Pest Control                  | 300            | 300            | 208                       | (92)                            | 3,615                     |
| Wood Chipper                             | 100            | 100            | 0                         | (100)                           | 60                        |
| Total Public Works                       | <u>782,706</u> | <u>782,706</u> | <u>743,730</u>            | <u>(38,976)</u>                 | <u>688,226</u>            |
| Parks and Recreation:                    |                |                |                           |                                 |                           |
| Parks:                                   |                |                |                           |                                 |                           |
| Telephone                                | 500            | 500            | 0                         | (500)                           | 241                       |
| Equipment Repairs                        | 1,000          | 1,000          | 1,684                     | 684                             | 1,701                     |
| General Supplies                         | 8,000          | 8,000          | 6,513                     | (1,487)                         | 4,697                     |
| Utilities                                | 1,500          | 1,500          | 1,666                     | 166                             | 1,653                     |
| Maintenance and Repairs                  | 3,000          | 3,000          | 2,608                     | (392)                           | 1,489                     |
| LCARC Subsidy                            | 196,600        | 196,600        | 181,600                   | (15,000)                        | 181,715                   |
| Library:                                 |                |                |                           |                                 |                           |
| Part-time Hourly Salaries                | 10,027         | 10,027         | 10,108                    | 81                              | 9,896                     |
| Telephone                                | 500            | 500            | 359                       | (141)                           | 983                       |
| General supplies                         | 0              | 0              | 345                       | 345                             | 924                       |
| Pera                                     | 752            | 752            | 758                       | 6                               | 742                       |
| Medicare and Social Security             | 767            | 767            | 773                       | 6                               | 757                       |
| Total Parks and Recreation               | <u>222,646</u> | <u>222,646</u> | <u>206,414</u>            | <u>(16,232)</u>                 | <u>204,798</u>            |
| Cemetery:                                |                |                |                           |                                 |                           |
| Equipment Repair                         | 100            | 100            | 0                         | (100)                           | 0                         |
| General Supplies                         | 100            | 100            | 1,693                     | 1,593                           | 1,616                     |
| Capital Outlay                           | 3,000          | 3,000          | 0                         | (3,000)                         | 0                         |
| Maintenance and Repairs                  | 10,000         | 10,000         | 0                         | (10,000)                        | 0                         |
| Open Graves                              | 3,000          | 3,000          | 300                       | (2,700)                         | 1,250                     |
| Maintenance & Repairs                    | 0              | 0              | 11,120                    | 11,120                          | 12,875                    |
| Total Cemetery                           | <u>16,200</u>  | <u>16,200</u>  | <u>13,113</u>             | <u>(3,087)</u>                  | <u>15,741</u>             |



CITY OF LAKE CRYSTAL, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended December 31, 2018

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

|  | Budget           |                  | 2018<br>Actual<br>Amounts | Over (Under)<br>Final<br>Budget | 2017<br>Actual<br>Amounts |
|--|------------------|------------------|---------------------------|---------------------------------|---------------------------|
|  | Original         | Final            |                           |                                 |                           |
| <b>Capital Outlay:</b>                       |                  |                  |                           |                                 |                           |
| General Government                           | \$ 6,000         | \$ 6,000         | \$ 1,022                  | \$ (4,978)                      | \$ 6,516                  |
| Public Safety                                | 24,500           | 24,500           | 131,704                   | 107,204                         | 203,204                   |
| Public Works                                 | 50,000           | 50,000           | 61,055                    | 11,055                          | 7,389                     |
| Park and Recreation                          | 10,000           | 10,000           | 203,003                   | 193,003                         | 0                         |
| Total Capital Outlay                         | <u>90,500</u>    | <u>90,500</u>    | <u>396,784</u>            | <u>306,284</u>                  | <u>217,109</u>            |
| Total Expenditures                           | <u>2,285,041</u> | <u>2,285,041</u> | <u>2,511,675</u>          | <u>226,634</u>                  | <u>2,158,836</u>          |
| Excess of Revenues Over (Under) Expenditures | <u>208,250</u>   | <u>208,250</u>   | <u>86,558</u>             | <u>(121,692)</u>                | <u>444,368</u>            |
| <b>Other Financing Sources (Uses):</b>       |                  |                  |                           |                                 |                           |
| Operating Transfers Out                      | (148,000)        | (148,000)        | (108,053)                 | (39,947)                        | (457,560)                 |
| Operating Transfers In                       | 0                | 0                | 14,290                    | 14,290                          | 0                         |
| Sale of Capital Assets                       | 0                | 0                | 0                         | 0                               | 6,439                     |
| Total Other Financing Sources (Uses)         | <u>(148,000)</u> | <u>(148,000)</u> | <u>(93,763)</u>           | <u>54,237</u>                   | <u>(451,121)</u>          |
| Change in Fund Balance                       | <u>\$ 60,250</u> | <u>\$ 60,250</u> | (7,205)                   | <u>\$ (67,455)</u>              | (6,753)                   |
| Fund Balance - January 1                     |                  |                  | <u>3,357,743</u>          |                                 | <u>3,364,496</u>          |
| Fund Balance - December 31                   |                  |                  | <u>\$ 3,350,538</u>       |                                 | <u>\$ 3,357,743</u>       |

CITY OF LAKE CRYSTAL, MINNESOTA

SCHEDULE OF NET POSITION

ELECTRIC FUND

December 31, 2018

(With Comparative Amounts for December 31, 2017)

|  | <u>2018</u>                | <u>2017</u>                |
|--|----------------------------|----------------------------|
| <b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>                         |                            |                            |
| <b>Current Assets:</b>   |                            |                            |
| Cash and Cash Equivalents  | \$ 556,441                 | \$ 397,948                 |
| Investments  | 217,506                    | 216,047                    |
| Accounts Receivable, Net   | 322,587                    | 363,328                    |
| Inventory  | 95,640                     | 91,786                     |
| Prepaid Expenses   | 43,021                     | 39,092                     |
| Total Current Assets   | <u>1,235,195</u>           | <u>1,108,201</u>           |
| <b>Noncurrent Assets:</b>  |                            |                            |
| Property and Equipment   | 6,552,374                  | 6,525,154                  |
| Less: Accumulated Depreciation   | <u>(3,984,785)</u>         | <u>(3,847,460)</u>         |
| Total Assets   | <u>3,802,784</u>           | <u>3,785,895</u>           |
| <b>Deferred Outflows of Resources:</b>                                   |                            |                            |
| Pension Plan Deferments  | <u>90,833</u>              | <u>115,562</u>             |
| <b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>                   | <u><u>\$ 3,893,617</u></u> | <u><u>\$ 3,901,457</u></u> |
| <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>       |                            |                            |
| <b>Current Liabilities:</b>  |                            |                            |
| Accounts Payable   | \$ 176,407                 | \$ 195,839                 |
| Due to Other Funds   | 161,394                    | 153,763                    |
| Accrued Expenses   | 9,914                      | 8,650                      |
| Current Portion of Long-term Debt  | 125,000                    | 125,000                    |
| Total Current Liabilities  | <u>472,715</u>             | <u>483,252</u>             |
| <b>Noncurrent Liabilities:</b>   |                            |                            |
| Compensated Absences   | 22,472                     | 23,050                     |
| Net Pension Liability  | 254,275                    | 275,873                    |
| Bonds Payable, Less Current Portion                                      | 732,495                    | 858,993                    |
| Total Liabilities  | <u>1,481,957</u>           | <u>1,641,168</u>           |
| <b>Deferred Inflows of Resources:</b>                                    |                            |                            |
| Pension Plan Deferments  | <u>100,074</u>             | <u>110,556</u>             |
| <b>Net Position:</b>   |                            |                            |
| Net Investment in Capital Assets   | 1,710,094                  | 1,693,701                  |
| Restricted   | 144,000                    | 144,000                    |
| Unrestricted   | 457,492                    | 312,032                    |
| Total Net Position   | <u>2,311,586</u>           | <u>2,149,733</u>           |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b> | <u><u>\$ 3,893,617</u></u> | <u><u>\$ 3,901,457</u></u> |

CITY OF LAKE CRYSTAL, MINNESOTA

SCHEDULE OF REVENUES, EXPENSES, AND  
CHANGES IN NET POSITION - ELECTRIC FUND

For the Year Ended December 31, 2018

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

|                              | Original<br>Budget | Final<br>Budget | 2018<br>Actual<br>Amounts | Over (Under)<br>Final<br>Budget | 2017<br>Amounts |
|------------------------------|--------------------|-----------------|---------------------------|---------------------------------|-----------------|
| <b>Operating Revenue</b>     |                    |                 |                           |                                 |                 |
| Charges for Services         | \$ 2,831,886       | \$ 2,831,886    | \$ 2,856,706              | \$ 24,820                       | \$ 2,710,295    |
| <b>Operating Expenses</b>    |                    |                 |                           |                                 |                 |
| Production:                  |                    |                 |                           |                                 |                 |
| Salaries                     | 43,500             | 43,500          | 46,431                    | 2,931                           | 43,695          |
| Contracted services          | 43,600             | 43,600          | 27,349                    | (16,251)                        | 35,115          |
| Power Plant Leave Adjustment | 0                  | 0               | 407                       | 407                             | 419             |
| Load management credit       | 8,000              | 8,000           | 5,261                     | (2,739)                         | 5,590           |
| Telephone                    | 2,200              | 2,200           | 3,389                     | 1,189                           | 2,004           |
| Travel, Conference, School   | 1,200              | 1,200           | 2,499                     | 1,299                           | 1,089           |
| Equipment Repair             | 2,000              | 2,000           | 845                       | (1,155)                         | 621             |
| General Supplies             | 14,500             | 14,500          | 22,709                    | 8,209                           | 20,674          |
| Equipment Rental             | 500                | 500             | 0                         | (500)                           | 0               |
| Utilities                    | 24,500             | 24,500          | 20,815                    | (3,685)                         | 21,505          |
| Maintenance and Repairs      | 75,000             | 75,000          | 54,154                    | (20,846)                        | 29,163          |
| Clothing                     | 750                | 750             | 1,732                     | 982                             | 231             |
| NSP Power                    | 1,791,860          | 1,791,860       | 1,746,270                 | (45,590)                        | 1,676,574       |
| Fuel Oil                     | 10,000             | 10,000          | 0                         | (10,000)                        | 0               |
| Natural Gas                  | 6,500              | 6,500           | 5,531                     | (969)                           | 4,958           |
| Lube Oil                     | 500                | 500             | 0                         | (500)                           | 0               |
| Legal                        | 500                | 500             | 0                         | (500)                           | 0               |
| Pera Employer Share          | 3,262              | 3,262           | 3,482                     | 220                             | 3,277           |
| Social Security Medicare     | 3,328              | 3,328           | 3,224                     | (104)                           | 3,039           |
| Distribution:                |                    |                 |                           |                                 |                 |
| Salaries                     | 43,500             | 43,500          | 46,431                    | 2,931                           | 43,865          |
| FT Hourly Salaries           | 146,963            | 146,963         | 157,848                   | 10,885                          | 138,442         |
| Leave Hour Adjustment        | 0                  | 0               | (1,379)                   | (1,379)                         | 2,148           |
| Telephone                    | 3,000              | 3,000           | 2,440                     | (560)                           | 2,504           |
| Travel, Conference, School   | 5,000              | 5,000           | 2,378                     | (2,622)                         | 3,896           |
| Equipment Repair             | 12,000             | 12,000          | 9,778                     | (2,222)                         | 10,432          |
| General Supplies             | 55,000             | 55,000          | 46,846                    | (8,154)                         | 74,343          |
| Equipment Rental             | 500                | 500             | 7,516                     | 7,016                           | 0               |
| Capital Outlay               | 2,000              | 2,000           | 7,344                     | 5,344                           | 0               |
| Utilities                    | 2,000              | 2,000           | 1,436                     | (564)                           | 1,383           |
| Gas & Oil                    | 3,000              | 3,000           | 4,297                     | 1,297                           | 3,340           |
| Maintenance & Repairs        | 6,000              | 6,000           | 7,151                     | 1,151                           | 14,566          |
| Clothing                     | 4,000              | 4,000           | 5,600                     | 1,600                           | 3,910           |
| Pera Employer Share          | 14,285             | 14,285          | 15,321                    | 1,036                           | 13,673          |
| Social Security Medicare     | 14,570             | 14,570          | 15,227                    | 657                             | 13,573          |
| Engineering Costs            | 500                | 500             | 0                         | (500)                           | 0               |

CITY OF LAKE CRYSTAL, MINNESOTA

SCHEDULE OF REVENUES, EXPENSES, AND  
CHANGES IN NET POSITION - ELECTRIC FUND

For the Year Ended December 31, 2018

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

|                                       | Original<br>Budget | Final<br>Budget  | 2018<br>Actual<br>Amounts | Over (Under)<br>Final<br>Budget | 2017<br>Amounts  |
|---------------------------------------|--------------------|------------------|---------------------------|---------------------------------|------------------|
| <b>Operating Expenses (Continued)</b> |                    |                  |                           |                                 |                  |
| Administration:                       |                    |                  |                           |                                 |                  |
| Salaries                              | \$ 15,750          | \$ 15,750        | \$ 22,202                 | \$ 6,452                        | \$ 15,832        |
| FT Hourly Salaries                    | 39,260             | 39,260           | 35,137                    | (4,123)                         | 32,413           |
| PT Hourly Salaries                    | 0                  | 0                | 0                         | 0                               | 808              |
| Safety Program Expense                | 5,500              | 5,500            | 5,279                     | (221)                           | 5,344            |
| Commissioners Salaries                | 4,650              | 4,650            | 4,650                     | 0                               | 4,650            |
| Consulting Fees                       | 1,000              | 1,000            | 18                        | (982)                           | 20,493           |
| Payment Processing Fees               | 8,000              | 8,000            | 6,144                     | (1,856)                         | 5,950            |
| Uncollectable Accounts                | 5,000              | 5,000            | 2,284                     | (2,716)                         | 4,452            |
| Electric Admin Leave Adjustment       | 0                  | 0                | 394                       | 394                             | 215              |
| CIP Expense                           | 18,000             | 18,000           | 8,120                     | (9,880)                         | 7,174            |
| CIP Commercial                        | 18,000             | 18,000           | 10,040                    | (7,960)                         | 24,035           |
| CIP Low Income                        | 2,000              | 2,000            | 2,821                     | 821                             | 3,084            |
| Permits & Licenses                    | 250                | 250              | 25                        | (225)                           | 290              |
| Computer Expense                      | 7,000              | 7,000            | 6,797                     | (203)                           | 6,804            |
| Telephone Expense                     | 750                | 750              | 905                       | 155                             | 620              |
| Printing & Telephone                  | 1,500              | 1,500            | 1,287                     | (213)                           | 1,171            |
| Travel, Conference, School            | 2,000              | 2,000            | 802                       | (1,198)                         | 1,196            |
| Equipment Repair                      | 500                | 500              | 684                       | 184                             | 614              |
| Professional Services                 | 4,200              | 4,200            | 3,894                     | (306)                           | 3,857            |
| Office Supplies                       | 1,500              | 1,500            | 1,105                     | (395)                           | 717              |
| General Supplies                      | 1,500              | 1,500            | 717                       | (783)                           | 1,545            |
| Capital Outlay                        | 0                  | 0                | 530                       | 530                             | 508              |
| Maintenance & Repairs                 | 1,000              | 1,000            | 0                         | (1,000)                         | 338              |
| Property & Liability Insurance        | 40,000             | 40,000           | 36,774                    | (3,226)                         | 41,494           |
| Postage & Freight                     | 3,500              | 3,500            | 3,393                     | (107)                           | 3,791            |
| Membership Dues                       | 3,500              | 3,500            | 3,096                     | (404)                           | 2,918            |
| Miscellaneous Expense                 | 3,000              | 3,000            | (1,280)                   | (4,280)                         | 2,157            |
| Health Insurance                      | 37,000             | 37,000           | 37,246                    | 246                             | 30,992           |
| Legal                                 | 1,000              | 1,000            | 1,506                     | 506                             | 1,174            |
| Pera Employer Share                   | 4,149              | 4,149            | (2,770)                   | (6,919)                         | 25,798           |
| Social Security Medicare              | 4,232              | 4,232            | 5,043                     | 811                             | 4,298            |
| Labor Relations                       | 100                | 100              | 0                         | (100)                           | 0                |
| Engineering costs                     | 0                  | 0                | 0                         | 0                               | 1,306            |
| Depreciation                          | 40,000             | 40,000           | 138,032                   | 98,032                          | 137,632          |
| Total Operating Expenses              | <u>2,617,859</u>   | <u>2,617,859</u> | <u>2,607,207</u>          | <u>(10,652)</u>                 | <u>2,567,699</u> |
| Income (Loss) from Operations         | <u>214,027</u>     | <u>214,027</u>   | <u>249,499</u>            | <u>35,472</u>                   | <u>142,596</u>   |

CITY OF LAKE CRYSTAL, MINNESOTA

SCHEDULE OF REVENUES, EXPENSES, AND  
 CHANGES IN NET POSITION - ELECTRIC FUND  
 For the Year Ended December 31, 2018  
 (With Comparative Amounts for the Year Ended December 31, 2017)

|  | Original<br>Budget | Final<br>Budget  | 2018<br>Actual<br>Amounts | Over (Under)<br>Final<br>Budget | 2017<br>Amounts     |
|--|--------------------|------------------|---------------------------|---------------------------------|---------------------|
| <b>Nonoperating Revenue (Expense):</b> |                    |                  |                           |                                 |                     |
| Interest Income                        | \$ 5,500           | \$ 5,500         | \$ 4,256                  | \$ (1,244)                      | \$ 9,917            |
| Investments - Fair Value Adjustment    | 0                  | 0                | (2,264)                   | (2,264)                         | (1,965)             |
| Interest Expense                       | (151,605)          | (151,605)        | (24,398)                  | (127,207)                       | (27,301)            |
| Miscellaneous Income                   | 84,750             | 84,750           | 78,835                    | (5,915)                         | 104,484             |
| Total Nonoperating Revenue (Expense)   | <u>(61,355)</u>    | <u>(61,355)</u>  | <u>56,429</u>             | <u>(136,630)</u>                | <u>85,135</u>       |
| Income Before Transfers                | 152,672            | 152,672          | 305,928                   | 153,256                         | 227,731             |
| Transfers Out                          | <u>(148,920)</u>   | <u>(148,920)</u> | <u>(144,075)</u>          | <u>(4,845)</u>                  | <u>(136,689)</u>    |
| Change in Net Position                 | <u>\$ 3,752</u>    | <u>\$ 3,752</u>  | 161,853                   | <u>\$ 158,101</u>               | 91,042              |
| Net Position - January 1               |                    |                  | <u>2,149,733</u>          |                                 | <u>2,058,691</u>    |
| Net Position - December 31             |                    |                  | <u>\$ 2,311,586</u>       |                                 | <u>\$ 2,149,733</u> |

CITY OF LAKE CRYSTAL, MINNESOTA

SCHEDULE OF NET POSITION  
WATER FUND

December 31, 2018

(With Comparative Amounts for December 31, 2017)

|  | <u>2018</u>                | <u>2017</u>                |
|--|----------------------------|----------------------------|
| <b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>                         |                            |                            |
| <b>Current Assets:</b>   |                            |                            |
| Cash and Cash Equivalents  | \$ 1,750,818               | \$ 2,208,074               |
| Investments  | 348,592                    | 350,011                    |
| Accounts Receivable, Net   | 62,498                     | 87,821                     |
| Interest Receivable  | 411                        | 2,235                      |
| Inventory  | 17,609                     | 17,144                     |
| Prepaid Expenses   | 15,579                     | 12,982                     |
| Total Current Assets   | <u>2,195,507</u>           | <u>2,678,267</u>           |
| <b>Noncurrent Assets:</b>  |                            |                            |
| Advance To Other Funds   | 50,000                     | 0                          |
| Property and Equipment   | 7,751,014                  | 7,336,882                  |
| Less: Accumulated Depreciation   | <u>(2,246,791)</u>         | <u>(2,164,797)</u>         |
| Total Assets   | <u>7,749,730</u>           | <u>7,850,352</u>           |
| <b>Deferred Outflows of Resources:</b>                                   |                            |                            |
| Pension Plan Deferments  | <u>49,271</u>              | <u>59,409</u>              |
| <b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>                   | <u><u>\$ 7,799,001</u></u> | <u><u>\$ 7,909,761</u></u> |
| <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>       |                            |                            |
| <b>Current Liabilities:</b>  |                            |                            |
| Accounts Payable   | \$ 22,382                  | \$ 24,643                  |
| Due to Other Funds   | 44,667                     | 50,509                     |
| Accrued Expenses   | 9,314                      | 11,091                     |
| Current Portion of Long-term Debt  | <u>315,000</u>             | <u>285,000</u>             |
| Total Current Liabilities  | <u>391,363</u>             | <u>371,243</u>             |
| <b>Noncurrent Liabilities:</b>   |                            |                            |
| Compensated Absences   | 22,330                     | 20,642                     |
| Net Pension Liability  | 137,929                    | 141,823                    |
| Bonds Payable, Less Current Portion                                      | <u>1,657,834</u>           | <u>1,992,401</u>           |
| Total Liabilities  | <u>2,209,456</u>           | <u>2,526,109</u>           |
| <b>Deferred Inflows of Resources:</b>                                    |                            |                            |
| Pension Plan Deferments  | <u>54,284</u>              | <u>56,836</u>              |
| <b>Net Position:</b>   |                            |                            |
| Net Investment in Capital Assets   | 3,531,389                  | 2,894,684                  |
| Unrestricted   | <u>2,003,872</u>           | <u>2,432,132</u>           |
| Total Net Position   | <u>5,535,261</u>           | <u>5,326,816</u>           |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b> | <u><u>\$ 7,799,001</u></u> | <u><u>\$ 7,909,761</u></u> |

CITY OF LAKE CRYSTAL, MINNESOTA

SCHEDULE OF REVENUES, EXPENSES, AND  
CHANGES IN NET POSITION - WATER FUND

For the Year Ended December 31, 2018

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

|                                  | Original<br>Budget | Final<br>Budget | 2018<br>Actual<br>Amounts | Over (Under)<br>Final<br>Budget | 2017<br>Amounts |
|----------------------------------|--------------------|-----------------|---------------------------|---------------------------------|-----------------|
| <b>Operating Revenue</b>         |                    |                 |                           |                                 |                 |
| Charges for Services             | \$ 976,125         | \$ 976,125      | \$ 891,422                | \$ (84,703)                     | \$ 1,007,887    |
| <b>Operating Expenses</b>        |                    |                 |                           |                                 |                 |
| Production:                      |                    |                 |                           |                                 |                 |
| Salaries                         | 62,440             | 62,440          | 61,272                    | (1,168)                         | 58,290          |
| Full-time Hourly Salaries        | 71,758             | 71,758          | 76,735                    | 4,977                           | 39,646          |
| PT hourly salaries               | 0                  | 0               | 435                       | 435                             | 17,305          |
| Consulting Fees                  | 2,000              | 2,000           | 382                       | (1,618)                         | 0               |
| Leave Hour Adjustment            | 0                  | 0               | 1,491                     | 1,491                           | 1,372           |
| Telephone                        | 3,200              | 3,200           | 3,328                     | 128                             | 3,066           |
| Travel, Conferences, and Schools | 2,500              | 2,500           | 718                       | (1,782)                         | 2,374           |
| Equipment Repair                 | 2,000              | 2,000           | 2,412                     | 412                             | 1,334           |
| General Supplies                 | 3,500              | 3,500           | 6,793                     | 3,293                           | 3,081           |
| Capital Outlay                   | 2,000              | 2,000           | 0                         | (2,000)                         | 6,989           |
| Utilities                        | 136,000            | 136,000         | 140,700                   | 4,700                           | 136,561         |
| Maintenance and Repairs          | 25,000             | 25,000          | 22,514                    | (2,486)                         | 17,599          |
| Membership dues                  | 0                  | 0               | 0                         | 0                               | 180             |
| Miscellaneous expense            | 0                  | 0               | 495                       | 495                             | 0               |
| Water and Chemicals              | 15,000             | 15,000          | 13,471                    | (1,529)                         | 12,803          |
| Water Tower Expense              | 0                  | 0               | 0                         | 0                               | 11              |
| Pera                             | 10,065             | 10,065          | 10,383                    | 318                             | 8,643           |
| Medicare and Social Security     | 10,266             | 10,266          | 9,966                     | (300)                           | 8,394           |
| Engineering Costs                | 1,500              | 1,500           | 0                         | (1,500)                         | 143             |
| Distribution:                    |                    |                 |                           |                                 |                 |
| Equipment Repair                 | 1,000              | 1,000           | 45                        | (955)                           | 749             |
| General Supplies                 | 4,000              | 4,000           | 6,099                     | 2,099                           | 4,407           |
| Capital Outlay                   | 2,000              | 2,000           | 0                         | (2,000)                         | 0               |
| Utilities                        | 2,000              | 2,000           | 427                       | (1,573)                         | 423             |
| Vehicle Gas and Oil              | 3,000              | 3,000           | 3,532                     | 532                             | 2,217           |
| Maintenance and Repairs          | 15,000             | 15,000          | 9,519                     | (5,481)                         | 23,233          |
| Clothing                         | 400                | 400             | 609                       | 209                             | 305             |
| Engineering fees                 | 5,000              | 5,000           | 0                         | (5,000)                         | 121             |
| Administration:                  |                    |                 |                           |                                 |                 |
| Salaries                         | 7,875              | 7,875           | 11,101                    | 3,226                           | 7,916           |
| Full-time Hourly Salaries        | 19,630             | 19,630          | 19,441                    | (189)                           | 17,831          |
| Part-time Hourly Salaries        | 0                  | 0               | 0                         | 0                               | 404             |
| Safety Program Expense           | 1,720              | 1,720           | 1,739                     | 19                              | 1,771           |
| Commissioners Salaries           | 2,325              | 2,325           | 2,325                     | 0                               | 2,325           |
| Consulting Fees                  | 0                  | 0               | 9                         | 9                               | 2,600           |
| Payment Processing Fees          | 3,750              | 3,750           | 3,006                     | (744)                           | 2,926           |
| Uncollectable Accounts           | 1,000              | 1,000           | 253                       | (747)                           | 247             |
| Water Admin Leave Adjustment     | 0                  | 0               | 197                       | 197                             | 107             |

CITY OF LAKE CRYSTAL, MINNESOTA

SCHEDULE OF REVENUES, EXPENSES, AND  
CHANGES IN NET POSITION - WATER FUND

For the Year Ended December 31, 2018

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

|                                       | Original<br>Budget | Final<br>Budget  | 2018<br>Actual<br>Amounts | Over (Under)<br>Final<br>Budget | 2017<br>Amounts     |
|---------------------------------------|--------------------|------------------|---------------------------|---------------------------------|---------------------|
| <b>Operating Expenses (Continued)</b> |                    |                  |                           |                                 |                     |
| Administration (Continued):           |                    |                  |                           |                                 |                     |
| Permits and Licenses                  | \$ 1,000           | \$ 1,000         | \$ 0                      | \$ (1,000)                      | \$ 0                |
| Computer Expenses                     | 3,500              | 3,500            | 3,330                     | (170)                           | 3,375               |
| Telephone                             | 400                | 400              | 413                       | 13                              | 326                 |
| Printing and Publishing               | 1,000              | 1,000            | 1,187                     | 187                             | 1,014               |
| Travel, Conferences, and Schools      | 750                | 750              | 352                       | (398)                           | 204                 |
| Equipment Repair                      | 250                | 250              | 319                       | 69                              | 286                 |
| Professional Services                 | 2,200              | 2,200            | 1,947                     | (253)                           | 1,929               |
| Office Supplies                       | 800                | 800              | 499                       | (301)                           | 330                 |
| General Supplies                      | 500                | 500              | 351                       | (149)                           | 508                 |
| Capital Outlay                        | 30,000             | 30,000           | 0                         | (30,000)                        | 236                 |
| Maintenance and Repairs               | 100                | 100              | 0                         | (100)                           | 169                 |
| Insurance Expense                     | 15,000             | 15,000           | 11,804                    | (3,196)                         | 11,615              |
| Postage and Freight                   | 2,000              | 2,000            | 1,697                     | (303)                           | 1,644               |
| Membership Dues                       | 1,500              | 1,500            | 1,179                     | (321)                           | 1,121               |
| Miscellaneous Expense                 | 8,500              | 8,500            | 8,114                     | (386)                           | 8,700               |
| Health Insurance                      | 34,956             | 34,956           | 32,171                    | (2,785)                         | 23,298              |
| Legal Fees                            | 250                | 250              | 78                        | (172)                           | 1,646               |
| Pera                                  | 2,075              | 2,075            | 5,982                     | 3,907                           | 8,701               |
| Medicare and Social Security          | 2,117              | 2,117            | 2,573                     | 456                             | 2,037               |
| Engineering costs                     | 500                | 500              | 0                         | (500)                           | 5,516               |
| Depreciation                          | 40,000             | 40,000           | 111,424                   | 71,424                          | 114,280             |
| Total Operating Expenses              | <u>563,327</u>     | <u>563,327</u>   | <u>592,817</u>            | <u>29,490</u>                   | <u>572,308</u>      |
| Income (Loss) from Operations         | <u>412,798</u>     | <u>412,798</u>   | <u>298,605</u>            | <u>(55,213)</u>                 | <u>435,579</u>      |
| <b>Nonoperating Revenue (Expense)</b> |                    |                  |                           |                                 |                     |
| Interest Income                       | 21,500             | 21,500           | 13,228                    | (8,272)                         | 20,658              |
| Investments - Fair Value Adjustment   | 0                  | 0                | (9,662)                   | (9,662)                         | 1,707               |
| Interest and Fiscal Expense           | (363,660)          | (363,660)        | (56,071)                  | (307,589)                       | (99,608)            |
| Miscellaneous Income                  | 7,500              | 7,500            | 7,011                     | (489)                           | 6,051               |
| Total Nonoperating Revenue (Expense)  | <u>(334,660)</u>   | <u>(334,660)</u> | <u>(45,494)</u>           | <u>(326,012)</u>                | <u>(71,192)</u>     |
| Income Before Transfers               | 78,138             | 78,138           | 253,111                   | 174,973                         | 364,387             |
| Transfers Out                         | <u>(48,750)</u>    | <u>(48,750)</u>  | <u>(44,667)</u>           | <u>(4,083)</u>                  | <u>(50,509)</u>     |
| Change in Net Position                | <u>\$ 29,388</u>   | <u>\$ 29,388</u> | 208,444                   | <u>\$ 170,890</u>               | 313,878             |
| Net Position - January 1              |                    |                  | <u>5,326,817</u>          |                                 | <u>5,012,938</u>    |
| Net Position - December 31            |                    |                  | <u>\$ 5,535,261</u>       |                                 | <u>\$ 5,326,816</u> |



## CITY OF LAKE CRYSTAL, MINNESOTA

SCHEDULE OF NET POSITION  
SEWER FUND

December 31, 2018

(With Comparative Amounts for December 31, 2017)

| <b>ASSETS AND DEFERRED<br/>OUTFLOWS OF RESOURCES</b>                         | <u>2018</u>         | <u>2017</u>         |
|--|---------------------|---------------------|
| <b>Current Assets:</b>   |                     |                     |
| Cash and Cash Equivalents  | \$ 141,190          | \$ 166,890          |
| Investments  | 566,098             | 566,058             |
| Accounts Receivable, Net   | 75,264              | 79,628              |
| Prepaid Expenses   | 17,451              | 11,696              |
| Total Current Assets   | <u>800,003</u>      | <u>824,272</u>      |
| <b>Noncurrent Assets:</b>  |                     |                     |
| Advance To Other Funds   | 50,000              | 0                   |
| Property and Equipment   | 6,839,152           | 6,812,429           |
| Less: Accumulated Depreciation   | <u>(3,074,483)</u>  | <u>(2,933,592)</u>  |
| Total Assets   | <u>4,614,672</u>    | <u>4,703,109</u>    |
| <b>Deferred Outflows of Resources:</b>                                       |                     |                     |
| Pension Plan Deferments  | 22,309              | 24,616              |
| Deferred Amount on Refunding   | <u>25,068</u>       | <u>27,595</u>       |
| <b>TOTAL ASSETS AND DEFERRED<br/>OUTFLOWS OF RESOURCES</b>                   | <u>\$ 4,662,049</u> | <u>\$ 4,755,320</u> |
| <b>LIABILITIES, DEFERRED INFLOWS OF<br/>RESOURCES AND NET POSITION</b>       |                     |                     |
| <b>Current Liabilities:</b>  |                     |                     |
| Accounts Payable   | \$ 32,753           | \$ 23,554           |
| Due to Other Funds   | 32,096              | 31,316              |
| Accrued Expenses   | 6,830               | 7,115               |
| Current Portion of Long-term Debt  | <u>148,000</u>      | <u>141,000</u>      |
| Total Current Liabilities  | <u>219,679</u>      | <u>202,985</u>      |
| <b>Noncurrent Liabilities:</b>   |                     |                     |
| Compensated Absences   | 9,799               | 9,104               |
| Net Pension Liability  | 62,451              | 58,765              |
| Bonds Payable, Less Current Portion  | <u>897,352</u>      | <u>1,046,391</u>    |
| Total Liabilities  | <u>1,189,281</u>    | <u>1,317,245</u>    |
| <b>Deferred Inflows of Resources:</b>  |                     |                     |
| Pension Plan Deferments  | <u>24,578</u>       | <u>23,550</u>       |
| <b>Net Position:</b>   |                     |                     |
| Net Investment in Capital Assets   | 2,736,386           | 2,711,041           |
| Unrestricted   | <u>711,804</u>      | <u>703,484</u>      |
| Total Net Position   | <u>3,448,190</u>    | <u>3,414,525</u>    |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF<br/>RESOURCES AND NET POSITION</b> | <u>\$ 4,662,049</u> | <u>\$ 4,755,320</u> |

CITY OF LAKE CRYSTAL, MINNESOTA

SCHEDULE OF REVENUES, EXPENSES, AND  
CHANGES IN NET POSITION - SEWER FUND

For the Year Ended December 31, 2018

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

|                                   | Original<br>Budget | Final<br>Budget | 2018<br>Actual<br>Amounts | Over (Under)<br>Final<br>Budget | 2017<br>Amounts |
|-----------------------------------|--------------------|-----------------|---------------------------|---------------------------------|-----------------|
| <b>Operating Revenue</b>          |                    |                 |                           |                                 |                 |
| Charges for Services              | \$ 611,540         | \$ 611,540      | \$ 636,607                | \$ 25,067                       | \$ 620,304      |
| <b>Operating Expenses</b>         |                    |                 |                           |                                 |                 |
| Production:                       |                    |                 |                           |                                 |                 |
| Salaries                          | 21,509             | 21,509          | 20,436                    | (1,073)                         | 19,467          |
| Full-time Salaries                | 23,709             | 23,709          | 25,574                    | 1,865                           | 13,205          |
| Part-time Hourly Salaries         | 0                  | 0               | 145                       | 145                             | 5,898           |
| Leave Hour Adjustment             | 0                  | 0               | 497                       | 497                             | 457             |
| Telephone                         | 3,000              | 3,000           | 3,246                     | 246                             | 3,066           |
| Travel, Conferences, and Schools  | 2,000              | 2,000           | 2,026                     | 26                              | 699             |
| Equipment Repair                  | 2,000              | 2,000           | 291                       | (1,709)                         | 140             |
| General Supplies                  | 7,500              | 7,500           | 12,740                    | 5,240                           | 4,610           |
| Capital Outlay                    | 15,000             | 15,000          | 0                         | (15,000)                        | 0               |
| Utilities                         | 44,290             | 44,290          | 44,612                    | 322                             | 37,092          |
| Maintenance and Repairs           | 30,000             | 30,000          | 21,626                    | (8,374)                         | 17,259          |
| Membership charges                | 0                  | 0               | 0                         | 0                               | 60              |
| Water and Chemicals               | 60,000             | 60,000          | 87,244                    | 27,244                          | 67,440          |
| Sludge Removal                    | 8,500              | 8,500           | 10,859                    | 2,359                           | 10,645          |
| Pera                              | 3,391              | 3,391           | 3,462                     | 71                              | 2,893           |
| Medicare and Social Security      | 3,459              | 3,459           | 3,322                     | (137)                           | 2,810           |
| Engineering Costs                 | 1,000              | 1,000           | 0                         | (1,000)                         | 143             |
| Distribution:                     |                    |                 |                           |                                 |                 |
| Equipment Repair                  | 2,000              | 2,000           | 0                         | (2,000)                         | 292             |
| General Supplies                  | 1,000              | 1,000           | 926                       | (74)                            | 468             |
| Capital Outlay                    | 1,000              | 1,000           | 0                         | (1,000)                         | 0               |
| Utilities                         | 12,360             | 12,360          | 12,381                    | 21                              | 13,873          |
| Vehicle Gas and Oil               | 3,500              | 3,500           | 3,537                     | 37                              | 2,392           |
| Maintenance and Repairs           | 30,000             | 30,000          | 69,249                    | 39,249                          | 20,027          |
| Clothing                          | 250                | 250             | 0                         | (250)                           | 0               |
| Miscellaneous expense             | 250                | 250             | 248                       | (2)                             | 225             |
| Water and Chemicals               | 0                  | 0               | 201                       | 201                             | 0               |
| Engineering Costs                 | 5,000              | 5,000           | 73                        | (4,927)                         | 121             |
| Administration:                   |                    |                 |                           |                                 |                 |
| Salaries                          | 7,875              | 7,875           | 11,101                    | 3,226                           | 7,916           |
| Full-time Hourly Salaries         | 19,630             | 19,630          | 19,441                    | (189)                           | 17,831          |
| Part-time Hourly Salaries         | 0                  | 0               | 0                         | 0                               | 404             |
| Safety Program Expense            | 1,820              | 1,820           | 1,739                     | (81)                            | 1,771           |
| Commissioners Salaries            | 2,325              | 2,325           | 2,325                     | 0                               | 2,325           |
| Contracted services               | 0                  | 0               | 9                         | 9                               | 2,600           |
| Payment Processing Fees           | 4,500              | 4,500           | 3,006                     | (1,494)                         | 2,926           |
| Uncollectable Accounts            | 1,250              | 1,250           | 621                       | (629)                           | 526             |
| Wastewater Admin Leave Adjustment | 0                  | 0               | 197                       | 197                             | 107             |
| Permits and Licenses              | 1,450              | 1,450           | 1,450                     | 0                               | 1,450           |
| Computer Expenses                 | 3,100              | 3,100           | 3,330                     | 230                             | 3,375           |
| Telephone                         | 500                | 500             | 397                       | (103)                           | 326             |

CITY OF LAKE CRYSTAL, MINNESOTA

SCHEDULE OF REVENUES, EXPENSES, AND  
CHANGES IN NET POSITION - SEWER FUND

For the Year Ended December 31, 2018

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

|  | Original<br>Budget | Final<br>Budget  | 2018<br>Actual<br>Amounts | Over (Under)<br>Final<br>Budget | 2017<br>Amounts     |
|--|--------------------|------------------|---------------------------|---------------------------------|---------------------|
| <b>Operating Expenses (Continued)</b>  |                    |                  |                           |                                 |                     |
| Administration (Continued):            |                    |                  |                           |                                 |                     |
| Printing and Publishing                | \$ 500             | \$ 500           | \$ 548                    | \$ 48                           | \$ 609              |
| Travel, Conferences, and Schools       | 750                | 750              | 452                       | (298)                           | 204                 |
| Equipment Repair                       | 300                | 300              | 319                       | 19                              | 286                 |
| Professional Services                  | 2,100              | 2,100            | 1,947                     | (153)                           | 1,929               |
| Office Supplies                        | 600                | 600              | 499                       | (101)                           | 330                 |
| General Supplies                       | 450                | 450              | 349                       | (101)                           | 498                 |
| Capital Outlay                         | 30,000             | 30,000           | 0                         | (30,000)                        | 236                 |
| Maintenance and Repairs                | 250                | 250              | 0                         | (250)                           | 169                 |
| Insurance Expense                      | 15,000             | 15,000           | 12,228                    | (2,772)                         | 13,325              |
| Postage and Freight                    | 2,000              | 2,000            | 1,696                     | (304)                           | 1,644               |
| Membership Dues                        | 500                | 500              | 1,138                     | 638                             | 925                 |
| Miscellaneous Expense                  | 2,000              | 2,000            | 1,004                     | (996)                           | 932                 |
| Health Insurance                       | 14,838             | 14,838           | 13,929                    | (909)                           | 9,761               |
| Legal Expense                          | 500                | 500              | 78                        | (422)                           | 1,646               |
| Pera                                   | 2,075              | 2,075            | 9,313                     | 7,238                           | 366                 |
| Medicare and Social Security           | 2,117              | 2,117            | 2,462                     | 345                             | 2,037               |
| Engineering costs                      | 0                  | 0                | 0                         | 0                               | 320                 |
| Depreciation                           | 40,000             | 40,000           | 140,891                   | (100,891)                       | 139,208             |
| Total Operating Expenses               | <u>437,148</u>     | <u>437,148</u>   | <u>553,164</u>            | <u>(85,766)</u>                 | <u>439,264</u>      |
| Income (Loss) from Operations          | <u>174,392</u>     | <u>174,392</u>   | <u>83,443</u>             | <u>(60,699)</u>                 | <u>181,040</u>      |
| <b>Nonoperating Revenue (Expense):</b> |                    |                  |                           |                                 |                     |
| Interest Income                        | 15,200             | 15,200           | 12,127                    | (3,073)                         | 17,877              |
| Investments - Fair Value Adjustment    | 0                  | 0                | (11,926)                  | (11,926)                        | (258)               |
| Interest Expense                       | (167,302)          | (167,302)        | (26,996)                  | (140,306)                       | (30,186)            |
| Miscellaneous Income                   | 9,600              | 9,600            | 9,113                     | (487)                           | 7,114               |
| Total Nonoperating Revenue (Expense)   | <u>(142,502)</u>   | <u>(142,502)</u> | <u>(17,682)</u>           | <u>(155,792)</u>                | <u>(5,453)</u>      |
| Income Before Transfers                | 31,890             | 31,890           | 65,761                    | (33,871)                        | 175,587             |
| Transfers Out                          | <u>(30,540)</u>    | <u>(30,540)</u>  | <u>(32,096)</u>           | <u>1,556</u>                    | <u>(31,316)</u>     |
| Change in Net Position                 | <u>\$ 1,350</u>    | <u>\$ 1,350</u>  | 33,665                    | <u>\$ (32,315)</u>              | 144,271             |
| Net Position - January 1               |                    |                  | <u>3,414,525</u>          |                                 | <u>3,270,254</u>    |
| Net Position - December 31             |                    |                  | <u>\$ 3,448,190</u>       |                                 | <u>\$ 3,414,525</u> |

## OTHER REQUIRED REPORTS



# Burkhardt & Burkhardt, Ltd.

Certified Public Accountants

Website: [www.bnbcpas.com](http://www.bnbcpas.com)

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**Friendly...** Family owned and run since 1990

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Mankato, MN 56001  
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## MINNESOTA LEGAL COMPLIANCE

### Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, business-type activities, each major fund and the aggregate fund information of the City of Lake Crystal as of and for the year ended December 31, 2018, and the related notes to the financial statements, and have issued our report thereon dated May 20, 2019.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories except tax increment financing because the city does not have any tax increment districts.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Lake Crystal failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, except as described in the accompanying schedule of findings and responses. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

This report is intended solely for the information and use of those charged with governance and management of the City of Lake Crystal and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

*Burkhardt & Burkhardt, Ltd.*

Burkhardt & Burkhardt, Ltd  
Mankato, Minnesota  
May 20, 2019

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

In planning and performing our audit of the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Lake Crystal as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Lake Crystal's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Lake Crystal's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Lake Crystal'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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. As described in the accompanying schedule of findings, we consider the following deficiencies in internal control to be significant deficiencies as items 2018-001.

This communication is intended solely for the information and use of the City Council and management, of the City of Lake Crystal and is not intended to be and should not be used by anyone other than these specified parties.

*Burkhardt & Burkhardt, Ltd.*

Burkhardt & Burkhardt, Ltd.  
Mankato, Minnesota  
May 20, 2019

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CITY OF LAKE CRYSTAL, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES ON  
LEGAL COMPLIANCE AND INTERNAL CONTROL  
December 31, 2018

**INTERNAL CONTROL FINDINGS**

**SIGNIFICANT DEFICIENCIES:**

|                        |  |
|------------------------|--|
| 2018-001               | <u>Preparation of Financial Statements</u>   |
| <i>Condition:</i>      | The City does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we are requested to draft the financial statements and accompanying notes to the financial statements.   |
| <i>Criteria</i>        | A good system of internal control contemplates an adequate system for drafting of the financial statements.  |
| <i>Cause:</i>          | The City does not have the economic resources to hire additional qualified accounting staff or hire professional accounting services in order to draft financial statements.   |
| <i>Effect:</i>         | This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.  |
| <i>Recommendation:</i> | This control deficiency is not unusual in a City of your size. It is the responsibility of the management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of the cost and other conditions.   |
| <i>Response:</i>       | The City is aware of the control deficiency, which is an unavoidable consequence of the financial restrictions of small cities. Management recognizes that it is not economically feasible to fully correct this finding. However, we are aware of the deficiency and will rely on oversight by management and the Council to monitor the deficiency. The City will also explore options and cost effective feasibility of training existing personnel to adequately prepare the annual financial reports. |

**MINNESOTA LEGAL COMPLIANCE FINDINGS**

2018-002 Deposits and Investments

The City held deposits with an investment broker that didn't meet the requirements of the legal compliance guide and didn't have a signed broker acknowledgement certificate prior to making investment transactions.

City's response:

The City will work with their investment broker to bring all City investments into compliance with Minnesota Statutes.

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