

CITY OF CROSSLAKE, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2011

**CITY OF CROSSLAKE, MINNESOTA
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DECEMBER 31, 2011**

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INTRODUCTORY SECTION

**CITY OF CROSSLAKE, MINNESOTA
PRINCIPAL CITY OFFICIALS
DECEMBER 31, 2011**

ELECTED OFFICIALS

<u>Position</u>	<u>Term Expires</u>	<u>Name</u>
Mayor	12/31/2012	Darrell Schneider
Council Member	12/31/2012	Rusty Taubert
Council Member	12/31/2012	Dean Swanson
Council Member	12/31/2014	Steve Roe
Council Member	12/31/2014	John Moengen

APPOINTED OFFICIALS

<u>Position</u>	<u>Name</u>
City Administrator	Thomas Swenson
City Clerk/Treasurer	Jennifer Max

FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Crosslake (City), Minnesota, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Communications Enterprise Fund, a major fund, which represents 61 percent, 59 percent, and 95 percent, respectively, of the assets, net assets, and revenues of the business-type activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Communications Enterprise Fund, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Crosslake, as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the financial statements, the City of Crosslake adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of and for the year ended December 31, 2011. This statement results in the City of Crosslake reporting nonspendable, restricted, assigned, and unassigned fund balances in governmental fund types.

Honorable Mayor and
Members of the City Council
City of Crosslake

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress – other postemployment benefit plan, and budgetary comparison information on pages 4 through 13, 55, and 56 through 59 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Crosslake's basic financial statements. The combining and reconciliation fund financial statements for the economic development authority component unit are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and reconciliation fund financial statements for the economic development authority component unit are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



CliftonLarsonAllen LLP

Brainerd, Minnesota
April 2, 2012

**CITY OF CROSSLAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

This section of the City of Crosslake's (City) annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended December 31, 2011. The Management's Discussion and Analysis (MD&A) is an element of the Required Supplementary Information as specified by U.S. Generally Accepted Accounting Principles (GAAP). Certain comparative information between the current year, 2011, and the prior year, 2010, is also presented in the MD&A.

FINANCIAL HIGHLIGHTS

- ◆ The assets of the City exceeded its liabilities at the close of the fiscal year by \$20,182,202 (net assets). Of this amount \$3,759,036 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ The City's total net assets increased during the fiscal year by \$336,638.
- ◆ As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,451,051, an increase of \$258,408 in comparison with the prior year. Approximately 87% of this total amount, \$2,133,826, is available for spending at the City's discretion (unassigned/assigned fund balance). However, as stated below, \$460,968 of the general fund balance has been assigned by the City Council for future capital outlay needs.
- ◆ At the end of the current fiscal year, unassigned/assigned fund balance for the general fund was \$2,133,826, or 78% of budgeted 2011 expenditures. The City Council has assigned \$460,968 for future capital outlay needs.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. This City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

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

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

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets 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 and earned but unused vacation leave).

**CITY OF CROSSLAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements (Continued)

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, culture and recreation and economic development. The business-type activities of the City include communications and sewer utility operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also an Economic Development Authority for which the City is financially accountable. Financial information for this component unit is discretely presented in a separate column adjacent to the financial information presented for the primary government.

The government-wide financial statements can be found on pages 14 through 16 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, 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 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 financing 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 by the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, tax increment financing fund, debt service fund, library construction fund, and capital projects fund. There are no nonmajor governmental funds.

**CITY OF CROSSLAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (Continued)

Governmental Funds (Continued)

The City adopts an annual appropriated budget for its general fund and the Tax Increment Financing Fund. Budgetary comparison statements have been provided for these funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 17 through 22.

Proprietary Fund – The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its communications and sewer operations.

The proprietary fund provides the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the communications and sewer operations, which are both considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 23 through 27 of this report.

**CITY OF CROSSLAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$20,182,202 at the close of the most recent fiscal year.

By far, the largest portion of the City's net assets (74%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

NET ASSETS

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		2011
	2011	2010	2011	2010	Total
Current and Other Assets	\$ 2,767,041	\$ 2,614,006	\$ 2,984,648	\$ 2,929,140	\$ 5,751,689
Capital Assets	11,539,000	11,576,504	12,887,097	13,741,275	24,426,097
Total Assets	14,306,041	14,190,510	15,871,745	16,670,415	30,177,786
Long-Term Liabilities Outstanding	3,984,258	4,555,196	5,646,809	6,004,813	9,631,067
Other Liabilities	108,966	156,181	255,551	299,171	364,517
Total Liabilities	4,093,224	4,711,377	5,902,360	6,303,984	9,995,584
Net Assets					
Invested in Capital Assets, Net of Related Debt	7,688,728	7,132,209	7,319,792	7,793,410	15,008,520
Restricted	446,846	495,697	1,041,528	906,421	1,488,374
Unrestricted	2,077,243	1,851,227	1,608,065	1,666,600	3,685,308
Total Net Assets	\$ 10,212,817	\$ 9,479,133	\$ 9,969,385	\$ 10,366,431	\$ 20,182,202

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

There was an increase of \$733,684 and a decrease of \$397,046 in net assets reported in connection with the City's governmental activities and business-type activities, respectively.

**CITY OF CROSSLAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Change in Net Assets

The City's total net assets increased by \$336,638. Key elements of this increase are as follows:

	Governmental Activities		Business-Type Activities		2011
	2011	2010	2011	2010	Total
REVENUES					
Program Revenues					
Charges for Services	\$ 415,916	\$ 459,963	\$ 3,723,007	\$ 3,742,600	\$ 4,138,923
Operating Grants and Contributions	117,895	151,852	-	-	117,895
Capital Grants and Contributions	511,298	211,126	13,063	11,687	524,361
General Revenues					
Property Taxes	2,532,302	2,510,711	215,278	212,563	2,747,580
Other Taxes	37,670	38,205	-	-	37,670
Intergovernmental	1,489	1,539	-	-	1,489
Unrestricted Investment Earnings	6,447	13,182	28,708	39,836	35,155
Gain on Sale of Investments	-	-	13,765	6,575	13,765
Gain on Sale of Capital Assets	7,266	2,500	-	-	7,266
Net Increase (Decrease) in the Fair Value of Investments	-	-	41,510	4,297	41,510
Miscellaneous	36,649	28,778	-	-	36,649
	3,666,932	3,417,856	4,035,331	4,017,558	7,702,263
EXPENSES					
General Government	1,208,611	1,155,147	-	-	1,208,611
Public Safety	773,658	743,116	-	-	773,658
Public Works	554,891	639,883	-	-	554,891
Culture and Recreation	447,571	438,735	-	-	447,571
Economic Development	44,160	35,198	-	-	44,160
Interest on Long-Term Debt	176,412	203,949	-	-	176,412
Communications	-	-	3,642,118	3,742,689	3,642,118
Sewer Utility	-	-	518,204	497,004	518,204
	3,205,303	3,216,028	4,160,322	4,239,693	7,365,625
CHANGE IN NET ASSETS BEFORE TRANSFERS					
	461,629	201,828	(124,991)	(222,135)	336,638
Transfers	272,055	266,989	(272,055)	(266,989)	-
CHANGE IN NET ASSETS					
	733,684	468,817	(397,046)	(489,124)	336,638
Net Assets - Beginning of Year	9,479,133	9,010,316	10,366,431	10,855,555	19,845,564
NET ASSETS - END OF YEAR	\$ 10,212,817	\$ 9,479,133	\$ 9,969,385	\$ 10,366,431	\$ 20,182,202

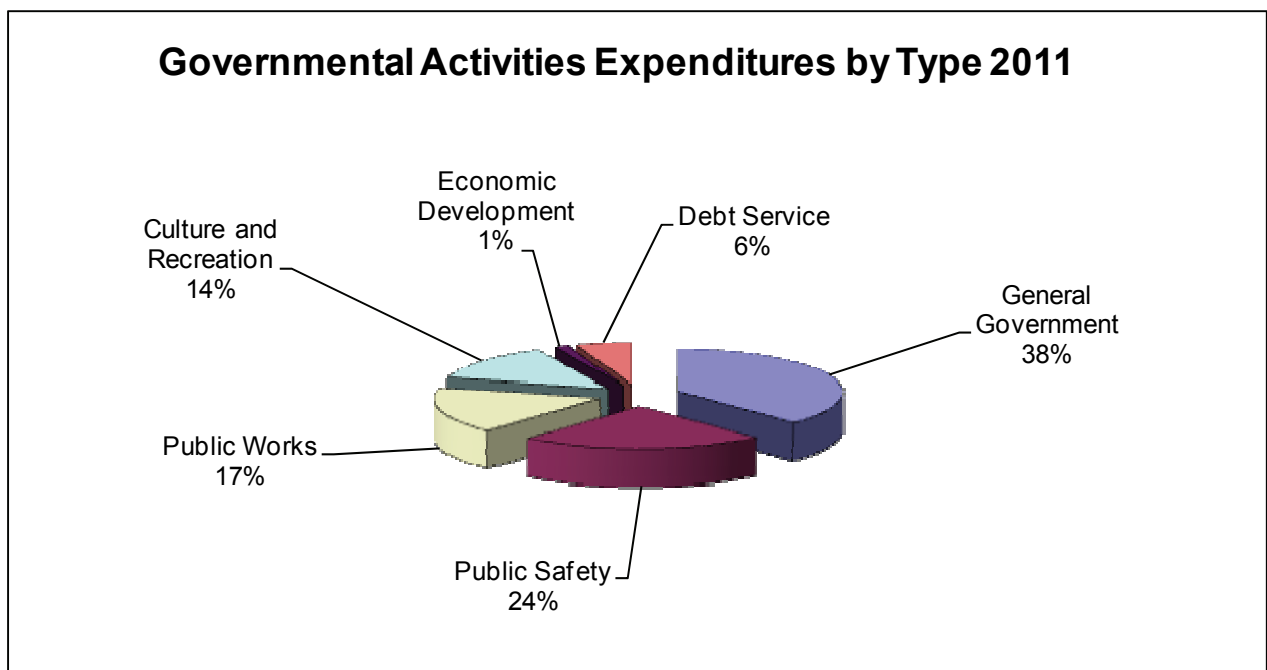
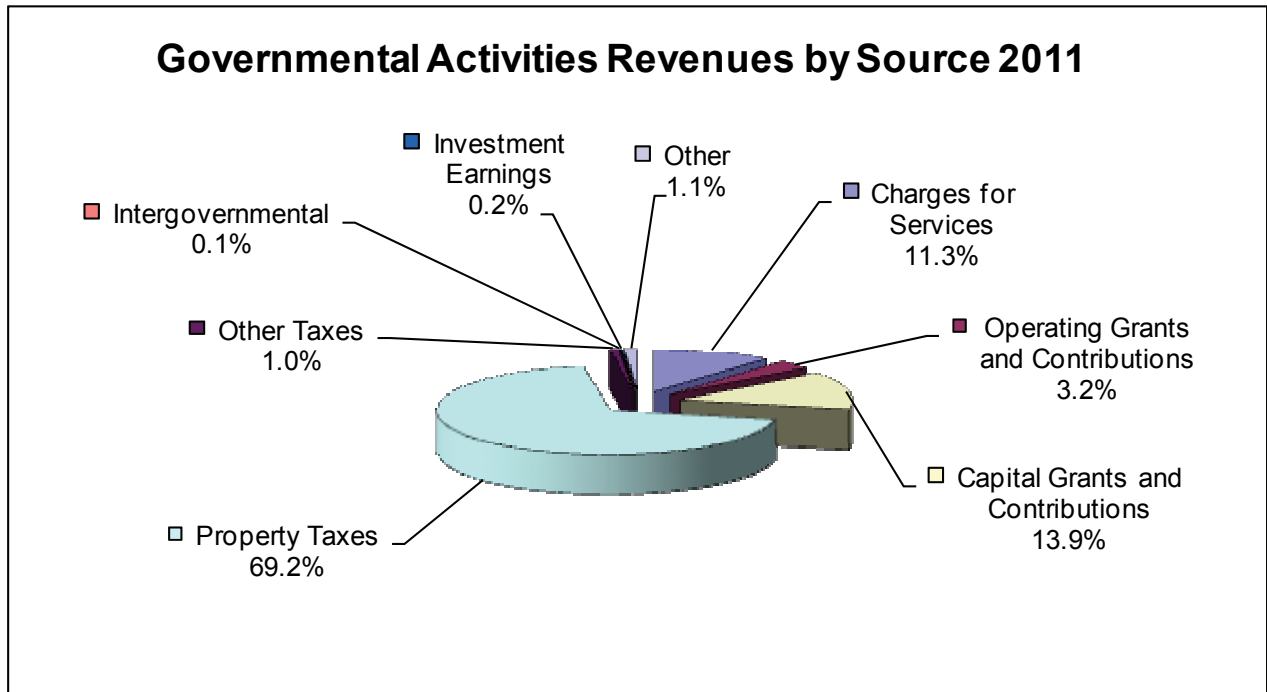
**CITY OF CROSSLAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Change in Net Assets (Continued)

Governmental Activities – Governmental activities increased the City's net assets by \$733,684 in 2011 as compared to an increase of \$468,817 in 2010. Key element of this increase is as follows:

- ◆ Capital grants and contributions increased \$324,926 (153%) from 2010 due to grants received from the State of Minnesota for bridge construction.



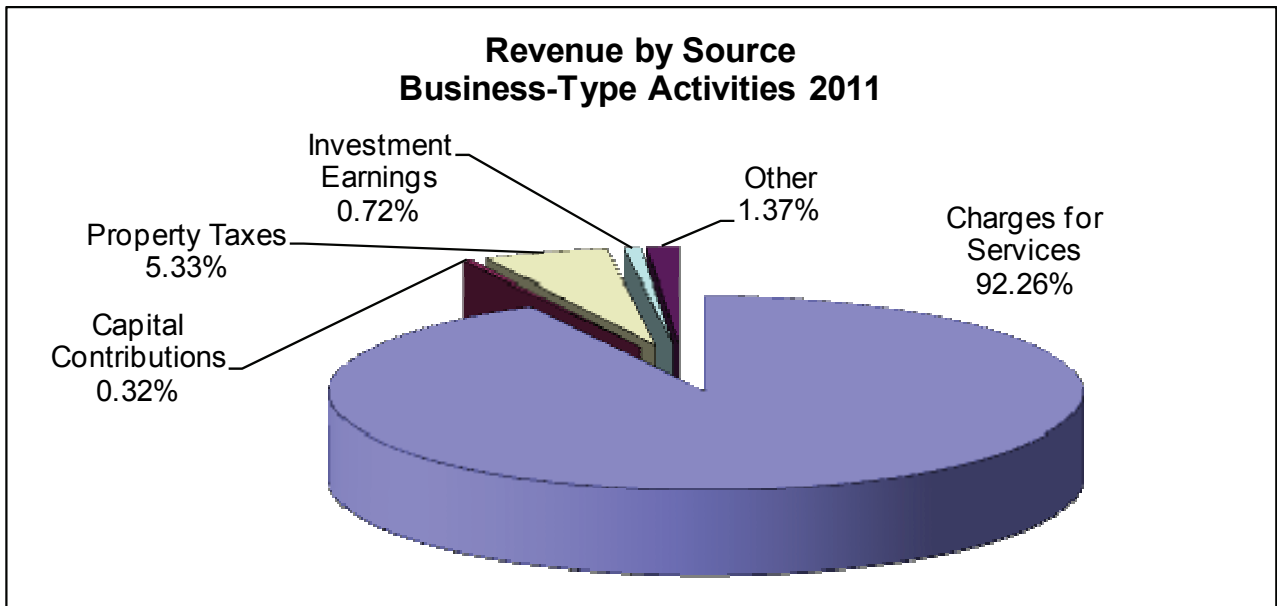
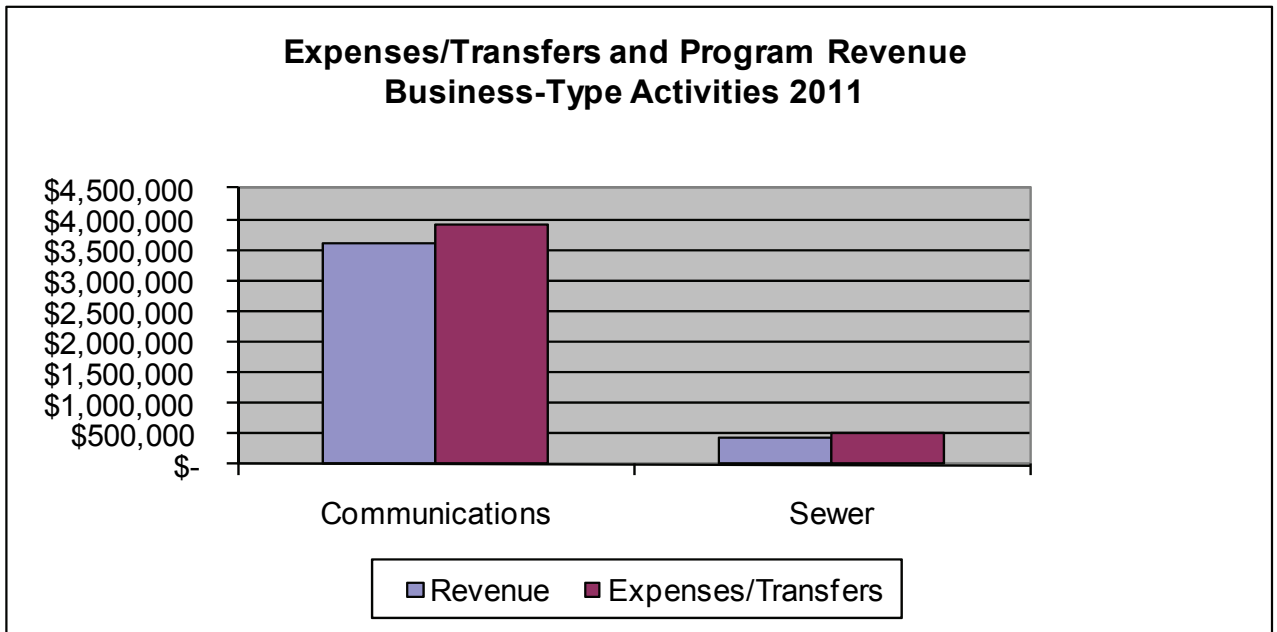
**CITY OF CROSSLAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Change in Net Assets (Continued)

Business-Type Activities – Business-type activities decreased the City's net assets by \$397,046 in 2011 as compared to \$489,124 in 2010. Key element of this decrease is as follows:

- ◆ The Communications Fund showed a net loss of \$312,671 in 2011. Additional analysis of the Communications Fund can be found in its separately issued financial statements.



**CITY OF CROSSLAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with the finance-related legal requirements and to provide distinct, separate accounting for certain funds at the direction of the City Council.

Governmental Funds – The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned/assigned fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,451,051, an increase of \$258,408 in comparison with the prior year. Of this amount, 87% (\$2,133,826) is unassigned/assigned, which is available for spending at the City's discretion. A portion of fund balance is restricted to indicate that it is not available for new spending because it has already been committed to pay expenditures related to 2011 (\$290,976). In addition, a portion of unassigned/assigned fund balance has been assigned by the City Council for future years' capital outlay (\$460,968).

The general fund is the primary operating fund of the City. At the end of the current year, unassigned/assigned fund balance of the general fund was \$2,133,826. Total fund balance was \$2,160,075. As a measure of the general fund's liquidity, it may be useful to compare both unassigned/assigned fund balance and total fund balance to total fund expenditures. Unassigned/assigned fund balance and total fund balance represent 78% and 79% of total 2011 general fund expenditures, respectively.

The fund balance of the City's general fund increased by \$270,549 during the current fiscal year. Key factors in this increase are as follows:

- ◆ Total expenditures in the general fund decreased \$310,615, or 10% as compared to 2010. The decrease is due to significant capital outlay expenditures in the prior year.
- ◆ Total revenues in the general fund decreased \$56,605 from 2010. The decrease is due a large donation that was received in the prior year.

Proprietary Funds – The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no differences between the original adopted budget and the final amended budget.

Revenues were under budget by about .1%.

Expenditures exceeded budget by approximately \$3,500 due to principal and interest payments were not budgeted for.

**CITY OF CROSSLAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2011, amounts to \$24,426,097 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, roads, bridges, and other infrastructure.

Capital Assets (Net of Depreciation)

	Governmental Activities		Business-Type Activities		2011 Total
	2011	2010	2011	2010	
Land	\$ 726,208	\$ 726,208	\$ 15,367	\$ 15,367	\$ 741,575
Construction in Progress	6,437	68,963	16,186	15,619	22,623
Buildings	3,868,321	4,014,554	3,965,946	4,072,577	7,834,267
Improvements Other than Buildings	287,268	319,757	17,743	17,743	305,011
Machinery and Equipment	1,125,578	1,285,192	1,933,605	2,270,777	3,059,183
Infrastructure	5,525,188	5,161,830	6,938,250	7,349,192	12,463,438
Total	\$ 11,539,000	\$ 11,576,504	\$ 12,887,097	\$ 13,741,275	\$ 24,426,097

Long-Term Liabilities

Governmental Activities – At the end of the current fiscal year, the City had total debt outstanding of \$3,984,258. Of this amount, \$1,354,777 is special assessment debt for which the City is liable in the event of default by the property owners subject to the assessment. The outstanding principal on various equipment leases is \$85,495. The principal on outstanding leases due to the EDA component unit for the emergency service center and public works facility is \$2,410,000. Additionally, the City owed \$75,910 in compensated absences to its employees and an estimated \$58,076 in other postemployment benefits at December 31, 2011.

Governmental Activities Outstanding Long-Term Liabilities

	2011	2010
Special Assessment Debt with Governmental Commitment	\$ 1,354,777	\$ 1,765,860
Capital Leases	2,495,495	2,678,433
Compensated Absences	75,910	71,938
Other Postemployment Benefits Payable	58,076	38,964
Total	\$ 3,984,258	\$ 4,555,195

**CITY OF CROSSLAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Liabilities (Continued)

Governmental Activities (Continued) – The City's total governmental debt and other long-term liabilities decreased by \$570,938 (13%) during the current fiscal year. This was primarily due to payments made on outstanding debt.

Business-Type Activities – At the end of the current fiscal year, the business-type activities had total debt of \$5,646,809, consisting of general obligation, revenue bonds and other long-term liabilities. This is a decrease of \$358,004 (6%) from 2010. More information regarding the Communications debt can be found in its separately issued financial statements.

Component Unit – At the end of the current fiscal year, the Economic Development Authority Component Unit had total debt outstanding of \$2,410,000. This debt will be paid from proceeds of the long-term lease payment receivable from the primary government in the amount of \$2,410,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- ◆ The City of Crosslake continues to see modest construction growth in both the residential and commercial sectors in comparison to recent years. The City's taxable market value decreased 10.10% from \$1,333,605,000 to \$1,198,694,400 for taxes payable in 2012. This decrease in taxable market value has resulted in a 1.79% increase in the City tax rate from 19.492% to 21.280% for taxes payable 2012.

These factors were taken into account by the City of Crosslake when preparing the 2012 budget. The City has reviewed and raised various fees for services and will continue to closely monitor expenses in order to proactively adjust to changes in the economy and/or further reductions in state aid.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Administrator, City of Crosslake, 37028 County Road 66, Crosslake, Minnesota 56442.

BASIC FINANCIAL STATEMENTS

CITY OF CROSSLAKE, MINNESOTA
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Economic Development Authority
ASSETS				
Cash and Investments	\$ 2,440,230	\$ 339,305	\$ 2,779,535	\$ 5,282
Receivables				
Taxes	121,210	10,360	131,570	-
Accounts	15,200	125,575	140,775	-
Special Assessments	147,740	-	147,740	-
Connection Charges	-	167,108	167,108	-
Accrued Interest	-	12,100	12,100	-
Due from Other Governments	6,192	-	6,192	-
Materials and Supplies	-	69,360	69,360	-
Prepayments	26,249	35,712	61,961	-
Long-Term Receivables	-	-	-	2,410,000
Deferred Charges, Net of Amortization	10,220	37,558	47,778	1,203
Other Investments	-	44,541	44,541	-
Restricted, Designated and Long-Term Assets				
Cash and Investments	-	2,143,029	2,143,029	618,694
Loans Receivable	-	-	-	112,512
Capital Assets				
Land and Construction In Progress	732,645	31,553	764,198	-
Other Capital Assets, Net of Depreciation	10,806,355	12,855,544	23,661,899	-
Total Assets	14,306,041	15,871,745	30,177,786	3,147,691
LIABILITIES				
Current Liabilities				
Accounts Payable	15,566	156,179	171,745	-
Accrued Liabilities	35,523	62,302	97,825	-
Unearned Revenue	10,617	-	10,617	-
Accrued Interest Payable	25,006	37,070	62,076	40,973
Due to Other Governments	22,254	-	22,254	-
Long-Term Liabilities				
Due within One Year	579,694	409,110	988,804	175,000
Due in More than One Year, Net of				
Unamortized Discount	3,404,564	5,237,699	8,642,263	2,233,050
Total Liabilities	4,093,224	5,902,360	9,995,584	2,449,023
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	7,688,728	7,319,792	15,008,520	-
Restricted for:				
Tax Increment Financing	1,300	-	1,300	-
Economic Development	-	-	-	426,650
Construction	-	18,218	18,218	-
Debt Service	371,818	568,310	940,128	272,018
Revenue Bond Reserve	-	455,000	455,000	-
Unrestricted	2,150,971	1,608,065	3,759,036	-
Total Net Assets	\$ 10,212,817	\$ 9,969,385	\$ 20,182,202	\$ 698,668

See accompanying Notes to the Financial Statements.

**CITY OF CROSSLAKE, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2011**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	\$ 1,208,611	\$ 92,582	\$ 33,288	\$ 94,264
Public Safety	773,658	116,176	84,607	-
Public Works	554,891	154,052	-	395,533
Culture and Recreation	447,571	52,606	-	5,515
Economic Development	44,160	500	-	-
Debt Service	176,412	-	-	15,986
Total Governmental Activities	<u>3,205,303</u>	<u>415,916</u>	<u>117,895</u>	<u>511,298</u>
Business-Type Activities				
Communications	3,642,118	3,518,271	-	-
Sewer	518,204	204,736	-	13,063
Total Business-Type Activities	<u>4,160,322</u>	<u>3,723,007</u>	<u>-</u>	<u>13,063</u>
Total Primary Government	<u>\$ 7,365,625</u>	<u>\$ 4,138,923</u>	<u>\$ 117,895</u>	<u>\$ 524,361</u>
Component Unit				
Economic Development Authority	\$ 118,172	112,066	\$ -	\$ -
General Revenues				
Taxes				
Property Taxes, Levied for General Purpose				
Other Taxes				
Intergovernmental Revenues				
Unrestricted Investment Earnings				
Gain on Sale of Capital Assets				
Net Increase in the Fair Value of Investments				
Miscellaneous				
Transfers				
Total General Revenues and Transfers				
Change in Net Assets				
Net Assets - Beginning of Year				
Net Assets - End of Year				

See accompanying Notes to the Financial Statements.

Net (Expense) Revenue and Changes in Net Assets

Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Economic Development Authority
\$ (988,477)	\$ -	\$ (988,477)	\$ -
(572,875)	-	(572,875)	-
(5,306)	-	(5,306)	-
(389,450)	-	(389,450)	-
(43,660)	-	(43,660)	-
(160,426)	-	(160,426)	-
<u>(2,160,194)</u>	<u>-</u>	<u>(2,160,194)</u>	<u>-</u>
-	(123,847)	(123,847)	-
-	(300,405)	(300,405)	-
<u>-</u>	<u>(424,252)</u>	<u>(424,252)</u>	<u>-</u>
<u>(2,160,194)</u>	<u>(424,252)</u>	<u>(2,584,446)</u>	<u>-</u>
-	-	-	(6,106)
2,532,302	215,278	2,747,580	-
37,670	-	37,670	-
1,489	-	1,489	-
6,447	28,708	35,155	5,744
7,266	13,765	21,031	-
-	41,510	41,510	-
36,649	-	36,649	-
272,055	(272,055)	-	-
<u>2,893,878</u>	<u>27,206</u>	<u>2,921,084</u>	<u>5,744</u>
733,684	(397,046)	336,638	(362)
9,479,133	10,366,431	19,845,564	699,030
<u>\$ 10,212,817</u>	<u>\$ 9,969,385</u>	<u>\$ 20,182,202</u>	<u>\$ 698,668</u>

**CITY OF CROSSLAKE, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	GENERAL FUND	TAX INCREMENT FINANCING FUND	DEBT SERVICE FUND
ASSETS			
Cash and Investments	\$ 2,155,388	\$ 1,300	\$ 283,542
Receivables			
Taxes	105,394	-	15,816
Special Assessments	50,274	-	97,466
Accounts	15,200	-	-
Due from Other Governments	6,192	-	-
Advances to Other Funds	61,642	-	-
Prepayments	26,249	-	-
Total Assets	<u>\$ 2,420,339</u>	<u>\$ 1,300</u>	<u>\$ 396,824</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 15,566	\$ -	\$ -
Accrued Liabilities	35,523	-	-
Deferred Revenue	125,279	-	107,148
Due to Other Governments	22,254	-	-
Advances from Other Funds	61,642	-	-
Total Liabilities	<u>260,264</u>	<u>-</u>	<u>107,148</u>
Fund Balances (Deficit)			
Nonspendable for:			
Prepayments	26,249	-	-
Restricted for:			
Debt Service	-	-	289,676
Tax Increment Financing	-	1,300	-
Assigned for:			
Capital Outlay	460,968	-	-
Unassigned:			
General Fund	1,672,858	-	-
Total Fund Balances (Deficit)	<u>2,160,075</u>	<u>1,300</u>	<u>289,676</u>
Total Liabilities and Fund Balances	<u>\$ 2,420,339</u>	<u>\$ 1,300</u>	<u>\$ 396,824</u>

See accompanying Notes to Financial Statements.

LIBRARY CONSTRUCTION FUND	CAPITAL PROJECTS FUND	TOTAL GOVERNMENTAL FUNDS
\$ -	\$ -	\$ 2,440,230
-	-	121,210
-	-	147,740
-	-	15,200
-	-	6,192
61,642	-	123,284
-	-	26,249
<u>\$ 61,642</u>	<u>\$ -</u>	<u>\$ 2,880,105</u>

\$ -	\$ -	\$ 15,566
-	-	35,523
-	-	232,427
-	-	22,254
61,642	-	123,284
<u>61,642</u>	<u>-</u>	<u>429,054</u>
-	-	26,249
-	-	289,676
-	-	1,300
-	-	460,968
<u>-</u>	<u>-</u>	<u>1,672,858</u>
<u>-</u>	<u>-</u>	<u>2,451,051</u>
<u>\$ 61,642</u>	<u>\$ -</u>	<u>\$ 2,880,105</u>

**CITY OF CROSSLAKE, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2011**

TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS \$ 2,451,051

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:

Land	\$	726,208	
Construction in Progress		6,437	
Buildings, Net of \$1,341,240 Accumulated Depreciation		3,868,321	
Machinery, Vehicles, Furniture and Equipment, Net of \$1,695,082 Accumulated Depreciation		1,125,578	
Improvements, Net of \$385,318 Accumulated Depreciation		287,268	
Infrastructure, Net of \$2,747,363 Accumulated Depreciation		<u>5,525,188</u>	11,539,000

Some of the City's property taxes and special assessments will be collected after year-end, but are not available soon enough to pay for the current-period's expenditures and, therefore, are reported as deferred revenue in the governmental funds. 221,810

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Accrued interest for general obligation bonds is included in the statement of net assets. (25,006)

Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets.

Bonds Payable		(1,370,000)	
Unamortized Discounts and Bond Issuance Costs		25,443	
Compensated Absences Payable		(75,910)	
Other Postemployment Benefits Payable		(58,076)	
Obligations Under Capital Leases		<u>(2,495,495)</u>	<u>(3,974,038)</u>

TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 10,212,817

CITY OF CROSSLAKE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2011

	GENERAL FUND	TAX INCREMENT FINANCING FUND	DEBT SERVICE FUND
REVENUES			
Taxes	\$ 2,228,598	\$ -	\$ 341,956
Tax Increments	-	38,170	-
Licenses and Permits	55,485	-	-
Intergovernmental	108,547	-	-
Charges for Services	325,541	-	-
Fines and Forfeits	41,338	-	-
Special Assessments	43,990	-	91,014
Interest	6,447	-	-
Donations	9,404	-	-
Miscellaneous	36,649	-	-
Total Revenues	<u>2,855,999</u>	<u>38,170</u>	<u>432,970</u>
EXPENDITURES			
Current			
General Government	759,685	-	-
Public Safety	586,217	-	-
Public Works	389,884	-	-
Culture and Recreation	395,207	-	-
Economic Development	-	44,160	-
Miscellaneous	82,530	-	1,086
Capital Outlay	203,167	-	-
Debt Service			
Principal Retirement	195,324	-	415,000
Interest and Fiscal Charges	111,248	-	65,009
Total Expenditures	<u>2,723,262</u>	<u>44,160</u>	<u>481,095</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	132,737	(5,990)	(48,125)
OTHER FINANCING SOURCES (USES)			
Capital Lease Proceeds	12,384	-	-
Sales of Capital Assets	1,500	-	-
Transfers In	272,055	-	-
Transfers Out	(148,127)	-	-
Total Other Financing Sources (Uses)	<u>137,812</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	270,549	(5,990)	(48,125)
Fund Balances (Deficit) - Beginning of Year	<u>1,889,526</u>	<u>7,290</u>	<u>337,801</u>
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ 2,160,075</u>	<u>\$ 1,300</u>	<u>\$ 289,676</u>

See accompanying Notes to Financial Statements.

LIBRARY CONSTRUCTION FUND	CAPITAL PROJECTS FUND	TOTAL GOVERNMENTAL FUNDS
\$ -	\$ -	\$ 2,570,554
-	-	38,170
-	-	55,485
-	395,533	504,080
-	-	325,541
-	-	41,338
-	-	135,004
-	-	6,447
-	-	9,404
-	-	36,649
-	395,533	3,722,672
-	-	759,685
-	-	586,217
-	-	389,884
-	-	395,207
-	-	44,160
-	-	83,616
-	501,686	704,853
-	-	610,324
-	-	176,257
-	501,686	3,750,203
-	(106,153)	(27,531)
-	-	12,384
-	-	1,500
-	148,127	420,182
-	-	(148,127)
-	148,127	285,939
-	41,974	258,408
-	(41,974)	2,192,643
\$ -	\$ -	\$ 2,451,051

**CITY OF CROSSLAKE, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL ACTIVITIES
YEAR ENDED DECEMBER 31, 2011**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 258,408

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, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital Outlay	\$ 707,245	
Disposal of Capital Assets - Net Book Value	(8,460)	
Depreciation Expense	<u>(736,289)</u>	(37,504)

Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability. Principal payments of capital leases are reported as expenditures in the governmental funds. In the statement of net assets, however, the repayment of principal reduces the liability.

Other Financing Source - Capital Lease Proceeds	(12,384)	
Principal Payments of Capital Leases	<u>195,324</u>	182,940

The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of issuance costs, premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences is the treatment of general obligation bonds and related items is as follows:

Payment of Bond Principal	415,000	
Change in Accrued Interest Expense for General Obligation Bonds	8,064	
Amortization of Bond Issuance Costs	(3,216)	
Amortization of Bond Discount	<u>(3,917)</u>	415,931

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in Compensated Absences		(3,972)
Change in Other Postemployment Benefits		(19,113)

Delinquent and deferred property taxes and special assessments receivable will be collected subsequent to year-end, but are not available soon enough to pay for the current-period's expenditures and, therefore, are deferred in the governmental funds.

Deferred Revenue - December 31, 2010	(284,816)	
Deferred Revenue - December 31, 2011	<u>221,810</u>	<u>(63,006)</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 733,684

**CITY OF CROSSLAKE, MINNESOTA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2011**

ASSETS	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	<u>COMMUNICATIONS</u>	<u>SEWER</u>	<u>TOTALS</u>
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 339,305	\$ -	\$ 339,305
Receivables			
Accounts	109,519	16,056	125,575
Accrued Interest	12,100	-	12,100
Taxes	-	4,000	4,000
Connection Charges	-	23,600	23,600
Materials and Supplies	69,360	-	69,360
Prepayments	33,665	2,047	35,712
Total Current Assets	<u>563,949</u>	<u>45,703</u>	<u>609,652</u>
NONCURRENT ASSETS			
Investments, including Board Designated	1,064,431	-	1,064,431
Taxes Receivable	-	6,360	6,360
Restricted Assets			
Cash and Cash Equivalents	455,000	454,383	909,383
Investments	169,215	-	169,215
Connection Charges Receivable	-	143,508	143,508
Other Investments	44,541	-	44,541
Deferred Charges, Net of Amortization	22,279	15,279	37,558
Capital Assets			
Land	6,654	8,713	15,367
Building and Improvements	9,619,363	3,690,644	13,310,007
Machinery and Equipment	6,613,092	247,413	6,860,505
Sanitary Sewers	-	3,080,700	3,080,700
Construction-in-Progress	16,186	-	16,186
Subtotal Capital Assets	<u>16,255,295</u>	<u>7,027,470</u>	<u>23,282,765</u>
Less: Accumulated Depreciation	<u>(8,940,582)</u>	<u>(1,455,086)</u>	<u>(10,395,668)</u>
Net Capital Assets	<u>7,314,713</u>	<u>5,572,384</u>	<u>12,887,097</u>
Total Noncurrent Assets	<u>9,070,179</u>	<u>6,191,914</u>	<u>15,262,093</u>
Total Assets	<u>9,634,128</u>	<u>6,237,617</u>	<u>15,871,745</u>

See accompanying Notes to Financial Statements.

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	COMMUNICATIONS	SEWER	TOTALS
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts Payable	\$ 152,040	\$ 4,139	\$ 156,179
Salaries and Wages Payable	-	2,431	2,431
Advance Payments	25,223	-	25,223
Customer Deposits	34,237	411	34,648
Accrued Compensated Absences	-	4,110	4,110
Bonds Payable	285,000	-	285,000
Total Current Liabilities	496,500	11,091	507,591
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS			
Accrued Interest Payable	-	37,070	37,070
Revenue Bonds Payable	-	120,000	120,000
Total Current Liabilities Payable from Restricted Assets	-	157,070	157,070
LONG-TERM LIABILITIES			
Bonds Payable (Net of Unamortized Bond Discounts)	3,159,258	2,003,047	5,162,305
Accrued Compensated Absences	-	10,385	10,385
Other Postemployment Benefits Payable	61,046	3,963	65,009
Total Long-Term Liabilities	3,220,304	2,017,395	5,237,699
Total Liabilities	3,716,804	2,185,556	5,902,360
NET ASSETS			
Invested in Capital Assets, Net of Related Debt Restricted For:	3,870,455	3,449,337	7,319,792
Debt Service	169,215	399,095	568,310
Revenue Bond Reserve	455,000	-	455,000
Construction Deposits	-	18,218	18,218
Unrestricted	1,422,654	185,411	1,608,065
Total Net Assets	\$ 5,917,324	\$ 4,052,061	\$ 9,969,385

CITY OF CROSSLAKE, MINNESOTA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2011

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	COMMUNICATIONS	SEWER	TOTALS
OPERATING REVENUES			
Sales and Charges for Services	\$ 3,518,271	204,736	\$ 3,723,007
OPERATING EXPENSES			
Personal Services	-	109,223	109,223
Supplies	-	18,653	18,653
Repairs and Maintenance	-	30,968	30,968
Other Services and Charges	-	66,282	66,282
Plant Specific	490,074	-	490,074
Depreciation	1,002,407	199,846	1,202,253
Plant Support	357,862	-	357,862
Customer	313,968	-	313,968
Signal Purchases	529,163	-	529,163
Other Nonregulated	369,836	-	369,836
General and Administrative	391,741	-	391,741
Total Operating Expenses	<u>3,455,051</u>	<u>424,972</u>	<u>3,880,023</u>
OPERATING INCOME (LOSS)	63,220	(220,236)	(157,016)
NONOPERATING REVENUES (EXPENSES)			
Property Taxes	-	215,278	215,278
Investment Earnings	27,956	752	28,708
Gain on Sale of Assets	13,765	-	13,765
Interest Expense	(187,067)	(91,959)	(279,026)
Bond Issuance Costs	-	(1,273)	(1,273)
Net Increase in the Fair Value of Investments	41,510	-	41,510
Total Nonoperating Revenues (Expenses)	<u>(103,836)</u>	<u>122,798</u>	<u>18,962</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(40,616)	(97,438)	(138,054)
CAPITAL CONTRIBUTIONS	-	13,063	13,063
TRANSFERS OUT	<u>(272,055)</u>	<u>-</u>	<u>(272,055)</u>
CHANGE IN NET ASSETS	(312,671)	(84,375)	(397,046)
Net Assets - Beginning of Year	<u>6,229,995</u>	<u>4,136,436</u>	<u>10,366,431</u>
NET ASSETS - END OF YEAR	<u>\$ 5,917,324</u>	<u>\$ 4,052,061</u>	<u>\$ 9,969,385</u>

See accompanying Notes to Financial Statements.

**CITY OF CROSSLAKE, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2011**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	COMMUNICATIONS	SEWER	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 2,361,129	\$ 204,513	\$ 2,565,642
Cash Received from Others	1,122,170	-	1,122,170
Cash Paid to Employees for Services	(991,088)	(107,691)	(1,098,779)
Cash Paid to Suppliers for Goods and Services	(1,451,874)	(114,760)	(1,566,634)
Net Cash Provided (Used) by Operating Activities	1,040,337	(17,938)	1,022,399
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to Other Funds	(272,055)	-	(272,055)
Increase (Decrease) in Customer Deposits	9,377	-	9,377
Net Cash Provided (Used) by Noncapital Financing Activities	(262,678)	-	(262,678)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and Construction of Capital Assets	(308,591)	(11,346)	(319,937)
Proceeds from Sale of Property, Plant and Equipment	(14,373)	-	(14,373)
Decrease in Materials and Supplies	7,301	-	7,301
Property Taxes Received	-	218,617	218,617
Collection of Connection Charges	-	57,200	57,200
Interest Paid	(177,686)	(91,294)	(268,980)
Principal Payments on Long-Term Debt	(275,000)	(115,000)	(390,000)
Net Cash Provided (Used) by Capital and Related Financing Activities	(768,349)	58,177	(710,172)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net Purchases of Restricted and Unrestricted Investment Securities	(69,858)	-	(69,858)
Purchase of Investments	-	-	-
Interest Received	26,062	752	26,814
Net Cash Provided (Used) by Investing Activities	(43,796)	752	(43,044)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
	(34,486)	40,991	6,505
Cash and Cash Equivalents - Beginning of Year	373,791	413,392	787,183
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 339,305	\$ 454,383	\$ 793,688

See accompanying Notes to Financial Statements.

**CITY OF CROSSLAKE, MINNESOTA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2011**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	COMMUNICATIONS	SEWER	TOTALS
RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH FLOWS FROM OPERATING ACTIVITIES			
Operating Income (Loss)	\$ 63,220	\$ (220,236)	\$ (157,016)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Depreciation	1,002,407	199,846	1,202,253
(Increase) Decrease in Assets:			
Accounts Receivable	4,402	(223)	4,179
Other Receivables	2,927	-	2,927
Prepayments	(977)	(107)	(1,084)
Increase (Decrease) in Liabilities:			
Accounts Payable	(9,362)	10	(9,352)
Accrued Liabilities	-	243	243
Accrued Compensated Absences	-	1,289	1,289
Unearned Revenue	(34,700)	-	(34,700)
Advance Payments	(7,607)	-	(7,607)
Postemployment Benefits Payable	20,027	1,240	21,267
Net Cash Provided (Used) by Operating Activities	\$ 1,040,337	\$ (17,938)	\$ 1,022,399
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 339,305	\$ -	\$ 339,305
Restricted Assets			
Cash and Cash Equivalents	1,064,431	454,383	1,518,814
Other Investments	44,541	-	44,541
Less: Investments not Meeting Definition of Cash Equivalents	(1,108,972)	-	(1,108,972)
Total Cash and Cash Equivalents	\$ 339,305	\$ 454,383	\$ 793,688

See accompanying Notes to Financial Statements.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The City of Crosslake (City) was incorporated under the laws of the state of Minnesota and operates under a Mayor-Council form of government. The financial reporting entity consists of the City (primary government) and the component unit (legally separate organization) for which the Primary Government is financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the primary government.

Discretely Presented Component Unit

The Economic Development Authority (EDA) meets the criteria to be included as a discrete presentation. The members of the governing board of the EDA are appointed by the City Council. The City does not have the authority to approve or modify the EDA's operational and capital budgets. However, the tax rates established by the EDA and bonded debt must be approved by the City Council. Separate financial statements have not been prepared.

Related Organization

The Crosslake Firemen's Relief Association (Association) is organized as a nonprofit organization, legally separate from the City, by its members to provide pension and other benefits to such members in accordance with *Minnesota Statutes*. The Board of Trustees consists of six members elected by the membership and three ex-officio members consisting of the Fire Department Chief, one elected municipal official and one elected or appointed municipal official who are designated as municipal representatives by the City Council annually, in accordance to *Minnesota Statutes* §424A.04 and the Association issues its own set of financial statements. All funding is conducted in accordance with applicable *Minnesota Statutes*, whereby state aids flow to the Association. The Association pays benefits directly to its members. Because the Association is fiscally independent of the City, the financial statements of the Association have not been included within the City's reporting entity. The City's portion of the costs of the Association's pension benefits is included in the general fund.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information about the primary government and its component unit. These statements include the financial activities of the overall City government. Eliminations have been made to minimize the double-counting of internal activities. 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 to external parties for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of each function of the City's governmental activities and different business-type activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. The City has no fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The City has no nonmajor funds.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

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. The City considers all revenues to be available if they are collected within 60 days after the end of the current period. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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 in 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 government.

The City reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the City. It accounts for all the financial resources of the general government, except those required to be accounted for in another fund.

Tax Increment Financing Fund – The Tax Increment Financing Fund is a special revenue fund used to account for the collection of tax increment and payment of related expenditures.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources and payment of general obligation bond principal, interest and related costs of governmental funds.

Library Construction Fund – The Library Construction Fund was used to track expenses related to the construction of the City Library. It now reports only the amount that is due from the General Fund related to this project.

Capital Projects Fund – The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds.)

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

The City reports the following major proprietary funds:

Communications Fund - The Communications Fund accounts for the activities of the City's telephone business and cable television franchise operations.

Sewer Fund – The Sewer Fund accounts for the activities of the City's sewer operations.

Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Funds*, provides proprietary activities with a choice of authorization guidance issued after November 30, 1989. The proprietary funds apply all GASB pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Sewer and Communication Funds have elected to follow GASB pronouncements exclusively after that date.

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

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 revenue of the City's enterprise funds are charges to customers for sales of goods 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, and then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Investments (Including Cash Equivalents)

Cash balances are invested to the extent available in various securities as authorized by *Minnesota Statutes*. Investment earnings are recorded in the individual fund carrying the investment. Investments are stated at fair value.

Cash equivalents are considered to be short-term, highly liquid investments that are readily convertible to cash and have original maturities of three months or less. Cash and cash equivalents consist of checking and saving certificate accounts, cash on hand, and money market savings accounts.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

2. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the fund financial statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

3. Long-Term Interfund Receivables/Payables

These receivables and payables are classified as “advance to other funds” or “advance from other funds” on the fund financial statements. These amounts are provided with a requirement for repayment.

4. Property Taxes

Taxes which remain unpaid are classified as delinquent taxes receivable. Delinquent taxes represent the past seven years of uncollected tax years. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred in the fund financial statements because it is not known to be available to finance the operations of the City in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material.

Property Tax Collection Calendar

The City levies its property tax for the subsequent year during the month of December. In Minnesota, the lien date and assessment date is January 2. The property tax is recorded as revenue when it becomes available. Crow Wing County is the collecting agency for the levy and then remits the collections to the City. All taxes not collected as of December 31 each year are shown as delinquent taxes receivable.

The county auditor makes up the tax list for all taxable property in the City, applying the applicable tax capacity rate to the tax capacity value of individual properties, to arrive at the actual tax for each property. The county auditor also collects the majority of special assessments, except for certain prepayments paid directly to the City.

The county auditor turns over a list of taxes and special assessments to be collected on each parcel of property to the county treasurer in January of each year.

Property owners are required to pay one-half of their real estate taxes by May 15 and the balance by October 15.

Within 30 days after the May settlement, the county treasurer is required to pay 70 percent of the estimated collections of taxes and special assessments to the City treasurer. The county treasurer must pay the balance to the city treasurer within 60 days after settlement, provided that after 45 days interest begins to accrue.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

4. Property Taxes (Continued)

Within ten business days after November 15, the county treasurer shall pay to each taxing district, except any school district, 100 percent of the estimated collections arising from taxes levied by and belonging to each taxing district from May 20 to November 20.

5. Accounts Receivable

No substantial losses are anticipated from present receivable balances. Therefore, no allowance for uncollectible accounts is deemed necessary.

6. Special Assessments

Special assessments are levied against the benefited properties for the assessable costs of improvement projects in accordance with *Minnesota Statutes*. Assessments are collectible over a term of years at an interest rate established by the City Council upon adoption of each assessment roll. Any annual installments remaining unpaid as of November 30th of each year are certified to the County for collection with property taxes during the following year. Property owners are allowed to prepay future installments without interest or prepayment penalties.

In the governmental fund financial statements, special assessment levies are recorded as a receivable and as deferred revenue at the time of the levy. Deferred revenue is recognized as current revenue as the annual assessment installments become measurable and available. Interest on special assessments is also recognized when it becomes measurable and available.

Delinquent special assessments represent the past seven years of uncollected special assessments that have not been collected within 60 days of year-end.

7. Due from Other Governments

Amounts due from other governments is composed primarily of state and federal grants and aids for which the City has spent or will be incurring costs for the various grant purposes.

8. Inventory

Inventory is recorded at average cost.

9. 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 government as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

9. Capital Assets (Continued)

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the government chose to include all such items regardless of their acquisition date or amount.

The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets of the Primary Government are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Land Improvements	5-25
Buildings and Building Improvements	10-40
Equipment and Furniture	3-25
Infrastructure	25-40

10. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation and allowable sick pay is accrued when incurred in the government-wide and proprietary 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.

11. 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 assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

11. Long-Term Obligations (Continued)

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

12. Fund Balance

At December 31, 2011, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Fund balance representing the difference between assets and liabilities, is classified as follows in the City's financial statements:

Governmental Fund Financial Statements – In the Fund financial statements, governmental funds report components of fund balance to provide information about fund balance availability for appropriation. Nonspendable fund balance is the portion of fund balance that cannot be spent because it is either in nonspendable form or there is a legal or contractual requirement for the funds to remain intact. Restricted fund balance represents amounts available for appropriation but intended for a specific use and is legally restricted by outside parties. Assigned fund balance represents resources intended for spending for a purpose set by the governmental body itself or by some person or body delegated to exercise such authority in accordance with the policy established by the Council.

Unassigned fund balance is the residual classification for the City's general fund and includes all spendable amounts not contained in the other classifications. It is the City's policy that at the end of each fiscal year, the City will maintain unassigned portion of fund balance for cash flow of an amount not less than 50% of the General Fund's operating expenditure budget. If unassigned fund balance falls below this point the City will replenish it over a three year period funded by property taxes.

Assigned fund balance is established, modified, rescinded by the City Administrator and City Clerk/Treasurer as this duty has been delegated to them by the City Council prior to the issuance of the financial statements and is used to reflect the intended purpose for which it is to be used. When restricted and unrestricted fund balance is available for expenditure, it is the City's policy to first use restricted fund balance, and then unrestricted resources as they are needed. When committed, assigned, and unassigned fund balance is available for expenditure, it is the City's policy to use committed, assigned, and then unassigned fund balance.

Proprietary Fund Statements – Net assets are reported as restricted in the statements if there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. The remaining balance is considered to be unrestricted.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Each fall, the City Council adopts an annual budget for the general and TIF funds. Legal budgetary control is at the fund level.

The budget for the general and TIF funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the City Council. All annual appropriations lapse at fiscal year end.

B. Excess of Expenditures Over Appropriations

General fund expenditures and other financing uses exceeded appropriations by \$3,480. The overage was considered by City management to be the result of necessary expenditures critical to operations and was approved by the council.

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "Cash and Cash Equivalents." In accordance with *Minnesota Statutes* the City maintains deposits at financial institutions which are authorized by the City Council.

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

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

Authorized collateral include: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. *Minnesota Statutes* require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository.

The City's deposits in banks at December 31, 2011 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with *Minnesota Statutes*.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Investments

The City does not have an investment policy and is permitted to invest its idle funds as authorized by *Minnesota Statutes* as follows:

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

Interest rate risk – Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. Investments are categorized to give an indication of the level of interest rate risk assumed at year-end. Fair market values and maturities as of December 31, 2011 are as follows:

Investment Type	Total Fair Value	12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Minnesota Municipal Money Market Fund Trust	\$1,572,621	\$1,572,621	\$ -	\$ -	\$ -
Money Market Funds	718,581	718,581	-	-	-
U.S. Treasury Notes	423,561	56,678	107,457	97,453	161,973
U.S. Treasury Bond	102,586	-	-	-	102,586
Federal National Mortgage Association Notes	136,071	-	88,989	-	47,082
Federal Home Loan Mortgage Corporation Notes	28,165	-	28,165	-	-
Tennessee Valley Authority Preferred Stock	89,181	-	-	-	89,181
Total	<u>\$3,070,766</u>	<u>\$2,347,880</u>	<u>\$ 224,611</u>	<u>\$ 97,453</u>	<u>\$ 400,822</u>

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Assets (Continued)

2. Investments (Continued)

The Minnesota Municipal Money Market Fund Trust is a common law trust organized in accordance with the Minnesota Joint Powers Act, which invests only in investment instruments allowable under *Minnesota Statutes* as described on the previous page. Its investments are valued at amortized cost, which approximates fair value in accordance with Rule 2a-7 of the Investment Company Act of 1940. The amortized cost 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 instruments.

Credit Risk – As of December 31, 2011, the City invested in U.S. Treasury Notes, U.S. Treasury Bonds, FNMA Notes, FHLMC Notes, and Tennessee Valley Authority Preferred Stock, which were all rated AAA by national rating agencies. The City's money market investments are not rated. The City invests in government bonds, notes, bills, or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, as allowable under *Minnesota Statutes*.

The Minnesota Municipal Money Market Trust Fund does not have its own credit rating. PMA Financial Network, Inc., who administers the Minnesota Municipal Money Market Fund Trust, holds an organization credit rating of AA by Standard & Poor's.

The deposits and investments are presented in these financial statements:

Deposits	\$2,520,315
Investments	3,070,766
Total Cash and Investments	<u>\$5,591,081</u>
Cash and Investments - Governmental Funds	\$2,440,230
Cash and Investments - Proprietary Funds	339,305
Cash and Investments - Component Unit Restricted, Designated, and Long-Term Cash and Investments	5,282
Business-Type (Note 3,A,3)	2,143,029
Component Unit	618,694
Other Investments - Proprietary Funds	44,541
Total Cash and Investments	<u><u>\$5,591,081</u></u>

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Restricted, Designated and Long-Term Cash and Investments

Restricted cash and investments are those restricted by loan covenants, contracts, or other external parties. Designated investments are those designated by the City Council. At December 31, 2011, restricted and designated cash and investments consisted of the following:

Restricted Assets - Cash and Cash Equivalents	
Restricted for Debt Service Covenants - Sewer Fund	\$ 454,383
Restricted for Debt Service - Communications Fund	<u>455,000</u>
Total Restricted Cash and Cash Equivalents	<u>909,383</u>
Restricted Assets - Investments	
Restricted for Debt Service Covenants - Communications Fund	169,215
Investments, including Board Designated	
Designated Investments	
Operations and Maintenance Reserve - CATV	32,912
Central Office Replacement Reserve	216,667
General Building Maintenance Reserve	8,000
Heavy Equipment Reserve	60,667
New Technology Reserve	75,767
Vehicle Reserve	<u>17,955</u>
Total Designated Investments	<u>411,968</u>
Long-Term Investments with No Designation	<u>652,463</u>
Total Investments, including Board Designated	<u>1,064,431</u>
Total Restricted and Designated Cash and Investments	<u><u>\$2,143,029</u></u>

4. Lease Receivable

The Component Unit (EDA) leases the emergency services center and the public works facility to the City. The EDA issued bonds to construct these facilities. The City makes rental payments to the EDA equal to the principal and interest payments due on the bonds. The leases are treated as capital leases with the corresponding buildings recorded as capital assets of the City. The lease is treated as a capital lease wherein the EDA financial statements reflect a long-term lease receivable and the primary government reflects the emergency services center and public works facility capital assets and related depreciation, as well as a capital lease payable to the EDA. Future minimum lease payments from the City to the EDA total \$3,239,192 as of December 31, 2011 and a current capital lease receivable (principal portion) of \$2,410,000 is reflected on the component unit (EDA) statement of net assets.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

5. Interfund Receivables, Payables, and Transfers

At December 31, 2011, advances due from/to other funds were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Library Fund	General Fund	\$ 61,642
General Fund	Library Fund	61,642

The amount payable to the library fund relates to the joint construction costs of the library/community center expansion. The City agreed that the general fund and library fund would split these costs evenly. The City plans for the General Fund to repay the balance to the Library Fund over the next several years with future park dedication fees revenue. The Library Fund has a negative cash balance due to the amount owed by the General Fund. Therefore, an advance is recorded from the General Fund until the cash balance can be made whole.

Interfund transfers for the year ended December 31, 2011, were as follows:

	<u>Transfer In:</u>		
	<u>Primary Government</u>		
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Transfer Out:			
<u>Primary Government</u>			
General Fund	\$ -	\$ 148,127	\$ 148,127
Communications Fund	272,055	-	272,055
Total	<u>\$ 272,055</u>	<u>\$ 148,127</u>	<u>\$ 420,182</u>

The transfer from the General Fund to the Capital Projects Fund is for the remaining cost related to completing the bridge project. Each year, the Communications Fund transfers to the General Fund an amount approved by the Crosslake Utility Commission to assist in offsetting the costs of City services. This amount cannot exceed 8% of the gross revenue of the fund's prior year audited financial statements.

6. Loans Receivable

The EDA component unit had the following notes receivable as of December 31, 2011:

Commercial Revolving Loans

Butterfield Enterprises, LLC; 120 monthly payments that vary each month, including interest at 5.5%; commencing December 2009, and ending December 2019; secured by personal guarantees. \$ 55,343

Midwest Properties of Crosslake, LLC; 120 monthly payments that vary each month, including interest at 5.5%; commencing December 2008, and ending December 2018; secured by personal guarantee. 57,169

Total Commercial Loans Receivable \$ 112,512

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

7. Capital Assets

Capital asset activity for the Primary Government for the year ended December 31, 2011, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets, Not Being Depreciated				
Land	\$ 726,208	\$ -	\$ -	\$ 726,208
Construction in Progress	68,963	6,437	(68,963)	6,437
Total Capital Assets, Not Being Depreciated:	795,171	6,437	(68,963)	732,645
Capital Assets, Being Depreciated				
Buildings	5,209,561	-	-	5,209,561
Improvements Other Than Buildings	672,586	-	-	672,586
Machinery and Equipment	2,778,423	104,359	(62,122)	2,820,660
Infrastructure	7,607,139	665,412	-	8,272,551
Total Capital Assets, Being Depreciated	16,267,709	769,771	(62,122)	16,975,358
Less Accumulated Depreciation for				
Buildings	(1,195,007)	(146,233)	-	(1,341,240)
Improvements Other Than Buildings	(352,829)	(32,489)	-	(385,318)
Machinery and Equipment	(1,493,231)	(255,513)	53,662	(1,695,082)
Infrastructure	(2,445,309)	(302,054)	-	(2,747,363)
Total Accumulated Depreciation	(5,486,376)	(736,289)	53,662	(6,169,003)
Total Capital Assets, Being Depreciated, Net	10,781,333	33,482	(8,460)	10,806,355
Governmental Activities Capital Assets, Net	<u>\$ 11,576,504</u>	<u>\$ 39,919</u>	<u>\$ (77,423)</u>	<u>\$ 11,539,000</u>

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

7. Capital Assets (Continued)

Capital asset activity for the Primary Government for the year ended December 31, 2011, is as follows:

	Balance	Increases	Adjustments	Balance
BUSINESS-TYPE ACTIVITIES				
Capital Assets, Not Being Depreciated				
Land	\$ 15,367	\$ -	\$ -	\$ 15,367
Construction in Progress	15,619	567	-	16,186
Total Capital Assets, Not Being Depreciated	30,986	567	-	31,553
Capital Assets, Being Depreciated				
Buildings and Improvements	5,064,133	21,440	-	5,085,573
Machinery and Equipment	6,824,637	246,395	(210,527)	6,860,505
Communications Infrastructure	6,618,324	18,987	(22,715)	6,614,596
CATV Infrastructure	1,592,544	32,549	(15,255)	1,609,838
Sanitary Sewers	3,080,700	-	-	3,080,700
Total Capital Assets, Being Depreciated	23,180,338	319,371	(248,497)	23,251,212
Less Accumulated Depreciation For				
Buildings and Improvements	(973,813)	(128,071)	-	(1,101,884)
Machinery and Equipment	(4,553,860)	(583,567)	210,527	(4,926,900)
Communications Infrastructure	(2,275,059)	(293,554)	22,715	(2,545,898)
CATV Infrastructure	(1,127,323)	(82,957)	15,255	(1,195,025)
Sanitary Sewers	(539,994)	(85,967)	-	(625,961)
Total Accumulated Depreciation	(9,470,049)	(1,174,116)	248,497	(10,395,668)
Total Capital Assets, Being Depreciated, Net	13,710,289	(854,745)	-	12,855,544
Business-Type Activities Capital Assets, Net	<u>\$ 13,741,275</u>	<u>\$ (854,178)</u>	<u>\$ -</u>	<u>\$ 12,887,097</u>

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

Governmental Activities	
General Government	\$ 344,570
Public Safety	127,335
Public Works	166,909
Culture and Recreation	97,475
Total Depreciation Expense - Governmental Activities	<u>\$ 736,289</u>
Business-Type Activities	
Communications	\$ 974,270
Sewer	199,846
Total Depreciation Expense - Business-Type Activities	<u>\$ 1,174,116</u>

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities

1. Long-Term Debt

The City issues general obligation bonds and certificates of indebtedness to provide funds for economic development and for the acquisition and construction of major capital facilities including infrastructure. General obligation bonds and certificates of indebtedness have been issued for both governmental and business-type activities. General obligation bonds and certificates of indebtedness are direct obligations and pledge the full faith and credit of the City.

General obligation bonds currently outstanding for the Primary Government and Component Unit are as follows:

	<u>Range of Interest Rates</u>	<u>Original Issue</u>	<u>Amount Outstanding</u>
BONDED INDEBTEDNESS			
PRIMARY GOVERNMENT			
GENERAL OBLIGATION BONDS			
G.O. Improvement Bonds, Series 2001	3.30-4.55%	\$ 605,000	\$ 50,000
G.O. Bonds, Series 2002	1.85-4.50%	825,000	95,000
G.O. Disposal System Bonds, Series 2003A	2.00-4.60%	2,870,000	2,150,000
G.O. Improvement Bonds, Series 2004A	2.75-3.70%	1,095,000	500,000
G.O. Improvement Bonds, Series 2006B	3.65-4.10%	1,330,000	725,000
GENERAL OBLIGATION REVENUE BONDS			
G.O. Telephone Utility Revenue Bond - 2006A	4.00-5.00%	4,770,000	3,515,000
Total Primary Government General Obligation Bonds		<u>\$ 11,495,000</u>	<u>\$ 7,035,000</u>
COMPONENT UNIT			
REVENUE BONDS			
Public Facility Lease Revenue Bonds, Series 2003A	2.50-4.55%	\$ 3,185,000	\$ 2,325,000
Revenue Refunding Bonds, Series 2004	2.00-4.15%	325,000	85,000
Total Component Unit		<u>\$ 3,510,000</u>	<u>\$ 2,410,000</u>

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

1. Long-Term Debt (Continued)

Summary of long-term debt transactions for the year ended December 31, 2011, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
PRIMARY GOVERNMENT					
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds	\$ 1,785,000	\$ -	\$ (415,000)	\$ 1,370,000	\$ 345,000
Deferred Amounts - Issuance Discounts	(19,140)	-	3,917	(15,223)	-
Total Bonds Payable	1,765,860	-	(411,083)	1,354,777	345,000
Capital Leases Payable	2,678,435	12,384	(195,324)	2,495,495	207,003
Compensated Absences	71,938	68,523	(64,551)	75,910	27,691
Other Postemployment Benefits Payable	38,963	19,113	-	58,076	-
Governmental Activity Long-Term Liabilities	<u>\$ 4,555,196</u>	<u>\$ 100,020</u>	<u>\$ (670,958)</u>	<u>\$ 3,984,258</u>	<u>\$ 579,694</u>
BUSINESS-TYPE ACTIVITIES					
Bonds Payable					
General Obligation Bonds	\$ 2,265,000	\$ -	\$ (115,000)	\$ 2,150,000	\$ 120,000
Revenue Bonds	3,790,000	-	(275,000)	3,515,000	285,000
Deferred Amounts - Issuance Discounts	(107,135)	-	9,440	(97,695)	-
Total Bonds Payable	5,947,865	-	(380,560)	5,567,305	405,000
Compensated Absences	13,206	5,016	(3,727)	14,495	4,110
Other Postemployment Benefits Payable	43,742	21,267	-	65,009	-
Business-Type Activity Long-Term Liabilities	<u>\$ 6,004,813</u>	<u>\$ 26,283</u>	<u>\$ (384,287)</u>	<u>\$ 5,646,809</u>	<u>\$ 409,110</u>
COMPONENT UNIT					
Bonds Payable					
Lease Revenue Bonds	\$ 2,445,000	\$ -	\$ (120,000)	\$ 2,325,000	\$ 130,000
Revenue Refunding Bonds	125,000	-	(40,000)	85,000	45,000
Deferred Amounts - Issuance Discounts	(2,925)	-	975	(1,950)	-
Component Unit Long-Term Liabilities	<u>\$ 2,567,075</u>	<u>\$ -</u>	<u>\$ (159,025)</u>	<u>\$ 2,408,050</u>	<u>\$ 175,000</u>

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

1. Long-Term Debt (Continued)

Annual debt service requirements to maturity for general obligation bonds and notes payable of the Primary Government are as follows:

General Obligation Bonds			General Obligation Bonds		
	Governmental Activities			Business-Type Activities	
	Principal	Interest		Principal	Interest
2012	\$ 345,000	\$ 48,645	2012	\$ 120,000	\$ 86,898
2013	310,000	36,590	2013	125,000	82,609
2014	275,000	25,565	2014	130,000	77,985
2015	285,000	14,928	2015	140,000	72,920
2016	155,000	6,355	2016	145,000	67,433
Total	\$1,370,000	\$ 132,083	2017-2021	855,000	238,573
			2022-2024	635,000	44,500
			Total	\$2,150,000	\$ 670,918

General Obligation Revenue Bonds		
	Business-Type Activities	
	Principal	Interest
2012	\$ 285,000	\$ 166,593
2013	300,000	153,910
2014	310,000	140,410
2015	325,000	126,305
2016	340,000	111,355
2017-2021	1,955,000	298,515
Total	\$3,515,000	\$ 997,088

Annual debt service requirements to maturity for revenue bonds of the Component Unit are as follows:

	Principal	Interest
2012	\$ 175,000	\$ 98,915
2013	175,000	92,179
2014	140,000	85,293
2015	150,000	79,598
2016	155,000	73,459
2017-2021	925,000	258,369
2022-2026	690,000	48,124
Total	\$2,410,000	\$ 735,937

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

1. Long-Term Debt (Continued)

Capital Leases

The City has several outstanding capital leases for equipment and buildings and improvements. In 1994, the Primary Government entered into a capital lease agreement as lessee with the EDA Component Unit to finance the construction of the emergency services center. The City entered into a lease agreement as lessee for financing the acquisition of a fire truck in 1996. In 2003, the Primary Government entered into a lease agreement as lessee with the EDA Component Unit for financing the construction of the public works facility. In 2006, the City entered into a lease agreement for financing the acquisition of a Ziegler Challenger Tractor. In 2007, the City entered into a lease agreement for financing the acquisition of a Caterpillar Wheel Loader. In 2011, the City entered into a lease agreement for a copier. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases, are as follows:

Buildings and Improvements	\$ 3,145,365
Equipment	627,907
Less: Accumulated Depreciation	(1,007,793)
Total	<u>\$ 2,765,479</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2011, were as follows:

2012	\$ 309,374
2013	286,617
2014	244,730
2015	248,519
2016	228,459
2017-2021	1,183,369
2022-2024	<u>738,124</u>
Total Minimum Lease Payments	3,239,192
Less: Amount Representing Interest	<u>(743,697)</u>
Present Value of Minimum Lease Payments	<u>\$ 2,495,495</u>

Of this balance, \$2,410,000 is owed to the EDA component unit for the financing related to the emergency services center and joint public works facility.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

2. Risk Management

The City is exposed to various risks of loss related to: torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The City (primary government) has entered into a joint powers agreement with the League of Minnesota Cities Insurance Trust (LMCIT). The LMCIT is a public entity risk pool currently operating as common risk management and insurance program for Minnesota cities. The City also carries commercial insurance for certain other risks of loss, including employee health insurance. The agreement for formation of the LMCIT provides that the pool will be self-sustaining through member assessments and will reinsure through commercial companies for claims in excess of reserved amounts for each insured event. The pool can make additional assessments to make the pool self-sustaining.

The City has determined that it is not possible to estimate the amount of such additional assessments; however, they are not expected to be material to the financial statements. There were no significant reductions in insurance coverage from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

The City's component unit is covered by the City's commercial insurance to cover losses in the above described risk areas.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 4 PENSION PLANS

A. Public Employees Retirement Association

Plan Description

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

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, fire-fighters and peace officers who qualify for members by statute are covered by the PEPFF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after 36 months of public service (60 months if first eligible for membership after June 30, 2010). Being vested means you qualify for benefits at the minimum allowable age. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF and GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 4 PENSION PLANS (CONTINUED)

A. Public Employees Retirement Association (Continued)

Plan Description (Continued)

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree and no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERP and PEPFF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERP Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2011. PEPFF members are required to contribute 9.6% of their annual covered salary in 2011. In 2011, the City was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7.25% for Coordinated Plan members and 14.4% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2011, 2010, and 2009, were \$106,689, \$99,814, and \$94,803, respectively. The City's contributions to the Public Employees Police and Fire Fund for the years ending December 31, 2011, 2010, and 2009 were \$41,569, \$40,147, and \$38,649, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 4 PENSION PLANS (CONTINUED)

B. Crosslake Firemen's Relief Association

Plan Description

All members of the Crosslake Fire Department are covered by a defined contribution plan administered by the Crosslake Firemen's Relief Association (Relief Association). The plan is a single employer retirement plan and is established and administered in accordance with *Minnesota Statutes* Chapter 69.

The Relief Association provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established in accordance with state statute, and vest after ten years of credited service. Retirement benefits are based on a member's years of service. Benefit provisions can be amended by the Relief Association within the parameters provided by state statutes.

The Relief Association issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by contacting the City's Fire Hall.

Funding Policy

Minnesota Statutes Chapter 69.77 sets the minimum contribution requirement for the City of Crosslake and State Aid on an annual basis. These statutes are established and amended by the state legislature. The Association is comprised of volunteers; therefore, members have no contribution requirements. The City's 2011 contribution to the plan was as follows:

State Aid flowed through City to Relief Association	\$ 32,224
Voluntary (non-required) Contribution from City	<u>16,521</u>
Total Contribution	<u>\$ 48,745</u>

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 5 OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

The Governmental Accounting Standards Board (GASB) has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45), which addresses how state and local governments must account for and report their obligations related to postemployment healthcare and other non-pension benefits (referred to as Other Postemployment Benefits or “OPEB”). GASB 45 requires that local governments account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they do for pensions.

The City provides health insurance benefits for certain retired employees, including employees of Crosslake Communications, under a single-employer fully-insured plan. The City provides benefits for retirees as required by *Minnesota Statutes* §471.61 subdivision 2b. These benefit provisions are established and amended through both negotiations between the employee’s union and through the City personnel policy for non union employees. There are no separately issued financial reports for the plan. To be eligible to receive benefits under the plan, employees must be at least 55 years of age, 50 years of age for police and fire personnel and have at least ten years of service with the City. Under the plan, the City will pay a portion of the individual’s single coverage health insurance premiums for three years or until the employee is Medicare eligible (whichever is earlier). The amounts of premiums paid by the City under the plan are as follows:

<u>Description</u>	<u>% of Premium</u>	<u>Police and Fire Employees</u>
With 10-15 Years of Service	25%	25% of Premium
With 15-25 Years of Service	50%	50% of Premium
With 25 or More Years of Service	80%	100% of Premium

For the year ended December 31, 2011, there were no retirees receiving health benefits from the City’s health plan.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 5 OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

A. Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board (GASB) Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB cost of 2011, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Annual Required Contribution (ARC):	\$ 41,666
Interest on Net OPEB Obligation	3,722
Adjustment to ARC	<u>(5,009)</u>
Annual OPEB Cost	40,379
Contributions During the Year	<u>-</u>
Increase in Net OPEB Obligation	40,379
Net OPEB - Beginning of the Year	<u>82,706</u>
Net OPEB - End of the Year	<u><u>\$ 123,085</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the year ended December 31, 2011 were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2011	\$ 40,379	\$ -	- %	\$ 123,085
December 31, 2010	41,039	-	-	82,706
December 31, 2009	41,667	-	-	41,667

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 5 OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

B. Funding Status

The City currently has no assets that have been irrevocably deposited in a trust for future health benefits. Therefore, the actuarial value of assets is zero. The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll ((b-a)/c)
01/01/09	\$ -	\$ 256,196	\$ 256,196	- %	\$ 1,707,490	15.00%

C. Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of the occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the January 1, 2011 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.50% discount rate, which is based on the estimated long-term investment yield on the general assets of the City using an underlying long-term inflation assumption of 3.00%. The annual healthcare cost trend rate is 9.00% initially, reduced incrementally to an ultimate rate of 5.00% after eight years. The unfunded actuarial accrued liability is being amortized over thirty years on a closed basis.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 6 OPERATING LEASES

The City subleases the public works facility to Crow Wing County. The lease is an operating lease in which the County is charged for 53% of the related debt service as well as 53% of operating expenditures related to the facility. This sublease revenue is used to pay the debt service to the EDA component unit for the related capital lease. Future minimum lease payments to be received relating to the sublease are as follows:

2012	\$	135,385
2013		134,523
2014		133,455
2015		134,758
2016		133,144
2017-2021		669,104
2022-2024		398,663
Total	\$	<u>1,739,032</u>

NOTE 7 SUBSEQUENT EVENT

On January 18, 2012, the City issued G.O. Refunding Bonds, Series 2012A for \$4,310,000 with an interest rate between 2 – 2.55%. Payments to commence on August 1, 2012 and ending on February 1, 2024.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF CROSSLAKE, MINNESOTA
 SCHEDULE OF FUNDING PROGRESS OTHER POSTEMPLOYMENT BENEFIT PLAN
 YEAR ENDED DECEMBER 31, 2011**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
01/01/09	\$ -	\$ 256,196	\$ 256,196	-	\$ 1,707,490	15.00%

CITY OF CROSSLAKE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2011

	BUDGET ORIGINAL AND FINAL	ACTUAL	VARIANCE WITH BUDGET OVER (UNDER)
REVENUES			
Taxes	\$ 2,234,085	\$ 2,228,598	\$ (5,487)
Licenses and Permits	46,000	55,485	9,485
Intergovernmental	64,053	108,547	44,494
Charges for Services	206,150	325,541	119,391
Fines and Forfeits	15,700	41,338	25,638
Special Assessments	-	43,990	43,990
Interest	10,000	6,447	(3,553)
Donations	1,200	9,404	8,204
Miscellaneous	281,500	36,649	(244,851)
Total Revenues	2,858,688	2,855,999	(2,689)
EXPENDITURES			
Current			
General Government			
Mayor and Council	30,666	29,353	(1,313)
Administration	314,778	303,952	(10,826)
Elections	250	-	(250)
Audit and Legal	45,000	44,668	(332)
Planning and Zoning	277,410	261,677	(15,733)
Other General Government	128,135	120,035	(8,100)
Total General Government	796,239	759,685	(36,554)
Public Safety			
Police	483,660	497,526	13,866
Ambulance	13,736	14,758	1,022
Fire Protection	72,147	73,933	1,786
Total Public Safety	569,543	586,217	16,674
Public Works			
Engineering	38,000	8,842	(29,158)
Public Way Maintenance	409,168	381,042	(28,126)
Total Public Works	447,168	389,884	(57,284)
Culture and Recreation			
Library	52,818	51,578	(1,240)
Recreation	360,974	343,619	(17,355)
Parks	-	10	10
Total Culture and Recreation	413,792	395,207	(18,585)
Miscellaneous			
Recycling	32,690	32,327	(363)
Firemen's Relief Association	47,750	48,745	995
Cemetery	2,560	1,458	(1,102)
Total Miscellaneous	83,000	82,530	(470)
Debt Service			
Principal	34,808	195,324	160,516
Interest and Fiscal Charges	5,432	111,248	105,816
Total Debt Service	40,240	306,572	266,332
Capital Outlay			
Capital Equipment	369,800	203,167	(166,633)
Total Expenditures	2,719,782	2,723,262	3,480

See accompanying Notes to the Required Supplementary Information.

CITY OF CROSSLAKE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONTINUED)
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2011

	<u>BUDGET</u> <u>ORIGINAL AND FINAL</u>	<u>ACTUAL</u>	<u>VARIANCE WITH</u> <u>BUDGET</u> <u>OVER</u> <u>(UNDER)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 138,906	\$ 132,737	\$ (6,169)
OTHER FINANCING SOURCES (USES)			
Transfers In	-	272,055	272,055
Transfers Out	-	(148,127)	(148,127)
Capital Lease Proceeds	-	12,384	12,384
Sales of Capital Assets	-	1,500	1,500
Total Other Financing Sources (Uses)	-	137,812	137,812
NET CHANGE IN FUND BALANCE	<u>\$ 138,906</u>	<u>270,549</u>	<u>\$ 131,643</u>
Fund Balance - Beginning of Year		1,889,526	
FUND BALANCE - END OF YEAR		<u>\$ 2,160,075</u>	

**CITY OF CROSSLAKE, MINNESOTA
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 TAX INCREMENT FINANCING FUND
 YEAR ENDED DECEMBER 31, 2011**

	BUDGET ORIGINAL AND FINAL	ACTUAL	VARIANCE WITH BUDGET OVER (UNDER)
REVENUES			
Tax Increments	\$ 45,500	\$ 38,170	\$ (7,330)
EXPENDITURES			
Economic Development Current	45,500	44,160	(1,340)
NET CHANGE IN FUND BALANCE	-	(5,990)	(5,990)
Fund Balance - Beginning of Year	-	7,290	(7,290)
FUND BALANCE - END OF YEAR	\$ -	\$ 1,300	\$ (13,280)

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2011**

NOTE 1 LEGAL COMPLIANCE - BUDGETS

A. Budgetary Information

Each fall, the City Council adopts an annual budget for the general and TIF funds. Legal budgetary control is at the fund level.

The budget for the general and TIF funds are adopted on a basis consistent with U.S. generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the City Council. All annual appropriations lapse at fiscal year-end.

B. Excess of Expenditures Over Appropriations

General fund expenditures exceeded appropriations by \$3,480. The overage was considered by City management to be the result of necessary expenditures critical to operations and was approved by the Council.

SUPPLEMENTARY INFORMATION

**CITY OF CROSSLAKE, MINNESOTA
 COMBINING BALANCE SHEET
 ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT
 DECEMBER 31, 2011**

	REVOLVING LOAN PROGRAM	EDA OPERATING FUND	TOTAL
ASSETS			
Cash and Cash Equivalents	\$ -	\$ 5,282	\$ 5,282
Restricted Cash and Cash Equivalents	314,138	304,556	618,694
Accounts Receivable	-	-	-
Loans Receivable	112,512	-	112,512
Long-Term Lease Receivable	-	2,410,000	2,410,000
Total Assets	\$ 426,650	\$ 2,719,838	\$ 3,146,488
LIABILITIES AND FUND BALANCES			
Fund Balances			
Restricted for:			
Economic Development	\$ 426,650	\$ -	\$ 426,650
Debt Service	-	2,719,838	2,719,838
Total Fund Balances	426,650	2,719,838	3,146,488
Total Liabilities and Fund Balances	\$ 426,650	\$ 2,719,838	\$ 3,146,488

CITY OF CROSSLAKE, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT
DECEMBER 31, 2011

	<u>Fund Level</u> <u>Total</u>	<u>Adjustments</u>	<u>Statement of</u> <u>Net Assets</u>
ASSETS			
Cash and Cash Equivalents	\$ 5,282	\$ -	\$ 5,282
Restricted Cash and Cash Equivalents	618,694	-	618,694
Loans Receivable	112,512	-	112,512
Deferred Charges, Net of Amortization	-	1,203	1,203
Long-Term Lease Receivable	<u>2,410,000</u>	<u>-</u>	<u>2,410,000</u>
Total Assets	<u>\$ 3,146,488</u>	1,203	3,147,691
LIABILITIES			
Accrued Interest Payable	\$ -	40,973	40,973
Long Term Liabilities			
Due Within One Year	-	175,000	175,000
Due in More than One Year	<u>-</u>	<u>2,233,050</u>	<u>2,233,050</u>
Total Liabilities	<u>-</u>	<u>2,449,023</u>	<u>2,449,023</u>
FUND BALANCES/NET ASSETS			
Restricted for:			
Economic Development	426,650	(426,650)	
Debt Service	<u>2,719,838</u>	<u>(2,719,838)</u>	
Total Fund Balances	<u>3,146,488</u>	<u>(3,146,488)</u>	
Total Liabilities and Fund Balances	<u>\$ 3,146,488</u>	<u>(697,465)</u>	
Net Assets			
Restricted for Debt Service		272,018	272,018
Restricted for Economic Development		<u>426,650</u>	<u>426,650</u>
Total Net Assets of Component Unit (Page 16)		<u>\$ 698,668</u>	<u>\$ 698,668</u>

¹ Long-term liabilities, including bonds payable and related accrued interest, are not due and payable in the current period and, therefore, are not reported in the funds.

**CITY OF CROSSLAKE, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT
 YEAR ENDED DECEMBER 31, 2011**

	<u>REVOLVING LOAN PROGRAM</u>	<u>EDA OPERATING FUND</u>	<u>TOTAL</u>
REVENUES			
Miscellaneous			
Lease Revenue	\$ -	\$ 105,836	\$ 105,836
Revolving Loan Interest	6,230	-	6,230
Interest	<u>2,885</u>	<u>2,859</u>	<u>5,744</u>
Total Revenue	9,115	108,695	117,810
EXPENDITURES			
Economic Development			
Professional Services	327	-	327
Other Services and Charges	12,354	-	12,354
Debt Service			
Principal	-	160,000	160,000
Interest and Fiscal Charges	<u>-</u>	<u>105,837</u>	<u>105,837</u>
Total Expenditures	<u>12,681</u>	<u>265,837</u>	<u>278,518</u>
NET CHANGE IN FUND BALANCES	(3,566)	(157,142)	(160,708)
Fund Balances - Beginning of Year	<u>430,216</u>	<u>2,876,980</u>	<u>3,307,196</u>
FUND BALANCES - END OF YEAR	<u>\$ 426,650</u>	<u>\$ 2,719,838</u>	<u>\$ 3,146,488</u>

CITY OF CROSSLAKE, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES TO THE STATEMENT OF ACTIVITIES
ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT
YEAR ENDED DECEMBER 31, 2011

	<u>Fund Level Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures/Expenses	\$ 278,518	\$ (160,346) ¹	\$ 118,173
Program Revenues			
Charges for Services	<u>112,066</u>	<u>-</u>	<u>112,066</u>
Net Program Revenue (Expense)	(166,452)	160,346	(6,107)
General Revenues			
Unrestricted Investment Earnings	<u>5,744</u>	<u>-</u>	<u>5,744</u>
Change in Net Assets (Page 16)	(160,708)	160,346	(363)
Fund Balances/Net Assets			
Beginning of Year	<u>3,307,196</u>	<u>(2,608,166)</u>	<u>699,030</u>
End of Year	<u>\$ 3,146,488</u>	<u>\$ (2,447,820)</u>	<u>\$ 698,668</u>

¹ Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, and the principal payments on debt are shown as a reduction of the related liability in the statement of net assets.

Bond Principal Payments	\$ (160,000)
Amortization of Bond Issuance Costs	600
Amortization of Bond Discount	975
Net Decrease in Accrued Interest Related to Last Debt Service Payment	<u>(1,921)</u>
Total	<u>\$ (160,346)</u>

OTHER REPORT SECTION



CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit and each major fund of the City of Crosslake, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 2, 2012.

The City's basic financial statements include the operations of Crosslake Communications. Our audit, described below, did not include the operations of Crosslake Communications because the component unit engaged for its own separate audit that included the provisions of the *Minnesota Legal Compliance Audit Guide Political Subdivisions*.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the Minnesota Office of the State Auditor pursuant to *Minnesota Statutes* Section 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers seven main 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 study included all of the listed categories.

The results of our tests indicate that, for the items tested, the City complied with the material terms and conditions of applicable legal provisions referred to in the preceding paragraph.

This report is intended solely for the information and use of management, the City Council, and the Minnesota Office of the State Auditor and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in cursive script that reads 'CliftonLarsonAllen LLP'.

CliftonLarsonAllen LLP

Brainerd, Minnesota
April 2, 2012