

**CITY OF CROSSLAKE, MINNESOTA**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2012**

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DECEMBER 31, 2012**

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## INTRODUCTORY SECTION

**CITY OF CROSSLAKE, MINNESOTA  
PRINCIPAL CITY OFFICIALS  
DECEMBER 31, 2012**

**ELECTED OFFICIALS**

Position	Term Expires	Name
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**

Position	Name
City Administrator	Thomas Swenson
City Clerk/Treasurer	Jennifer Max

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## 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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Crosslake Communications, which represent 53 percent, 59 percent, and 94 percent, respectively of the assets, net position, and revenues of the business-type activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Crosslake Communications, is based solely 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 from material misstatement.

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

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



Honorable Mayor and  
Members of the City Council  
City of Crosslake

### ***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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress – other postemployment benefit plan, and budgetary comparison information on pages 4 through 13, 55, and 56 through 58 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.

#### *Supplementary Information*

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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the 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 as a whole.



**CliftonLarsonAllen LLP**

Brainerd, Minnesota  
May 13, 2013

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**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2012**

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, 2012. 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, 2012, and the prior year, 2011, 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 \$20,324,657 (net position). Of this amount \$3,714,209 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ The City's total net position increased during the fiscal year by \$142,455.
- ◆ As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,405,492, a decrease of \$45,559 in comparison with the prior year. Approximately 85% of this total amount, \$1,974,980, is available for spending at the City's discretion (unassigned/assigned fund balance). However, as stated below, \$445,949 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 \$2,122,238, or 79% of budgeted 2012 expenditures. The City Council has assigned \$445,949 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 position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2012**

**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 City'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 City'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, 2012**

**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, 2012**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net Position**

As noted earlier, net position may serve over time as a useful indicator of a City's financial position. In the case of the City, assets exceeded liabilities by \$20,324,657 at the close of the most recent fiscal year.

By far, the largest portion of the City's net position (75%) 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 Position**

	Governmental Activities		Business-Type Activities		2012 Total
	2012	2011	2012	2011	
Current and Other Assets	\$ 2,735,822	\$ 2,767,041	\$ 4,814,532	\$ 2,984,648	\$ 7,550,354
Capital Assets	11,560,560	11,539,000	11,973,006	12,887,097	23,533,566
<b>Total Assets</b>	<b>14,296,382</b>	<b>14,306,041</b>	<b>16,787,538</b>	<b>15,871,745</b>	<b>31,083,920</b>
Long-Term Liabilities Outstanding	3,184,580	3,984,258	7,157,650	5,646,809	10,342,230
Other Liabilities	143,714	108,966	273,319	255,551	417,033
<b>Total Liabilities</b>	<b>3,328,294</b>	<b>4,093,224</b>	<b>7,430,969</b>	<b>5,902,360</b>	<b>10,759,263</b>
<b>Net Assets</b>					
Net Investment in Capital Assets	8,539,826	7,688,728	6,801,261	7,319,792	15,341,087
Restricted	295,902	446,846	973,459	1,041,528	1,269,361
Unrestricted	2,132,360	2,077,243	1,581,849	1,608,065	3,714,209
<b>Total Net Position</b>	<b>\$ 10,968,088</b>	<b>\$ 10,212,817</b>	<b>\$ 9,356,569</b>	<b>\$ 9,969,385</b>	<b>\$ 20,324,657</b>

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

There was an increase of \$755,271 and a decrease of \$612,816 in net position 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, 2012**

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

**Change in Net Position**

The City's total net position increased by \$142,455. Key elements of this increase are as follows:

	Change in Net Position				
	Governmental Activities		Business-Type Activities		2012
	2012	2011	2012	2011	Total
<b>REVENUES</b>					
Program Revenues					
Charges for Services	\$ 442,309	\$ 415,916	\$ 3,673,447	\$ 3,723,007	\$ 4,115,756
Operating Grants and Contributions	499,169	117,895	-	-	499,169
Capital Grants and Contributions	33,004	511,298	7,988	13,063	40,992
General Revenues					
Property Taxes	2,532,364	2,532,302	223,482	215,278	2,755,846
Other Taxes	38,831	37,670	-	-	38,831
Intergovernmental	184	1,489	-	-	184
Unrestricted Investment Earnings	12,771	6,447	39,427	28,708	52,198
Gain on Sale of Investments	-	-	-	13,765	-
Gain on Sale of Capital Assets	880	7,266	-	-	880
Net Increase (Decrease) in the Fair Value of Investments	-	-	-	41,510	-
Miscellaneous	39,250	36,649	-	-	39,250
<b>Total Revenues</b>	<b>3,598,762</b>	<b>3,666,932</b>	<b>3,944,344</b>	<b>4,035,331</b>	<b>7,543,106</b>
<b>EXPENSES</b>					
General Government	1,261,659	1,208,611	-	-	1,261,659
Public Safety	801,712	773,658	-	-	801,712
Public Works	571,109	554,891	-	-	571,109
Culture and Recreation	437,852	447,571	-	-	437,852
Economic Development	36,545	44,160	-	-	36,545
Interest on Long-Term Debt	124,174	176,412	-	-	124,174
Communications	-	-	3,632,122	3,642,118	3,632,122
Sewer Utility	-	-	535,478	518,204	535,478
<b>Total Expenses</b>	<b>3,233,051</b>	<b>3,205,303</b>	<b>4,167,600</b>	<b>4,160,322</b>	<b>7,400,651</b>
<b>CHANGE IN NET POSITION BEFORE TRANSFERS</b>	<b>365,711</b>	<b>461,629</b>	<b>(223,256)</b>	<b>(124,991)</b>	<b>142,455</b>
Transfers	389,560	272,055	(389,560)	(272,055)	-
<b>CHANGE IN NET POSITION</b>	<b>755,271</b>	<b>733,684</b>	<b>(612,816)</b>	<b>(397,046)</b>	<b>142,455</b>
Net Position - Beginning of Year	10,212,817	9,479,133	9,969,385	10,366,431	20,182,202
<b>NET POSITION - END OF YEAR</b>	<b>\$ 10,968,088</b>	<b>\$ 10,212,817</b>	<b>\$ 9,356,569</b>	<b>\$ 9,969,385</b>	<b>\$ 20,324,657</b>

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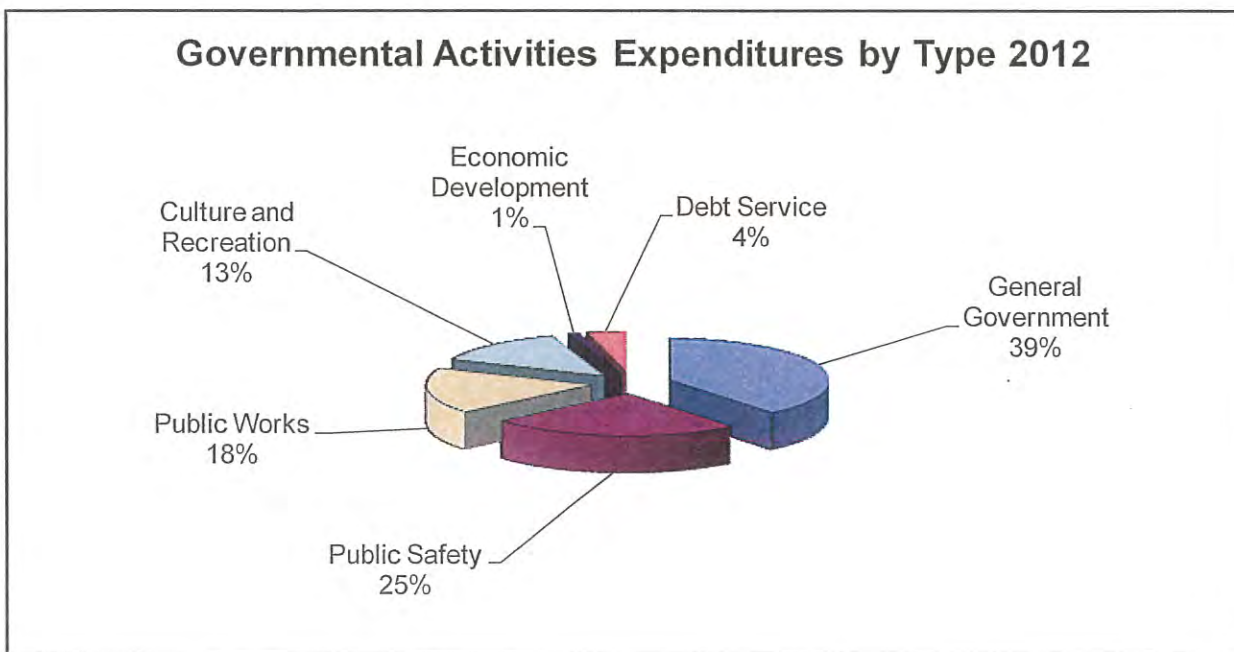
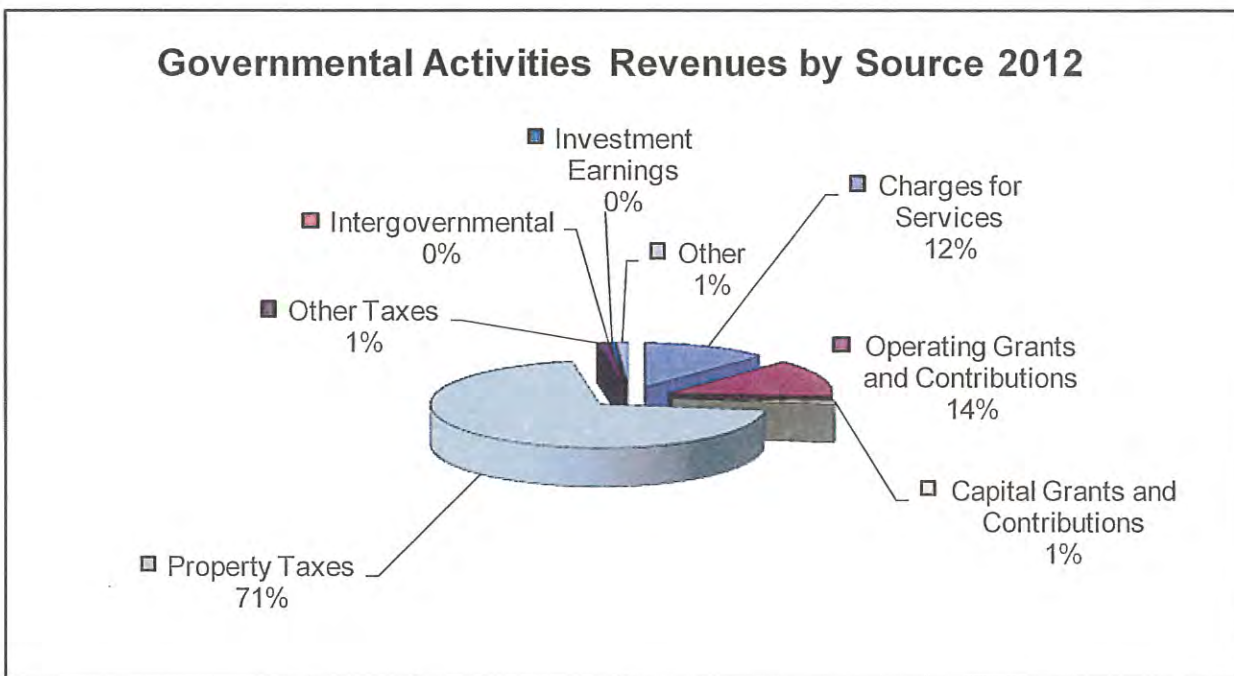
**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2012**

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

**Change in Net Position (Continued)**

**Governmental Activities** – Governmental activities increased the City's net position by \$755,271 in 2012 as compared to an increase of \$733,684 in 2011. Key element of this increase is as follows:

- ◆ Capital grants and contributions decreased \$478,294 (94%) from 2011 due to grants having been received from the State of Minnesota for bridge construction in 2011.



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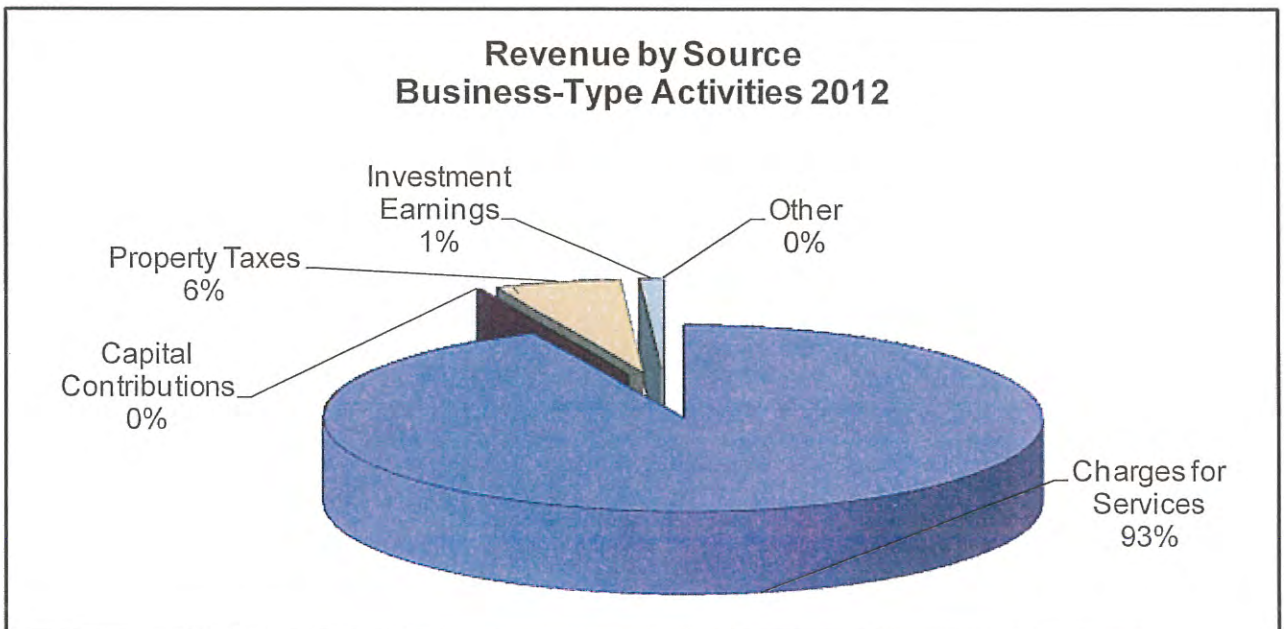
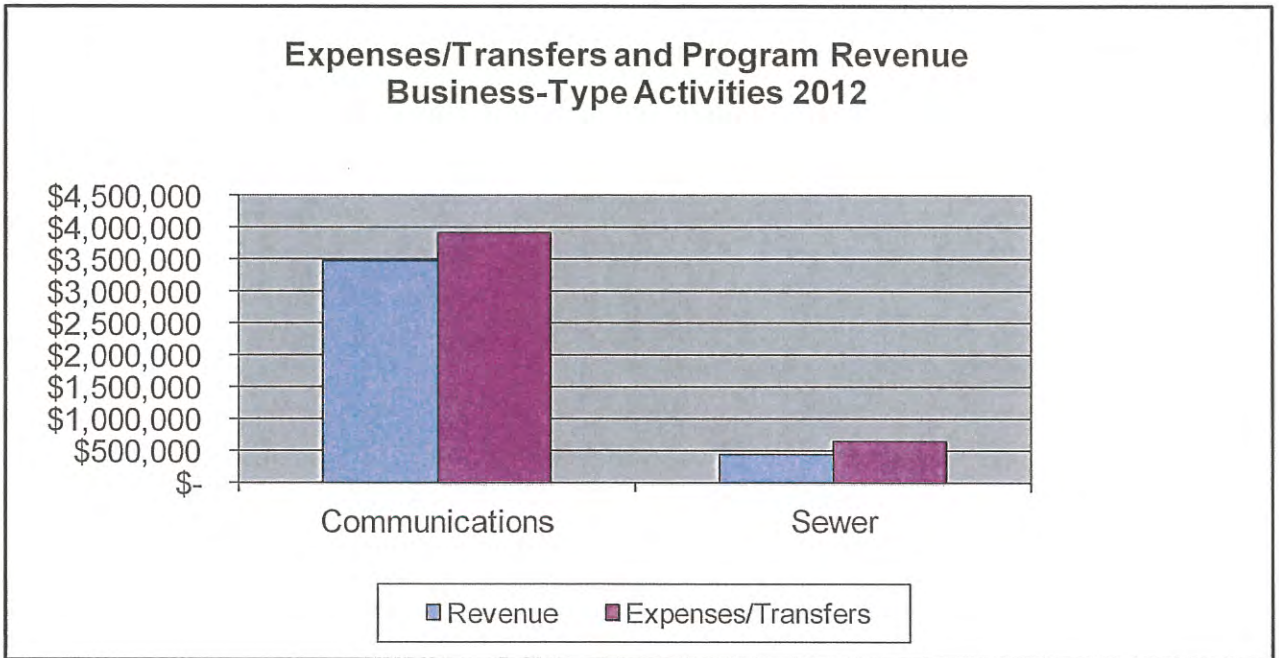
**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2012**

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

**Change in Net Position (Continued)**

**Business-Type Activities** – Business-type activities decreased the City's net position by \$612,816 in 2012 as compared to \$397,046 in 2011. Key element of this decrease is as follows:

- ◆ The Communications Fund showed a net loss of \$417,842 in 2012. Additional analysis of the Communications Fund can be found in its separately issued financial statements.



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**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2012**

**FINANCIAL ANALYSIS OF THE CITY'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 City'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 \$2,405,492, a decrease of \$45,559 in comparison with the prior year. Of this amount, 85% (\$1,974,980) 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 restricted by contractual or legal agreements with outside parties related to 2012 (\$285,507). In addition, a portion of unassigned/assigned fund balance has been assigned by the City Council for future years' capital outlay (\$445,949).

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 \$2,122,238. Total fund balance was \$2,208,601. 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 59% and 62% of total 2012 general fund expenditures, respectively.

The fund balance of the City's general fund increased by \$48,526 during the current fiscal year. Key factors in this increase are as follows:

- ◆ Total expenditures in the general fund increased \$863,263, or 32% as compared to 2011. The increase is due to significant capital outlay expenditures and bond issuance costs related to the refunding of debt during the current year.
- ◆ Total revenues in the general fund increased \$346,756 from 2011.

**Proprietary Funds** – The City's proprietary funds provide the same type of information found in the business activities portion of the 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 over budget by about 14%.

Expenditures exceeded budget by approximately \$912,392 due to bond issuance costs that were not budgeted for and an increase in capital outlay expenditures.

**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2012**

**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, 2012, amounts to \$23,533,566 (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		2012
	2012	2011	2012	2011	Total
Land	\$ 853,806	\$ 726,208	\$ 15,367	\$ 15,367	\$ 869,173
Construction in Progress	91,843	6,437	-	16,186	91,843
Buildings	3,925,546	3,868,321	3,865,042	3,965,946	7,790,588
Improvements Other than Buildings	252,957	287,268	17,743	17,743	270,700
Machinery and Equipment	1,039,554	1,125,578	1,529,541	1,933,754	2,569,095
Infrastructure	5,396,854	5,525,188	6,545,313	6,938,250	11,942,167
<b>Total</b>	<b>\$ 11,560,560</b>	<b>\$ 11,539,000</b>	<b>\$ 11,973,006</b>	<b>\$ 12,887,246</b>	<b>\$ 23,533,566</b>

**Long-Term Liabilities**

**Governmental Activities** – At the end of the current fiscal year, the City's governmental activities had total debt outstanding of \$3,184,580. Of this amount, \$2,927,241 is debt for which the City is liable and which will be paid with taxes and special assessments. The outstanding principal on various equipment leases is \$53,493. The principal on outstanding leases due to the EDA component unit for the emergency service center and public works facility is \$40,000. Additionally, the City owed \$84,196 in compensated absences to its employees and an estimated \$79,650 in other postemployment benefits at December 31, 2012.

**Governmental Activities Outstanding Long-Term Liabilities**

	2012	2011
General Obligation Bonds	\$ 2,927,241	\$ 1,354,777
Capital Leases	93,493	2,495,495
Compensated Absences	84,196	75,910
Other Postemployment Benefits Payable	79,650	58,076
<b>Total</b>	<b>\$ 3,184,580</b>	<b>\$ 3,984,258</b>

**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2012**

**CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)**

**Long-Term Liabilities (Continued)**

**Governmental Activities (Continued)** – The City's total governmental activities debt and other long-term liabilities decreased by \$799,678 (20%) 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 \$7,157,650, consisting of general obligation, revenue bonds and other long-term liabilities. This increase of \$1,510,841 (27%) from 2011 reflects the City's issuing refunding bonds, proceeds of which were escrowed until the February 1, 2014 call date, at which time the refunded debt of \$1,775,000 will be removed from the City's books. 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 \$39,025. This debt will be paid from proceeds of the long-term lease payment receivable from the primary government in the amount of \$40,000.

**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 7.10% from \$1,198,360,000 to \$1,113,271,400 for taxes payable in 2013. This decrease in taxable market value has resulted in a 1.60% increase in the City tax rate from 21.28% to 19.50% for taxes payable 2013.

These factors were taken into account by the City of Crosslake when preparing the 2013 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.

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## **BASIC FINANCIAL STATEMENTS**

**CITY OF CROSSLAKE, MINNESOTA  
STATEMENT OF NET POSITION  
DECEMBER 31, 2012**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Economic Development Authority
<b>ASSETS</b>				
Cash and Investments	\$ 2,398,089	\$ 340,491	\$ 2,738,580	\$ -
Receivables				
Taxes	143,497	12,704	156,201	-
Accounts	34,243	119,924	154,167	-
Special Assessments	72,301	-	72,301	-
Connection Charges	-	120,231	120,231	-
Accrued Interest	-	3,330	3,330	-
Due from Other Governments	6,932	-	6,932	-
Materials and Supplies	-	63,551	63,551	-
Prepayments	27,721	49,919	77,640	-
Long-Term Receivables	-	-	-	40,000
Deferred Charges, Net of Amortization	53,039	68,883	121,922	603
Other Investments	-	49,800	49,800	-
Restricted, Designated and Long-Term Assets				
Cash and Investments	-	3,985,699	3,985,699	329,645
Loans Receivable	-	-	-	101,039
Capital Assets				
Land and Construction In Progress	945,649	15,367	961,016	-
Other Capital Assets, Net of Depreciation	10,614,911	11,957,639	22,572,550	-
Total Assets	14,296,382	16,787,538	31,083,920	471,287
<b>LIABILITIES</b>				
Current Liabilities				
Accounts Payable	27,813	149,903	177,716	6,559
Accrued Liabilities	43,590	71,640	115,230	-
Unearned Revenue	13,816	-	13,816	-
Accrued Interest Payable	33,784	51,776	85,560	138
Due to Other Governments	24,711	-	24,711	-
Long-Term Liabilities				
Due within One Year	589,476	430,956	1,020,432	39,025
Due in More than One Year, Net of Unamortized Discount	2,595,104	6,726,694	9,321,798	-
Total Liabilities	3,328,294	7,430,969	10,759,263	45,722
<b>NET POSITION</b>				
Net Investment in Capital Assets	8,539,826	6,801,261	15,341,087	-
Restricted for:				
Tax Increment Financing	3,586	-	3,586	-
Economic Development	-	-	-	424,125
Construction	-	16,237	16,237	-
Debt Service	292,316	502,222	794,538	1,440
Revenue Bond Reserve	-	455,000	455,000	-
Unrestricted	2,132,360	1,581,849	3,714,209	-
Total Net Position	\$ 10,968,088	\$ 9,356,569	\$ 20,324,657	\$ 425,565

See accompanying Notes to the Financial Statements.

**CITY OF CROSSLAKE, MINNESOTA  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2012**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	\$ 1,261,659	\$ 124,912	\$ 108,632	\$ -
Public Safety	801,712	106,350	80,804	-
Public Works	571,109	149,566	-	15,000
Culture and Recreation	437,852	61,481	500	1,589
Economic Development	36,545	-	-	-
Debt Service	124,174	-	309,233	16,415
Total Governmental Activities	<u>3,233,051</u>	<u>442,309</u>	<u>499,169</u>	<u>33,004</u>
Business-Type Activities				
Communications	3,632,122	3,471,272	-	-
Sewer	535,478	202,175	-	7,988
Total Business-Type Activities	<u>4,167,600</u>	<u>3,673,447</u>	<u>-</u>	<u>7,988</u>
Total Primary Government	<u>\$ 7,400,651</u>	<u>\$ 4,115,756</u>	<u>\$ 499,169</u>	<u>\$ 40,992</u>
Component Unit				
Economic Development Authority	<u>\$ 284,605</u>	<u>9,031</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues

Taxes

Property Taxes, Levied for General Purpose

Other Taxes

Intergovernmental Revenues

Unrestricted Investment Earnings

Gain on Sale of Capital Assets

Miscellaneous

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning of Year

Net Position - End of Year

Net (Expense) Revenue and Changes in Net Assets

Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Economic Development Authority
\$ (1,028,115)	\$ -	\$ (1,028,115)	\$ -
(614,558)	-	(614,558)	-
(406,543)	-	(406,543)	-
(374,282)	-	(374,282)	-
(36,545)	-	(36,545)	-
201,474	-	201,474	-
<u>(2,258,569)</u>	<u>-</u>	<u>(2,258,569)</u>	<u>-</u>
-	(160,850)	(160,850)	-
<u>-</u>	<u>(325,315)</u>	<u>(325,315)</u>	<u>-</u>
<u>-</u>	<u>(486,165)</u>	<u>(486,165)</u>	<u>-</u>
<u>(2,258,569)</u>	<u>(486,165)</u>	<u>(2,744,734)</u>	<u>-</u>
-	-	-	(275,574)
2,532,364	223,482	2,755,846	-
38,831	-	38,831	-
184	-	184	-
12,771	39,427	52,198	2,471
880	-	880	-
39,250	-	39,250	-
389,560	(389,560)	-	-
<u>3,013,840</u>	<u>(126,651)</u>	<u>2,887,189</u>	<u>2,471</u>
755,271	(612,816)	142,455	(273,103)
10,212,817	9,969,385	20,182,202	698,668
<u>\$ 10,968,088</u>	<u>\$ 9,356,569</u>	<u>\$ 20,324,657</u>	<u>\$ 425,565</u>

**CITY OF CROSSLAKE, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2012**

	GENERAL FUND	TAX INCREMENT FINANCING FUND	DEBT SERVICE FUND
<b>ASSETS</b>			
Cash and Investments	\$ 2,118,379	\$ 3,586	\$ 276,124
Receivables			
Taxes	125,123	-	18,374
Special Assessments	40,699	-	31,602
Accounts	34,243	-	-
Due from Other Funds	77,869	-	-
Due from Other Governments	6,932	-	-
Advances to Other Funds	58,642	-	-
Prepayments	27,721	-	-
Total Assets	<u>\$ 2,489,608</u>	<u>\$ 3,586</u>	<u>\$ 326,100</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Accounts Payable	\$ 17,066	\$ -	\$ -
Accrued Liabilities	43,590	-	-
Deferred Revenue	136,998	-	44,179
Due to Other Funds	-	-	-
Due to Other Governments	24,711	-	-
Advances from Other Funds	58,642	-	-
Total Liabilities	281,007	-	44,179
Fund Balances (Deficit)			
Nonspendable for:			
Prepayments	27,721	-	-
Advance	58,642	-	-
Restricted for:			
Debt Service	-	-	281,921
Tax Increment Financing	-	3,586	-
Assigned for:			
Capital Outlay	445,949	-	-
Unassigned:			
General Fund	1,676,289	-	-
Capital Projects Fund	-	-	-
Total Fund Balances (Deficit)	<u>2,208,601</u>	<u>3,586</u>	<u>281,921</u>
Total Liabilities and Fund Balances	<u>\$ 2,489,608</u>	<u>\$ 3,586</u>	<u>\$ 326,100</u>

See accompanying Notes to Financial Statements.

LIBRARY CONSTRUCTION FUND	CAPITAL PROJECTS FUND	TOTAL GOVERNMENTAL FUNDS
\$ -	\$ -	\$ 2,398,089
-	-	143,497
-	-	72,301
-	-	34,243
-	-	77,869
-	-	6,932
58,642	-	117,284
-	-	27,721
<u>\$ 58,642</u>	<u>\$ -</u>	<u>\$ 2,877,936</u>

\$ -	\$ 10,747	\$ 27,813
-	-	43,590
-	-	181,177
-	77,869	77,869
-	-	24,711
58,642	-	117,284
58,642	88,616	472,444
-	-	27,721
58,642	-	117,284
-	-	281,921
-	-	3,586
-	-	445,949
-	-	1,676,289
<u>(58,642)</u>	<u>(88,616)</u>	<u>(147,258)</u>
-	(88,616)	2,405,492
<u>\$ 58,642</u>	<u>\$ -</u>	<u>\$ 2,877,936</u>

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**CITY OF CROSSLAKE, MINNESOTA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2012**

**TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS** **\$ 2,405,492**

Total net assets reported for governmental activities in the statement of net position 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	\$	853,806	
Construction in Progress		91,843	
Buildings, Net of \$1,341,240 Accumulated Depreciation		3,925,545	
Machinery, Vehicles, Furniture and Equipment, Net of \$1,695,082 Accumulated Depreciation		1,057,234	
Improvements, Net of \$385,318 Accumulated Depreciation		235,278	
Infrastructure, Net of \$2,747,363 Accumulated Depreciation		5,396,854	11,560,560

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. 167,361

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 position. (33,784)

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 position.

Bonds Payable		(3,095,000)	
Unamortized Discounts/ Premiums		(31,682)	
Unamortized Bond Issuance Costs		53,039	
Compensated Absences Payable		(84,196)	
Loss on Refunding Bonds		199,441	
Other Postemployment Benefits Payable		(79,650)	
Obligations Under Capital Leases		(93,493)	(3,131,541)

**TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES** **\$ 10,968,088**



**CITY OF CROSSLAKE, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2012**

	GENERAL FUND	TAX INCREMENT FINANCING FUND	DEBT SERVICE FUND
<b>REVENUES</b>			
Taxes	\$ 2,188,427	\$ -	\$ 322,947
Tax Increments	-	38,831	-
Licenses and Permits	70,850	-	-
Intergovernmental	180,940	-	-
Charges for Services	338,115	-	-
Fines and Forfeits	35,335	-	-
Special Assessments	11,096	-	82,279
Interest	10,476	-	364
Contributions and Donations	332,988	-	-
Miscellaneous	34,528	-	5,156
Total Revenues	3,202,755	38,831	410,746
<b>EXPENDITURES</b>			
Current			
General Government	803,303	-	-
Public Safety	619,036	-	-
Public Works	428,373	-	-
Culture and Recreation	408,878	-	-
Economic Development	-	36,545	-
Miscellaneous	77,016	-	139
Capital Outlay	643,332	-	-
Debt Service			
Principal Retirement	332,002	-	345,000
Bond Issuance Costs	42,697	-	7,941
Interest and Fiscal Charges	231,888	-	75,371
Total Expenditures	3,586,525	36,545	428,451
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(383,770)	2,286	(17,705)
<b>OTHER FINANCING SOURCES (USES)</b>			
Bond Proceeds	2,070,000	-	385,000
Bond Premium	37,335	-	9,950
Principal Payment using Refunding Bond Proceeds	(2,070,000)	-	(385,000)
Sales of Capital Assets	5,401	-	-
Transfers In	389,560	-	-
Total Other Financing Sources (Uses)	432,296	-	9,950
<b>NET CHANGE IN FUND BALANCES</b>	48,526	2,286	(7,755)
Fund Balances (Deficit) - Beginning of Year	2,160,075	1,300	289,676
<b>FUND BALANCES (DEFICIT) - END OF YEAR</b>	\$ 2,208,601	\$ 3,586	\$ 281,921

See accompanying Notes to Financial Statements.

LIBRARY CONSTRUCTION FUND	CAPITAL PROJECTS FUND	TOTAL GOVERNMENTAL FUNDS
\$ -	\$ -	\$ 2,511,374
-	-	38,831
-	-	70,850
-	-	180,940
-	-	338,115
-	-	35,335
-	-	93,375
-	-	10,840
-	-	332,988
-	-	39,684
-	-	3,652,332
-	-	803,303
-	-	619,036
-	-	428,373
-	-	408,878
-	-	36,545
-	-	77,155
-	88,616	731,948
-	-	677,002
-	-	50,638
-	-	307,259
-	88,616	4,140,137
-	(88,616)	(487,805)
-	-	2,455,000
-	-	47,285
-	-	(2,455,000)
-	-	5,401
-	-	389,560
-	-	442,246
-	(88,616)	(45,559)
-	-	2,451,051
\$ -	\$ (88,616)	\$ 2,405,492

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**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, 2012**

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** \$ (45,559)

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.

Capital Outlay	\$ 762,580	
Disposal of Capital Assets - Net Book Value	(4,522)	
Depreciation Expense	<u>(736,499)</u>	21,559

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.

Principal Payments of Capital Leases	<u>2,402,002</u>	2,402,002
--------------------------------------	------------------	-----------

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	730,000	
Bond Proceeds	(2,455,000)	
Change in Accrued Interest Expense for General Obligation Bonds	(8,778)	
Loss on Refunding Bonds	219,385	
Issuance Costs	50,638	
Bond Premium	(47,285)	
Amortization of Bond Issuance Costs	(7,819)	
Amortization of Bond Premium	4,299	
Amortization of Bond Discount	(3,919)	
Amortization of Loss on Refunding Bonds	<u>(19,944)</u>	(1,538,423)

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		(8,285)
Change in Other Postemployment Benefits		(21,574)

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, 2011	(221,810)	
Deferred Revenue - December 31, 2012	<u>167,361</u>	<u>(54,449)</u>

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** \$ 755,271

*See accompanying Notes to Financial Statements.*

**CITY OF CROSSLAKE, MINNESOTA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2012**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	COMMUNICATIONS	SEWER	TOTALS
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$ 340,491	\$ -	\$ 340,491
Receivables			
Accounts	103,459	16,465	119,924
Accrued Interest	3,330	-	3,330
Taxes	-	4,317	4,317
Connection Charges	-	21,000	21,000
Materials and Supplies	63,551	-	63,551
Prepayments	47,840	2,079	49,919
Total Current Assets	558,671	43,861	602,532
<b>NONCURRENT ASSETS</b>			
Investments, including Board Designated	1,113,315	-	1,113,315
Taxes Receivable	-	8,387	8,387
Restricted Assets			
Cash and Cash Equivalents	454,825	401,195	856,020
Investments	169,215	1,847,149	2,016,364
Connection Charges Receivable	-	99,231	99,231
Other Investments	49,800	-	49,800
Deferred Charges, Net of Amortization	20,093	48,790	68,883
Capital Assets			
Land	6,654	8,713	15,367
Building and Improvements	9,745,812	3,690,644	13,436,456
Machinery and Equipment	6,510,478	253,681	6,764,159
Sanitary Sewers	-	3,080,700	3,080,700
Subtotal Capital Assets	16,262,944	7,033,738	23,296,682
Less: Accumulated Depreciation	(9,668,122)	(1,655,554)	(11,323,676)
Net Capital Assets	6,594,822	5,378,184	11,973,006
Total Noncurrent Assets	8,402,070	7,782,936	16,185,006
Total Assets	8,960,741	7,826,797	16,787,538

See accompanying Notes to Financial Statements.

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	COMMUNICATIONS	SEWER	TOTALS
<b>LIABILITIES AND NET POSITION</b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable	\$ 145,735	\$ 4,168	\$ 149,903
Salaries and Wages Payable	-	3,428	3,428
Advance Payments	20,842	-	20,842
Customer Deposits	46,959	411	47,370
Accrued Compensated Absences	-	5,956	5,956
Bonds Payable	300,000	-	300,000
Total Current Liabilities	<u>513,536</u>	<u>13,963</u>	<u>527,499</u>
<b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>			
Accrued Interest Payable	-	51,776	51,776
Revenue Bonds Payable	-	125,000	125,000
Total Current Liabilities Payable from Restricted Assets	-	<u>176,776</u>	<u>176,776</u>
<b>LONG-TERM LIABILITIES</b>			
Bonds Payable (Net of Unamortized Bond Discounts)	2,866,452	3,761,235	6,627,687
Accrued Compensated Absences	-	12,194	12,194
Other Postemployment Benefits Payable	81,271	5,542	86,813
Total Long-Term Liabilities	<u>2,947,723</u>	<u>3,778,971</u>	<u>6,726,694</u>
Total Liabilities	<u>3,461,259</u>	<u>3,969,710</u>	<u>7,430,969</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	3,428,370	3,372,891	6,801,261
Restricted For:			
Debt Service	169,040	333,182	502,222
Revenue Bond Reserve	455,000	-	455,000
Construction Deposits	-	16,237	16,237
Unrestricted	<u>1,447,072</u>	<u>134,777</u>	<u>1,581,849</u>
Total Net Position	<u>\$ 5,499,482</u>	<u>\$ 3,857,087</u>	<u>\$ 9,356,569</u>

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**CITY OF CROSSLAKE, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2012**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	COMMUNICATIONS	SEWER	TOTALS
<b>OPERATING REVENUES</b>			
Sales and Charges for Services	\$ 3,471,272	202,175	\$ 3,673,447
<b>OPERATING EXPENSES</b>			
Personal Services	-	109,110	109,110
Supplies	-	14,402	14,402
Repairs and Maintenance	-	40,324	40,324
Other Services and Charges	-	62,573	62,573
Plant Specific	418,119	-	418,119
Depreciation	988,404	200,468	1,188,872
Plant Support	392,576	-	392,576
Customer	320,503	-	320,503
Signal Purchases	607,772	-	607,772
Other Nonregulated	313,610	-	313,610
General and Administrative	416,216	-	416,216
Total Operating Expenses	<u>3,457,200</u>	<u>426,877</u>	<u>3,884,077</u>
<b>OPERATING INCOME (LOSS)</b>	14,072	(224,702)	(210,630)
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Property Taxes	-	223,482	223,482
Investment Earnings	18,120	4,943	23,063
Interest Expense	(174,922)	(101,604)	(276,526)
Miscellaneous Revenues	-	14,267	14,267
Bond Issuance Costs	-	(6,997)	(6,997)
Net Increase in the Fair Value of Investments	2,097	-	2,097
Total Nonoperating Revenues (Expenses)	<u>(154,705)</u>	<u>134,091</u>	<u>(20,614)</u>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS</b>	(140,633)	(90,611)	(231,244)
<b>CAPITAL CONTRIBUTIONS</b>	-	7,988	7,988
<b>TRANSFERS OUT</b>	<u>(277,209)</u>	<u>(112,351)</u>	<u>(389,560)</u>
<b>CHANGE IN NET POSITION</b>	(417,842)	(194,974)	(612,816)
Net Position - Beginning of Year	<u>5,917,324</u>	<u>4,052,061</u>	<u>9,969,385</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 5,499,482</u>	<u>\$ 3,857,087</u>	<u>\$ 9,356,569</u>

See accompanying Notes to Financial Statements.



**CITY OF CROSSLAKE, MINNESOTA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED DECEMBER 31, 2012**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	COMMUNICATIONS	SEWER	TOTALS
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash Received from Customers	\$ 2,431,468	\$ 201,766	\$ 2,633,234
Cash Received from Others	1,041,489	-	1,041,489
Cash Paid to Employees for Services	(1,023,961)	(104,458)	(1,128,419)
Cash Paid to Suppliers for Goods and Services	(1,445,096)	(115,723)	(1,560,819)
Net Cash Provided (Used) by Operating Activities	1,003,900	(18,415)	985,485
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Miscellaneous Revenues	-	14,267	14,267
Transfers to Other Funds	(277,209)	(112,351)	(389,560)
Increase (Decrease) in Customer Deposits	12,722	-	12,722
Net Cash Provided (Used) by Noncapital Financing Activities	(264,487)	(98,084)	(362,571)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and Construction of Capital Assets	(271,594)	(6,268)	(277,862)
Proceeds from Sale of Property, Plant and Equipment	3,081	-	3,081
Decrease in Materials and Supplies	5,809	-	5,809
Property Taxes Received	-	221,138	221,138
Proceeds of Crossover Refunding Bonds	-	1,855,000	1,855,000
Collection of Connection Charges	-	54,865	54,865
Interest Paid	(165,542)	(99,218)	(264,760)
Principal Payments on Long-Term Debt	(285,000)	(120,000)	(405,000)
Net Cash Provided (Used) by Capital and Related Financing Activities	(713,246)	1,905,517	1,192,271
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net Purchases of Restricted and Unrestricted Investment Securities	(46,612)	-	(46,612)
Purchase of Investments	(5,259)	(1,847,149)	(1,852,408)
Interest Received	26,890	4,943	31,833
Net Cash Provided (Used) by Investing Activities	(24,981)	(1,842,206)	(1,867,187)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
	1,186	(53,188)	(52,002)
Cash and Cash Equivalents - Beginning of Year	339,305	454,383	793,688
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 340,491</b>	<b>\$ 401,195</b>	<b>\$ 741,686</b>

See accompanying Notes to Financial Statements.

**CITY OF CROSSLAKE, MINNESOTA  
STATEMENT OF CASH FLOWS (CONTINUED)  
PROPRIETARY FUNDS  
YEAR ENDED DECEMBER 31, 2012**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	COMMUNICATIONS	SEWER	TOTALS
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating Income (Loss)	\$ 14,072	\$ (224,702)	\$ (210,630)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Depreciation	988,404	200,468	1,188,872
(Increase) Decrease in Assets:			
Accounts Receivable	5	(409)	(404)
Other Receivables	6,055	-	6,055
Prepayments	(14,175)	(32)	(14,207)
Increase (Decrease) in Liabilities:			
Accounts Payable	(6,305)	29	(6,276)
Accrued Liabilities	-	997	997
Accrued Compensated Absences	-	3,655	3,655
Advance Payments	(4,381)	-	(4,381)
Postemployment Benefits Payable	20,225	1,579	21,804
Net Cash Provided (Used) by Operating Activities	\$ 1,003,900	\$ (18,415)	\$ 985,485
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION</b>			
Current Assets			
Cash and Cash Equivalents	\$ 340,491	\$ -	\$ 340,491
Restricted Assets			
Cash and Investments	1,113,315	2,248,344	3,361,659
Other Investments	49,800	-	49,800
Less: Investments not Meeting Definition of Cash Equivalents	(1,163,115)	(1,847,149)	(3,010,264)
Total Cash and Cash Equivalents	\$ 340,491	\$ 401,195	\$ 741,686

See accompanying Notes to Financial Statements.

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**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**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, 2012**

**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 position 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, 2012**

**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, 2012**

**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.

The City of Crosslake's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP are used by the City are discussed below.

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 Position 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, 2012**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

D. Assets, Liabilities, and Net Position 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, 2012**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

D. Assets, Liabilities, and Net Position 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, 2012**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

D. Assets, Liabilities, and Net Position 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 position. 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, 2012**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

D. Assets, Liabilities, and Net Position 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**

**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 position 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, 2012**

**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 exceeded appropriations by \$736,776. Tax Increment Financing fund expenditures exceeded appropriations by \$1,545. The overages were considered by City management to be the result of necessary expenditures critical to operations and were 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, 2012 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, 2012**

**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, 2012 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	\$ 1,539,937	\$ 1,539,937	\$ -	\$ -	\$ -
State and Local Government Securities	1,847,149	-	1,847,149	-	-
Money Market Funds	739,637	739,637	-	-	-
U.S. Treasury Notes	463,376	30,417	215,795	74,012	143,152
U.S. Treasury Bond	96,495	-	-	-	96,495
Federal National Mortgage Association Notes	136,263	-	34,452	101,053	758
Federal Home Loan Mortgage Corporation Notes	20,826	20,826	-	-	-
Tennessee Valley Authority Preferred Stock	90,194	-	-	-	90,194
Total	<u>\$ 4,933,877</u>	<u>\$ 2,330,817</u>	<u>\$ 2,097,396</u>	<u>\$ 175,065</u>	<u>\$ 330,599</u>

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

A. 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, 2012, 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 either backed by the full faith and credit of the U.S. Government or rated AA or AAA by national rating agencies.. The City also 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	\$ 2,169,847
Investments	4,933,877
Total Cash and Investments	<u>\$ 7,103,724</u>
Cash and Investments - Governmental Funds	\$ 2,398,089
Cash and Investments - Proprietary Funds	340,491
Restricted, Designated, and Long-Term	
Cash and Investments	
Business-Type (Note 3,A,3)	3,985,699
Component Unit	329,645
Other Investments - Proprietary Funds	49,800
Total Cash and Investments	<u>\$ 7,103,724</u>

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**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, 2012, restricted and designated cash and investments consisted of the following:

Restricted Assets - Cash and Investments	
Restricted for Debt Service Covenants - Sewer Fund	\$ 2,248,344
Restricted for Debt Service - Communications Fund	455,000
Total Restricted Cash and Investments	2,703,344
Restricted Assets - Investments	
Restricted for Debt Service Covenants - Communications Fund	169,040
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	60,668
New Technology Reserve	85,767
Vehicle Reserve	17,955
Total Designated Investments	421,969
Long-Term Investments with No Designation	691,346
Total Investments, including Board Designated	1,113,315
Total Restricted and Designated Cash and Investments	\$ 3,985,699

**4. Interfund Receivables, Payables, and Transfers**

At December 31, 2012, due to/from other funds were as follows:

Fund	Due From Other Funds	Due To Other Funds
General Fund	\$ 77,869	\$ -
Capital Fund	-	77,869
Total	\$ 77,869	\$ 77,869

The interfund receivable/payable noted above is related to the elimination of negative cash balances at year-end.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

A. Assets (Continued)

**4. Interfund Receivables, Payables, and Transfers (Continued)**

At December 31, 2012, advances due from/to other funds were as follows:

Receivable Fund	Payable Fund	Amount
Library Fund	General Fund	\$ 58,642
General Fund	Library Fund	58,642

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, 2012, were as follows:

	Transfer In:
	<u>Primary Government</u>
	General Fund
	<u>Fund</u>
Transfer Out:	
<u>Primary Government</u>	
Communications Fund	\$ 277,209
Sewer	112,351
Total	<u>\$ 389,560</u>

The transfer from the Sewer Fund to the General Fund was council approved and is to provide funding for General Fund capital expenditures. 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.

**5. Loans Receivable**

The EDA component unit had the following notes receivable as of December 31, 2012:

**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. \$ 50,649

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. 50,390

Total Commercial Loans Receivable \$ 101,039



**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

A. Assets (Continued)

**6. Capital Assets**

Capital asset activity for the Primary Government for the year ended December 31, 2012, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital Assets, Not Being Depreciated				
Land	\$ 726,208	\$ 127,598	\$ -	\$ 853,806
Construction in Progress	6,437	91,843	(6,437)	91,843
Total Capital Assets, Not Being Depreciated:	<u>732,645</u>	<u>219,441</u>	<u>(6,437)</u>	<u>945,649</u>
Capital Assets, Being Depreciated				
Buildings	5,209,561	206,550	-	5,416,112
Improvements Other Than Buildings	672,586	-	(22,200)	650,386
Machinery and Equipment	2,820,660	156,866	(73,014)	2,904,512
Infrastructure	8,272,551	186,160	-	8,458,711
Total Capital Assets, Being Depreciated	<u>16,975,358</u>	<u>549,576</u>	<u>(95,214)</u>	<u>17,429,721</u>
Less Accumulated Depreciation for				
Buildings	(1,341,240)	(149,326)	-	(1,490,566)
Improvements Other Than Buildings	(385,318)	(29,790)	17,679	(397,429)
Machinery and Equipment	(1,695,082)	(242,889)	73,013	(1,864,958)
Infrastructure	(2,747,363)	(314,494)	-	(3,061,857)
Total Accumulated Depreciation	<u>(6,169,003)</u>	<u>(736,499)</u>	<u>90,692</u>	<u>(6,814,810)</u>
Total Capital Assets, Being Depreciated, Net	<u>10,806,355</u>	<u>(186,923)</u>	<u>(4,522)</u>	<u>10,614,911</u>
Governmental Activities Capital Assets, Net	<u>\$ 11,539,000</u>	<u>\$ 32,518</u>	<u>\$ (10,959)</u>	<u>\$ 11,560,560</u>

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**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, 2012, is as follows:

	Balance	Increases	Adjustments	Balance
<b>BUSINESS-TYPE ACTIVITIES</b>				
Capital Assets, Not Being Depreciated				
Land	\$ 15,367	\$ -	\$ -	\$ 15,367
Construction in Progress	16,186	-	(16,186)	-
Total Capital Assets, Not Being Depreciated	31,553	-	(16,186)	15,367
Capital Assets, Being Depreciated				
Buildings and Improvements	5,085,573	28,024	-	5,113,597
Machinery and Equipment	6,860,506	165,005	(267,620)	6,757,891
Communications Infrastructure	6,614,596	41,158	(4,718)	6,651,036
CATV Infrastructure	1,609,838	70,720	(2,467)	1,678,091
Sanitary Sewers	3,080,700	-	-	3,080,700
Total Capital Assets, Being Depreciated	23,251,213	304,907	(274,805)	23,281,315
Less Accumulated Depreciation For				
Buildings and Improvements	(1,101,884)	(128,928)	-	(1,230,812)
Machinery and Equipment	(4,926,752)	(559,214)	257,616	(5,228,350)
Communications Infrastructure	(2,545,898)	(308,382)	385	(2,853,895)
CATV Infrastructure	(1,195,025)	(106,529)	2,862	(1,298,692)
Sanitary Sewers	(625,961)	(85,966)	-	(711,927)
Total Accumulated Depreciation	(10,395,520)	(1,189,019)	260,863	(11,323,676)
Total Capital Assets, Being Depreciated, Net	12,855,693	(884,112)	(13,942)	11,957,639
Business-Type Activities Capital Assets, Net	<u>\$ 12,887,246</u>	<u>\$ (884,112)</u>	<u>\$ (30,128)</u>	<u>\$ 11,973,006</u>

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

Governmental Activities	
General Government	\$ 349,827
Public Safety	126,924
Public Works	172,866
Culture and Recreation	86,882
Total Depreciation Expense - Governmental Activities	<u>\$ 736,499</u>
Business-Type Activities	
Communications	\$ 988,551
Sewer	200,468
Total Depreciation Expense - Business-Type Activities	<u>\$ 1,189,019</u>

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**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>
<b>BONDED INDEBTEDNESS</b>			
<b>PRIMARY GOVERNMENT</b>			
<b>GENERAL OBLIGATION BONDS</b>			
G.O. Bonds, Series 2002	1.85-4.50%	\$ 825,000	\$ 50,000
G.O. Disposal System Bonds, Series 2003A	2.00-4.60%	2,870,000	2,030,000
G.O. Improvement Bonds, Series 2006B	3.65-4.10%	1,330,000	590,000
G.O. Refunding Bonds, Series 2012A	2.00-2.55%	4,310,000	4,310,000
<b>GENERAL OBLIGATION REVENUE BONDS</b>			
G.O. Telephone Utility Revenue Bond - 2006A	4.00-5.00%	4,770,000	3,230,000
Total Primary Government General Obligation Bonds		<u>\$ 14,105,000</u>	<u>\$ 10,210,000</u>
<b>COMPONENT UNIT</b>			
<b>REVENUE BONDS</b>			
Revenue Refunding Bonds, Series 2004	2.00-4.15%	<u>\$ 325,000</u>	<u>\$ 40,000</u>

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**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, 2012, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>PRIMARY GOVERNMENT</b>					
<b>GOVERNMENTAL ACTIVITIES</b>					
General Obligation Bonds	\$ 1,370,000	\$ 2,455,000	\$ (730,000)	\$ 3,095,000	\$ 480,000
Deferred Amounts - Issuance Discounts	(15,223)	-	3,919	(11,304)	-
Deferred Amounts - Issuance Premiums	-	47,285	(4,299)	42,986	-
Deferred Amounts - Loss on Refunding	-	(219,385)	19,944	(199,441)	-
Total Bonds Payable	1,354,777	2,282,900	(710,436)	2,927,241	480,000
Capital Leases Payable	2,495,495	-	(2,402,002)	93,493	57,318
Compensated Absences	75,910	63,220	(54,934)	84,196	52,158
Other Postemployment Benefits Payable	58,076	21,574	-	79,650	-
Governmental Activity Long-Term Liabilities	<u>\$ 3,984,258</u>	<u>\$ 2,367,694</u>	<u>\$ (3,167,372)</u>	<u>\$ 3,184,580</u>	<u>\$ 589,476</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Bonds Payable					
General Obligation Bonds	\$ 2,150,000	\$ 1,855,000	\$ (120,000)	\$ 3,885,000	\$ 125,000
Revenue Bonds	3,515,000	-	(285,000)	3,230,000	300,000
Deferred Amounts - Issuance Discounts	(97,695)	-	9,440	(88,255)	-
Deferred Amounts - Issuance Premiums	-	28,536	(2,594)	25,942	-
Total Bonds Payable	5,567,305	1,883,536	(398,154)	7,052,687	425,000
Compensated Absences	14,495	5,374	(1,719)	18,150	5,956
Other Postemployment Benefits Payable	65,009	21,804	-	86,813	-
Business-Type Activity Long-Term Liabilities	<u>\$ 5,646,809</u>	<u>\$ 1,910,714</u>	<u>\$ (399,873)</u>	<u>\$ 7,157,650</u>	<u>\$ 430,956</u>
<b>COMPONENT UNIT</b>					
Bonds Payable					
Lease Revenue Bonds	\$ 2,325,000	\$ -	\$ (2,325,000)	\$ -	\$ -
Revenue Refunding Bonds	85,000	-	(45,000)	40,000	40,000
Deferred Amounts - Issuance Discounts	(1,950)	-	975	(975)	-
Component Unit Long-Term Liabilities	<u>\$ 2,408,050</u>	<u>\$ -</u>	<u>\$ (2,369,025)</u>	<u>\$ 39,025</u>	<u>\$ 40,000</u>

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**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
2013	\$ 480,000	\$ 72,568	2013	\$ 125,000	\$ 122,314
2014	450,000	60,033	2014	1,905,000	117,690
2015	455,000	48,133	2015	170,000	38,005
2016	335,000	37,208	2016	170,000	34,605
2017	185,000	27,203	2017	175,000	31,155
2018-2022	980,000	78,006	2018-2022	935,000	100,646
2023	210,000	2,520	2023-2024	405,000	10,241
Total	\$ 3,095,000	\$ 325,669	Total	\$ 3,885,000	\$ 454,656

General Obligation Revenue Bonds		
	Business-Type Activities	
	Principal	Interest
2013	\$ 300,000	\$ 153,910
2014	310,000	140,410
2015	325,000	126,305
2016	340,000	111,355
2017	355,000	95,545
2018-2022	1,600,000	202,970
Total	\$ 3,230,000	\$ 830,495

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

	Principal	Interest
2013	\$ 40,000	\$ 1,660

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

B. Liabilities (Continued)

**1. Long-Term Debt (Continued)**

The City issued \$4,310,000 General Obligation Refunding Bonds, Series 2012A. The Bonds were issued for a current refunding of: 2004A Improvement Bonds of \$500,000; and a defeasance of 2003 Public Works Facility Bonds of \$2,325,000 (\$2,195,000 of which is still outstanding as of 12/31/12); and a crossover refunding of 2003A Improvement Bonds of \$1,775,000. The refunding bond proceeds were placed in an escrow account and used to purchase U.S. Government Securities. The total cash savings to the City attributable to the refunding and defeasance of these bonds is \$637,136 with a net present value savings of approximately \$340,756.

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 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	\$ 885,982
Equipment	220,461
Less: Accumulated Depreciation	(407,034)
Total	<u>\$ 699,409</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2012, were as follows:

2013	\$ 61,098
2014	19,438
2015	<u>18,922</u>
Total Minimum Lease Payments	99,458
Less: Amount Representing Interest	(5,965)
Present Value of Minimum Lease Payments	<u>\$ 93,493</u>

Of this balance, \$40,000 is owed to the EDA component unit for the financing related to the emergency services center.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**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, 2012**

**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, 2012**

**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](http://www.mnpera.org), by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

Funding Policy

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERP Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2012. PEPFF members are required to contribute 9.6% of their annual covered salary in 2012. In 2012, 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, 2012, 2011, and 2010, were \$104,581, \$106,689, and \$99,814, respectively. The City's contributions to the Public Employees Police and Fire Fund for the years ending December 31, 2012, 2011, and 2010 were \$41,915, \$41,569, and \$40,147, 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, 2012**

**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 2012 contribution to the plan was as follows:

State Aid flowed through City to Relief Association	\$ 28,090
Voluntary (non-required) Contribution from City	<u>15,437</u>
Total Contribution	<u><u>\$ 43,527</u></u>

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**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:

Description	% of Premium	Police and Fire Employees
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, 2012, there were no retirees receiving health benefits from the City's health plan.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**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 2012, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Annual Required Contribution (ARC):	\$ 45,356
Interest on Net OPEB Obligation	5,539
Adjustment to ARC	(7,517)
Annual OPEB Cost	<u>43,378</u>
Contributions During the Year	-
Increase in Net OPEB Obligation	<u>43,378</u>
Net OPEB - Beginning of the Year	123,085
Net OPEB - End of the Year	<u><u>\$ 166,463</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, 2012 were as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2012	\$ 43,378	\$ -	- %	\$ 166,463
December 31, 2011	40,379	-	-	123,085
December 31, 2010	41,039	-	-	82,706

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**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)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
01/01/12	\$ -	\$ 321,160	\$ 321,160	-	\$ 1,659,481	19.35%

**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, 2012 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 2.50%. 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, 2012**

**NOTE 6 OPERATING LEASE REVENUE**

The City leases 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 lease revenue is used to pay the debt service for the related capital lease. Future minimum lease payments to be received relating to the sublease are as follows:

2013	\$	109,340
2014		112,838
2015		110,983
2016		111,752
2017		112,467
2018-2022		560,742
2023		112,636
Total	\$	<u>1,230,758</u>

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## REQUIRED SUPPLEMENTARY INFORMATION



**CITY OF CROSSLAKE, MINNESOTA**  
**SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFIT PLAN**  
**YEAR ENDED DECEMBER 31, 2012**

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)
01/01/12	\$ -	\$ 321,160	\$ 321,160	- %	\$ 1,659,481	19.35%
01/01/09	-	259,196	259,196	-	1,707,490	15.18

**CITY OF CROSSLAKE, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**YEAR ENDED DECEMBER 31, 2012**

	BUDGET ORIGINAL AND FINAL	ACTUAL	VARIANCE WITH BUDGET OVER (UNDER)
<b>REVENUES</b>			
Taxes	\$ 2,172,749	\$ 2,188,427	\$ 15,678
Licenses and Permits	42,975	70,850	27,875
Intergovernmental	96,979	180,940	83,961
Charges for Services	187,710	338,115	150,405
Fines and Forfeits	20,000	35,335	15,335
Special Assessments	-	11,096	11,096
Interest	5,000	10,476	5,476
Contributions and Donations	200	332,988	332,788
Miscellaneous	289,000	34,528	(254,472)
Total Revenues	2,814,613	3,202,755	388,142
<b>EXPENDITURES</b>			
Current			
General Government			
Mayor and Council	30,666	29,785	(881)
Administration	310,271	299,539	(10,732)
Elections	4,300	3,967	(333)
Audit and Legal	43,000	48,785	5,785
Planning and Zoning	274,194	255,072	(19,122)
Other General Government	122,750	166,155	43,405
Total General Government	785,181	803,303	18,122
Public Safety			
Police	484,221	501,440	17,219
Ambulance	13,736	13,250	(486)
Fire Protection	72,247	104,346	32,099
Total Public Safety	570,204	619,036	48,832
Public Works			
Engineering	20,000	26,772	6,772
Public Way Maintenance	409,934	401,601	(8,333)
Total Public Works	429,934	428,373	(1,561)
Culture and Recreation			
Library	47,237	50,981	3,744
Recreation	350,539	357,897	7,358
Total Culture and Recreation	397,776	408,878	11,102
Miscellaneous			
Recycling	32,440	32,340	(100)
Firemen's Relief Association	47,750	43,527	(4,223)
Cemetery	2,060	1,149	(911)
Total Miscellaneous	82,250	77,016	(5,234)
Debt Service			
Principal	28,906	332,002	303,096
Interest and Fiscal Charges	3,882	231,888	228,006
Bond Issue Costs	-	42,697	42,697
Total Debt Service	32,788	606,587	573,799
Capital Outlay			
Capital Equipment	376,000	643,332	267,332
Total Expenditures	2,674,133	3,586,525	912,392

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, 2012**

	BUDGET ORIGINAL AND FINAL	ACTUAL	VARIANCE WITH BUDGET OVER (UNDER)
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	\$ 140,480	\$ (383,770)	\$ (524,250)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	-	389,560	389,560
Transfers Out	-	-	-
Principal Payment using Refunding Bond Proceeds	-	(2,070,000)	(2,070,000)
Bond Proceeds	-	2,070,000	2,070,000
Bond Premium	-	37,335	37,335
Sales of Capital Assets	-	5,401	5,401
Total Other Financing Sources (Uses)	-	432,296	432,296
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 140,480</u>	<u>48,526</u>	<u>\$ (91,954)</u>
Fund Balance - Beginning of Year		<u>2,160,075</u>	
<b>FUND BALANCE - END OF YEAR</b>		<u>\$ 2,208,601</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, 2012**

	BUDGET ORIGINAL AND FINAL	ACTUAL	VARIANCE WITH BUDGET OVER (UNDER)
<b>REVENUES</b>			
Tax Increments	\$ 35,000	\$ 38,831	\$ 3,831
<b>EXPENDITURES</b>			
Economic Development Current	35,000	36,545	1,545
<b>NET CHANGE IN FUND BALANCE</b>	-	2,286	2,286
Fund Balance - Beginning of Year	-	1,300	(1,300)
<b>FUND BALANCE - END OF YEAR</b>	\$ -	\$ 3,586	\$ 986

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED DECEMBER 31, 2012**

**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 \$736,776. Tax increment financing expenditures exceeded appropriations by \$1,545. The overage was considered by City management to be the result of necessary expenditures critical to operations and was approved by the Council.

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## SUPPLEMENTARY INFORMATION

**CITY OF CROSSLAKE, MINNESOTA  
 COMBINING BALANCE SHEET  
 ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT  
 DECEMBER 31, 2012**

	REVOLVING LOAN PROGRAM	EDA OPERATING FUND	TOTAL
<b>ASSETS</b>			
Restricted Cash and Cash Equivalents	\$ 329,645	\$ -	\$ 329,645
Loans Receivable	101,039	-	101,039
Long-Term Lease Receivable	-	40,000	40,000
Total Assets	\$ 430,684	\$ 40,000	\$ 470,684
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Accounts Payable	\$ 6,559	\$ -	\$ 6,559
Fund Balances			
Restricted for:			
Economic Development	424,125	-	424,125
Debt Service	-	40,000	40,000
Total Fund Balances	424,125	40,000	464,125
Total Liabilities and Fund Balances	\$ 430,684	\$ 40,000	\$ 470,684



**CITY OF CROSSLAKE, MINNESOTA**  
**RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION**  
**ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT**  
**DECEMBER 31, 2012**

	Fund Level Total	Adjustments	Statement of Net Position
<b>ASSETS</b>			
Restricted Cash and Cash Equivalents	\$ 329,645	\$ -	\$ 329,645
Loans Receivable	101,039	-	101,039
Deferred Charges, Net of Amortization	-	603 <sup>1</sup>	603
Long-Term Lease Receivable	40,000	-	40,000
Total Assets	\$ 470,684	603	471,287
<b>LIABILITIES</b>			
Liabilities			
Accounts Payable	\$ 6,559	-	6,559
Accrued Interest Payable	-	138 <sup>1</sup>	138
Long Term Liabilities			
Due Within One Year	-	39,025 <sup>1</sup>	39,025
Total Liabilities	6,559	39,163	45,722
<b>FUND BALANCES/NET POSITION</b>			
Restricted for:			
Economic Development	424,125	(424,125)	
Debt Service	40,000	(40,000)	
Total Fund Balances	464,125	(464,125)	
Total Liabilities and Fund Balances	\$ 470,684	(424,962)	
Net Position			
Restricted for Debt Service		1,440	1,440
Restricted for Economic Development		424,125	424,125
Total Net Position of Component Unit (Page 16)		\$ 425,565	\$ 425,565

<sup>1</sup> 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, 2012**

	REVOLVING LOAN PROGRAM	EDA OPERATING FUND	TOTAL
<b>REVENUES</b>			
Miscellaneous			
Lease Revenue	\$ -	\$ 3,885	\$ 3,885
Revolving Loan Interest	5,146	-	5,146
Interest	2,342	129	2,471
Total Miscellaneous Revenue	7,488	4,014	11,502
Total Revenue	7,488	4,014	11,502
<b>EXPENDITURES</b>			
Economic Development			
Professional Services	-	734	734
Other Services and Charges	10,013	-	10,013
Contribution to Primary Government	-	309,233	309,233
Debt Service			
Principal	-	2,370,000	2,370,000
Interest and Fiscal Charges	-	3,885	3,885
Total Expenditures	10,013	2,683,852	2,693,865
<b>NET CHANGE IN FUND BALANCES</b>	(2,525)	(2,679,838)	(2,682,363)
Fund Balances - Beginning of Year	426,650	2,719,838	3,146,488
<b>FUND BALANCES - END OF YEAR</b>	\$ 424,125	\$ 40,000	\$ 464,125

**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, 2012**

	Fund Level Total	Adjustments	Statement of Activities
Expenditures/Expenses	\$ 2,693,865	\$ (2,409,260) <sup>1</sup>	\$ 284,606
Program Revenues			
Charges for Services	9,031	-	9,031
Net Program Revenue (Expense)	(2,684,834)	2,409,260	(275,575)
General Revenues			
Unrestricted Investment Earnings	2,471	-	2,471
Change in Net Assets (Page 16)	(2,682,363)	2,409,260	(273,104)
Fund Balances/Net Position			
Beginning of Year	3,146,488	(2,447,820)	698,668
End of Year	\$ 464,125	\$ (38,560)	\$ 425,565

<sup>1</sup> 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 position.

Bond Principal Payments	\$ (2,370,000)
Amortization of Bond Issuance Costs	600
Amortization of Bond Discount	975
Net Decrease in Accrued Interest Related to Last Debt Service Payment	(40,835)
Total	\$ (2,409,260)

## OTHER REPORT SECTION



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## INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, 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, Minnesota, as of December 31, 2012 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued our report thereon dated May 13, 2013. Our report includes a reference to other auditors who audited the financial statements of Crosslake Communications, as described in our report on the City of Crosslake, Minnesota's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

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 which included the provisions of the *Minnesota Legal Compliance Audit Guide Political Subdivisions*.

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

In connections with our audit nothing came to our attentions that caused us to believe that the City of Crosslake, Minnesota failed to comply with provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Crosslake, Minnesota's noncompliance with the above-referenced provisions.

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

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Brainerd, Minnesota  
May 13, 2013



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