

CITY OF CROSSLAKE, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2013



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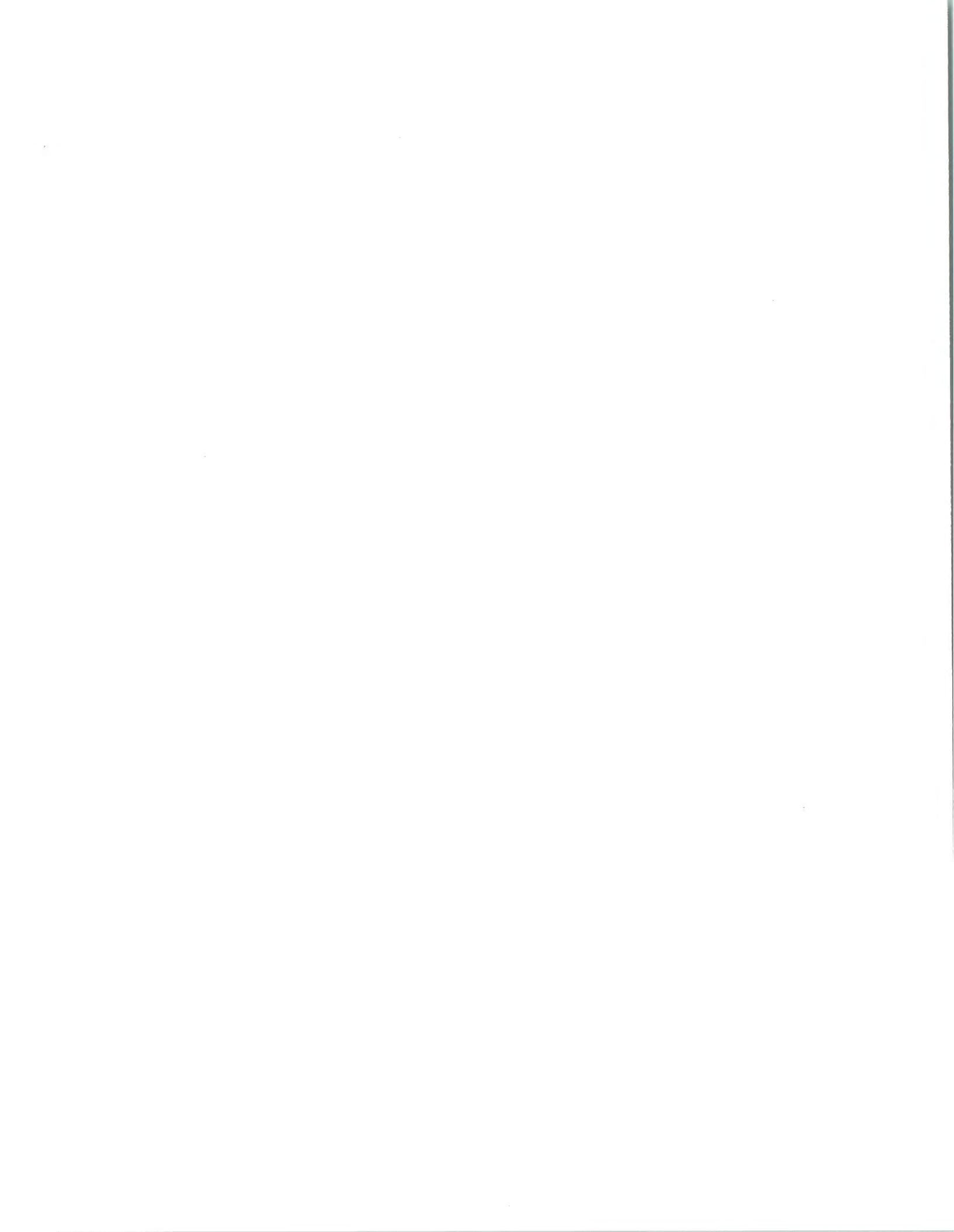
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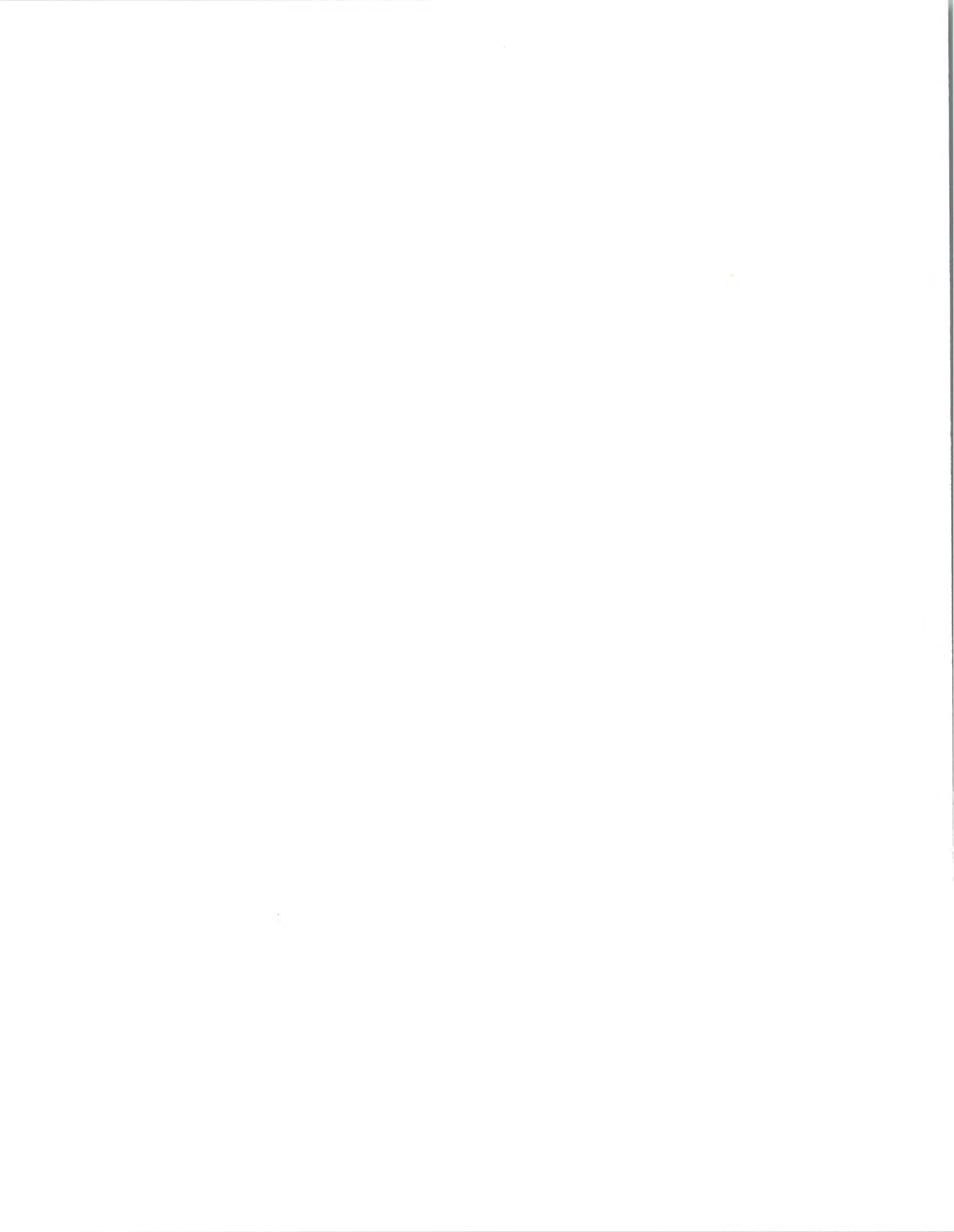
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INTRODUCTORY SECTION



**CITY OF CROSSLAKE, MINNESOTA
PRINCIPAL CITY OFFICIALS
DECEMBER 31, 2013**

ELECTED OFFICIALS

<u>Position</u>	<u>Term Expires</u>	<u>Name</u>
Mayor	12/31/2014	Darrell Schneider
Council Member	12/31/2014	Steve Roe
Council Member	12/31/2014	John Moengen
Council Member	12/31/2016	Mark Wessels
Council Member	12/31/2016	Gary Heacox

APPOINTED OFFICIALS

<u>Position</u>	<u>Name</u>
City Consultant	Dan Vogt
Finance Director/Treasurer	Mike Lyonais

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FINANCIAL SECTION

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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 is both a major fund and represents 52 percent, 59 percent, and 95 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, 2013, 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

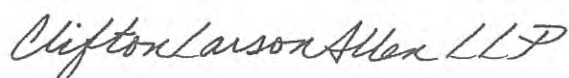
Required Supplementary Information

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 59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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
April 17, 2014

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**CITY OF CROSSLAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013**

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, 2013. 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, 2013, and the prior year, 2012, is also presented in the MD&A.

FINANCIAL HIGHLIGHTS

- ◆ The assets and deferred outflows of resources of the City exceeded its liabilities at the close of the fiscal year by \$20,279,641 (net position). Of this amount \$3,133,273 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ The City's total net position decreased during the fiscal year by \$45,016.
- ◆ As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,109,584, a decrease of \$295,908 in comparison with the prior year. Approximately 83% of this total amount, \$1,743,551, is available for spending at the City's discretion (unassigned/assigned fund balance). However, as stated below, \$228,523 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 \$1,743,551, or 51% of budgeted 2013 expenditures. The City Council has assigned \$228,523 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, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between the four 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, 2013**

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, 2013**

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, 2013**

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 and deferred outflows exceeded liabilities by \$20,279,641 at the close of the most recent fiscal year.

By far, the largest portion of the City's net position (69%) 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				2013 Total
	Governmental Activities		Business-Type Activities		
	2013	2012	2013	2012	
Current and Other Assets	\$ 2,432,050	\$ 2,735,822	\$ 4,616,738	\$ 4,814,532	\$ 7,048,788
Capital Assets	11,747,043	11,560,560	11,330,541	11,973,006	23,077,584
Total Assets	14,179,093	14,296,382	15,947,279	16,787,538	30,126,372
Deferred Outflows of Resources	179,497	-	-	-	179,497
Long-Term Liabilities Outstanding	2,830,720	3,184,580	6,763,015	7,157,650	9,593,735
Other Liabilities	132,835	143,714	299,658	273,319	432,493
Total Liabilities	2,963,555	3,328,294	7,062,673	7,430,969	10,026,228
Net Position					
Net Investment in Capital Assets	9,244,064	8,539,826	6,509,354	6,801,261	15,753,418
Restricted	372,860	295,902	1,020,090	973,459	1,392,950
Unrestricted	1,778,111	2,132,360	1,355,162	1,581,849	3,133,273
Total Net Position	<u>\$ 11,395,035</u>	<u>\$ 10,968,088</u>	<u>\$ 8,884,606</u>	<u>\$ 9,356,569</u>	<u>\$ 20,279,641</u>

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 \$426,947 and a decrease of \$471,963 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, 2013**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Change in Net Position

The City's total net position decreased by \$45,016. Key elements of this decrease are as follows:

	Change in Net Position				2013 Total
	Governmental Activities		Business-Type Activities		
	2013	2012	2013	2012	
REVENUES					
Program Revenues					
Charges for Services	\$ 401,226	\$ 442,309	\$ 3,741,127	\$ 3,673,447	\$ 4,142,353
Operating Grants and Contributions	206,622	499,169	-	-	206,622
Capital Grants and Contributions	158,404	33,004	-	7,988	158,404
General Revenues					
Property Taxes	2,500,163	2,532,364	224,966	223,482	2,725,129
Other Taxes	18,111	38,831	-	-	18,111
Intergovernmental	-	184	-	-	-
Unrestricted Investment Earnings (Loss)	6,072	12,771	(23,107)	39,427	(17,035)
Gain on Sale of Capital Assets	-	880	-	-	-
Miscellaneous	71,501	39,250	-	-	71,501
	<u>3,362,099</u>	<u>3,598,762</u>	<u>3,942,986</u>	<u>3,944,344</u>	<u>7,305,085</u>
EXPENSES					
General Government	1,213,499	1,261,659	-	-	1,213,499
Public Safety	797,332	801,712	-	-	797,332
Public Works	627,856	571,109	-	-	627,856
Culture and Recreation	459,180	437,852	-	-	459,180
Economic Development	13,603	36,545	-	-	13,603
Interest on Long-Term Debt	100,920	124,174	-	-	100,920
Communications	-	-	3,521,788	3,632,122	3,521,788
Sewer Utility	-	-	615,923	535,478	615,923
	<u>3,212,390</u>	<u>3,233,051</u>	<u>4,137,711</u>	<u>4,167,600</u>	<u>7,350,101</u>
CHANGE IN NET POSITION BEFORE TRANSFERS	149,709	365,711	(194,725)	(223,256)	(45,016)
Transfers	<u>277,238</u>	<u>389,560</u>	<u>(277,238)</u>	<u>(389,560)</u>	<u>-</u>
CHANGE IN NET POSITION	426,947	755,271	(471,963)	(612,816)	(45,016)
Net Position - Beginning of Year	<u>10,968,088</u>	<u>10,212,817</u>	<u>9,356,569</u>	<u>9,969,385</u>	<u>20,324,657</u>
NET POSITION - END OF YEAR	<u>\$ 11,395,035</u>	<u>\$ 10,968,088</u>	<u>\$ 8,884,606</u>	<u>\$ 9,356,569</u>	<u>\$ 20,279,641</u>

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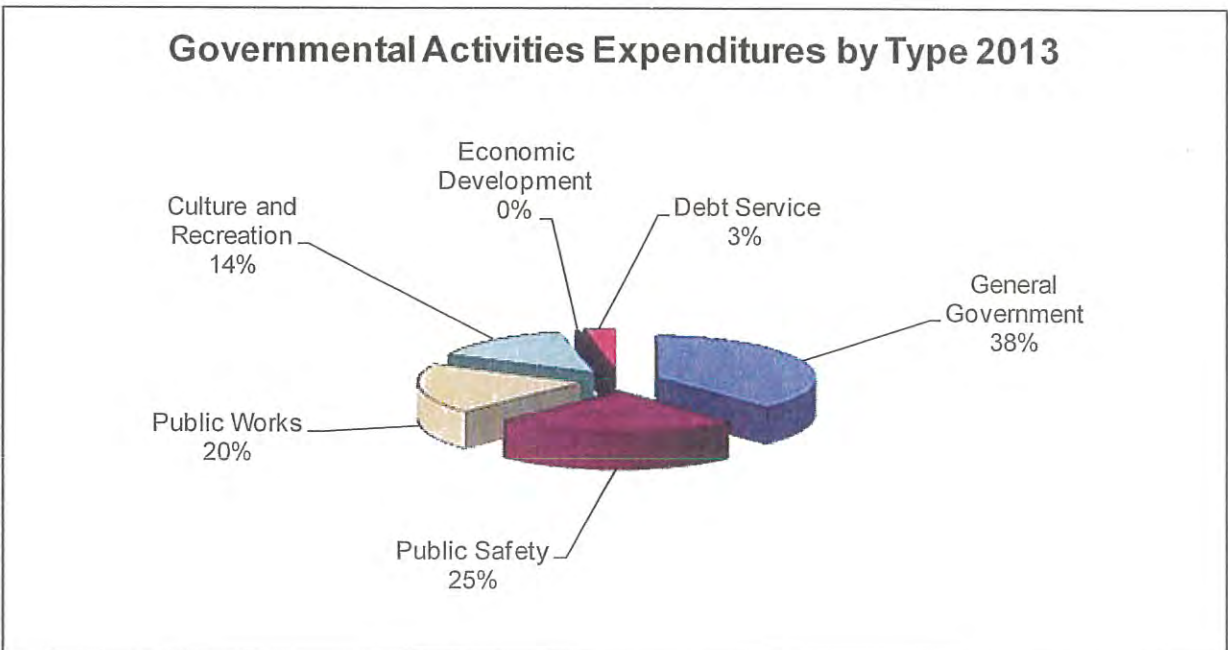
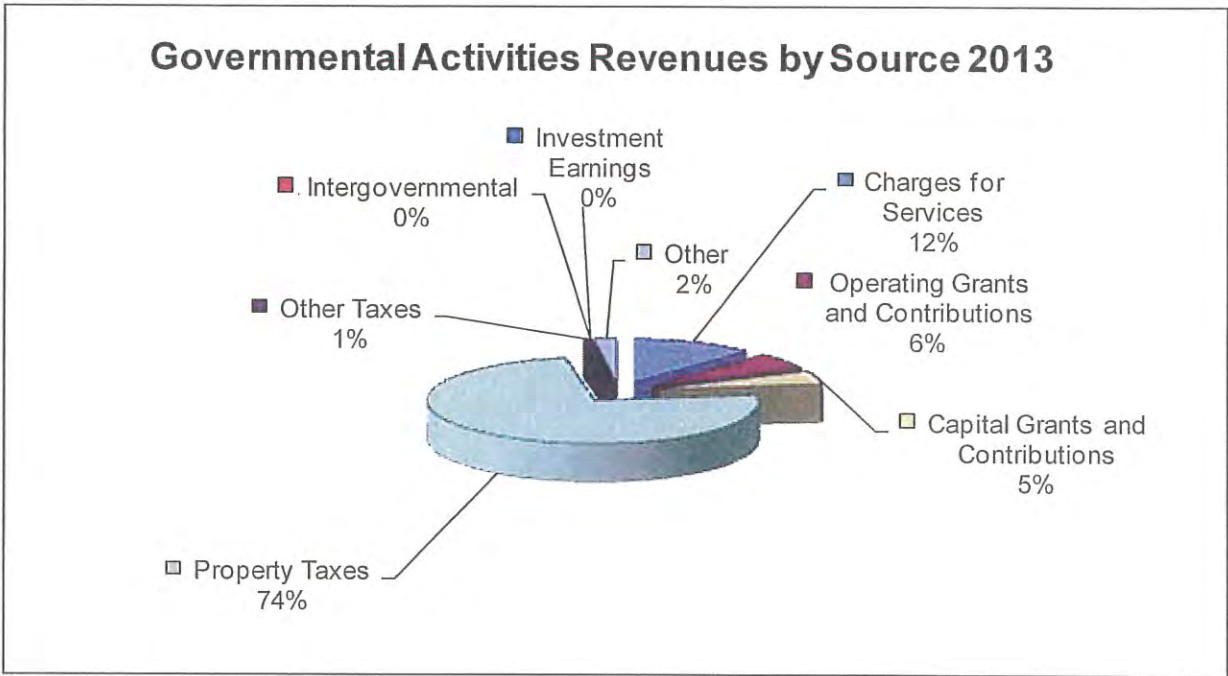
**CITY OF CROSSLAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Change in Net Position (Continued)

Governmental Activities – Governmental activities increased the City's net position by \$426,947 in 2013 as compared to an increase of \$755,271 in 2012. Key element of this decrease is as follows:

- ◆ Operating grants and contributions decreased \$300,000 from 2012 due to the EDA contributing this amount to the Debt Service Fund for the refinancing of debt in the prior year.



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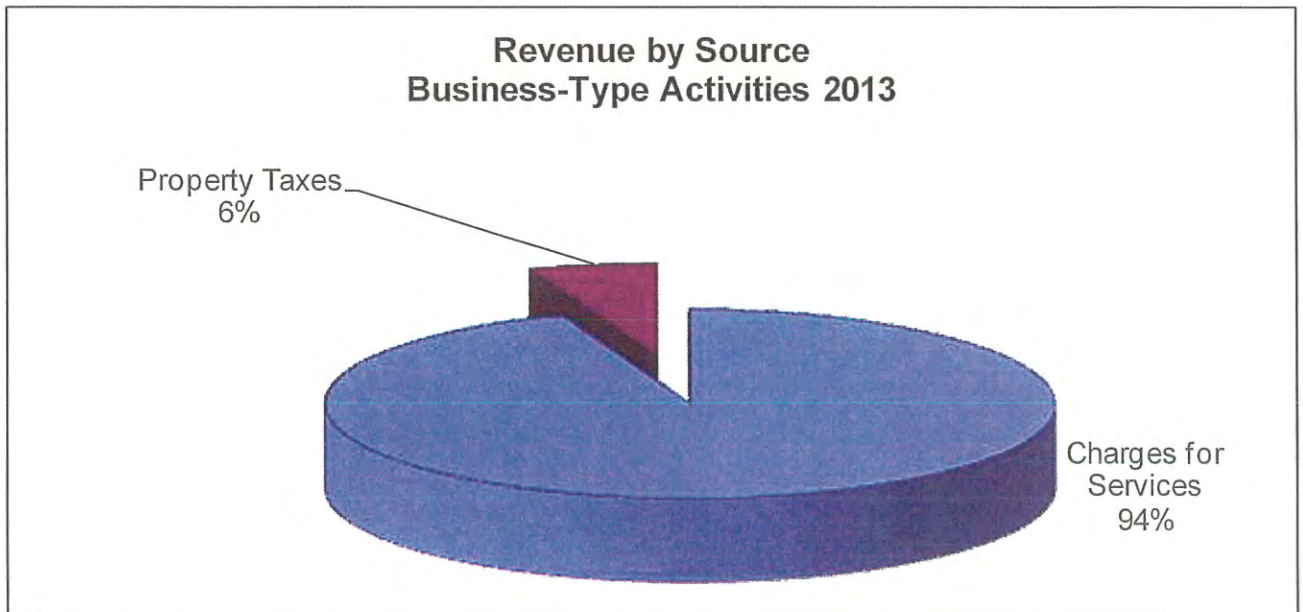
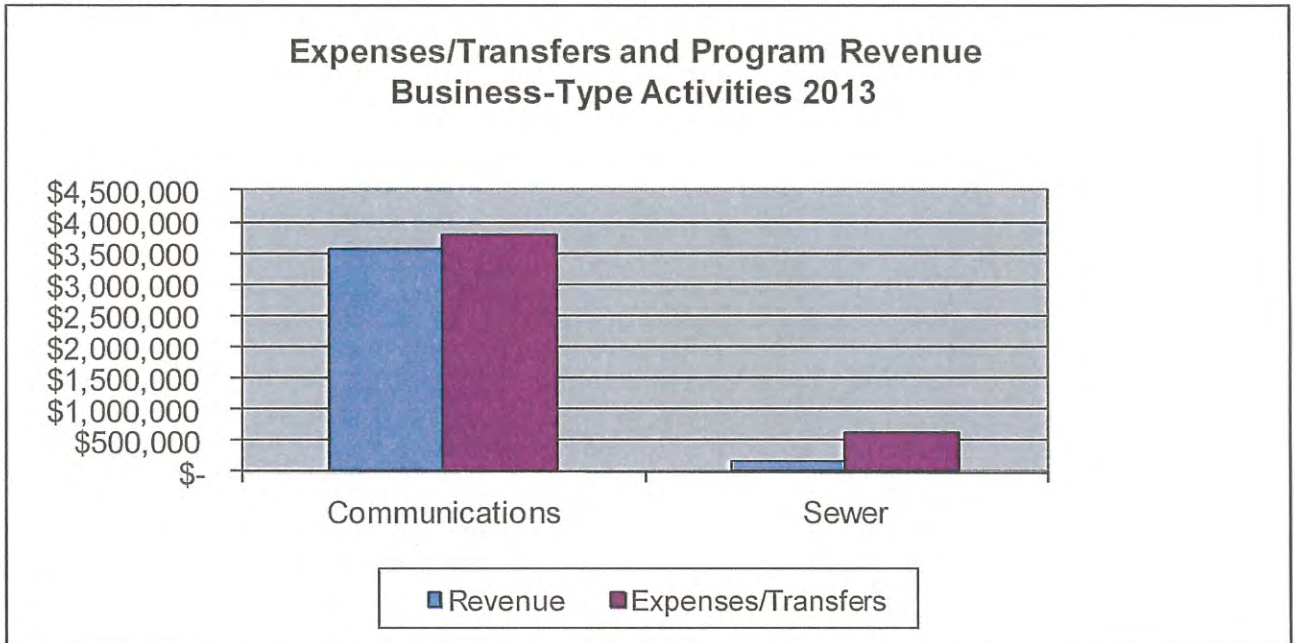
**CITY OF CROSSLAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Change in Net Position (Continued)

Business-Type Activities – Business-type activities decreased the City's net position by \$471,963 in 2013 as compared to \$612,816 in 2012. Both the Communications Fund and Sewer Fund showed positive cash flows for 2013, however, change in net position (net income/loss) was negative largely due to significant depreciation expense.

- ◆ 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, 2013**

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 \$2,109,584, a decrease of \$295,908 in comparison with the prior year. Of this amount, 83% (\$1,743,551) 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 2013 (\$284,328). In addition, a portion of unassigned/assigned fund balance has been assigned by the City Council for future years' capital outlay (\$228,523).

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 \$1,743,551. Total fund balance was \$1,825,256. 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 54% and 51% of total 2013 General Fund expenditures, respectively.

The fund balance of the City's General Fund decreased by \$383,345 during the current fiscal year. Key factors in this increase are as follows:

- ◆ Total expenditures in the General Fund decreased \$184,813, or 5% as compared to 2012. The decrease is due to the City refinancing debt in the prior year and paying additional interest and principal costs that did not occur in the current year.
- ◆ Total revenues in the General Fund decreased \$250,329 from 2012. The decrease is due to the City receiving contributions of over \$300,000 from the EDA in the prior year.

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 19%, largely due to conservative revenue budgeting in all categories.

Expenditures exceeded budget by approximately \$600,000 due to capital expenditures for the purchase of a public works plow truck, completion of new tennis courts, and other building improvements. The plow truck was pulled forward from the 2014 budget to take advantage of year-end model close-out pricing. The tennis court were partially funded with grant dollars with the remainder of the project along with other building improvements funded by existing dollars on hand assigned for those projects.

**CITY OF CROSSLAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013**

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, 2013, amounts to \$23,077,584 (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		2013 Total
	2013	2012	2013	2012	
Land	\$ 853,806	\$ 853,806	\$ 15,367	\$ 15,367	\$ 869,173
Construction in Progress	-	91,843	71,025	-	71,025
Buildings	3,798,444	3,925,546	3,729,221	3,858,774	7,527,665
Improvements Other than Buildings	394,590	252,957	17,743	17,743	412,333
Machinery and Equipment	1,092,456	1,039,554	1,363,774	1,535,811	2,456,230
Infrastructure	5,607,747	5,396,854	6,133,411	6,545,311	11,741,158
Total	\$ 11,747,043	\$ 11,560,560	\$ 11,330,541	\$ 11,973,006	\$ 23,077,584

Long-Term Liabilities

Governmental Activities – At the end of the current fiscal year, the City's governmental activities had total debt outstanding of \$2,651,223. Of this amount, \$2,446,804 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 \$36,175. Additionally, the City owed \$52,725 in compensated absences to its employees and an estimated \$95,519 in other postemployment benefits at December 31, 2013.

Governmental Activities Outstanding Long-Term Liabilities

	2013	2012
General Obligation Bonds	\$ 2,646,301	\$ 2,927,241
Capital Leases	36,175	93,493
Compensated Absences	52,725	84,196
Other Postemployment Benefits Payable	95,519	79,650
Total	\$ 2,830,720	\$ 3,184,580

**CITY OF CROSSLAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013**

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 \$533,357 (17%) 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 \$6,763,015, consisting of general obligation, revenue bonds and other long-term liabilities. This decrease of \$394,635 (6%) from 2012 reflects the payments made on bonds in the current year. The City issued refunding bonds during 2012, 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 Fund 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 did not have any debt outstanding.

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 prior years. The City's taxable market value decreased 0.8% from \$1,112,960,000 to \$1,103,756,700 and the taxable tax capacity decreased 0.67% from \$11,833,689 to \$11,753,058 for taxes payable in 2014. These decreases in values along with an increase in the City's tax levy request from 2013 resulted in an increase of 0.92% in the City's tax rate from 22.90% to 23.82% for taxes payable 2014.

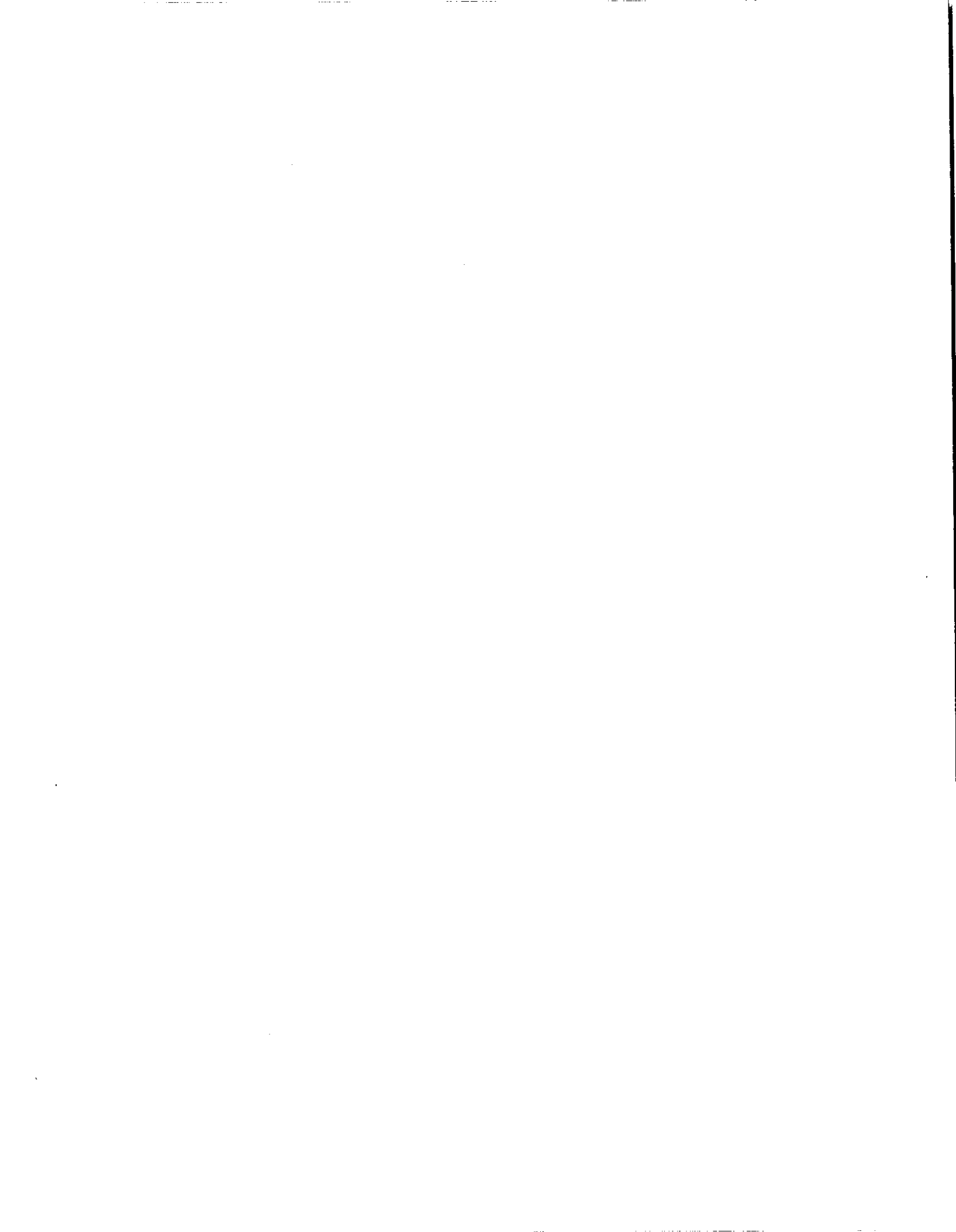
These factors were taken into account by the City of Crosslake when preparing the 2014 budget. The City has reviewed and raised various fees for services and will continue to closely monitor expenses in order to proactively adjust to changes in the economy and/or further reductions in state aid.

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 Finance Director/Treasurer, 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, 2013**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Economic Development Authority
ASSETS				
Cash and Investments	\$ 2,067,794	\$ 522,311	\$ 2,590,105	\$ -
Receivables				
Taxes	140,828	12,505	153,333	-
Accounts	33,850	113,584	147,434	-
Special Assessments	136,176	-	136,176	-
Connection Charges	-	42,225	42,225	-
Accrued Interest	-	6,347	6,347	-
Due from Other Governments	22,839	-	22,839	-
Materials and Supplies	-	83,488	83,488	-
Prepayments	30,563	45,335	75,898	-
Other Investments	-	49,800	49,800	-
Other Assets	-	47,823	47,823	-
Restricted, Designated and Long-Term Assets				
Cash and Investments	-	3,693,320	3,693,320	336,774
Loans Receivable	-	-	-	86,297
Capital Assets				
Land and Construction In Progress	853,806	86,392	940,198	-
Other Capital Assets, Net of Depreciation	10,893,237	11,244,149	22,137,386	-
Total Assets	14,179,093	15,947,279	30,126,372	423,071
DEFERRED OUTFLOWS OF RESOURCES				
Loss on Refunding	179,497	-	179,497	-
LIABILITIES				
Current Liabilities				
Accounts Payable	29,935	167,141	197,076	-
Accrued Liabilities	44,236	82,586	126,822	-
Accrued Interest Payable	25,388	49,931	75,319	-
Due to Other Governments	22,012	-	22,012	-
Unearned Revenue	11,264	-	11,264	-
Long-Term Liabilities				
Due within One Year	490,697	2,220,950	2,711,647	-
Due in More than One Year, Net of				
Unamortized Discount	2,340,023	4,542,065	6,882,088	-
Total Liabilities	2,963,555	7,062,673	10,026,228	-
NET POSITION				
Net Investment in Capital Assets	9,244,064	6,509,354	15,753,418	-
Restricted for:				
Tax Increment Financing	6,794	-	6,794	-
Economic Development	-	-	-	423,071
Construction	-	16,240	16,240	-
Debt Service	366,066	548,850	914,916	-
Revenue Bond Reserve	-	455,000	455,000	-
Unrestricted	1,778,111	1,355,162	3,133,273	-
Total Net Position	\$ 11,395,035	\$ 8,884,606	\$ 20,279,641	\$ 423,071

See accompanying Notes to Financial Statements.

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

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	\$ 1,213,499	\$ 132,494	\$ 35,024	\$ 4,014
Public Safety	797,332	108,865	160,209	9,000
Public Works	627,856	106,178	-	-
Culture and Recreation	459,180	53,689	11,389	2,412
Economic Development	13,603	-	-	-
Debt Service	100,920	-	-	142,978
Total Governmental Activities	3,212,390	401,226	206,622	158,404
Business-Type Activities				
Communications	3,521,788	3,562,363	-	-
Sewer	615,923	178,764	-	-
Total Business-Type Activities	4,137,711	3,741,127	-	-
Total Primary Government	\$ 7,350,101	\$ 4,142,353	\$ 206,622	\$ 158,404
Component Unit				
Economic Development Authority	\$ 12,073	5,589	\$ 2,091	\$ -

General Revenues

Taxes
Property Taxes, Levied for General Purpose
Other Taxes
Unrestricted Investment Earnings (Loss)
Miscellaneous
Transfers
Total General Revenues and Transfers
Change in Net Position
Net Position - Beginning of Year
Net Position - End of Year

See accompanying Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

<u>Primary Government</u>			<u>Component Unit</u>
<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Economic Development Authority</u>
\$ (1,041,967)	\$ -	\$ (1,041,967)	\$ -
(519,258)	-	(519,258)	-
(521,678)	-	(521,678)	-
(391,690)	-	(391,690)	-
(13,603)	-	(13,603)	-
42,058	-	42,058	-
<u>(2,446,138)</u>	<u>-</u>	<u>(2,446,138)</u>	<u>-</u>
-	40,575	40,575	-
-	(437,159)	(437,159)	-
-	(396,584)	(396,584)	-
<u>(2,446,138)</u>	<u>(396,584)</u>	<u>(2,842,722)</u>	<u>-</u>
-	-	-	(4,393)
2,500,163	224,966	2,725,129	-
18,111	-	18,111	-
6,072	(23,107)	(17,035)	1,899
71,501	-	71,501	-
277,238	(277,238)	-	-
<u>2,873,085</u>	<u>(75,379)</u>	<u>2,797,706</u>	<u>1,899</u>
426,947	(471,963)	(45,016)	(2,494)
10,968,088	9,356,569	20,324,657	425,565
<u>\$ 11,395,035</u>	<u>\$ 8,884,606</u>	<u>\$ 20,279,641</u>	<u>\$ 423,071</u>

**CITY OF CROSSLAKE, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	GENERAL FUND	TAX INCREMENT FINANCING FUND	DEBT SERVICE FUND
ASSETS			
Cash and Investments	\$ 1,791,168	\$ 6,794	\$ 269,832
Receivables			
Taxes	125,698	-	15,130
Special Assessments	29,684	-	106,492
Accounts	33,850	-	-
Due from Other Governments	22,839	-	-
Advances to Other Funds	51,142	-	-
Prepayments	30,563	-	-
Total Assets	\$ 2,084,944	\$ 6,794	\$ 391,454
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 29,935	\$ -	\$ -
Accrued Liabilities	44,236	-	-
Unearned Revenue	11,264	-	-
Due to Other Governments	22,012	-	-
Advances from Other Funds	51,142	-	-
Total Liabilities	158,589	-	-
Deferred Inflows of Resources			
Unavailable Revenue on Property Taxes	71,415	-	8,453
Unavailable Revenue on Special Assessments	29,684	-	105,467
Total Deferred Inflows of Resources	101,099	-	113,920
Fund Balances			
Nonspendable for:			
Prepayments	30,563	-	-
Advance	51,142	-	-
Restricted for:			
Debt Service	-	-	277,534
Tax Increment Financing	-	6,794	-
Assigned for:			
Capital Outlay	228,523	-	-
Unassigned:			
General Fund	1,515,028	-	-
Total Fund Balances	1,825,256	6,794	277,534
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 2,084,944	\$ 6,794	\$ 391,454

See accompanying Notes to Financial Statements.

LIBRARY CONSTRUCTION FUND	CAPITAL PROJECTS FUND	TOTAL GOVERNMENTAL FUNDS
\$ -	\$ -	\$ 2,067,794
-	-	140,828
-	-	136,176
-	-	33,850
-	-	22,839
51,142	-	102,284
-	-	30,563
<u>\$ 51,142</u>	<u>\$ -</u>	<u>\$ 2,534,334</u>

\$ -	\$ -	\$ 29,935
-	-	44,236
-	-	11,264
-	-	22,012
51,142	-	102,284
51,142	-	209,731
-	-	79,868
-	-	135,151
-	-	215,019
-	-	30,563
-	-	51,142
-	-	277,534
-	-	6,794
-	-	228,523
-	-	1,515,028
-	-	2,109,584
<u>\$ 51,142</u>	<u>\$ -</u>	<u>\$ 2,534,334</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, 2013**

TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS \$ 2,109,584

Total net position 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:

Capital Assets, Not Being Depreciated	\$ 853,806	
Capital Assets, Being Depreciated	18,411,286	
Accumulated Depreciation	<u>(7,518,049)</u>	
		11,747,043

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 unavailable revenue in the governmental funds. 215,019

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. (25,388)

The loss on refunding is reported as a deferred outflow on the statement of net position and amortized over the life of the bonds. 179,497

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	(2,615,000)	
Unamortized Discounts/ Premiums	(31,301)	
Compensated Absences Payable	(52,725)	
Other Postemployment Benefits Payable	(95,519)	
Obligations Under Capital Leases	<u>(36,175)</u>	<u>(2,830,720)</u>

TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 11,395,035

CITY OF CROSSLAKE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2013

	GENERAL FUND	TAX INCREMENT FINANCING FUND	DEBT SERVICE FUND
REVENUES			
Taxes	\$ 2,238,509	\$ -	\$ 276,846
Tax Increments	-	18,111	-
Licenses and Permits	66,054	-	-
Intergovernmental	118,235	-	-
Charges for Services	309,845	-	-
Fines and Forfeits	30,427	-	-
Special Assessments	17,084	-	67,058
Interest	6,072	-	-
Contributions and Donations	94,619	-	-
Miscellaneous	71,581	-	-
Total Revenues	<u>2,952,426</u>	<u>18,111</u>	<u>343,904</u>
EXPENDITURES			
Current			
General Government	820,755	-	-
Public Safety	595,058	-	-
Public Works	454,020	-	-
Culture and Recreation	416,415	-	-
Economic Development	-	13,603	-
Miscellaneous	89,917	-	2,026
Capital Outlay	800,106	-	-
Debt Service			
Principal Retirement	182,318	-	315,000
Interest and Fiscal Charges	43,423	-	31,265
Total Expenditures	<u>3,402,012</u>	<u>13,603</u>	<u>348,291</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(449,586)	4,508	(4,387)
OTHER FINANCING SOURCES (USES)			
Transfers In	278,538	-	-
Transfers Out	(212,297)	(1,300)	-
Total Other Financing Sources (Uses)	<u>66,241</u>	<u>(1,300)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(383,345)	3,208	(4,387)
Fund Balances (Deficit) - Beginning of Year	<u>2,208,601</u>	<u>3,586</u>	<u>281,921</u>
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ 1,825,256</u>	<u>\$ 6,794</u>	<u>\$ 277,534</u>

See accompanying Notes to Financial Statements.

LIBRARY CONSTRUCTION FUND	CAPITAL PROJECTS FUND	TOTAL GOVERNMENTAL FUNDS
\$ -	\$ -	\$ 2,515,355
-	-	18,111
-	-	66,054
-	-	118,235
-	-	309,845
-	-	30,427
-	-	84,142
-	-	6,072
-	-	94,619
-	-	71,581
-	-	3,314,441
-	-	820,755
-	-	595,058
-	-	454,020
-	-	416,415
-	-	13,603
-	-	91,943
-	123,681	923,787
-	-	497,318
-	-	74,688
-	123,681	3,887,587
-	(123,681)	(573,146)
-	212,297	490,835
-	-	(213,597)
-	212,297	277,238
-	88,616	(295,908)
-	(88,616)	2,405,492
\$ -	\$ -	\$ 2,109,584

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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, 2013**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (295,908)

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	\$	966,819	
Disposal of Capital Assets - Net Book Value		(26,664)	
Depreciation Expense		<u>(753,674)</u>	186,481

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 position, 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 position, however, the repayment of principal reduces the liability.

Principal Payments of Capital Leases		<u>57,318</u>	57,318
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The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, 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 premiums and discounts when debt is first issued, whereas these amounts are 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		480,000	
Change in Accrued Interest Expense for General Obligation Bonds		8,398	
Bond Issuance Cost Elimination		(53,039)	
Amortization of Bond Premium		4,299	
Amortization of Bond Discount		<u>(3,918)</u>	435,740

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			31,471
Change in Other Postemployment Benefits			(15,869)
Amortization of Loss on Refunding Bonds			(19,944)

Delinquent 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 unavailable in the governmental funds.

Unavailable Revenue - December 31, 2012		(167,361)	
Unavailable Revenue - December 31, 2013		<u>215,019</u>	<u>47,658</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 426,947**

See accompanying Notes to Financial Statements.

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

	<u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u>		
	<u>COMMUNICATIONS</u>	<u>SEWER</u>	<u>TOTALS</u>
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 522,311	-	\$ 522,311
Receivables			
Accounts	88,415	25,169	113,584
Accrued Interest	2,860	3,487	6,347
Taxes	-	5,400	5,400
Connection Charges	-	35,950	35,950
Materials and Supplies	83,488	-	83,488
Prepayments	42,726	2,609	45,335
	<hr/>	<hr/>	<hr/>
Total Current Assets	739,800	72,615	812,415
NONCURRENT ASSETS			
Investments, including Board Designated	832,630	-	832,630
Taxes Receivable	-	7,105	7,105
Restricted Assets			
Cash and Cash Equivalents	455,000	446,272	901,272
Investments	168,749	1,790,669	1,959,418
Connection Charges Receivable	-	6,275	6,275
Other Investments	49,800	-	49,800
Other Assets	47,823	-	47,823
Capital Assets			
Land	6,654	8,713	15,367
Building and Improvements	9,825,991	3,690,644	13,516,635
Machinery and Equipment	5,850,764	253,681	6,104,445
Sanitary Sewers	-	3,080,700	3,080,700
Construction-in-Progress	71,025	-	71,025
Subtotal Capital Assets	<hr/> 15,754,434	<hr/> 7,033,738	<hr/> 22,788,172
Less: Accumulated Depreciation	(9,601,437)	(1,856,194)	(11,457,631)
	<hr/>	<hr/>	<hr/>
Net Capital Assets	6,152,997	5,177,544	11,330,541
	<hr/>	<hr/>	<hr/>
Total Noncurrent Assets	7,706,999	7,427,865	15,134,864
	<hr/>	<hr/>	<hr/>
Total Assets	8,446,799	7,500,480	15,947,279

See accompanying Notes to Financial Statements.

BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS

	COMMUNICATIONS	SEWER	TOTALS
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LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accounts Payable	\$ 163,265	\$ 3,876	\$ 167,141
Salaries and Wages Payable	-	534	534
Advance Payments	25,835	-	25,835
Customer Deposits	55,806	411	56,217
Accrued Compensated Absences	-	5,950	5,950
Bonds Payable	310,000	-	310,000
Total Current Liabilities	554,906	10,771	565,677

CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS

Accrued Interest Payable	-	49,931	49,931
Revenue Bonds Payable	-	1,905,000	1,905,000
Total Current Liabilities Payable from Restricted Assets	-	1,954,931	1,954,931

LONG-TERM LIABILITIES

Bonds Payable (Net of Unamortized Bond Discounts)	2,563,646	1,855,887	4,419,533
Accrued Compensated Absences	-	14,735	14,735
Other Postemployment Benefits Payable	101,127	6,670	107,797
Total Long-Term Liabilities	2,664,773	1,877,292	4,542,065

Total Liabilities	3,219,679	3,842,994	7,062,673
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NET POSITION

Net Investment in Capital Assets	3,279,349	3,230,005	6,509,354
Restricted For:			
Debt Service	168,749	380,101	548,850
Revenue Bond Reserve	455,000	-	455,000
Construction Deposits	-	16,240	16,240
Unrestricted	1,324,022	31,140	1,355,162
Total Net Position	\$ 5,227,120	\$ 3,657,486	\$ 8,884,606

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CITY OF CROSSLAKE, MINNESOTA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2013

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	COMMUNICATIONS	SEWER	TOTALS
OPERATING REVENUES			
Sales and Charges for Services	\$ 3,562,363	207,876	\$ 3,770,239
OPERATING EXPENSES			
Personal Services	-	107,807	107,807
Supplies	-	18,721	18,721
Repairs and Maintenance	-	23,969	23,969
Other Services and Charges	-	69,688	69,688
Plant Specific	417,025	-	417,025
Depreciation	866,463	200,642	1,067,105
Plant Support	372,337	-	372,337
Customer	319,330	-	319,330
Signal Purchases	653,166	-	653,166
Other Nonregulated	323,930	-	323,930
General and Administrative	407,366	-	407,366
Total Operating Expenses	<u>3,359,617</u>	<u>420,827</u>	<u>3,780,444</u>
OPERATING INCOME (LOSS)	202,746	(212,951)	(10,205)
NONOPERATING REVENUES (EXPENSES)			
Property Taxes	-	224,966	224,966
Investment Earnings	18,917	12,592	31,509
Interest Expense	(162,171)	(144,061)	(306,232)
Miscellaneous Revenues (Expenses)	-	(29,112)	(29,112)
Bond Issuance Costs	-	(51,035)	(51,035)
Net Decrease in the Fair Value of Investments	(54,616)	-	(54,616)
Total Nonoperating Revenues (Expenses)	<u>(197,870)</u>	<u>13,350</u>	<u>(184,520)</u>
INCOME (LOSS) BEFORE TRANSFERS OUT	4,876	(199,601)	(194,725)
TRANSFERS OUT	<u>(277,238)</u>	<u>-</u>	<u>(277,238)</u>
CHANGE IN NET POSITION	(272,362)	(199,601)	(471,963)
Net Position - Beginning of Year	<u>5,499,482</u>	<u>3,857,087</u>	<u>9,356,569</u>
NET POSITION - END OF YEAR	<u>\$ 5,227,120</u>	<u>\$ 3,657,486</u>	<u>\$ 8,884,606</u>

See accompanying Notes to Financial Statements.

**CITY OF CROSSLAKE, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2013**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	COMMUNICATIONS	SEWER	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 2,547,550	\$ 199,172	\$ 2,746,722
Cash Received from Others	1,034,850	-	1,034,850
Cash Paid to Employees for Services	(1,398,471)	(108,166)	(1,506,637)
Cash Paid to Suppliers for Goods and Services	(1,079,418)	(112,072)	(1,191,490)
Net Cash Provided (Used) by Operating Activities	1,104,511	(21,066)	1,083,445
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Miscellaneous Revenues (Expenses)	-	(29,112)	(29,112)
Transfers to Other Funds	(277,238)	-	(277,238)
Increase (Decrease) in Customer Deposits	8,847	-	8,847
Net Cash Provided (Used) by Noncapital Financing Activities	(268,391)	(29,112)	(297,503)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and Construction of Capital Assets	(424,638)	-	(424,638)
Proceeds from Sale of Property, Plant and Equipment	(2,670)	-	(2,670)
Decrease in Materials and Supplies	(19,937)	-	(19,937)
Property Taxes Received	-	225,165	225,165
Collection of Connection Charges	-	78,004	78,004
Interest Paid	(152,791)	(148,499)	(301,290)
Principal Payments on Long-Term Debt	(300,000)	(125,000)	(425,000)
Net Cash Provided (Used) by Capital and Related Financing Activities	(900,036)	29,670	(870,366)
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale of Investments	226,360	56,480	282,840
Interest Received	19,387	9,105	28,492
Net Cash Provided (Used) by Investing Activities	245,747	65,585	311,332
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
	181,831	45,077	226,908
Cash and Cash Equivalents - Beginning of Year	340,491	401,195	741,686
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 522,322	\$ 446,272	\$ 968,594

See accompanying Notes to Financial Statements.

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

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	COMMUNICATIONS	SEWER	TOTALS

**RECONCILIATION OF OPERATING INCOME (LOSS) TO
CASH FLOWS FROM OPERATING ACTIVITIES**

Operating Income (Loss)	\$ 202,746	\$ (212,951)	\$ (10,205)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Depreciation	869,147	200,642	1,069,789
(Increase) Decrease in Assets:			
Accounts Receivable	1,169	(8,704)	(7,535)
Other Receivables	13,875	-	13,875
Prepayments	(24,805)	(530)	(25,335)
Increase (Decrease) in Liabilities:			
Accounts Payable	17,530	(292)	17,238
Accrued Liabilities	-	(2,894)	(2,894)
Accrued Compensated Absences	-	2,535	2,535
Advance Payments	4,993	-	4,993
Postemployment Benefits Payable	19,856	1,128	20,984
Net Cash Provided (Used) by Operating Activities	\$ 1,104,511	\$ (21,066)	\$ 1,083,445

**RECONCILIATION OF CASH AND CASH
EQUIVALENTS TO THE STATEMENT OF NET POSITION**

Current Assets			
Cash and Cash Equivalents	\$ 522,322	\$ -	\$ 522,322
Noncurrent Assets			
Investments	832,630	-	832,630
Restricted Assets			
Cash and Investments	623,749	2,236,941	2,860,690
Other Investments	49,800	-	49,800
Less: Investments not Meeting Definition of Cash Equivalents	(1,506,179)	(1,790,669)	(3,296,848)
Total Cash and Cash Equivalents	\$ 522,322	\$ 446,272	\$ 968,594

See accompanying Notes to Financial Statements.

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

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, 2013**

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, 2013**

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, 2013**

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, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, 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, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, 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 unavailable 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.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

4. Property Taxes (Continued)

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.

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 inflow of resources at the time of the levy. The deferred inflow of resources 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. Materials and Supplies

Inventory is recorded at average cost.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

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.

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. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period. The City will not recognize the related outflow until a future event occurs. The City's governmental fund financial statements report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in fund equity that applies to a future period. The City will not recognize the related revenue until a future event occurs.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

11. 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

12. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premiums and discounts 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.

13. 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. Committed fund balance represents constraints on spending that the government imposes upon itself by high-level formal action prior to the close of the fiscal period. 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.

Committed fund balance is require to be established, modified or rescinded by resolution of the City Council prior to each year end.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (Continued)

13. Fund Balance

Governmental Fund Financial Statements (Continued)- 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 is 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

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 \$602,463. 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.

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

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits (Continued)

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, 2013 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with *Minnesota Statutes*.

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.

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

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Investments (Continued)

- 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, 2013 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	\$ 1,518,785	\$ 1,518,785	\$ -	\$ -	\$ -
Money Market Funds	204,980	204,980	-	-	-
State and Local Government Securities	1,790,669	1,790,669	-	-	-
Certificates of Deposits	334,865	334,865	-	-	-
U.S. Treasury Notes	433,156	72,768	140,488	72,595	147,305
U.S. Treasury Bond	88,592	-	-	-	88,592
Federal National Mortgage Association Notes	132,763	34,156	-	98,045	562
Tennessee Valley Authority Preferred Stock	71,702	-	-	-	71,702
Total	<u>\$ 4,575,512</u>	<u>\$ 3,956,223</u>	<u>\$ 140,488</u>	<u>\$ 170,640</u>	<u>\$ 308,161</u>

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, 2013, 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*.

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

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Investments (Continued)

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	\$ 2,094,487
Investments	4,575,512
Total Cash and Investments	\$ 6,669,999
Cash and Investments - Governmental Funds	\$ 2,067,794
Cash and Investments - Proprietary Funds	522,311
Restricted, Designated, and Long-Term Cash and Investments	
Business-Type (Note 3,A,3)	3,693,320
Component Unit	336,774
Other Investments - Proprietary Funds	49,800
Total Cash and Investments	\$ 6,669,999

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, 2013, restricted and designated cash and investments consisted of the following:

Restricted Assets - Cash and Investments	
Restricted for Debt Service Covenants - Sewer Fund	\$ 2,236,941
Restricted for Debt Service - Communications Fund	455,000
Total Restricted Cash and Investments	2,691,941
Restricted Assets - Investments	
Restricted for Debt Service Covenants - Communications Fund	168,749
Investments, including Board Designated	
Designated Investments	
Operations and Maintenance Reserve - CATV	32,912
General Building Maintenance Reserve	8,000
Heavy Equipment Reserve	60,668
New Technology Reserve	59,552
Vehicle Reserve	17,955
Total Designated Investments	179,087
Long-Term Investments with No Designation	653,543
Total Investments, including Board Designated	832,630
Total Restricted and Designated Cash and Investments	\$ 3,693,320

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

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Interfund Receivables, Payables, and Transfers

At December 31, 2013, advances due from/to other funds were as follows:

Receivable Fund	Payable Fund	Amount
Library Fund	General Fund	\$ 51,142
General Fund	Library Fund	51,142

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, 2013, were as follows:

	Transfer In:		
	General Fund	Capital Projects Fund	Total
<u>Transfer Out:</u>			
<u>Primary Government</u>			
General Fund	\$ -	\$ 212,297	\$ 212,297
Communications Fund	277,238	-	277,238
TIF	1,300	-	1,300
Total	<u>\$ 278,538</u>	<u>\$ 212,297</u>	<u>\$ 490,835</u>

The transfer from the General Fund to the Capital Projects Fund was council approved and is to close the Capital Projects Fund as all projects are complete as of the end of the year. The transfer from the TIF Fund to the General Fund is to close the JOBZ Fund to the General Fund. 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.

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

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

5. Loans Receivable

The EDA component unit had the following notes receivable as of December 31, 2013:

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. \$ 43,718

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. 42,579

Total Commercial Loans Receivable \$ 86,297

6. Capital Assets

Capital asset activity for the Primary Government for the year ended December 31, 2013, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets, Not Being Depreciated				
Land	\$ 853,806	\$ -	\$ -	\$ 853,806
Construction in Progress	91,843	-	(91,843)	-
Total Capital Assets, Not Being Depreciated:	945,649	-	(91,843)	853,806
Capital Assets, Being Depreciated				
Buildings	5,416,112	29,023	-	5,445,136
Improvements Other Than Buildings	650,386	175,986	-	826,372
Machinery and Equipment	2,904,513	308,980	(59,349)	3,154,144
Infrastructure	8,458,711	544,673	(17,750)	8,985,634
Total Capital Assets, Being Depreciated	17,429,722	1,058,662	(77,099)	18,411,286
Less Accumulated Depreciation for				
Buildings	(1,490,566)	(156,126)	-	(1,646,692)
Improvements Other Than Buildings	(397,429)	(34,353)	-	(431,782)
Machinery and Equipment	(1,864,958)	(229,415)	32,685	(2,061,688)
Infrastructure	(3,061,857)	(333,780)	17,750	(3,377,887)
Total Accumulated Depreciation	(6,814,810)	(753,674)	50,435	(7,518,049)
Total Capital Assets, Being Depreciated, Net	10,614,912	304,988	(26,664)	10,893,237
Governmental Activities Capital Assets, Net	<u>\$ 11,560,561</u>	<u>\$ 304,988</u>	<u>\$ (118,507)</u>	<u>\$ 11,747,043</u>

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

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, 2013, is as follows:

	Beginning Balance	Increases	Decreases/ Adjustments	Ending Balance
BUSINESS-TYPE ACTIVITIES				
Capital Assets, Not Being Depreciated				
Land	\$ 15,367	\$ -	\$ -	\$ 15,367
Construction in Progress	-	71,025	-	71,025
Total Capital Assets, Not Being Depreciated	15,367	71,025	-	86,392
Capital Assets, Being Depreciated				
Buildings and Improvements	5,107,329	-	-	5,107,329
Machinery and Equipment	6,764,161	272,316	(932,032)	6,104,445
Communications Infrastructure	6,651,034	40,736	(694)	6,691,076
CATV Infrastructure	1,678,091	45,213	(5,074)	1,718,230
Sanitary Sewers	3,080,700	-	-	3,080,700
Total Capital Assets, Being Depreciated	23,281,315	358,265	(937,800)	22,701,780
Less Accumulated Depreciation For				
Buildings and Improvements	(1,230,812)	(129,553)	-	(1,360,365)
Machinery and Equipment	(5,228,350)	(441,737)	929,416	(4,740,671)
Communications Infrastructure	(2,853,895)	(309,792)	-	(3,163,687)
CATV Infrastructure	(1,298,692)	(100,056)	3,734	(1,395,014)
Sanitary Sewers	(711,927)	(85,967)	-	(797,894)
Total Accumulated Depreciation	(11,323,676)	(1,067,105)	933,150	(11,457,631)
Total Capital Assets, Being Depreciated, Net	11,957,639	(708,840)	(4,650)	11,244,149
Business-Type Activities Capital Assets, Net	<u>\$ 11,973,006</u>	<u>\$ (637,815)</u>	<u>\$ (4,650)</u>	<u>\$ 11,330,541</u>

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

Governmental Activities	
General Government	\$ 352,136
Public Safety	126,628
Public Works	186,162
Culture and Recreation	88,748
Total Depreciation Expense - Governmental Activities	<u>\$ 753,674</u>
Business-Type Activities	
Communications	\$ 866,463
Sewer	200,642
Total Depreciation Expense - Business-Type Activities	<u>\$ 1,067,105</u>

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

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities

1. Long-Term Debt

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

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

	<u>Range of Interest Rates</u>	<u>Original Issue</u>	<u>Amount Outstanding</u>
BONDED INDEBTEDNESS			
PRIMARY GOVERNMENT			
GENERAL OBLIGATION BONDS			
G.O. Disposal System Bonds, Series 2003A	2.00-4.60%	\$ 2,870,000	\$ 1,905,000
G.O. Improvement Bonds, Series 2006B	3.65-4.10%	1,330,000	450,000
G.O. Refunding Bonds, Series 2012A	2.00-2.55%	4,310,000	4,020,000
GENERAL OBLIGATION REVENUE BONDS			
G.O. Telephone Utility Revenue Bond - 2006A	4.00-5.00%	4,770,000	2,930,000
Total Primary Government General Obligation Bonds		<u>\$ 13,280,000</u>	<u>\$ 9,305,000</u>

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

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, 2013, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
PRIMARY GOVERNMENT					
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds	\$ 3,095,000	\$ -	\$ (480,000)	\$ 2,615,000	\$ 450,000
Issuance Discounts	(11,304)	-	3,918	(7,386)	-
Issuance Premiums	42,986	-	(4,299)	38,687	-
Total Bonds Payable	3,126,682	-	(480,381)	2,646,301	450,000
Capital Leases Payable	93,493	-	(57,318)	36,175	17,992
Compensated Absences	84,196	63,198	(94,669)	52,725	22,705
Other Postemployment Benefits Payable	79,650	15,869	-	95,519	-
Governmental Activity Long-Term Liabilities	<u>\$ 3,384,021</u>	<u>\$ 79,067</u>	<u>\$ (632,368)</u>	<u>\$ 2,830,720</u>	<u>\$ 490,697</u>
BUSINESS-TYPE ACTIVITIES					
General Obligation Bonds	\$ 3,885,000	\$ -	\$ (125,000)	\$ 3,760,000	\$ 1,905,000
Revenue Bonds	3,230,000	-	(300,000)	2,930,000	310,000
Issuance Discounts	(88,255)	-	9,440	(78,815)	-
Issuance Premiums	25,942	-	(2,594)	23,348	-
Total Bonds Payable	7,052,687	-	(418,154)	6,634,533	2,215,000
Compensated Absences	18,150	5,727	(3,192)	20,685	5,950
Other Postemployment Benefits Payable	86,813	20,984	-	107,797	-
Business-Type Activity Long-Term Liabilities	<u>\$ 7,157,650</u>	<u>\$ 26,711</u>	<u>\$ (421,346)</u>	<u>\$ 6,763,015</u>	<u>\$ 2,220,950</u>
COMPONENT UNIT					
Revenue Refunding Bonds	\$ 40,000	\$ -	\$ (40,000)	\$ -	\$ -
Issuance Discounts	(975)	-	975	-	-
Component Unit Long-Term Liabilities	<u>\$ 39,025</u>	<u>\$ -</u>	<u>\$ (39,025)</u>	<u>\$ -</u>	<u>\$ -</u>

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

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
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	190,000	23,453	2018	175,000	27,655
2019-2023	1,000,000	57,074	2019-2023	960,000	80,619
Total	\$ 2,615,000	\$ 253,104	2024	205,000	2,614
			Total	\$ 3,760,000	\$ 332,343

General Obligation Revenue Bonds		
	Business-Type Activities	
	Principal	Interest
2014	\$ 310,000	\$ 140,410
2015	325,000	126,305
2016	340,000	111,355
2017	355,000	95,545
2018	375,000	78,860
2019-2021	1,225,000	152,273
Total	\$ 2,930,000	\$ 704,748

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

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

1. Long-Term Debt (Continued)

In 2012, 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 (\$2,060,000 of which is still outstanding as of December 31, 2013); 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	(444,621)
Total	<u>\$ 661,822</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2013, were as follows:

December 31,	
2014	\$ 19,438
2015	18,922
Total Minimum Lease Payments	<u>38,360</u>
Less: Amount Representing Interest	(2,185)
Present Value of Minimum Lease Payments	<u>\$ 36,175</u>

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

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, 2013**

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, 2013**

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 GERF and PEPFF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2013. PEPFF members are required to contribute 9.6% of their annual covered salary in 2013. In 2013, the City 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 General Employees Retirement Fund for the years ending December 31, 2013, 2012, and 2011, were \$100,091, \$104,581, and \$106,689, respectively. The City's contributions to the Public Employees Police and Fire Fund for the years ending December 31, 2013, 2012, and 2011 were \$45,365, \$41,915, and \$41,569, 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, 2013**

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 2013 contribution to the plan was as follows:

State Aid flowed through City to Relief Association	\$	38,600
Voluntary (non-required) Contribution from City		14,463
Total Contribution	\$	53,063

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

NOTE 5 OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

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

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

For the year ended December 31, 2013, there was one retiree receiving health benefits from the City's health plan.

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

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 2013, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Annual Required Contribution (ARC):	\$ 51,099
Interest on Net OPEB Obligation	7,491
Adjustment to ARC	<u>(10,251)</u>
Annual OPEB Cost	48,339
Contributions During the Year	<u>(11,486)</u>
Increase in Net OPEB Obligation	36,853
Net OPEB - Beginning of the Year	<u>166,463</u>
Net OPEB - End of the Year	<u><u>\$ 203,316</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, 2013 were as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2013	\$ 48,339	\$ (11,486)	(0.2)%	\$ 203,316
December 31, 2012	43,378	-	-	166,463
December 31, 2011	40,379	-	-	123,085

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

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, 2013**

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:

December 31,		
2014	\$	112,838
2015		110,983
2016		111,752
2017		112,467
2018		113,130
2019-2023		<u>560,248</u>
Total	\$	<u><u>1,121,417</u></u>

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REQUIRED SUPPLEMENTARY INFORMATION



**CITY OF CROSSLAKE, MINNESOTA
 SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFIT PLAN
 YEAR ENDED DECEMBER 31, 2013**

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, 2013

	BUDGET ORIGINAL AND FINAL	ACTUAL	VARIANCE WITH BUDGET OVER (UNDER)
REVENUES			
Taxes	\$ 2,097,860	\$ 2,238,509	\$ 140,649
Licenses and Permits	45,775	66,054	20,279
Intergovernmental	96,979	118,235	21,256
Charges for Services	193,125	309,845	116,720
Fines and Forfeits	20,000	30,427	10,427
Special Assessments	6,198	17,084	10,886
Interest	4,800	6,072	1,272
Contributions and Donations	200	94,619	94,419
Miscellaneous	23,000	71,581	48,581
Total Revenues	<u>2,487,937</u>	<u>2,952,426</u>	<u>464,489</u>
EXPENDITURES			
Current			
General Government			
Mayor and Council Administration	30,776	33,080	2,304
Elections	306,747	243,679	(63,068)
Audit and Legal	250	-	(250)
Planning and Zoning	45,000	79,232	34,232
Other General Government	276,481	300,973	24,492
Total General Government	<u>123,100</u>	<u>163,791</u>	<u>40,691</u>
Total General Government	782,354	820,755	38,401
Public Safety			
Police	490,555	515,220	24,665
Ambulance	13,736	73	(13,663)
Fire Protection	74,902	79,765	4,863
Total Public Safety	<u>579,193</u>	<u>595,058</u>	<u>15,865</u>
Public Works			
Engineering	23,000	36,307	13,307
Public Way Maintenance	414,715	417,713	2,998
Total Public Works	<u>437,715</u>	<u>454,020</u>	<u>16,305</u>
Culture and Recreation			
Library	47,779	53,458	5,679
Recreation	353,738	362,957	9,219
Total Culture and Recreation	<u>401,517</u>	<u>416,415</u>	<u>14,898</u>
Miscellaneous			
Recycling	32,440	32,340	(100)
Firemen's Relief Association	47,750	56,063	8,313
Cemetery	2,060	1,514	(546)
Total Miscellaneous	<u>82,250</u>	<u>89,917</u>	<u>7,667</u>
Debt Service			
Principal	17,318	182,318	165,000
Interest and Fiscal Charges	2,545	43,423	40,878
Total Debt Service	<u>19,863</u>	<u>225,741</u>	<u>205,878</u>
Capital Outlay			
Capital Equipment	496,657	800,106	303,449
Total Expenditures	<u>2,799,549</u>	<u>3,402,012</u>	<u>602,463</u>

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, 2013

	<u>BUDGET</u> <u>ORIGINAL AND FINAL</u>	<u>ACTUAL</u>	<u>VARIANCE WITH</u> <u>BUDGET</u> <u>OVER</u> <u>(UNDER)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (311,612)	\$ (449,586)	\$ (137,974)
OTHER FINANCING SOURCES (USES)			
Transfers In	265,000	278,538	13,538
Transfers Out	<u>-</u>	<u>(212,297)</u>	<u>(212,297)</u>
Total Other Financing Sources (Uses)	<u>265,000</u>	<u>66,241</u>	<u>(198,759)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (46,612)</u>	<u>(383,345)</u>	<u>\$ (336,733)</u>
Fund Balance - Beginning of Year		<u>2,208,601</u>	
FUND BALANCE - END OF YEAR		<u>\$ 1,825,256</u>	

See accompanying Notes to the Required Supplementary Information.

**CITY OF CROSSLAKE, MINNESOTA
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 TAX INCREMENT FINANCING FUND
 YEAR ENDED DECEMBER 31, 2013**

	<u>BUDGET ORIGINAL AND FINAL</u>	<u>ACTUAL</u>	<u>VARIANCE WITH BUDGET OVER (UNDER)</u>
REVENUES			
Tax Increments	\$ 15,000	\$ 18,111	\$ 3,111
EXPENDITURES			
Economic Development Current	<u>15,000</u>	<u>13,603</u>	<u>(1,397)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	4,508	4,508
OTHER FINANCING USES			
Transfers Out	<u>-</u>	<u>(1,300)</u>	<u>(1,300)</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	3,208	<u>\$ 3,208</u>
Fund Balance - Beginning of Year		<u>3,586</u>	
FUND BALANCE - END OF YEAR		<u>\$ 6,794</u>	

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2013**

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 \$602,463. 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, 2013**

	<u>REVOLVING LOAN PROGRAM</u>	<u>EDA OPERATING FUND</u>	<u>TOTAL</u>
ASSETS			
Restricted Cash and Cash Equivalents	\$ 336,774	\$ -	\$ 336,774
Loans Receivable	<u>86,297</u>	<u>-</u>	<u>86,297</u>
Total Assets	<u>\$ 423,071</u>	<u>\$ -</u>	<u>\$ 423,071</u>
LIABILITIES AND FUND BALANCES			
Fund Balances			
Restricted for:			
Economic Development	<u>\$ 423,071</u>	<u>\$ -</u>	<u>\$ 423,071</u>
Total Liabilities and Fund Balances	<u>\$ 423,071</u>	<u>\$ -</u>	<u>\$ 423,071</u>

**CITY OF CROSSLAKE, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT
DECEMBER 31, 2013**

	<u>Fund Level Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS			
Restricted Cash and Cash Equivalents	\$ 336,774	\$ -	\$ 336,774
Loans Receivable	<u>86,297</u>	<u>-</u>	<u>86,297</u>
Total Assets	<u>\$ 423,071</u>	<u>-</u>	423,071
 FUND BALANCES/NET POSITION			
Restricted for:			
Economic Development	<u>\$ 423,071</u>	<u>(423,071)</u>	
Total Liabilities and Fund Balances	<u>\$ 423,071</u>	<u>(423,071)</u>	
 Net Position			
Restricted for Economic Development		<u>423,071</u>	<u>423,071</u>
Total Net Position of Component Unit (Page 14)		<u>\$ 423,071</u>	<u>\$ 423,071</u>

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

	REVOLVING LOAN PROGRAM	EDA OPERATING FUND	TOTAL
REVENUES			
Intergovernmental County	\$ -	\$ 2,091	\$ 2,091
Miscellaneous			
Revolving Loan Interest	5,589	-	5,589
Interest	1,899	-	1,899
Total Miscellaneous Revenue	7,488	-	7,488
Total Revenue	7,488	2,091	9,579
EXPENDITURES			
Economic Development Other Services and Charges	8,542	-	8,542
Debt Service			
Principal	-	40,000	40,000
Interest and Fiscal Charges	-	2,091	2,091
Total Expenditures	8,542	42,091	50,633
NET CHANGE IN FUND BALANCES	(1,054)	(40,000)	(41,054)
Fund Balances - Beginning of Year	424,125	40,000	464,125
FUND BALANCES - END OF YEAR	\$ 423,071	\$ -	\$ 423,071

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, 2013

	<u>Fund Level</u> <u>Total</u>	<u>Adjustments</u>	<u>Statement of</u> <u>Activities</u>
Expenditures/Expenses	\$ 50,633	\$ (38,560) ¹	\$ 12,073
Program Revenues			
Charges for Services	5,589	-	5,589
Operating Grants and Contributions	<u>2,091</u>	<u>-</u>	<u>2,091</u>
Total Program Revenues	7,680	-	7,680
Net Program Revenue (Expense)	(42,953)	38,560	(4,393)
General Revenues			
Unrestricted Investment Earnings	<u>1,899</u>	<u>-</u>	<u>1,899</u>
Change in Net Assets (Page 16)	(41,054)	38,560	(2,494)
Fund Balances/Net Position			
Beginning of Year	<u>464,125</u>	<u>(38,560)</u>	<u>425,565</u>
End of Year	<u>\$ 423,071</u>	<u>\$ -</u>	<u>\$ 423,071</u>

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

Bond Principal Payments	\$ (40,000)
Bond Issuance Cost Elimination	603
Amortization of Bond Discount	975
Net Decrease in Accrued Interest Related to Last Debt Service Payment	<u>(138)</u>
Total	<u>\$ (38,560)</u>

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 (City), Minnesota as of December 31, 2013 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued our report thereon dated April 17, 2014. Our report includes a reference to other auditors who audited the financial statements of Crosslake Communications, as described in our report on the City's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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

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

Brainerd, Minnesota
April 17, 2014

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