

CITY OF CROSSLAKE, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2014

**CITY OF CROSSLAKE, MINNESOTA
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DECEMBER 31, 2014**

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INTRODUCTORY SECTION

**CITY OF CROSSLAKE, MINNESOTA
PRINCIPAL CITY OFFICIALS
DECEMBER 31, 2014**

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

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, 2014, 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 59 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.

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, 2014, 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

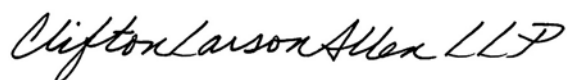
Required Supplementary Information

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, 53, and 54 through 57 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
March 27, 2015

**CITY OF CROSSLAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014**

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, 2014. 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, 2014, and the prior year, 2013, 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 \$20,411,280 (net position). Of this amount \$3,306,336 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ The City's total net position increased during the fiscal year by \$131,639.
- ◆ As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,331,971, an increase of \$222,387 in comparison with the prior year. Of the total amount, \$2,014,696 is available for spending at the City's discretion (unassigned/assigned fund balance). However, as stated below, \$240,018 of the General Fund balance has been assigned by the City Council for future capital outlay needs.
- ◆ At the end of the current fiscal year, unassigned/assigned fund balance for the General Fund was \$2,014,696 of budgeted 2014 expenditures. The City Council has assigned \$240,018 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, 2014**

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 three 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, and Debt Service Fund. There are no nonmajor governmental funds.

**CITY OF CROSSLAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014**

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 20.

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 21 through 25 of this report.

**CITY OF CROSSLAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014**

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 \$20,411,280 at the close of the most recent fiscal year.

By far, the largest portion of the City's net position (77%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net Position

	Governmental Activities		Business-Type Activities		2014 Total
	2014	2013	2014	2013	
Current and Other Assets	\$ 2,795,876	\$ 2,432,050	\$ 2,927,852	\$ 4,616,738	\$ 5,723,728
Capital Assets	11,497,010	11,747,043	10,678,037	11,330,541	22,175,047
Total Assets	14,292,886	14,179,093	13,605,889	15,947,279	27,898,775
Deferred Outflows of Resources	159,553	179,497	-	-	159,553
Long-Term Liabilities Outstanding	2,404,713	2,830,720	4,599,972	6,763,015	7,004,685
Other Liabilities	344,316	132,835	298,047	299,658	642,363
Total Liabilities	2,749,029	2,963,555	4,898,019	7,062,673	7,647,048
Net Position					
Net Investment in Capital Assets	9,432,524	9,244,064	6,231,444	6,509,354	15,663,968
Restricted	329,983	372,860	1,110,993	1,020,090	1,440,976
Unrestricted	1,940,903	1,778,111	1,365,433	1,355,162	3,306,336
Total Net Position	\$ 11,703,410	\$ 11,395,035	\$ 8,707,870	\$ 8,884,606	\$ 20,411,280

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 \$308,375 and a decrease of \$176,736 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, 2014**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Change in Net Position

The City's total net position increased by \$131,639. Key elements of this increase are as follows:

	Change in Net Position				2014 Total
	Governmental Activities		Business-Type Activities		
	2014	2013	2014	2013	
REVENUES					
Program Revenues					
Charges for Services	\$ 454,530	\$ 401,226	\$ 3,868,292	\$ 3,741,127	\$ 4,322,822
Operating Grants and Contributions	186,993	206,622	-	-	186,993
Capital Grants and Contributions	20,626	158,404	-	-	20,626
General Revenues					
Property Taxes	2,561,779	2,500,163	223,870	224,966	2,785,649
Other Taxes	12,967	18,111	-	-	12,967
Intergovernmental	461	-	-	-	461
Unrestricted Investment Earnings (Loss)	4,120	6,072	42,499	(23,107)	46,619
Miscellaneous	107,401	71,501	-	-	107,401
Total Revenues	3,348,877	3,362,099	4,134,661	3,942,986	7,483,538
EXPENSES					
General Government	1,211,140	1,213,499	-	-	1,211,140
Public Safety	848,466	797,332	-	-	848,466
Public Works	730,066	627,856	-	-	730,066
Culture and Recreation	437,906	459,180	-	-	437,906
Economic Development	11,837	13,603	-	-	11,837
Interest on Long-Term Debt	78,820	100,920	-	-	78,820
Communications	-	-	3,545,124	3,521,788	3,545,124
Sewer Utility	-	-	488,540	615,923	488,540
Total Expenses	3,318,235	3,212,390	4,033,664	4,137,711	7,351,899
CHANGE IN NET POSITION BEFORE TRANSFERS					
	30,642	149,709	100,997	(194,725)	131,639
Transfers	277,733	277,238	(277,733)	(277,238)	-
CHANGE IN NET POSITION					
	308,375	426,947	(176,736)	(471,963)	131,639
Net Position - Beginning of Year	11,395,035	10,968,088	8,884,606	9,356,569	20,279,641
NET POSITION - END OF YEAR	\$ 11,703,410	\$ 11,395,035	\$ 8,707,870	\$ 8,884,606	\$ 20,411,280

**CITY OF CROSSLAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014**

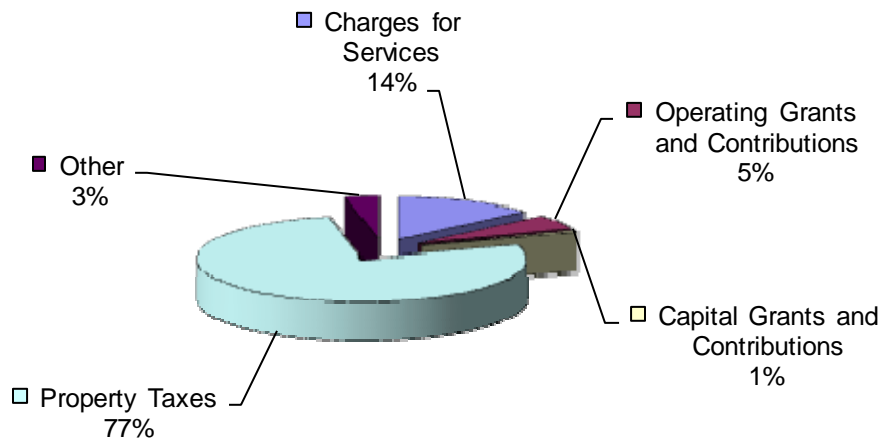
GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Change in Net Position (Continued)

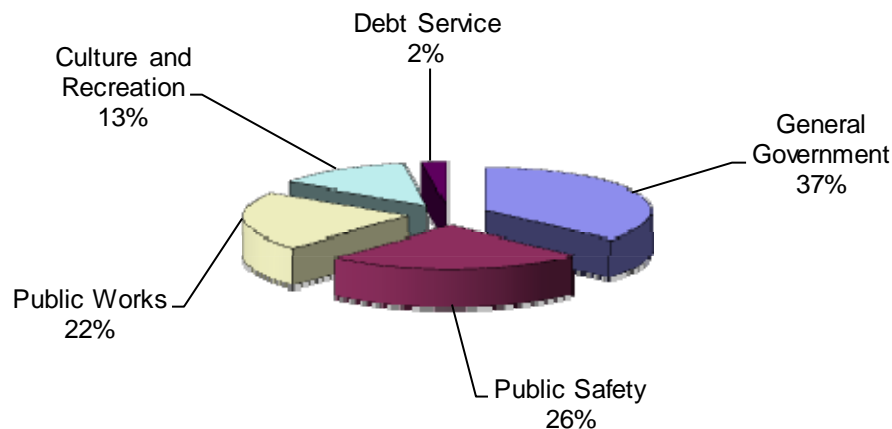
Governmental Activities – Governmental activities increased the City's net position by \$308,375 in 2014 as compared to an increase of \$426,947 in 2013. Key element of this decrease is as follows:

- ◆ Capital grants and contributions decreased approximately \$130,000 from 2013 due to the Debt Service Fund receiving less special assessment revenues than in the prior year.

Governmental Activities Revenues by Source 2014



Governmental Activities Expenditures by Type 2014



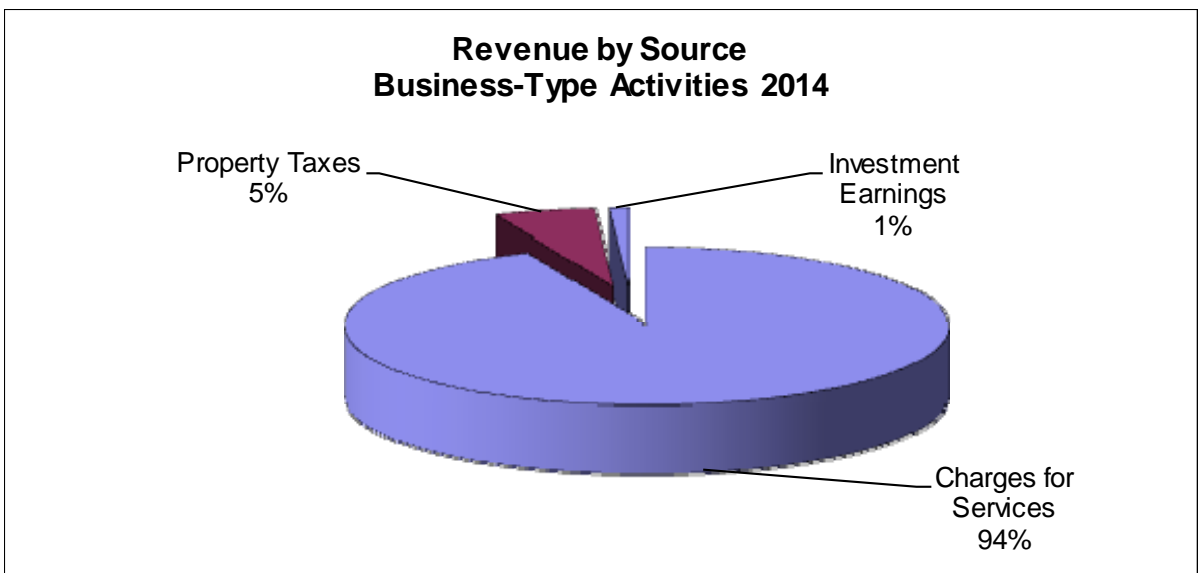
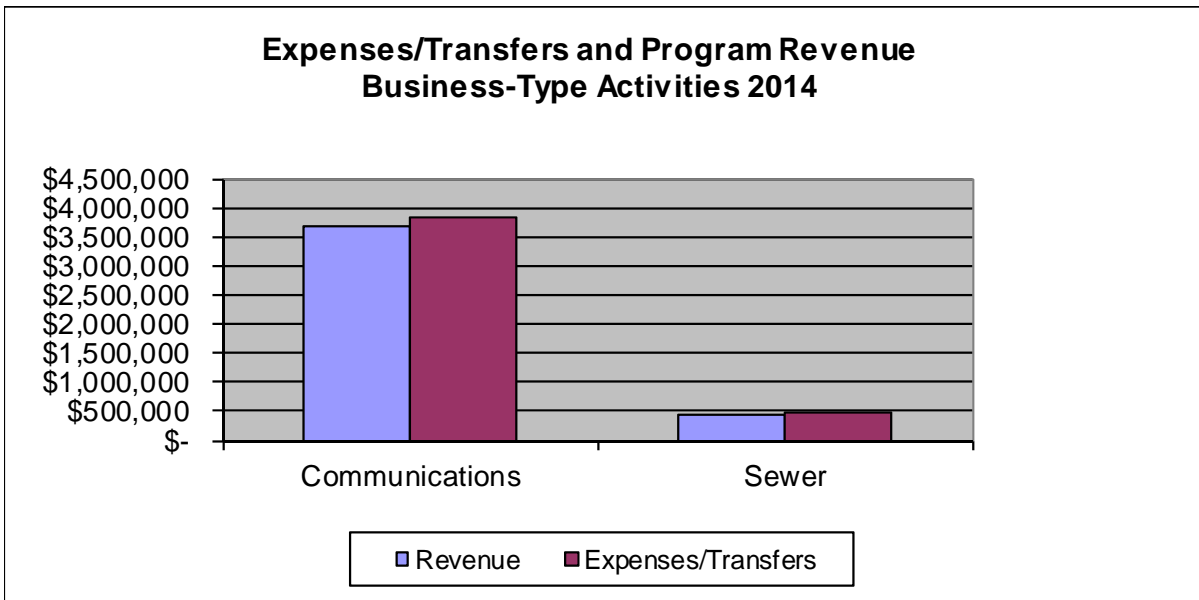
**CITY OF CROSSLAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Change in Net Position (Continued)

Business-Type Activities – Business-type activities decreased the City's net position by \$176,736 in 2014 as compared to \$471,963 in 2013. The Sewer Fund showed a positive cash flow for 2014; however, the Communication Fund showed a negative cash flow for 2014. The 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.



**CITY OF CROSSLAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014**

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 \$2,331,971, an increase of \$222,387 in comparison with the prior year. Of this amount \$2,041,696 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 2014 (\$287,887). In addition, a portion of unassigned/assigned fund balance has been assigned by the City Council for future years' capital outlay (\$240,018).

The General Fund is the primary operating fund of the City. At the end of the current year, unassigned/assigned fund balance of the General Fund was \$2,041,696. Total fund balance was \$2,044,084. 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 63% and 64% of total 2014 General Fund expenditures, respectively.

The fund balance of the City's General Fund increased by \$218,828 during the current fiscal year. Key factors in this increase are as follows:

- ◆ Total expenditures in the General Fund decreased \$223,306 as compared to 2013. The decrease is due to the City acquiring fewer capital assets in 2014, which caused capital outlay to decrease by approximately \$143,000. Also planning and zoning in the general government decreased approximately \$86,000 due to the City's process reorganization completed in late 2013.
- ◆ Total revenues in the General Fund increased \$145,238 from 2013. The increase is due to property taxes increasing approximately \$91,000 from 2013 because of an increase in the levy. Charges for services also increased approximately \$48,000 due to the Joint County Facility Payments that the City receives.

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 was one budget revision during the year. \$50,000 of consulting fees originally budgeted in the Sewer Fund were reclassified to the General Fund. Total budgeted expenditures did not change.

Revenues were over budget by approximately 8% due primarily to donations received in excess of budgeted amounts and to the sale of certain fire apparatus during the year.

Expenditures exceeded budget by approximately \$78,000 in part to improvements made to City Hall and the Community Center. These improvements were funded in part by reserves previously set aside for capital improvements.

**CITY OF CROSSLAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014**

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, 2014, amounts to \$22,175,047 (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		2014 Total
	2014	2013	2014	2013	
Land	\$ 920,921	\$ 853,806	\$ 15,367	\$ 15,367	\$ 936,288
Construction in Progress	-	-	80,675	71,025	80,675
Buildings	3,514,360	3,798,444	3,599,669	3,729,221	7,114,029
Improvements Other than Buildings	387,907	394,590	17,743	17,743	405,650
Machinery and Equipment	1,205,853	1,092,456	935,751	1,363,774	2,141,604
Infrastructure	5,467,969	5,607,747	6,028,832	6,133,411	11,496,801
Total	<u>\$ 11,497,010</u>	<u>\$ 11,747,043</u>	<u>\$ 10,678,037</u>	<u>\$ 11,330,541</u>	<u>\$ 22,175,047</u>

Detailed information on the City's capital assets can be found in the Notes to the Financial Statements (3.A.6, Capital Assets).

Long-Term Liabilities

Governmental Activities – At the end of the current fiscal year, the City's governmental activities had total debt outstanding of \$2,404,713. Of this amount, \$2,194,609 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 \$29,430. Additionally, the City owed \$72,282 in compensated absences to its employees and an estimated \$108,392 in other postemployment benefits at December 31, 2014.

Governmental Activities Outstanding Long-Term Liabilities

	2014	2013
General Obligation Bonds	\$ 2,194,609	\$ 2,646,301
Capital Leases	29,430	36,175
Compensated Absences	72,282	52,725
Other Postemployment Benefits Payable	108,392	95,519
Total	<u>\$ 2,404,713</u>	<u>\$ 2,830,720</u>

Detailed information on the City's long term liabilities can be found in the Notes to the Financial Statements (3.B.1, Long Term Debt).

**CITY OF CROSSLAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014**

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 \$426,007 (15%) 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 \$4,599,973, consisting of general obligation, revenue bonds and other long-term liabilities. This decrease of \$2,163,042 (32%) from 2013 reflects the payments made on bonds in the current year, including payment of \$1,905,000 of refunded debt. 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 increased 1.14% from \$1,103,756,700 to \$1,116,323,800 and the taxable tax capacity increased 1.05% from \$11,753,058 to \$11,876,528 for taxes payable in 2015. These increases in values along with an overall increase in the City's tax levy request from 2014 resulted in an increase of 0.70% in the City's tax rate from 23.82% to 24.52% for taxes payable in 2015.

These factors were taken into account by the City of Crosslake when preparing the 2015 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.

BASIC FINANCIAL STATEMENTS

CITY OF CROSSLAKE, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Economic Development Authority
ASSETS				
Cash and Investments	\$ 2,520,786	\$ 408,669	\$ 2,929,455	\$ 10,546
Receivables				
Taxes	101,899	8,811	110,710	899
Accounts	48,259	110,957	159,216	-
Special Assessments	82,970	-	82,970	-
Connection Charges	-	5,825	5,825	-
Accrued Interest	-	3,049	3,049	-
Due from Other Governments	12,574	-	12,574	-
Materials and Supplies	-	81,899	81,899	-
Prepayments	29,388	62,565	91,953	-
Other Investments	-	49,800	49,800	-
Other Assets	-	28,542	28,542	-
Restricted, Designated and Long-Term Assets				
Cash and Investments	-	2,167,735	2,167,735	257,973
Loans Receivable	-	-	-	171,688
Capital Assets				
Land and Construction In Progress	920,921	96,042	1,016,963	-
Other Capital Assets, Net of Depreciation	10,576,089	10,581,995	21,158,084	-
Total Assets	14,292,886	13,605,889	27,898,775	441,106
DEFERRED OUTFLOWS OF RESOURCES				
Loss on Refunding	159,553	-	159,553	-
LIABILITIES				
Current Liabilities				
Accounts Payable	28,324	198,899	227,223	-
Accrued Liabilities	53,017	82,640	135,657	-
Accrued Interest Payable	21,956	16,508	38,464	-
Due to Other Governments	229,952	-	229,952	-
Unearned Revenue	11,067	-	11,067	-
Long-Term Liabilities				
Due within One Year	503,820	531,575	1,035,395	-
Due in More than One Year, Net of				
Unamortized Discount	1,900,893	4,068,397	5,969,290	-
Total Liabilities	2,749,029	4,898,019	7,647,048	-
NET POSITION				
Net Investment in Capital Assets	9,432,524	6,231,444	15,663,968	-
Restricted for:				
Tax Increment Financing	3,284	-	3,284	-
Economic Development	-	-	-	429,661
Debt Service	326,699	655,993	982,692	-
Revenue Bond Reserve	-	455,000	455,000	-
Unrestricted	1,940,903	1,365,433	3,306,336	11,445
Total Net Position	\$ 11,703,410	\$ 8,707,870	\$ 20,411,280	\$ 441,106

See accompanying Notes to Financial Statements.

**CITY OF CROSSLAKE, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2014**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	\$ 1,211,140	\$ 122,131	\$ 38,643	\$ -
Public Safety	848,466	94,983	126,767	5,000
Public Works	730,066	177,481	-	5,000
Culture and Recreation	437,906	59,935	21,583	1,979
Economic Development	11,837	-	-	-
Debt Service	78,820	-	-	8,647
Total Governmental Activities	<u>3,318,235</u>	<u>454,530</u>	<u>186,993</u>	<u>20,626</u>
Business-Type Activities				
Communications	3,545,124	3,654,683	-	-
Sewer	488,540	213,609	-	-
Total Business-Type Activities	<u>4,033,664</u>	<u>3,868,292</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 7,351,899</u>	<u>\$ 4,322,822</u>	<u>\$ 186,993</u>	<u>\$ 20,626</u>
Component Unit				
Economic Development Authority	\$ 11,835	4,757	\$ -	\$ -

General Revenues
 Taxes
 Property Taxes, Levied for General Purpose
 Other Taxes
 Intergovernmental Revenues
 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

Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Economic Development Authority
\$ (1,050,366)	\$ -	\$ (1,050,366)	\$ -
(621,716)	-	(621,716)	-
(547,585)	-	(547,585)	-
(354,409)	-	(354,409)	-
(11,837)	-	(11,837)	-
(70,173)	-	(70,173)	-
(2,656,086)	-	(2,656,086)	-
-	109,559	109,559	-
-	(274,931)	(274,931)	-
-	(165,372)	(165,372)	-
(2,656,086)	(165,372)	(2,821,458)	-
-	-	-	(7,078)
2,561,779	223,870	2,785,649	23,280
12,967	-	12,967	-
461	-	461	-
4,120	42,499	46,619	1,833
107,401	-	107,401	-
277,733	(277,733)	-	-
2,964,461	(11,364)	2,953,097	25,113
308,375	(176,736)	131,639	18,035
11,395,035	8,884,606	20,279,641	423,071
<u>\$ 11,703,410</u>	<u>\$ 8,707,870</u>	<u>\$ 20,411,280</u>	<u>\$ 441,106</u>

**CITY OF CROSSLAKE, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

	GENERAL FUND	TAX INCREMENT FINANCING FUND	DEBT SERVICE FUND	TOTAL GOVERNMENTAL FUNDS
ASSETS				
Cash and Investments	\$ 2,238,336	\$ 3,284	\$ 279,166	\$ 2,520,786
Receivables				
Taxes	92,128	-	9,771	101,899
Special Assessments	23,252	-	59,718	82,970
Accounts	48,259	-	-	48,259
Due from Other Governments	12,574	-	-	12,574
Prepayments	29,388	-	-	29,388
Total Assets	<u>\$ 2,443,937</u>	<u>\$ 3,284</u>	<u>\$ 348,655</u>	<u>\$ 2,795,876</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 28,324	\$ -	\$ -	\$ 28,324
Accrued Liabilities	13,531	-	-	13,531
Unearned Revenue	11,067	-	-	11,067
Due to Other Governments	229,952	-	-	229,952
Other Current Liabilities	39,486	-	-	39,486
Total Liabilities	322,360	-	-	322,360
Deferred Inflows of Resources				
Unavailable Revenue on Property Taxes	54,241	-	5,730	59,971
Unavailable Revenue on Special Assessments	23,252	-	58,322	81,574
Total Deferred Inflows of Resources	77,493	-	64,052	141,545
Fund Balances				
Nonspendable for:				
Prepayments	29,388	-	-	29,388
Restricted for:				
Debt Service	-	-	284,603	284,603
Tax Increment Financing	-	3,284	-	3,284
Assigned for:				
Capital Outlay	240,018	-	-	240,018
Unassigned:				
General Fund	1,774,678	-	-	1,774,678
Total Fund Balances	<u>2,044,084</u>	<u>3,284</u>	<u>284,603</u>	<u>2,331,971</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 2,443,937</u>	<u>\$ 3,284</u>	<u>\$ 348,655</u>	<u>\$ 2,795,876</u>

See accompanying Notes to Financial Statements.

**CITY OF CROSSLAKE, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2014**

TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS \$ 2,331,971

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	\$ 920,921	
Capital Assets, Being Depreciated	18,702,452	
Accumulated Depreciation	<u>(8,126,363)</u>	
		11,497,010

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. 141,545

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. (21,956)

The loss on refunding is reported as a deferred outflow on the statement of net position and amortized over the life of the bonds. 159,553

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	(2,165,000)	
Unamortized Discounts/ Premiums	(29,609)	
Compensated Absences Payable	(72,282)	
Other Postemployment Benefits Payable	(108,392)	
Obligations Under Capital Leases	<u>(29,430)</u>	<u>(2,404,713)</u>

TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 11,703,410

CITY OF CROSSLAKE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2014

	GENERAL FUND	TAX INCREMENT FINANCING FUND	DEBT SERVICE FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Taxes	\$ 2,329,705	\$ -	\$ 251,971	\$ 2,581,676
Tax Increments	-	12,967	-	12,967
Licenses and Permits	78,522	-	-	78,522
Intergovernmental	111,899	-	-	111,899
Charges for Services	358,124	-	-	358,124
Fines and Forfeits	25,607	-	-	25,607
Special Assessments	7,475	-	54,749	62,224
Interest	4,120	-	-	4,120
Contributions and Donations	67,662	-	-	67,662
Miscellaneous	119,550	-	-	119,550
Total Revenues	<u>3,102,664</u>	<u>12,967</u>	<u>306,720</u>	<u>3,422,351</u>
EXPENDITURES				
Current				
General Government	744,028	-	-	744,028
Public Safety	620,629	-	-	620,629
Public Works	441,978	-	-	441,978
Culture and Recreation	392,435	-	-	392,435
Economic Development	-	11,837	-	11,837
Miscellaneous	89,641	-	2,026	91,667
Capital Outlay	656,404	-	-	656,404
Debt Service				
Principal Retirement	194,242	-	275,000	469,242
Interest and Fiscal Charges	39,349	-	22,625	61,974
Total Expenditures	<u>3,178,706</u>	<u>11,837</u>	<u>299,651</u>	<u>3,490,194</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(76,042)	1,130	7,069	(67,843)
OTHER FINANCING SOURCES (USES)				
Capital Lease Proceeds	12,497	-	-	12,497
Transfers In	282,373	-	-	282,373
Transfers Out	-	(4,640)	-	(4,640)
Total Other Financing Sources (Uses)	<u>294,870</u>	<u>(4,640)</u>	<u>-</u>	<u>290,230</u>
NET CHANGE IN FUND BALANCES	218,828	(3,510)	7,069	222,387
Fund Balances - Beginning of Year	<u>1,825,256</u>	<u>6,794</u>	<u>277,534</u>	<u>2,109,584</u>
FUND BALANCES - END OF YEAR	<u>\$ 2,044,084</u>	<u>\$ 3,284</u>	<u>\$ 284,603</u>	<u>\$ 2,331,971</u>

See accompanying Notes to Financial Statements.

**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, 2014**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 222,387

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	\$ 627,381	
Disposal of Capital Assets - Net Book Value	(75,001)	
Depreciation Expense	<u>(802,413)</u>	(250,033)

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.

Other Financing Source - Capital Lease Proceeds	(12,497)	
Principal Payments of Capital Leases	<u>19,242</u>	6,745

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	450,000	
Change in Accrued Interest Expense for General Obligation Bonds	3,432	
Amortization of Bond Premium	4,299	
Amortization of Bond Discount	<u>(2,607)</u>	455,124

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		(19,557)
Change in Other Postemployment Benefits		(12,873)
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, 2013	(215,019)	
Unavailable Revenue - December 31, 2014	<u>141,545</u>	<u>(73,474)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 308,375

**CITY OF CROSSLAKE, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2014**

ASSETS	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	COMMUNICATIONS	SEWER	TOTALS
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 408,669	-	\$ 408,669
Receivables			
Accounts	92,441	18,516	110,957
Accrued Interest	3,049	-	3,049
Taxes	-	3,628	3,628
Connection Charges	-	4,675	4,675
Materials and Supplies	81,899	-	81,899
Prepayments	59,871	2,694	62,565
	645,929	29,513	675,442
Total Current Assets			
NONCURRENT ASSETS			
Investments, including Board Designated	1,023,960	-	1,023,960
Taxes Receivable	-	5,183	5,183
Restricted Assets			
Cash and Cash Equivalents	455,000	519,952	974,952
Investments	168,823	-	168,823
Connection Charges Receivable	-	1,150	1,150
Other Investments	49,800	-	49,800
Other Assets	28,542	-	28,542
Capital Assets			
Land	6,654	8,713	15,367
Building and Improvements	9,939,175	3,696,912	13,636,087
Machinery and Equipment	5,876,651	247,413	6,124,064
Sanitary Sewers	-	3,080,700	3,080,700
Construction-in-Progress	80,675	-	80,675
Subtotal Capital Assets	15,903,155	7,033,738	22,936,893
Less: Accumulated Depreciation	(10,206,837)	(2,052,019)	(12,258,856)
Net Capital Assets	5,696,318	4,981,719	10,678,037
Total Noncurrent Assets	7,422,443	5,508,004	12,930,447
Total Assets	8,068,372	5,537,517	13,605,889

See accompanying Notes to Financial Statements.

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	COMMUNICATIONS	SEWER	TOTALS
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Accounts Payable	\$ 194,918	\$ 3,981	\$ 198,899
Salaries and Wages Payable	-	779	779
Advance Payments	22,554	-	22,554
Customer Deposits	58,896	411	59,307
Accrued Compensated Absences	-	6,575	6,575
Bonds Payable	355,000	-	355,000
Total Current Liabilities	<u>631,368</u>	<u>11,746</u>	<u>643,114</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS			
Accrued Interest Payable	-	16,508	16,508
Revenue Bonds Payable	-	170,000	170,000
Total Current Liabilities Payable from Restricted Assets	-	<u>186,508</u>	<u>186,508</u>
LONG-TERM LIABILITIES			
Bonds Payable (Net of Unamortized Bond Discounts)	2,215,840	1,705,753	3,921,593
Accrued Compensated Absences	-	18,382	18,382
Other Postemployment Benefits Payable	120,597	7,825	128,422
Total Long-Term Liabilities	<u>2,336,437</u>	<u>1,731,960</u>	<u>4,068,397</u>
Total Liabilities	<u>2,967,805</u>	<u>1,930,214</u>	<u>4,898,019</u>
NET POSITION			
Net Investment in Capital Assets	3,125,478	3,105,966	6,231,444
Restricted For:			
Debt Service	168,823	487,170	655,993
Revenue Bond Reserve	455,000	-	455,000
Unrestricted	1,351,266	14,167	1,365,433
Total Net Position	<u>\$ 5,100,567</u>	<u>\$ 3,607,303</u>	<u>\$ 8,707,870</u>

CITY OF CROSSLAKE, MINNESOTA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2014

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	COMMUNICATIONS	SEWER	TOTALS
OPERATING REVENUES			
Sales and Charges for Services	\$ 3,654,683	203,666	\$ 3,858,349
Resident Revenue	-	8,000	8,000
Total Operating Revenues	<u>3,654,683</u>	<u>211,666</u>	<u>3,866,349</u>
OPERATING EXPENSES			
Personal Services	-	115,266	115,266
Supplies	-	13,369	13,369
Repairs and Maintenance	-	27,370	27,370
Other Services and Charges	-	70,365	70,365
Plant Specific	456,810	-	456,810
Depreciation	789,345	195,826	985,171
Plant Support	312,133	-	312,133
Customer	331,851	-	331,851
Signal Purchases	720,083	-	720,083
Other Nonregulated	313,730	-	313,730
General and Administrative	472,553	-	472,553
Total Operating Expenses	<u>3,396,505</u>	<u>422,196</u>	<u>3,818,701</u>
OPERATING INCOME (LOSS)	258,178	(210,530)	47,648
NONOPERATING REVENUES (EXPENSES)			
Property Taxes	-	223,870	223,870
Investment Earnings	19,539	878	20,417
Interest Expense	(148,619)	(66,344)	(214,963)
Miscellaneous Revenues (Expenses)	-	1,943	1,943
Net Increase in the Fair Value of Investments	22,082	-	22,082
Total Nonoperating Revenues (Expenses)	<u>(106,998)</u>	<u>160,347</u>	<u>53,349</u>
INCOME (LOSS) BEFORE TRANSFERS OUT	151,180	(50,183)	100,997
TRANSFERS OUT	<u>(277,733)</u>	-	<u>(277,733)</u>
CHANGE IN NET POSITION	(126,553)	(50,183)	(176,736)
Net Position - Beginning of Year	<u>5,227,120</u>	<u>3,657,486</u>	<u>8,884,606</u>
NET POSITION - END OF YEAR	<u>\$ 5,100,567</u>	<u>\$ 3,607,303</u>	<u>\$ 8,707,870</u>

See accompanying Notes to Financial Statements.

**CITY OF CROSSLAKE, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2014**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	COMMUNICATIONS	SEWER	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 2,657,561	\$ 218,319	\$ 2,875,880
Cash Received from Others	989,816	-	989,816
Cash Paid to Employees for Services	(1,066,284)	(110,749)	(1,177,033)
Cash Paid to Suppliers for Goods and Services	(1,489,803)	(109,929)	(1,599,732)
Net Cash Provided (Used) by Operating Activities	1,091,290	(2,359)	1,088,931
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Miscellaneous Revenues (Expenses)	-	1,943	1,943
Transfers to Other Funds	(277,733)	-	(277,733)
Increase (Decrease) in Customer Deposits	3,090	-	3,090
Net Cash Provided (Used) by Noncapital Financing Activities	(274,643)	1,943	(272,700)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and Construction of Capital Assets	(332,334)	-	(332,334)
Proceeds from Sale of Property, Plant and Equipment	(334)	-	(334)
Decrease in Materials and Supplies	1,589	-	1,589
Property Taxes Received	-	227,564	227,564
Collection of Connection Charges	-	36,399	36,399
Interest Paid	(139,238)	(79,901)	(219,139)
Principal Payments on Long-Term Debt	(310,000)	(1,905,000)	(2,215,000)
Net Cash Provided (Used) by Capital and Related Financing Activities	(780,317)	(1,720,938)	(2,501,255)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net Purchases of Restricted and Unrestricted Investment Securities	(365,000)	-	(365,000)
Sale of Investments	195,678	1,790,669	1,986,347
Interest Received	19,350	4,365	23,715
Net Cash Provided (Used) by Investing Activities	(149,972)	1,795,034	1,645,062
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
	(113,642)	73,680	(39,962)
Cash and Cash Equivalents - Beginning of Year	522,311	446,272	968,583
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 408,669	\$ 519,952	\$ 928,621

See accompanying Notes to Financial Statements.

**CITY OF CROSSLAKE, MINNESOTA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2014**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	COMMUNICATIONS	SEWER	TOTALS
RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH FLOWS FROM OPERATING ACTIVITIES			
Operating Income (Loss)	\$ 258,178	\$ (210,530)	\$ 47,648
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Depreciation	789,345	195,826	985,171
(Increase) Decrease in Assets:			
Accounts Receivable	(212)	6,653	6,441
Other Receivables	(3,814)	-	(3,814)
Prepayments	(49)	(85)	(134)
Increase (Decrease) in Liabilities:			
Accounts Payable	31,653	105	31,758
Accrued Liabilities	-	245	245
Accrued Compensated Absences	-	4,272	4,272
Advance Payments	(3,281)	-	(3,281)
Postemployment Benefits Payable	19,470	1,155	20,625
Net Cash Provided (Used) by Operating Activities	\$ 1,091,290	\$ (2,359)	\$ 1,088,931
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION			
Current Assets			
Cash and Cash Equivalents	\$ 408,669	\$ -	\$ 408,669
Noncurrent Assets			
Investments	1,023,960	-	1,023,960
Restricted Assets			
Cash and Investments	623,823	519,952	1,143,775
Other Investments	49,800	-	49,800
Less: Investments not Meeting Definition of Cash Equivalents	(1,697,583)	-	(1,697,583)
Total Cash and Cash Equivalents	\$ 408,669	\$ 519,952	\$ 928,621

See accompanying Notes to Financial Statements.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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, 2014**

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, 2014**

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.

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.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

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, 2014**

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. 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.

3. 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, 2014**

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)

3. 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.

4. Accounts Receivable

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

5. 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.

6. 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.

7. Materials and Supplies

Inventory is recorded at average cost.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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)

8. 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

9. 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, 2014**

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)

10. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation and allowable sick pay is accrued when incurred in the government-wide and proprietary statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements

11. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts 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.

12. Fund Balance

Governmental Fund Financial Statements – In the fund financial statements, governmental funds report components of fund balance to provide information about fund balance availability for appropriation. Nonspendable fund balance is the portion of fund balance that cannot be spent because it is either in nonspendable form or there is a legal or contractual requirement for the funds to remain intact. Restricted fund balance represents amounts available for appropriation but intended for a specific use and is legally restricted by outside parties. 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, 2014**

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)

12. Fund Balance (Continued)

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 \$78,726 in part to improvements made to City Hall and the Community Center. These improvements were funded in part by reserves previously set aside for capital improvements. The overage was considered by City management to be the result of necessary expenditures critical to operations and was approved by the Council.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits

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

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

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

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

The City's deposits in banks at December 31, 2014 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.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Investments (Continued)

- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories.
- Repurchase or reverse purchase agreement and securities lending agreements financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

Interest rate risk – Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. Investments are categorized to give an indication of the level of interest rate risk assumed at year-end. Fair market values and maturities as of December 31, 2014 are as follows:

<u>Investment Type</u>	<u>Total Fair Value</u>	<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More than 60 Months</u>
Minnesota Municipal Money Market Fund Trust	\$ 2,103,356	\$ 2,103,356	\$ -	\$ -	\$ -
Money Market Funds	714,366	714,366	-	-	-
Certificates of Deposits	99,330	-	-	99,330	-
U.S. Treasury Notes	363,076	139,532	72,154	71,785	79,605
U.S. Treasury Bond	101,545	-	-	-	101,545
Federal National Mortgage Association Notes	96,946	-	96,592	-	354
Tennessee Valley Authority Preferred Stock	82,074	-	-	-	82,074
Total	<u>\$ 3,560,693</u>	<u>\$ 2,957,254</u>	<u>\$ 168,746</u>	<u>\$ 171,115</u>	<u>\$ 263,578</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, 2014, 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, 2014**

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	\$ 1,854,816
Investments	3,560,693
Total Cash and Investments	<u>\$ 5,415,509</u>
Cash and Investments - Governmental Funds	\$ 2,520,786
Cash and Investments - Proprietary Funds	408,669
Cash and Investments - Component Unit	10,546
Restricted, Designated, and Long-Term	
Cash and Investments	
Business-Type (Note 3,A,3)	2,167,735
Component Unit	257,973
Other Investments - Proprietary Funds	49,800
Total Cash and Investments	<u>\$ 5,415,509</u>

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, 2014, restricted and designated cash and investments consisted of the following:

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

Restricted Assets - Cash and Investments	
Restricted for Debt Service Covenants - Sewer Fund	\$ 519,952
Restricted for Debt Service - Communications Fund	<u>455,000</u>
Total Restricted Cash and Investments	<u>974,952</u>
Restricted Assets - Investments	
Restricted for Debt Service Covenants - Communications Fund	168,823
Investments, including Board Designated	
Designated Investments	
Operations and Maintenance Reserve - CATV	32,912
Heavy Equipment Reserve	60,668
New Technology Reserve	59,552
Vehicle Reserve	<u>17,955</u>
Total Designated Investments	<u>171,087</u>
Long-Term Investments with No Designation	<u>852,873</u>
Total Investments, including Board Designated	<u>1,023,960</u>
Total Restricted and Designated Cash and Investments	<u><u>\$ 2,167,735</u></u>

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Interfund Receivables, Payables, and Transfers

Interfund transfers for the year ended December 31, 2014, were as follows:

	Transfer In:	
	Primary Government	
	General	
	Fund	Total
Transfer Out:		
<u>Primary Government</u>		
Communications Fund	\$ 277,733	\$ 277,733
TIF	4,640	4,640
Total	\$ 282,373	\$ 282,373

The transfer from the TIF Fund to the General Fund is to reclassify excess TIF 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.

5. Loans Receivable

The EDA component unit had the following notes receivable as of December 31, 2014:

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. \$ 37,403

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. 35,634

Crosswoods Properties, LLC & Crosswoods Golf Course, Inc.; 120 monthly payments that vary each month, including interest at 4.0%; commencing September 2014, and ending December 2024; secured by personal guarantee. 98,651

Total Commercial Loans Receivable \$ 171,688

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

6. Capital Assets

Capital asset activity for the Primary Government for the year ended December 31, 2014, is as follows:

	Beginning Balance	Increases	Decreases/ Adjustments	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets, Not Being Depreciated				
Land	\$ 853,806	\$ -	\$ 67,115	\$ 920,921
Capital Assets, Being Depreciated				
Buildings	5,445,136	5,903	(150,450)	5,300,590
Improvements Other Than Buildings	826,372	36,618	-	862,990
Machinery and Equipment	3,154,144	372,722	(185,766)	3,341,100
Infrastructure	8,985,634	212,138	-	9,197,772
Total Capital Assets, Being Depreciated	18,411,286	627,381	(336,216)	18,702,452
Less Accumulated Depreciation for				
Buildings	(1,646,692)	(147,871)	8,333	(1,786,230)
Improvements Other Than Buildings	(431,782)	(43,301)	-	(475,083)
Machinery and Equipment	(2,061,688)	(259,325)	185,766	(2,135,247)
Infrastructure	(3,377,887)	(351,916)	-	(3,729,803)
Total Accumulated Depreciation	(7,518,049)	(802,413)	194,099	(8,126,363)
Total Capital Assets, Being Depreciated, Net	10,893,237	(175,032)	(142,117)	10,576,089
Governmental Activities Capital Assets, Net	<u>\$ 11,747,043</u>	<u>\$ (175,032)</u>	<u>\$ (75,002)</u>	<u>\$ 11,497,010</u>

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

6. Capital Assets (Continued)

Capital asset activity for the Primary Government for the year ended December 31, 2014, 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	9,650	-	80,675
Total Capital Assets, Not Being Depreciated	86,392	9,650	-	96,042
Capital Assets, Being Depreciated				
Buildings and Improvements	5,107,329	-	-	5,107,329
Machinery and Equipment	6,104,445	59,146	(33,259)	6,130,332
Communications Infrastructure	6,691,076	224,678	(152,729)	6,763,025
CATV Infrastructure	1,718,230	39,292	1,943	1,759,465
Sanitary Sewers	3,080,700	-	-	3,080,700
Total Capital Assets, Being Depreciated	22,701,780	323,116	(184,045)	22,840,851
Less Accumulated Depreciation For				
Buildings and Improvements	(1,360,365)	(129,552)	-	(1,489,917)
Machinery and Equipment	(4,740,671)	(481,043)	27,133	(5,194,581)
Communications Infrastructure	(3,163,687)	(264,772)	153,019	(3,275,440)
CATV Infrastructure	(1,395,014)	(93,800)	3,794	(1,485,020)
Sanitary Sewers	(797,894)	(16,004)	-	(813,898)
Total Accumulated Depreciation	(11,457,631)	(985,171)	183,946	(12,258,856)
Total Capital Assets, Being Depreciated, Net	11,244,149	(662,055)	(99)	10,581,995
Business-Type Activities Capital Assets, Net	<u>\$ 11,330,541</u>	<u>\$ (652,405)</u>	<u>\$ (99)</u>	<u>\$ 10,678,037</u>

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

Governmental Activities	
General Government	\$ 355,282
Public Safety	153,538
Public Works	192,132
Culture and Recreation	101,461
Total Depreciation Expense - Governmental Activities	<u>\$ 802,413</u>
Business-Type Activities	
Communications	\$ 789,345
Sewer	195,826
Total Depreciation Expense - Business-Type Activities	<u>\$ 985,171</u>

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Liabilities

1. Long-Term Debt

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

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

	<u>Range of Interest Rates</u>	<u>Original Issue</u>	<u>Amount Outstanding</u>
BONDED INDEBTEDNESS			
PRIMARY GOVERNMENT			
GENERAL OBLIGATION BONDS			
G.O. Improvement Bonds, Series 2006B	3.65-4.10%	\$ 1,330,000	\$ 305,000
G.O. Refunding Bonds, Series 2012A	2.00-2.55%	4,310,000	3,715,000
GENERAL OBLIGATION REVENUE BONDS			
G.O. Telephone Utility Revenue Bond - 2006A	4.00-5.00%	<u>4,770,000</u>	<u>2,620,000</u>
Total Primary Government General Obligation Bonds		<u><u>\$ 10,410,000</u></u>	<u><u>\$ 6,640,000</u></u>

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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, 2014, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
PRIMARY GOVERNMENT					
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds	\$ 2,615,000	\$ -	\$ (450,000)	\$ 2,165,000	\$ 455,000
Issuance Discounts	(7,386)	-	2,607	(4,779)	-
Issuance Premiums	38,687	-	(4,299)	34,388	-
Total Bonds Payable	2,646,301	-	(451,692)	2,194,609	455,000
Capital Leases Payable	36,175	12,497	(19,242)	29,430	20,682
Compensated Absences	52,725	54,701	(35,144)	72,282	28,138
Other Postemployment Benefits Payable	95,519	12,873	-	108,392	-
Governmental Activity Long-Term Liabilities	<u>\$ 2,830,720</u>	<u>\$ 80,071</u>	<u>\$ (506,078)</u>	<u>\$ 2,404,713</u>	<u>\$ 503,820</u>
BUSINESS-TYPE ACTIVITIES					
General Obligation Bonds	\$ 3,760,000	\$ -	\$ (1,905,000)	\$ 1,855,000	\$ 170,000
Revenue Bonds	2,930,000	-	(310,000)	2,620,000	355,000
Issuance Discounts	(78,815)	-	29,655	(49,160)	-
Issuance Premiums	23,348	-	(2,594)	20,754	-
Total Bonds Payable	6,634,533	-	(2,187,939)	4,446,594	525,000
Compensated Absences	20,685	6,575	(2,303)	24,957	6,575
Other Postemployment Benefits Payable	107,797	20,625	-	128,422	-
Business-Type Activity Long-Term Liabilities	<u>\$ 6,763,015</u>	<u>\$ 27,200</u>	<u>\$ (2,190,242)</u>	<u>\$ 4,599,973</u>	<u>\$ 531,575</u>

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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
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	190,000	19,653	2019	185,000	24,055
2020-2023	810,000	37,421	2020-2024	980,000	59,178
Total	\$ 2,165,000	\$ 193,071	Total	\$ 1,855,000	\$ 214,653

General Obligation Revenue Bonds		
	Business-Type Activities	
	Principal	Interest
2015	\$ 355,000	\$ 126,305
2016	335,000	111,355
2017	345,000	95,545
2018	360,000	78,860
2019	390,000	60,860
2020-2021	835,000	91,413
Total	\$ 2,620,000	\$ 564,338

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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 \$1,905,000. 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. In 2014, the City entered into a lease agreement for a copier for the Parks and Library departments. 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	232,957
Less: Accumulated Depreciation	(482,209)
Total	<u>\$ 636,730</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2014, were as follows:

December 31,	
2015	\$ 21,422
2016	2,499
2017	2,499
2018	2,499
2019	1,251
Total Minimum Lease Payments	<u>30,170</u>
Less: Amount Representing Interest	(740)
Present Value of Minimum Lease Payments	<u>\$ 29,430</u>

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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, 2014**

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, 2014**

NOTE 4 PENSION PLANS (CONTINUED)

A. Public Employees Retirement Association (Continued)

Plan Description (Continued)

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

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

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

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERP Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2014. PEPFF members are required to contribute 9.6% of their annual covered salary in 2014. In 2014, 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 15.30% for PEPFF members. The City's contributions to the General Employees Retirement Fund for the years ending December 31, 2014, 2013, and 2012, were \$86,386, \$100,091, and \$104,581, respectively. The City's contributions to the Public Employees Police and Fire Fund for the years ending December 31, 2014, 2013, and 2012 were \$46,185, \$45,365, and \$41,915, 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, 2014**

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 2014 contribution to the plan was as follows:

State Aid flowed through City to Relief Association	\$ 39,431
Voluntary (Non-Required) Contribution from City	<u>14,246</u>
Total Contribution	<u><u>\$ 53,677</u></u>

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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, 2014, there was one retiree receiving health benefits from the City’s health plan.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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 2014, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Annual Required Contribution (ARC):	\$ 51,546
Interest on Net OPEB Obligation	9,150
Adjustment to ARC	<u>(12,643)</u>
Annual OPEB Cost	48,053
Contributions During the Year	<u>(14,555)</u>
Increase in Net OPEB Obligation	33,498
Net OPEB - Beginning of the Year	<u>203,316</u>
Net OPEB - End of the Year	<u><u>\$ 236,814</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, 2014 were as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2014	\$ 48,053	\$ (14,555)	(0.3)%	\$ 236,814
December 31, 2013	48,339	(11,486)	(0.2)	203,316
December 31, 2012	43,378	-	-	166,463

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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, 2014**

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:

<u>December 31,</u>		
2015	\$	110,983
2016		111,752
2017		112,467
2018		113,130
2019		111,116
2020-2023		449,133
Total	\$	<u>1,008,579</u>

NOTE 7 SUBSEQUENT EVENT

On February 17, 2015, Crosslake Communications (an enterprise fund of the City of Crosslake) issued \$2,485,000 Communications Utility Revenue Refunding Bonds, Series 2015A with a net interest rate of 2.45%. The bonds were issued for a current refunding of the Telephone Utility Revenue Bonds, Series 2006A. Total cash savings attributable to the refunding is \$452,304 with a net present value savings of approximately \$215,074.

On March 18, 2015, the City issued \$561,000 General Obligation Equipment Certificates, Series 2015B to finance the acquisition of fire protection apparatus, public works equipment, and parks equipment. The certificates bear interest at 2.00% and are payable over the next 5 years.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF CROSSLAKE, MINNESOTA
SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFIT PLAN
YEAR ENDED DECEMBER 31, 2014**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll ((b-a)/c)
01/01/12	\$ -	\$ 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, 2014

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH BUDGET OVER (UNDER)
REVENUES				
Taxes	\$ 2,312,908	\$ 2,312,908	\$ 2,329,705	\$ 16,797
Licenses and Permits	47,250	47,250	78,522	31,272
Intergovernmental	93,979	93,979	111,899	17,920
Charges for Services	322,689	322,689	358,124	35,435
Fines and Forfeits	21,400	21,400	25,607	4,207
Special Assessments	5,424	5,424	7,475	2,051
Interest	5,000	5,000	4,120	(880)
Contributions and Donations	15,200	15,200	67,662	52,462
Miscellaneous	28,215	28,215	119,550	91,335
Total Revenues	<u>2,852,065</u>	<u>2,852,065</u>	<u>3,102,664</u>	<u>250,599</u>
EXPENDITURES				
Current				
General Government				
Mayor and Council	30,776	30,776	31,586	810
Administration	255,778	255,778	232,439	(23,339)
Elections	4,500	4,500	4,684	184
Audit and Legal	50,000	50,000	41,874	(8,126)
Planning and Zoning	223,570	223,570	214,871	(8,699)
Other General Government	151,301	201,301	218,574	17,273
Total General Government	<u>715,925</u>	<u>765,925</u>	<u>744,028</u>	<u>(21,897)</u>
Public Safety				
Police	502,718	502,718	514,682	11,964
Fire Protection	82,581	82,581	105,947	23,366
Total Public Safety	<u>585,299</u>	<u>585,299</u>	<u>620,629</u>	<u>35,330</u>
Public Works				
Engineering	25,000	25,000	9,278	(15,722)
Public Way Maintenance	433,569	433,569	432,700	(869)
Total Public Works	<u>458,569</u>	<u>458,569</u>	<u>441,978</u>	<u>(16,591)</u>
Culture and Recreation				
Library	50,257	50,257	61,127	10,870
Recreation	362,959	362,959	331,308	(31,651)
Total Culture and Recreation	<u>413,216</u>	<u>413,216</u>	<u>392,435</u>	<u>(20,781)</u>
Miscellaneous				
Recycling	32,440	32,440	32,344	(96)
Firemen's Relief Association	42,300	42,300	53,677	11,377
Cemetery	2,000	2,000	3,620	1,620
Total Miscellaneous	<u>76,740</u>	<u>76,740</u>	<u>89,641</u>	<u>12,901</u>
Debt Service				
Principal	192,992	192,992	194,242	1,250
Interest and Fiscal Charges	39,774	39,774	39,349	(425)
Total Debt Service	<u>232,766</u>	<u>232,766</u>	<u>233,591</u>	<u>825</u>
Capital Outlay				
Capital Improvements and Equipment	567,465	567,465	656,404	88,939
Total Expenditures	<u>3,049,980</u>	<u>3,099,980</u>	<u>3,178,706</u>	<u>78,726</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, 2014

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH BUDGET OVER (UNDER)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (197,915)	\$ (247,915)	\$ (76,042)	\$ 171,873
OTHER FINANCING SOURCES (USES)				
Transfers In	265,000	265,000	282,373	17,373
Capital Lease Proceeds	-	-	12,497	12,497
Total Other Financing Sources (Uses)	265,000	265,000	294,870	29,870
NET CHANGE IN FUND BALANCE	\$ 67,085	\$ 17,085	218,828	\$ 201,743
Fund Balance - Beginning of Year			1,825,256	
FUND BALANCE - END OF YEAR			\$ 2,044,084	

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, 2014**

	BUDGET ORIGINAL AND FINAL	ACTUAL	VARIANCE WITH BUDGET OVER (UNDER)
REVENUES			
Tax Increments	\$ 14,000	\$ 12,967	\$ (1,033)
EXPENDITURES			
Economic Development Current	14,000	11,837	(2,163)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	1,130	1,130
OTHER FINANCING USES			
Transfers Out	-	(4,640)	(4,640)
NET CHANGE IN FUND BALANCE	\$ -	(3,510)	\$ (3,510)
Fund Balance - Beginning of Year		6,794	
FUND BALANCE - END OF YEAR		\$ 3,284	

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2014**

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 \$78,726 in part to improvements made to City Hall and the Community Center. These improvements were funded in part by reserves previously set aside for capital improvements. The overage was considered by City management to be the result of necessary expenditures critical to operations and was approved by the Council.

SUPPLEMENTARY INFORMATION

**CITY OF CROSSLAKE, MINNESOTA
 COMBINING BALANCE SHEET
 ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT
 DECEMBER 31, 2014**

	REVOLVING LOAN PROGRAM	EDA OPERATING FUND	TOTAL
ASSETS			
Cash and Cash Equivalents	\$ -	\$ 10,546	\$ 10,546
Restricted Cash and Cash Equivalents	257,973	-	257,973
Taxes Receivable	-	899	899
Loans Receivable	171,688	-	171,688
Total Assets	\$ 429,661	\$ 11,445	\$ 441,106
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Deferred Inflows of Resources			
Unavailable Revenue on Property Taxes	\$ -	\$ 525	\$ 525
Fund Balances			
Restricted for:			
Economic Development	429,661	-	429,661
Unassigned	-	10,920	10,920
Total Fund Balances	429,661	10,920	440,581
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 429,661	\$ 11,445	\$ 441,106

CITY OF CROSSLAKE, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT
DECEMBER 31, 2014

	<u>Fund Level</u> <u>Total</u>	<u>Adjustments</u>	<u>Statement of</u> <u>Net Position</u>
ASSETS			
Cash and Cash Equivalents	\$ 10,546	\$ -	\$ 10,546
Restricted Cash and Cash Equivalents	257,973	-	257,973
Taxes Receivable	899	-	899
Loans Receivable	<u>171,688</u>	<u>-</u>	<u>171,688</u>
Total Assets	<u>\$ 441,106</u>	<u>-</u>	<u>441,106</u>
 DEFERRED INFLOWS OF RESOURCES AND			
FUND BALANCES/NET POSITION			
Deferred Inflows of Resources			
Unavailable Revenue on Property Taxes	\$ 525	(525) ¹	-
Fund Balance/Net Position			
Restricted for:			
Economic Development	429,661	(429,661)	
Unassigned	<u>10,920</u>	<u>(10,920)</u>	
Total Fund Balances	<u>440,581</u>	<u>(440,581)</u>	
Total Deferred Inflows of Resources and Fund Balances	<u>\$ 441,106</u>	<u>(441,106)</u>	
Net Position			
Restricted for Economic Development		429,661	429,661
Unrestricted		<u>11,445</u>	<u>11,445</u>
Total Net Position of Component Unit (Page 14)		<u>\$ 441,106</u>	<u>\$ 441,106</u>

¹ Some of the revenues in the statement of activities do not require the use of current financial resources and, therefore, the property taxes 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.

CITY OF CROSSLAKE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT
YEAR ENDED DECEMBER 31, 2014

	REVOLVING LOAN PROGRAM	EDA OPERATING FUND	TOTAL
REVENUES			
Taxes	\$ -	\$ 22,755	\$ 22,755
Miscellaneous			
Revolving Loan Interest	4,757	-	4,757
Interest	1,833	-	1,833
Total Miscellaneous Revenue	<u>6,590</u>	<u>-</u>	<u>6,590</u>
Total Revenue	6,590	22,755	29,345
EXPENDITURES			
Economic Development			
Professional Services	<u>-</u>	<u>11,835</u>	<u>11,835</u>
NET CHANGE IN FUND BALANCES	6,590	10,920	17,510
Fund Balances - Beginning of Year	<u>423,071</u>	<u>-</u>	<u>423,071</u>
FUND BALANCES - END OF YEAR	<u><u>\$ 429,661</u></u>	<u><u>\$ 10,920</u></u>	<u><u>\$ 440,581</u></u>

CITY OF CROSSLAKE, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES TO THE STATEMENT OF ACTIVITIES
ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT
YEAR ENDED DECEMBER 31, 2014

	<u>Fund Level Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures/Expenses	\$ 11,835	\$ -	\$ 11,835
Program Revenues			
Charges for Services	<u>4,757</u>	<u>-</u>	<u>4,757</u>
Net Program Revenue (Expense)	(7,078)	-	(7,078)
General Revenues			
Taxes	22,755	525 ¹	23,280
Unrestricted Investment Earnings	<u>1,833</u>	<u>-</u>	<u>1,833</u>
Total General Revenues	24,588	525	25,113
Change in Net Assets (Page 16)	17,510	525	18,035
Fund Balances/Net Position			
Beginning of Year	<u>423,071</u>	<u>-</u>	<u>423,071</u>
End of Year	<u>\$ 440,581</u>	<u>\$ 525</u>	<u>\$ 441,106</u>

OTHER REPORT SECTION

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, 2014 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 March 27, 2015. 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 connection with our audit nothing came to our attention 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
March 27, 2015