

**CITY OF CROSSLAKE, MINNESOTA**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2015**





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DECEMBER 31, 2015**

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## **INTRODUCTORY SECTION**





**CITY OF CROSSLAKE, MINNESOTA  
PRINCIPAL CITY OFFICIALS  
DECEMBER 31, 2015**

**ELECTED OFFICIALS**

Position	Term Expires	Name
Mayor	12/31/2016	Steve Roe
Council Member	12/31/2016	Mark Wessels
Council Member	12/31/2016	Gary Heacox
Council Member	12/31/2018	Brad Nelson
Council Member	12/31/2018	Dave Schrupp

**APPOINTED OFFICIALS**

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

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## **FINANCIAL SECTION**



## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Crosslake (City), Minnesota, as of and for the year ended December 31, 2015, 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 58 percent, 55 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, as of December 31, 2015, 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.

### **Emphasis of a Matter**

During the year ended December 31, 2015, the City adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 68, *Accounting and Financial Reporting for Pensions* and the related GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. As a result of the implementation of these standards, the City reported a restatement for the change in accounting principle on their governmental activities and business-type funds (see Note 8). Our auditors' opinion was not modified with respect to the restatement.

### **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, Schedule of the City's and Crosslake Communications Proportionate Share of the Net Pension Liability, Schedule of the City and Crosslake Communication's Contributions and budgetary comparison information on pages 5 through 14, 59 through 65 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'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.

Honorable Mayor and  
Members of the City Council  
City of Crosslake

*Supplementary Information (Continued)*

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 28, 2016

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**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015**

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, 2015. 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, 2015, and the prior year, 2014, 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 \$19,197,854 (net position). Of this amount \$2,319,905 (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 \$435,198.
- ◆ As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,869,860, an increase of \$537,889 in comparison with the prior year. Of the total amount, \$2,673,473 is available for spending at the City's discretion (unassigned/assigned fund balance). However, as stated below, \$240,734 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 \$2,673,473 of budgeted 2015 expenditures. The City Council has assigned \$240,734 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, 2015**

**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 15 through 17 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, 2015**

**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 18 through 21.

***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 22 through 26 of this report.

**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015**

**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 \$19,197,854 at the close of the most recent fiscal year.

By far, the largest portion of the City's net position (83%) 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.

	<b>Net Position</b>				2015 Total
	Governmental Activities		Business-Type Activities		
	2015	2014	2015	2014	
Current and Other Assets	\$ 3,050,181	\$ 2,795,876	\$ 2,519,871	\$ 2,927,852	\$ 5,570,052
Capital Assets	11,667,360	11,497,010	10,284,964	10,678,037	21,952,324
Total Assets	14,717,541	14,292,886	12,804,835	13,605,889	27,522,376
Deferred Outflows of Resources	296,113	159,553	91,277	-	387,390
Long-Term Liabilities Outstanding	2,383,835	2,404,713	3,860,846	4,599,972	6,244,681
Other Liabilities	1,046,045	344,316	955,973	298,047	2,002,018
Total Liabilities	3,429,880	2,749,029	4,816,819	4,898,019	8,246,699
Deferred Inflows of Resources	275,142	-	190,071	-	465,213
Net Position					
Net Investment in Capital Assets	9,490,928	9,432,524	6,451,805	6,231,444	15,942,733
Restricted	179,093	329,983	756,123	1,110,993	935,216
Unrestricted	1,638,611	1,940,903	681,294	1,365,433	2,319,905
Total Net Position	<u>\$ 11,308,632</u>	<u>\$ 11,703,410</u>	<u>\$ 7,889,222</u>	<u>\$ 8,707,870</u>	<u>\$ 19,197,854</u>

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

There was an increase of \$570,160 and a decrease of \$134,962 in net position reported in connection with the City's governmental activities and business-type activities, respectively. Please see the detailed reconciliation of net position on page 58 of this report.

**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015**

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

**Change in Net Position**

The City's total net position increased by \$435,198. Key elements of this increase are as follows:

	<b>Change in Net Position</b>				<b>2015 Total</b>
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	
<b>REVENUES</b>					
Program Revenues					
Charges for Services	\$ 459,209	\$ 454,530	\$ 3,956,359	\$ 3,868,292	\$ 4,415,568
Operating Grants and Contributions	277,281	186,993	-	-	277,281
Capital Grants and Contributions	9,518	20,626	-	-	9,518
General Revenues					
Property Taxes	2,707,601	2,561,779	222,303	223,870	2,929,904
Other Taxes	12,843	12,967	-	-	12,843
Intergovernmental	345	461	-	-	345
Unrestricted Investment Earnings (Loss)	4,248	4,120	19,391	42,499	23,639
Gain on Sale of Capital Assets	41,839	-	-	-	41,839
Miscellaneous	59,760	107,401	-	-	59,760
<b>Total Revenues</b>	<b>3,572,644</b>	<b>3,348,877</b>	<b>4,198,053</b>	<b>4,134,661</b>	<b>7,770,697</b>
<b>EXPENSES</b>					
General Government	1,161,433	1,211,140	-	-	1,161,433
Public Safety	916,408	848,466	-	-	916,408
Public Works	672,586	730,066	-	-	672,586
Culture and Recreation	453,207	437,906	-	-	453,207
Economic Development	11,718	11,837	-	-	11,718
Interest on Long-Term Debt	75,884	78,820	-	-	75,884
Communications	-	-	3,562,922	3,545,124	3,562,922
Sewer Utility	-	-	481,341	488,540	481,341
<b>Total Expenses</b>	<b>3,291,236</b>	<b>3,318,235</b>	<b>4,044,263</b>	<b>4,033,664</b>	<b>7,335,499</b>
<b>CHANGE IN NET POSITION BEFORE TRANSFERS</b>	<b>281,408</b>	<b>30,642</b>	<b>153,790</b>	<b>100,997</b>	<b>435,198</b>
Transfers	288,752	277,733	(288,752)	(277,733)	-
<b>CHANGE IN NET POSITION</b>	<b>570,160</b>	<b>308,375</b>	<b>(134,962)</b>	<b>(176,736)</b>	<b>435,198</b>
Net Position - Beginning of Year	11,703,410	11,395,035	8,707,870	8,884,606	20,411,280
Change in Accounting Principal	(964,938)	-	(683,686)	-	(1,648,624)
Net Position - Beginning of Year, Restated	10,738,472	11,395,035	8,024,184	8,884,606	18,762,656
<b>NET POSITION - END OF YEAR</b>	<b>\$ 11,308,632</b>	<b>\$ 11,703,410</b>	<b>\$ 7,889,222</b>	<b>\$ 8,707,870</b>	<b>\$ 19,197,854</b>

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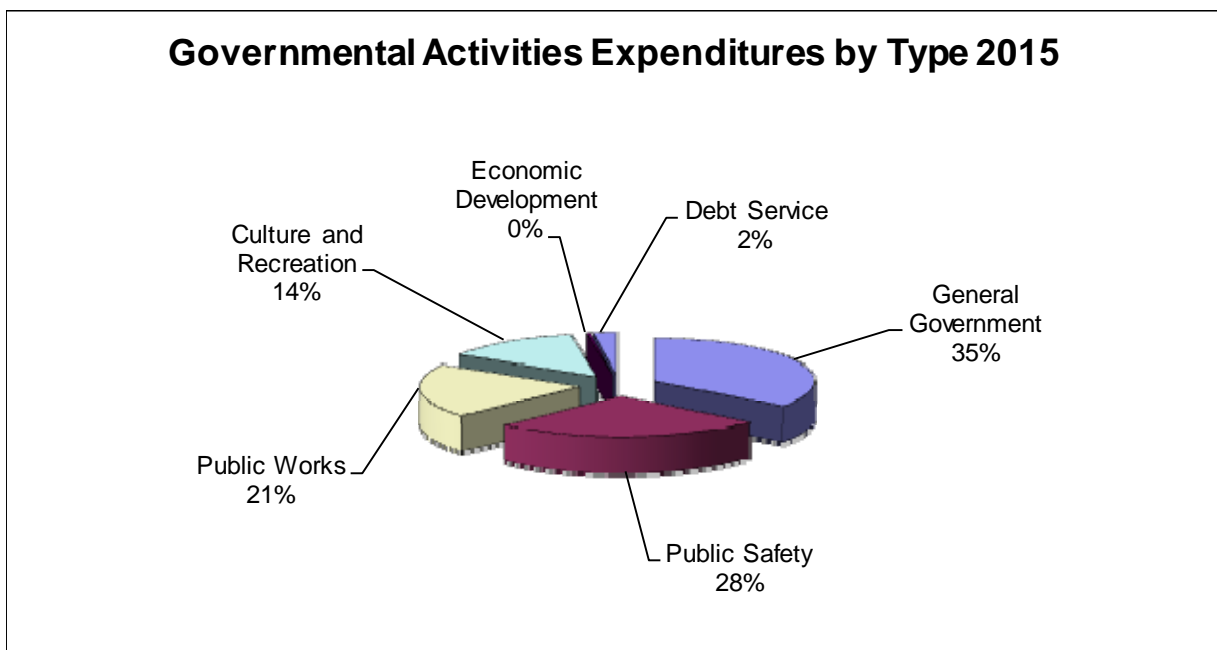
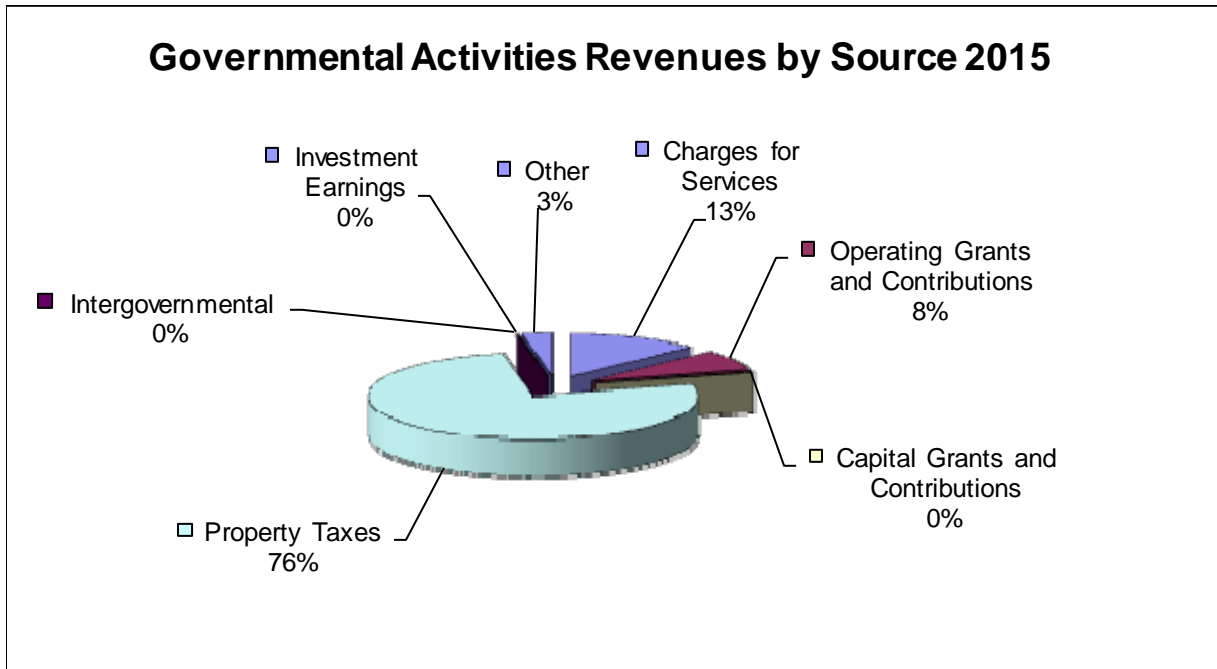
**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015**

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

**Change in Net Position (Continued)**

**Governmental Activities** – Governmental activities increased the City's net position by \$570,160 in 2015 as compared to an increase of \$308,375 in 2014. Key element of this decrease is as follows:

- ◆ Property taxes increased approximately \$145,000 over 2014 in part to an overall levy increase of \$112,000 and \$13,000 due to collection of delinquent taxes.



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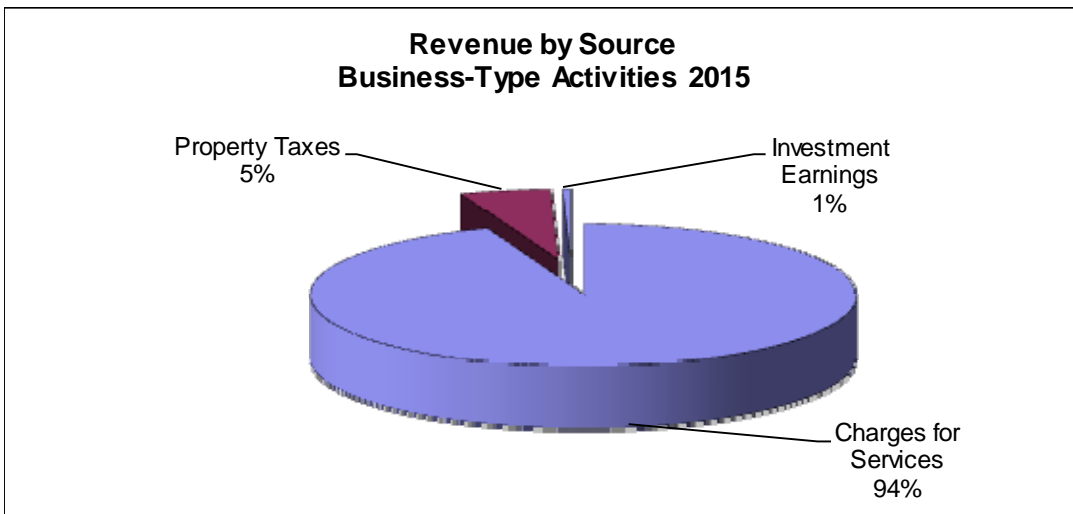
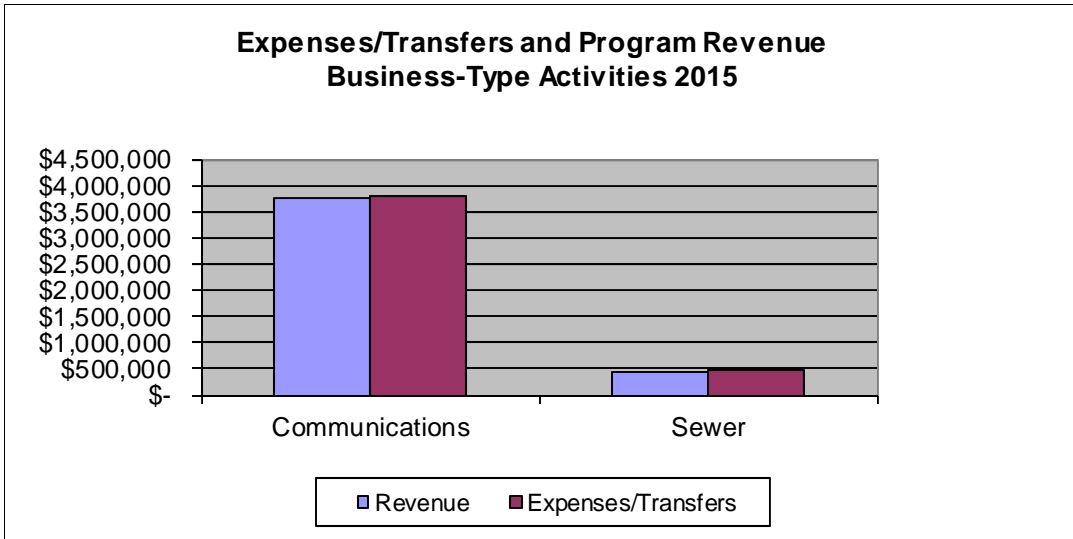
**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015**

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

**Change in Net Position (Continued)**

**Business-Type Activities** – Business-type activities decreased the City's net position by \$134,962 in 2015 as compared to \$176,736 in 2014. The Communication Fund showed a positive cash flow for 2015; however, the Sewer Fund showed a negative cash flow for 2015.

- ◆ Additional analysis of the Communications Fund can be found in its separately issued financial statements.



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**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015**

**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 \$2,869,860, an increase of \$537,889 in comparison with the prior year. Of this amount \$2,673,473 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 2015 (\$164,897). In addition, a portion of unassigned/assigned fund balance has been assigned by the City Council for future years' capital outlay (\$240,734).

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 \$2,673,473. Total fund balance was \$2,704,963. 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 71% and 72% of total 2015 General Fund expenditures, respectively.

The fund balance of the City's General Fund increased by \$660,879 during the current fiscal year. Key factors in this increase are as follows:

- ◆ Total expenditures in the General Fund increased \$579,484 as compared to 2014. Capital outlay increased \$538,213 due to the purchase of vehicles, a wheel loader, a multi-terrain loader, lawn mower, a fire truck and improvements on the Community Center.
- ◆ Total revenues in the General Fund increased \$287,411 from 2014. The City's total levy increase over 2014 amounted to \$112,000 which was recorded in the General Fund. In addition, approximately \$110,000 of levy dollars previously used for Debt Service was shifted to the General Fund for a total of \$222,000 of property taxes utilized in the General Fund. The remaining net increase in General Fund revenues of \$65,411 over 2014 was due primarily to \$63,000 the City received through the Small Cities Assistance Program used for road maintenance during 2015.

**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. Effective as of December 1, 2015, the City adjusted the monthly sewer rate charge per equivalent residential connection from \$37 per month per connection to \$45 per month per connection. This rate increase was made to cover cash operating expenses and to reverse the negative cash flow trend in the City's Sewer Fund.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

There were no budget revisions during the year.

Revenues were over budget by approximately 10% due primarily to donations and intergovernmental revenues received in excess of budgeted amounts.

**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015**

**GENERAL FUND BUDGETARY HIGHLIGHTS (CONTINUED)**

Expenditures exceeded budget by approximately \$701,700 in part to the fire truck that was purchased for \$531,000 and the purchase of a wheel loader for \$200,000. The fire truck was funded in part by the Equipment Certificate of Indebtedness that was issued in the current year.

**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, 2015, amounts to \$21,952,324 (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		2015 Total
	2015	2014	2015	2014	
Land	\$ 920,921	\$ 920,921	\$ 15,367	\$ 15,367	\$ 936,288
Construction in Progress	30,548	-	52,553	80,675	83,101
Buildings	3,364,494	3,514,360	3,474,546	3,599,669	6,839,040
Improvements Other than Buildings	452,556	387,907	17,743	17,743	470,299
Machinery and Equipment	1,816,239	1,205,853	887,722	935,751	2,703,961
Infrastructure	5,082,602	5,467,969	5,837,033	6,028,832	10,919,635
<b>Total</b>	<b>\$ 11,667,360</b>	<b>\$ 11,497,010</b>	<b>\$ 10,284,964</b>	<b>\$ 10,678,037</b>	<b>\$ 21,952,324</b>

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 \$2,383,835. Of this amount, \$2,298,917 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 \$17,124. Additionally, the City owed \$67,794 in compensated absences to its employees as of December 31, 2015.

**Governmental Activities Outstanding Long-Term Liabilities**

	2015	2014
General Obligation Bonds	\$ 2,298,917	\$ 2,194,609
Capital Leases	17,124	29,430
Compensated Absences	67,794	72,282
<b>Total</b>	<b>\$ 2,383,835</b>	<b>\$ 2,296,321</b>

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, 2015**

**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 \$87,514 (4%) during the current fiscal year. This was primarily due to payments made on outstanding debt, offset by the issuance of GO Equipment Certificates of \$561,000.

**Business-Type Activities** – At the end of the current fiscal year, the business-type activities had total debt of \$3,860,846, consisting of general obligation, revenue bonds and other long-term liabilities. This decrease of \$610,705 (14%) from 2014 reflects the payments made on bonds in the current year. 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 1.998% from \$1,116,323,800 to \$1,138,627,400 and the taxable tax capacity increased 2.003% from \$11,876,528 to \$12,114,357 for taxes payable in 2016. These increases in values along with an overall increase in the City's tax levy request from 2015 resulted in an increase of 3.125% in the City's tax rate from 24.518% to 27.643% for taxes payable in 2016. In terms of dollars, the taxes payable 2016 total levy is \$3,348,877 as compared to the taxes payable 2015 levy of \$2,912,000, an increase of \$436,877 representing a 15% increase over the taxes payable levy for 2015. Approximately 5% of this levy increase is due to ongoing operations and capital projects, primarily roads while approximately 10% of this increase is due to the elimination of an operating transfer from Crosslake Communications (an enterprise fund of the City of Crosslake) to the City of Crosslake. During 2015, the City Council eliminated the operating transfer through council action, effective for calendar 2016.

These factors were taken into account by the City of Crosslake when preparing the 2016 budget. The City has reviewed and raised various fees for services and will continue to closely monitor expenses in order to proactively adjust to changes in the economy and/or further reductions in state aid.

**REQUESTS FOR INFORMATION**

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

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## **BASIC FINANCIAL STATEMENTS**





**CITY OF CROSSLAKE, MINNESOTA**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2015**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Economic Development Authority
<b>ASSETS</b>				
Cash and Investments	\$ 2,842,373	\$ 452,743	\$ 3,295,116	\$ 3,805
Receivables				
Taxes	108,563	8,916	117,479	16
Accounts	-	110,390	110,390	-
Special Assessments	45,695	-	45,695	-
Connection Charges	-	425	425	-
Accrued Interest	-	3,193	3,193	-
Due from Other Governments	22,060	-	22,060	-
Materials and Supplies	-	54,185	54,185	-
Prepayments	31,490	46,817	78,307	-
Other Investments	-	57,075	57,075	-
Restricted, Designated and Long-Term Assets				
Cash and Investments	-	1,786,127	1,786,127	290,690
Loans Receivable	-	-	-	148,131
Capital Assets				
Land and Construction In Progress	951,469	67,920	1,019,389	-
Other Capital Assets, Net of Depreciation	10,715,891	10,217,044	20,932,935	-
Total Assets	14,717,541	12,804,835	27,522,376	442,642
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension Related	156,504	71,401	227,905	-
Loss on Refunding	139,609	19,876	159,485	-
Total Deferred Outflows	296,113	91,277	387,390	-
<b>LIABILITIES</b>				
Current Liabilities				
Accounts Payable	19,948	164,641	184,589	-
Accrued Liabilities	34,472	87,205	121,677	-
Accrued Interest Payable	17,132	15,094	32,226	-
Due to Other Governments	21,278	-	21,278	-
Unearned Revenue	7,049	-	7,049	-
Long-Term Liabilities				
Due within One Year	357,270	511,783	869,053	-
Due in More than One Year, Net of				
Unamortized Discount	2,026,565	3,349,063	5,375,628	-
Other Postemployment Benefits	131,148	148,600	279,748	-
Net Pension Liability	815,018	540,433	1,355,451	-
Total Liabilities	3,429,880	4,816,819	8,246,699	-
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pension Related	275,142	190,071	465,213	-
<b>NET POSITION</b>				
Net Investment in Capital Assets	9,490,928	6,451,805	15,942,733	-
Restricted for:				
Tax Increment Financing	4,409	-	4,409	-
Economic Development	-	-	-	438,821
Debt Service	174,684	507,623	682,307	-
Revenue Bond Reserve	-	248,500	248,500	-
Unrestricted	1,638,611	681,294	2,319,905	3,821
Total Net Position	\$ 11,308,632	\$ 7,889,222	\$ 19,197,854	\$ 442,642

See accompanying Notes to Financial Statements.

**CITY OF CROSSLAKE, MINNESOTA  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2015**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	\$ 1,161,433	\$ 109,302	\$ 102,811	\$ -
Public Safety	916,408	96,627	142,090	4,000
Public Works	672,586	164,387	-	-
Culture and Recreation	453,207	88,893	32,380	955
Economic Development	11,718	-	-	-
Debt Service	75,884	-	-	4,563
Total Governmental Activities	<u>3,291,236</u>	<u>459,209</u>	<u>277,281</u>	<u>9,518</u>
Business-Type Activities				
Communications	3,562,922	3,741,231	-	-
Sewer	481,341	215,128	-	-
Total Business-Type Activities	<u>4,044,263</u>	<u>3,956,359</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 7,335,499</u>	<u>\$ 4,415,568</u>	<u>\$ 277,281</u>	<u>\$ 9,518</u>
Component Unit				
Economic Development Authority	\$ 7,624	7,727	\$ -	\$ -

General Revenues  
 Taxes  
   Property Taxes, Levied for General Purpose  
   Other Taxes  
 Intergovernmental Revenues  
 Unrestricted Investment Earnings (Loss)  
 Gain on Sale of Capital Assets  
 Miscellaneous  
 Transfers  
   Total General Revenues and Transfers  
 Change in Net Position  
 Net Position - Beginning of Year  
 Change in Accounting Principal  
 Net Position - Beginning of Year, Restated  
 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
\$ (949,320)	\$ -	\$ (949,320)	\$ -
(673,691)	-	(673,691)	-
(508,199)	-	(508,199)	-
(330,979)	-	(330,979)	-
(11,718)	-	(11,718)	-
(71,321)	-	(71,321)	-
<u>(2,545,228)</u>	<u>-</u>	<u>(2,545,228)</u>	<u>-</u>
-	178,309	178,309	-
-	(266,213)	(266,213)	-
<u>-</u>	<u>(87,904)</u>	<u>(87,904)</u>	<u>-</u>
<u>(2,545,228)</u>	<u>(87,904)</u>	<u>(2,633,132)</u>	<u>-</u>
-	-	-	103
2,707,601	222,303	2,929,904	-
12,843	-	12,843	-
345	-	345	-
4,248	19,391	23,639	1,433
41,839	-	41,839	-
59,760	-	59,760	-
288,752	(288,752)	-	-
<u>3,115,388</u>	<u>(47,058)</u>	<u>3,068,330</u>	<u>1,433</u>
570,160	(134,962)	435,198	1,536
11,703,410	8,707,870	20,411,280	441,106
<u>(964,938)</u>	<u>(683,686)</u>	<u>(1,648,624)</u>	<u>-</u>
<u>10,738,472</u>	<u>8,024,184</u>	<u>18,762,656</u>	<u>441,106</u>
<u>\$ 11,308,632</u>	<u>\$ 7,889,222</u>	<u>\$ 19,197,854</u>	<u>\$ 442,642</u>

**CITY OF CROSSLAKE, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2015**

	GENERAL FUND	TAX INCREMENT FINANCING FUND	DEBT SERVICE FUND	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS</b>				
Cash and Investments	\$ 2,680,819	\$ 4,409	\$ 157,145	\$ 2,842,373
Receivables				
Taxes	103,046	-	5,517	108,563
Special Assessments	16,541	-	29,154	45,695
Due from Other Governments	22,060	-	-	22,060
Prepayments	31,490	-	-	31,490
Total Assets	<u>\$ 2,853,956</u>	<u>\$ 4,409</u>	<u>\$ 191,816</u>	<u>\$ 3,050,181</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
Liabilities				
Accounts Payable	\$ 20,557	\$ -	\$ -	\$ 20,557
Accrued Liabilities	33,863	-	-	33,863
Unearned Revenue	7,049	-	-	7,049
Due to Other Governments	21,278	-	-	21,278
Total Liabilities	82,747	-	-	82,747
Deferred Inflows of Resources				
Unavailable Revenue on Property Taxes	50,000	-	2,503	52,503
Unavailable Revenue on Special Assessments	16,246	-	28,825	45,071
Total Deferred Inflows of Resources	66,246	-	31,328	97,574
Fund Balances				
Nonspendable for:				
Prepayments	31,490	-	-	31,490
Restricted for:				
Debt Service	-	-	160,488	160,488
Tax Increment Financing	-	4,409	-	4,409
Assigned for:				
Capital Outlay	240,734	-	-	240,734
Unassigned:				
General Fund	2,432,739	-	-	2,432,739
Total Fund Balances	<u>2,704,963</u>	<u>4,409</u>	<u>160,488</u>	<u>2,869,860</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 2,853,956</u>	<u>\$ 4,409</u>	<u>\$ 191,816</u>	<u>\$ 3,050,181</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, 2015**

**TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS** \$ 2,869,860

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	
Construction in Progress	30,548	
Capital Assets, Being Depreciated	19,124,649	
Accumulated Depreciation	<u>(8,408,758)</u>	
		11,667,360

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. 97,574

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. (17,132)

The loss on refunding is reported as a deferred outflow on the statement of net position and amortized over the life of the bonds. 139,609

Net Pension Liability and related deferred inflows and outflows of resources are recorded only on the Statement of Net Position. Balances at year-end are:

Net Pension Liability	(815,018)	
Deferred Inflows of Resources - Pension Related	(275,142)	
Deferred Outflows of Resources - Pension Related	<u>156,504</u>	
		(933,656)

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	(2,271,000)	
Unamortized Discounts/ Premiums	(27,917)	
Compensated Absences Payable	(67,794)	
Other Postemployment Benefits Payable	(131,148)	
Obligations Under Capital Leases	<u>(17,124)</u>	
		<u>(2,514,983)</u>

**TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES** **\$ 11,308,632**

**CITY OF CROSSLAKE, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2015**

	GENERAL FUND	TAX INCREMENT FINANCING FUND	DEBT SERVICE FUND	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES</b>				
Taxes	\$ 2,576,465	\$ -	\$ 138,605	\$ 2,715,070
Tax Increments	-	12,843	-	12,843
Licenses and Permits	68,160	-	-	68,160
Intergovernmental	178,131	-	-	178,131
Charges for Services	370,511	-	-	370,511
Fines and Forfeits	27,646	-	-	27,646
Special Assessments	7,842	-	33,223	41,065
Interest	4,248	-	-	4,248
Contributions and Donations	90,083	-	-	90,083
Miscellaneous	67,019	-	-	67,019
Total Revenues	<u>3,390,105</u>	<u>12,843</u>	<u>171,828</u>	<u>3,574,776</u>
<b>EXPENDITURES</b>				
Current				
General Government	660,284	-	-	660,284
Public Safety	684,122	-	-	684,122
Public Works	462,814	-	-	462,814
Culture and Recreation	431,947	-	-	431,947
Economic Development	-	11,718	-	11,718
Miscellaneous	90,429	-	2,826	93,255
Capital Outlay	1,194,617	-	-	1,194,617
Debt Service				
Principal Retirement	196,096	-	280,000	476,096
Bond Issuance Costs	2,500	-	-	2,500
Interest and Fiscal Charges	35,381	-	21,749	57,130
Total Expenditures	<u>3,758,190</u>	<u>11,718</u>	<u>304,575</u>	<u>4,074,483</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(368,085)	1,125	(132,747)	(499,707)
<b>OTHER FINANCING SOURCES (USES)</b>				
Issuance of GO Equipment Certificates	552,368	-	8,632	561,000
Capital Lease Proceeds	8,790	-	-	8,790
Proceeds from Sale of Capital Assets	179,054	-	-	179,054
Transfers In	288,752	-	-	288,752
Total Other Financing Sources (Uses)	<u>1,028,964</u>	<u>-</u>	<u>8,632</u>	<u>1,037,596</u>
<b>NET CHANGE IN FUND BALANCES</b>	660,879	1,125	(124,115)	537,889
Fund Balances - Beginning of Year	<u>2,044,084</u>	<u>3,284</u>	<u>284,603</u>	<u>2,331,971</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 2,704,963</u>	<u>\$ 4,409</u>	<u>\$ 160,488</u>	<u>\$ 2,869,860</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, 2015**

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** \$ 537,889

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	\$ 1,158,692	
Disposal of Capital Assets - Net Book Value	(137,215)	
Depreciation Expense	<u>(851,127)</u>	170,350

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	(8,790)	
Other Financing Source - Issuance of GO Equipment Certificates	(561,000)	
Principal Payments of Capital Leases	<u>21,096</u>	(548,694)

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	455,000	
Change in Accrued Interest Expense for General Obligation Bonds	4,824	
Amortization of Bond Discount/Premium	<u>1,692</u>	461,516

Pension expenditures on the governmental funds are measured by current year employee contributions. Pension expenses on the statement of activities are measure by the change in Net Pension Liability and the related deferred inflows and outflows of resources.

31,282

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		4,488
Change in Other Postemployment Benefits		(22,756)
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, 2014	(141,545)	
Unavailable Revenue - December 31, 2015	<u>97,574</u>	<u>(43,971)</u>

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** \$ 570,160

**CITY OF CROSSLAKE, MINNESOTA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2015**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	COMMUNICATIONS	SEWER	TOTALS
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>			
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$ 452,743	-	\$ 452,743
Receivables			
Accounts	88,522	21,868	110,390
Accrued Interest	3,193	-	3,193
Taxes	-	4,863	4,863
Connection Charges	-	425	425
Materials and Supplies	54,185	-	54,185
Prepayments	43,967	2,850	46,817
Total Current Assets	642,610	30,006	672,616
<b>NONCURRENT ASSETS</b>			
Investments, including Board Designated	1,014,910	-	1,014,910
Taxes Receivable	-	4,053	4,053
Restricted Assets			
Cash and Cash Equivalents	248,500	469,455	717,955
Investments	53,262	-	53,262
Other Investments	57,075	-	57,075
Capital Assets			
Land	6,654	8,713	15,367
Building and Improvements	10,206,587	3,696,912	13,903,499
Machinery and Equipment	5,927,352	279,028	6,206,380
Sanitary Sewers	-	3,080,700	3,080,700
Construction-in-Progress	52,553	-	52,553
Subtotal Capital Assets	16,193,146	7,065,353	23,258,499
Less: Accumulated Depreciation	(10,728,069)	(2,245,466)	(12,973,535)
Net Capital Assets	5,465,077	4,819,887	10,284,964
Total Noncurrent Assets	6,838,824	5,293,395	12,132,219
Total Assets	7,481,434	5,323,401	12,804,835
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension Related	67,808	3,593	71,401
Loss on Refunding	19,876	-	19,876
Total Deferred Outflows of Resources	87,684	3,593	91,277
Total Assets and Deferred Outflows of Resources	\$ 7,569,118	\$ 5,326,994	\$ 12,896,112

See accompanying Notes to Financial Statements.



	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	COMMUNICATIONS	SEWER	TOTALS
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable	\$ 160,982	\$ 3,659	\$ 164,641
Salaries and Wages Payable	-	983	983
Advance Payments	24,666	-	24,666
Customer Deposits	61,145	411	61,556
Accrued Compensated Absences	-	6,783	6,783
Bonds Payable	335,000	-	335,000
Total Current Liabilities	<u>581,793</u>	<u>11,836</u>	<u>593,629</u>
<b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>			
Accrued Interest Payable	-	15,094	15,094
Revenue Bonds Payable	-	170,000	170,000
Total Current Liabilities Payable from Restricted Assets	-	<u>185,094</u>	<u>185,094</u>
<b>LONG-TERM LIABILITIES</b>			
Bonds Payable (Net of Unamortized Bond Discounts)	1,795,000	1,533,159	3,328,159
Net Pension Liability	513,069	27,364	540,433
Accrued Compensated Absences	-	20,904	20,904
Other Postemployment Benefits Payable	138,729	9,871	148,600
Total Long-Term Liabilities	<u>2,446,798</u>	<u>1,591,298</u>	<u>4,038,096</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension Related	<u>180,884</u>	<u>9,187</u>	<u>190,071</u>
Total Liabilities and Deferred Inflows of Resources	3,209,475	1,797,415	5,006,890
<b>NET POSITION</b>			
Net Investment in Capital Assets	3,335,077	3,116,728	6,451,805
Restricted For:			
Debt Service	53,262	454,361	507,623
Revenue Bond Reserve	248,500	-	248,500
Unrestricted	<u>722,804</u>	<u>(41,510)</u>	<u>681,294</u>
Total Net Position	<u>\$ 4,359,643</u>	<u>\$ 3,529,579</u>	<u>\$ 7,889,222</u>

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**CITY OF CROSSLAKE, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2015**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	COMMUNICATIONS	SEWER	TOTALS
<b>OPERATING REVENUES</b>			
Sales and Charges for Services	\$ 3,741,231	212,177	\$ 3,953,408
<b>OPERATING EXPENSES</b>			
Personal Services	-	109,725	109,725
Supplies	-	24,115	24,115
Repairs and Maintenance	-	21,958	21,958
Other Services and Charges	-	97,921	97,921
Plant Specific	418,764	-	418,764
Depreciation	828,425	193,447	1,021,872
Plant Support	316,301	-	316,301
Customer	334,191	-	334,191
Signal Purchases	805,050	-	805,050
Other Nonregulated	335,811	-	335,811
General and Administrative	372,466	-	372,466
Total Operating Expenses	<u>3,411,008</u>	<u>447,166</u>	<u>3,858,174</u>
<b>OPERATING INCOME (LOSS)</b>	330,223	(234,989)	95,234
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Property Taxes	-	222,303	222,303
Investment Earnings	24,232	155	24,387
Interest Expense	(81,691)	(34,175)	(115,866)
Miscellaneous Revenues (Expenses)	-	2,951	2,951
Bond Issuance Costs	(70,223)	-	(70,223)
Net Increase in the Fair Value of Investments	(4,996)	-	(4,996)
Total Nonoperating Revenues (Expenses)	<u>(132,678)</u>	<u>191,234</u>	<u>58,556</u>
<b>INCOME (LOSS) BEFORE TRANSFERS OUT</b>	197,545	(43,755)	153,790
<b>TRANSFERS OUT</b>	<u>(288,752)</u>	<u>-</u>	<u>(288,752)</u>
<b>CHANGE IN NET POSITION</b>	(91,207)	(43,755)	(134,962)
Net Position - Beginning of Year	5,100,567	3,607,303	8,707,870
Change in Accounting Principle	(649,717)	(33,969)	(683,686)
Total Net Position - Beginning of Year, as Restated	<u>4,450,850</u>	<u>3,573,334</u>	<u>8,024,184</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 4,359,643</u>	<u>\$ 3,529,579</u>	<u>\$ 7,889,222</u>

See accompanying Notes to Financial Statements.

**CITY OF CROSSLAKE, MINNESOTA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED DECEMBER 31, 2015**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	COMMUNICATIONS	SEWER	TOTALS
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash Received from Customers	\$ 2,720,510	\$ 208,825	\$ 2,929,335
Cash Received from Others	1,026,752	-	1,026,752
Cash Paid to Employees for Services	(1,954,693)	(107,802)	(2,062,495)
Cash Paid to Suppliers for Goods and Services	(658,416)	(142,426)	(800,842)
Net Cash Provided (Used) by Operating Activities	1,134,153	(41,403)	1,092,750
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Miscellaneous Revenues (Expenses)	-	2,951	2,951
Transfers to Other Funds	(288,752)	-	(288,752)
Increase (Decrease) in Customer Deposits	2,249	-	2,249
Net Cash Provided (Used) by Noncapital Financing Activities	(286,503)	2,951	(283,552)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and Construction of Capital Assets	(605,647)	(31,614)	(637,261)
Proceeds from Sale of Property, Plant and Equipment	8,463	-	8,463
Decrease in Materials and Supplies	27,714	-	27,714
Property Taxes Received	-	222,198	222,198
Proceeds of Crossover Refunding Bonds	2,485,000	-	2,485,000
Collection of Connection Charges	-	5,399	5,399
Interest Paid	(87,034)	(38,183)	(125,217)
Principal Payments on Long-Term Debt	(2,975,000)	(170,000)	(3,145,000)
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,146,504)	(12,200)	(1,158,704)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net Purchases of Restricted and Unrestricted Investment Securities	326,115	-	326,115
Sale (Purchase) of Investments	(7,275)	-	(7,275)
Interest Received	24,088	155	24,243
Net Cash Provided (Used) by Investing Activities	342,928	155	343,083
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
	44,074	(50,497)	(6,423)
Cash and Cash Equivalents - Beginning of Year	408,669	519,952	928,621
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 452,743</b>	<b>\$ 469,455</b>	<b>\$ 922,198</b>

See accompanying Notes to Financial Statements.

**CITY OF CROSSLAKE, MINNESOTA  
STATEMENT OF CASH FLOWS (CONTINUED)  
PROPRIETARY FUNDS  
YEAR ENDED DECEMBER 31, 2015**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	COMMUNICATIONS	SEWER	TOTALS
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating Income (Loss)	\$ 330,223	\$ (234,989)	\$ 95,234
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Depreciation	828,425	193,447	1,021,872
(Increase) Decrease in Assets:			
Accounts Receivable	(1,392)	(3,352)	(4,744)
Other Receivables	5,311	-	5,311
Prepayments	28,726	(156)	28,570
Increase (Decrease) in Liabilities:			
Accounts Payable	(33,936)	(322)	(34,258)
Accrued Liabilities	-	204	204
Accrued Compensated Absences	-	2,730	2,730
Advance Payments	2,112	-	2,112
Pension Related	(43,448)	(1,011)	(44,459)
Postemployment Benefits Payable	18,132	2,046	20,178
Net Cash Provided (Used) by Operating Activities	\$ 1,134,153	\$ (41,403)	\$ 1,092,750
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION</b>			
Current Assets			
Cash and Cash Equivalents	\$ 452,743	\$ -	\$ 452,743
Noncurrent Assets			
Investments	1,014,910	-	1,014,910
Restricted Assets			
Cash and Investments	301,762	469,455	771,217
Other Investments	57,075	-	57,075
Less: Investments not Meeting Definition of Cash Equivalents	(1,373,747)	-	(1,373,747)
Total Cash and Cash Equivalents	\$ 452,743	\$ 469,455	\$ 922,198

See accompanying Notes to Financial Statements.

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**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**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, 2015**

**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, 2015**

**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, 2015**

**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, 2015**

**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, 2015**

**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, 2015**

**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 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.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**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. Deferred Inflows of Resources**

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

**13. Pensions**

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

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**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)

**14. 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.

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.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**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. All annual appropriations lapse at fiscal year-end.

B. Excess of Expenditures Over Appropriations

General Fund expenditures exceeded appropriations by \$701,722 in part to the purchase of a fire truck, other equipment purchases and improvements to the Community Center. The fire truck was funded in part by the issuance of GO Equipment Certificates. The overage was considered by City management to be the result of necessary expenditures critical to operations and was approved by the Council.

**NOTE 3 DETAILED NOTES ON ALL FUNDS**

A. Assets

**1. Deposits**

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

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

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

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

The City's deposits in banks at December 31, 2015 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.



**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

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

A. Assets (Continued)

**2. Investments**

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

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

Interest rate risk – Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. Investments are categorized to give an indication of the level of interest rate risk assumed at year-end. Fair market values and maturities as of December 31, 2015 are as follows:

Investment Type	Total Fair Value	12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Minnesota Municipal Money Market Fund Trust	\$ 2,173,112	\$ 2,173,112	\$ -	\$ -	\$ -
Money Market Funds	685,211	685,211	-	-	-
Certificates of Deposits	99,822	-	-	99,822	-
U.S. Treasury Notes	221,921	51,132	20,281	122,251	28,257
U.S. Treasury Bond	97,752	-	-	-	97,752
Federal National Mortgage Association Notes	94,577	-	94,577	-	-
Tennessee Valley Authority Preferred Stock	84,757	-	-	-	84,757
Total	<u>\$ 3,457,152</u>	<u>\$ 2,909,455</u>	<u>\$ 114,858</u>	<u>\$ 222,073</u>	<u>\$ 210,766</u>

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

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

A. Assets (Continued)

**2. Investments (Continued)**

The Minnesota Municipal Money Market Fund Trust is a common law trust organized in accordance with the Minnesota Joint Powers Act, which invests only in investment instruments allowable under Minnesota Statutes as described on the previous page. Its investments are valued at amortized cost, which approximates fair value in accordance with Rule 2a-7 of the Investment Company Act of 1940. The amortized cost method of valuation values a security at its cost on the date of purchase and thereafter assumes a constant amortization to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of instruments.

Credit Risk – As of December 31, 2015, the City invested in U.S. Treasury Notes, U.S. Treasury Bonds, FNMA Notes, and Tennessee Valley Authority Preferred Stock, which were all either backed by the full faith and credit of the U.S. Government or rated AA or AAA by national rating agencies. The City also invests in government bonds, notes, bills, or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, as allowable under Minnesota Statutes.

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

The deposits and investments are presented in these financial statements:

Deposits	\$ 1,975,661
Investments	3,457,152
Total Cash and Investments	<u>\$ 5,432,813</u>
Cash and Investments - Governmental Funds	\$ 2,842,373
Cash and Investments - Proprietary Funds	452,743
Cash and Investments - Component Unit Restricted, Designated, and Long-Term Cash and Investments	3,805
Business-Type (Note 3,A,3)	1,786,127
Component Unit	290,690
Other Investments - Proprietary Funds	57,075
Total Cash and Investments	<u>\$ 5,432,813</u>

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

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

A. Assets (Continued)

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

Restricted cash and investments are those restricted by loan covenants, contracts, or other external parties. Designated investments are those designated by the City Council. At December 31, 2015, restricted and designated cash and investments consisted of the following:

Restricted Assets - Cash and Investments	
Restricted for Debt Service Covenants - Sewer Fund	\$ 469,455
Restricted for Debt Service - Communications Fund	<u>248,500</u>
Total Restricted Cash and Investments	<u>717,955</u>
Restricted Assets - Investments	
Restricted for Debt Service Covenants - Communications Fund	53,262
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>843,823</u>
Total Investments, including Board Designated	<u>1,014,910</u>
Total Restricted and Designated Cash and Investments	<u><u>\$ 1,786,127</u></u>

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

Interfund transfers for the year ended December 31, 2015, were as follows:

	<u>Transfer In:</u>
	<u>Primary Government</u>
	General
	<u>Fund</u>
Transfer Out:	
<u>Primary Government</u>	
Communications Fund	<u><u>\$ 288,752</u></u>

Each year, the Communications Fund transfers to the General Fund an amount approved by the Crosslake Utility Commission to assist in offsetting the costs of City services. This amount cannot exceed 8% of the gross revenue of the fund's prior year audited financial statements.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

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

A. Assets (Continued)

**5. Loans Receivable**

The EDA component unit had the following notes receivable as of December 31, 2015:

**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. \$ 30,733

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. 27,740

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. 89,658

Total Commercial Loans Receivable \$ 148,131

**6. Capital Assets**

Capital asset activity for the Primary Government for the year ended December 31, 2015, is as follows:

	Beginning Balance	Increases	Decreases/ Adjustments	Ending Balance
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital Assets, Not Being Depreciated				
Land	\$ 920,921	\$ -	\$ -	\$ 920,921
Construction in Progress	-	30,548	-	30,548
Total Capital Assets, Not Being Depreciated:	<u>920,921</u>	<u>30,548</u>	<u>-</u>	<u>951,469</u>
Capital Assets, Being Depreciated				
Buildings	5,300,590	-	-	5,300,591
Improvements Other Than Buildings	862,990	110,761	-	973,751
Machinery and Equipment	3,341,100	1,017,383	(705,948)	3,652,535
Infrastructure	9,197,772	-	-	9,197,772
Total Capital Assets, Being Depreciated	<u>18,702,452</u>	<u>1,128,144</u>	<u>(705,948)</u>	<u>19,124,649</u>
Less Accumulated Depreciation for				
Buildings	(1,786,230)	(149,867)	-	(1,936,097)
Improvements Other Than Buildings	(475,083)	(46,112)	-	(521,195)
Machinery and Equipment	(2,135,247)	(269,781)	568,732	(1,836,296)
Infrastructure	(3,729,803)	(385,367)	-	(4,115,170)
Total Accumulated Depreciation	<u>(8,126,363)</u>	<u>(851,127)</u>	<u>568,732</u>	<u>(8,408,758)</u>
Total Capital Assets, Being Depreciated, Net	<u>10,576,089</u>	<u>277,017</u>	<u>(137,216)</u>	<u>10,715,891</u>
Governmental Activities Capital Assets, Net	<u><u>\$ 11,497,010</u></u>	<u><u>\$ 307,565</u></u>	<u><u>\$ (137,216)</u></u>	<u><u>\$ 11,667,360</u></u>

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**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, 2015, is as follows:

	Beginning Balance	Increases	Decreases/ Adjustments	Ending Balance
<b>BUSINESS-TYPE ACTIVITIES</b>				
Capital Assets, Not Being Depreciated				
Land	\$ 15,367	\$ -	\$ -	\$ 15,367
Construction in Progress	80,675	-	(28,122)	52,553
Total Capital Assets, Not Being Depreciated	96,042	-	(28,122)	67,920
Capital Assets, Being Depreciated				
Buildings and Improvements	5,107,329	4,480	-	5,111,809
Machinery and Equipment	6,130,332	389,908	(307,593)	6,212,647
Communications Infrastructure	6,763,025	223,827	(3,380)	6,983,472
CATV Infrastructure	1,759,465	47,167	(4,680)	1,801,952
Sanitary Sewers	3,080,700	-	-	3,080,700
Total Capital Assets, Being Depreciated	22,840,851	665,382	(315,653)	23,190,580
Less Accumulated Depreciation For				
Buildings and Improvements	(1,489,917)	(129,603)	-	(1,619,520)
Machinery and Equipment	(5,194,581)	(428,501)	298,157	(5,324,925)
Communications Infrastructure	(3,275,440)	(269,489)	3,867	(3,541,062)
CATV Infrastructure	(1,485,020)	(108,313)	5,168	(1,588,165)
Sanitary Sewers	(813,898)	(85,966)	-	(899,864)
Total Accumulated Depreciation	(12,258,856)	(1,021,872)	307,192	(12,973,536)
Total Capital Assets, Being Depreciated, Net	10,581,995	(356,490)	(8,461)	10,217,044
Business-Type Activities Capital Assets, Net	\$ 10,678,037	\$ (356,490)	\$ (36,583)	\$ 10,284,964

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

Governmental Activities	
General Government	\$ 394,098
Public Safety	153,099
Public Works	196,824
Culture and Recreation	107,106
Total Depreciation Expense - Governmental Activities	<u>\$ 851,127</u>
Business-Type Activities	
Communications	\$ 828,425
Sewer	193,447
Total Depreciation Expense - Business-Type Activities	<u>\$ 1,021,872</u>

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

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

B. Liabilities

**1. Long-Term Debt**

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

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

	<u>Range of Interest Rates</u>	<u>Original Issue</u>	<u>Amount Outstanding</u>
<b>BONDED INDEBTEDNESS</b>			
<b>PRIMARY GOVERNMENT</b>			
<b>GENERAL OBLIGATION BONDS</b>			
G.O. Improvement Bonds, Series 2006B	3.65-4.10%	\$ 1,330,000	\$ 155,000
G.O. Refunding Bonds, Series 2012A	2.00-2.55%	4,310,000	3,240,000
<b>REVENUE BONDS</b>			
Crosslake Utility Revenue Refunding Bonds, Series 2015A	2.00-2.55%	2,485,000	2,130,000
<b>CERTIFICATES OF INDEBTEDNESS</b>			
G.O. Equipment Certificate of Indebtedness, Series 2015B	2.00%	561,000	561,000
Total Primary Government General Obligation Bonds		<u>\$ 8,686,000</u>	<u>\$ 6,086,000</u>

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**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, 2015, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>PRIMARY GOVERNMENT</b>					
<b>GOVERNMENTAL ACTIVITIES</b>					
General Obligation Bonds	\$ 2,165,000	\$ -	\$ (455,000)	\$ 1,710,000	\$ 335,000
Issuance Discounts	(4,779)	-	2,607	(2,172)	-
Issuance Premiums	34,388	-	(4,299)	30,089	-
GO Equipment Certificates	-	561,000	-	561,000	-
Total Bonds Payable	<u>2,194,609</u>	<u>561,000</u>	<u>(456,692)</u>	<u>2,298,917</u>	<u>335,000</u>
Capital Leases Payable	29,430	8,790	(21,096)	17,124	4,181
Compensated Absences	72,282	62,565	(67,053)	67,794	18,089
Governmental Activity Long-Term Liabilities	<u>\$ 2,296,321</u>	<u>\$ 632,355</u>	<u>\$ (544,841)</u>	<u>\$ 2,383,835</u>	<u>\$ 357,270</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
General Obligation Bonds	\$ 1,855,000	\$ -	\$ (170,000)	\$ 1,685,000	\$ 170,000
Revenue Bonds	2,620,000	2,485,000	(2,975,000)	2,130,000	335,000
Issuance Discounts	(49,160)	-	49,160	-	-
Issuance Premiums	20,754	-	(2,595)	18,159	-
Total Bonds Payable	<u>4,446,594</u>	<u>2,485,000</u>	<u>(3,098,435)</u>	<u>3,833,159</u>	<u>505,000</u>
Compensated Absences	24,957	6,972	(4,242)	27,687	6,783
Business-Type Activity Long-Term Liabilities	<u>\$ 4,471,551</u>	<u>\$ 2,491,972</u>	<u>\$ (3,102,677)</u>	<u>\$ 3,860,846</u>	<u>\$ 511,783</u>

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**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
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	195,000	15,803	2020	190,000	20,305
2021-2024	615,000	21,619	2021-2024	790,000	38,873
Total	<u>\$ 1,710,000</u>	<u>\$ 144,939</u>	Total	<u>\$ 1,685,000</u>	<u>\$ 176,648</u>

General Obligation Equipment Certificates			Revenue Bonds		
	Governmental Activities			Business-Type Activities	
	Principal	Interest		Principal	Interest
2016	\$ -	\$ 11,220	2016	\$ 335,000	\$ 46,800
2017	136,000	11,220	2017	345,000	40,100
2018	138,000	8,500	2018	355,000	33,200
2019	142,000	5,740	2019	360,000	26,100
2020	145,000	2,900	2020	360,000	18,900
Total	<u>\$ 561,000</u>	<u>\$ 39,580</u>	2021-2024	375,000	11,250
			Total	<u>\$ 2,130,000</u>	<u>\$ 176,350</u>

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; 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.



**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

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

B. Liabilities (Continued)

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

In 2015, the City issued \$561,000 in General Obligation Equipment Certificate Bonds, Series 2015B. The Bonds were issued for the purchase of equipment including a wheel loader, a multi-terrain loader, lawn mower, and fire truck and are included in capital assets.

In 2015, Crosslake Communications refinanced the 2006A Telephone Utility Revenue Bonds with the 2015A Telephone Utility Revenue bonds which have an interest rate of 2.45%. The refinancing created a loss of \$23,283. Amortization expense was \$3,407 for the period ending December 31, 2015.

Capital Leases

The City has several outstanding capital leases for equipment and buildings and improvements. In 2014, the City entered into a lease agreement for a copier for the Parks and Library departments. In 2015, the city entered into a lease agreement for a copier for the Administration, Planning & Zoning, and Police 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:

Equipment	\$ 21,286
Less: Accumulated Depreciation	(4,188)
Total	<u>\$ 17,098</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2015, were as follows:

December 31,	
2016	\$ 4,371
2017	4,371
2018	4,371
2019	3,122
2020	1,404
Total Minimum Lease Payments	<u>17,639</u>
Less: Amount Representing Interest	(515)
Present Value of Minimum Lease Payments	<u>\$ 17,124</u>

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**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.

**NOTE 4 DEFINED BENEFIT PENSION PLANS**

A. Plan Description

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

**1. General Employees Retirement Fund (GERF)**

All full-time and certain part-time employees of the City and Crosslake Communications are covered by the General Employees Retirement Fund (GERF). 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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

A. Plan Description (Continued)

**2. Public Employees Police and Fire Fund (PEPFF)**

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

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following 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.

**1. GERS Benefits**

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% of average salary for each of the first ten years of service and 2.7% 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% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based upon years of service and average high-five salary.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

B. Benefits Provided (Continued)

**2. PEPFF Benefits**

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

C. Contributions

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

**1. GERS Contributions**

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The City contributions to the GERS for the year ended December 31, 2015, were \$39,992. The Crosslake Communications contributions to the GERS for the year ended December 31, 2015, were \$39,984. The City and Crosslake Communications contributions were equal to the required contributions as set by state statute.

**2. PEPFF Contributions**

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2015. The City was required to contribute 16.20% of pay for PEPFF members in calendar year 2015. The City contributions to the PEPFF for the year ended December 31, 2015, were \$52,917. The City contributions were equal to the required contributions as set by state statute.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

D. Pension Costs

**1. GERF Pension Costs**

At December 31, 2015, the City reported a liability of \$456,062 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City proportion of the net pension liability was based on the City contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion was .0088% which was a decrease of .0020 percent from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the City recognized pension expense of \$26,782 for its proportionate share of the GERF's pension expense.

At December 31, 2015, the Crosslake Communication reported a liability of \$513,069 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Crosslake Communication proportion of the net pension liability was based on the Crosslake Communication contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the Crosslake Communication's proportion was .0099% which was a decrease of .0044 percent from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the Crosslake Communication recognized pension expense of \$16,412 for its proportionate share of the GERF's pension expense.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

D. Pension Costs (Continued)

**1. GERF Pension Costs (Continued)**

The proportionate share of GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	City of Crosslake		Crosslake Communications	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 5,190	\$ 22,994	\$ -	\$ 25,867
Changes of Assumptions	34,856	-	-	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	59,637	48,570	-
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	-	70,463	-	155,017
City Contributions Made Subsequent to the Measurement Date	19,851	-	19,238	-
Total	<u>\$ 59,897</u>	<u>\$ 153,094</u>	<u>\$ 67,808</u>	<u>\$ 180,884</u>

\$39,089 reported as deferred outflows of resources related to pensions resulting from City and Crosslake Communication contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December, 31	City	Crosslake Communication
	Pension Expense Amount	Pension Expense Amount
2016	\$ (34,605)	\$ (48,152)
2017	(34,605)	(48,152)
2018	(54,629)	(48,152)
2019	10,791	12,142

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

D. Pension Costs (Continued)

**2. PEPFF Pension Costs**

At December 31, 2015, the City reported a liability of \$386,320 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City proportion of the net pension liability was based on the City contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City proportion was .034% which was the same percent from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the City recognized pension expense of \$33,834. The City also recognized \$3,060 for the year ended December 31, 2015, as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's on-behalf contributions to the PEPFF. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the PEPFF each year, starting in fiscal year 2014.

At December 31, 2015, the City's proportionate share of PEPFF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources is as follows:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 411	\$ 62,648
Changes of Assumptions	73,427	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	68,587
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	-	-
City Contributions Made Subsequent to the Measurement Date	26,362	-
Total	<u>\$ 100,200</u>	<u>\$ 131,235</u>

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

D. Pension Costs (Continued)

**2. PEPFF Pension Costs (Continued)**

\$26,362 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December, 31	Pension Expense Amount
2016	\$ (22,542)
2017	(22,542)
2018	(22,542)
2019	22,757
2020	(12,528)

E. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per Year
Active Member Payroll Growth	3.50% per Year
Investment Rate of Return	7.90% per Year

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Benefit increases for retirees are assumed to be 1% effective every January 1<sup>st</sup> through 2026 and 2.5% thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERP was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.



**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

E. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions occurred in 2015: the discount rate was changed from 8.0% through June 30, 2017 and 8.5% thereafter to 8.0% for all years, the inflation assumption was changed from 3.0% to 2.75%, the payroll growth assumption was changed from 3.75% to 3.5%, assumed increases in member salaries were decreased by 0.25% at all ages and the assumed postretirement benefit increase rate was changed from 1.0% per year through 2026 and 2.5% thereafter to 1.0% per year through 2034 and 2.5% per year thereafter.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	45 %	5.5 %
International Stocks	15	6.0
Bonds	18	1.5
Alternative Assets	20	6.4
Cash	2	0.5
Totals	<u>100 %</u>	

F. Discount Rate

The discount rate used to measure the total pension liability was 7.9% for GERF and PEPFF. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

G. Pension Liability Sensitivity

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

	1% Decrease (6.9%)	Current Discount Rate (7.9%)	1% Increase (8.9%)
City proportionate share of the GERF net pension liability:	\$ 717,091	\$ 456,062	\$ 240,492
Crosslake Communications Proportionate Share of the GERF net pension liability:	806,727	513,069	270,553
City proportionate share of the PEPFF net pension liability:	752,941	386,320	83,426

H. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

**NOTE 5 DEFINED CONTRIBUTION PLAN**

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.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 5 DEFINED CONTRIBUTION PLAN (CONTINUED)**

Crosslake Firemen’s Relief Association (Continued)

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 2015 contribution to the plan was as follows:

State Aid flowed through City to Relief Association	\$	38,024
Voluntary (Non-Required) Contribution from City		17,496
Total Contribution	\$	55,520

**NOTE 6 OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

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

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

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

For the year ended December 31, 2015, there were three retirees receiving health benefits from the City’s health plan.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 6 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 2015, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Annual Required Contribution (ARC):	\$ 76,184
Interest on Net OPEB Obligation	9,475
Adjustment to ARC	<u>(14,109)</u>
Annual OPEB Cost	71,550
Contributions During the Year	<u>(28,617)</u>
Increase in Net OPEB Obligation	42,933
Net OPEB - Beginning of the Year	<u>236,867</u>
Net OPEB - End of the Year	<u><u>\$ 279,800</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, 2015 were as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2015	\$ 71,550	\$ 28,617	40.00%	\$ 279,800
December 31, 2014	48,053	14,502	0.3	236,867
December 31, 2013	48,339	(11,486)	(0.2)	203,316

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 6 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)
01/01/15	\$ -	\$ 554,009	\$ 554,009	- %	\$ 1,325,132	41.81%

**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, 2015 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.00% 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 7.25% initially, reduced incrementally to an ultimate rate of 5.00% after nine 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, 2015**

**NOTE 7 OPERATING LEASE REVENUE**

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

December 31,		
2016	\$	111,752
2017		112,467
2018		113,130
2019		111,116
2020		111,725
2021-2023		337,408
Total	\$	897,596

**NOTE 8 RESTATEMENT FOR CHANGE IN ACCOUNTING PRINCIPLE**

During the year ended December 31, 2015, the City adopted GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*, and the related GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statements No. 68*. These pronouncements require the restatement of the December 31, 2014, net position as follows:

	Governmental Activities	Business-Type Activities			Total
		Sewer Fund	Communications	Total	
Net Position, December 31, 2014, as Previously Reported	\$ 11,703,410	\$ 3,607,303	\$ 5,100,567	\$ 8,707,870	\$ 20,411,280
Cumulative Affect of Application of GASB 68, Net Pension Liability	(1,008,411)	(35,061)	(671,742)	(706,803)	(1,715,214)
Cumulative Affect of Application of GASB 71, Deferred Outflow of Resources for City Contributions Made to the Plan During Measurement Period (7/1/14 - 12/31/14)	43,473	1,092	22,025	23,117	66,590
Total Cumulative Affect of Restatement for Change in Accounting Principle	(964,938)	(33,969)	(649,717)	(683,686)	(1,648,624)
Net Position, December 31, 2014, as Restated	10,738,472	3,573,334	4,450,850	8,024,184	18,762,656
2015 Increase (Decrease) in Net Position	570,160	(43,755)	(91,207)	(134,962)	435,198
Net Position, December 31, 2015	\$ 11,308,632	\$ 3,529,579	\$ 4,359,643	\$ 7,889,222	\$ 19,197,854

## **REQUIRED SUPPLEMENTARY INFORMATION**





**CITY OF CROSSLAKE, MINNESOTA**  
**SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFIT PLAN**  
**YEAR ENDED DECEMBER 31, 2015**

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)
01/01/15	\$ -	\$ 554,009	\$ 554,009	- %	\$ 1,325,132	41.81%
01/01/12	-	321,160	321,160	-	1,659,481	19.4
01/01/09	-	259,196	259,196	-	1,707,490	15.2

**CITY OF CROSSLAKE, MINNESOTA  
SCHEDULE OF CITY AND CROSSLAKE COMMUNICATIONS PROPORTIONATE SHARE OF THE NET  
PENSION LIABILITY  
YEAR ENDED DECEMBER 31, 2015**

	Measurement Date <u>June 30, 2015</u>
<b>PERA - GERF - City</b>	
City's Proportion of the Net Pension Liability	0.0088%
City's Proportionate Share of the Net Pension Liability	\$ 456,062
City's Covered-Employee Payroll	\$ 519,617
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll	87.77%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.20%
<b>PERA - Crosslake Communications</b>	
Crosslake Communication's Proportion of the Net Pension Liability	0.0099%
Crosslake Communication's Proportionate Share of the Net Pension Liability	\$ 513,069
Crosslake Communication's Covered-Employee Payroll	\$ 511,099
Crosslake Communication's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll	100.39%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.20%
<b>PERA - PEPFF - City</b>	
City's Proportion of the Net Pension Liability	0.0340%
City's Proportionate Share of the Net Pension Liability	\$ 386,320
City's Covered-Employee Payroll	\$ 316,479
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll	122.07%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.20%

**CITY OF CROSSLAKE, MINNESOTA  
SCHEDULE OF CITY AND CROSSLAKE COMMUNICATIONS CONTRIBUTIONS  
YEAR ENDED DECEMBER 31, 2015**

	<b>2015</b>
<b>PERA - GERF - City</b>	
Contractually Required Contribution	\$ 39,992
Contributions in Relation to the Contractually Required Contribution	(39,992)
Contribution Deficiency (Excess)	\$ -
City's Covered-Employee Payroll	\$ 533,227
Contributions as a Percentage of Covered Employee Payroll	7.50%
<b>PERA - Crosslake Communications</b>	
Contractually Required Contribution	\$ 39,984
Contributions in Relation to the Contractually Required Contribution	(39,984)
Contribution Deficiency (Excess)	\$ -
Crosslake Communication's Covered-Employee Payroll	\$ 511,099
Contributions as a Percentage of Covered Employee Payroll	7.82%
<b>PERA - PEPFF - City</b>	
Contractually Required Contribution	\$ 52,917
Contributions in Relation to the Contractually Required Contribution	(52,917)
Contribution Deficiency (Excess)	\$ -
City's Covered-Employee Payroll	\$ 326,649
Contributions as a Percentage of Covered Employee Payroll	16.20%

**CITY OF CROSSLAKE, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**YEAR ENDED DECEMBER 31, 2015**

	BUDGET ORIGINAL AND FINAL	ACTUAL	VARIANCE WITH BUDGET OVER (UNDER)
<b>REVENUES</b>			
Taxes	\$ 2,556,754	\$ 2,576,465	\$ 19,711
Licenses and Permits	50,200	68,160	17,960
Intergovernmental	93,679	178,131	84,452
Charges for Services	321,984	370,511	48,527
Fines and Forfeits	17,600	27,646	10,046
Special Assessments	5,423	7,842	2,419
Interest	3,500	4,248	748
Contributions and Donations	13,000	90,083	77,083
Miscellaneous	27,550	67,019	39,469
Total Revenues	<u>3,089,690</u>	<u>3,390,105</u>	<u>300,415</u>
<b>EXPENDITURES</b>			
Current			
General Government			
Mayor and Council	31,110	28,468	(2,642)
Administration	241,234	231,431	(9,803)
Elections	-	10	10
Audit and Legal	52,000	42,997	(9,003)
Planning and Zoning	223,834	210,484	(13,350)
Other General Government	161,817	146,894	(14,923)
Total General Government	<u>709,995</u>	<u>660,284</u>	<u>(49,711)</u>
Public Safety			
Police	537,739	557,034	19,295
Fire Protection	105,545	127,088	21,543
Total Public Safety	<u>643,284</u>	<u>684,122</u>	<u>40,838</u>
Public Works			
Engineering	25,000	8,258	(16,742)
Public Way Maintenance	468,752	454,556	(14,196)
Total Public Works	<u>493,752</u>	<u>462,814</u>	<u>(30,938)</u>
Culture and Recreation			
Library	58,135	67,947	9,812
Recreation	367,357	364,000	(3,357)
Total Culture and Recreation	<u>425,492</u>	<u>431,947</u>	<u>6,455</u>
Miscellaneous			
Recycling	34,780	32,465	(2,315)
Firemen's Relief Association	49,000	55,520	6,520
Cemetery	2,000	2,444	444
Total Miscellaneous	<u>85,780</u>	<u>90,429</u>	<u>4,649</u>
Debt Service			
Principal	199,978	196,096	(3,882)
Interest and Fiscal Charges	35,568	35,381	(187)
Bond Issue Costs	-	2,500	2,500
Total Debt Service	<u>235,546</u>	<u>233,977</u>	<u>(1,569)</u>
Capital Outlay			
Capital Improvements and Equipment	462,619	1,194,617	731,998
Total Expenditures	<u>3,056,468</u>	<u>3,758,190</u>	<u>701,722</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, 2015**

	BUDGET ORIGINAL AND FINAL	ACTUAL	VARIANCE WITH BUDGET OVER (UNDER)
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	\$ 33,222	\$ (368,085)	\$ (401,307)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	276,000	288,752	12,752
Issuance of GO Equipment Certificates	-	552,368	552,368
Capital Lease Proceeds	28,800	8,790	(20,010)
Proceeds from Sale of Capital Assets	-	179,054	179,054
Total Other Financing Sources (Uses)	304,800	1,028,964	724,164
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ 338,022</b>	<b>660,879</b>	<b>\$ 322,857</b>
Fund Balance - Beginning of Year		2,044,084	
<b>FUND BALANCE - END OF YEAR</b>		<b>\$ 2,704,963</b>	

**CITY OF CROSSLAKE, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
TAX INCREMENT FINANCING FUND  
YEAR ENDED DECEMBER 31, 2015**

	BUDGET ORIGINAL AND FINAL	ACTUAL	VARIANCE WITH BUDGET OVER (UNDER)
<b>REVENUES</b>			
Tax Increments	\$ 13,000	\$ 12,843	\$ (157)
<b>EXPENDITURES</b>			
Economic Development Current	13,000	11,718	(1,282)
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ -</b>	<b>1,125</b>	<b>\$ 1,125</b>
Fund Balance - Beginning of Year		3,284	
<b>FUND BALANCE - END OF YEAR</b>		<b>\$ 4,409</b>	

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED DECEMBER 31, 2015**

**NOTE 1 LEGAL COMPLIANCE - BUDGETS**

A. Budgetary Information

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

The budget for the General and TIF Fund are adopted on a basis consistent with U.S. generally accepted accounting principles. Budgeted amounts are as originally adopted. All annual appropriations lapse at fiscal year-end.

B. Excess of Expenditures Over Appropriations

General Fund expenditures exceeded appropriations by \$701,722 in part to increased capital outlay expenditures due to additional capital asset purchases that were not in the original budget. The overage was considered by City management to be the result of necessary expenditures critical to operations and was approved by the Council.

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## **SUPPLEMENTARY INFORMATION**



**CITY OF CROSSLAKE, MINNESOTA  
 COMBINING BALANCE SHEET  
 ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT  
 DECEMBER 31, 2015**

	REVOLVING LOAN PROGRAM	EDA OPERATING FUND	TOTAL
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ -	\$ 3,805	\$ 3,805
Restricted Cash and Cash Equivalents	290,690	-	290,690
Taxes Receivable	-	16	16
Loans Receivable	148,131	-	148,131
Total Assets	\$ 438,821	\$ 3,821	\$ 442,642
<b>FUND BALANCES</b>			
Fund Balances			
Restricted for:			
Economic Development	\$ 438,821	\$ -	\$ 438,821
Unassigned	-	3,821	3,821
Total Fund Balances	\$ 438,821	\$ 3,821	\$ 442,642

**CITY OF CROSSLAKE, MINNESOTA**  
**RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION**  
**ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT**  
**DECEMBER 31, 2015**

	Fund Level Total	Adjustments	Statement of Net Position
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 3,805	\$ -	\$ 3,805
Restricted Cash and Cash Equivalents	290,690	-	290,690
Taxes Receivable	16	-	16
Loans Receivable	148,131	-	148,131
Total Assets	\$ 442,642	-	\$ 442,642
 <b>FUND BALANCES/NET POSITION</b>			
Fund Balance/Net Position			
Restricted for:			
Economic Development	\$ 438,821	\$ (438,821)	
Unassigned	3,821	(3,821)	
Total Fund Balances	\$ 442,642	(442,642)	
Net Position			
Restricted for Economic Development		438,821	\$ 438,821
Unrestricted		3,821	3,821
Total Net Position of Component Unit (Page 15)		\$ 442,642	\$ 442,642

**CITY OF CROSSLAKE, MINNESOTA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT  
 YEAR ENDED DECEMBER 31, 2015**

	REVOLVING LOAN PROGRAM	EDA OPERATING FUND	TOTAL
<b>REVENUES</b>			
Taxes	\$ -	\$ 237	\$ 237
Miscellaneous			
Revolving Loan Interest	7,727	-	7,727
Interest	1,433	-	1,433
Total Miscellaneous Revenue	<u>9,160</u>	<u>-</u>	<u>9,160</u>
Total Revenue	9,160	237	9,397
<b>EXPENDITURES</b>			
Economic Development Professional Services	<u>-</u>	<u>7,336</u>	<u>7,336</u>
<b>NET CHANGE IN FUND BALANCES</b>	9,160	(7,099)	2,061
Fund Balances - Beginning of Year	<u>429,661</u>	<u>10,920</u>	<u>440,581</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 438,821</u>	<u>\$ 3,821</u>	<u>\$ 442,642</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, 2015**

	<u>Fund Level Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures/Expenses	\$ 7,336	\$ 288	\$ 7,624
Program Revenues			
Charges for Services	<u>7,727</u>	<u>-</u>	<u>7,727</u>
Net Program Revenue (Expense)	391	(288)	103
General Revenues			
Taxes	237	(237)	-
Unrestricted Investment Earnings	<u>1,433</u>	<u>-</u>	<u>1,433</u>
Total General Revenues	<u>1,670</u>	<u>(237)</u>	<u>1,433</u>
Change in Net Position (Page 16)	2,061	(525)	1,536
Fund Balances/Net Position			
Beginning of Year	<u>440,581</u>	<u>525</u>	<u>441,106</u>
End of Year	<u>\$ 442,642</u>	<u>\$ -</u>	<u>\$ 442,642</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, 2015 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 28, 2016. 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 Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing.

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

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 28, 2016

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