

**CITY OF CROSSLAKE, MINNESOTA**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2016**





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## **INTRODUCTORY SECTION**





**CITY OF CROSSLAKE, MINNESOTA  
PRINCIPAL CITY OFFICIALS  
DECEMBER 31, 2016**

**ELECTED OFFICIALS**

<u>Position</u>	<u>Term Expires</u>	<u>Name</u>
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**

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

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## **FINANCIAL SECTION**



## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Crosslake (City), Minnesota, as of and for the year ended December 31, 2016, 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 a major fund of the business-type activities. Those statements, as of and for the period ended August 31, 2016, were audited by OlsenThielen & Co., Ltd. whose report is included on pages 5 and 6. We have applied audit procedures related to the transactions recorded for the sale of Crosslake Communications. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Honorable Mayor and  
Members of the City Council  
City of Crosslake

***Opinions***

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress – other postemployment benefit plan, 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 7 through 16, 64 through 70 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.

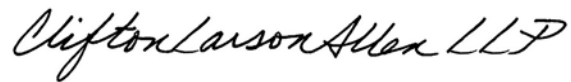
*Supplementary Information*

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  
April 3, 2017

## INDEPENDENT AUDITORS' REPORT

Members of the City Council  
City of Crosslake  
Crosslake, Minnesota

### Report on the Financial Statements

We have audited the accompanying financial statements of Crosslake Communications (an enterprise fund of the City of Crosslake), which comprise the statement of net position as of August 31, 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the eight month period then ended, and the related notes to the financial statements.

### 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 an opinion on these financial statements based on our audit. 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 auditor's 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 audit opinion.



**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Crosslake Communications as of August 31, 2016, and the results of its operations and its cash flows for the eight-month period then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter - Enterprise Fund Presentation**

As discussed in Note 1, the financial statements present only Crosslake Communications, and do not purport to, and do not, present fairly the financial position of The City of Crosslake Minnesota, as of August 31, 2016, and the changes in its financial position, or, where applicable, its cash flows for the eight month period then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Emphasis of Matter - Sale of Assets, Liabilities and Operations**

As discussed in Note 2, the City of Crosslake Minnesota has executed an asset purchase agreement with Tri-Co Technologies, LLC to sell substantially all of the assets, liabilities and operations of the fund effective as of the close of business on August 31, 2016. The presentation of these financial statements is immediately prior to the execution of the sale transaction.

**Other Matters - Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-6 as well as the Fund's schedule of its proportionate share of net pension liability and schedule of its pension contributions on page 24 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.

Roseville, Minnesota  
March 3, 2017

*Olsen Thielens + Co., Ltd.*

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**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

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, 2016. 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, 2016, and the prior year, 2015, is also presented in the MD&A.

**FINANCIAL HIGHLIGHTS**

- ◆ The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows at the close of the fiscal year by \$20,732,082 (net position). \$5,689,339 of this increase was due to the sale of Crosslake Communication during 2016 when that fund was closed into the General Fund. Of this amount \$6,705,194 (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 \$1,534,228.
- ◆ As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$8,917,240, an increase of \$6,047,380 in comparison with the prior year. Of the total amount, \$8,082,914 is available for spending at the City's discretion (unassigned/assigned fund balance). However, as stated below, \$323,853 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 263% of budgeted 2016 expenditures. Adjusted for the impact of the sale of Crosslake Communications, unassigned/assigned fund balance in the General Fund would have been 91% of budgeted 2016 expenditures as compared to 87% for 2015. The City Council has assigned \$323,853 for future capital outlay needs.
- ◆ Asset Sale of Crosslake Communications:
  - An asset purchase agreement was entered into on May 23, 2016 between Tri-Co Technologies, LLC (Buyer) and the City of Crosslake (Crosslake Communications Enterprise Fund) (Seller) for the sale of substantially all of the assets, liabilities, and operations of the fund to be effective at the close of business on August 31, 2016. The buyer agreed to pay the seller at closing, the sum of \$6,372,000, subject to purchase price adjustments described in the asset purchase agreement. The post-closing purchase price shall be subject to a working capital adjustment based on closing working capital on the day immediately preceding the closing date. If the closing working capital is negative, the purchase price will be decreased by the amount of such negative balance and if it is positive the purchase price will be increased by the amount of such positive balances. Closing working capital was \$89,572, resulting in an increase in the selling price by that amount.
  - As a condition of the sale, on August 31, 2016, the 2015A Telephone Utility Revenue Bonds were defeased to maturity by establishing an irrevocable escrow account with U.S. Bank. The escrow account was funded with cash from the proceeds of the asset sale.
  - Also, as a condition of the sale, on August 31, 2016, an indemnity escrow account was established to secure the Seller's obligations under the asset purchase agreement. The escrow account was funded with cash from the proceeds of the asset sale. The escrow agreement terminates one year from the sale date at which time, the balance, adjusted for any claims, will be remitted to the Seller. This account is reported in the City's General Fund as "Cash Held in Escrow".

**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

**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).

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 17 through 19 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.

**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

**Fund Financial Statements (Continued)**

***Governmental Funds (Continued)***

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.

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 20 through 23.

***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. As of December 31, 2016, the City sold the Communications department and the Communication Fund will no longer be shown as a fund of the City.

The basic proprietary fund financial statements can be found on pages 24 through 28 of this report.

**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

**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 and deferred inflows by \$20,732,082 at the close of the most recent fiscal year.

By far, the largest portion of the City's net position (62%) 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>				
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>2016</u>
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>Total</u>
Current and Other Assets	\$ 9,185,123	\$ 3,050,181	\$ 352,427	\$ 2,519,871	\$ 9,537,550
Capital Assets	11,487,514	11,667,360	4,835,265	10,284,964	16,322,779
Total Assets	<u>20,672,637</u>	<u>14,717,541</u>	<u>5,187,692</u>	<u>12,804,835</u>	<u>25,860,329</u>
Deferred Outflows of Resources	1,345,027	296,113	15,177	91,277	1,360,204
Long-Term Liabilities Outstanding	4,053,272	2,383,835	1,445,888	3,860,846	5,499,160
Other Liabilities	509,905	1,046,046	202,611	955,973	712,516
Total Liabilities	<u>4,563,177</u>	<u>3,429,881</u>	<u>1,648,499</u>	<u>4,816,819</u>	<u>6,211,676</u>
Deferred Inflows of Resources	269,837	275,142	6,938	190,071	276,775
Net Position					
Net Investment in Capital Assets	9,632,445	9,490,928	3,304,700	6,451,805	12,937,145
Restricted	800,015	179,093	289,728	756,123	1,089,743
Unrestricted	<u>6,752,190</u>	<u>1,638,611</u>	<u>(46,996)</u>	<u>681,294</u>	<u>6,705,194</u>
Total Net Position	<u>\$ 17,184,650</u>	<u>\$ 11,308,632</u>	<u>\$ 3,547,432</u>	<u>\$ 7,889,222</u>	<u>\$ 20,732,082</u>

There was an increase of \$5,876,018 and a decrease of \$4,341,790 in net position reported in connection with the City's governmental activities and business-type activities, respectively.

The increase in net position on the City's governmental activities was due primarily to the sale of the Communications Company (business-type activity) and transferring of the balance of that activity into the City's General Fund.

**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

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

**Change in Net Position**

The City's total net position increased by \$1,534,228. Key elements of this increase are as follows:

	<b>Change in Net Position</b>				2016 Total
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		
	2016	2015	2016	2015	
<b>REVENUES</b>					
Program Revenues					
Charges for Services	\$ 439,081	\$ 459,209	\$ 2,825,194	\$ 3,956,359	\$ 3,264,275
Operating Grants and Contributions	196,585	277,281	-	-	196,585
Capital Grants and Contributions	46,826	9,518	19,500	-	66,326
General Revenues					
Property Taxes	3,130,277	2,707,601	222,510	222,303	3,352,787
Other Taxes	12,079	12,843	-	-	12,079
Intergovernmental	351	345	165	-	516
Unrestricted Investment Earnings (Loss)	6,509	4,248	17,554	19,391	24,063
Gain on Sale of Capital Assets	21,143	41,839	-	-	21,143
Miscellaneous	54,454	59,760	2,826	-	57,280
<b>Total Revenues</b>	<b>3,907,305</b>	<b>3,572,644</b>	<b>3,087,749</b>	<b>4,198,053</b>	<b>6,995,054</b>
<b>EXPENSES</b>					
General Government	1,219,777	1,161,433	-	-	1,219,777
Public Safety	1,140,535	916,408	-	-	1,140,535
Public Works	757,514	672,586	-	-	757,514
Culture and Recreation	495,135	453,207	-	-	495,135
Economic Development	11,035	11,718	-	-	11,035
Interest on Long-Term Debt	63,286	75,884	-	-	63,286
Communications	-	-	2,490,754	3,562,922	2,490,754
Sewer Utility	-	-	511,836	481,341	511,836
<b>Total Expenses</b>	<b>3,687,282</b>	<b>3,291,236</b>	<b>3,002,590</b>	<b>4,044,263</b>	<b>6,689,872</b>
<b>CHANGE IN NET POSITION BEFORE TRANSFERS AND SPECIAL ITEM</b>	<b>220,023</b>	<b>281,408</b>	<b>85,159</b>	<b>153,790</b>	<b>305,182</b>
Transfers	5,655,995	288,752	(5,655,995)	(288,752)	-
<b>CHANGE IN NET POSITION BEFORE SPECIAL ITEM</b>	<b>5,876,018</b>	<b>570,160</b>	<b>(5,570,836)</b>	<b>(134,962)</b>	<b>305,182</b>
Special Item - Gain on Disposal of Operations	-	-	1,229,046	-	1,229,046
<b>CHANGE IN NET POSITION</b>	<b>5,876,018</b>	<b>570,160</b>	<b>(4,341,790)</b>	<b>(134,962)</b>	<b>1,534,228</b>
Net Position - Beginning of Year	11,308,632	10,738,472	7,889,222	8,024,184	19,197,854
<b>NET POSITION - END OF YEAR</b>	<b>\$ 17,184,650</b>	<b>\$ 11,308,632</b>	<b>\$ 3,547,432</b>	<b>\$ 7,889,222</b>	<b>\$ 20,732,082</b>

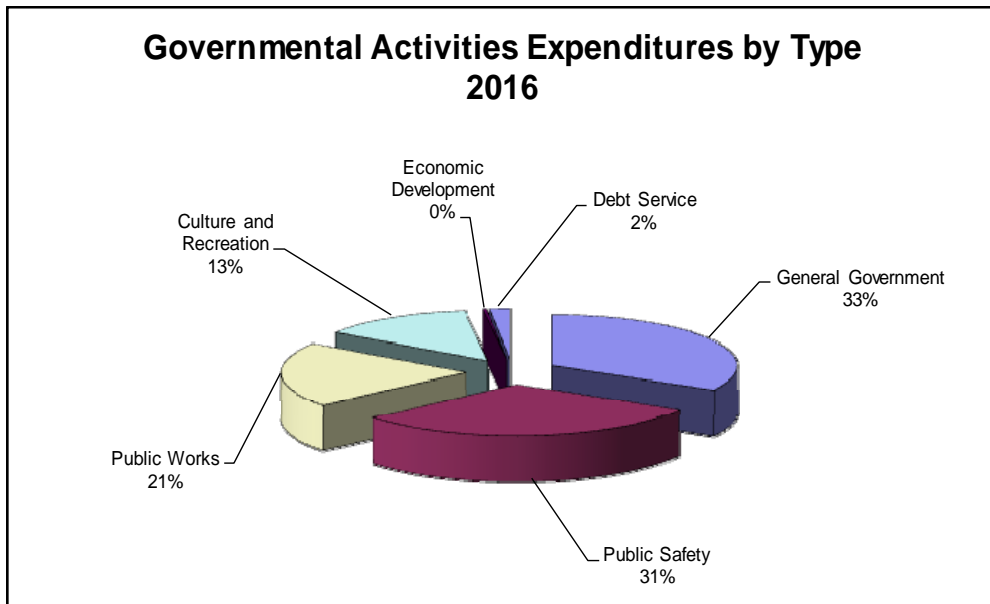
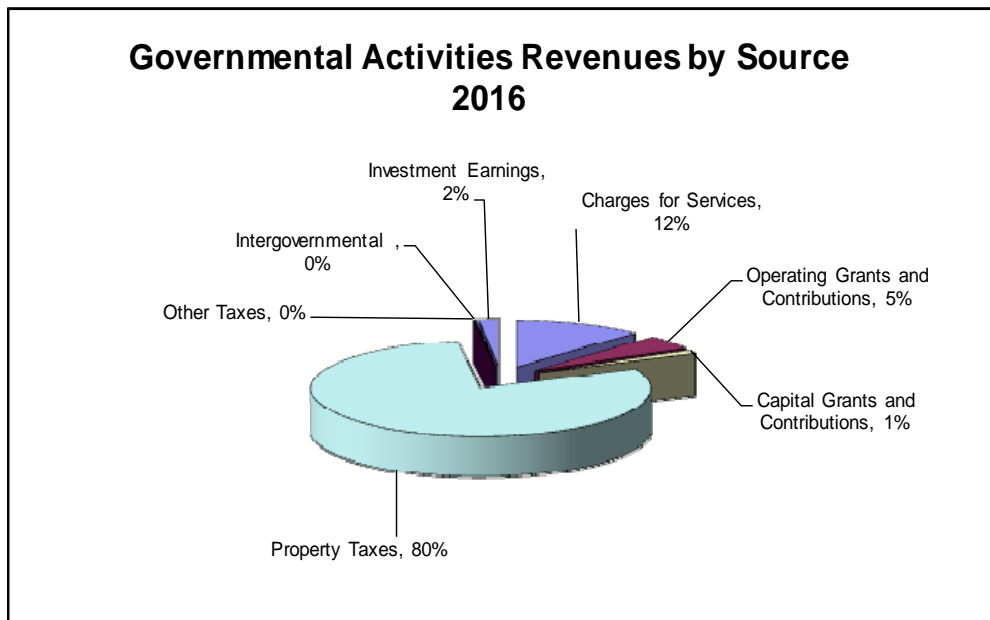
**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

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

**Change in Net Position (Continued)**

**Governmental Activities** – Governmental activities increased the City's net position by \$5,876,018 in 2016 as compared to an increase of \$570,160 in 2015. Key element of this increase is as follows:

- ◆ The City sold Crosslake Communications during 2016 and transferred all remaining activity of the Communication Fund to the General Fund. This resulted in \$5,689,339 of the increase in the City's net position noted above.
- ◆ Property taxes increased approximately \$423,000 over 2015 in due to an overall levy increase. \$293,938 of the property tax increase was due to replacing with levy dollars, funds previously received in the form of operating transfers to the General Fund from the Communications Fund.





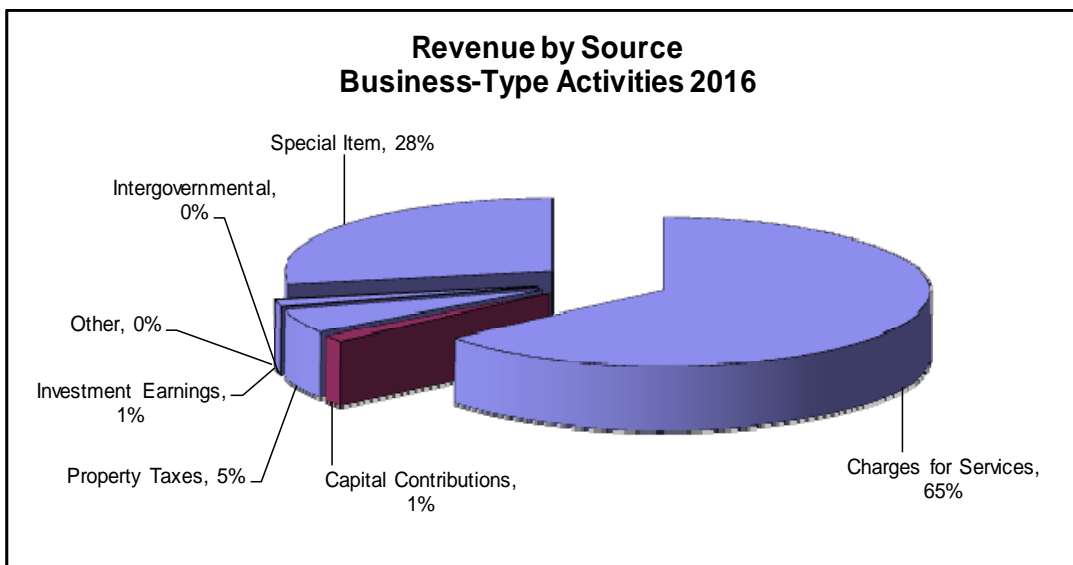
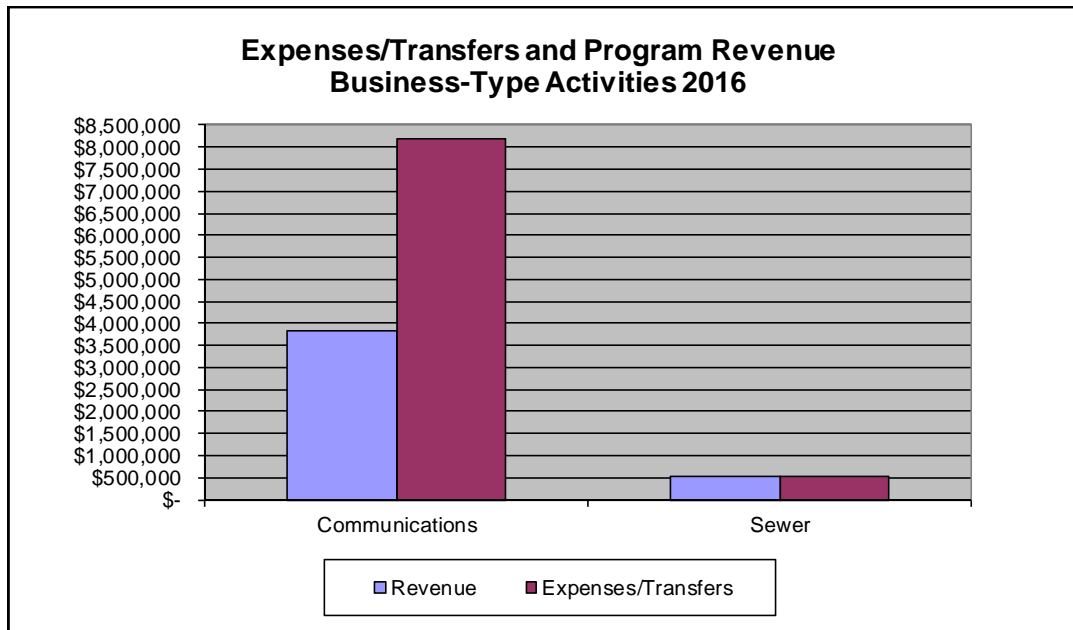
**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

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

**Change in Net Position (Continued)**

**Business-Type Activities** – Business-type activities decreased the City's net position by \$4,341,790 in 2016 as compared to \$134,962 in 2015. The Communication Fund was closed out in the current year due to the sale of the communication department.

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



**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

**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 \$8,917,240, an increase of \$6,047,380 in comparison with the prior year. Of this amount \$8,082,914 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 2016 (\$805,999). In addition, a portion of unassigned/assigned fund balance has been assigned by the City Council for future years' capital outlay (\$323,853).

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 \$8,082,914. Total fund balance was \$8,748,599. 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 263% and 264% of total 2016 General Fund expenditures, respectively.

The fund balance of the City's General Fund increased by \$6,043,636 during the current fiscal year. Key factors in this increase are as follows:

- ◆ The majority of the increase in fund balance in the General Fund was due to transfers from the closing of the Communications Fund during 2016.
- ◆ Total expenditures in the General Fund decreased \$448,537 as compared to 2015. Capital outlay decreased \$459,629 due to capital assets purchased in the prior year.
- ◆ Total revenues in the General Fund increased \$289,196 from 2015. The City's total levy increase over 2015 amounted to \$414,000 which was recorded in the General Fund. There was an offsetting decrease in contributions of \$50,409.

**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. During 2016, the City began making improvements to its wastewater treatment plant. \$142,417 of construction in progress related to this project is reported in the Sewer Enterprise Fund at year-end. Total project costs approximate \$1.6 million and are anticipated to be substantially complete in 2017. The project consists of improvements include the construction of new flow equalization tank, computer and electrical systems, new filter backwash equipment, piping improvements, new generator, and the construction of a new well and storage tank to be used in the backwash system. The City anticipates using a combination of existing cash and new debt to finance the project.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

There were no budget revisions during the year.

**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

**GENERAL FUND BUDGETARY HIGHLIGHTS (CONTINUED)**

Revenues were over budget by approximately 5% due in part to the following unbudgeted items: insurance premium dividends of \$38,446, FEMA grant for fire equipment of \$24,810, \$25,575 of building permit related items, prepaid special assessments of \$14,510, fire training reimbursements of \$13,600, donations of \$26,674.

Expenditures were under budget by \$33,468, or approximately 1%.

**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, 2016, amounts to \$16,322,778 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, roads, bridges, and other infrastructure.

	<b>Capital Assets (Net of Depreciation)</b>				2016 Total
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		
	2016	2015	2016	2015	
Land	\$ 920,921	\$ 920,921	\$ 8,713	\$ 15,367	\$ 929,634
Construction in Progress	144,241	30,548	142,417	52,553	286,658
Buildings	3,214,627	3,364,494	2,533,325	3,474,546	5,747,952
Improvements Other than Buildings	420,260	452,556	17,743	17,743	438,003
Machinery and Equipment	1,687,661	1,816,239	38,199	887,722	1,725,860
Infrastructure	5,099,804	5,082,602	2,094,868	5,837,033	7,194,672
Total	<u>\$ 11,487,514</u>	<u>\$ 11,667,360</u>	<u>\$ 4,835,265</u>	<u>\$ 10,284,964</u>	<u>\$ 16,322,779</u>

Detailed information on the City's capital assets can be found in the Notes to the Financial Statements (3.A.7, 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 \$2,504,484. Of this amount, \$1,961,791 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 \$12,943.

	<u>2016</u>	<u>2015</u>
General Obligation Bonds	\$ 1,961,791	\$ 2,298,917
Capital Leases	12,943	17,124
Total	<u>\$ 1,974,734</u>	<u>\$ 2,316,041</u>

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

**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

**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 \$329,351 (14%) during the current fiscal year. This was primarily due to payments made on outstanding debt.

**Business-Type Activities** – At the end of the current fiscal year, the business-type activities had total long-term liabilities of \$1,562,624, consisting of general obligation, revenue bonds and other long-term liabilities. This decrease of \$2,298,222 (60%) from 2015 reflects the payments made on bonds in the current year along with the defeasance of communication debt.

**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 3.1% from \$1,138,627,400 to \$1,174,049,844 and the taxable tax capacity increased 3.2% from \$12,114,357 to \$12,498,774 for taxes payable in 2017. These increases in values along with an overall increase in the City's tax levy request from 2016 resulted in an increase of 0.491% in the City's tax rate from 27.643% to 28.134% for taxes payable in 2017.
- ◆ An impact on the sale of Crosslake Communications is the City no longer qualifies as a Rural Utility as defined by the United States Department of Agriculture – Rural Economic Development (USDA) eligible to operate a revolving loan program funded by USDA. In 1998, the City received a grant from USDA in the amount of \$300,000 for the establishment of a Revolving Loan Fund, administered by the City's Economic Development Authority. The City could either return the original amount of the grant to USDA or transfer the entire revolving loan program to another eligible entity. On March 8, 2017, the City received approval from USDA to transfer the program to Crow Wing Cooperative Power and Light Company. \$328,788 of cash representing cumulative to date collections of principal and interest along with \$123,990 of outstanding loans receivable were transferred.

These factors were taken into account by the City of Crosslake when preparing the 2017 budget. The City has reviewed and raised various fees for services and will continue to closely monitor expenses in order to proactively adjust to changes in the economy and/or further reductions in state aid.

**REQUESTS FOR INFORMATION**

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

## **BASIC FINANCIAL STATEMENTS**



**CITY OF CROSSLAKE, MINNESOTA  
STATEMENT OF NET POSITION  
DECEMBER 31, 2016**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Economic Development Authority
<b>ASSETS</b>				
Cash and Investments	\$ 8,249,794	\$ -	\$ 8,249,794	\$ 9,264
Cash Held in Escrow	637,358	-	637,358	-
Receivables				
Taxes	121,233	9,564	130,797	441
Accounts	94,978	20,971	115,949	-
Special Assessments	47,351	-	47,351	-
Connection Charges	-	15,600	15,600	-
Due from Other Governments	6,082	-	6,082	-
Prepayments	28,327	2,883	31,210	-
Restricted, Designated and Long-Term Assets				
Cash and Investments	-	303,409	303,409	322,431
Loans Receivable	-	-	-	123,990
Capital Assets				
Land and Construction In Progress	1,065,162	151,130	1,216,292	-
Other Capital Assets, Net of Depreciation	10,422,352	4,684,135	15,106,487	-
Total Assets	20,672,637	5,187,692	25,860,329	456,126
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension Related	1,225,362	15,177	1,240,539	-
Loss on Refunding	119,665	-	119,665	-
Total Deferred Outflows	1,345,027	15,177	1,360,204	-
<b>LIABILITIES</b>				
Current Liabilities				
Accounts Payable	98,447	4,282	102,729	347
Contracts Payable	13,600	-	13,600	-
Accrued Liabilities	18,770	1,878	20,648	-
Accrued Interest Payable	12,994	13,681	26,675	-
Due to Other Governments	9,035	-	9,035	-
Unearned Revenue	11,102	-	11,102	-
Long-Term Liabilities				
Due within One Year	345,957	182,770	528,727	-
Due in More than One Year, Net of				
Unamortized Discount	1,708,527	1,379,854	3,088,381	-
Other Postemployment Benefits	276,121	23,650	299,771	-
Net Pension Liability	2,068,624	42,384	2,111,008	-
Total Liabilities	4,563,177	1,648,499	6,211,676	347
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pension Related	269,837	6,938	276,775	-
<b>NET POSITION</b>				
Net Investment in Capital Assets	9,632,445	3,304,700	12,937,145	-
Restricted for:				
Tax Increment Financing	5,453	-	5,453	-
Economic Development	-	-	-	446,421
Indemnity Escrow Amount	637,358	-	637,358	-
Debt Service	157,204	289,728	446,932	-
Unrestricted	6,752,190	(46,996)	6,705,194	9,358
Total Net Position	\$ 17,184,650	\$ 3,547,432	\$ 20,732,082	\$ 455,779

See accompanying Notes to Financial Statements.

**CITY OF CROSSLAKE, MINNESOTA  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2016**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	\$ 1,219,777	\$ 123,840	\$ 43,386	\$ 43,530
Public Safety	1,140,535	95,255	132,544	69
Public Works	757,514	141,957	-	-
Culture and Recreation	495,135	78,029	20,655	814
Economic Development	11,035	-	-	-
Interest on Long-Term Debt	63,286	-	-	2,413
Total Governmental Activities	<u>3,687,282</u>	<u>439,081</u>	<u>196,585</u>	<u>46,826</u>
Business-Type Activities				
Communications	2,490,754	2,574,028	-	-
Sewer	511,836	251,166	-	19,500
Total Business-Type Activities	<u>3,002,590</u>	<u>2,825,194</u>	<u>-</u>	<u>19,500</u>
Total Primary Government	<u>\$ 6,689,872</u>	<u>\$ 3,264,275</u>	<u>\$ 196,585</u>	<u>\$ 66,326</u>
Component Unit				
Economic Development Authority	<u>\$ 23,633</u>	<u>6,074</u>	<u>\$ 16,569</u>	<u>\$ -</u>

General Revenues

Taxes
Property Taxes, Levied for General Purpose
Other Taxes
Intergovernmental Revenues
Unrestricted Investment Earnings
Gain on Sale of Capital Assets
Miscellaneous
Transfers
Special Item - Gain on Disposal of Operations
Total General Revenues, Transfers and Special Item
Change in Net Position
Net Position - Beginning of Year
Net Position - End of Year

See accompanying Notes to Financial Statements.



Net (Expense) Revenue and Changes in Net Position

Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Economic Development Authority
\$ (1,009,021)	\$ -	\$ (1,009,021)	\$ -
(912,667)	-	(912,667)	-
(615,557)	-	(615,557)	-
(395,637)	-	(395,637)	-
(11,035)	-	(11,035)	-
(60,873)	-	(60,873)	-
<u>(3,004,790)</u>	<u>-</u>	<u>(3,004,790)</u>	<u>-</u>
-	83,274	83,274	-
-	(241,170)	(241,170)	-
-	(157,896)	(157,896)	-
<u>(3,004,790)</u>	<u>(157,896)</u>	<u>(3,162,686)</u>	<u>-</u>
-	-	-	(990)
3,130,277	222,510	3,352,787	12,601
12,079	-	12,079	-
351	165	516	-
6,509	17,554	24,063	1,526
21,143	-	21,143	-
54,454	2,826	57,280	-
5,655,995	(5,655,995)	-	-
-	1,229,046	1,229,046	-
<u>8,880,808</u>	<u>(4,183,894)</u>	<u>4,696,914</u>	<u>14,127</u>
5,876,018	(4,341,790)	1,534,228	13,137
11,308,632	7,889,222	19,197,854	442,642
<u>\$ 17,184,650</u>	<u>\$ 3,547,432</u>	<u>\$ 20,732,082</u>	<u>\$ 455,779</u>

**CITY OF CROSSLAKE, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2016**

	GENERAL FUND	TAX INCREMENT FINANCING FUND	DEBT SERVICE FUND	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS</b>				
Cash and Investments	\$ 8,084,752	\$ 5,453	\$ 159,589	\$ 8,249,794
Cash Held in Escrow	637,358	-	-	637,358
Receivables				
Taxes	114,852	-	6,381	121,233
Special Assessments	43,123	-	4,228	47,351
Accounts	94,978	-	-	94,978
Due from Other Governments	6,082	-	-	6,082
Prepayments	28,327	-	-	28,327
	<u>9,009,472</u>	<u>5,453</u>	<u>170,198</u>	<u>9,185,123</u>
Total Assets	<u>\$ 9,009,472</u>	<u>\$ 5,453</u>	<u>\$ 170,198</u>	<u>\$ 9,185,123</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
Liabilities				
Accounts Payable	\$ 98,623	\$ -	\$ -	\$ 98,623
Contracts Payable	13,600	-	-	13,600
Accrued Liabilities	18,594	-	-	18,594
Unearned Revenue	11,102	-	-	11,102
Due to Other Governments	9,035	-	-	9,035
Total Liabilities	150,954	-	-	150,954
Deferred Inflows of Resources				
Unavailable Revenue on Property Taxes	66,796	-	3,950	70,746
Unavailable Revenue on Special Assessments	43,123	-	3,060	46,183
Total Deferred Inflows of Resources	109,919	-	7,010	116,929
Fund Balances				
Nonspendable for:				
Prepayments	28,327	-	-	28,327
Restricted for:				
Debt Service	-	-	163,188	163,188
Tax Increment Financing	-	5,453	-	5,453
Indemnity Escrow Amount	637,358	-	-	637,358
Assigned for:				
Capital Outlay	323,853	-	-	323,853
Unassigned:				
General Fund	7,759,061	-	-	7,759,061
Total Fund Balances	<u>8,748,599</u>	<u>5,453</u>	<u>163,188</u>	<u>8,917,240</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 9,009,472</u>	<u>\$ 5,453</u>	<u>\$ 170,198</u>	<u>\$ 9,185,123</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, 2016**

**TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS** \$ 8,917,240

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	144,241	
Capital Assets, Being Depreciated	19,696,251	
Accumulated Depreciation	<u>(9,273,899)</u>	
		11,487,514

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. 116,929

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. (12,994)

The loss on refunding is reported as a deferred outflow on the statement of net position and amortized over the life of the bonds. 119,665

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	(2,068,624)	
Deferred Inflows of Resources - Pension Related	(269,837)	
Deferred Outflows of Resources - Pension Related	<u>1,225,362</u>	
		(1,113,099)

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	(1,936,000)	
Unamortized Discounts/ Premiums	(25,791)	
Compensated Absences Payable	(79,750)	
Other Postemployment Benefits Payable	(276,121)	
Obligations Under Capital Leases	<u>(12,943)</u>	
		<u>(2,330,605)</u>

**TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES** \$ 17,184,650

**CITY OF CROSSLAKE, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2016**

	GENERAL FUND	TAX INCREMENT FINANCING FUND	DEBT SERVICE FUND	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES</b>				
Taxes	\$ 2,964,123	\$ -	\$ 147,911	\$ 3,112,034
Tax Increments	-	12,079	-	12,079
Licenses and Permits	75,775	-	-	75,775
Intergovernmental	142,688	-	-	142,688
Charges for Services	344,927	-	-	344,927
Fines and Forfeits	18,657	-	-	18,657
Special Assessments	17,315	-	27,516	44,831
Interest	6,509	-	-	6,509
Contributions and Donations	39,674	-	-	39,674
Miscellaneous	69,633	-	-	69,633
Total Revenues	<u>3,679,301</u>	<u>12,079</u>	<u>175,427</u>	<u>3,866,807</u>
<b>EXPENDITURES</b>				
Current				
General Government	671,643	-	-	671,643
Public Safety	717,009	-	-	717,009
Public Works	454,214	-	-	454,214
Culture and Recreation	422,876	-	-	422,876
Economic Development	-	11,035	-	11,035
Miscellaneous	96,013	-	-	96,013
Capital Outlay	734,988	-	-	734,988
Debt Service				
Principal Retirement	184,389	-	155,000	339,389
Bond Issuance Costs	-	-	-	-
Interest and Fiscal Charges	31,671	-	17,727	49,398
Total Expenditures	<u>3,312,803</u>	<u>11,035</u>	<u>172,727</u>	<u>3,496,565</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	366,498	1,044	2,700	370,242
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from Sale of Capital Assets	21,143	-	-	21,143
Transfers In	5,689,339	-	-	5,689,339
Transfers Out	(33,344)	-	-	(33,344)
Total Other Financing Sources (Uses)	<u>5,677,138</u>	<u>-</u>	<u>-</u>	<u>5,677,138</u>
<b>NET CHANGE IN FUND BALANCES</b>	6,043,636	1,044	2,700	6,047,380
Fund Balances - Beginning of Year	<u>2,704,963</u>	<u>4,409</u>	<u>160,488</u>	<u>2,869,860</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 8,748,599</u>	<u>\$ 5,453</u>	<u>\$ 163,188</u>	<u>\$ 8,917,240</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, 2016**

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** \$ 6,047,380

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	\$ 692,678	
Depreciation Expense	<u>(872,524)</u>	(179,846)

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

Principal Payments of Capital Leases	4,181
--------------------------------------	-------

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	335,000	
Change in Accrued Interest Expense for General Obligation Bonds	4,138	
Amortization of Bond Discount/Premium	<u>2,126</u>	341,264

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. (179,443)

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	(11,956)
Change in Other Postemployment Benefits	(144,973)
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, 2015	(97,574)	
Unavailable Revenue - December 31, 2016	<u>116,929</u>	<u>19,355</u>

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** \$ 5,876,018

**CITY OF CROSSLAKE, MINNESOTA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2016**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	COMMUNICATIONS	SEWER	TOTALS
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>			
<b>CURRENT ASSETS</b>			
Receivables			
Accounts Receivable	\$ -	\$ 20,971	\$ 20,971
Taxes	-	3,599	3,599
Connection Charges	-	2,817	2,817
Prepayments	-	2,883	2,883
Total Current Assets	-	30,270	30,270
<b>NONCURRENT ASSETS</b>			
Taxes Receivable	-	5,965	5,965
Restricted Assets			
Cash and Cash Equivalents	-	303,409	303,409
Connection Charges Receivable	-	12,783	12,783
Capital Assets			
Land	-	8,713	8,713
Building and Improvements	-	3,696,912	3,696,912
Machinery and Equipment	-	348,920	348,920
Sanitary Sewers	-	3,080,700	3,080,700
Construction-in-Progress	-	142,417	142,417
Subtotal Capital Assets	-	7,277,662	7,277,662
Less: Accumulated Depreciation	-	(2,442,397)	(2,442,397)
Net Capital Assets	-	4,835,265	4,835,265
Total Noncurrent Assets	-	5,157,422	5,157,422
Total Assets	-	5,187,692	5,187,692
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension Related	-	15,177	15,177
Total Assets and Deferred Outflows of Resources	\$ -	\$ 5,202,869	\$ 5,202,869

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	\$ -	\$ 4,282	\$ 4,282
Salaries and Wages Payable	-	1,467	1,467
Customer Deposits	-	411	411
Accrued Compensated Absences	-	7,770	7,770
Total Current Liabilities	-	13,930	13,930
<b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>			
Accrued Interest Payable	-	13,681	13,681
Revenue Bonds Payable	-	175,000	175,000
Total Current Liabilities Payable from Restricted Assets	-	188,681	188,681
<b>LONG-TERM LIABILITIES</b>			
Bonds Payable (Net of Unamortized Bond Discounts)	-	1,355,565	1,355,565
Net Pension Liability	-	42,384	42,384
Accrued Compensated Absences	-	24,289	24,289
Other Postemployment Benefits Payable	-	23,650	23,650
Total Long-Term Liabilities	-	1,445,888	1,445,888
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension Related	-	6,938	6,938
<b>NET POSITION</b>			
Net Investment in Capital Assets	-	3,304,700	3,304,700
Restricted For:			
Debt Service	-	289,728	289,728
Unrestricted	-	(46,996)	(46,996)
Total Net Position	-	3,547,432	3,547,432
Total Net Position, Liabilities, and Deferred Inflows of Resources	\$ -	\$ 5,202,869	\$ 5,202,869

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**CITY OF CROSSLAKE, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2016**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	COMMUNICATIONS	SEWER	TOTALS
<b>OPERATING REVENUES</b>			
Sales and Charges for Services	\$ 2,574,028	251,166	\$ 2,825,194
<b>OPERATING EXPENSES</b>			
Personal Services	-	131,055	131,055
Supplies	-	27,706	27,706
Repairs and Maintenance	-	36,573	36,573
Other Services and Charges	-	88,319	88,319
Plant Specific	268,468	-	268,468
Depreciation	549,623	196,931	746,554
Plant Support	188,877	-	188,877
Customer	141,964	-	141,964
Signal Purchases	568,795	-	568,795
Internet Services	176,209	-	176,209
Other Nonregulated	38,674	-	38,674
General and Administrative	329,882	-	329,882
Total Operating Expenses	<u>2,262,492</u>	<u>480,584</u>	<u>2,743,076</u>
<b>OPERATING INCOME (LOSS)</b>	311,536	(229,418)	82,118
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Property Taxes	-	222,510	222,510
Intergovernmental	-	165	165
Investment Earnings	16,870	178	17,048
Sewer Connection Fees	-	19,500	19,500
Interest Expense	(33,440)	(31,252)	(64,692)
Miscellaneous Revenues	-	2,826	2,826
Special Charges Related to Sale	(194,822)	-	(194,822)
Net Increase in the Fair Value of Investments	506	-	506
Total Nonoperating Revenues (Expenses)	<u>(210,886)</u>	<u>213,927</u>	<u>3,041</u>
<b>INCOME (LOSS) BEFORE TRANSFERS AND SPECIAL ITEM</b>	100,650	(15,491)	85,159
Transfers In	-	33,344	33,344
Transfers Out	(5,689,339)	-	(5,689,339)
Total Transfers	<u>(5,689,339)</u>	<u>33,344</u>	<u>(5,655,995)</u>
<b>INCOME (LOSS) BEFORE SPECIAL ITEM</b>	(5,588,689)	17,853	(5,570,836)
Gain on Disposal of Operations	<u>1,229,046</u>	-	<u>1,229,046</u>
<b>CHANGE IN NET POSITION</b>	(4,359,643)	17,853	(4,341,790)
Net Position - Beginning of Year	<u>4,359,643</u>	<u>3,529,579</u>	<u>7,889,222</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ -</u>	<u>\$ 3,547,432</u>	<u>\$ 3,547,432</u>

See accompanying Notes to Financial Statements.

**CITY OF CROSSLAKE, MINNESOTA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED DECEMBER 31, 2016**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	COMMUNICATIONS	SEWER	TOTALS
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash Received from Customers	\$ 1,891,738	\$ 252,063	\$ 2,143,801
Cash Received from Others	655,812	-	655,812
Cash Paid to Employees for Services	(1,397,903)	(125,012)	(1,522,915)
Cash Paid to Suppliers for Goods and Services	(471,539)	(138,229)	(609,768)
Net Cash Provided (Used) by Operating Activities	678,108	(11,178)	666,930
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Miscellaneous Revenues (Expenses)	-	2,826	2,826
Transfers from (to) Other Funds	(5,689,339)	33,344	(5,655,995)
Increase (Decrease) in Customer Deposits	(1,369)	-	(1,369)
Cash Received for Disposition of Operations	6,372,000	-	6,372,000
Special Charges Related to Sale	(373,850)	-	(373,850)
Net Cash Provided (Used) by Noncapital Financing Activities	307,442	36,170	343,612
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and Construction of Capital Assets	(455,324)	(212,309)	(667,633)
Proceeds from Sale of Property, Plant and Equipment	2,496	-	2,496
Decrease in Materials and Supplies	(46,015)	-	(46,015)
Property Taxes Received	-	221,862	221,862
Collection of Connection Charges	-	4,325	4,325
Payment on Defeased Long-Term Debt	(1,986,866)	-	(1,986,866)
Interest Paid	(33,440)	(35,094)	(68,534)
Principal Payments on Long-Term Debt	-	(170,000)	(170,000)
Net Cash Provided (Used) by Capital and Related Financing Activities	(2,519,149)	(191,216)	(2,710,365)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net Purchases of Restricted and Unrestricted Investment Securities	1,068,678	-	1,068,678
Sale (Purchase) of Investments	(4,692)	-	(4,692)
Interest Received	16,870	178	17,048
Net Cash Provided (Used) by Investing Activities	1,080,856	178	1,081,034
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
	(452,743)	(166,046)	(618,789)
Cash and Cash Equivalents - Beginning of Year	452,743	469,455	922,198
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ -</b>	<b>\$ 303,409</b>	<b>\$ 303,409</b>

See accompanying Notes to Financial Statements.

**CITY OF CROSSLAKE, MINNESOTA  
STATEMENT OF CASH FLOWS (CONTINUED)  
PROPRIETARY FUNDS  
YEAR ENDED DECEMBER 31, 2016**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	COMMUNICATIONS	SEWER	TOTALS
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating Income (Loss)	\$ 311,536	\$ (229,418)	\$ 82,118
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Depreciation	549,623	196,931	746,554
(Increase) Decrease in Assets:			
Accounts Receivable	(16,849)	897	(15,952)
Due from Customers	(563)	-	(563)
Prepayments	24,017	(33)	23,984
Increase (Decrease) in Liabilities:			
Accounts Payable	(108,018)	623	(107,395)
Accrued Liabilities	-	484	484
Accrued Compensated Absences	-	4,372	4,372
Advance Payments	(9,066)	-	(9,066)
Pension Related	12,598	1,187	13,785
Postemployment Benefits Payable	(85,170)	13,779	(71,391)
Net Cash Provided (Used) by Operating Activities	\$ 678,108	\$ (11,178)	\$ 666,930
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION</b>			
Restricted Assets			
Cash and Investments	\$ -	\$ 303,409	\$ 303,409

See accompanying Notes to Financial Statements.

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**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**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, 2016**

**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, 2016**

**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, which were sold as of the end of the year.

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, 2016**

**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.

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, 2016**

**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, 2016**

**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% 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% 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.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**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)

**7. 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

**8. 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, 2016**

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

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

**9. 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

**10. 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.

**11. 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.

**12. 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, 2016**

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

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

**13. Fund Balance**

**Governmental Fund Financial Statements** – 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, 2016**

**NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

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.

**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, 2016 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, 2016**

**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. Investments as of December 31, 2016 are as follows:

Investment Type	Total	12 Months or Less
Minnesota Municipal Money Market Fund Trust	\$ 7,253,160	\$ 7,253,160
US Bank Money Market	637,358	637,358
Total	<u>\$ 7,890,518</u>	<u>\$ 7,890,518</u>

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

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

A. Assets (Continued)

**2. Investments (Continued)**

The Minnesota Municipal Money Market Fund Trust and the US Bank Money Market are money market accounts that are valued at amortized cost with maturities of investments of one year or less.

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	\$ 1,631,738
Investments	7,890,518
Total Cash and Investments	\$ 9,522,256
Cash and Investments - Governmental Funds	\$ 8,887,152
Cash and Investments - Proprietary Funds	303,409
Cash and Investments - Component Unit	331,695
Total Cash and Investments	\$ 9,522,256

**3. Fair Value Measurements**

The City uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

The City follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the City has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.



**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

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

A. Assets (Continued)

**3. Fair Value Measurements (Continued)**

Financial assets and liabilities recorded on the combined statement of financial position are categorized based on the inputs to the valuation techniques as follows:

- *Level 1* – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.
- *Level 2* – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.
- *Level 3* – Financial asset and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity’s own assumptions about the assumptions market participants and would use a pricing the asset.

Assets measured at fair value on a recurring basis:

Type	12/31/2016	Level 1	Level 2	Level 3	Total
N/A					
Subtotal		\$ -	\$ -	\$ -	\$ -
NAV Funds					\$ 7,253,160
Total Investments					\$ 7,253,160

The Minnesota Municipal Money Market Fund Trust is an external investment pool (Pool) that is managed to maintain a dollar-weighted average portfolio maturity of no greater than 60 days and seeks to maintain a constant net asset value (NAV) per share of \$1.00. The Pool elects to measure its investments at amortized cost in accordance with accounting statements issued by the Government Accounting Standards Board.

The City reports its investment in the Pool at the NAV per share, the fair value established by the Pool.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

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

B. Assets (Continued)

**4. Restricted Cash and Investments**

Restricted cash and investments are those restricted by loan covenants, contracts, or other external parties. At December 31, 2016, restricted cash and investments consisted of the following:

Restricted Assets - Cash and Investments	
Restricted for Debt Service Covenants - Sewer Fund	<u><u>\$ 303,409</u></u>

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

Interfund transfers for the year ended December 31, 2016, were as follows:

	Transfer In:		
	Primary Government		
	General Fund	Sewer Fund	Total
Transfer Out:			
<u>Primary Government</u>			
General Fund	\$ -	\$ 33,344	\$ 33,344
Communications Fund	5,689,339	-	5,689,339
Total	\$ 5,689,339	\$ 33,344	\$ 5,722,683

During the year, the City sold Crosslake Communications. The Communications Fund was closed into the General Fund. The transfer from the General Fund to the Sewer Fund was to adjust for the negative operating cash within the Sewer Fund.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

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

A. Assets (Continued)

**6. Loans Receivable**

The EDA component unit had the following notes receivable as of December 31, 2016:

**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. \$ 23,691

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. 18,457

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. 81,842

Total Commercial Loans Receivable \$ 123,990

**7. Capital Assets**

Capital asset activity for the Primary Government for the year ended December 31, 2016, 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	237,344	(123,651)	144,241
Total Capital Assets, Not Being Depreciated:	951,469	237,344	(123,651)	1,065,162
Capital Assets, Being Depreciated				
Buildings	5,300,591	-	-	5,300,591
Improvements Other Than Buildings	973,751	24,215	-	997,966
Machinery and Equipment	3,652,535	150,515	(7,383)	3,795,667
Infrastructure	9,197,772	404,255	-	9,602,027
Total Capital Assets, Being Depreciated	19,124,649	578,985	(7,383)	19,696,251
Less Accumulated Depreciation for				
Buildings	(1,936,097)	(149,867)	-	(2,085,964)
Improvements Other Than Buildings	(521,195)	(56,511)	-	(577,706)
Machinery and Equipment	(1,836,296)	(279,093)	7,383	(2,108,006)
Infrastructure	(4,115,170)	(387,053)	-	(4,502,223)
Total Accumulated Depreciation	(8,408,758)	(872,524)	7,383	(9,273,899)
Total Capital Assets, Being Depreciated, Net	10,715,891	(293,539)	-	10,422,352
Governmental Activities Capital Assets, Net	<u>\$ 11,667,360</u>	<u>\$ (56,195)</u>	<u>\$ (123,651)</u>	<u>\$ 11,487,514</u>

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

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

A. Assets (Continued)

**7. Capital Assets (Continued)**

Capital asset activity for the Primary Government for the year ended December 31, 2016, is as follows:

	Beginning Balance	Increases	Decreases/ Adjustments	Ending Balance
<b>BUSINESS-TYPE ACTIVITIES</b>				
Capital Assets, Not Being Depreciated				
Land	\$ 15,367	\$ -	\$ (6,654)	\$ 8,713
Construction in Progress	52,553	142,417	(52,553)	142,417
Total Capital Assets, Not Being Depreciated	67,920	142,417	(59,207)	151,130
Capital Assets, Being Depreciated				
Buildings and Improvements	5,111,809	9,895	(1,424,792)	3,696,912
Machinery and Equipment	6,212,647	507,499	(6,371,226)	348,920
Communications Infrastructure	6,983,472	21,035	(7,004,507)	-
CATV Infrastructure	1,801,952	22,641	(1,824,593)	-
Sanitary Sewers	3,080,700	-	-	3,080,700
Total Capital Assets, Being Depreciated	23,190,580	561,070	(16,625,118)	7,126,532
Less Accumulated Depreciation For				
Buildings and Improvements	(1,619,520)	(117,558)	591,234	(1,145,844)
Machinery and Equipment	(5,324,925)	(305,080)	5,319,284	(310,721)
Communications Infrastructure	(3,541,062)	(180,295)	3,721,357	-
CATV Infrastructure	(1,588,165)	(57,653)	1,645,818	-
Sanitary Sewers	(899,864)	(85,968)	-	(985,832)
Total Accumulated Depreciation	(12,973,536)	(746,554)	11,277,693	(2,442,397)
Total Capital Assets, Being Depreciated, Net	10,217,044	(185,484)	(5,347,425)	4,684,135
Business-Type Activities Capital Assets, Net	\$ 10,284,964	\$ (43,067)	\$ (5,406,632)	\$ 4,835,265

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

Governmental Activities	
General Government	\$ 389,578
Public Safety	165,860
Public Works	207,994
Culture and Recreation	109,092
Total Depreciation Expense - Governmental Activities	<u>\$ 872,524</u>
Business-Type Activities	
Communications	\$ 549,623
Sewer	196,931
Total Depreciation Expense - Business-Type Activities	<u>\$ 746,554</u>

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**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. Refunding Bonds, Series 2012A	2.00-2.55%	\$ 4,310,000	\$ 2,890,000
<b>CERTIFICATES OF INDEBTEDNESS</b>			
G.O. Equipment Certificate of Indebtedness, Series 2015B	2.00%	<u>561,000</u>	<u>561,000</u>
Total Primary Government General Obligation Bonds		<u>\$ 4,871,000</u>	<u>\$ 3,451,000</u>

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**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, 2016, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>PRIMARY GOVERNMENT</b>					
<b>GOVERNMENTAL ACTIVITIES</b>					
General Obligation Bonds	\$ 1,710,000	\$ -	\$ (335,000)	\$ 1,375,000	\$ 185,000
Issuance Discounts	(2,172)	-	2,172	-	-
Issuance Premiums	30,089	-	(4,298)	25,791	-
GO Equipment Certificates	561,000	-	-	561,000	136,000
Total Bonds Payable	2,298,917	-	(337,126)	1,961,791	321,000
Capital Leases Payable	17,124	-	(4,181)	12,943	4,223
Compensated Absences	67,794	68,212	(56,256)	79,750	20,734
Governmental Activity Long-Term Liabilities	<u>\$ 2,383,835</u>	<u>\$ 68,212</u>	<u>\$ (397,563)</u>	<u>\$ 2,054,484</u>	<u>\$ 345,957</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
General Obligation Bonds	\$ 1,685,000	\$ -	\$ (170,000)	\$ 1,515,000	\$ 175,000
Revenue Bonds	2,130,000	-	(2,130,000)	-	-
Issuance Discounts	-	-	-	-	-
Issuance Premiums	18,159	-	(2,594)	15,565	-
Total Bonds Payable	3,833,159	-	(2,302,594)	1,530,565	175,000
Compensated Absences	27,687	7,769	(3,397)	32,059	7,770
Business-Type Activity Long-Term Liabilities	<u>\$ 3,860,846</u>	<u>\$ 7,769</u>	<u>\$ (2,305,991)</u>	<u>\$ 1,562,624</u>	<u>\$ 182,770</u>

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**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
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	200,000	11,753	2021	190,000	16,410
2022-2024	415,000	9,866	2022-2024	600,000	22,463
Total	<u>\$ 1,375,000</u>	<u>\$ 107,731</u>	Total	<u>\$ 1,515,000</u>	<u>\$ 142,043</u>

General Obligation Equipment Certificates		
	Governmental Activities	
	Principal	Interest
2017	\$ 136,000	\$ 11,220
2018	138,000	8,500
2019	142,000	5,740
2020	145,000	2,900
Total	<u>\$ 561,000</u>	<u>\$ 28,360</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.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**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.

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		(8,446)
Total		12,840

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2016, were as follows:

	December 31,	
	2017	\$ 4,371
	2018	4,372
	2019	3,122
	2020	1,404
Total Minimum Lease Payments		13,269
Less: Amount Representing Interest		(326)
Present Value of Minimum Lease Payments		\$ 12,943



**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**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, 2016**

**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% 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% 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.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**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 2016. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. The City contributions to the GERS for the year ended December 31, 2016, were \$40,199. The Crosslake Communications contributions to the GERS for the year ended December 31, 2016, were \$19,796. 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 2016. The City was required to contribute 16.20% of pay for PEPFF members in calendar year 2016. The City contributions to the PEPFF for the year ended December 31, 2016, were \$53,492. The City contributions were equal to the required contributions as set by state statute.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

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

D. Pension Costs

**1.    GERF Pension Costs**

At December 31, 2016, the City reported a liability of \$706,397 for its proportionate share of the GERF's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$9,212. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion was .0087% which was a decrease of .0001% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$61,090 for its proportionate share of the GERF's pension expense. In addition, the City recognized an additional \$2,747 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 2,090	\$ 57,384
Changes of Assumptions	152,353	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	78,864	-
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	-	58,256
City Contributions Made Subsequent to the Measurement Date	19,656	-
Total	<u>\$ 252,963</u>	<u>\$ 115,640</u>

\$19,656 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, 2017. 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
2017	\$ 20,725
2018	4,595
2019	66,831
2020	25,516

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

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

D. Pension Costs (Continued)

**2. PEPFF Pension Costs**

At December 31, 2016, the City reported a liability of \$1,404,611 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City proportion was .035% which was an increase of .001% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$217,810. The City also recognized \$3,150 for the year ended December 31, 2016, 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, 2016, 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	\$ 317	\$ 161,135
Changes of Assumptions	829,709	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	121,091	-
Changes in Proportion and Differences Between City Contributions and Proportionate Share of Contributions	10,875	-
City Contributions Made Subsequent to the Measurement Date	25,584	-
Total	<u>\$ 987,576</u>	<u>\$ 161,135</u>

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

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

D. Pension Costs (Continued)

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

\$25,584 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, 2017. 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
2017	\$ 152,262
2018	152,262
2019	198,894
2020	162,569
2021	134,870

E. Actuarial Assumptions

The total pension liability in the June 30, 2016, 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	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for the General Employees Plan and RP-2000 tables for the Police and Fire Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1% per year for all future years for the General Employees Plan and Police and Fire Plan.

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The experience study for Police and Fire Plan was for the period July 1, 2004 through June 30, 2009.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

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

E. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions occurred in 2016:

General Employees Fund:

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

Police and Fire Fund:

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2037 and 2.5% thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate changed from 7.9% to 5.6%.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return 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 geometric 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>	



**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

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

F. Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.50%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. 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.

In the Police and Fire Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056 and June 30, 2058 respectively. Beginning in fiscal years ended June 30, 2057 for the Police and Fire Fund, when projected benefit payments exceed the funds' projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85% based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60% for the Police and Fire Fund was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50% applied to all years of projected benefits through the point of asset depletion and 2.85% after.

G. Pension Liability Sensitivity

The following presents the City 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 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 (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
City Proportionate Share of the GERF Net Pension Liability:	\$ 1,003,293	\$ 706,397	\$ 461,835
	1% Decrease (4.6%)	Current Discount Rate (5.6%)	1% Increase (6.6%)
City Proportionate Share of the PEPFF Net Pension Liability:	\$ 1,966,269	\$ 1,404,611	\$ 945,694

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

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

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).

**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, 2016**

**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 2016 contribution to the plan was as follows:

State Aid flowed through City to Relief Association	\$	38,272
Voluntary (Non-Required) Contribution from City		18,700
Total Contribution	\$	56,972

**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, 2016, there were sixteen active participants and three retirees receiving health benefits from the City’s health plan.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**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 2016, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Annual Required Contribution (ARC):	\$ 48,544
Interest on Net OPEB Obligation	11,192
Adjustment to ARC	<u>(15,867)</u>
Annual OPEB Cost	43,869
Contributions During the Year	<u>(23,898)</u>
Increase in Net OPEB Obligation	19,971
Net OPEB - Beginning of the Year	279,800
Net OPEB - End of the Year	<u><u>\$ 299,771</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, 2016 were as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2016	\$ 43,869	\$ 23,898	54.48%	\$ 299,771
December 31, 2015	71,550	28,617	40.0	279,800
December 31, 2014	48,053	14,502	30.2	236,867

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**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, 2016**

**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:

<u>December 31,</u>		
2017	\$	112,467
2018		113,130
2019		111,116
2020		111,725
2021		112,229
2022-2023		225,179
Total	<u>\$</u>	<u>785,845</u>

**NOTE 8 TAX ABATEMENT DISCLOSURES**

The City has one pay-as-you-go tax increment financing district with a local business for purposes of renewal and renovation within the City as authorized under Minnesota Statutes 469.174. The city is currently collecting tax increments that are paid through the property tax collection process. The district stops collection in 2024. The requirement for the business to receive the excess tax increments from the City is to perform improvements on the owned property. The increment taxes are based on the increase of the property value after the improvements are made. The agreements call for 90% of the property tax increments collected to be returned to the developers. For the year ended December 31, 2016, the City paid excess tax increment in the amount of \$11,035. No other commitments were made by the City as part of these agreements.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 9 SPECIAL ITEM**

An asset purchase agreement was entered into on May 23, 2016 between Tri-Co Technologies, LLC (Buyer) and the City of Crosslake (Crosslake Communications Enterprise Fund) (Seller) for the sale of substantially all of the assets, liabilities, and operations of the fund to be effective at the close of business on August 31, 2016. The buyer agreed to pay the seller at closing, the sum of \$6,372,000, subject to purchase price adjustments described in the asset purchase agreement. The post-closing purchase price shall be subject to a working capital adjustment based on closing working capital on the day immediately preceding the closing date. If the closing working capital is negative, the purchase price will be decreased by the amount of such negative balance and if it is positive the purchase price will be increased by the amount of such positive balances. Closing working capital was \$89,572, resulting in an increase in the selling price by that amount. As a condition of the sale, on August 31, 2016, the 2015A Telephone Utility Revenue Bonds were defeased to maturity by establishing an irrevocable escrow account with U.S. Bank. The escrow account was funded with cash from the proceeds of the asset sale. Also, as a condition of the sale, on August 31, 2016, an indemnity escrow account was established to secure the Seller's obligations under the asset purchase agreement. The escrow account was funded with cash from the proceeds of the asset sale. The escrow agreement terminates one year from the sale date at which time, the balance, adjusted for any claims, will be remitted to the Seller. This account is reported in the City's General Fund as "Cash Held in Escrow".

The table below details the transactions related to the special item:

Sales Proceeds	\$ 6,372,000
Costs Related to Sale	(302,099)
Defeasance of Debt	(111,302)
Transfer of Assets	(5,689,339)
Liabilities Paid	870,214
Working Capital Adjustment	89,572
Special Item	<u><u>\$ 1,229,046</u></u>

**NOTE 10 SUBSEQUENT EVENT**

On March 8, 2017, the City received approval from USDA to transfer the revolving loan program to Crow Wing Cooperative Power and Light Company. \$328,788 of cash representing cumulative to date collections of principal and interest along with \$123,990 of outstanding loans receivable were transferred.

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## **REQUIRED SUPPLEMENTARY INFORMATION**



**CITY OF CROSSLAKE, MINNESOTA  
SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFIT PLAN  
YEAR ENDED DECEMBER 31, 2016**

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, 2016**

	Measurement Date <u>June 30, 2016</u>	Measurement Date <u>June 30, 2015</u>
<b>PERA - GERF - City</b>		
City's Proportion of the Net Pension Liability	0.0087%	0.0088%
City's Proportionate Share of the Net Pension Liability	\$ 706,397	\$ 456,062
State's Proportionate Share of the Net Pension Liability Associated with the City	\$ 9,212	\$ -
City's Covered-Employee Payroll	\$ 538,587	\$ 519,617
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll	131.16%	87.77%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.91%	78.20%
<b>PERA - Crosslake Communications</b>		
Crosslake Communication's Proportion of the Net Pension Liability	0.0000%	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	0.00%	100.39%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.90%	78.20%
<b>PERA - PEPFF - City</b>		
City's Proportion of the Net Pension Liability	0.0350%	0.0340%
City's Proportionate Share of the Net Pension Liability	\$ 1,404,611	\$ 386,320
City's Covered-Employee Payroll	\$ 335,000	\$ 316,479
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll	419.29%	122.07%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	63.88%	86.61%

**CITY OF CROSSLAKE, MINNESOTA**  
**SCHEDULE OF CITY AND CROSSLAKE COMMUNICATIONS CONTRIBUTIONS**  
**YEAR ENDED DECEMBER 31, 2016**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>PERA - GERF - City</b>			
Contractually Required Contribution	\$ 40,199	\$ 39,992	\$ 36,869
Contributions in Relation to the Contractually Required Contribution	<u>(40,199)</u>	<u>(39,992)</u>	<u>(36,869)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered-Employee Payroll	\$ 535,987	\$ 533,227	\$ 508,528
Contributions as a Percentage of Covered Employee Payroll	7.50%	7.50%	7.25%
<b>PERA - Crosslake Communications</b>			
Contractually Required Contribution	\$ 19,796	\$ 39,984	\$ 49,517
Contributions in Relation to the Contractually Required Contribution	<u>(19,796)</u>	<u>(39,984)</u>	<u>(49,517)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Crosslake Communication's Covered-Employee Payroll	\$ 254,429	\$ 511,099	\$ 682,993
Contributions as a Percentage of Covered Employee Payroll	7.78%	7.82%	7.25%
<b>PERA - PEPFF - City</b>			
Contractually Required Contribution	\$ 53,492	\$ 52,917	\$ 46,185
Contributions in Relation to the Contractually Required Contribution	<u>(53,492)</u>	<u>(52,917)</u>	<u>(46,185)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered-Employee Payroll	\$ 330,198	\$ 326,649	\$ 301,862
Contributions as a Percentage of Covered Employee Payroll	16.20%	16.20%	15.30%

**CITY OF CROSSLAKE, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**YEAR ENDED DECEMBER 31, 2016**

	BUDGET ORIGINAL AND FINAL	ACTUAL	VARIANCE WITH BUDGET OVER (UNDER)
<b>REVENUES</b>			
Taxes	\$ 2,969,658	\$ 2,964,123	\$ (5,535)
Licenses and Permits	50,200	75,775	25,575
Intergovernmental	93,679	142,688	49,009
Charges for Services	323,517	344,927	21,410
Fines and Forfeits	17,600	18,657	1,057
Special Assessments	3,874	17,315	13,441
Interest	3,500	6,509	3,009
Contributions and Donations	13,000	39,674	26,674
Miscellaneous	27,500	69,633	42,133
Total Revenues	3,502,528	3,679,301	176,773
<b>EXPENDITURES</b>			
Current			
General Government			
Mayor and Council	33,000	28,113	(4,887)
Administration	257,374	245,616	(11,758)
Elections	5,500	4,277	(1,223)
Audit and Legal	52,000	42,547	(9,453)
Planning and Zoning	226,619	223,588	(3,031)
Other General Government	188,849	127,502	(61,347)
Total General Government	763,342	671,643	(91,699)
Public Safety			
Police	577,740	573,143	(4,597)
Ambulance	-	37	37
Fire Protection	108,057	143,829	35,772
Total Public Safety	685,797	717,009	31,212
Public Works			
Engineering	25,000	16,767	(8,233)
Public Way Maintenance	481,088	437,447	(43,641)
Total Public Works	506,088	454,214	(51,874)
Culture and Recreation			
Library	62,180	71,507	9,327
Recreation	398,160	351,369	(46,791)
Total Culture and Recreation	460,340	422,876	(37,464)
Miscellaneous			
Recycling	34,780	32,694	(2,086)
Firemen's Relief Association	49,000	56,972	7,972
Cemetery	2,000	6,347	4,347
Total Miscellaneous	85,780	96,013	10,233
Debt Service			
Principal	184,178	184,389	211
Interest and Fiscal Charges	31,046	31,671	625
Total Debt Service	215,224	216,060	836
Capital Outlay			
Capital Improvements and Equipment	629,700	734,988	105,288
Total Expenditures	3,346,271	3,312,803	(33,468)

See accompanying Notes to 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, 2016**

	BUDGET ORIGINAL AND FINAL	ACTUAL	VARIANCE WITH BUDGET OVER (UNDER)
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	\$ 156,257	\$ 366,498	\$ 210,241
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	-	5,689,339	5,689,339
Transfers Out	-	(33,344)	(33,344)
Proceeds from Sale of Capital Assets	-	21,143	21,143
Total Other Financing Sources (Uses)	-	5,677,138	5,677,138
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 156,257</u>	6,043,636	<u>\$ 5,887,379</u>
Fund Balance - Beginning of Year		2,704,963	
<b>FUND BALANCE - END OF YEAR</b>		<u>\$ 8,748,599</u>	

See accompanying Notes to Required Supplementary Information.

**CITY OF CROSSLAKE, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
TAX INCREMENT FINANCING FUND  
YEAR ENDED DECEMBER 31, 2016**

	BUDGET ORIGINAL AND FINAL	ACTUAL	VARIANCE WITH BUDGET OVER (UNDER)
<b>REVENUES</b>			
Tax Increments	\$ 12,000	\$ 12,079	\$ 79
<b>EXPENDITURES</b>			
Economic Development Current	11,500	11,035	(465)
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ 500</b>	<b>1,044</b>	<b>\$ 544</b>
Fund Balance - Beginning of Year		4,409	
<b>FUND BALANCE - END OF YEAR</b>		<b>\$ 5,453</b>	



**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED DECEMBER 31, 2016**

**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.

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## **SUPPLEMENTARY INFORMATION**



**CITY OF CROSSLAKE, MINNESOTA  
 COMBINING BALANCE SHEET  
 ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT  
 DECEMBER 31, 2016**

	REVOLVING LOAN PROGRAM	EDA OPERATING FUND	TOTAL
	<u>          </u>	<u>          </u>	<u>          </u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ -	\$ 9,264	\$ 9,264
Restricted Cash and Cash Equivalents	322,431	-	322,431
Taxes Receivable	-	441	441
Loans Receivable	123,990	-	123,990
	<u>          </u>	<u>          </u>	<u>          </u>
Total Assets	<u>\$ 446,421</u>	<u>\$ 9,705</u>	<u>\$ 456,126</u>
<b>LIABILITIES, DEFERRED INFLOWS OF FUND BALANCES</b>			
Liabilities			
Accounts Payable	\$ -	\$ 347	\$ 347
Deferred Inflows of Resources			
Unavailable Revenue on Property Taxes	-	239	239
Fund Balances			
Restricted for:			
Economic Development	446,421	-	446,421
Unassigned	-	9,119	9,119
	<u>          </u>	<u>          </u>	<u>          </u>
Total Fund Balances	<u>446,421</u>	<u>9,119</u>	<u>455,540</u>
	<u>          </u>	<u>          </u>	<u>          </u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 446,421</u>	<u>\$ 9,705</u>	<u>\$ 456,126</u>

**CITY OF CROSSLAKE, MINNESOTA**  
**RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION**  
**ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT**  
**DECEMBER 31, 2016**

	Fund Level Total	Adjustments	Statement of Net Position
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 9,264	\$ -	\$ 9,264
Restricted Cash and Cash Equivalents	322,431	-	322,431
Taxes Receivable	441	-	441
Loans Receivable	123,990	-	123,990
Total Assets	\$ 456,126	-	456,126
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES/NET POSITION</b>			
Liabilities			
Accounts Payable	\$ 347	-	347
Deferred Inflows of Resources			
Unavailable Revenue on Property Taxes	239	(239)	-
Fund Balance/Net Position			
Restricted for:			
Economic Development	446,421	(446,421)	
Unassigned	9,119	(9,119)	
Total Fund Balances	455,540	(455,540)	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 456,126	(455,779)	
Net Position			
Restricted for Economic Development		446,421	\$ 446,421
Unrestricted		9,358	9,358
Total Net Position of Component Unit (Page 15)		\$ 455,779	\$ 455,779

**CITY OF CROSSLAKE, MINNESOTA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT**  
**YEAR ENDED DECEMBER 31, 2016**

	REVOLVING LOAN PROGRAM	EDA OPERATING FUND	TOTAL
<b>REVENUES</b>			
Taxes	\$ -	\$ 12,362	\$ 12,362
Miscellaneous			
Revolving Loan Interest	6,074	-	6,074
Interest	1,526	-	1,526
Donations	-	16,569	16,569
Total Miscellaneous Revenue	<u>7,600</u>	<u>16,569</u>	<u>24,169</u>
Total Revenue	7,600	28,931	36,531
<b>EXPENDITURES</b>			
Economic Development			
Professional Services	-	9,724	9,724
Contribution to Primary Government	-	13,909	13,909
Total Expenditures	<u>-</u>	<u>23,633</u>	<u>23,633</u>
<b>NET CHANGE IN FUND BALANCES</b>	7,600	5,298	12,898
Fund Balances - Beginning of Year	<u>438,821</u>	<u>3,821</u>	<u>442,642</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 446,421</u>	<u>\$ 9,119</u>	<u>\$ 455,540</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, 2016**

	<u>Fund Level Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures/Expenses	\$ 23,633	\$ -	\$ 23,633
Program Revenues			
Charges for Services	<u>6,074</u>	<u>-</u>	<u>6,074</u>
Net Program Revenue (Expense)	(17,559)	-	(17,559)
General Revenues			
Taxes	12,362	239	12,601
Unrestricted Investment Earnings	1,526	-	1,526
Miscellaneous Revenues	<u>16,569</u>	<u>-</u>	<u>16,569</u>
Total General Revenues	<u>30,457</u>	<u>239</u>	<u>30,696</u>
Change in Net Position (Page 16)	12,898	239	13,137
Fund Balances/Net Position			
Beginning of Year	<u>442,642</u>	<u>-</u>	<u>442,642</u>
End of Year	<u>\$ 455,540</u>	<u>\$ 239</u>	<u>\$ 455,779</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, 2016 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued our report thereon dated April 3, 2017. 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 report on Minnesota Legal Compliance 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  
April 3, 2017