

**CITY OF CROSSLAKE, MINNESOTA**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2017**

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## **INTRODUCTORY SECTION**



**CITY OF CROSSLAKE, MINNESOTA  
PRINCIPAL CITY OFFICIALS  
DECEMBER 31, 2017**

**ELECTED OFFICIALS**

Position	Term Expires	Name
Mayor	12/31/2018	Patty Norgaard
Council Member	12/31/2018	Brad Nelson
Council Member	12/31/2018	Dave Schrupp
Council Member	12/31/2020	Gary Heacox
Council Member	12/31/2020	David Nevin

**APPOINTED OFFICIALS**

Position	Name
City Administrator/Treasurer	Mike Lyonais
City Clerk	Charlene Nelson

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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, 2017, 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 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 City'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, 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, 2017, 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**

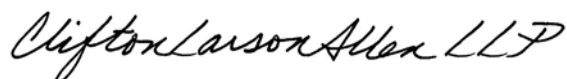
*Required Supplementary Information*

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 proportionate share of the net pension liability, schedule of the City's contributions and budgetary comparison information on pages 5 through 13, 58 through 64 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.

The combining and reconciliation fund financial statements for the economic development authority component unit are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



**CliftonLarsonAllen LLP**

Brainerd, Minnesota  
March 30, 2018

**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017**

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, 2017. 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, 2017, and the prior year, 2016, 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 \$21,994,130 (net position).
- ◆ The City's total net position increased during the fiscal year by \$1,262,048.
- ◆ As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$8,955,574, an increase of \$38,334 in comparison with the prior year. Of the total amount, \$8,736,895 is available for spending at the City's discretion (unassigned/assigned fund balance). However, \$330,875 of the General Fund balance has been assigned by the City Council for future capital outlay needs.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. This City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to 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).

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**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017**

**OVERVIEW OF THE FINANCIAL STATEMENTS**

**Government-Wide Financial Statements (Continued)**

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, culture and recreation and economic development. The business-type activities of the City include communications and sewer utility operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also an Economic Development Authority for which the City is financially accountable. Financial information for this component unit is discretely presented in a separate column adjacent to the financial information presented for the primary government.

The government-wide financial statements can be found on pages 14 through 16 of this report.

**Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

**Governmental Funds** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact by the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, Tax Increment Financing Fund, and Debt Service Fund. There are no nonmajor governmental funds.

The City adopts an annual appropriated budget for its General Fund and the Tax Increment Financing Fund. Budgetary comparison statements have been provided for these funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 17 through 20.

**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017**

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

**Fund Financial Statements (Continued)**

**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 an enterprise fund to account for its sewer operations.

The proprietary fund provides the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 21 through 25 of this report.

**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 \$21,994,130 at the close of the most recent fiscal year.

By far, the largest portion of the City's net position (64%) 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>				
	Governmental Activities		Business-Type Activities		2017 Total
	2017	2016	2017	2016	
Current and Other Assets	\$ 10,275,405	\$ 9,185,123	\$ 1,007,106	\$ 352,427	\$ 11,282,511
Capital Assets	12,385,443	11,487,514	5,375,075	4,835,265	17,760,518
Total Assets	<u>22,660,848</u>	<u>20,672,637</u>	<u>6,382,181</u>	<u>5,187,692</u>	<u>29,043,029</u>
Deferred Outflows of Resources	951,677	1,345,027	7,903	15,177	959,580
Long-Term Liabilities Outstanding	2,692,359	4,053,272	2,284,243	1,445,888	4,976,602
Other Liabilities	488,626	509,905	414,252	202,611	902,878
Total Liabilities	<u>3,180,985</u>	<u>4,563,177</u>	<u>2,698,495</u>	<u>1,648,499</u>	<u>5,879,480</u>
Deferred Inflows of Resources	2,010,325	269,837	118,674	6,938	2,128,999
Net Position					
Net Investment in Capital Assets	10,829,599	9,632,445	3,267,213	3,304,700	14,096,812
Restricted	175,157	800,015	760,763	289,728	935,920
Unrestricted	<u>7,416,459</u>	<u>6,752,190</u>	<u>(455,061)</u>	<u>(46,996)</u>	<u>6,961,398</u>
Total Net Position	<u>\$ 18,421,215</u>	<u>\$ 17,184,650</u>	<u>\$ 3,572,915</u>	<u>\$ 3,547,432</u>	<u>\$ 21,994,130</u>

There was an increase of \$1,236,565 and \$25,483 in net position reported in connection with the City's governmental activities and business-type activities, respectively.



**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017**

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

**Change in Net Position**

The City's total net position increased by \$1,262,048. Key elements of this increase are as follows:

	<b>Change in Net Position</b>				<b>2017 Total</b>
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	
<b>REVENUES</b>					
Program Revenues					
Charges for Services	\$ 455,917	\$ 439,081	\$ 259,535	\$ 2,825,194	\$ 715,452
Operating Grants and Contributions	176,055	196,585	-	-	176,055
Capital Grants and Contributions	723,717	46,826	76,500	19,500	800,217
General Revenues					
Property Taxes	3,299,610	3,130,277	221,547	222,510	3,521,157
Other Taxes	13,524	12,079	-	-	13,524
Intergovernmental	368	351	419	165	787
Unrestricted Investment Earnings (Loss)	50,118	6,509	680	17,554	50,798
Gain on Sale of Capital Assets	22,064	21,143	-	-	22,064
Miscellaneous	22,810	54,454	1,782	2,826	24,592
<b>Total Revenues</b>	<b>4,764,183</b>	<b>3,907,305</b>	<b>560,463</b>	<b>3,087,749</b>	<b>5,324,646</b>
<b>EXPENSES</b>					
General Government	1,247,246	1,219,777	-	-	1,247,246
Public Safety	987,641	1,140,535	-	-	987,641
Public Works	723,163	757,514	-	-	723,163
Culture and Recreation	503,923	495,135	-	-	503,923
Economic Development	12,335	11,035	-	-	12,335
Interest on Long-Term Debt	53,310	63,286	-	-	53,310
Communications	-	-	-	2,490,754	-
Sewer Utility	-	-	534,980	511,836	534,980
<b>Total Expenses</b>	<b>3,527,618</b>	<b>3,687,282</b>	<b>534,980</b>	<b>3,002,590</b>	<b>4,062,598</b>
<b>CHANGE IN NET POSITION BEFORE TRANSFERS AND SPECIAL ITEM</b>	<b>1,236,565</b>	<b>220,023</b>	<b>25,483</b>	<b>85,159</b>	<b>1,262,048</b>
Transfers	-	5,655,995	-	(5,655,995)	-
<b>CHANGE IN NET POSITION BEFORE SPECIAL ITEM</b>	<b>1,236,565</b>	<b>5,876,018</b>	<b>25,483</b>	<b>(5,570,836)</b>	<b>1,262,048</b>
Special Item - Gain on Disposal of Operations	-	-	-	1,229,046	-
<b>CHANGE IN NET POSITION</b>	<b>1,236,565</b>	<b>5,876,018</b>	<b>25,483</b>	<b>(4,341,790)</b>	<b>1,262,048</b>
Net Position - Beginning of Year	17,184,650	11,308,632	3,547,432	7,889,222	20,732,082
<b>NET POSITION - END OF YEAR</b>	<b>\$ 18,421,215</b>	<b>\$ 17,184,650</b>	<b>\$ 3,572,915</b>	<b>\$ 3,547,432</b>	<b>\$ 21,994,130</b>

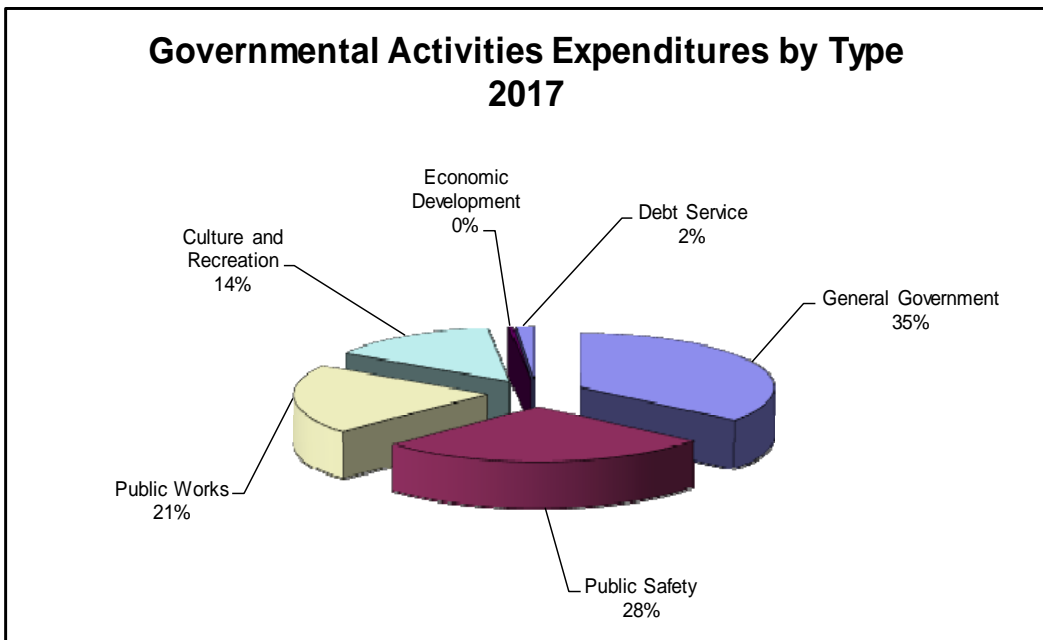
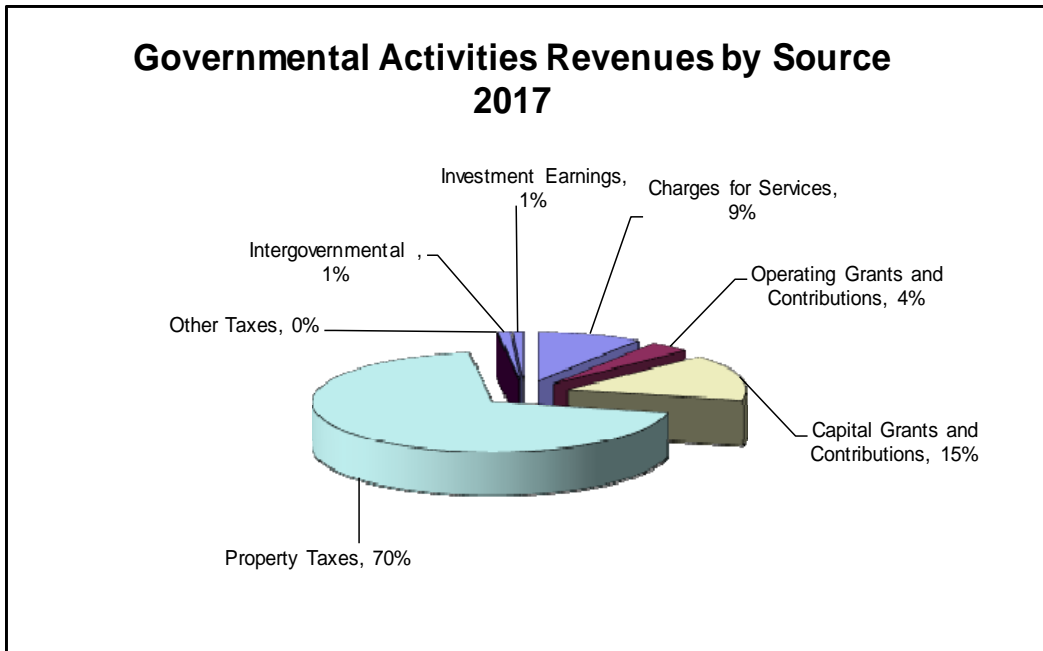
**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017**

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

**Change in Net Position (Continued)**

**Governmental Activities** – Governmental activities increased the City's net position by \$1,236,565 in 2017 as compared to an increase of \$5,876,018 in 2016. Key element of this increase is as follows:

- ◆ Property taxes increased approximately \$169,000 over 2016 in due to an overall levy increase.
- ◆ Capital grants and contributions increased approximately \$680,000 due to grant aid being received for the Dream Island Bridge replacement.

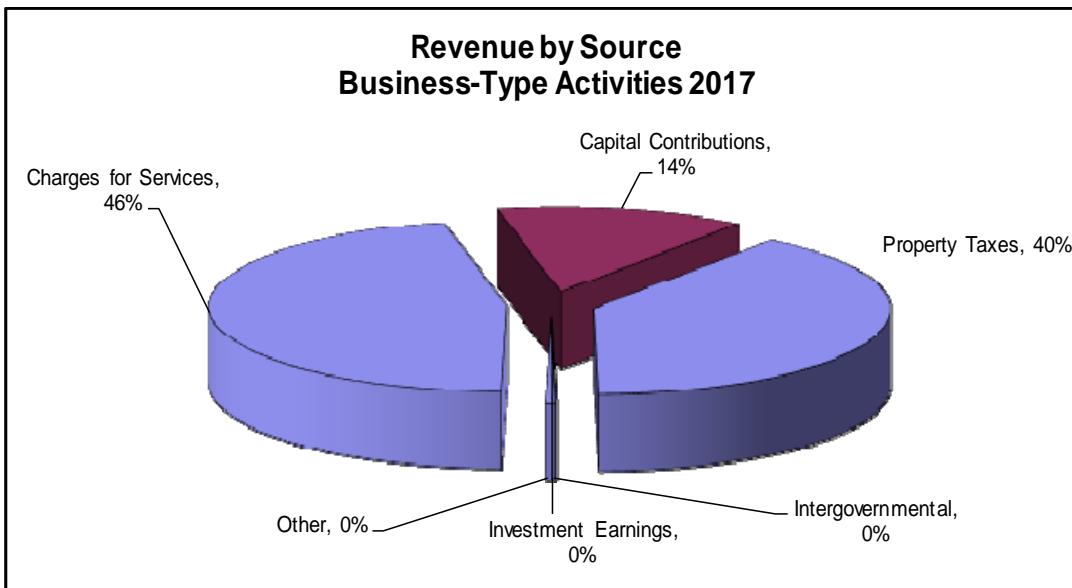
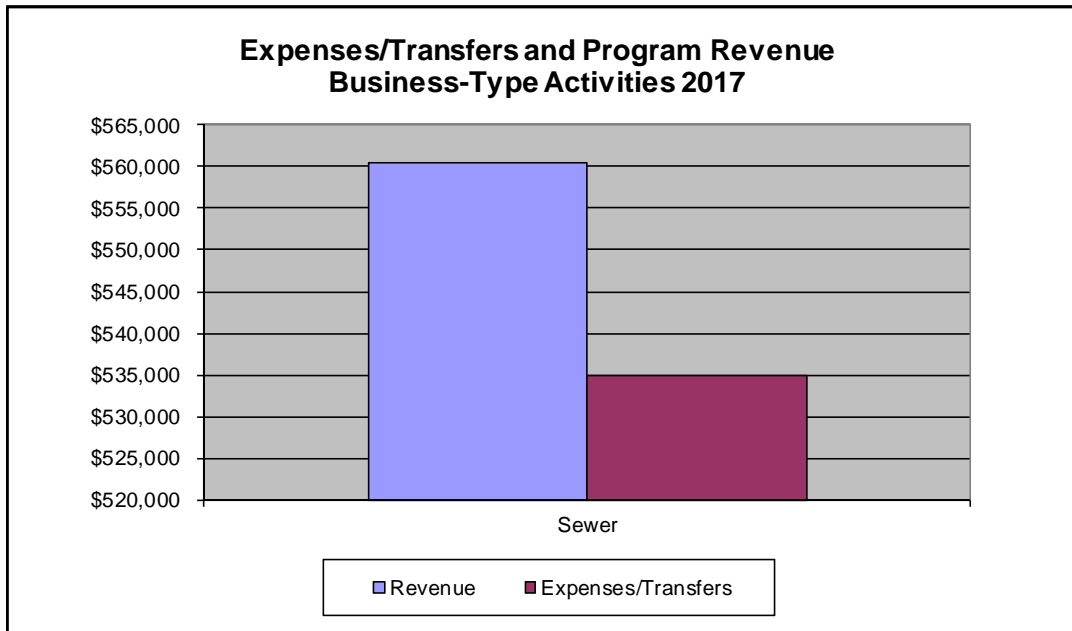


**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017**

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

**Change in Net Position (Continued)**

**Business-Type Activities** – Business-type activities increased the City's net position by \$25,483 in 2017 as compared to the \$4,341,790 decrease in 2016. The Communication Fund was closed out in the prior year due to the sale of the communication department causing the prior year decrease.



**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017**

**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 \$8,955,574, an increase of \$38,334 in comparison with the prior year. Of this amount \$8,736,895 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 2017 (\$183,887). In addition, a portion of unassigned/assigned fund balance has been assigned by the City Council for future years' capital outlay (\$330,875).

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 \$8,736,895. Total fund balance was \$8,771,687. 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 191% and 192% of total 2017 General Fund expenditures, respectively. The fund balance of the City's General Fund increased by \$23,088 during the current fiscal year.

**Proprietary Funds** – The City's proprietary funds provide the same type of information found in the business activities portion of the financial statements, but in more detail. During 2016, the City began making improvements to its wastewater treatment plant. \$884,308 of construction in progress related to this project is reported in the Sewer Enterprise Fund as of December 31, 2017. Total project costs approximate \$1.6 million and are anticipated to be substantially complete in 2018. 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, 2017**

**GENERAL FUND BUDGETARY HIGHLIGHTS (CONTINUED)**

Revenues were over budget by \$373,668, or approximately 9% due in part to the following unbudgeted items: storm damage claims received from the Minnesota Department of Public Safety-Homeland Security and Emergency Management in the amount of \$46,687, special assessments of \$26,661, fire training reimbursements of \$14,057, and donations of \$88,773.

Expenditures were under budget by \$447,864, or approximately 9% due in part to the following unbudgeted items: capital and other items funded by donations of \$88,773 noted above, elimination/deferral of two road projects totaling \$194,000 (Dagget Bay Road and East Shore Road) and 2017 road projects coming in under budget – primarily due to materials costs.

**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, 2017, amounts to \$17,760,518 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, roads, bridges, and other infrastructure.

**Capital Assets (Net of Depreciation)**

	Governmental Activities		Business-Type Activities		2017
	2017	2016	2017	2016	Total
Land	\$ 920,921	\$ 920,921	\$ 8,713	\$ 8,713	\$ 929,634
Construction in Progress	90,635	144,241	884,308	142,417	974,943
Buildings	3,064,760	3,214,627	2,439,467	2,533,325	5,504,227
Improvements Other than Buildings	390,385	420,260	17,743	17,743	408,128
Machinery and Equipment	1,813,184	1,687,661	15,943	38,199	1,829,127
Infrastructure	6,105,558	5,099,804	2,008,901	2,094,868	8,114,459
<b>Total</b>	<b>\$ 12,385,443</b>	<b>\$ 11,487,514</b>	<b>\$ 5,375,075</b>	<b>\$ 4,835,265</b>	<b>\$ 17,760,518</b>

Detailed information on the City's capital assets can be found in the Notes to the Financial Statements (3.A.4, Capital Assets).

**Long-Term Debt**

**Governmental Activities** – At the end of the current fiscal year, the City's governmental activities had total debt outstanding of \$1,645,211. Of this amount, \$1,636,492 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 \$8,719.

**Governmental Activities Outstanding Long-Term Debt**

	2017	2016
General Obligation Bonds	\$ 1,636,492	\$ 1,961,791
Capital Leases	8,719	12,943
<b>Total</b>	<b>\$ 1,645,211</b>	<b>\$ 1,974,734</b>

Detailed information on the City's long term debt 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, 2017**

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

**Long-Term Debt (Continued)**

**Governmental Activities (Continued)** – The City's total governmental activities debt decreased by \$329,523 (16%) 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 debt of \$2,367,971, consisting of general obligation and revenue bonds. This increase of \$837,406 (54%) from 2016 reflects the issuance of \$1,015,000 in new bonds as well as payments made on bonds in the current year.

**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 residential and commercial sectors in comparison to prior years. The City's taxable market value increased 1.56% from \$1,174,049,844 to \$1,192,379,178 and the taxable tax capacity increased 1.55% from \$12,498,774 to \$12,692,912 for taxes payable in 2018. These increases in values along with an overall increase in the City's levy request from 2017 resulted in an increase of 0.954% in the City's tax rate from 28.134% to 29.088% for taxes payable in 2018.
- ◆ An impact of the sale of Crosslake Communications in 2016 was the City no longer qualified as a Rural Utility as defined by the United States Department of Agriculture - Rural Economic Development (USD) eligible to operate a revolving loan program funded by USDA. In 1988, 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, 2018, the City received approval from USDA to transfer the program to Crowing Cooperative Power and Light Company. \$328,789 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 2018 budget. The City has reviewed and adjusted various fees for services and will continue to closely monitor expenses in order to proactively adjust to changes in the economy and/or further reductions in state aid.

**REQUESTS FOR INFORMATION**

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

## **BASIC FINANCIAL STATEMENTS**

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**CITY OF CROSSLAKE, MINNESOTA**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2017**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Economic Development Authority
<b>ASSETS</b>				
Cash and Investments	\$ 8,403,659	\$ 29,988	\$ 8,433,647	\$ 12,241
Cash and Investments - Restricted	-	458,042	458,042	-
Receivables				
Taxes	161,771	11,355	173,126	601
Accounts	2,163	65,216	67,379	-
Special Assessments	59,016	-	59,016	-
Connection Charges	-	13,023	13,023	-
Due from Other Governments	526,678	-	526,678	-
Tax Prepayments	1,087,326	109,842	1,197,168	4,067
Prepayments	34,792	3,224	38,016	-
Restricted, Designated and Long-Term Assets				
Cash and Investments	-	316,416	316,416	-
Capital Assets				
Land and Construction In Progress	1,011,556	893,021	1,904,577	-
Other Capital Assets, Net of Depreciation	11,373,887	4,482,054	15,855,941	-
Total Assets	22,660,848	6,382,181	29,043,029	16,909
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension Related	851,956	7,903	859,859	-
Loss on Refunding	99,721	-	99,721	-
Total Deferred Outflows	951,677	7,903	959,580	-
<b>LIABILITIES</b>				
Current Liabilities				
Accounts Payable	42,595	16,516	59,111	-
Contracts Payable	27,976	197,933	225,909	-
Accrued Liabilities	21,431	1,922	23,353	-
Accrued Interest Payable	11,264	13,695	24,959	-
Due to Other Governments	11,351	239	11,590	-
Unearned Revenue	11,157	-	11,157	-
Long-Term Liabilities				
Due within One Year	362,852	183,947	546,799	-
Due in More than One Year, Net of				
Unamortized Discount	1,417,486	2,225,303	3,642,789	-
Other Postemployment Benefits	293,755	25,616	319,371	-
Net Pension Liability	981,118	33,324	1,014,442	-
Total Liabilities	3,180,985	2,698,495	5,879,480	-
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Property Taxes Levied for Subsequent Year	1,087,326	109,842	1,197,168	4,067
Pension Related	922,999	8,832	931,831	-
Total Deferred Inflows	2,010,325	118,674	2,128,999	4,067
<b>NET POSITION</b>				
Net Investment in Capital Assets	10,829,599	3,267,213	14,096,812	-
Restricted for:				
Tax Increment Financing	6,642	-	6,642	-
Construction Purposes	-	458,042	458,042	-
Debt Service	168,515	302,721	471,236	-
Unrestricted	7,416,459	(455,061)	6,961,398	12,842
Total Net Position	\$ 18,421,215	\$ 3,572,915	\$ 21,994,130	\$ 12,842

See accompanying Notes to Financial Statements.

**CITY OF CROSSLAKE, MINNESOTA  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2017**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	\$ 1,247,246	\$ 146,597	\$ 43,697	\$ 48,178
Public Safety	987,641	91,728	112,528	57,499
Public Works	723,163	146,531	-	616,130
Culture and Recreation	503,923	71,061	19,830	811
Economic Development	12,335	-	-	-
Interest on Long-Term Debt	53,310	-	-	1,099
Total Governmental Activities	<u>3,527,618</u>	<u>455,917</u>	<u>176,055</u>	<u>723,717</u>
Business-Type Activities				
Communications	-	-	-	-
Sewer	534,980	259,535	-	76,500
Total Business-Type Activities	<u>534,980</u>	<u>259,535</u>	<u>-</u>	<u>76,500</u>
Total Primary Government	<u>\$ 4,062,598</u>	<u>\$ 715,452</u>	<u>\$ 176,055</u>	<u>\$ 800,217</u>
Component Unit				
Economic Development Authority	<u>\$ 457,787</u>	<u>1,173</u>	<u>\$ 870</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

Total General Revenues

Change in Net Position

Net Position - Beginning of Year

Net Position - End of Year

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Economic Development Authority
\$ (1,008,774)	\$ -	\$ (1,008,774)	\$ -
(725,886)	-	(725,886)	-
39,498	-	39,498	-
(412,221)	-	(412,221)	-
(12,335)	-	(12,335)	-
(52,211)	-	(52,211)	-
<u>(2,171,929)</u>	<u>-</u>	<u>(2,171,929)</u>	<u>-</u>
-	-	-	-
-	(198,945)	(198,945)	-
-	(198,945)	(198,945)	-
<u>(2,171,929)</u>	<u>(198,945)</u>	<u>(2,370,874)</u>	<u>-</u>
-	-	-	(455,744)
3,299,610	221,547	3,521,157	12,766
13,524	-	13,524	-
368	419	787	-
50,118	680	50,798	280
22,064	-	22,064	-
22,810	1,782	24,592	-
<u>3,408,494</u>	<u>224,428</u>	<u>3,632,922</u>	<u>13,046</u>
1,236,565	25,483	1,262,048	(442,698)
17,184,650	3,547,432	20,732,082	455,540
<u>\$ 18,421,215</u>	<u>\$ 3,572,915</u>	<u>\$ 21,994,130</u>	<u>\$ 12,842</u>

**CITY OF CROSSLAKE, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2017**

	GENERAL FUND	TAX INCREMENT FINANCING FUND	DEBT SERVICE FUND	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS</b>				
Cash and Investments	\$ 8,225,072	\$ 6,642	\$ 171,945	\$ 8,403,659
Receivables				
Taxes	153,937	-	7,834	161,771
Special Assessments	59,016	-	-	59,016
Accounts	2,163	-	-	2,163
Due from Other Governments	526,678	-	-	526,678
Tax Prepayments	1,037,279	-	50,047	1,087,326
Prepayments	34,792	-	-	34,792
	<u>10,038,937</u>	<u>6,642</u>	<u>229,826</u>	<u>10,275,405</u>
Total Assets	<u>\$ 10,038,937</u>	<u>\$ 6,642</u>	<u>\$ 229,826</u>	<u>\$ 10,275,405</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
Liabilities				
Accounts Payable	\$ 42,595	\$ -	\$ -	\$ 42,595
Contracts Payable	27,976	-	-	27,976
Accrued Liabilities	24,885	-	-	24,885
Unearned Revenue	11,157	-	-	11,157
Due to Other Governments	11,351	-	-	11,351
Total Liabilities	117,964	-	-	117,964
Deferred Inflows of Resources				
Unavailable Revenue on Property Taxes	54,941	-	2,534	57,475
Property Taxes Levied for Subsequent Year	1,037,279	-	50,047	1,087,326
Unavailable Revenue on Special Assessments	57,066	-	-	57,066
Total Deferred Inflows of Resources	1,149,286	-	52,581	1,201,867
Fund Balances				
Nonspendable for:				
Prepayments	34,792	-	-	34,792
Restricted for:				
Debt Service	-	-	177,245	177,245
Tax Increment Financing	-	6,642	-	6,642
Assigned for:				
Capital Outlay	330,875	-	-	330,875
Unassigned:				
General Fund	8,406,020	-	-	8,406,020
Total Fund Balances	8,771,687	6,642	177,245	8,955,574
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 10,038,937</u>	<u>\$ 6,642</u>	<u>\$ 229,826</u>	<u>\$ 10,275,405</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, 2017**

**TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS** \$ 8,955,574

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	90,635	
Capital Assets, Being Depreciated	21,501,707	
Accumulated Depreciation	<u>(10,127,820)</u>	12,385,443

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. 114,541

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. (11,264)

The loss on refunding is reported as a deferred outflow on the statement of net position and amortized over the life of the bonds. 99,721

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	(981,118)	
Deferred Inflows of Resources - Pension Related	(922,999)	
Deferred Outflows of Resources - Pension Related	<u>851,956</u>	(1,052,161)

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	(1,615,000)	
Unamortized Discounts/ Premiums	(21,492)	
Compensated Absences Payable	(131,673)	
Other Postemployment Benefits Payable	(293,755)	
Obligations Under Capital Leases	<u>(8,719)</u>	<u>(2,070,639)</u>

**TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES** \$ 18,421,215

**CITY OF CROSSLAKE, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2017**

	GENERAL FUND	TAX INCREMENT FINANCING FUND	DEBT SERVICE FUND	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES</b>				
Taxes	\$ 3,155,255	\$ -	\$ 157,626	\$ 3,312,881
Tax Increments	-	13,524	-	13,524
Licenses and Permits	94,629	-	-	94,629
Intergovernmental	720,625	-	-	720,625
Charges for Services	347,907	-	-	347,907
Fines and Forfeits	15,188	-	-	15,188
Special Assessments	34,743	-	3,651	38,394
Interest	50,118	-	-	50,118
Contributions and Donations	112,776	-	-	112,776
Miscellaneous	38,465	-	-	38,465
Total Revenues	<u>4,569,706</u>	<u>13,524</u>	<u>161,277</u>	<u>4,744,507</u>
<b>EXPENDITURES</b>				
Current				
General Government	695,852	-	-	695,852
Public Safety	780,744	-	-	780,744
Public Works	475,279	-	-	475,279
Culture and Recreation	426,837	-	-	426,837
Economic Development	-	12,335	-	12,335
Miscellaneous	93,478	-	-	93,478
Capital Outlay	1,883,329	-	-	1,883,329
Debt Service				
Principal Retirement	189,017	-	136,000	325,017
Interest and Fiscal Charges	28,382	-	11,220	39,602
Total Expenditures	<u>4,572,918</u>	<u>12,335</u>	<u>147,220</u>	<u>4,732,473</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(3,212)	1,189	14,057	12,034
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from Sale of Capital Assets	26,300	-	-	26,300
<b>NET CHANGE IN FUND BALANCES</b>	23,088	1,189	14,057	38,334
Fund Balances - Beginning of Year	<u>8,748,599</u>	<u>5,453</u>	<u>163,188</u>	<u>8,917,240</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 8,771,687</u>	<u>\$ 6,642</u>	<u>\$ 177,245</u>	<u>\$ 8,955,574</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, 2017**

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** \$ 38,334

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	\$ 1,818,960	
Disposal of Capital Assets - Net Book Value	(4,236)	
Depreciation Expense	<u>(916,795)</u>	897,929

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		4,224
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The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences is the treatment of general obligation bonds and related items is as follows:

Payment of Bond Principal	321,000	
Change in Accrued Interest Expense for General Obligation Bonds	1,730	
Amortization of Bond Discount/Premium	<u>4,299</u>	327,029

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.

60,938

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		(51,923)
Change in Other Postemployment Benefits		(17,634)
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, 2016	(116,929)	
Unavailable Revenue - December 31, 2017	<u>114,541</u>	<u>(2,388)</u>

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES**

**\$ 1,236,565**

**CITY OF CROSSLAKE, MINNESOTA  
STATEMENT OF NET POSITION  
PROPRIETARY FUND  
DECEMBER 31, 2017**

**ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

**CURRENT ASSETS**

Cash and Cash Equivalents	\$	29,988
Cash and Cash Equivalents - Restricted		458,042
Receivables		
Accounts Receivable		65,216
Taxes		7,148
Connection Charges		2,961
Tax Prepayments		109,842
Prepayments		3,224
		676,421
Total Current Assets		676,421

**NONCURRENT ASSETS**

Taxes Receivable		4,207
Restricted Assets		
Cash and Cash Equivalents		316,416
Connection Charges Receivable		10,062
Capital Assets		
Land		8,713
Building and Improvements		3,696,912
Machinery and Equipment		352,006
Sanitary Sewers		3,080,700
Construction-in-Progress		884,308
Subtotal Capital Assets		8,022,639
Less: Accumulated Depreciation		(2,647,564)
Net Capital Assets		5,375,075
Total Noncurrent Assets		5,705,760
Total Assets		6,382,181

**DEFERRED OUTFLOWS OF RESOURCES**

Pension Related		7,903
		7,903
Total Assets and Deferred Outflows of Resources	\$	6,390,084



**LIABILITIES, DEFERRED INFLOWS OF  
RESOURCES, AND NET POSITION**

**CURRENT LIABILITIES**

Accounts Payable	\$	16,516
Contracts Payable		197,933
Salaries and Wages Payable		1,511
Customer Deposits		411
Accrued Compensated Absences		8,947
Total Current Liabilities		225,318

**CURRENT LIABILITIES PAYABLE FROM  
RESTRICTED ASSETS**

Accrued Interest Payable		13,695
Revenue Bonds Payable		175,000
Due to Other Governments		239
Total Current Liabilities Payable from Restricted Assets		188,934

**LONG-TERM LIABILITIES**

Bonds Payable (Net of Unamortized Bond Discounts)		2,192,971
Net Pension Liability		33,324
Accrued Compensated Absences		32,332
Other Postemployment Benefits Payable		25,616
Total Long-Term Liabilities		2,284,243

**DEFERRED INFLOWS OF RESOURCES**

Pension Related		8,832
Property Taxes Levied for Subsequent Year		109,842
Total Liabilities and Deferred Inflows of Resources		118,674

**NET POSITION**

Net Investment in Capital Assets		3,267,213
Restricted For:		
Debt Service		302,721
Construction Purposes		458,042
Unrestricted		(455,061)
Total Net Position		3,572,915

Total Net Position, Liabilities, and Deferred Inflows of Resources	\$	6,390,084
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**CITY OF CROSSLAKE, MINNESOTA  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
PROPRIETARY FUND  
YEAR ENDED DECEMBER 31, 2017**

<b>OPERATING REVENUES</b>	
Sales and Charges for Services	259,535
<b>OPERATING EXPENSES</b>	
Personal Services	137,848
Supplies	25,082
Repairs and Maintenance	31,881
Other Services and Charges	92,814
Depreciation	<u>205,167</u>
Total Operating Expenses	<u>492,792</u>
<b>OPERATING INCOME (LOSS)</b>	(233,257)
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Property Taxes	221,547
Intergovernmental	419
Investment Earnings	680
Sewer Connection Fees	76,500
Interest Expense	(29,188)
Miscellaneous Revenues	1,782
Fiscal Agent Fees	<u>(13,000)</u>
Total Nonoperating Revenues (Expenses)	<u>258,740</u>
<b>CHANGE IN NET POSITION</b>	25,483
Net Position - Beginning of Year	<u>3,547,432</u>
<b>NET POSITION - END OF YEAR</b>	<u><u>\$ 3,572,915</u></u>

See accompanying Notes to Financial Statements.

**CITY OF CROSSLAKE, MINNESOTA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED DECEMBER 31, 2017**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash Received from Customers	\$ 215,290
Cash Paid to Employees for Services	(128,476)
Cash Paid to Suppliers for Goods and Services	(135,679)
Net Cash Provided (Used) by Operating Activities	(48,865)
 <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Miscellaneous Revenues (Expenses)	1,782
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition and Construction of Capital Assets	(547,044)
Proceeds from Issuance of Debt	1,015,000
Property Taxes Received	219,756
Collection of Connection Charges	79,077
Interest Paid	(44,349)
Principal Payments on Long-Term Debt	(175,000)
Net Cash Provided (Used) by Capital and Related Financing Activities	547,440
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest Received	680
 <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	
	501,037
Cash and Cash Equivalents - Beginning of Year	303,409
 <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	 \$ 804,446

See accompanying Notes to Financial Statements.

**CITY OF CROSSLAKE, MINNESOTA  
STATEMENT OF CASH FLOWS (CONTINUED)  
PROPRIETARY FUND  
YEAR ENDED DECEMBER 31, 2017**

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

Operating Income (Loss)	\$	(233,257)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Depreciation		205,167
(Increase) Decrease in Assets:		
Accounts Receivable		(44,245)
Deferred Outflows of Resources		7,274
Prepayments		(341)
Increase (Decrease) in Liabilities:		
Accounts Payable		12,473
Accrued Liabilities		44
Accrued Compensated Absences		9,220
Deferred Inflows of Resources		1,894
Net Pension Liability		(9,060)
Other Postemployment Benefits Payable		1,966
Net Cash Provided (Used) by Operating Activities	<u>\$</u>	<u>(48,865)</u>

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

Current Assets		
Cash and Cash Equivalents	\$	29,988
Cash and Cash Equivalents - Restricted		458,042
Restricted Assets		
Cash and Investments		316,416
Total Cash and Cash Equivalents	<u>\$</u>	<u>804,446</u>

See accompanying Notes to Financial Statements.

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**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**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, 2017**

**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 the proprietary fund. The City has no fiduciary funds. Major individual governmental funds and the major individual enterprise fund 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, 2017**

**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 fund:

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, 2017**

**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, 2017**

**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.

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.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

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

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

**4. Tax Prepayments**

During the current year, the County collected taxes levied for the subsequent period. These taxes will be recognized as revenue in the year for which they were levied and are shown as Property Taxes Levied for Subsequent Year.

**5. Accounts Receivable**

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

**6. Special Assessments**

Special assessments are levied against the benefited properties for the assessable costs of improvement projects in accordance with Minnesota Statutes. Assessments are collectible over a term of years at an interest rate established by the City Council upon adoption of each assessment roll. Any annual installments remaining unpaid as of November 30th of each year are certified to the County for collection with property taxes during the following year. Property owners are allowed to prepay future installments without interest or prepayment penalties.

In the governmental fund financial statements, special assessment levies are recorded as a receivable and as deferred inflow of resources at the time of the levy. The deferred inflow of resources is recognized as current revenue as the annual assessment installments become measurable and available. Interest on special assessments is also recognized when it becomes measurable and available.

Delinquent special assessments represent the past seven years of uncollected special assessments that have not been collected within 60 days of year-end.

**7. Due from Other Governments**

Amounts due from other governments is composed primarily of state and federal grants and aids for which the City has spent or will be incurring costs for the various grant purposes.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

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

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

**8. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the government chose to include all such items regardless of their acquisition date or amount.

The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets of the Primary Government are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Land Improvements	5-25
Buildings and Building Improvements	10-40
Equipment and Furniture	3-25
Infrastructure	25-40

**9. Deferred Outflows of Resources**

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period. The City will not recognize the related outflow until a future event occurs.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

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

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

**10. Compensated Absences**

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

**11. Long-Term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

**12. Deferred Inflows of Resources**

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

**13. Pensions**

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

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

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

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

**14. Fund Balance**

**Governmental Fund Financial Statements** – In the fund financial statements, governmental funds report components of fund balance to provide information about fund balance availability for appropriation. Nonspendable fund balance is the portion of fund balance that cannot be spent because it is either in nonspendable form or there is a legal or contractual requirement for the funds to remain intact. Restricted fund balance represents amounts available for appropriation but intended for a specific use and is legally restricted by outside parties. Committed fund balance represents constraints on spending that the government imposes upon itself by high-level formal action prior to the close of the fiscal period. Assigned fund balance represents resources intended for spending for a purpose set by the governmental body itself or by some person or body delegated to exercise such authority in accordance with the policy established by the Council.

Unassigned fund balance is the residual classification for the City's General Fund and includes all spendable amounts not contained in the other classifications. It is the City's policy that at the end of each fiscal year, the City will maintain unassigned portion of fund balance for cash flow of an amount not less than 50% of the General Fund's operating expenditure budget. If unassigned fund balance falls below this point the City will replenish it over a three year period funded by property taxes.

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

Assigned fund balance is established, modified, rescinded by the City Administrator/Treasurer and City Clerk 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, 2017**

**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, 2017 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, 2017**

**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, 2017 are as follows:

<u>Investment Type</u>	<u>Total</u>	<u>12 Months or Less</u>
Minnesota Municipal Money Market Fund Trust	<u>\$ 8,880,907</u>	<u>\$ 8,880,907</u>

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**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 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 deposits and investments are presented in these financial statements:

Deposits	\$ 1,113,897
Investments	<u>8,880,907</u>
Total Cash and Investments	<u><u>\$ 9,994,804</u></u>
Cash and Investments - Governmental Funds	\$ 8,403,659
Cash and Investments - Proprietary Funds	804,446
Cash and Investments - Component Unit	<u>12,241</u>
Total Cash and Investments	<u><u>\$ 9,994,804</u></u>

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

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

**A. Assets (Continued)**

**3. Restricted Cash and Investments**

Restricted cash and investments are those restricted by loan covenants, contracts, or other external parties. At December 31, 2017, restricted cash and investments consisted of the following:

Restricted Assets - Cash and Investments	
Restricted for Debt Service Covenants - Sewer Fund	\$ 316,416
Restricted for Construction Purposes	458,042
Total Restricted Cash and Investments	\$ 774,458

**4. Capital Assets**

Capital asset activity for the Primary Government for the year ended December 31, 2017, 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	144,241	632,923	(686,529)	90,635
Total Capital Assets, Not Being Depreciated:	1,065,162	632,923	(686,529)	1,011,556
Capital Assets, Being Depreciated				
Buildings	5,300,591	-	-	5,300,591
Improvements Other Than Buildings	997,966	24,128	-	1,022,094
Machinery and Equipment	3,795,667	429,749	(67,110)	4,158,306
Infrastructure	9,602,027	1,418,689	-	11,020,716
Total Capital Assets, Being Depreciated	19,696,251	1,872,566	(67,110)	21,501,707
Less Accumulated Depreciation for				
Buildings	(2,085,964)	(149,867)	-	(2,235,831)
Improvements Other Than Buildings	(577,706)	(54,003)	-	(631,709)
Machinery and Equipment	(2,108,006)	(299,990)	62,874	(2,345,122)
Infrastructure	(4,502,223)	(412,935)	-	(4,915,158)
Total Accumulated Depreciation	(9,273,899)	(916,795)	62,874	(10,127,820)
Total Capital Assets, Being Depreciated, Net	10,422,352	955,771	(4,236)	11,373,887
Governmental Activities Capital Assets, Net	\$ 11,487,514	\$ 1,588,694	\$ (690,765)	\$ 12,385,443

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

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

**A. Assets (Continued)**

**4. Capital Assets (Continued)**

Capital asset activity for the Primary Government for the year ended December 31, 2017, is as follows:

	Beginning Balance	Increases	Decreases/ Adjustments	Ending Balance
<b>BUSINESS-TYPE ACTIVITIES</b>				
Capital Assets, Not Being Depreciated				
Land	\$ 8,713	\$ -	\$ -	\$ 8,713
Construction in Progress	142,417	741,891	-	884,308
Total Capital Assets, Not Being Depreciated	151,130	741,891	-	893,021
Capital Assets, Being Depreciated				
Buildings and Improvements	3,696,912	-	-	3,696,912
Machinery and Equipment	348,920	3,086	-	352,006
Sanitary Sewers	3,080,700	-	-	3,080,700
Total Capital Assets, Being Depreciated	7,126,532	3,086	-	7,129,618
Less Accumulated Depreciation For				
Buildings and Improvements	(1,145,844)	(93,858)	-	(1,239,702)
Machinery and Equipment	(310,721)	(25,342)	-	(336,063)
Sanitary Sewers	(985,832)	(85,967)	-	(1,071,799)
Total Accumulated Depreciation	(2,442,397)	(205,167)	-	(2,647,564)
Total Capital Assets, Being Depreciated, Net	4,684,135	(202,081)	-	4,482,054
Business-Type Activities Capital Assets, Net	<u>\$ 4,835,265</u>	<u>\$ 539,810</u>	<u>\$ -</u>	<u>\$ 5,375,075</u>

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

Governmental Activities	
General Government	\$ 387,996
Public Safety	202,780
Public Works	216,473
Culture and Recreation	109,546
Total Depreciation Expense - Governmental Activities	<u>\$ 916,795</u>
Business-Type Activities	
Sewer	\$ 205,167
Total Depreciation Expense - Business-Type Activities	<u>\$ 205,167</u>

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**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 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	\$ 2,530,000
G.O. Disposal System Bonds, Series 2017A	1.15-2.30%	1,015,000	1,015,000
 <b>CERTIFICATES OF INDEBTEDNESS</b>			
G.O. Equipment Certificate of Indebtedness, Series 2015B	2.00%	561,000	425,000
Total Primary Government General Obligation Bonds		<u>\$ 5,886,000</u>	<u>\$ 3,970,000</u>

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**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, 2017, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>PRIMARY GOVERNMENT</b>					
<b>GOVERNMENTAL ACTIVITIES</b>					
General Obligation Bonds	\$ 1,375,000	\$ -	\$ (185,000)	\$ 1,190,000	\$ 190,000
Issuance Premiums	25,791	-	(4,299)	21,492	-
GO Equipment Certificates	561,000	-	(136,000)	425,000	138,000
Total Bonds Payable	1,961,791	-	(325,299)	1,636,492	328,000
Capital Leases Payable	12,943	-	(4,224)	8,719	4,268
Compensated Absences	79,750	145,812	(90,435)	135,127	30,584
Governmental Activity Long-Term Liabilities	<u>\$ 2,054,484</u>	<u>\$ 145,812</u>	<u>\$ (419,958)</u>	<u>\$ 1,780,338</u>	<u>\$ 362,852</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
General Obligation Bonds	\$ 1,515,000	\$ 1,015,000	\$ (175,000)	\$ 2,355,000	\$ 175,000
Issuance Premiums	15,565	-	(2,594)	12,971	-
Total Bonds Payable	1,530,565	1,015,000	(177,594)	2,367,971	175,000
Compensated Absences	32,059	37,697	(28,477)	41,279	8,947
Business-Type Activity Long-Term Liabilities	<u>\$ 1,562,624</u>	<u>\$ 1,052,697</u>	<u>\$ (206,071)</u>	<u>\$ 2,409,250</u>	<u>\$ 183,947</u>

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**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
2018	\$ 190,000	\$ 23,453	2018	\$ 175,000	\$ 27,655
2019	190,000	19,653	2019	275,000	44,623
2020	195,000	15,803	2020	285,000	36,900
2021	200,000	11,753	2021	290,000	31,865
2022	205,000	7,346	2022	295,000	26,376
2023-2024	210,000	2,520	2023-2027	925,000	55,411
Total	<u>\$ 1,190,000</u>	<u>\$ 80,528</u>	2028	110,000	2,530
			Total	<u>\$ 2,355,000</u>	<u>\$ 225,360</u>

General Obligation Equipment Certificates		
	Governmental Activities	
	Principal	Interest
2018	\$ 138,000	\$ 8,500
2019	142,000	5,740
2020	145,000	2,900
Total	<u>\$ 425,000</u>	<u>\$ 17,140</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.

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

In 2017, the City issued \$1,015,000 in General Obligation Disposal System Bonds, Series 2017A. The Bonds were issued to finance a portion of the costs to improve the City's wastewater treatment plant.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

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

**B. Liabilities (Continued)**

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

**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	(12,703)
Total	\$ 8,583

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2017, were as follows:

	December 31,	
	2018	\$ 4,372
	2019	3,122
	2020	1,403
Total Minimum Lease Payments		8,897
Less: Amount Representing Interest		(178)
Present Value of Minimum Lease Payments		\$ 8,719



**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

**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 Plan (General Employees Plan (accounted for in the General Employees Fund))**

All full-time and certain part-time employees of the City are covered by the General Employees Plan. General Employees Plan 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, 2017**

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

**A. Plan Description (Continued)**

**2. Public Employees Police and Fire Plan** (Police and Fire Plan (accounted for in the Police and Fire Fund))

The Police and Fire Plan, 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 Police and Fire Plan 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. General Employees Plan 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, 2017**

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

**B. Benefits Provided (Continued)**

**2. Police and Fire Benefits**

Benefits for the Police and Fire Plan 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 Police and Fire Plan 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 Police and Fire Plan members 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. General Employees Fund 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 2017. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2017. The City contributions to the General Employees Fund for the year ended December 31, 2017, were \$42,198. The City's contributions were equal to the required contributions as set by state statute.

**2. Police and Fire Fund Contributions**

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2017. The City was required to contribute 16.20% of pay for Police and Fire Fund members in calendar year 2017. The City contributions to the Police and Fire Fund for the year ended December 31, 2017, were \$53,144. The City contributions were equal to the required contributions as set by state statute.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

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

**D. Pension Costs**

**1. General Employees Fund Pension Costs**

At December 31, 2017, the City reported a liability of \$555,402 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 2017. 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 \$6,976. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportionate share was .0087% which remained the same from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the City recognized pension expense of \$41,560 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$201 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, 2017**

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

**D. Pension Costs (Continued)**

**1. General Employees Fund Pension Costs (Continued)**

The proportionate share of General Employees Plan'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	\$ 18,304	\$ 35,731
Changes of Assumptions	92,209	55,679
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	24,019
Changes in Proportion	-	31,766
City Contributions Made Subsequent to the Measurement Date	21,204	-
Total	<u>\$ 131,717</u>	<u>\$ 147,195</u>

\$21,204 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, 2018. 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
2018	\$ (33,386)
2019	30,797
2020	(10,518)
2021	(23,575)

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

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

**D. Pension Costs (Continued)**

**2. Police and Fire Fund Pension Costs**

At December 31, 2017, the City reported a liability of \$459,040 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City proportion was .034% which was a decrease of .001% from its proportion measured as of June 30, 2016. The City also recognized \$3,060 for the year ended December 31, 2017 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

For the year ended December 31, 2017, the City recognized pension expense of \$176,192 for its proportionate share of the Police and Fire Plan's pension expense.

At December 31, 2017, the City's proportionate share of Police and Fire Fund'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	\$ 10,772	\$ 122,719
Changes of Assumptions	637,460	651,724
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	51,603	-
Changes in Proportion	3,371	10,193
City Contributions Made Subsequent to the Measurement Date	24,936	-
Total	<u>\$ 728,142</u>	<u>\$ 784,636</u>

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

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

**D. Pension Costs (Continued)**

**2. Police and Fire Fund Pension Costs (Continued)**

\$24,936 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, 2018. 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
2018	\$ 70,554
2019	25,256
2020	(10,032)
2021	(36,939)
2022	(130,269)

**E. Actuarial Assumptions**

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per Year
Active Member Payroll Growth	3.25% 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 all plans for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be 1% per year for the General Employees Plan through 2044 and Police and Fire Plan through 2064 and then 2.5% thereafter for both plans.

Actuarial assumptions used in the June 30, 2017 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 most recent five-year experience study for Police and Fire Plan was completed in 2016.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

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

**E. Actuarial Assumptions (Continued)**

The following changes in actuarial assumptions occurred in 2017:

General Employees Fund:

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability and 3.0% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

Police and Fire Fund:

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34% lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30% for vested and non-vested deferred members. The CSA has been changed to 33% for vested members and 2% for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.0% for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65% to 60%.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed postretirement benefit increase rate was changed from 1.00% for all years to 1.00% per year through 2064 and 2.50% thereafter.



**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017**

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

**E. Actuarial Assumptions (Continued)**

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	39 %	5.1 %
International Stocks	19	5.3
Bonds	20	0.8
Alternative Assets	20	5.9
Cash	2	-
Totals	<u>100 %</u>	

**F. Discount Rate**

The discount rate used to measure the total pension liability in 2017 was 7.50%. 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 positions of the General Employees Fund and the Police and Fire 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.

**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 General Employees Fund Net Pension Liability:	\$ 861,470	\$ 555,402	\$ 304,830
City Proportionate Share of the Police and Fire Fund Net Pension Liability:	\$ 864,507	\$ 459,040	\$ 124,305

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
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**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, 2017**

**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 2017 contribution to the plan was as follows:

State Aid flowed through City to Relief Association	\$	38,406
Voluntary (Non-Required) Contribution from City		19,125
Total Contribution	\$	57,531

**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 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

For the year ended December 31, 2017, 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  
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**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 2017, 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	11,991
Adjustment to ARC	(16,999)
Annual OPEB Cost	43,536
Contributions During the Year	(23,936)
Increase in Net OPEB Obligation	19,600
Net OPEB - Beginning of the Year	299,771
Net OPEB - End of the Year	\$ 319,371

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, 2017 were as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2017	\$ 43,536	\$ 23,936	54.98%	\$ 319,371
December 31, 2016	43,869	23,898	54.5	299,771
December 31, 2015	71,550	28,617	40.0	279,800

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
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**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  
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**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>		
2018	\$	113,130
2019		111,116
2020		111,725
2021		112,229
2022		112,543
2023		112,636
Total	\$	<u>673,379</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, 2017, the City paid excess tax increment in the amount of \$12,335. No other commitments were made by the City as part of these agreements.

## **REQUIRED SUPPLEMENTARY INFORMATION**





**CITY OF CROSSLAKE, MINNESOTA**  
**SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFIT PLAN**  
**YEAR ENDED DECEMBER 31, 2017**

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

**CITY OF CROSSLAKE, MINNESOTA**  
**SCHEDULE OF CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**YEAR ENDED DECEMBER 31, 2017**

	Measurement Date <u>June 30, 2017</u>	Measurement Date <u>June 30, 2016</u>	Measurement Date <u>June 30, 2015</u>
<b>PERA - General Employees Fund</b>			
City's Proportion of the Net Pension Liability	0.0087%	0.0087%	0.0088%
City's Proportionate Share of the Net Pension Liability	\$ 555,402	\$ 706,397	\$ 456,062
State's Proportionate Share of the Net Pension Liability Associated with the City	<u>6,796</u>	<u>9,212</u>	<u>-</u>
Total City's Proportionate Share of the Net Pension Liability	\$ 562,198	\$ 715,609	\$ 456,062
City's Covered Payroll	\$ 561,436	\$ 538,587	\$ 519,617
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	98.93%	131.16%	87.77%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.90%	68.91%	78.20%
<b>PERA - Police and Fire Fund</b>			
City's Proportion of the Net Pension Liability	0.0340%	0.0350%	0.0340%
City's Proportionate Share of the Net Pension Liability	\$ 459,040	\$ 1,404,611	\$ 386,320
City's Covered Payroll	\$ 346,788	\$ 335,000	\$ 316,479
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	132.37%	419.29%	122.07%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.40%	63.88%	86.61%

Note: Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available.

**CITY OF CROSSLAKE, MINNESOTA  
SCHEDULE OF CITY CONTRIBUTIONS  
YEAR ENDED DECEMBER 31, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>PERA - General Employees Fund</b>				
Contractually Required Contribution	\$ 42,198	\$ 40,199	\$ 39,992	\$ 36,869
Contributions in Relation to the Contractually Required Contribution	<u>(42,198)</u>	<u>(40,199)</u>	<u>(39,992)</u>	<u>(36,869)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 562,634	\$ 535,987	\$ 533,227	\$ 508,528
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.50%	7.25%
<b>PERA - Police and Fire Fund</b>				
Contractually Required Contribution	\$ 53,144	\$ 53,492	\$ 52,917	\$ 46,185
Contributions in Relation to the Contractually Required Contribution	<u>(53,144)</u>	<u>(53,492)</u>	<u>(52,917)</u>	<u>(46,185)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 328,049	\$ 330,198	\$ 326,649	\$ 301,862
Contributions as a Percentage of Covered Payroll	16.20%	16.20%	16.20%	15.30%

Note: Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available.

**CITY OF CROSSLAKE, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**YEAR ENDED DECEMBER 31, 2017**

	BUDGET ORIGINAL AND FINAL	ACTUAL	VARIANCE WITH BUDGET OVER (UNDER)
<b>REVENUES</b>			
Taxes	\$ 3,130,740	\$ 3,155,255	\$ 24,515
Licenses and Permits	50,200	94,629	44,429
Intergovernmental	638,179	720,625	82,446
Charges for Services	330,517	347,907	17,390
Fines and Forfeits	17,600	15,188	(2,412)
Special Assessments	9,802	34,743	24,941
Interest	3,500	50,118	46,618
Contributions and Donations	13,000	112,776	99,776
Miscellaneous	2,500	38,465	35,965
Total Revenues	<u>4,196,038</u>	<u>4,569,706</u>	<u>373,668</u>
<b>EXPENDITURES</b>			
Current			
General Government			
Mayor and Council	33,003	31,816	(1,187)
Administration	268,054	250,033	(18,021)
Audit and Legal	45,000	34,541	(10,459)
Planning and Zoning	234,642	220,794	(13,848)
Other General Government	154,631	158,668	4,037
Total General Government	<u>735,330</u>	<u>695,852</u>	<u>(39,478)</u>
Public Safety			
Police	600,389	648,117	47,728
Fire Protection	118,061	132,627	14,566
Total Public Safety	<u>718,450</u>	<u>780,744</u>	<u>62,294</u>
Public Works			
Engineering	25,000	2,060	(22,940)
Public Way Maintenance	505,427	473,219	(32,208)
Total Public Works	<u>530,427</u>	<u>475,279</u>	<u>(55,148)</u>
Culture and Recreation			
Library	66,046	76,023	9,977
Recreation	395,273	350,814	(44,459)
Total Culture and Recreation	<u>461,319</u>	<u>426,837</u>	<u>(34,482)</u>
Miscellaneous			
Recycling	34,780	32,730	(2,050)
Firemen's Relief Association	49,000	57,531	8,531
Cemetery	2,000	3,217	1,217
Total Miscellaneous	<u>85,780</u>	<u>93,478</u>	<u>7,698</u>
Debt Service			
Principal	189,220	189,017	(203)
Interest and Fiscal Charges	31,607	28,382	(3,225)
Total Debt Service	<u>220,827</u>	<u>217,399</u>	<u>(3,428)</u>
Capital Outlay			
Capital Improvements and Equipment	<u>2,268,649</u>	<u>1,883,329</u>	<u>(385,320)</u>
Total Expenditures	<u>5,020,782</u>	<u>4,572,918</u>	<u>(447,864)</u>

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, 2017**

	BUDGET ORIGINAL AND FINAL	ACTUAL	VARIANCE WITH BUDGET OVER (UNDER)
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	\$ (824,744)	\$ (3,212)	\$ 821,532
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers Out	(217,805)	-	217,805
Issuance of Debt	1,061,000	-	(1,061,000)
Proceeds from Sale of Capital Assets	-	26,300	26,300
Total Other Financing Sources (Uses)	843,195	26,300	(816,895)
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ 18,451</b>	<b>23,088</b>	<b>\$ 4,637</b>
Fund Balance - Beginning of Year		8,748,599	
<b>FUND BALANCE - END OF YEAR</b>		<b>\$ 8,771,687</b>	

**CITY OF CROSSLAKE, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**  
**TAX INCREMENT FINANCING FUND**  
**YEAR ENDED DECEMBER 31, 2017**

	<u>BUDGET ORIGINAL AND FINAL</u>	<u>ACTUAL</u>	<u>VARIANCE WITH BUDGET OVER (UNDER)</u>
<b>REVENUES</b>			
Tax Increments	\$ 11,000	\$ 13,524	\$ 2,524
<b>EXPENDITURES</b>			
Economic Development Current	<u>11,500</u>	<u>12,335</u>	<u>835</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u><u>\$ (500)</u></u>	1,189	<u><u>\$ 1,689</u></u>
Fund Balance - Beginning of Year		<u>5,453</u>	
<b>FUND BALANCE - END OF YEAR</b>		<u><u>\$ 6,642</u></u>	

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED DECEMBER 31, 2017**

**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, 2017**

	REVOLVING LOAN PROGRAM	EDA OPERATING FUND	TOTAL
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ -	\$ 12,241	\$ 12,241
Tax Prepayment	-	4,067	4,067
Taxes Receivable	-	601	601
	-	601	601
Total Assets	\$ -	\$ 16,909	\$ 16,909
<b>LIABILITIES, DEFERRED INFLOWS OF FUND BALANCES</b>			
Deferred Inflows of Resources			
Unavailable Revenue on Property Taxes	\$ -	\$ 218	\$ 218
Property Taxes Levied for Subsequent Years	-	4,067	4,067
Total Deferred Inflows of Resources	-	4,285	4,285
Fund Balances			
Unassigned	-	12,624	12,624
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ -	\$ 16,909	\$ 16,909

**CITY OF CROSSLAKE, MINNESOTA**  
**RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION**  
**ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT**  
**DECEMBER 31, 2017**

	Fund Level Total	Adjustments	Statement of Net Position
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 12,241	\$ -	\$ 12,241
Tax Prepayment	4,067	-	4,067
Taxes Receivable	601	-	601
Total Assets	\$ 16,909	-	16,909
 <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES/NET POSITION</b>			
Deferred Inflows of Resources			
Unavailable Revenue on Property Taxes	\$ 218	(218)	-
Property Taxes Levied for Subsequent Years	4,067	-	4,067
Total Deferred Inflows of Resources	4,285	(218)	4,067
Fund Balance/Net Position			
Unassigned	12,624	(12,624)	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 16,909	(12,842)	
Net Position			
Unrestricted		12,842	12,842
Total Net Position of Component Unit (Page 15)		\$ 12,842	\$ 12,842

Some of the revenues in the statement of activities do not require the use of current financial resources and, therefore, the property taxes will be collected after year-end, but are not available soon enough to pay for the current-period's expenditures and, therefore, are reported as unavailable revenue in the governmental funds.

**CITY OF CROSSLAKE, MINNESOTA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT**  
**YEAR ENDED DECEMBER 31, 2017**

	REVOLVING LOAN PROGRAM	EDA OPERATING FUND	TOTAL
<b>REVENUES</b>			
Taxes	\$ -	\$ 12,548	\$ 12,548
Miscellaneous			
Revolving Loan Interest	1,173	-	1,173
Interest	280	-	280
Donations	-	870	870
Total Miscellaneous Revenue	<u>1,453</u>	<u>870</u>	<u>2,323</u>
Total Revenue	1,453	13,418	14,871
<b>EXPENDITURES</b>			
Economic Development			
Professional Services	-	7,421	7,421
Other Services and Charges	447,874	-	447,874
Contribution to Primary Government	-	2,492	2,492
Total Expenditures	<u>447,874</u>	<u>9,913</u>	<u>457,787</u>
<b>NET CHANGE IN FUND BALANCES</b>	(446,421)	3,505	(442,916)
Fund Balances - Beginning of Year	<u>446,421</u>	<u>9,119</u>	<u>455,540</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ -</u>	<u>\$ 12,624</u>	<u>\$ 12,624</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, 2017**

	<u>Fund Level Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures/Expenses	\$ 457,787	\$ -	\$ 457,787
Program Revenues			
Charges for Services	<u>1,173</u>	<u>-</u>	<u>1,173</u>
Net Program Revenue (Expense)	(456,614)	-	(456,614)
General Revenues			
Taxes	12,548	218	12,766
Unrestricted Investment Earnings	280	-	280
Miscellaneous Revenues	<u>870</u>	<u>-</u>	<u>870</u>
Total General Revenues	<u>13,698</u>	<u>218</u>	<u>13,916</u>
Change in Net Position (Page 16)	(442,916)	218	(442,698)
Fund Balances/Net Position			
Beginning of Year	<u>455,540</u>	<u>-</u>	<u>455,540</u>
End of Year	<u>\$ 12,624</u>	<u>\$ 218</u>	<u>\$ 12,842</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, 2017 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued our report thereon dated March 30, 2018.

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*, except as described below. 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.

During contracting and bidding testing, it was noted that the Withholding Affidavit for Contracts (IC 134) form required by Minnesota State Statute 270C.66 was not submitted prior to final payment.

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

  
**CliftonLarsonAllen LLP**

Brainerd, Minnesota  
March 30, 2018