

CITY OF CROSSLAKE, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2018

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INTRODUCTORY SECTION

**CITY OF CROSSLAKE, MINNESOTA
PRINCIPAL CITY OFFICIALS
DECEMBER 31, 2018**

ELECTED OFFICIALS

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

<u>Position</u>	<u>Name</u>
City Administrator/Treasurer	Mike Lyonais
City Clerk	Charlene Nelson

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, 2018, 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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

During the year ended December 31, 2018, the City adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. As a result of the implementation of this standard, the City reported a restatement for a change in accounting principle (see Note 9). Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the City's OPEB liability and related ratios, 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 reconciling fund financial statements for the economic development authority component unit are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Honorable Mayor and
Members of the City Council
City of Crosslake

The 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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Brainerd, Minnesota
April 15, 2019

**CITY OF CROSSLAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018**

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, 2018. 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, 2018, and the prior year, 2017, 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 \$23,030,996 (net position).
- ◆ The City's total net position increased during the fiscal year by \$1,019,252.
- ◆ As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$8,192,175, a decrease of \$763,399 in comparison with the prior year. Of the total amount, \$7,967,233 is available for spending at the City's discretion (unassigned/assigned fund balance). However, \$385,834 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).

**CITY OF CROSSLAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018**

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 the 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, 2018**

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 \$23,030,996 at the close of the most recent fiscal year.

By far, the largest portion of the City's net position (70%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net Position

	Governmental Activities		Business-Type Activities		2018 Total
	2018	2017	2018	2017	
Current and Other Assets	\$ 8,384,809	\$ 10,275,405	\$ 667,913	\$ 1,007,106	\$ 9,052,722
Capital Assets	12,808,995	12,385,443	7,090,384	5,375,075	19,899,379
Total Assets	21,193,804	22,660,848	7,758,297	6,382,181	28,952,101
Deferred Outflows of Resources	615,173	951,677	5,462	7,903	620,635
Long-Term Liabilities Outstanding	2,819,980	2,692,359	2,004,414	2,284,243	4,824,394
Other Liabilities	475,162	488,626	421,237	414,252	896,399
Total Liabilities	3,295,142	3,180,985	2,425,651	2,698,495	5,720,793
Deferred Inflows of Resources	812,569	2,010,325	8,378	118,674	820,947
Net Position					
Net Investment in Capital Assets	10,885,128	10,829,599	5,228,954	3,267,213	16,114,082
Restricted	181,963	175,157	421,359	760,763	603,322
Unrestricted	6,634,175	7,416,459	(320,583)	(455,061)	6,313,592
Total Net Position	<u>\$ 17,701,266</u>	<u>\$ 18,421,215</u>	<u>\$ 5,329,730</u>	<u>\$ 3,572,915</u>	<u>\$ 23,030,996</u>

There was a decrease of \$736,014 and an increase of \$1,755,266 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, 2018**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Change in Net Position

The City's total net position increased by \$1,019,252. Key elements of this increase are as follows:

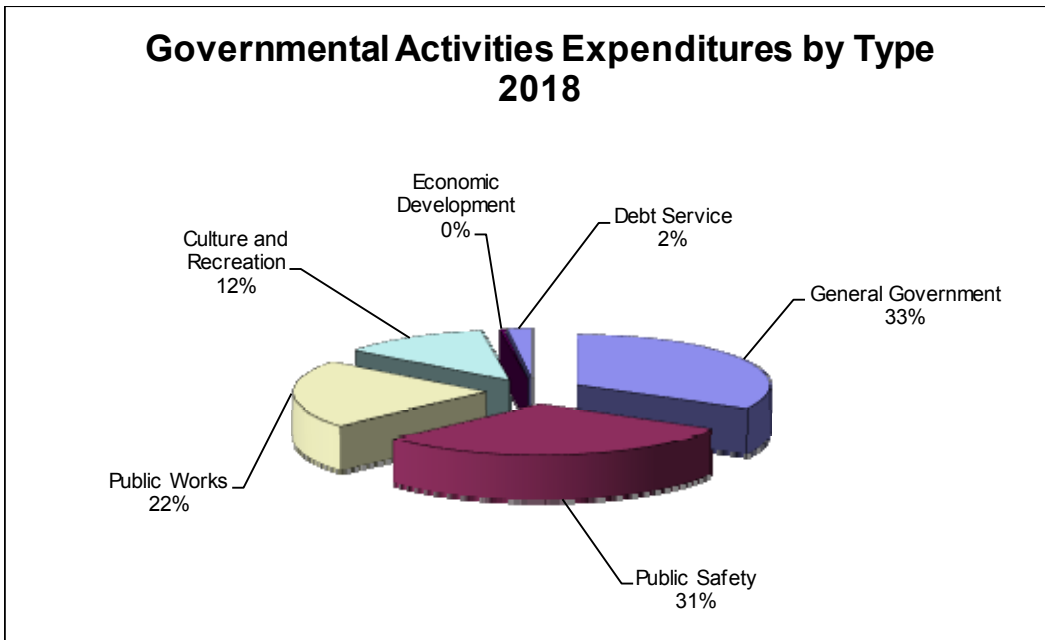
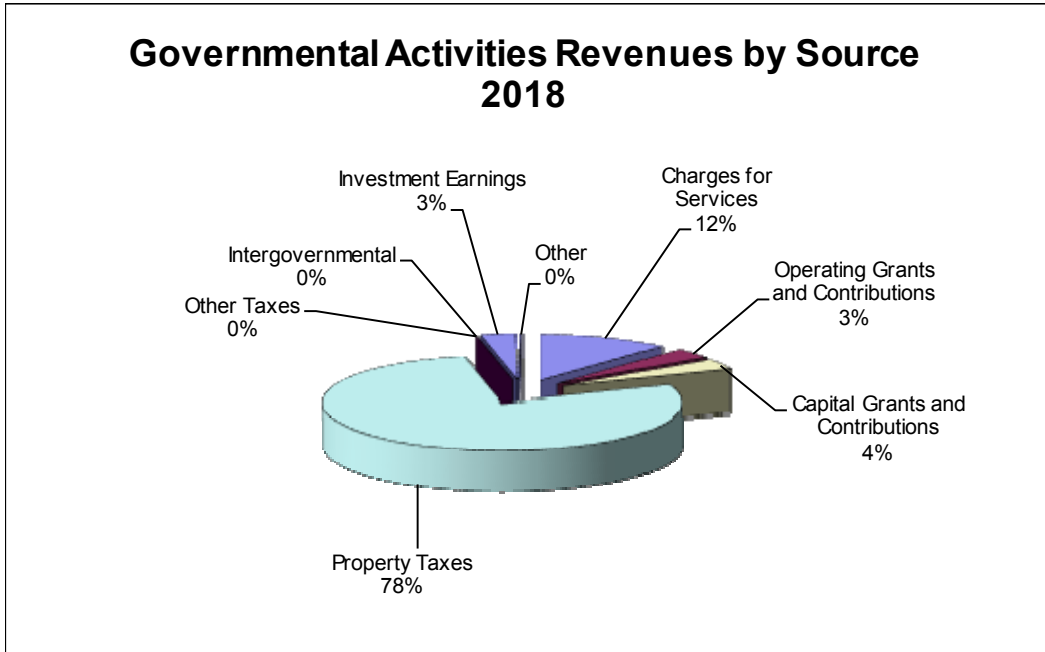
	Change in Net Position				2018 Total
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		
	2018	2017	2018	2017	
REVENUES					
Program Revenues					
Charges for Services	\$ 520,666	\$ 455,917	\$ 282,670	\$ 259,535	\$ 803,336
Operating Grants and Contributions	153,608	176,055	-	-	153,608
Capital Grants and Contributions	159,586	723,717	194,333	76,500	353,919
General Revenues					
Property Taxes	3,359,825	3,299,610	338,347	221,547	3,698,172
Other Taxes	12,480	13,524	-	-	12,480
Intergovernmental	374	368	-	419	374
Unrestricted Investment Earnings (Loss)	137,378	50,118	1,161	680	138,539
Gain on Sale of Capital Assets	-	22,064	-	-	-
Miscellaneous	8,555	22,810	1,911	1,782	10,466
	<u>4,352,472</u>	<u>4,764,183</u>	<u>818,422</u>	<u>560,463</u>	<u>5,170,894</u>
EXPENSES					
General Government	1,178,388	1,247,246	-	-	1,178,388
Public Safety	1,102,831	987,641	-	-	1,102,831
Public Works	776,824	723,163	-	-	776,824
Culture and Recreation	445,933	503,923	-	-	445,933
Economic Development	11,392	12,335	-	-	11,392
Interest on Long-Term Debt	73,118	53,310	-	-	73,118
Sewer Utility	-	-	563,156	534,980	563,156
	<u>3,588,486</u>	<u>3,527,618</u>	<u>563,156</u>	<u>534,980</u>	<u>4,151,642</u>
CHANGE IN NET POSITION BEFORE TRANSFERS	763,986	1,236,565	255,266	25,483	1,019,252
Transfers	(1,500,000)	-	1,500,000	-	-
CHANGE IN NET POSITION	(736,014)	1,236,565	1,755,266	25,483	1,019,252
Net Position - Beginning of Year	18,421,215	17,184,650	3,572,915	3,547,432	21,994,130
Change in Accounting Principal	16,065	-	1,549	-	17,614
Net Position - Beginning of Year, Restated	<u>18,437,280</u>	<u>17,184,650</u>	<u>3,574,464</u>	<u>3,547,432</u>	<u>22,011,744</u>
NET POSITION - END OF YEAR	<u>\$ 17,701,266</u>	<u>\$ 18,421,215</u>	<u>\$ 5,329,730</u>	<u>\$ 3,572,915</u>	<u>\$ 23,030,996</u>

**CITY OF CROSSLAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Change in Net Position (Continued)

Governmental Activities – Governmental activities decreased the City's net position by \$736,014 in 2018 as compared to an increase of \$1,236,565 in 2017. The key element of this decrease is due to capital grants and contributions decreasing approximately \$560,000 due to grant aid being received in 2017 for the Dream Island Bridge replacement and internally funding a sewer project for \$1.5 million.

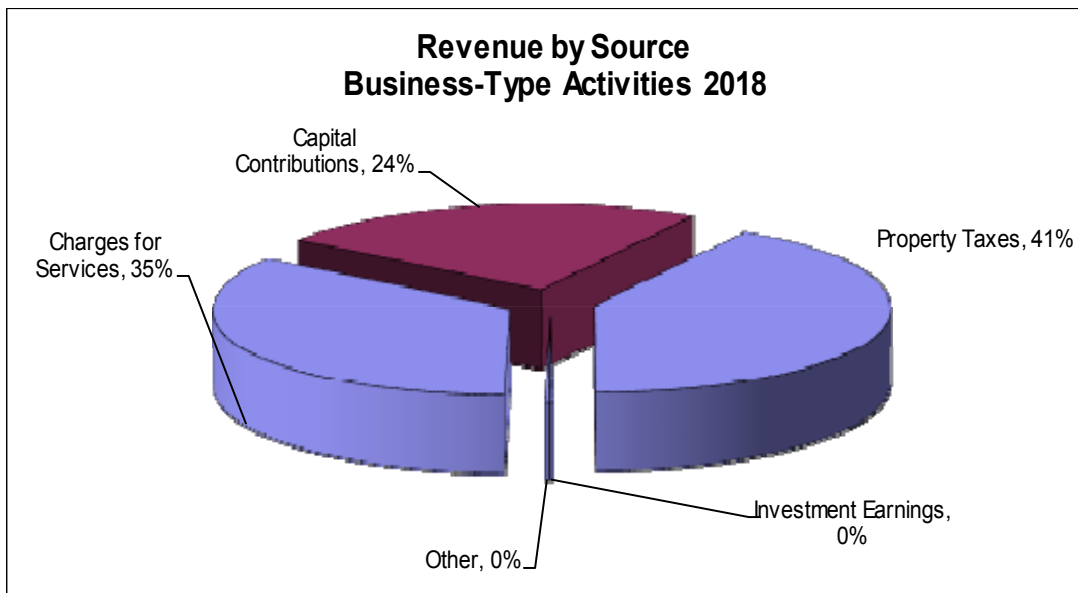
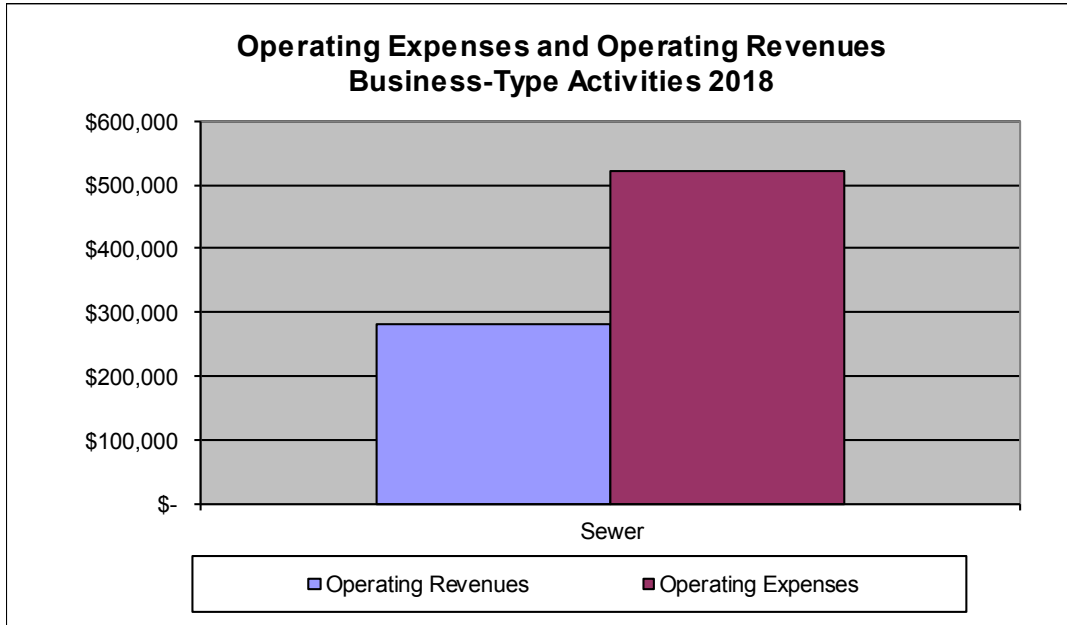


**CITY OF CROSSLAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Change in Net Position (Continued)

Business-Type Activities – Business-type activities increased the City's net position by \$1,755,266 in 2018 as compared to the \$25,483 increase in 2017. The key element of this increase is due to an interfund transfer in of \$1,500,000 to help fund a sewer project.



**CITY OF CROSSLAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018**

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 \$8,192,175 a decrease of \$763,399 in comparison with the prior year. Of this amount \$7,967,233 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 2018 (\$224,942). In addition, a portion of unassigned/assigned fund balance has been assigned by the City Council for future years' capital outlay (\$385,834).

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 \$7,967,233. Total fund balance was \$8,000,065. 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 2018 General Fund expenditures, respectively. The fund balance of the City's General Fund decreased by \$771,622, 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 2018, the City completed improvements to its wastewater treatment plant. \$2,822,685 of sanitary sewer additions related to this project is reported in the Sewer Enterprise Fund as of December 31, 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 used a combination of existing cash and new debt to finance the project.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no budget revisions during the year.

Revenues were over budget by \$436,182, or approximately 12% due in part to the following: \$105,637 of state aid for completion of a bridge project carried over from the prior year, \$39,716 unbudgeted state aid for roads (state funded the program after the budget was approved), \$49,500 of park dedication fees in lieu of land for new commercial and residential building projects, \$106,878 interest income due to implementation of a new investment policy in March of 2018, \$30,339 in donations, and increased activity for building and related permits.

**CITY OF CROSSLAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018**

GENERAL FUND BUDGETARY HIGHLIGHTS (CONTINUED)

Expenditures were under budget by \$648,194, or approximately 13% due in part to the following: \$251,000 trail extension was removed from the 2018 project budget, \$102,793 of general government building improvements delayed until a later date pending the outcome of a facility needs assessment scheduled to be complete in 2019, \$127,325 reduction in salaries and benefits in the parks/rec/library department due to staffing changes during 2018, and \$50,960 of police vehicle purchases delayed until 2019.

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, 2018, amounts to \$19,899,379 (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		2018 Total
	2018	2017	2018	2017	
Land	\$ 1,012,971	\$ 920,921	\$ 8,713	\$ 8,713	\$ 1,021,684
Construction in Progress	15,312	90,635	-	884,308	15,312
Buildings	2,914,890	3,064,760	2,345,612	2,439,467	5,260,502
Improvements Other than Buildings	445,372	390,385	17,743	17,743	463,115
Machinery and Equipment	1,596,045	1,813,184	61,476	15,943	1,657,521
Infrastructure	6,824,405	6,105,558	4,656,840	2,008,901	11,481,245
Total	\$ 12,808,995	\$ 12,385,443	\$ 7,090,384	\$ 5,375,075	\$ 19,899,379

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 \$2,003,644. Of this amount, \$1,999,193 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 \$4,451.

Governmental Activities Outstanding Long-Term Debt

	2018	2017
General Obligation Bonds	\$ 1,999,193	\$ 1,636,492
Capital Leases	4,451	8,719
Total	\$ 2,003,644	\$ 1,645,211

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, 2018**

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Debt (Continued)

Governmental Activities (Continued) – The City's total governmental activities debt increased by \$358,433 (20%) during the current fiscal year. This was primarily due to payments made on outstanding debt offset with new debt issued in the amount of \$695,000.

Business-Type Activities – At the end of the current fiscal year, the business-type activities had total long-term debt of \$2,190,377, consisting of general obligation and revenue bonds. This decrease of \$177,594 (7%) from 2017 reflects the 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 2.96% from \$1,192,379,178 to \$1,227,696,933 and the taxable tax capacity increased 1.06% from \$12,692,912 to \$13,100,647 for taxes payable in 2019. These increases in values along with an overall increase in the City's levy request from 2018 resulted in an increase of 1.069% in the City's tax rate from 29.088% to 30.157% for taxes payable in 2019.

These factors were taken into account by the City of Crosslake when preparing the 2019 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

CITY OF CROSSLAKE, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Economic Development Authority
ASSETS				
Cash and Investments	\$ 8,174,167	\$ 175,011	\$ 8,349,178	\$ 17,623
Receivables				
Taxes	120,607	11,595	132,202	439
Accounts	13,727	28,776	42,503	-
Special Assessments	36,406	-	36,406	-
Connection Charges	-	10,075	10,075	-
Due from Other Governments	7,070	-	7,070	-
Prepayments	32,832	2,997	35,829	-
Restricted, Designated and Long-Term Assets				
Cash and Investments	-	439,459	439,459	-
Capital Assets				
Land and Construction In Progress	1,028,283	8,713	1,036,996	-
Other Capital Assets, Net of Depreciation	11,780,712	7,081,671	18,862,383	-
Total Assets	21,193,804	7,758,297	28,952,101	18,062
DEFERRED OUTFLOWS OF RESOURCES				
Pension Related	528,193	4,834	533,027	-
OPEB Related	7,203	628	7,831	-
Loss on Refunding	79,777	-	79,777	-
Total Deferred Outflows	615,173	5,462	620,635	-
LIABILITIES				
Current Liabilities				
Accounts Payable	32,439	5,998	38,437	-
Contracts Payable	-	110,512	110,512	-
Accrued Liabilities	36,726	1,620	38,346	-
Accrued Interest Payable	13,040	18,100	31,140	-
Due to Other Governments	12,803	-	12,803	-
Other Postemployment Benefits	7,203	628	7,831	-
Unearned Revenue	11,764	-	11,764	-
Long-Term Liabilities				
Due within One Year	361,187	284,379	645,566	-
Due in More than One Year, Net of Unamortized Discount	1,769,838	1,949,334	3,719,172	-
Other Postemployment Benefits	301,078	26,057	327,135	-
Net Pension Liability	749,064	29,023	778,087	-
Total Liabilities	3,295,142	2,425,651	5,720,793	-
DEFERRED INFLOWS OF RESOURCES				
Pension Related	812,569	8,378	820,947	-
NET POSITION				
Net Investment in Capital Assets	10,885,128	5,228,954	16,114,082	-
Restricted for:				
Tax Increment Financing	7,730	-	7,730	-
Debt Service	174,233	421,359	595,592	-
Unrestricted	6,634,175	(320,583)	6,313,592	18,062
Total Net Position	\$ 17,701,266	\$ 5,329,730	\$ 23,030,996	\$ 18,062

See accompanying Notes to Financial Statements.

**CITY OF CROSSLAKE, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	\$ 1,178,388	\$ 156,602	\$ 36,239	\$ 1,551
Public Safety	1,102,831	102,313	113,705	11,520
Public Works	776,824	144,356	-	145,354
Culture and Recreation	445,933	117,395	3,664	151
Economic Development	11,392	-	-	-
Interest on Long-Term Debt	73,118	-	-	1,010
Total Governmental Activities	<u>3,588,486</u>	<u>520,666</u>	<u>153,608</u>	<u>159,586</u>
Business-Type Activities				
Sewer	563,156	282,670	-	194,333
Total Business-Type Activities	<u>563,156</u>	<u>282,670</u>	<u>-</u>	<u>194,333</u>
Total Primary Government	<u>\$ 4,151,642</u>	<u>\$ 803,336</u>	<u>\$ 153,608</u>	<u>\$ 353,919</u>
Component Unit				
Economic Development Authority	<u>\$ 8,822</u>	<u>\$ -</u>	<u>\$ 1,575</u>	<u>\$ -</u>

General Revenues
 Taxes
 Property Taxes, Levied for General Purpose
 Other Taxes
 Intergovernmental Revenues
 Unrestricted Investment Earnings
 Miscellaneous
 Transfers
 Total General Revenues
 Change in Net Position
 Net Position - Beginning of Year
 Change in Accounting Principle
 Net Position - Beginning of Year, Restated
 Net Position - End of Year

See accompanying Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

<u>Primary Government</u>			<u>Component Unit</u>
<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Economic Development Authority</u>
\$ (983,996)	\$ -	\$ (983,996)	\$ -
(875,293)	-	(875,293)	-
(487,114)	-	(487,114)	-
(324,723)	-	(324,723)	-
(11,392)	-	(11,392)	-
(72,108)	-	(72,108)	-
<u>(2,754,626)</u>	<u>-</u>	<u>(2,754,626)</u>	<u>-</u>
-	(86,153)	(86,153)	-
-	(86,153)	(86,153)	-
<u>(2,754,626)</u>	<u>(86,153)</u>	<u>(2,840,779)</u>	<u>-</u>
-	-	-	(7,247)
3,359,825	338,347	3,698,172	12,467
12,480	-	12,480	-
374	-	374	-
137,378	1,161	138,539	-
8,555	1,911	10,466	-
<u>(1,500,000)</u>	<u>1,500,000</u>	<u>-</u>	<u>-</u>
<u>2,018,612</u>	<u>1,841,419</u>	<u>3,860,031</u>	<u>12,467</u>
(736,014)	1,755,266	1,019,252	5,220
18,421,215	3,572,915	21,994,130	12,842
<u>16,065</u>	<u>1,549</u>	<u>17,614</u>	<u>-</u>
<u>18,437,280</u>	<u>3,574,464</u>	<u>22,011,744</u>	<u>12,842</u>
<u>\$ 17,701,266</u>	<u>\$ 5,329,730</u>	<u>\$ 23,030,996</u>	<u>\$ 18,062</u>

**CITY OF CROSSLAKE, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

ASSETS	GENERAL FUND	TAX INCREMENT FINANCING FUND	DEBT SERVICE FUND	TOTAL GOVERNMENTAL FUNDS
Cash and Investments	\$ 7,984,823	\$ 7,730	\$ 181,614	\$ 8,174,167
Receivables				
Taxes	114,948	-	5,659	120,607
Special Assessments	36,406	-	-	36,406
Accounts	13,727	-	-	13,727
Due from Other Governments	7,070	-	-	7,070
Prepayments	32,832	-	-	32,832
Total Assets	\$ 8,189,806	\$ 7,730	\$ 187,273	\$ 8,384,809
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 32,439	\$ -	\$ -	\$ 32,439
Accrued Liabilities	38,610	-	-	38,610
Unearned Revenue	11,764	-	-	11,764
Due to Other Governments	12,803	-	-	12,803
Total Liabilities	95,616	-	-	95,616
Deferred Inflows of Resources				
Unavailable Revenue on Property Taxes	57,719	-	2,893	60,612
Unavailable Revenue on Special Assessments	36,406	-	-	36,406
Total Deferred Inflows of Resources	94,125	-	2,893	97,018
Fund Balances				
Nonspendable for:				
Prepayments	32,832	-	-	32,832
Restricted for:				
Debt Service	-	-	184,380	184,380
Tax Increment Financing	-	7,730	-	7,730
Assigned for:				
Capital Outlay	385,834	-	-	385,834
Unassigned:				
General Fund	7,581,399	-	-	7,581,399
Total Fund Balances	8,000,065	7,730	184,380	8,192,175
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 8,189,806	\$ 7,730	\$ 187,273	\$ 8,384,809

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, 2018**

TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS **\$ 8,192,175**

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	\$ 1,012,971	
Construction in Progress	15,312	
Capital Assets, Being Depreciated	22,573,166	
Accumulated Depreciation	<u>(10,792,454)</u>	12,808,995

Some of the City's property taxes and special assessments will be collected after year-end, but are not available soon enough to pay for the current-period's expenditures and, therefore, are reported as unavailable revenue in the governmental funds. 97,018

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. (13,040)

The loss on refunding is reported as a deferred outflow on the statement of net position and amortized over the life of the bonds. 79,777

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	(749,064)	
Deferred Inflows of Resources - Pension Related	(812,569)	
Deferred Outflows of Resources - Pension Related	<u>528,193</u>	(1,033,440)

OPEB deferred outflows are reported only on the statement of net position. 7,203

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	(1,982,000)	
Unamortized Discounts/ Premiums	(17,193)	
Compensated Absences Payable	(125,497)	
Other Postemployment Benefits Payable	(308,281)	
Obligations Under Capital Leases	<u>(4,451)</u>	<u>(2,437,422)</u>

TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 17,701,266**

See accompanying Notes to Financial Statements.

CITY OF CROSSLAKE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2018

	GENERAL FUND	TAX INCREMENT FINANCING FUND	DEBT SERVICE FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Taxes	\$ 3,202,593	\$ -	\$ 153,635	\$ 3,356,228
Tax Increments	-	12,480	-	12,480
Licenses and Permits	82,830	-	-	82,830
Intergovernmental	258,287	-	-	258,287
Charges for Services	417,512	-	-	417,512
Fines and Forfeits	23,207	-	-	23,207
Special Assessments	23,681	-	-	23,681
Interest	137,378	-	-	137,378
Contributions and Donations	32,481	-	-	32,481
Miscellaneous	25,911	-	-	25,911
Total Revenues	<u>4,203,880</u>	<u>12,480</u>	<u>153,635</u>	<u>4,369,995</u>
EXPENDITURES				
Current				
General Government	695,927	-	-	695,927
Public Safety	764,710	-	-	764,710
Public Works	467,761	-	-	467,761
Culture and Recreation	377,955	-	-	377,955
Economic Development	-	11,392	-	11,392
Miscellaneous	107,655	-	-	107,655
Capital Outlay	1,515,029	-	-	1,515,029
Debt Service				
Principal Retirement	194,268	-	138,000	332,268
Interest and Fiscal Charges	47,197	-	8,500	55,697
Total Expenditures	<u>4,170,502</u>	<u>11,392</u>	<u>146,500</u>	<u>4,328,394</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	33,378	1,088	7,135	41,601
OTHER FINANCING SOURCES (USES)				
Issuance of GO Bonds	695,000	-	-	695,000
Transfers Out	(1,500,000)	-	-	(1,500,000)
Total Other Financing Sources (Uses)	<u>(805,000)</u>	<u>-</u>	<u>-</u>	<u>(805,000)</u>
NET CHANGE IN FUND BALANCES	(771,622)	1,088	7,135	(763,399)
Fund Balances - Beginning of Year	<u>8,771,687</u>	<u>6,642</u>	<u>177,245</u>	<u>8,955,574</u>
FUND BALANCES - END OF YEAR	<u>\$ 8,000,065</u>	<u>\$ 7,730</u>	<u>\$ 184,380</u>	<u>\$ 8,192,175</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, 2018**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (763,399)

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	\$ 1,405,727	
Disposal of Capital Assets - Net Book Value	(8,084)	
Depreciation Expense	<u>(974,091)</u>	423,552

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		4,268
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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	328,000	
Bond Proceeds	(695,000)	
Change in Accrued Interest Expense for General Obligation Bonds	(1,776)	
Amortization of Bond Discount/Premium	<u>4,299</u>	(364,477)

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.

		18,721
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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		6,176
Change in Other Postemployment Benefits		(23,388)
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, 2017	(114,541)	
Unavailable Revenue - December 31, 2018	<u>97,018</u>	<u>(17,523)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ (736,014)**

See accompanying Notes to Financial Statements.

**CITY OF CROSSLAKE, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2018**

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

CURRENT ASSETS

Cash and Cash Equivalents	\$	175,011
Receivables		
Accounts Receivable		28,776
Taxes		6,031
Connection Charges		3,099
Prepayments		2,997
Total Current Assets		215,914

NONCURRENT ASSETS

Taxes Receivable		5,564
Restricted Assets		
Cash and Cash Equivalents		439,459
Connection Charges Receivable		6,976
Capital Assets		
Land		8,713
Building and Improvements		3,696,912
Machinery and Equipment		352,006
Sanitary Sewers		5,903,385
Subtotal Capital Assets		9,961,016
Less: Accumulated Depreciation		(2,870,632)
Net Capital Assets		7,090,384
Total Noncurrent Assets		7,542,383
Total Assets		7,758,297

DEFERRED OUTFLOWS OF RESOURCES

Pension Related		4,834
OPEB Related		628
Total Deferred Outflows of Resources		5,462
Total Assets and Deferred Outflows of Resources	\$	7,763,759

See accompanying Notes to Financial Statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

CURRENT LIABILITIES

Accounts Payable	\$	5,998
Contracts Payable		110,512
Salaries and Wages Payable		1,209
Other Postemployment Benefits Payable		628
Customer Deposits		411
Accrued Compensated Absences		9,379
Total Current Liabilities		128,137

CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS

Accrued Interest Payable		18,100
Revenue Bonds Payable		275,000
Total Current Liabilities Payable from Restricted Assets		293,100

LONG-TERM LIABILITIES

Bonds Payable (Net of Unamortized Bond Discounts)		1,915,377
Net Pension Liability		29,023
Accrued Compensated Absences		33,957
Other Postemployment Benefits Payable		26,057
Total Long-Term Liabilities		2,004,414

DEFERRED INFLOWS OF RESOURCES

Pension Related		8,378
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NET POSITION

Net Investment in Capital Assets		5,228,954
Restricted For:		
Debt Service		421,359
Unrestricted		(320,583)
Total Net Position		5,329,730
Total Net Position, Liabilities, and Deferred Inflows of Resources	\$	7,763,759

**CITY OF CROSSLAKE, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2018**

OPERATING REVENUES	
Sales and Charges for Services	\$ 282,670
OPERATING EXPENSES	
Personal Services	123,987
Supplies	23,667
Repairs and Maintenance	25,994
Other Services and Charges	124,585
Depreciation	223,068
Total Operating Expenses	521,301
OPERATING INCOME (LOSS)	(238,631)
NONOPERATING REVENUES (EXPENSES)	
Property Taxes	338,347
Investment Earnings	1,161
Sewer Connection Fees	194,333
Interest Expense	(41,855)
Miscellaneous Revenues	1,911
Total Nonoperating Revenues (Expenses)	493,897
INCOME BEFORE TRANSFERS	255,266
Transfers In	1,500,000
CHANGE IN NET POSITION	1,755,266
Net Position - Beginning of Year	3,572,915
Change in Accounting Principle	1,549
Total Net Position - Beginning of Year, as Restated	3,574,464
NET POSITION - END OF YEAR	\$ 5,329,730

See accompanying Notes to Financial Statements.

**CITY OF CROSSLAKE, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2018**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Customers	\$ 319,110
Cash Paid to Employees for Services	(122,369)
Cash Paid to Suppliers for Goods and Services	(183,707)
Net Cash Provided by Operating Activities	13,034

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Miscellaneous Revenues (Expenses)	1,911
Transfers from (to) Other Funds	1,500,000
Net Cash Provided by Noncapital Financing Activities	1,501,911

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and Construction of Capital Assets	(2,025,798)
Property Taxes Received	338,107
Collection of Connection Charges	197,281
Interest Paid	(40,672)
Principal Payments on Long-Term Debt	(175,000)
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,706,082)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Received	1,161

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

(189,976)

Cash and Cash Equivalents - Beginning of Year

804,446

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 614,470

See accompanying Notes to Financial Statements.

**CITY OF CROSSLAKE, MINNESOTA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2018**

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

Operating Income (Loss)	\$	(238,631)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Depreciation		223,068
(Increase) Decrease in Assets:		
Accounts Receivable		36,440
Deferred Outflows of Resources - Pension		4,618
Deferred Outflows of Resources - OPEB		-
Prepayments		227
Increase (Decrease) in Liabilities:		
Accounts Payable		(10,757)
Accrued Liabilities		(302)
Accrued Compensated Absences		2,057
Deferred Inflows of Resources		(454)
Net Pension Liability		(4,301)
Other Postemployment Benefits Payable		1,069
Net Cash Provided (Used) by Operating Activities	\$	<u>13,034</u>

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

Current Assets		
Cash and Cash Equivalents	\$	175,011
Restricted Assets		
Cash and Investments		439,459
Total Cash and Cash Equivalents	\$	<u>614,470</u>

See accompanying Notes to Financial Statements.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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, 2018**

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, 2018**

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, 2018**

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, 2018**

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, 2018**

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. Accounts Receivable

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

5. Special Assessments

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

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

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

6. Due from Other Governments

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

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

7. Capital Assets

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

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

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

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

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

8. Deferred Outflows of Resources

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

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

9. Compensated Absences

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

10. Long-Term Obligations

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

11. Deferred Inflows of Resources

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

12. Pensions

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

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

13. Fund Balance

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

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

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

Assigned fund balance is established, modified, rescinded by the City Administrator/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, 2018**

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

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

B. Interfund Transfers

The General Fund transferred \$1,500,000 to the Sewer Fund to help fund the sewer improvement project.

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, 2018 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, 2018**

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, 2018 are as follows:

<u>Investment Type</u>	<u>Total</u>	<u>12 Months or Less</u>
Minnesota Municipal Money Market Fund Trust	\$ 4,389,447	\$ 4,389,447
Minnesota Municipal Term Series	1,512,625	1,512,625
Total	<u>\$ 5,902,072</u>	<u>\$ 5,902,072</u>

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Investments (Continued)

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

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

The deposits and investments are presented in these financial statements:

Deposits	\$ 2,904,188
Investments	<u>5,902,072</u>
Total Cash and Investments	<u><u>\$ 8,806,260</u></u>
Cash and Investments - Governmental Funds	\$ 8,174,167
Cash and Investments - Proprietary Funds	614,470
Cash and Investments - Component Unit	<u>17,623</u>
Total Cash and Investments	<u><u>\$ 8,806,260</u></u>

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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, 2018, restricted cash and investments consisted of the following:

Restricted Assets - Cash and Investments	
Restricted for Debt Service Covenants - Sewer Fund	<u>\$ 439,459</u>

4. Capital Assets

Capital asset activity for the Primary Government for the year ended December 31, 2018, is as follows:

	Beginning Balance	Increases	Decreases/ Adjustments	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets, Not Being Depreciated				
Land	\$ 920,921	\$ 92,050	\$ -	\$ 1,012,971
Construction in Progress	90,635	7,456	(82,779)	15,312
Total Capital Assets, Not Being Depreciated:	1,011,556	99,506	(82,779)	1,028,283
Capital Assets, Being Depreciated				
Buildings	5,300,591	-	-	5,300,591
Improvements Other Than Buildings	1,022,094	89,076	(8,937)	1,102,233
Machinery and Equipment	4,158,306	118,440	(94,254)	4,182,492
Infrastructure	11,020,716	1,181,484	(214,350)	11,987,850
Total Capital Assets, Being Depreciated	21,501,707	1,389,000	(317,541)	22,573,166
Less Accumulated Depreciation for				
Buildings	(2,235,831)	(149,870)	-	(2,385,701)
Improvements Other Than Buildings	(631,709)	(54,705)	29,553	(656,861)
Machinery and Equipment	(2,345,122)	(316,973)	75,648	(2,586,447)
Infrastructure	(4,915,158)	(452,543)	204,256	(5,163,445)
Total Accumulated Depreciation	(10,127,820)	(974,091)	309,457	(10,792,454)
Total Capital Assets, Being Depreciated, Net	11,373,887	414,909	(8,084)	11,780,712
Governmental Activities Capital Assets, Net	\$ 12,385,443	\$ 514,415	\$ (90,863)	\$ 12,808,995

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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, 2018, is as follows:

	Beginning Balance	Increases	Decreases/ Adjustments	Ending Balance
BUSINESS-TYPE ACTIVITIES				
Capital Assets, Not Being Depreciated				
Land	\$ 8,713	\$ -	\$ -	\$ 8,713
Construction in Progress	884,308	-	(884,308)	-
Total Capital Assets, Not Being Depreciated	893,021	-	(884,308)	8,713
Capital Assets, Being Depreciated				
Buildings and Improvements	3,696,912	-	-	3,696,912
Machinery and Equipment	352,006	-	-	352,006
Sanitary Sewers	3,080,700	2,822,685	-	5,903,385
Total Capital Assets, Being Depreciated	7,129,618	2,822,685	-	9,952,303
Less Accumulated Depreciation For				
Buildings and Improvements	(1,239,702)	(93,855)	-	(1,333,557)
Machinery and Equipment	(336,063)	45,533	-	(290,530)
Sanitary Sewers	(1,071,799)	(174,746)	-	(1,246,545)
Total Accumulated Depreciation	(2,647,564)	(223,068)	-	(2,870,632)
Total Capital Assets, Being Depreciated, Net	4,482,054	2,599,617	-	7,081,671
Business-Type Activities Capital Assets, Net	\$ 5,375,075	\$ 2,599,617	\$ (884,308)	\$ 7,090,384

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

Governmental Activities	
General Government	\$ 384,277
Public Safety	211,173
Public Works	264,374
Culture and Recreation	114,267
Total Depreciation Expense - Governmental Activities	<u>\$ 974,091</u>
Business-Type Activities	
Sewer	\$ 223,068
Total Depreciation Expense - Business-Type Activities	<u>\$ 223,068</u>

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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>
BONDED INDEBTEDNESS			
PRIMARY GOVERNMENT			
GENERAL OBLIGATION BONDS			
G.O. Refunding Bonds, Series 2012A	2.00-2.55%	\$ 4,310,000	\$ 2,165,000
G.O. Disposal System Bonds, Series 2017A	1.15-2.30%	1,015,000	1,015,000
G.O. Street Reconstruction Bonds, Series 2018A	2.75-3.25%	695,000	695,000
CERTIFICATES OF INDEBTEDNESS			
G.O. Equipment Certificate of Indebtedness, Series 2015B	2.00%	561,000	287,000
Total Primary Government General Obligation Bonds		<u>\$ 6,581,000</u>	<u>\$ 4,162,000</u>

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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, 2018, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
PRIMARY GOVERNMENT					
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds	\$ 1,190,000	\$ 695,000	\$ (190,000)	\$ 1,695,000	\$ 190,000
Issuance Premiums	21,492	-	(4,299)	17,193	-
GO Equipment Certificates	425,000	-	(138,000)	287,000	142,000
Total Bonds Payable	1,636,492	695,000	(332,299)	1,999,193	332,000
Capital Leases Payable	8,719	-	(4,268)	4,451	3,063
Compensated Absences	135,127	148,380	(156,126)	127,381	26,124
Governmental Activity Long-Term Liabilities	<u>\$ 1,780,338</u>	<u>\$ 843,380</u>	<u>\$ (492,693)</u>	<u>\$ 2,131,025</u>	<u>\$ 361,187</u>
BUSINESS-TYPE ACTIVITIES					
General Obligation Bonds	\$ 2,355,000	\$ -	\$ (175,000)	\$ 2,180,000	\$ 275,000
Issuance Premiums	12,971	-	(2,594)	10,377	-
Total Bonds Payable	2,367,971	-	(177,594)	2,190,377	275,000
Compensated Absences	41,279	37,697	(35,640)	43,336	9,379
Business-Type Activity Long-Term Liabilities	<u>\$ 2,409,250</u>	<u>\$ 37,697</u>	<u>\$ (213,234)</u>	<u>\$ 2,233,713</u>	<u>\$ 284,379</u>

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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
2019	\$ 190,000	\$ 35,692	2019	\$ 275,000	\$ 41,168
2020	270,000	36,159	2020	285,000	36,330
2021	280,000	29,978	2021	290,000	31,215
2022	290,000	23,196	2022	295,000	25,651
2023	295,000	15,820	2023	300,000	19,533
2024-2027	370,000	24,376	2024-2028	735,000	32,056
Total	<u>\$ 1,695,000</u>	<u>\$ 165,221</u>	Total	<u>\$ 2,180,000</u>	<u>\$ 185,953</u>

General Obligation Equipment Certificates		
Governmental Activities		
	Principal	Interest
2019	\$ 142,000	\$ 5,740
2020	145,000	2,900
Total	<u>\$ 287,000</u>	<u>\$ 8,640</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.

In 2018, the City issued \$695,000 in General Obligation Street Reconstruction Bonds, Series 2018A. The bonds were issued to finance 2018 street projects.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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. 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		(16,959)
Total	\$	<u>4,327</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2018, were as follows:

	December 31,	
2019	\$	3,122
2020		<u>1,403</u>
Total Minimum Lease Payments		4,525
Less: Amount Representing Interest		(74)
Present Value of Minimum Lease Payments	\$	<u>4,451</u>

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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 (IRC).

1. General Employees Retirement Plan

All full-time and certain part-time employees of the City are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

A. Plan Description (Continued)

2. Public Employees Police and Fire Plan

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.

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, 2018**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

1. General Employees Plans Benefits (Continued)

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90% funded for two consecutive years, benefit recipients are given a 2.5% increase. If the plan has not exceeded 90% funded, or have fallen below 80%, benefit recipients are given a 1% increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

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.

Benefit increases are provided to benefit recipients each January. Police and Fire Plan benefit recipients receive a future annual 1.0% increase. An annual adjustment will equal 2.5% any time the plan exceeds a 90% funded ratio for two consecutive years. If the adjustment is increased to 2.5% and the funded ratio falls below 80% for one year or 85% for two consecutive years, the post-retirement benefit increase will be lowered to 1%. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase. For retirements after May 31, 2014, the first increase will be delayed two years.

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 2018. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2018. The City contributions to the General Employees Fund for the year ended December 31, 2018, were \$40,832. The City's contributions were equal to the required contributions as set by state statute.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. Contributions (Continued)

2. Police and Fire Fund Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2018. The City was required to contribute 16.20% of pay for Police and Fire Fund members in calendar year 2018. The City contributions to the Police and Fire Fund for the year ended December 31, 2018, were \$52,168. The City contributions were equal to the required contributions as set by state statute.

D. Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2018, the City reported a liability of \$460,450 for its proportionate share of the GERS's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. The State of Minnesota is considered a nonemployer 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 \$15,152. The net pension liability was measured as of June 30, 2018, 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the City's proportionate share was .0083% which decreased .0004% from its proportion measured as of June 30, 2017.

For the year ended December 31, 2018, the City recognized pension expense of (\$11,038) for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$3,534 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

City's proportionate share of the net pension liability	\$460,450
State of Minnesota's proportionate share of the net pension liability associated with the City	<u>15,152</u>
Total	<u>\$475,602</u>

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. General Employees Fund Pension Costs (Continued)

At December 31, 2018, the City reported its proportionate share of the 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	\$ 12,187	\$ 13,429
Changes of Assumptions	43,985	51,736
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	47,051
Changes in Proportion	-	20,705
City Contributions Made Subsequent to the Measurement Date	20,514	-
Total	<u>\$ 76,686</u>	<u>\$ 132,921</u>

\$20,514 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, 2019. 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
2019	\$ 8,007
2020	(31,344)
2021	(43,802)
2022	(9,610)

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs

At December 31, 2018, the City reported a liability of \$317,637 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the City proportion was .0298% which was a decrease of .0042% from its proportion measured as of June 30, 2017. The City also recognized \$2,682 for the year ended December 31, 2018 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, 2018, the City recognized pension expense of (\$1,351) for its proportionate share of the Police and Fire Plan's pension expense.

At December 31, 2018, 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	\$ 12,893	\$ 77,924
Changes of Assumptions	410,991	467,604
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	66,530
Changes in Proportion	6,525	75,968
City Contributions Made Subsequent to the Measurement Date	25,932	-
Total	<u>\$ 456,341</u>	<u>\$ 688,026</u>

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs (Continued)

\$25,932 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31,</u>	<u>Pension Expense Amount</u>
2019	\$ (5,132)
2020	(36,060)
2021	(59,643)
2022	(142,883)
2023	(13,899)

E. Actuarial Assumptions

The total pension liability in the June 30, 2018, 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 for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year for the General Employees Plan, 1.0% per year for the Police and Fire Plan.

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015. The most recent four-year experience study for Police and Fire Plan was completed in 2016.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions occurred in 2018:

General Employees Fund:

- The morality projection scale was changed from MP-2015 to MP-2017
- The assumed benefit increase was changes from 1% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

Police and Fire Fund:

- The morality projection scale was changed from MP-2016 to MP-2017.
- As set by statute, the assumed post-retirement benefit increase was changed from 1.0% per year through 2064 and 2.5% per year, thereafter, to 1.0% for all years, with no trigger.

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	36 %	5.1 %
International Stocks	17	5.3
Bonds	20	0.8
Alternative Assets	25	5.9
Cash	2	-
Totals	100 %	

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

F. Discount Rate

The discount rate used to measure the total pension liability in 2018 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:

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
City Proportionate Share of the General Employees Fund Net Pension Liability:	\$ 748,290	\$ 460,450	\$ 222,846
City Proportionate Share of the Police and Fire Fund Net Pension Liability:	\$ 681,034	\$ 317,637	\$ 17,123

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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.

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, 2018**

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 2018 contribution to the plan was as follows:

State Aid flowed through City to Relief Association	\$	38,678
Voluntary (Non-Required) Contribution from City		33,268
Total Contribution	\$	71,946

NOTE 6 OTHER POSTEMPLOYMENT BENEFIT PLAN

A. Plan Description

The City operates a single-employer retiree benefit plan (the Plan) that provides health and dental insurance to eligible employees and their spouse through the City’s health insurance plan. There are 16 active participants, 2 retired participants, and zero inactive employees entitled to but not yet receiving benefits. Benefit and eligibility provisions are established through negotiations between the City and various unions representing City employees and are renegotiated each two-year bargaining period. The Plan does not issue a publicly available financial report.

B. Funding Policy

The City does not have assets designated to pay for OPEB related costs. Contribution requirements are negotiated between the City and union representatives. The eligibility for, amount of, duration of, and City’s contribution to the cost of the benefits provided varies by contract and date of retirement. The City is funding this liability on a pay-as-you-go basis. For fiscal year 2018, the City contributed \$23,936 to the plan.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 6 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

C. Actuarial Methods and Assumptions

The City's OPEB liability was measured as of January 1, 2018 and the total OPEB liability was determined by an actuarial valuation as of January 1, 2018.

The total OPEB liability was determined by an actuarial valuation as of January 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary Increases	3.00%
Health Care Trend Rates	6.5% Decreasing to 5.00% Over 6 Years

Mortality Rates were based on the RP-2000 mortality tables with projected monthly improvements based on Scale AA, and other adjustments

The actuarial assumptions used in the January 1, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2017 to December 31, 2017.

The discount rate used to measure the total OPEB liability was 3.3%. The discount rate is based on the estimated yield of 20-Year AA-rated municipal bonds.

Since the most recent GASB 45 valuation, the following changes have been made:

- The mortality table was updated from RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale to the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale.
- Retiree premiums were updated to current levels.
- The discount rate was changed from 4.00% to 3.30%.

D. Changes in the OPEB Liability

	Total OPEB Liability
Balances at December 31, 2017, as Restated	\$ 325,693
Changes for the Year:	
Service Cost	22,123
Interest	11,086
Benefit Payments	(23,936)
Net Change in Total OPEB Liability	9,273
Balances at December 31, 2018	\$ 334,966

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 6 OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

D. Changes in the OPEB Liability (Continued)

The following presents the OPEB liability of the City, as well as what the City's OPEB 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 (2.30%)	Discount Rate (3.30%)	1% Increase (4.30%)
Total OPEB Liability	\$ 359,317	\$ 334,966	\$ 311,699

The following presents the OPEB liability of the City as well as what the City's OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower (5.5% decreasing to 4.0% over five years) or 1% higher (7.5% decreasing to 6.0% over five years) than the current healthcare cost trend rates:

	1% Decrease (5.5% Decreasing to 4.0%)	Current Trend Rates (6.5% Decreasing to 5.0%)	1% Increase (7.5% Decreasing to 6.0%)
<u>Medical Trend Rate</u>			
Total OPEB Liability	\$ 299,756	\$ 334,966	\$ 375,293

For the year ended December 31, 2018, the City recognized OPEB expense of \$33,209. At December 31, 2018, the City reported no deferred inflows of resources, and \$7,831 in deferred outflows of resources resulting from City contributions subsequent to the measurement date and will be recognized as a reduction of the OPEB liability in the year December 31, 2019.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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>		
2019	\$	111,116
2020		111,725
2021		112,229
2022		112,543
2023		112,636
Total	<u>\$</u>	<u>560,248</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, 2018, the City paid excess tax increment in the amount of \$11,392. No other commitments were made by the City as part of these agreements.

NOTE 9 RESTATEMENT FOR A CHANGE IN ACCOUNTING PRINCIPLE

During the year ending December 31, 2018, the City adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This pronouncement requires the restatement of the December 31, 2017 net position of the governmental and business actives as follows:

	Governmental Activities	Business-Type Activities	Total
Net Position, December 31, 2017, as Previously Reported	\$ 18,421,215	\$ 3,572,915	\$ 21,994,130
Affect of Application of GASB 75	16,065	1,549	17,614
Net Position, December 31, 2017, as Restated	\$ 18,437,280	\$ 3,574,464	\$ 22,011,744

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF CROSSLAKE, MINNESOTA
 SCHEDULE OF CHANGES IN THE CITY'S OPEB LIABILITY AND RELATED RATIOS
 YEAR ENDED DECEMBER 31, 2018**

	Measurement Date January 1, 2018
Total OPEB Liability	
Service Cost	\$ 22,123
Interest	11,086
Benefit Payments	(23,936)
Net Change in Total OPEB Liability	9,273
Total OPEB Liability - Beginning	325,693
Total OPEB Liability - Ending	\$ 334,966
 Covered-Employee Payroll	 \$ 850,102
 District's Total OPEB Liability as a Percentage of Covered-Employee Payroll	 39%

NOTE 1: The City implemented GASB Statement no. 75 in 2018, and the above table will be expanded to 10 years of information as the information becomes available.

NOTE 2: No assets are accumulated in a trust

CITY OF CROSSLAKE, MINNESOTA
SCHEDULE OF CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
YEAR ENDED DECEMBER 31, 2018

	Measurement Date June 30, 2018	Measurement Date June 30, 2017	Measurement Date June 30, 2016	Measurement Date June 30, 2015
PERA - General Employees Fund				
City's Proportion of the Net Pension Liability	0.0083%	0.0087%	0.0087%	0.0088%
City's Proportionate Share of the Net Pension Liability	\$ 460,450	\$ 555,402	\$ 706,397	\$ 456,062
State's Proportionate Share of the Net Pension Liability Associated with the City	<u>15,152</u>	<u>6,796</u>	<u>9,212</u>	<u>-</u>
Total City's Proportionate Share of the Net Pension Liability	\$ 475,602	\$ 562,198	\$ 715,609	\$ 456,062
City's Covered Payroll	\$ 555,286	\$ 561,436	\$ 538,587	\$ 519,617
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	82.92%	98.93%	131.16%	87.77%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.53%	75.90%	68.91%	78.20%
PERA - Police and Fire Fund				
City's Proportion of the Net Pension Liability	0.0298%	0.0340%	0.0350%	0.0340%
City's Proportionate Share of the Net Pension Liability	\$ 317,637	\$ 459,040	\$ 1,404,611	\$ 386,320
City's Covered Payroll	\$ 314,163	\$ 346,788	\$ 335,000	\$ 316,479
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	101.11%	132.37%	419.29%	122.07%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	88.84%	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, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
PERA - General Employees Fund					
Contractually Required Contribution	\$ 40,833	\$ 42,198	\$ 40,199	\$ 39,992	\$ 36,869
Contributions in Relation to the Contractually Required Contribution	<u>(40,833)</u>	<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>	<u>\$ -</u>
City's Covered Payroll	\$ 544,440	\$ 562,634	\$ 535,987	\$ 533,227	\$ 508,528
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.50%	7.50%	7.25%
PERA - Police and Fire Fund					
Contractually Required Contribution	\$ 52,169	\$ 53,144	\$ 53,492	\$ 52,917	\$ 46,185
Contributions in Relation to the Contractually Required Contribution	<u>(52,169)</u>	<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>	<u>\$ -</u>
City's Covered Payroll	\$ 322,028	\$ 328,049	\$ 330,198	\$ 326,649	\$ 301,862
Contributions as a Percentage of Covered Payroll	16.20%	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, 2018

	BUDGET ORIGINAL AND FINAL	ACTUAL	VARIANCE WITH BUDGET OVER (UNDER)
REVENUES			
Taxes	\$ 3,190,699	\$ 3,202,593	\$ 11,894
Licenses and Permits	52,300	82,830	30,530
Intergovernmental	103,679	258,287	154,608
Charges for Services	337,680	417,512	79,832
Fines and Forfeits	16,600	23,207	6,607
Special Assessments	14,990	23,681	8,691
Interest	30,500	137,378	106,878
Contributions and Donations	9,250	32,481	23,231
Miscellaneous	12,000	25,911	13,911
Total Revenues	<u>3,767,698</u>	<u>4,203,880</u>	<u>436,182</u>
EXPENDITURES			
Current			
General Government			
Mayor and Council	33,053	28,763	(4,290)
Administration	267,762	254,359	(13,403)
Elections	5,200	3,973	(1,227)
Audit and Legal	46,000	41,620	(4,380)
Planning and Zoning	238,474	223,322	(15,152)
Other General Government	131,875	143,890	12,015
Total General Government	<u>722,364</u>	<u>695,927</u>	<u>(26,437)</u>
Public Safety			
Police	622,758	583,720	(39,038)
Ambulance	-	9,283	9,283
Fire Protection	149,045	171,707	22,662
Total Public Safety	<u>771,803</u>	<u>764,710</u>	<u>(7,093)</u>
Public Works			
Engineering	30,000	1,518	(28,482)
Public Way Maintenance	538,600	466,243	(72,357)
Total Public Works	<u>568,600</u>	<u>467,761</u>	<u>(100,839)</u>
Culture and Recreation			
Library	75,801	31,758	(44,043)
Recreation	432,598	346,197	(86,401)
Total Culture and Recreation	<u>508,399</u>	<u>377,955</u>	<u>(130,444)</u>
Miscellaneous			
Recycling	35,980	32,646	(3,334)
Firemen's Relief Association	61,000	71,946	10,946
Cemetery	2,000	3,063	1,063
Total Miscellaneous	<u>98,980</u>	<u>107,655</u>	<u>8,675</u>
Debt Service			
Principal	194,220	194,268	48
Interest and Fiscal Charges	23,905	47,197	23,292
Total Debt Service	<u>218,125</u>	<u>241,465</u>	<u>23,340</u>
Capital Outlay			
Capital Improvements and Equipment	1,930,425	1,515,029	(415,396)
Total Expenditures	<u>4,818,696</u>	<u>4,170,502</u>	<u>(648,194)</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, 2018

	BUDGET ORIGINAL AND FINAL	ACTUAL	VARIANCE WITH BUDGET OVER (UNDER)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (1,050,998)	\$ 33,378	\$ 1,084,376
OTHER FINANCING SOURCES (USES)			
Transfers Out	(1,559,537)	(1,500,000)	59,537
Issuance of GO Bonds	1,001,800	695,000	(306,800)
Total Other Financing Sources (Uses)	(557,737)	(805,000)	(247,263)
NET CHANGE IN FUND BALANCE	\$ (1,608,735)	(771,622)	\$ 837,113
Fund Balance - Beginning of Year		8,771,687	
FUND BALANCE - END OF YEAR		\$ 8,000,065	

**CITY OF CROSSLAKE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
TAX INCREMENT FINANCING FUND
YEAR ENDED DECEMBER 31, 2018**

	<u>BUDGET ORIGINAL AND FINAL</u>	<u>ACTUAL</u>	<u>VARIANCE WITH BUDGET OVER (UNDER)</u>
REVENUES			
Tax Increments	\$ 11,000	\$ 12,480	\$ 1,480
EXPENDITURES			
Economic Development Current	<u>11,500</u>	<u>11,392</u>	<u>(108)</u>
NET CHANGE IN FUND BALANCE	<u><u>\$ (500)</u></u>	1,088	<u><u>\$ 1,588</u></u>
Fund Balance - Beginning of Year		<u>6,642</u>	
FUND BALANCE - END OF YEAR		<u><u>\$ 7,730</u></u>	

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2018**

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.

SUPPLEMENTARY INFORMATION

CITY OF CROSSLAKE, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT
DECEMBER 31, 2018

	Fund Level Total	Adjustments	Statement of Net Position
ASSETS			
Cash and Cash Equivalents	\$ 17,623	\$ -	\$ 17,623
Taxes Receivable	439	-	439
Total Assets	\$ 18,062	-	18,062
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES/NET POSITION			
Deferred Inflows of Resources			
Unavailable Revenue on Property Taxes	\$ 218	(218)	-
Fund Balance/Net Position			
Unassigned	17,844	(17,844)	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 18,062	(18,062)	
Net Position			
Unrestricted		18,062	18,062
Total Net Position of Component Unit (Page 14)		\$ 18,062	\$ 18,062

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
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, 2018

	<u>Fund Level Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures/Expenses	\$ 8,822	\$ -	\$ 8,822
Program Revenues			
Operating Grants and Contributions	<u>1,575</u>	<u>-</u>	<u>1,575</u>
Net Program Revenue (Expense)	(7,247)	-	(7,247)
General Revenues			
Taxes	<u>12,467</u>	<u>-</u>	<u>12,467</u>
Change in Net Position (Page 16)	5,220	-	5,220
Fund Balances/Net Position			
Beginning of Year	<u>12,624</u>	<u>218</u>	<u>12,842</u>
End of Year	<u>\$ 17,844</u>	<u>\$ 218</u>	<u>\$ 18,062</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, 2018 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued our report thereon dated April 15, 2019.

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing.

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

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of *the Minnesota Legal Compliance Audit Guide for Cities* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Brainerd, Minnesota
April 15, 2019