

CITY OF CROSSLAKE, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2021



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DECEMBER 31, 2021**

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INTRODUCTORY SECTION

**CITY OF CROSSLAKE, MINNESOTA
PRINCIPAL CITY OFFICIALS
DECEMBER 31, 2021**

ELECTED OFFICIALS

Position	Term Expires	Name
Mayor	12/31/2022	David Nevin
Council Member	12/31/2022	John Andrews
Council Member	12/31/2022	Dave Schrupp
Council Member	12/31/2024	Marcia Seibert Volz
Council Member	12/31/2024	Aaron Herzog

APPOINTED OFFICIALS

Position	Name
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

Report on the Audit of the Financial Statements

Opinions

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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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, 2021, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Honorable Mayor and
Members of the City Council
City of Crosslake

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Honorable Mayor and
Members of the City Council
City of Crosslake

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 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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.

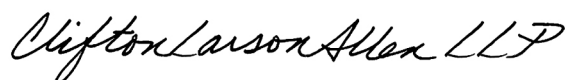
Supplementary Information

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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the reconciling fund financial statements for the economic development authority component unit are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Introductory Section but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.



CliftonLarsonAllen LLP

Brainerd, Minnesota
April 18, 2022

**CITY OF CROSSLAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021**

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, 2021. 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, 2021, and the prior year, 2020, 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 \$26,081,120 (net position).
- ◆ The City's total net position increased during the fiscal year by \$971,273.
- ◆ As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$8,313,345, an increase of \$80,928 in comparison with the prior year. Of the total amount, \$7,751,556 is available for spending at the City's discretion (unassigned/assigned fund balance). However, \$1,009,814 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).

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.

**CITY OF CROSSLAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021**

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-Wide Financial Statements (Continued)

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 schedules 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, 2021**

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 \$26,081,120 at the close of the most recent fiscal year.

By far, the largest portion of the City's net position (72%) 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				
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>2021</u>
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>Total</u>
Current and Other Assets	\$ 8,685,428	\$ 8,995,431	\$ 549,987	\$ 561,055	\$ 9,235,415
Capital Assets	19,040,806	17,690,607	6,567,962	6,810,492	25,608,768
Total Assets	<u>27,726,234</u>	<u>26,686,038</u>	<u>7,117,949</u>	<u>7,371,547</u>	<u>34,844,183</u>
Deferred Outflows of Resources	940,431	405,679	22,243	7,632	962,674
Long-Term Liabilities Outstanding	6,308,921	6,128,639	1,129,494	1,432,701	7,438,415
Other Liabilities	860,040	1,086,506	335,168	340,322	1,195,208
Total Liabilities	<u>7,168,961</u>	<u>7,215,145</u>	<u>1,464,662</u>	<u>1,773,023</u>	<u>8,633,623</u>
Deferred Inflows of Resources	1,070,547	370,308	21,567	2,573	1,092,114
Net Position					
Net Investment in Capital Assets	13,519,469	13,488,077	5,235,367	5,185,304	18,754,836
Restricted	481,777	410,461	492,936	467,968	974,713
Unrestricted	<u>6,425,911</u>	<u>5,607,726</u>	<u>(74,340)</u>	<u>(49,689)</u>	<u>6,351,571</u>
Total Net Position	<u>\$ 20,427,157</u>	<u>\$ 19,506,264</u>	<u>\$ 5,653,963</u>	<u>\$ 5,603,583</u>	<u>\$ 26,081,120</u>

There was an increase of \$920,893 and an increase of \$50,380 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, 2021**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Change in Net Position

The City's total net position increased by \$971,273. Key elements of this increase are as follows:

	Change in Net Position				
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>2021</u>
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>Total</u>
REVENUES					
Program Revenues					
Charges for Services	\$ 683,473	\$ 438,210	\$ 323,702	\$ 304,182	\$ 1,007,175
Operating Grants and Contributions	140,829	282,872	-	-	140,829
Capital Grants and Contributions	118,512	674,986	30,500	84,500	149,012
General Revenues					
Property Taxes	4,144,063	4,170,898	341,534	343,051	4,485,597
Other Taxes	13,275	12,161	-	-	13,275
Intergovernmental	390	442	-	-	390
Unrestricted Investment Earnings	5,372	88,300	-	275	5,372
Gain on Sale of Capital Assets	51,103	-	-	-	51,103
Miscellaneous	33,902	16,933	2,282	2,123	36,184
	<u>5,190,919</u>	<u>5,684,802</u>	<u>698,018</u>	<u>734,131</u>	<u>5,888,937</u>
EXPENSES					
General Government	1,311,125	1,337,080	-	-	1,311,125
Public Safety	1,293,941	1,212,291	-	-	1,293,941
Public Works	909,568	1,115,335	-	-	909,568
Culture and Recreation	583,688	601,563	-	-	583,688
Economic Development	12,171	11,155	-	-	12,171
Interest on Long-Term Debt	151,095	135,303	-	-	151,095
Sewer Utility	-	-	656,076	673,470	656,076
	<u>4,261,588</u>	<u>4,412,727</u>	<u>656,076</u>	<u>673,470</u>	<u>4,917,664</u>
CHANGE IN NET POSITION BEFORE TRANSFERS					
	929,331	1,272,075	41,942	60,661	971,273
Transfers	(8,438)	(154,713)	8,438	154,713	-
CHANGE IN NET POSITION					
	920,893	1,117,362	50,380	215,374	971,273
Net Position - Beginning of Year	19,506,264	18,388,902	5,603,583	5,388,209	25,109,847
NET POSITION - END OF YEAR	<u>\$ 20,427,157</u>	<u>\$ 19,506,264</u>	<u>\$ 5,653,963</u>	<u>\$ 5,603,583</u>	<u>\$ 26,081,120</u>

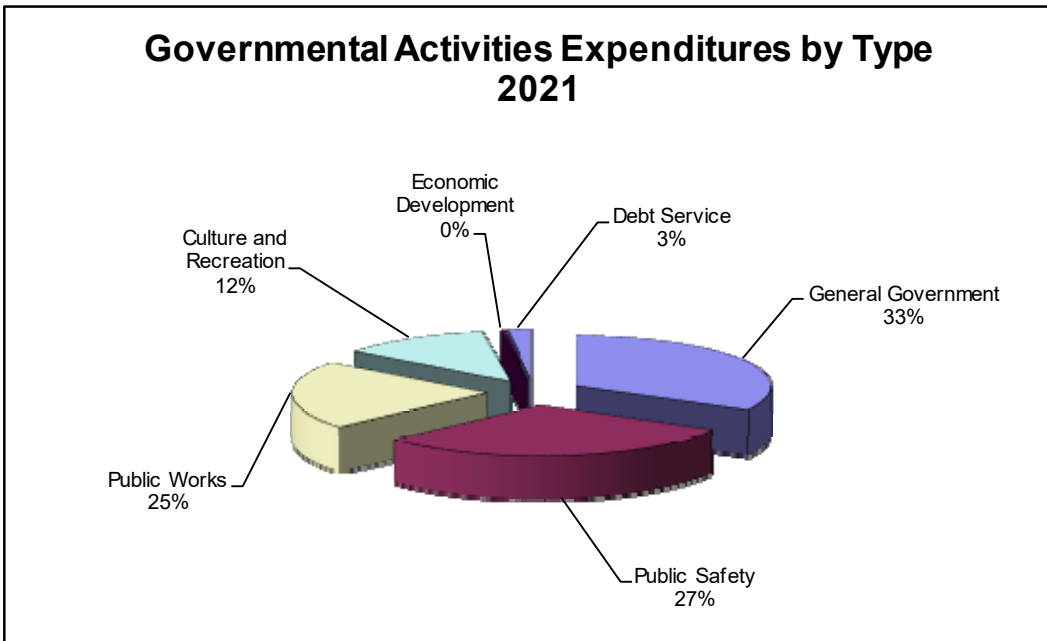
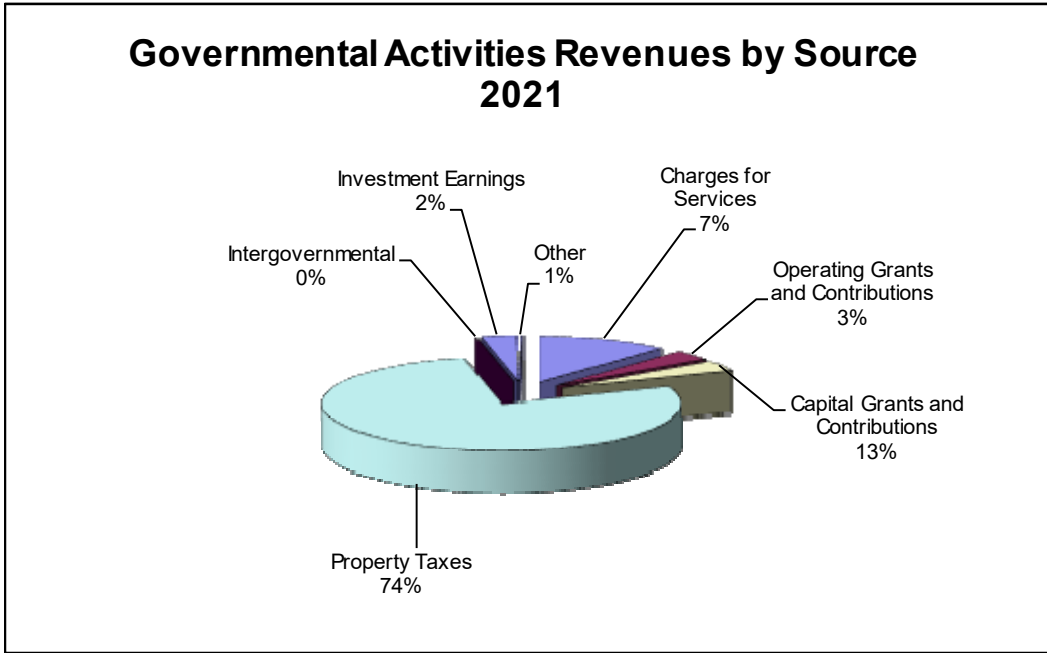
The increase in charges for services are due to an increase in plat fees, park dedication fees, payment in lieu of green fees and an increase in weight room fees due to being shut down part of the year in the prior year. Decrease in capital grants and contributions is due to a decrease in intergovernmental revenue received.

**CITY OF CROSSLAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Change in Net Position (Continued)

Governmental Activities – Governmental activities increased the City's net position by \$920,893 in 2021 as compared to an increase of \$1,117,362 in 2020.

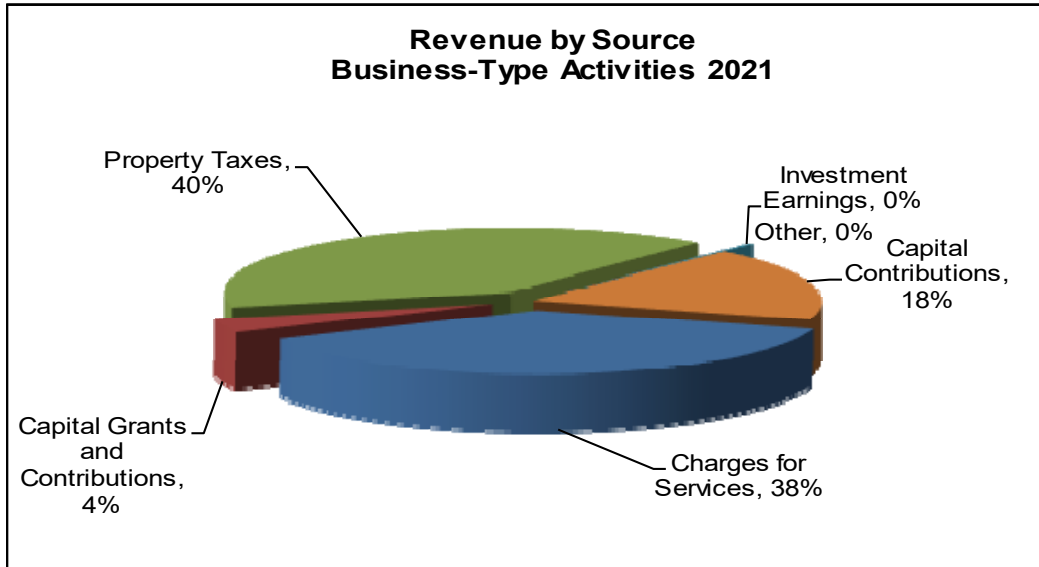
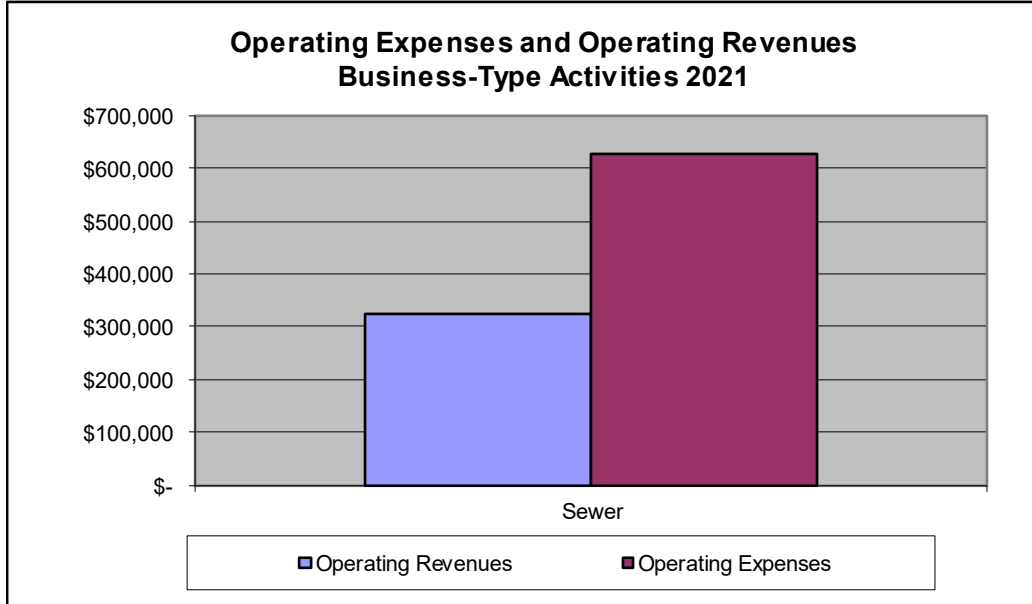


**CITY OF CROSSLAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Change in Net Position (Continued)

Business-Type Activities – Business-type activities increased the City's net position by \$50,380 in 2021 as compared to the \$215,374 increase in 2020.



**CITY OF CROSSLAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021**

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 \$8,313,345 an increase of \$80,928 in comparison with the prior year. Of this amount \$7,751,556 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 2021 (\$517,587). In addition, a portion of unassigned/assigned fund balance has been assigned by the City Council for future years' capital outlay (\$1,009,814).

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 \$7,751,556. Total fund balance was \$7,795,758. 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 74% of total 2021 General Fund expenditures. The fund balance of the City's General Fund Increased by \$1,545, during the current fiscal year.

Proprietary Fund – The City's proprietary fund provides the same type of information found in the business activities portion of the financial statements, but in more detail. During 2021, the City continued with the planning phase for the sanitary sewer extension along the CSAH 66 corridor. Construction in progress related to the sewer extension portion of this project totaled \$107,076 at December 31, 2021.

GENERAL FUND BUDGETARY HIGHLIGHTS

There was one budget revision during the year.

Revenues were over budget by \$369,890, or approximately 8.35% due in part to the following: \$89,362 of small city road assistance funded by the State of Minnesota after the budget was approved; recognized \$75,494 of fire service revenue for amounts charged for fighting wild fires in the State of Oregon; received an additional \$14,506 in grant funding, applied towards water quality projects; received \$10,000 in grant funding applied towards audio visual improvements in the Fire Hall; \$48,375 of additional receipts for building permits and related activity due to increased activity in construction; \$23,810 of police department donations; and \$50,097 of additional donations received in the parks department.

Expenditures were under budget by \$91,790, or approximately 1.57% due to changes in timing of capital expenditures.

**CITY OF CROSSLAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021**

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, 2021, amounts to \$25,608,768 (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		2021
	2021	2020	2021	2020	Total
Land	\$ 1,206,751	\$ 1,206,751	\$ 8,713	\$ 8,713	\$ 1,215,464
Construction in Progress	187,808	1,006,435	163,531	96,065	351,339
Buildings	7,305,447	5,687,703	2,072,268	2,189,011	9,377,715
Improvements Other than Buildings	443,050	513,245	17,743	17,743	460,793
Machinery and Equipment	2,969,531	2,065,097	9,860	(5,915)	2,979,391
Infrastructure	6,928,219	7,211,376	4,295,847	4,504,875	11,224,066
Total	\$ 19,040,806	\$ 17,690,607	\$ 6,567,962	\$ 6,810,492	\$ 25,608,768

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 \$5,541,282. Of this amount, \$5,529,309 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 \$11,973.

Governmental Activities Outstanding Long-Term Debt

	2021	2020
General Obligation Bonds	\$ 5,529,309	\$ 5,085,610
Capital Leases	11,973	15,597
Total	\$ 5,541,282	\$ 5,101,207

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).

Governmental Activities (Continued) – The City's total governmental activities debt increased by \$405,000 during the current fiscal year. This was due to new debt issued offset with scheduled debt payments.

Business-Type Activities – At the end of the current fiscal year, the business-type activities had total long-term debt of \$1,330,000, consisting of general obligation bonds. This decrease of \$290,000 (22%) from 2020 reflects the payments made on bonds in the current year.

**CITY OF CROSSLAKE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021**

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Debt (Continued)

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 6.00% from \$1,370,565,395 to \$1,495,335,455 and the taxable tax capacity increased 10.05% from \$14,776,988 to \$16,262,788 for taxes payable in 2022. These increases in values along with an overall increase in the City's levy request from 2021 resulted in a decrease of 2.888% in the City's tax rate from 30.357% to 27.469% for taxes payable in 2022.
- ◆ **2021-2022 WASTEWATER PLANT – CLARIFIER IMPROVEMENT PROJECT**
This project consists of tear down and replacement/rebuild of critical components in the wastewater plant in the clarifier section of the plant. Due to supply chain delays and availability of materials for the project, project completion has been extended to late 2022 and into early 2023. The City authorized issuance of up to \$556,000 general obligation revenue bonds to pay for the project and has held off on bond issuance until a firm construction schedule may be confirmed.
- ◆ **GRANT AWARDS**
On February 7, 2022 the City was notified it was awarded \$610,726 in Federal Funding under the Transportation Alternatives Grant Program. Grant funds are intended to be used in Fiscal 2026 to finance the City's Pedestrian Mobility Project – Phase I. Total estimated project costs for sidewalk improvements and crosswalks approximate \$1,000,000. The remainder of the project will be funded through a cost share agreement between Crow County and the City. The project location begins in the City's commercial district and extends into the CSAH 66 corridor.

These factors were taken into account by the City of Crosslake when preparing the 2022 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, 13888 Daggett Bay Road, Crosslake, Minnesota 56442.

BASIC FINANCIAL STATEMENTS

**CITY OF CROSSLAKE, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2021**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Economic Development Authority
ASSETS				
Cash and Investments	\$ 8,425,453	\$ -	\$ 8,425,453	\$ 7,081
Receivables:				
Taxes	143,278	12,007	155,285	490
Accounts	701	29,442	30,143	-
Special Assessments	63,749	-	63,749	-
Connection Charges	-	293	293	-
Due from Other Governments	8,045	-	8,045	-
Prepayments	44,202	3,431	47,633	-
Restricted Assets:				
Cash and Investments	-	504,814	504,814	-
Capital Assets:				
Land and Construction In Progress	1,394,559	172,244	1,566,803	-
Other Capital Assets, Net of Depreciation	17,646,247	6,395,718	24,041,965	-
Total Assets	<u>27,726,234</u>	<u>7,117,949</u>	<u>34,844,183</u>	<u>7,571</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension Related	886,886	19,827	906,713	-
OPEB Related	33,600	2,416	36,016	-
Loss on Refunding	19,945	-	19,945	-
Total Deferred Outflows	<u>940,431</u>	<u>22,243</u>	<u>962,674</u>	<u>-</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable	37,849	19,209	57,058	-
Accrued Liabilities	57,440	4,078	61,518	-
Accrued Interest Payable	53,291	11,878	65,169	-
Due to Other Governments	7,639	-	7,639	-
Other Postemployment Benefits	5,515	397	5,912	-
Unearned Revenue	142,386	-	142,386	-
Long-Term Liabilities				
Due within One Year	555,920	299,606	855,526	-
Due in More than One Year	5,173,236	1,073,979	6,247,215	-
Other Postemployment Benefits	454,669	32,686	487,355	-
Net Pension Liability	681,016	22,829	703,845	-
Total Liabilities	<u>7,168,961</u>	<u>1,464,662</u>	<u>8,633,623</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
Pension Related	1,065,666	21,216	1,086,882	-
OPEB Related	4,881	351	5,232	-
Total Deferred Inflows	<u>1,070,547</u>	<u>21,567</u>	<u>1,092,114</u>	<u>-</u>
NET POSITION				
Net Investment in Capital Assets	13,519,469	5,235,367	18,754,836	-
Restricted for:				
Tax Increment Financing	10,869	-	10,869	-
Debt Service	470,908	492,936	963,844	-
Unrestricted	6,425,911	(74,340)	6,351,571	7,571
Total Net Position	<u>\$ 20,427,157</u>	<u>\$ 5,653,963</u>	<u>\$ 26,081,120</u>	<u>\$ 7,571</u>

See accompanying Notes to Financial Statements.

**CITY OF CROSSLAKE, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2021**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
General Government	\$ 1,311,125	\$ 239,467	\$ 5,247	\$ 2,870
Public Safety	1,293,941	194,589	85,484	-
Public Works	909,568	144,874	-	113,868
Culture and Recreation	583,688	104,543	50,098	847
Economic Development	12,171	-	-	-
Interest on Long-Term Debt	151,095	-	-	927
Total Governmental Activities	<u>4,261,588</u>	<u>683,473</u>	<u>140,829</u>	<u>118,512</u>
Business-Type Activities:				
Sewer	656,076	323,702	-	30,500
Total Business-Type Activities	<u>656,076</u>	<u>323,702</u>	<u>-</u>	<u>30,500</u>
Total Primary Government	<u>\$ 4,917,664</u>	<u>\$ 1,007,175</u>	<u>\$ 140,829</u>	<u>\$ 149,012</u>
Component Unit:				
Economic Development Authority	<u>\$ 10,925</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues:

Taxes:

 Property Taxes, Levied for General Purpose

 Other Taxes

Intergovernmental Revenues

Unrestricted Investment Earnings

Gain on Sale of Capital Assets

Miscellaneous

Transfers

 Total General Revenues

 Change in Net Position

Net Position - Beginning of Year

Net Position - End of Year

See accompanying Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Economic Development Authority
\$ (1,063,541)	\$ -	\$ (1,063,541)	\$ -
(1,013,868)	-	(1,013,868)	-
(650,826)	-	(650,826)	-
(428,200)	-	(428,200)	-
(12,171)	-	(12,171)	-
(150,168)	-	(150,168)	-
<u>(3,318,774)</u>	-	<u>(3,318,774)</u>	-
-	(301,874)	(301,874)	-
-	(301,874)	(301,874)	-
<u>(3,318,774)</u>	<u>(301,874)</u>	<u>(3,620,648)</u>	-
-	-	-	(10,925)
4,144,063	341,534	4,485,597	15,981
13,275	-	13,275	-
390	-	390	-
5,372	-	5,372	-
51,103	-	51,103	-
33,902	2,282	36,184	-
(8,438)	8,438	-	-
<u>4,239,667</u>	<u>352,254</u>	<u>4,591,921</u>	<u>15,981</u>
920,893	50,380	971,273	5,056
19,506,264	5,603,583	25,109,847	2,515
<u>\$ 20,427,157</u>	<u>\$ 5,653,963</u>	<u>\$ 26,081,120</u>	<u>\$ 7,571</u>

**CITY OF CROSSLAKE, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2021**

ASSETS	General Fund	Tax Increment Financing Fund	Debt Service Fund	Total Governmental Funds
Cash and Investments	\$ 7,916,130	\$ 10,869	\$ 498,454	\$ 8,425,453
Receivables:				
Taxes	129,580	-	13,698	143,278
Special Assessments	51,702	-	12,047	63,749
Accounts	701	-	-	701
Due from Other Governments	8,045	-	-	8,045
Prepayments	44,202	-	-	44,202
Total Assets	\$ 8,150,360	\$ 10,869	\$ 524,199	\$ 8,685,428
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 37,849	\$ -	\$ -	\$ 37,849
Accrued Liabilities	59,458	-	-	59,458
Unearned Revenue	142,386	-	-	142,386
Due to Other Governments	7,639	-	-	7,639
Total Liabilities	247,332	-	-	247,332
Deferred Inflows of Resources:				
Unavailable Revenue on Property Taxes	55,677	-	5,434	61,111
Unavailable Revenue on Special Assessments	51,593	-	12,047	63,640
Total Deferred Inflows of Resources	107,270	-	17,481	124,751
Fund Balances:				
Nonspendable for:				
Prepayments	44,202	-	-	44,202
Restricted for:				
Debt Service	-	-	506,718	506,718
Tax Increment Financing	-	10,869	-	10,869
Assigned for:				
Capital Outlay	1,009,814	-	-	1,009,814
Unassigned:				
General Fund	6,741,742	-	-	6,741,742
Total Fund Balances	7,795,758	10,869	506,718	8,313,345
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 8,150,360	\$ 10,869	\$ 524,199	\$ 8,685,428

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, 2021**

TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS **\$ 8,313,345**

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	\$ 1,206,751	
Construction in Progress	187,808	
Capital Assets, Being Depreciated	30,339,433	
Accumulated Depreciation	<u>(12,693,186)</u>	19,040,806

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. 124,751

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. (53,291)

The loss on refunding is reported as a deferred outflow on the Statement of Net Position and amortized over the life of the bonds. 19,945

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	(681,016)	
Deferred Inflows of Resources - Pension Related	(1,065,666)	
Deferred Outflows of Resources - Pension Related	<u>886,886</u>	(859,796)

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

Other Postemployment Benefits Payable	(460,184)	
OPEB deferred outflows are reported only on the Statement of Net Position.	33,600	
OPEB deferred inflows are reported only on the Statement of Net Position.	<u>(4,881)</u>	(431,465)

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	(5,455,000)	
Unamortized Discounts/ Premiums	(74,309)	
Compensated Absences Payable	(185,856)	
Obligations Under Capital Leases	<u>(11,973)</u>	<u>(5,727,138)</u>

TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 20,427,157**

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, 2021

	General Fund	Tax Increment Financing Fund	Debt Service Fund	Total Governmental Funds
REVENUES				
Taxes	\$ 3,720,767	\$ -	\$ 420,327	\$ 4,141,094
Tax Increments	-	13,275	-	13,275
Licenses and Permits	110,175	-	-	110,175
Intergovernmental	221,783	-	-	221,783
Charges for Services	521,108	-	-	521,108
Fines and Forfeits	55,633	-	-	55,633
Special Assessments	16,537	-	1,789	18,326
Interest	5,372	-	-	5,372
Contributions and Donations	91,455	-	-	91,455
Miscellaneous	58,649	-	-	58,649
Total Revenues	<u>4,801,479</u>	<u>13,275</u>	<u>422,116</u>	<u>5,236,870</u>
EXPENDITURES				
Current				
General Government	714,622	-	-	714,622
Public Safety	1,029,424	-	-	1,029,424
Public Works	475,484	-	-	475,484
Culture and Recreation	468,822	-	-	468,822
Economic Development	-	12,171	-	12,171
Miscellaneous	80,036	-	-	80,036
Capital Outlay	2,734,588	-	-	2,734,588
Debt Service				
Principal Retirement	203,624	-	260,000	463,624
Bond Issuance Costs	24,250	-	-	24,250
Interest and Fiscal Charges	12,410	-	94,846	107,256
Total Expenditures	<u>5,743,260</u>	<u>12,171</u>	<u>354,846</u>	<u>6,110,277</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(941,781)	1,104	67,270	(873,407)
OTHER FINANCING SOURCES (USES)				
Issuance of GO Bonds	853,991	-	11,009	865,000
Bond Premium	46,670	-	-	46,670
Proceeds from Sale of Capital Assets	51,103	-	-	51,103
Transfers Out	(8,438)	-	-	(8,438)
Total Other Financing Sources (Uses)	<u>943,326</u>	<u>-</u>	<u>11,009</u>	<u>954,335</u>
NET CHANGE IN FUND BALANCES	1,545	1,104	78,279	80,928
Fund Balances - Beginning of Year	<u>7,794,213</u>	<u>9,765</u>	<u>428,439</u>	<u>8,232,417</u>
FUND BALANCES - END OF YEAR	<u>\$ 7,795,758</u>	<u>\$ 10,869</u>	<u>\$ 506,718</u>	<u>\$ 8,313,345</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, 2021**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 80,928

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	\$ 2,609,373	
Depreciation Expense	<u>(1,259,174)</u>	1,350,199

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	3,624	3,624
--------------------------------------	-------	-------

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	460,000	
Bond Proceeds	(865,000)	
Change in Accrued Interest Expense for General Obligation Bonds	(7,616)	
Bond Premium	(46,670)	
Amortization of Bond Discount/Premium	<u>7,971</u>	(451,315)

Pension expenditures in the governmental funds are measured by current year employee contributions. Pension expenses on the Statement of Activities are measured by the change in Net Pension Liability and the related deferred inflows and outflows of resources. 121,732

Other Postemployment Benefit expenditures in the governmental funds are measured by current year employee contributions. Other Postemployment Benefit expenses on the Statement of Activities are measured by the change in Other Postemployment Benefits and the related deferred inflows and outflows of resources. (52,604)

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		(14,673)
Amortization of Loss on Refunding Bonds		(19,944)

Delinquent property taxes, special assessments receivable and unavailable grant revenue 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, 2020	(221,805)	
Unavailable Revenue - December 31, 2021	<u>124,751</u>	<u>(97,054)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 920,893

See accompanying Notes to Financial Statements.

**CITY OF CROSSLAKE, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2021**

	Sewer Fund
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
CURRENT ASSETS	
Receivables	
Accounts Receivable	\$ 29,442
Taxes	6,821
Connection Charges	293
Prepayments	3,431
Total Current Assets	39,987
NONCURRENT ASSETS	
Taxes Receivable	5,186
Restricted Assets	
Cash and Investments	504,814
Capital Assets	
Land	8,713
Building and Improvements	3,700,912
Machinery and Equipment	320,134
Sanitary Sewers	6,157,219
Construction-in-Progress	163,531
Subtotal Capital Assets	10,350,509
Less: Accumulated Depreciation	(3,782,547)
Net Capital Assets	6,567,962
Total Noncurrent Assets	7,077,962
Total Assets	7,117,949
DEFERRED OUTFLOWS OF RESOURCES	
Pension Related	19,827
OPEB Related	2,416
Total Deferred Outflows of Resources	22,243
Total Assets and Deferred Outflows of Resources	\$ 7,140,192

See accompanying Notes to Financial Statements.

**CITY OF CROSSLAKE, MINNESOTA
STATEMENT OF NET POSITION (CONTINUED)
PROPRIETARY FUND
DECEMBER 31, 2021**

	Sewer Fund
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	
CURRENT LIABILITIES	
Accounts Payable	\$ 19,209
Salaries and Wages Payable	3,667
Other Postemployment Benefits Payable	397
Customer Deposits	411
Accrued Compensated Absences	4,606
Total Current Liabilities	28,290
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS	
Accrued Interest Payable	11,878
Revenue Bonds Payable	295,000
Total Current Liabilities Payable from Restricted Assets	306,878
LONG-TERM LIABILITIES	
Bonds Payable, Net	1,037,594
Net Pension Liability	22,829
Accrued Compensated Absences	36,385
Other Postemployment Benefits Payable	32,686
Total Long-Term Liabilities	1,129,494
DEFERRED INFLOWS OF RESOURCES	
Pension Related	21,216
OPEB Related	351
Total Deferred Inflows of Resources	21,567
Total Liabilities and Deferred Inflows of Resources	1,486,229
NET POSITION	
Net Investment in Capital Assets	5,235,367
Restricted For:	
Debt Service	492,936
Unrestricted	(74,340)
Total Net Position	5,653,963
Total Net Position, Liabilities, and Deferred Inflows of Resources	\$ 7,140,192

**CITY OF CROSSLAKE, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2021**

	Sewer Fund
OPERATING REVENUES	
Sales and Charges for Services	\$ 323,702
OPERATING EXPENSES	
Personal Services	131,003
Supplies	16,079
Repairs and Maintenance	67,774
Other Services and Charges	100,434
Depreciation	313,996
Total Operating Expenses	629,286
OPERATING LOSS	(305,584)
NONOPERATING REVENUES (EXPENSES)	
Property Taxes	341,534
Sewer Connection Fees	30,500
Interest Expense	(26,790)
Miscellaneous Revenues	2,282
Total Nonoperating Revenues (Expenses)	347,526
INCOME BEFORE TRANSFERS	41,942
Transfers In	8,438
CHANGE IN NET POSITION	50,380
Net Position - Beginning of Year	5,603,583
NET POSITION - END OF YEAR	\$ 5,653,963

See accompanying Notes to Financial Statements.

**CITY OF CROSSLAKE, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2021**

	Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 320,757
Cash Paid to Employees for Services	(134,991)
Cash Paid to Suppliers for Goods and Services	(188,704)
Net Cash Used by Operating Activities	(2,938)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Miscellaneous Revenues	2,282
Transfers from Other Funds	8,438
Net Cash Provided by Noncapital Financing Activities	10,720
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and Construction of Capital Assets	(71,466)
Property Taxes Received	344,351
Collection of Connection Charges	33,925
Interest Paid	(31,584)
Principal Payments on Long-Term Debt	(290,000)
Net Cash Used by Capital and Related Financing Activities	(14,774)
NET DECREASE IN CASH AND INVESTMENTS	(6,992)
Cash and Investments - Beginning of Year	511,806
CASH AND INVESTMENTS - END OF YEAR	\$ 504,814

See accompanying Notes to Financial Statements.

**CITY OF CROSSLAKE, MINNESOTA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2021**

	Sewer Fund
RECONCILIATION OF OPERATING LOSS TO CASH FLOWS FROM OPERATING ACTIVITIES	
Operating Loss	\$ (305,584)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation	313,996
(Increase) Decrease in Assets:	
Accounts Receivable	(2,945)
Deferred Outflows of Resources - Pension	(13,601)
Deferred Outflows of Resources - OPEB	(1,010)
Prepayments	779
Increase (Decrease) in Liabilities:	
Accounts Payable	(5,196)
Accrued Liabilities	637
Accrued Compensated Absences	(3,538)
Net Pension Liability	(7,273)
Deferred Inflows of Resources - Pension	19,161
Deferred Inflows of Resources - OPEB	(167)
Other Postemployment Benefits Payable	1,803
Net Cash Used by Operating Activities	\$ (2,938)
 RECONCILIATION OF CASH AND INVESTMENTS TO THE STATEMENT OF NET POSITION	
Restricted Assets	
Cash and Investments	\$ 504,814

See accompanying Notes to Financial Statements.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

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, 2021**

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, 2021**

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 increments 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, 2021**

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, 2021**

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. 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 included as 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, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

3. Accounts Receivable

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

4. 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 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.

5. 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, 2021**

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)

6. 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 \$5,000 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 acquisition 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.

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

Assets	Years
Land Improvements	5 to 25
Buildings and Building Improvements	10 to 40
Equipment and Furniture	3 to 25
Infrastructure and Sanitary Sewers	25 to 40

7. 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, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

8. 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.

9. 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. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

10. 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.

11. 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, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

12. Equity

Fund Balance – 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 required to be established, modified or rescinded by resolution of the City Council prior to each year-end.

Assigned fund balance is established, modified, or rescinded by the City Administrator/Treasurer and City Clerk and subject to final approval 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.

Net Position – Net position represents the difference between assets, deferred inflows, deferred outflows, and liabilities in the government-wide and proprietary fund financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any debt used to build or acquire the capital asset. Net position is reported as restricted in government-wide and proprietary fund financial statements when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. When restricted and unrestricted net position is available for an expense, it is the City's policy to use restricted first and then unrestricted.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

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

B. Excess of Expenditures Over Appropriations

Expenditures exceeded budgeted amounts in the following funds at December 31, 2021:

	Expenditures	Budget	Excess
Tax Increment Financing Fund	\$ 12,171	\$ 11,500	\$ 671

All expenditures in excess of budget were considered to be crucial to operations and were approved by the City Council.

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits

The City maintains a cash and investment pool that is available for use by all funds. 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, 2021 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, 2021**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Investments

The City has 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, 2021 are as follows:

<u>Investment Type</u>	<u>Total</u>	<u>12 Months or Less</u>
Minnesota Municipal Money Market Fund 4M Liquid Asset Fund	\$ 7,550,159	\$ 7,550,159
Minnesota Municipal Money Market Fund 4M Plus	1,232,550	1,232,550
Total	<u>\$ 8,782,709</u>	<u>\$ 8,782,709</u>

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Investments (Continued)

The City's investment with the 4M fund is regulated by Minnesota Statutes and the Board of Directors of the League of Minnesota Cities. The 4M fund is an unrated external investment pool and the fair value of the position in the pool is the same as the value of pool shares. The pool is valued at amortized cost. For this investment pool, there are no restrictions on withdrawals from the 4M Liquid Asset Fund, which may be affected on a same day basis. All investments in the 4M PLUS Fund must be deposited for a minimum of 14 calendar days. Withdrawals prior to the 14-day restriction period will be subject to a penalty equal to 7 days interest on the amount withdrawn.

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

The deposits and investments are presented in these financial statements:

Deposits	\$ 154,639
Investments	8,782,709
Total Cash and Investments	<u>\$ 8,937,348</u>
Cash and Investments - Governmental Funds	\$ 8,425,453
Cash and Investments - Proprietary Funds	504,814
Cash and Investments - Component Unit	7,081
Total Cash and Investments	<u>\$ 8,937,348</u>

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

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, 2021, restricted cash and investments consisted of the following:

Restricted Assets - Cash and Investments	
Restricted for Debt Service - Sewer Fund	\$ 504,814

4. Capital Assets

Capital asset activity for the Primary Government for the year ended December 31, 2021, is as follows:

	Beginning Balance	Increases	Decreases/ Adjustments	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets, Not Being Depreciated				
Land	\$ 1,206,751	\$ -	\$ -	\$ 1,206,751
Construction in Progress	1,006,435	1,214,121	(2,032,748)	187,808
Total Capital Assets, Not Being Depreciated	2,213,186	1,214,121	(2,032,748)	1,394,559
Capital Assets, Being Depreciated				
Buildings	7,954,897	1,922,401	-	9,877,298
Improvements Other Than Buildings	1,156,786	-	-	1,156,786
Machinery and Equipment	4,718,596	1,291,317	(225,212)	5,784,701
Infrastructure	13,306,366	214,282	-	13,520,648
Total Capital Assets, Being Depreciated	27,136,645	3,428,000	(225,212)	30,339,433
Less Accumulated Depreciation for				
Buildings	(2,267,194)	(304,657)	-	(2,571,851)
Improvements Other Than Buildings	(643,541)	(70,195)	-	(713,736)
Machinery and Equipment	(2,653,499)	(386,883)	225,212	(2,815,170)
Infrastructure	(6,094,990)	(497,439)	-	(6,592,429)
Total Accumulated Depreciation	(11,659,224)	(1,259,174)	225,212	(12,693,186)
Total Capital Assets, Being Depreciated, Net	15,477,421	2,168,826	-	17,646,247
Governmental Activities Capital Assets, Net	\$ 17,690,607	\$ 3,382,947	\$ (2,032,748)	\$ 19,040,806

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases/ Adjustments	Ending Balance
BUSINESS-TYPE ACTIVITIES				
Capital Assets, Not Being Depreciated				
Land	\$ 8,713	\$ -	\$ -	\$ 8,713
Construction in Progress	96,065	67,466	-	163,531
Total Capital Assets, Not Being Depreciated	104,778	67,466	-	172,244
Capital Assets, Being Depreciated				
Buildings and Improvements	3,696,912	4,000	-	3,700,912
Machinery and Equipment	320,134	-	-	320,134
Sanitary Sewers	6,157,219	-	-	6,157,219
Total Capital Assets, Being Depreciated	10,174,265	4,000	-	10,178,265
Less Accumulated Depreciation for				
Buildings and Improvements	(1,518,822)	(92,079)	-	(1,610,901)
Machinery and Equipment	(297,385)	(12,889)	-	(310,274)
Sanitary Sewers	(1,652,344)	(209,028)	-	(1,861,372)
Total Accumulated Depreciation	(3,468,551)	(313,996)	-	(3,782,547)
Total Capital Assets, Being Depreciated, Net	6,705,714	(309,996)	-	6,395,718
Business-Type Activities Capital Assets, Net	\$ 6,810,492	\$ (242,530)	\$ -	\$ 6,567,962

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

Governmental Activities	
General Government	\$ 522,125
Public Safety	239,737
Public Works	359,392
Culture and Recreation	137,920
Total Depreciation Expense - Governmental Activities	<u>\$ 1,259,174</u>
Business-Type Activities	
Sewer	\$ 313,996
Total Depreciation Expense - Business-Type Activities	<u>\$ 313,996</u>

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

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	\$ 1,015,000
G.O. Disposal System Bonds, Series 2017A	1.15-2.30%	1,015,000	730,000
G.O. Street Reconstruction Bonds, Series 2018A	2.75-3.25%	695,000	540,000
G.O. CIP Bonds, Series 2019A	2.00-2.125%	3,815,000	3,635,000
CERTIFICATES OF INDEBTEDNESS			
G.O. Equipment Certificate of Indebtedness, Series 2021A	2.00%	865,000	865,000
Total Primary Government General Obligation Bonds		<u>\$ 10,700,000</u>	<u>\$ 6,785,000</u>

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

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, 2021, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
PRIMARY GOVERNMENT					
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds	\$ 5,050,000	\$ -	\$ (460,000)	\$ 4,590,000	\$ 515,000
Unamortized Premiums and Discounts	35,610	46,670	(7,971)	74,309	-
GO Equipment Certificates - Direct Placement	-	865,000	-	865,000	-
Total Bonds Payable	5,085,610	911,670	(467,971)	5,529,309	515,000
Capital Leases Payable	15,597	-	(3,624)	11,973	3,697
Compensated Absences	173,201	211,731	(197,058)	187,874	37,223
Governmental Activity Long-Term Liabilities	\$ 5,274,408	\$ 1,123,401	\$ (668,653)	\$ 5,729,156	\$ 555,920
BUSINESS-TYPE ACTIVITIES					
General Obligation Bonds	\$ 1,620,000	\$ -	\$ (290,000)	\$ 1,330,000	\$ 295,000
Unamortized Premiums	5,188	-	(2,594)	2,594	-
Total Bonds Payable	1,625,188	-	(292,594)	1,332,594	295,000
Compensated Absences	44,529	42,588	(46,126)	40,991	4,606
Business-Type Activity Long-Term Liabilities	\$ 1,669,717	\$ 42,588	\$ (338,720)	\$ 1,373,585	\$ 299,606

Annual debt service requirements to maturity for general obligation bonds of the Primary Government are as follows:

	General Obligation Bonds			General Obligation Bonds	
	Governmental Activities			Business-Type Activities	
	Principal	Interest		Principal	Interest
2022	\$ 515,000	\$ 94,028	2022	\$ 295,000	\$ 25,651
2023	525,000	82,101	2023	300,000	19,533
2024	320,000	72,244	2024	305,000	12,794
2025	325,000	64,669	2025	105,000	8,205
2026	335,000	56,913	2026	105,000	6,053
2027-2031	1,400,000	186,900	2027-2031	220,000	5,005
2032-2035	1,170,000	48,934	2032-2035	-	-
Total	\$ 4,590,000	\$ 605,789	Total	\$ 1,330,000	\$ 77,241

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

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 of the Primary Government are as follows (continued):

General Obligation Equipment Certificates - Direct Placement			
	Governmental Activities		
	Principal	Interest	
2022	\$ -	\$	13,215
2023	120,000		17,300
2024	120,000		14,900
2025	125,000		12,500
2026	125,000		10,000
2027-2029	375,000		15,000
Total	<u>\$ 865,000</u>	<u>\$</u>	<u>82,915</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 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.

In 2019, the City issued \$3,815,000 in in General Obligation Capital Improvement Plan Bonds, Series 2019A. The bonds were issued to finance the new City Administration/Police Center and Fire Hall renovation projects.

In 2021, the City issued \$865,000 in General Obligation Equipment Certificates, Series 2021A. The bonds were issued to finance the purchase of a new fire truck.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

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 2019, the City entered into a lease agreement for a copier for the Library, Parks, and Community Center departments. In 2020, the City entered into a lease agreement for a copier for the Administration and Planning & Zoning departments and another lease agreement for a copier for the Police department. 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	\$ 18,559
Less: Accumulated Depreciation	(5,938)
Total	\$ 12,621

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2021, were as follows:

<u>Year Ending December 31,</u>	
2022	\$ 3,904
2023	3,905
2024	3,316
2025	1,250
Total Minimum Lease Payments	12,375
Less: Amount Representing Interest	(402)
Present Value of Minimum Lease Payments	\$ 11,973

2. Conduit Debt Obligations

The City issued conduit debt to provide financial assistance for the construction of a charter school building. The bonds are payable by Lakes Area Kids Enrichment Foundation, a Minnesota nonprofit corporation. Upon repayment of the facilities bonds, ownership of the facilities transfers to the nonprofit. None of these bonds constitutes a debt of the City; accordingly, they have not been reported as liabilities in the accompanying financial statements. At December 31, 2021, \$5,791,255 of Educational Facilities Revenue Notes existed.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

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

1. General Employees Retirement Plan

The General Employees Retirement Plan covers certain full time and part-time employees of the City. 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, 2021**

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. 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

General Employees Plan 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 Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% for each of the first 10 years of service and 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years 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.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1% and a maximum of 1.5%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. Police and Fire Benefits

Benefits for 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. The postretirement increase is fixed at 1%. Recipients that have been receiving the annuity or benefit for at least 36 months as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

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

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2021 and the City was required to contribute 7.50% for Coordinated Plan members. The City's contributions to the General Employees Fund for the year ended December 31, 2021, were \$56,210. 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, 2021**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. Contributions (Continued)

2. Police and Fire Fund Contributions

Police and Fire Plan members were required to contribute 11.80% of their annual covered salary in fiscal year 2021 and the City was required to contribute 17.70% for Police and Fire Plan members. The City's contributions to the Police and Fire Fund for the year ended December 31, 2021, were \$70,533. The City's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

1. General Employees Fund Pension Costs

At December 31, 2021, the City reported a liability of \$439,857 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$13,414.

The net pension liability was measured as of June 30, 2021, 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 proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2020 through June 30, 2021, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0103% at the end of the measurement period and 0.0096% for the beginning of the period.

City's Proportionate Share of the Net Pension Liability	\$	439,857
State of Minnesota's Proportionate Share of the Net Pension Liability with the City		13,414
	<u>\$</u>	<u>453,271</u>

For the year ended December 31, 2021, the City recognized pension expense of \$26,956 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$1,082 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 OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. General Employees Fund Pension Costs (Continued)

At December 31, 2021, 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	\$ 2,702	\$ 13,461
Changes of Assumptions	268,567	9,730
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	380,934
Changes in Proportion	82,896	4,667
City Contributions Made Subsequent to the Measurement Date	27,858	-
Total	<u>\$ 382,023</u>	<u>\$ 408,792</u>

The \$27,858 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, 2022. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	Pension Expense Amount
2022	\$ 12,536
2023	29,521
2024	7,218
2025	(103,902)

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs

At December 31, 2021, the City reported a liability of \$263,988 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2021, 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 proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2020 through June 30, 2021, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0342% at the end of the measurement period and 0.0319% for the beginning of the period.

The State of Minnesota contributed \$18 million to the Police and Fire Fund in the plan fiscal year ended June 30, 2021. The contribution consisted of \$9 million in direct state aid that does meet the definition of a special funding situation and \$9 million in supplemental state aid that does not meet the definition of a special funding situation. The \$9 million direct state aid was paid on October 1, 2020. Thereafter, by October 1 of each year, the state will pay \$9 million to the Police and Fire Fund until full funding is reached or July 1, 2048, whichever is earlier. The \$9 million in supplemental state aid will continue until the fund is 90% funded, or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90% funded, whichever occurs later. Strong asset returns for the fiscal year ended 2021 will accelerate the phasing out of these state contributions, although we do not anticipate them to be phased out during the fiscal year ending 2022.

The State of Minnesota is included as a non-employer contributing entity in the Police and Fire Retirement Plan Schedule of Employer Allocations and Schedule of Pension Amounts by Employer, Current Reporting Period Only (pension allocation schedules) for the \$9 million in direct state aid. Police and Fire Plan employers need to recognize their proportionate share of the State of Minnesota's pension expense (and grant revenue) under GASB 68 special funding situation accounting and financial reporting requirements. For the year ended June 30, 2021, the City recognized pension expense (revenue) of \$(20,237) for its proportionate share of the Police and Fire Plan's pension expense. The City recognized \$2,159 as grant revenue for its proportionate share of the State of Minnesota's pension expense for the contribution of \$9 million to the Police and Fire Fund.

The State of Minnesota is not included as a non-employer contributing entity in the Police and Fire Pension Plan pension allocation schedules for the \$9 million in supplemental state aid. The City recognized \$11,856 for the year ended December 31, 2021 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.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. Police and Fire Fund Pension Costs (Continued)

City's Proportionate Share of the Net Pension Liability	\$ 263,988
State of Minnesota's Proportionate Share of the Net Pension Liability with the City	11,856
	<u>\$ 275,844</u>

At December 31, 2021, the City reported its proportionate share of the Police and Fire 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	\$ 50,702	\$ -
Changes of Assumptions	387,993	145,045
Net Difference Between Projected and Actual Earnings on Pension Plan	-	504,414
Changes in Proportion	51,754	28,631
City Contributions Made Subsequent to the Measurement Date	34,241	-
Total	<u>\$ 524,690</u>	<u>\$ 678,090</u>

The \$34,241 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, 2022. 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
2022	\$ (181,068)
2023	(33,473)
2024	(20,620)
2025	(43,793)
2026	91,313

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

Total Pension Expense

The aggregate amount of net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense (revenue) for the City's defined benefit plans are summarized below.

	General <u>Employee Fund</u>	Police and Fire <u>Fund</u>	<u>Total</u>
Net Pension Liability	\$ 439,857	\$ 263,988	\$ 703,845
Deferred Outflows of Resources			
Related to Pension	382,023	524,690	906,713
Deferred Inflows of Resources			
Related to Pension	408,792	678,090	1,086,882
Pension Expense (Revenue)	28,038	(18,078)	9,960

E. Long-Term Expected Return on Investment

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	33.5 %	5.10 %
International Equity	16.5	5.30
Fixed Income	25.0	0.75
Private Markets	25.0	5.90
Totals	<u>100.0 %</u>	

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

F. Actuarial Methods and Assumptions

The total pension liability in the June 30, 2021, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.5%. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.5% was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25% for the General Employees Plan and 2.25% for the Police and Fire Plan. Benefit increases after retirement are assumed to be 1.25% for the General Employees Plan. The Police and Fire Plan benefit increase is fixed at 1% per year and that increase was used in the valuation.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25% after one year of service to 3.0% after 29 years of service and 6.0% per year thereafter. In the Police and Fire Plan, salary growth assumptions range from 11.75% after one year of service to 3.0% after 24 years of service.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. Mortality rates for the Police and Fire Plan are based on the Pub-2010 Public Safety Employee Mortality tables. The tables are adjusted slightly to fit PERA's experience.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020 actuarial valuation. The most recent four-year experience studies for the Police and Fire Plan were completed in 2020 were adopted by the Board and became effective with the July 1, 2021 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2021:

General Employees Fund

Changes in Actuarial Assumptions:

- The investment return and single discount rates were changed from 7.50% to 6.50%, for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

Changes in Plan Provisions:

- There were no changes in plan provisions since the previous valuation.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

F. Actuarial Methods and Assumptions (Continued)

Police and Fire Fund

Changes in Actuarial Assumptions:

- The investment return and single discount rates were changed from 7.50% to 6.50%, for financial reporting purposes.
- The inflation assumption was changed from 2.50% to 2.25%.
- The payroll growth assumption was changed from 3.25% to 3.00%.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from MP-2019 to MN-2020.
- The base mortality table for disabled annuitants was changed from the RP-2014 healthy annuitant mortality table (with future mortality improvement according to Scale MP-2019) to the Pub-2010 Public Safety disabled annuitant mortality table (with future mortality improvement according to Scale MP-2020).
- Assumed rates of salary increase were modified as recommended in the July 14, 2020 experience study. The overall impact is a decrease in gross salary increase rates.
- Assumed rates of retirement were changed as recommended in the July 14, 2020 experience study. The changes result in slightly more unreduced retirements and fewer assumed early retirements.
- Assumed rates of withdrawal were changed from select and ultimate rates to service-based rates. The changes result in more assumed terminations.
- Assumed rates of disability were increased for ages 25-44 and decreased for ages over 49. Overall, proposed rates result in more projected disabilities.
- Assumed percent married for active female members was changed from 60% to 70%. Minor changes to form of payment assumptions were applied.

Changes in Plan Provisions:

- There have been no changes since the prior valuation.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

G. Discount Rate

The discount rate used to measure the total pension liability in 2021 was 6.5%. 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 were 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.

H. Pension Liability Sensitivity

The following presents the City's 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's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
City Proportionate Share of the General Employees Fund Net Pension Liability:	\$ 897,082	\$ 439,857	\$ 64,674
City Proportionate Share of the Police and Fire Fund Net Pension Liability:	\$ 838,116	\$ 263,988	\$ (206,656)

I. Pension Liability Sensitivity

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.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

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.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% of salary which is matched by the elected official's employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees contributions must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2% of employer contributions and twenty-five hundredths of 1% (0.25%) of the assets in each member's account annually.

Total contributions made by the City during fiscal year 2021 were:

State Aid flowed through City to Relief Association	\$ 44,668
Voluntary (Nonrequired) Contribution from City	<u>28,475</u>
Total Contribution	<u><u>\$ 73,143</u></u>

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

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 18 active participants, zero 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 issues 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 2021, the City contributed \$5,912 to the plan.

C. Actuarial Methods and Assumptions

The City's OPEB liability was measured as of January 1, 2021 and the total OPEB liability was determined by an actuarial valuation as of January 1, 2020.

The total OPEB liability was determined by an actuarial valuation as of January 1, 2020, 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	6.25% Decreasing to 5.00% Over 5 Years

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 6 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

C. Actuarial Methods and Assumptions (Continued)

Mortality Rates were based on the Pub-2010 Public Retirement Plans General Headcount Weighted Mortality Tables with MP-2019 Generational Improvement Scale.

The actuarial assumptions used in the January 1, 2020 valuation were based on the results of an actuarial experience study for the period January 1, 2019 to December 31, 2019.

The discount rate used to measure the total OPEB liability was 2.00%. The discount rate is based on the estimated yield of 20-Year AA-rated municipal bonds.

Since the most recent GASB 75 valuation, the following changes have been made:

Benefit Changes:

- None noted

Assumption Changes:

- The discount rate was changed from 2.90% to 2.00%.

D. Changes in the OPEB Liability

	Total OPEB Liability
Balances - December 31, 2020	\$ 421,213
Changes for the Year:	
Service Cost	39,566
Interest	13,333
Assumption Changes	21,233
Benefit Payments	(2,078)
Net Change in Total OPEB Liability	72,054
Balances - December 31, 2021	\$ 493,267

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

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 (1.00%)	Discount Rate (2.00%)	1% Increase (3.00%)
Total OPEB Liability	\$ 523,695	\$ 493,267	\$ 463,869

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 (5.25% decreasing to 4.0% over five years) or 1% higher (7.25% decreasing to 6.0% over five years) than the current healthcare cost trend rates:

	1% Decrease (5.25% Decreasing to 4.0%)	Current Trend Rates (6.25% Decreasing to 5.0%)	1% Increase (7.25% Decreasing to 6.0%)
Medical Trend Rate			
Total OPEB Liability	\$ 439,591	\$ 493,267	\$ 555,725

For the year ended December 31, 2021, the City recognized OPEB expense of \$57,798. At December 31, 2021, the City reported deferred inflows of resources, and deferred outflows of resources related to OPEB from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	\$ 25,459	\$ 5,232
Differences Between Expected and Actual Experience	4,645	-
City Contributions Made Subsequent to the Measurement Date	5,912	-
Total	\$ 36,016	\$ 5,232

The \$5,912 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended December 31, 2022.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 6 OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

D. Changes in the OPEB Liability (Continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

<u>Year Ending December 31.</u>	<u>Future Recognition</u>
2022	\$ 4,899
2023	4,899
2024	4,899
2025	6,637
2026	3,538

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>Year Ending December 31,</u>	<u>Amount</u>
2022	<u>\$ 112,543</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, 2021, the City paid excess tax increment in the amount of \$12,171. No other commitments were made by the City as part of these agreements.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE 9 TRANSFERS TO OTHER FUNDS

For the year ended December 31, 2021, the general fund transferred \$8,438 to the sewer fund. This was to eliminate negative cash at the end of the year within the sewer fund.

NOTE 10 SUBSEQUENT EVENTS

PARK FUND – PLAYGROUND EQUIPMENT

In January of 2022, the City expended \$203,170 for the acquisition and installation of new and expanded playground equipment located at the City's Community Center. Donations received in January 2022 in the amount of \$153,170 plus the use of existing Park Dedication fees in the amount of \$50,000 were used for the acquisition.

CSAH 66 SANITARY SEWER EXTENSION

On February 14, 2022 the City awarded the CSAH 66 Sanitary Sewer Extension Project to Casper Construction Inc. in the amount of \$2,088,000. The project entails extending sanitary sewer, storm water improvements, and replacing the existing road surface along the CSAH 66 corridor. Total project costs are expected to approximate \$2,537,180 including construction, engineering, legal, easement acquisition, and administrative costs. The City anticipates issuing up to \$2,100,000 special assessment bonds and a combination of reimbursements from Crow Wing County, Soil and Water Conservation District Grants, and American Rescue Plan Act funding to finance project costs. The project is expected to begin in the spring of 2022 with completion by late summer 2022.

2022 ROAD PROJECTS

This project consists of full depth reclamation, reconstruction, and chip-sealing of certain City roads. Estimated projects total \$720,000 for engineering, legal and administrative. Included in that amount is a construction contract awarded on February 14, 2022 to Anderson Brothers Construction in the amount of \$661,525 for the construction phase of the project. The City anticipates issuing general obligation bonds along with existing cash to finance the project. The project is expected to begin in the spring of 2022 with completion by late summer 2022.

Land Purchase

On February 24, 2022, the City purchased additional land adjacent to its sewer plant for future expansion. The purchase price of the land was \$175,000. A \$10,000 down-payment was made in February 2022 with the balance due the seller at closing.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF CROSSLAKE, MINNESOTA
SCHEDULE OF CHANGES IN THE CITY'S OPEB LIABILITY AND RELATED RATIOS
LAST THREE MEASUREMENT PERIODS**

	Measurement Date January 1, 2021	Measurement Date January 1, 2020	Measurement Date January 1, 2019
Total OPEB Liability			
Service Cost	\$ 39,566	\$ 33,436	\$ 20,973
Interest	13,333	14,500	11,618
Assumption Changes	21,233	11,649	(10,464)
Plan Changes	-	7,672	-
Difference between Expected and Actual Experience	-	6,969	-
Benefit Payments	(2,078)	(2,275)	(7,831)
Net Change in Total OPEB Liability	<u>72,054</u>	<u>71,951</u>	<u>14,296</u>
Total OPEB Liability - Beginning	421,213	349,262	334,966
Total OPEB Liability - Ending	<u>\$ 493,267</u>	<u>\$ 421,213</u>	<u>\$ 349,262</u>
Covered-Employee Payroll	\$ 1,054,406	\$ 1,021,216	\$ 875,605
City's Total OPEB Liability as a Percentage of Covered-Employee Payroll	47%	40%	40%

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
LAST SEVEN MEASUREMENT PERIODS

	Measurement Date June 30, 2021	Measurement Date June 30, 2020	Measurement Date June 30, 2019	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	0.0103%	0.0096%	0.0080%	0.0083%	0.0087%	0.0087%	0.0088%
City's Proportionate Share of the Net Pension Liability	\$ 439,857	\$ 575,564	\$ 442,302	\$ 460,450	\$ 555,402	\$ 706,397	\$ 456,062
State's Proportionate Share of the Net Pension Liability Associated with the City	13,414	17,755	13,833	15,152	6,796	9,212	-
Total City's Proportionate Share of the Net Pension Liability	\$ 453,271	\$ 593,319	\$ 456,135	\$ 475,602	\$ 562,198	\$ 715,609	\$ 456,062
City's Covered Payroll	\$ 743,334	\$ 656,063	\$ 561,811	\$ 555,286	\$ 561,436	\$ 538,587	\$ 519,617
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	59.17%	87.73%	78.73%	82.92%	98.93%	131.16%	87.77%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.00%	79.10%	80.23%	79.53%	75.90%	68.91%	78.20%
PERA - Police and Fire Fund							
City's Proportion of the Net Pension Liability	0.0342%	0.0319%	0.0312%	0.0298%	0.0340%	0.0350%	0.0340%
City's Proportionate Share of the Net Pension Liability	\$ 263,988	\$ 420,476	\$ 332,156	\$ 317,637	\$ 459,040	\$ 1,404,611	\$ 386,320
State's Proportionate Share of the Net Pension Liability Associated with the City	11,856	9,920	-	-	-	-	-
Total City's Proportionate Share of the Net Pension Liability	\$ 275,844	\$ 430,396	\$ 332,156	\$ 317,637	\$ 459,040	\$ 1,404,611	\$ 386,320
City's Covered Payroll	\$ 403,730	\$ 344,370	\$ 328,481	\$ 314,163	\$ 346,788	\$ 335,000	\$ 316,479
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	65.39%	122.10%	101.12%	101.11%	132.37%	419.29%	122.07%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	93.70%	87.20%	89.26%	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.

See accompanying Notes to Required Supplementary Information.

**CITY OF CROSSLAKE, MINNESOTA
SCHEDULE OF CITY CONTRIBUTIONS
LAST EIGHT FISCAL YEARS**

	2021	2020	2019	2018	2017	2016	2015	2014
PERA - General Employees Fund								
Contractually Required Contribution	\$ 56,210	\$ 54,947	\$ 45,681	\$ 40,833	\$ 42,198	\$ 40,199	\$ 39,992	\$ 36,869
Contributions in Relation to the Contractually Required Contribution	<u>(56,210)</u>	<u>(54,947)</u>	<u>(45,681)</u>	<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>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 749,467	\$ 732,627	\$ 609,080	\$ 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%	7.50%	7.50%	7.50%	7.25%
PERA - Police and Fire Fund								
Contractually Required Contribution	\$ 70,533	\$ 66,314	\$ 59,857	\$ 52,169	\$ 53,144	\$ 53,492	\$ 52,917	\$ 46,185
Contributions in Relation to the Contractually Required Contribution	<u>(70,533)</u>	<u>(66,314)</u>	<u>(59,857)</u>	<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>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered Payroll	\$ 398,492	\$ 374,655	\$ 353,139	\$ 322,028	\$ 328,049	\$ 330,198	\$ 326,649	\$ 301,862
Contributions as a Percentage of Covered Payroll	17.70%	17.70%	16.95%	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
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2021

	Original Budget	Final Budget	Actual	Variance With Budget Over (Under)
REVENUES				
Taxes	\$ 3,712,773	\$ 3,712,773	\$ 3,720,767	\$ 7,994
Licenses and Permits	61,800	61,800	110,175	48,375
Intergovernmental	81,479	98,500	221,783	123,283
Charges for Services	350,341	434,881	521,108	86,227
Fines and Forfeits	16,600	49,991	55,633	5,642
Special Assessments	11,451	11,451	16,537	5,086
Interest	60,000	15,000	5,372	(9,628)
Contributions and Donations	9,250	35,143	91,455	56,312
Miscellaneous	12,050	12,050	58,649	46,599
Total Revenues	<u>4,315,744</u>	<u>4,431,589</u>	<u>4,801,479</u>	<u>369,890</u>
EXPENDITURES				
Current				
General Government				
Mayor and Council	33,035	33,035	30,617	(2,418)
Administration	291,601	291,601	280,255	(11,346)
Audit and Legal	49,000	132,000	72,147	(59,853)
Planning and Zoning	240,137	240,137	228,541	(11,596)
Other General Government	141,150	141,150	103,062	(38,088)
Total General Government	<u>754,923</u>	<u>837,923</u>	<u>714,622</u>	<u>(123,301)</u>
Public Safety				
Police	800,054	800,054	759,140	(40,914)
Ambulance	15,000	15,000	13,533	(1,467)
Fire Protection	188,190	219,504	256,751	37,247
Total Public Safety	<u>1,003,244</u>	<u>1,034,558</u>	<u>1,029,424</u>	<u>(5,134)</u>
Public Works				
Engineering	25,000	25,000	1,225	(23,775)
Public Way Maintenance	556,970	576,713	474,259	(102,454)
Total Public Works	<u>581,970</u>	<u>601,713</u>	<u>475,484</u>	<u>(126,229)</u>
Culture and Recreation				
Library	32,341	32,341	34,591	2,250
Recreation	485,067	492,567	434,231	(58,336)
Total Culture and Recreation	<u>517,408</u>	<u>524,908</u>	<u>468,822</u>	<u>(56,086)</u>
Miscellaneous				
Recycling	500	500	325	(175)
Firemen's Relief Association	63,000	63,000	73,143	10,143
Cemetery	2,000	8,000	6,568	(1,432)
Total Miscellaneous	<u>65,500</u>	<u>71,500</u>	<u>80,036</u>	<u>8,536</u>
Debt Service				
Principal	203,621	203,621	203,624	3
Interest and Fiscal Charges	12,334	12,334	12,410	76
Bond Issue Costs	-	24,250	24,250	-
Total Debt Service	<u>215,955</u>	<u>240,205</u>	<u>240,284</u>	<u>79</u>
Capital Outlay				
Capital Improvements and Equipment	<u>3,784,458</u>	<u>2,524,243</u>	<u>2,734,588</u>	<u>210,345</u>
Total Expenditures	<u>6,923,458</u>	<u>5,835,050</u>	<u>5,743,260</u>	<u>(91,790)</u>

See accompanying Notes to Required Supplementary Information.

CITY OF CROSSLAKE, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2021

	Original Budget	Final Budget	Actual	Variance With Budget Over (Under)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (2,607,714)	\$ (1,403,461)	\$ (941,781)	\$ 461,680
OTHER FINANCING SOURCES (USES)				
Transfers Out	(222,586)	(222,586)	(8,438)	214,148
Issuance of GO Bonds	1,730,750	853,991	853,991	-
Bond Premium	46,670	46,670	46,670	-
Proceeds from Sale of Capital Assets	-	51,103	51,103	-
Total Other Financing Sources (Uses)	1,554,834	729,178	943,326	214,148
NET CHANGE IN FUND BALANCE	\$ (1,052,880)	\$ (674,283)	1,545	\$ 675,828
Fund Balance - Beginning of Year			7,794,213	
FUND BALANCE - END OF YEAR			\$ 7,795,758	

See accompanying Notes to Required Supplementary Information.

**CITY OF CROSSLAKE, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
TAX INCREMENT FINANCING FUND
YEAR ENDED DECEMBER 31, 2021**

	<u>Budget Original and Final</u>	<u>Actual</u>	<u>Variance With Budget Over (Under)</u>
REVENUES			
Tax Increments	\$ 11,000	\$ 13,275	\$ 2,275
EXPENDITURES			
Economic Development Current	<u>11,500</u>	<u>12,171</u>	<u>671</u>
NET CHANGE IN FUND BALANCE	<u>\$ (500)</u>	1,104	<u>\$ 1,604</u>
Fund Balance - Beginning of Year		<u>9,765</u>	
FUND BALANCE - END OF YEAR		<u>\$ 10,869</u>	

See accompanying Notes to Required Supplementary Information.

**CITY OF CROSSLAKE, MINNESOTA
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED DECEMBER 31, 2021**

NOTE 1 LEGAL COMPLIANCE – BUDGETS

A. Budgetary Information

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

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

B. Excess of Expenditures Over Appropriations

Expenditures exceeded budgeted amounts in the following funds at December 31, 2021:

	Expenditures	Budget	Excess
Tax Increment Financing Fund	\$ 12,171	\$ 11,500	\$ 671

All expenditures in excess of budget were considered to be crucial to operations and were approved by the City Council.

NOTE 2 CHANGES IN SIGNIFICANT PENSION PLAN PROVISION, ACTUARIAL METHODS, AND ASSUMPTIONS

General Employees Fund

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the measurement period ended June 30:

2021

Changes in Actuarial Assumptions:

- The investment return and single discount rates were changed from 7.50% to 6.50%, for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

Changes in Plan Provisions:

- There were no changes in plan provisions since the previous valuation.

CITY OF CROSSLAKE, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
YEAR ENDED DECEMBER 31, 2021

NOTE 2 CHANGES IN SIGNIFICANT PENSION PLAN PROVISION, ACTUARIAL METHODS, AND ASSUMPTIONS (CONTINUED)

General Employees Fund (Continued)

2020

Changes in Actuarial Assumptions

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions

- Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
YEAR ENDED DECEMBER 31, 2021**

**NOTE 2 CHANGES IN SIGNIFICANT PENSION PLAN PROVISION, ACTUARIAL METHODS,
AND ASSUMPTIONS (CONTINUED)**

General Employees Fund (Continued)

2019

Changes in Actuarial Assumptions

- The morality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The state's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

2018

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed postretirement benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

Changes in Plan Provisions

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00% to 3.00%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Postretirement benefit increases were changed from 1.00% per year with a provision to increase to 2.50% upon attainment of 90.00% funding ratio to 50.00% of the Social Security Cost of Living Adjustment, not less than 1.00% and not more than 1.50%, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

CITY OF CROSSLAKE, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
YEAR ENDED DECEMBER 31, 2021

NOTE 2 CHANGES IN SIGNIFICANT PENSION PLAN PROVISION, ACTUARIAL METHODS, AND ASSUMPTIONS (CONTINUED)

General Employees Fund (Continued)

2017

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- The state's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter.
- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The state's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

2016

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2015

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2035 and 2.50 percent per year thereafter.

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increase the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of \$6.0 million, which meets the special funding situation definition, was due September 2015.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
YEAR ENDED DECEMBER 31, 2021**

**NOTE 2 CHANGES IN SIGNIFICANT PENSION PLAN PROVISION, ACTUARIAL METHODS,
AND ASSUMPTIONS (CONTINUED)**

Police and Fire Fund

2021

Changes in Actuarial Assumptions:

- The investment return and single discount rates were changed from 7.50% to 6.50%, for financial reporting purposes.
- The inflation assumption was changed from 2.50% to 2.25%.
- The payroll growth assumption was changed from 3.25% to 3.00%.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 Public Safety Mortality table. The mortality improvement scale was changed from MP-2019 to MN-2020.
- The base mortality table for disabled annuitants was changed from the RP-2014 healthy annuitant mortality table (with future mortality improvement according to Scale MP-2019) to the Pub-2010 Public Safety disabled annuitant mortality table (with future mortality improvement according to Scale MP-2020).
- Assumed rates of salary increase were modified as recommended in the July 14, 2020 experience study. The overall impact is a decrease in gross salary increase rates.
- Assumed rates of retirement were changed as recommended in the July 14, 2020 experience study. The changes result in slightly more unreduced retirements and fewer assumed early retirements.
- Assumed rates of withdrawal were changed from select and ultimate rates to service-based rates. The changes result in more assumed terminations.
- Assumed rates of disability were increased for ages 25-44 and decreased for ages over 49. Overall, proposed rates result in more projected disabilities.
- Assumed percent married for active female members was changed from 60% to 70%. Minor changes to form of payment assumptions were applied.

Changes in Plan Provisions:

- There have been no changes since the prior valuation.

2020

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2018 to MP-2019.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2019

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
YEAR ENDED DECEMBER 31, 2021**

**NOTE 2 CHANGES IN SIGNIFICANT PENSION PLAN PROVISION, ACTUARIAL METHODS,
AND ASSUMPTIONS (CONTINUED)**

Police and Fire Fund (Continued)

2018

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2015 to MP-2017.

Changes in Plan Provisions

- Postretirement benefit increases were changed to 1.00% for all years, with no trigger.
- An end date of July 1, 2048 was added to the existing \$9.0 million state contribution.
- New annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter until the plan reaches 100% funding, or July 1, 2048, if earlier.
- Member contributions were changed from 10.80% to 11.30% of pay, effective January 1, 2019 and 11.80% of pay, effective January 1, 2020.
- Employer contributions were changed from 16.20% to 16.95% of pay, effective January 1, 2019 and 17.70% of pay, effective January 1, 2020.
- Interest credited on member contributions decreased from 4.00% to 3.00%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017

Changes in Actuarial Assumptions

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34% lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The combined service annuity (CSA) load was 30.00% for vested and nonvested, deferred members. The CSA has been changed to 33.00% for vested members and 2.00% for nonvested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.00% for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65.00% to 60.00%.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
YEAR ENDED DECEMBER 31, 2021**

**NOTE 2 CHANGES IN SIGNIFICANT PENSION PLAN PROVISION, ACTUARIAL METHODS,
AND ASSUMPTIONS (CONTINUED)**

Police and Fire Fund (Continued)

2017 (Continued)

Changes in Actuarial Assumptions (Continued)

- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing joint and survivor annuities was increased.
- The assumed postretirement benefit increase rate was changed from 1.00% for all years to 1.00% per year through 2064 and 2.50% thereafter.
- The single discount rate was changed from 5.60% per annum to 7.50% per annum.

Changes in Plan Provisions:

- There have been no changes since the prior valuation.

2016

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00% per year through 2037 and 2.50% per year thereafter to 1.00% per year for all future years.
- The assumed investment return was changed from 7.90% to 7.50%.
- The single discount rate changed from 7.90% to 5.60%.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

Changes in Plan Provisions:

- There have been no changes since the prior valuation.

2015

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2037 and 2.50 percent per year thereafter.

Changes in Plan Provisions:

- The postretirement benefit increase to be paid after the attainment of the 90.00 percent funding threshold was changed from inflation up to 2.50 percent, to a fixed rate of 2.50 percent.

**CITY OF CROSSLAKE, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
YEAR ENDED DECEMBER 31, 2021**

NOTE 3 CHANGES IN SIGNIFICANT OTHER POSTEMPLOYMENT BENEFIT PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS

2021

Assumption Changes:

- The discount rate was changed from 2.90% to 2.00%.

2020

The follow assumption changes have been made:

- The health care trend rates were changed to better anticipate short term and long-term medical increases.
- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale to the Pub-2010 Public Retirement Plans General Headcount-Weighted Mortality Tables with MP-2019 Generational Improvement Scale.
- The salary increase rates were changed from a flat 3.0% per year for all employees to rates which vary by service and contract group.
- The discount rate was changed from 3.8% to 2.9%.

2019

The following assumption changes have been made:

- The discount rate was changed from 3.30% to 3.80%.

2018

The following assumption 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.
- The retirement and withdrawal tables for all employees were updated.
- The discount rate was changed from 4.00% to 3.30%.

SUPPLEMENTARY INFORMATION

**CITY OF CROSSLAKE, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT
DECEMBER 31, 2021**

	<u>Fund Level Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS			
Cash and Cash Equivalents	\$ 7,081	\$ -	\$ 7,081
Taxes Receivable	490	-	490
Total Assets	<u>\$ 7,571</u>	-	7,571
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES/NET POSITION			
Deferred Inflows of Resources			
Unavailable Revenue on Property Taxes	\$ 184	\$ (184)	\$ -
Fund Balance/Net Position			
Unassigned	<u>7,387</u>	<u>(7,387)</u>	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 7,571</u>	<u>(7,571)</u>	
Net Position			
Unrestricted		<u>7,571</u>	<u>7,571</u>
Total Net Position of Component Unit (Page 14)		<u>\$ 7,571</u>	<u>\$ 7,571</u>

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, 2021**

	<u>Fund Level Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures/Expenses	\$ 10,925	\$ -	\$ 10,925
General Revenues			
Taxes	<u>15,870</u>	<u>111</u>	<u>15,981</u>
Change in Net Position (Page 16)	4,945	111	5,056
Fund Balances/Net Position:			
Beginning of Year	<u>2,442</u>	<u>73</u>	<u>2,515</u>
End of Year	<u>\$ 7,387</u>	<u>\$ 184</u>	<u>\$ 7,571</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, 2021 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 18, 2022.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the contracting and bidding, claims and disbursements, deposits and investments, conflicts of interest, public indebtedness, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. 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 18, 2022

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