

**CITY OF CROSSLAKE, MINNESOTA**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2010**

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## **INTRODUCTORY SECTION**

**CITY OF CROSSLAKE, MINNESOTA  
PRINCIPAL CITY OFFICIALS  
DECEMBER 31, 2010**

**ELECTED OFFICIALS**

<u>Position</u>	<u>Term Expires</u>	<u>Name</u>
Mayor	12/31/2010	Jay Andolshek
Council Member	12/31/2012	Rusty Taubert
Council Member	12/31/2012	Dean Swanson
Council Member	12/31/2010	Steve Roe
Council Member	12/31/2010	John Moengen

**APPOINTED OFFICIALS**

<u>Position</u>	<u>Name</u>
City Administrator	Thomas Swenson
City Clerk/Treasurer	Jennifer Max

## **FINANCIAL SECTION**

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Crosslake (City), Minnesota, as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Communications Enterprise Fund, a major fund, which represents 61 percent, 60 percent, and 95 percent, respectively, of the assets, net assets, and revenues of the business-type activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Communications Enterprise Fund, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Crosslake, as of December 31, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Honorable Mayor and  
Members of the City Council  
City of Crosslake

The management's discussion and analysis, schedule of funding progress and budgetary comparison information on pages 4 through 14, and 56 through 60, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Crosslake's basic financial statements. The combining and reconciling component unit statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and reconciling component unit statements have been subjected to the auditing procedures applied to the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*LarsonAllen LLP*  
**LarsonAllen LLP**

Brainerd, Minnesota  
March 30, 2011



**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010**

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, 2010. 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, 2010, and the prior year, 2009, is also presented in the MD&A.

**FINANCIAL HIGHLIGHTS**

- ◆ The assets of the City exceeded its liabilities at the close of the fiscal year by \$19,845,564 (net assets). Of this amount \$3,517,827 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- ◆ The City's total net assets decreased during the fiscal year by \$20,307.
- ◆ As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,192,643, a decrease of \$35,996 in comparison with the prior year. Approximately 99% of this total amount, \$2,167,408, is available for spending at the City's discretion (unreserved fund balance). However, as stated below, \$367,115 of the general fund balance has been designated by the City Council for future capital outlay needs.
- ◆ At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,864,291, or 71% of budgeted 2010 expenditures. The City Council has designated \$367,115 for future capital outlay needs.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. This City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010**

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

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

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

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

The government-wide financial statements can be found on pages 16 through 18 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 government'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 government'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 five 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, debt service fund, library construction fund, and capital projects fund. There are no nonmajor governmental funds.

**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010**

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

**Fund Financial Statements (Continued)**

***Governmental Funds (Continued)***

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

The basic governmental fund financial statements can be found on pages 19 through 23.

***Proprietary Fund*** – The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its communications and sewer operations.

The proprietary fund provides the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the communications and sewer operations, which are both considered to be major funds of the City.

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

**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net Assets**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$19,845,564 at the close of the most recent fiscal year.

By far, the largest portion of the City's net assets (75%) 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 ASSETS**

	Governmental Activities		Business-Type Activities		2010
	2010	2009	2010	2009	Total
Current and Other Assets	\$ 2,614,006	\$ 2,759,163	\$ 2,929,140	\$ 2,894,272	\$ 5,543,146
Capital Assets	11,576,504	11,709,736	13,741,275	14,587,809	25,317,779
<b>Total Assets</b>	<b>14,190,510</b>	<b>14,468,899</b>	<b>16,670,415</b>	<b>17,482,081</b>	<b>30,860,925</b>
Long-Term Liabilities Outstanding	4,555,196	5,327,853	6,004,813	6,358,015	10,560,009
Other Liabilities	156,181	130,630	299,171	268,511	455,352
<b>Total Liabilities</b>	<b>4,711,377</b>	<b>5,458,483</b>	<b>6,303,984</b>	<b>6,626,526</b>	<b>11,015,361</b>
<b>Net Assets</b>					
Invested in Capital Assets, Net of Related Debt	7,132,209	6,446,621	7,793,410	8,279,984	14,925,619
Restricted	495,697	740,761	906,421	838,365	1,402,118
Unrestricted	1,851,227	1,822,934	1,666,600	1,737,206	3,517,827
<b>Total Net Assets</b>	<b>\$ 9,479,133</b>	<b>\$ 9,010,316</b>	<b>\$ 10,366,431</b>	<b>\$ 10,855,555</b>	<b>\$ 19,845,564</b>

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

There was an increase of \$468,817 and a decrease of \$489,124 in net assets 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, 2010**

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

**Change in Net Assets**

The City's total net assets decreased by \$20,307. Key elements of this decrease are as follows:

	Governmental Activities		Business-Type Activities		2010 Total
	2010	2009	2010	2009	
<b>REVENUES</b>					
Program Revenues					
Charges for Services	\$ 459,963	\$ 424,067	\$ 3,742,600	\$ 3,665,333	\$ 4,202,563
Operating Grants and Contributions	151,852	115,320	-	-	151,852
Capital Grants and Contributions	211,126	112,722	11,687	14,318	222,813
General Revenues					
Property Taxes	2,510,711	2,489,940	212,563	213,224	2,723,274
Other Taxes	38,205	19,737	-	-	38,205
Intergovernmental	1,539	1,354	-	-	1,539
Unrestricted Investment Earnings	13,182	17,063	39,836	44,496	53,018
Gain on Sale of Investments	-	-	6,575	38,585	6,575
Gain on Sale of Capital Assets	2,500	-	-	-	2,500
Net Increase (Decrease) in the Fair Value of Investments	-	-	4,297	(28,649)	4,297
Miscellaneous	28,778	74,318	-	-	28,778
<b>Total Revenues</b>	<b>3,417,856</b>	<b>3,254,521</b>	<b>4,017,558</b>	<b>3,947,307</b>	<b>7,435,414</b>
<b>EXPENSES</b>					
General Government	1,155,147	1,158,348	-	-	1,155,147
Public Safety	743,116	708,306	-	-	743,116
Public Works	639,883	575,777	-	-	639,883
Culture and Recreation	438,735	419,910	-	-	438,735
Economic Development	35,198	37,684	-	-	35,198
Interest on Long-Term Debt	203,949	267,557	-	-	203,949
Communications	-	-	3,742,689	3,712,352	3,742,689
Sewer Utility	-	-	497,004	505,263	497,004
<b>Total Expenses</b>	<b>3,216,028</b>	<b>3,167,582</b>	<b>4,239,693</b>	<b>4,217,615</b>	<b>7,455,721</b>
<b>CHANGE IN NET ASSETS BEFORE TRANSFERS</b>	<b>201,828</b>	<b>86,939</b>	<b>(222,135)</b>	<b>(270,308)</b>	<b>(20,307)</b>
Transfers	266,989	261,877	(266,989)	(261,877)	-
<b>NET CHANGE IN FUND BALANCES</b>	<b>468,817</b>	<b>348,816</b>	<b>(489,124)</b>	<b>(532,185)</b>	<b>(20,307)</b>
Net Assets - Beginning of Year	9,010,316	8,661,500	10,855,555	11,387,740	19,865,871
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 9,479,133</b>	<b>\$ 9,010,316</b>	<b>\$ 10,366,431</b>	<b>\$ 10,855,555</b>	<b>\$ 19,845,564</b>

**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010**

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

**Change in Net Assets (Continued)**

**Governmental Activities** – Governmental activities increased the City's net assets by \$468,817 in 2010 as compared to an increase of \$348,816 in 2009. Key elements of this increase are as follows:

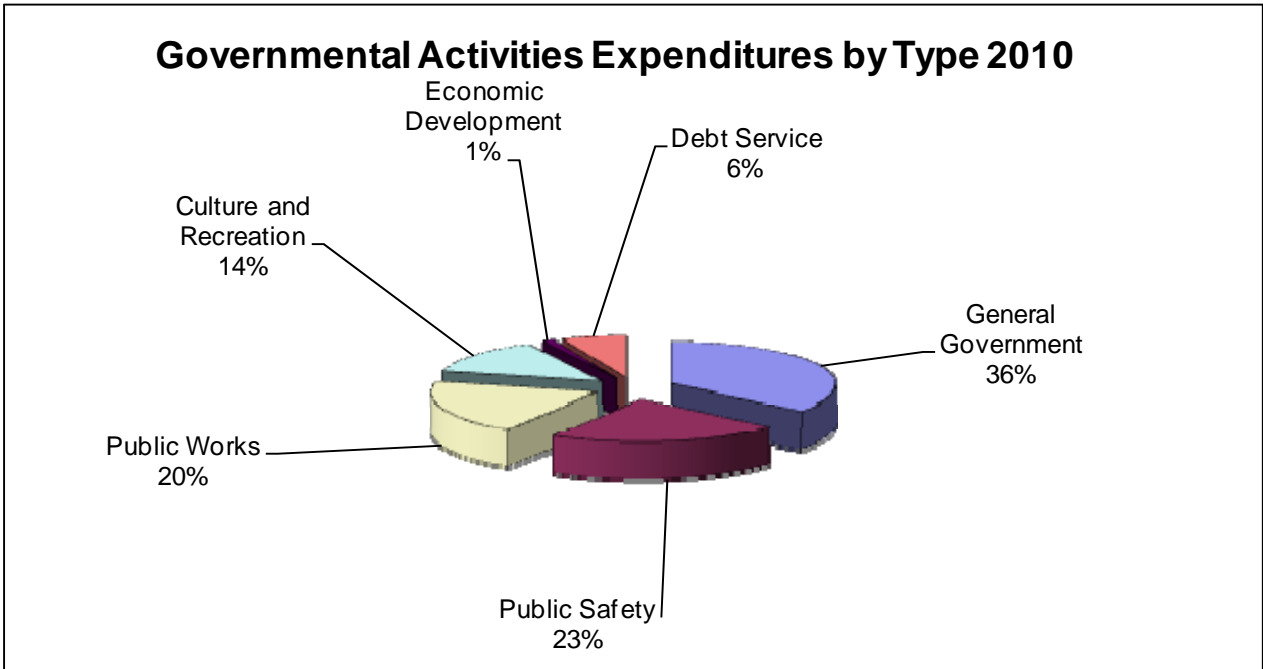
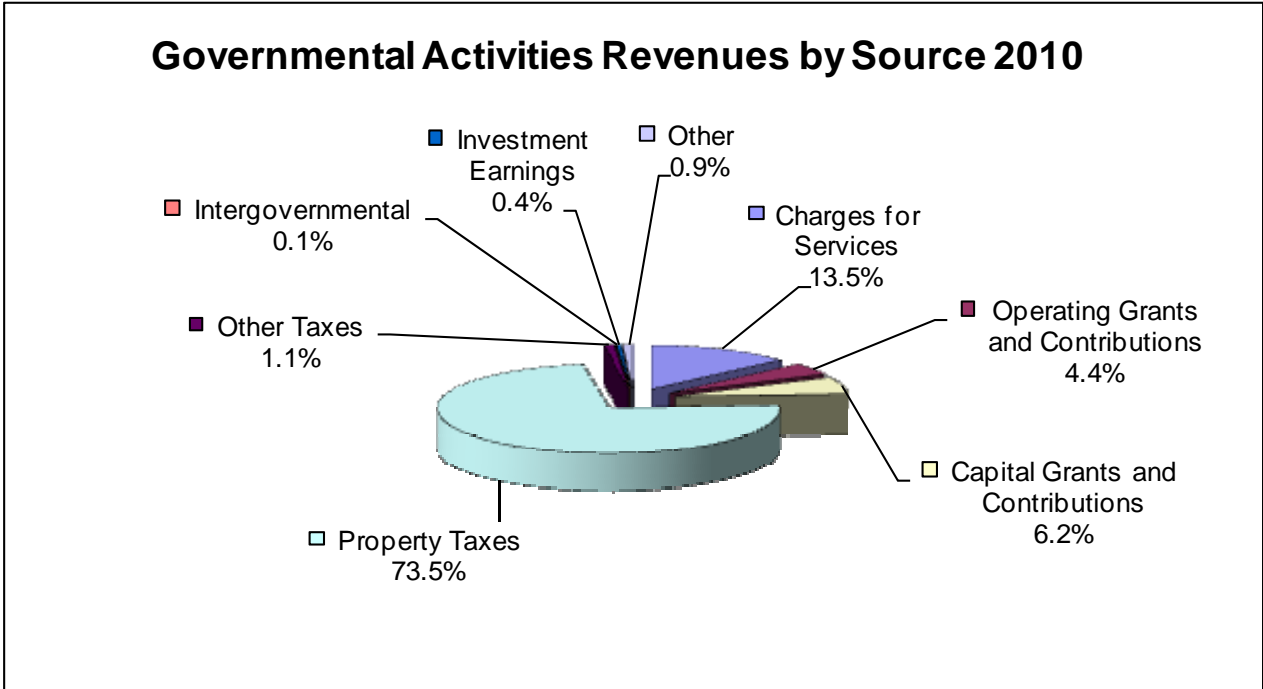
- ◆ Capital grants and contributions increased \$98,404 (87%) from 2009 due to grants received from Crow Wing Power for the Manhattan Point Trail Project and State Bridge Bonds utilized on the Sunrise Island Bridge Project.
- ◆ Charges for services increased \$35,896 (8%) from 2009. This increase resulted mainly from an increase in Police restitution receipts and an increase in park dedication revenues.
- ◆ Operating grants and contributions increased \$36,532 due to donations received in 2010 for the fire department.

**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010**

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

**Change in Net Assets (Continued)**

**Governmental Activities – (Continued)**



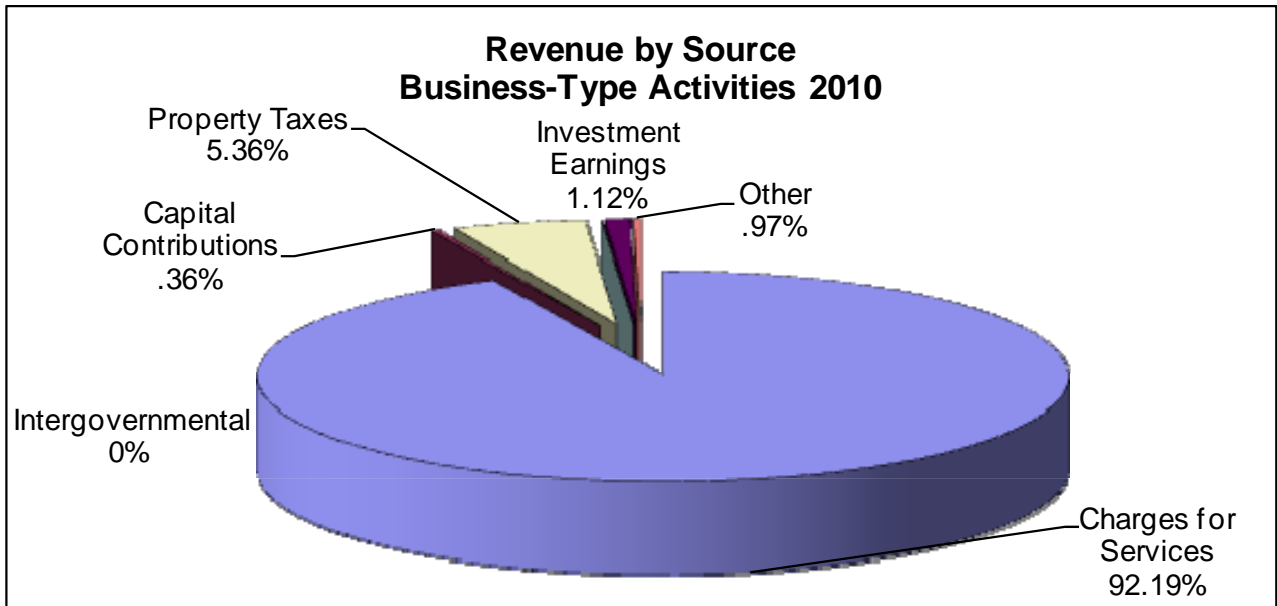
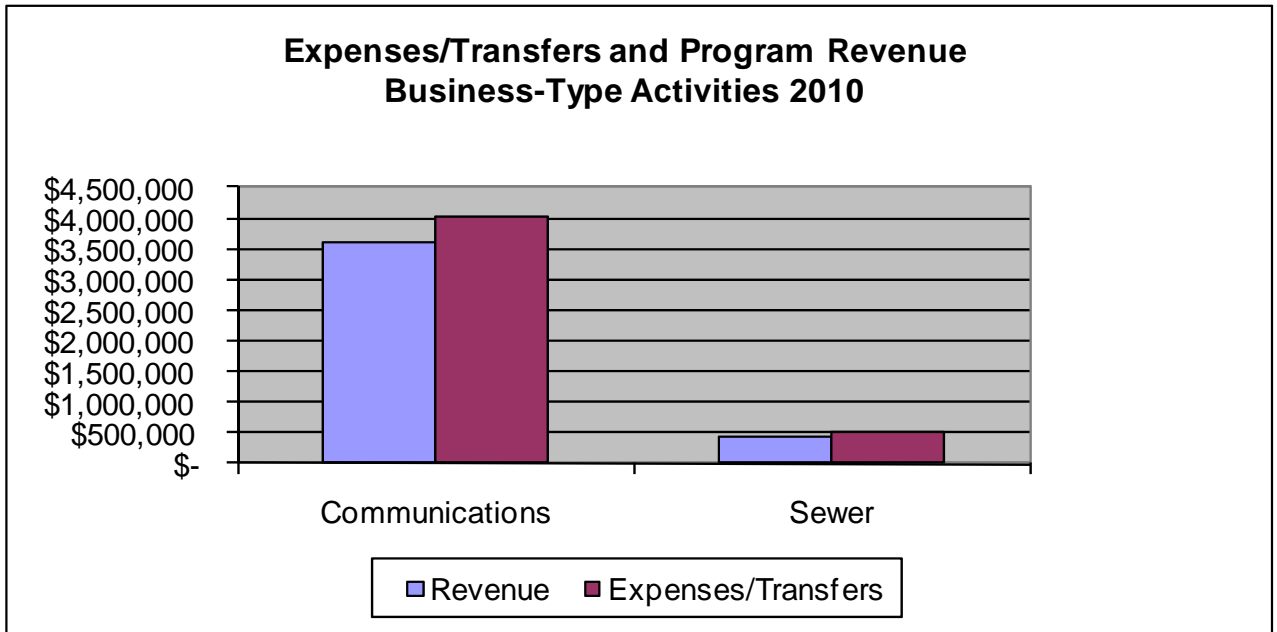
**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010**

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

**Change in Net Assets (Continued)**

**Business-Type Activities** – Business-type activities decreased the City's net assets by \$489,124 in 2010 as compared to \$532,185 in 2009. Key elements of this decrease are as follows:

- ◆ The Communications Fund showed a net loss of \$415,868 in 2010. Additional analysis of the Communications Fund can be found in its separately issued financial statements.





**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010**

**FINANCIAL ANALYSIS OF THE GOVERNMENT'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, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,192,643, a decrease of \$35,996 in comparison with the prior year. Of this amount, 99% (\$2,167,408) is unreserved, which is available for spending at the City's discretion. A portion of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to pay expenditures related to 2010 (\$25,235). In addition, a portion of unreserved fund balance has been designated by the City Council for future years' capital outlay (\$367,115).

The general fund is the primary operating fund of the City. At the end of the current year, unreserved fund balance of the general fund was \$1,864,291. Total fund balance was \$1,889,526. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance and total fund balance represent 61% and 62% of total 2010 general fund expenditures, respectively.

The fund balance of the City's general fund increased by \$148,216 during the current fiscal year. Key factors in this increase are as follows:

- ◆ Total expenditures in the general fund increased \$187,204, or 7% over 2009. The increase is due to the purchase of a hovercraft by the Fire Department and the construction of the Manhattan Point Trail Project.
- ◆ Total revenues in the general fund increased \$291,291 from 2009. The increase is due to an increase in general property taxes, park dedication funds and donations received by the City.

**Proprietary Funds** – The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

There were no differences between the original adopted budget and the final amended budget.

Revenues were over budget by about 6%.

Expenditures exceeded budget by approximately \$420,000 due to additional unplanned capital outlay and engineering costs associated with the Manhattan Point Trail and Sunrise Island Bridge Projects.

**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010**

**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, 2010, amounts to \$25,317,779 (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		2010
	2010	2009	2010	2009	Total
Land	\$ 726,208	\$ 726,208	\$ 15,367	\$ 15,367	\$ 741,575
Construction in Progress	68,963	-	15,619	11,238	84,582
Buildings	4,014,554	4,160,788	4,072,579	4,102,004	8,087,133
Improvements Other than Buildings	319,757	345,395	17,743	17,743	337,500
Machinery and Equipment	1,285,192	1,404,123	2,270,777	2,615,794	3,555,969
Infrastructure	5,161,830	5,073,222	7,349,190	7,825,663	12,511,020
<b>Total</b>	<b>\$ 11,576,504</b>	<b>\$ 11,709,736</b>	<b>\$ 13,741,275</b>	<b>\$ 14,587,809</b>	<b>\$ 25,317,779</b>

**Long-Term Liabilities**

**Governmental Activities** – At the end of the current fiscal year, the City had total debt outstanding of \$4,555,197. Of this amount, \$1,765,860 is special assessment debt for which the City is liable in the event of default by the property owners subject to the assessment. The outstanding principal on various equipment leases is \$108,433. The principal on outstanding leases due to the EDA component unit for the emergency service center and public works facility is \$2,570,000. Additionally, the City owed \$71,938 in compensated absences to its employees and an estimated \$38,964 in other postemployment benefits at December 31, 2010.

**Governmental Activities Outstanding Long-Term Liabilities**

	2010	2009
Special Assessment Debt with Governmental Commitment	\$ 1,765,860	\$ 2,382,138
Capital Leases	2,678,433	2,861,374
Compensated Absences	71,938	64,838
Other Postemployment Benefits Payable	38,964	19,601
<b>Total</b>	<b>\$ 4,555,195</b>	<b>\$ 5,327,951</b>

**CITY OF CROSSLAKE, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010**

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

**Long-Term Liabilities (Continued)**

**Governmental Activities (Continued)** – The City's total governmental debt and other long-term liabilities decreased by \$772,756 (15%) during the current fiscal year. This was primarily due to the payment made on outstanding debt.

**Business-Type Activities** – At the end of the current fiscal year, the business-type activities had total debt of \$6,111,948, consisting of general obligation, revenue bonds and other long-term liabilities. This is a decrease of \$335,203 from 2009. More information regarding the Communications debt can be found in its separately issued financial statements.

**Component Unit** – At the end of the current fiscal year, the Economic Development Authority Component Unit had total debt outstanding of \$2,570,000. This debt will be paid from proceeds of the long-term lease payment receivable from the primary government in the amount of \$2,570,000.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

- ◆ The City of Crosslake continues to see modest construction growth in both the residential and commercial sectors in comparison to recent years. The City's taxable market value decreased 9.42% from \$1,472,350,000 to \$1,333,605,000 for taxes payable in 2011. This decrease in taxable market value has resulted in a 1.974% increase in the City tax rate from 17.518% to 19.492% for taxes payable 2011.

These factors were taken into account by the City of Crosslake when preparing the 2011 budget. The City has reviewed and raised various fees for services and will continue to closely monitor expenses in order to proactively adjust to changes in the economy and/or further reductions in state aid.

**REQUESTS FOR INFORMATION**

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

## **BASIC FINANCIAL STATEMENTS**

**CITY OF CROSSLAKE, MINNESOTA**  
**STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2010**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Economic Development Authority
<b>ASSETS</b>				
Cash and Investments	\$ 2,166,229	\$ 373,791	\$ 2,540,020	\$ 5,282
Receivables				
Taxes	161,308	13,699	175,007	-
Accounts	22,347	132,681	155,028	791
Special Assessments	172,494	-	172,494	-
Connection Charges	-	211,245	211,245	-
Accrued Interest	-	10,206	10,206	-
Due from Other Governments	52,957	-	52,957	-
Materials and Supplies	-	76,661	76,661	-
Prepayments	25,235	34,628	59,863	-
Long-Term Receivables	-	-	-	2,570,000
Deferred Charges, Net of Amortization	13,436	41,018	54,454	1,803
Other Investments	-	44,541	44,541	-
Restricted, Designated and Long-Term Assets				
Cash and Investments	-	1,990,670	1,990,670	594,327
Loans Receivable	-	-	-	136,796
Capital Assets				
Land and Construction In Progress	795,171	30,986	826,157	-
Other Capital Assets, Net of Depreciation	10,781,333	13,710,289	24,491,622	-
Total Assets	14,190,510	16,670,415	30,860,925	3,308,999
<b>LIABILITIES</b>				
Current Liabilities				
Accounts Payable	34,137	164,901	199,038	-
Contracts Payable	17,868	-	17,868	-
Accrued Liabilities	35,392	60,289	95,681	-
Unearned Revenue	10,583	34,700	45,283	-
Accrued Interest Payable	33,070	38,651	71,721	42,894
Due to Other Governments	25,131	630	25,761	-
Long-Term Liabilities				
Due within One Year	638,668	395,050	1,033,718	160,000
Due in More than One Year, Net of				
Unamortized Discount	3,916,528	5,609,763	9,526,291	2,407,075
Total Liabilities	4,711,377	6,303,984	11,015,361	2,609,969
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt	7,132,209	7,793,410	14,925,619	-
Restricted for:				
Construction	-	31,830	31,830	-
Debt Service	495,697	419,591	915,288	264,086
Revenue Bond Reserve	-	455,000	455,000	-
Unrestricted	1,851,227	1,666,600	3,517,827	434,944
Total Net Assets	\$ 9,479,133	\$ 10,366,431	\$ 19,845,564	\$ 699,030

See accompanying Notes to the Financial Statements.

**CITY OF CROSSLAKE, MINNESOTA  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2010**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	\$ 1,155,147	\$ 98,156	\$ 38,182	\$ -
Public Safety	743,116	132,969	113,670	-
Public Works	639,883	161,345	-	152,955
Culture and Recreation	438,735	66,993	-	26,979
Economic Development	35,198	500	-	-
Debt Service	203,949	-	-	31,192
Total Governmental Activities	<u>3,216,028</u>	<u>459,963</u>	<u>151,852</u>	<u>211,126</u>
Business-Type Activities				
Communications	3,742,689	3,544,673	-	-
Sewer	497,004	197,927	-	11,687
Total Business-Type Activities	<u>4,239,693</u>	<u>3,742,600</u>	<u>-</u>	<u>11,687</u>
Total Primary Government	<u>\$ 7,455,721</u>	<u>\$ 4,202,563</u>	<u>\$ 151,852</u>	<u>\$ 222,813</u>
Component Unit				
Economic Development Authority	\$ 111,368	\$ 118,846	\$ -	\$ -

General Revenues

Taxes
Property Taxes, Levied for General Purpose
Other Taxes
Intergovernmental Revenues
Unrestricted Investment Earnings
Gain on Sale of Capital Assets
Net Increase in the Fair Value of Investments
Miscellaneous
Transfers
Total General Revenues and Transfers
Change in Net Assets
Net Assets - Beginning of Year
Net Assets - End of Year

Net (Expense) Revenue and Changes in Net Assets

Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Economic Development Authority
\$ (1,018,809)	\$ -	\$ (1,018,809)	\$ -
(496,477)	-	(496,477)	-
(325,583)	-	(325,583)	-
(344,763)	-	(344,763)	-
(34,698)	-	(34,698)	-
(172,757)	-	(172,757)	-
<u>(2,393,087)</u>	<u>-</u>	<u>(2,393,087)</u>	<u>-</u>
-	(198,016)	(198,016)	-
-	(287,390)	(287,390)	-
-	(485,406)	(485,406)	-
<u>(2,393,087)</u>	<u>(485,406)</u>	<u>(2,878,493)</u>	<u>-</u>
-	-	-	7,478
2,510,711	212,563	2,723,274	-
38,205	-	38,205	-
1,539	-	1,539	-
13,182	39,836	53,018	9,131
2,500	6,575	9,075	-
-	4,297	4,297	-
28,778	-	28,778	-
266,989	(266,989)	-	-
<u>2,861,904</u>	<u>(3,718)</u>	<u>2,858,186</u>	<u>9,131</u>
468,817	(489,124)	(20,307)	16,609
9,010,316	10,855,555	19,865,871	682,421
<u>\$ 9,479,133</u>	<u>\$ 10,366,431</u>	<u>\$ 19,845,564</u>	<u>\$ 699,030</u>

**CITY OF CROSSLAKE, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2010**

	GENERAL FUND	TAX INCREMENT FINANCING FUND	DEBT SERVICE FUND
<b>ASSETS</b>			
Cash and Investments	\$ 1,830,007	\$ 7,290	\$ 328,932
Receivables			
Taxes	133,968	-	27,340
Special Assessments	-	-	172,494
Accounts	22,347	-	-
Due from Other Funds	68,508	-	-
Due from Other Governments	10,233	-	-
Advances to Other Funds	61,642	-	-
Prepayments	25,235	-	-
Total Assets	<u>\$ 2,151,940</u>	<u>\$ 7,290</u>	<u>\$ 528,766</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Accounts Payable	\$ 17,947	\$ -	\$ -
Contracts Payable	17,868	-	-
Accrued Liabilities	35,392	-	-
Deferred Revenue	104,434	-	190,965
Due to Other Funds	-	-	-
Due to Other Governments	25,131	-	-
Advances from Other Funds	61,642	-	-
Total Liabilities	262,414	-	190,965
Fund Balances (Deficit)			
Reserved For:			
Prepayments	25,235	-	-
Unreserved, Designated for:			
Capital Outlay	367,115	-	-
Unreserved, Reported in:			
General Fund	1,497,176	-	-
Special Revenue Fund	-	7,290	-
Debt Service Fund	-	-	337,801
Capital Projects Fund	-	-	-
Total Fund Balances (Deficit)	<u>1,889,526</u>	<u>7,290</u>	<u>337,801</u>
Total Liabilities and Fund Balances	<u>\$ 2,151,940</u>	<u>\$ 7,290</u>	<u>\$ 528,766</u>

See accompanying Notes to Financial Statements.



LIBRARY CONSTRUCTION FUND	CAPITAL PROJECTS FUND	TOTAL GOVERNMENTAL FUNDS
\$ -	\$ -	\$ 2,166,229
-	-	161,308
-	-	172,494
-	-	22,347
-	-	68,508
-	42,724	52,957
61,642	-	123,284
-	-	25,235
<u>\$ 61,642</u>	<u>\$ 42,724</u>	<u>\$ 2,792,362</u>

\$ -	\$ 16,190	\$ 34,137
-	-	17,868
-	-	35,392
-	-	295,399
-	68,508	68,508
-	-	25,131
61,642	-	123,284
<u>61,642</u>	<u>84,698</u>	<u>599,719</u>
-	-	25,235
-	-	367,115
-	-	1,497,176
-	-	7,290
-	-	337,801
-	(41,974)	(41,974)
-	(41,974)	2,192,643
<u>\$ 61,642</u>	<u>\$ 42,724</u>	<u>\$ 2,792,362</u>

**CITY OF CROSSLAKE, MINNESOTA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET ASSETS  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2010**

**TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS** \$ 2,192,643

Total net assets reported for governmental activities in the statement of net assets 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:

Land	\$	726,208	
Construction in Progress		68,963	
Buildings, Net of \$1,195,008 Accumulated Depreciation		4,014,554	
Machinery, Vehicles, Furniture and Equipment, Net of \$1,493,231 Accumulated Depreciation		1,285,192	
Improvements, Net of \$352,829 Accumulated Depreciation		319,757	
Infrastructure, Net of \$2,445,309 Accumulated Depreciation		5,161,830	11,576,504

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 deferred revenue in the governmental funds. 284,816

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 assets. (33,070)

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 assets.

Bonds Payable		(1,785,000)	
Unamortized Discounts and Bond Issuance Costs		32,576	
Compensated Absences Payable		(71,938)	
Other Postemployment Benefits Payable		(38,963)	
Obligations Under Capital Leases		(2,678,435)	(4,541,760)

**TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES** **\$ 9,479,133**

**CITY OF CROSSLAKE, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2010**

	GENERAL FUND	TAX INCREMENT FINANCING FUND	DEBT SERVICE FUND
<b>REVENUES</b>			
Taxes	\$ 2,120,578	\$ -	\$ 434,366
Tax Increments	-	38,705	-
Licenses and Permits	55,615	-	-
Intergovernmental	107,091	-	-
Charges for Services	347,393	-	-
Fines and Forfeits	59,528	-	-
Special Assessments	-	-	128,663
Interest	13,182	-	-
Donations	180,438	-	-
Miscellaneous	28,779	-	-
Total Revenues	<u>2,912,604</u>	<u>38,705</u>	<u>563,029</u>
<b>EXPENDITURES</b>			
Current			
General Government	733,000	-	-
Public Safety	571,678	-	-
Public Works	473,791	-	-
Culture and Recreation	369,507	-	-
Economic Development	-	35,198	-
Miscellaneous	86,064	-	888
Capital Outlay	498,450	-	-
Debt Service			
Principal Retirement	182,941	-	621,000
Interest and Fiscal Charges	118,446	-	86,886
Total Expenditures	<u>3,033,877</u>	<u>35,198</u>	<u>708,774</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(121,273)	3,507	(145,745)
<b>OTHER FINANCING SOURCES (USES)</b>			
Sales of Capital Assets	2,500	-	-
Transfers In	266,989	-	-
Total Other Financing Sources (Uses)	<u>269,489</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	148,216	3,507	(145,745)
Fund Balances (Deficit) - Beginning of Year	<u>1,741,310</u>	<u>3,783</u>	<u>483,546</u>
<b>FUND BALANCES (DEFICIT) - END OF YEAR</b>	<u>\$ 1,889,526</u>	<u>\$ 7,290</u>	<u>\$ 337,801</u>

See accompanying Notes to Financial Statements.

LIBRARY CONSTRUCTION FUND	CAPITAL PROJECTS FUND	TOTAL GOVERNMENTAL FUNDS
\$ -	\$ -	\$ 2,554,944
-	-	38,705
-	-	55,615
-	42,723	149,814
-	-	347,393
-	-	59,528
-	-	128,663
-	-	13,182
-	-	180,438
-	-	28,779
-	42,723	3,557,061
-	-	733,000
-	-	571,678
-	-	473,791
-	-	369,507
-	-	35,198
-	-	86,952
-	84,697	583,147
-	-	803,941
-	-	205,332
-	84,697	3,862,546
-	(41,974)	(305,485)
-	-	2,500
-	-	266,989
-	-	269,489
-	(41,974)	(35,996)
-	-	2,228,639
\$ -	\$ (41,974)	\$ 2,192,643

**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, 2010**

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** \$ (35,996)

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. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital Outlay	\$ 580,880	
Depreciation Expense	<u>(714,112)</u>	(133,232)

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 assets, 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 assets, however, the repayment of principal reduces the liability.

Principal Payments of Capital Leases		182,941
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The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net assets, 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 issuance costs, premiums and discounts when debt is first issued, whereas these amounts are deferred and 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	621,000	
Change in Accrued Interest Expense for General Obligation Bonds	11,929	
Amortization of Bond Issuance Costs	(4,936)	
Amortization of Bond Discount	<u>(4,722)</u>	623,271

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		(7,100)
Change in Other Postemployment Benefits		(19,362)

Delinquent and deferred property taxes and special assessments receivable will be collected subsequent to year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the governmental funds.

Deferred Revenue - December 31, 2009	(426,521)	
Deferred Revenue - December 31, 2010	<u>284,816</u>	<u>(141,705)</u>

<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>		<u><u>\$ 468,817</u></u>
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See accompanying Notes to Financial Statements.

**CITY OF CROSSLAKE, MINNESOTA  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2010**

<b>ASSETS</b>	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	COMMUNICATIONS	SEWER	TOTALS
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$ 373,791	\$ -	\$ 373,791
Receivables			
Accounts	116,848	15,833	132,681
Accrued Interest	10,206	-	10,206
Taxes	-	4,048	4,048
Connection Charges	-	24,500	24,500
Materials and Supplies	76,661	-	76,661
Prepayments	32,688	1,940	34,628
	610,194	46,321	656,515
<b>NONCURRENT ASSETS</b>			
Investments, including Board Designated	1,045,598	-	1,045,598
Taxes Receivable	-	9,651	9,651
Restricted Assets			
Cash and Cash Equivalents	455,000	413,392	868,392
Investments	76,680	-	76,680
Connection Charges Receivable	-	186,745	186,745
Other Investments	44,541	-	44,541
Deferred Charges, Net of Amortization	24,466	16,552	41,018
Capital Assets			
Land	6,654	8,713	15,367
Building and Improvements	9,584,357	3,690,644	13,275,001
Machinery and Equipment	6,588,570	236,067	6,824,637
Sanitary Sewers	-	3,080,700	3,080,700
Construction-in-Progress	15,619	-	15,619
	16,195,200	7,016,124	23,211,324
Less: Accumulated Depreciation	(8,214,809)	(1,255,240)	(9,470,049)
Net Capital Assets	7,980,391	5,760,884	13,741,275
Total Noncurrent Assets	9,626,676	6,387,224	16,013,900
Total Assets	10,236,870	6,433,545	16,670,415

See accompanying Notes to Financial Statements.

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	COMMUNICATIONS	SEWER	TOTALS
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable	\$ 161,402	\$ 3,499	\$ 164,901
Salaries and Wages Payable	-	2,188	2,188
Unearned Revenue	34,700	-	34,700
Advance Payments	32,830	-	32,830
Customer Deposits	24,860	411	25,271
Accrued Compensated Absences	-	5,050	5,050
Bonds Payable	275,000	-	275,000
Total Current Liabilities	<u>528,792</u>	<u>11,148</u>	<u>539,940</u>
<b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>			
Accrued Interest Payable	-	38,651	38,651
Revenue Bonds Payable	-	115,000	115,000
Due to Other Governments	-	630	630
Total Current Liabilities Payable from Restricted Assets	-	<u>154,281</u>	<u>154,281</u>
<b>LONG-TERM LIABILITIES</b>			
Bonds Payable (Net of Unamortized Bond Discounts)	3,437,064	2,120,801	5,557,865
Accrued Compensated Absences	-	8,156	8,156
Other Postemployment Benefits Payable	41,019	2,723	43,742
Total Long-Term Liabilities	<u>3,478,083</u>	<u>2,131,680</u>	<u>5,609,763</u>
Total Liabilities	<u>4,006,875</u>	<u>2,297,109</u>	<u>6,303,984</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	4,268,327	3,525,083	7,793,410
Restricted For:			
Debt Service	76,680	342,911	419,591
Revenue Bond Reserve	455,000	-	455,000
Construction Deposits	-	31,830	31,830
Unrestricted	1,429,988	236,612	1,666,600
Total Net Assets	<u>\$ 6,229,995</u>	<u>\$ 4,136,436</u>	<u>\$ 10,366,431</u>

**CITY OF CROSSLAKE, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2010**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	COMMUNICATIONS	SEWER	TOTALS
<b>OPERATING REVENUES</b>			
Sales and Charges for Services	\$ 3,544,673	197,927	\$ 3,742,600
<b>OPERATING EXPENSES</b>			
Personal Services	-	109,200	109,200
Supplies	-	16,489	16,489
Repairs and Maintenance	-	19,656	19,656
Other Services and Charges	-	56,683	56,683
Plant Specific	474,173	-	474,173
Depreciation	1,038,577	197,892	1,236,469
Plant Support	335,581	-	335,581
Customer	285,891	-	285,891
Signal Purchases	558,329	-	558,329
Other Nonregulated	427,868	-	427,868
General and Administrative	425,624	-	425,624
Total Operating Expenses	<u>3,546,043</u>	<u>399,920</u>	<u>3,945,963</u>
<b>OPERATING INCOME (LOSS)</b>	(1,370)	(201,993)	(203,363)
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Property Taxes	-	212,563	212,563
Investment Earnings	38,265	1,571	39,836
Gain on Sale of Assets	6,575	-	6,575
Interest Expense	(196,646)	(95,811)	(292,457)
Bond Issuance Costs	-	(1,273)	(1,273)
Net Increase in the Fair Value of Investments	4,297	-	4,297
Total Nonoperating Revenues (Expenses)	<u>(147,509)</u>	<u>117,050</u>	<u>(30,459)</u>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS</b>	(148,879)	(84,943)	(233,822)
<b>CAPITAL CONTRIBUTIONS</b>	-	11,687	11,687
<b>TRANSFERS OUT</b>	<u>(266,989)</u>	<u>-</u>	<u>(266,989)</u>
<b>CHANGE IN NET ASSETS</b>	(415,868)	(73,256)	(489,124)
Net Assets - Beginning of Year	<u>6,645,863</u>	<u>4,209,692</u>	<u>10,855,555</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 6,229,995</u>	<u>\$ 4,136,436</u>	<u>\$ 10,366,431</u>

See accompanying Notes to Financial Statements.



**CITY OF CROSSLAKE, MINNESOTA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED DECEMBER 31, 2010**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	COMMUNICATIONS	SEWER	TOTALS
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash Received from Customers	\$ 2,402,822	\$ 198,697	\$ 2,601,519
Cash Received from Others	1,145,015	-	1,145,015
Cash Paid to Employees for Services	(991,016)	(106,081)	(1,097,097)
Cash Paid to Suppliers for Goods and Services	(1,476,244)	(92,369)	(1,568,613)
Net Cash Provided (Used) by Operating Activities	1,080,577	247	1,080,824
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers to Other Funds	(266,989)	-	(266,989)
Increase (Decrease) in Customer Deposits	8,887	-	8,887
Net Cash Provided (Used) by Noncapital Financing Activities	(258,102)	-	(258,102)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and Construction of Capital Assets	(386,151)	(3,784)	(389,935)
Proceeds from Sale of Property, Plant and Equipment	6,575	-	6,575
Decrease in Materials and Supplies	(10,288)	-	(10,288)
Property Taxes Received	-	215,909	215,909
Collection of Connection Charges	-	57,683	57,683
Interest Paid	(186,484)	(95,872)	(282,356)
Principal Payments on Long-Term Debt	(260,000)	(109,027)	(369,027)
Net Cash Provided (Used) by Capital and Related Financing Activities	(836,348)	64,909	(771,439)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net Purchases of Restricted and Unrestricted Investment Securities	(107,869)	-	(107,869)
Purchase of Investments	(9,969)	-	(9,969)
Interest Received	41,069	1,571	42,640
Net Cash Provided (Used) by Investing Activities	(76,769)	1,571	(75,198)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
	(90,642)	66,727	(23,915)
Cash and Cash Equivalents - Beginning of Year	464,433	346,665	811,098
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 373,791</b>	<b>\$ 413,392</b>	<b>\$ 787,183</b>

See accompanying Notes to Financial Statements.

**CITY OF CROSSLAKE, MINNESOTA  
STATEMENT OF CASH FLOWS (CONTINUED)  
PROPRIETARY FUNDS  
YEAR ENDED DECEMBER 31, 2010**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS		
	COMMUNICATIONS	SEWER	TOTALS
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating Income (Loss)	\$ (1,370)	\$ (201,993)	\$ (203,363)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Depreciation	1,038,577	197,892	1,236,469
(Increase) Decrease in Assets:			
Accounts Receivable	4,825	770	5,595
Other Receivables	3,153	-	3,153
Prepayments	9,328	(223)	9,105
Increase (Decrease) in Liabilities:			
Accounts Payable	10,524	(641)	9,883
Accrued Liabilities	-	38	38
Accrued Compensated Absences	-	3,081	3,081
Unearned Revenue	(13,758)	-	(13,758)
Advance Payments	8,944	-	8,944
Postemployment Benefits Payable	20,354	1,323	21,677
Net Cash Provided (Used) by Operating Activities	\$ 1,080,577	\$ 247	\$ 1,080,824
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS</b>			
Current Assets			
Cash and Cash Equivalents	\$ 373,791	\$ -	\$ 373,791
Restricted Assets			
Cash and Cash Equivalents	1,045,598	413,392	1,458,990
Other Investments	44,541	-	44,541
Less: Investments not Meeting Definition of Cash Equivalents	(1,090,139)	-	(1,090,139)
Total Cash and Cash Equivalents	\$ 373,791	\$ 413,392	\$ 787,183

See accompanying Notes to Financial Statements.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

**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, 2010**

**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 assets and the statement of activities) report information about the primary government and its component unit. These statements include the financial activities of the overall City government. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of each function of the City's governmental activities and different business-type activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. The City has no fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The City has no nonmajor funds.

**C. Measurement Focus and Basis of Accounting**

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

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

C. Measurement Focus and Basis of Accounting (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The City considers all revenues to be available if they are collected within 60 days after the end of the current period. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the City. It accounts for all the financial resources of the general government, except those required to be accounted for in another fund.

Tax Increment Financing Fund – The Tax Increment Financing Fund is a special revenue fund used to account for the collection of tax increment and payment of related expenditures.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources and payment of general obligation bond principal, interest and related costs of governmental funds.

Library Construction Fund – The Library Construction Fund was used to track expenses related to the construction of the City Library. It now reports only the amount that is due to the General Fund related to this project.

Capital Projects Fund – The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds.)

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

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

C. Measurement Focus and Basis of Accounting (Continued)

The City reports the following major proprietary funds:

Communications Fund - The Communications Fund accounts for the activities of the City's telephone business and cable television franchise operations.

Sewer Fund – The Sewer Fund accounts for the activities of the City's sewer operations.

Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Funds*, provides proprietary activities with a choice of authorization guidance issued after November 30, 1989. The proprietary funds apply all GASB pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Sewer and Communication Funds have elected to follow GASB pronouncements exclusively after that date.

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, Liabilities, and Net Assets or Equity

**1. Cash and Investments (Including Cash Equivalents)**

Cash balances are invested to the extent available in various securities as authorized by *Minnesota Statutes*. Investment earnings are recorded in the individual fund carrying the investment. Investments are stated at fair value.

Cash equivalents are considered to be short-term, highly liquid investments that are readily convertible to cash and have original maturities of three months or less. Cash and cash equivalents consist of checking and saving certificate accounts, cash on hand, and money market savings accounts.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

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

D. Assets, Liabilities, and Net Assets or Equity (Continued)

**2. Short-Term Interfund Receivables/Payables**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the fund financial statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

**3. Long-Term Interfund Receivables/Payables**

These receivables and payables are classified as "advance to other funds" or "advance from other funds" on the fund financial statements. These amounts are provided with a requirement for repayment.

**4. 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 deferred in the fund financial statements because it is not known to be available to finance the operations of the City in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material.

Property Tax Collection Calendar

The City levies its property tax for the subsequent year during the month of December. In Minnesota, the lien date and assessment date is January 2. The property tax is recorded as revenue when it becomes available. Crow Wing County is the collecting agency for the levy and then remits the collections to the City. All taxes not collected as of December 31 each year are shown as delinquent taxes receivable.

The county auditor makes up the tax list for all taxable property in the City, applying the applicable tax capacity rate to the tax capacity value of individual properties, to arrive at the actual tax for each property. The county auditor also collects the majority of special assessments, except for certain prepayments paid directly to the City.

The county auditor turns over a list of taxes and special assessments to be collected on each parcel of property to the county treasurer in January of each year.

Property owners are required to pay one-half of their real estate taxes by May 15 and the balance by October 15.

Within 30 days after the May settlement, the county treasurer is required to pay 70 percent of the estimated collections of taxes and special assessments to the City treasurer. The county treasurer must pay the balance to the city treasurer within 60 days after settlement, provided that after 45 days interest begins to accrue.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

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

D. Assets, Liabilities, and Net Assets or Equity (Continued)

**4. Property Taxes (Continued)**

Within ten business days after November 15, the county treasurer shall pay to each taxing district, except any school district, 100 percent of the estimated collections arising from taxes levied by and belonging to each taxing district from May 20 to November 20.

**5. Accounts Receivable**

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

**6. Special Assessments**

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

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

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

**7. Due from Other Governments**

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

**8. Inventory**

Inventory is recorded at average cost.

**9. Capital Assets**

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



**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

D. Assets, Liabilities, and Net Assets or Equity (Continued)

**9. Capital Assets (Continued)**

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

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

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

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

**10. Compensated Absences**

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

**11. Long-Term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

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

D. Assets, Liabilities, and Net Assets or Equity (Continued)

**11. Long-Term Obligations (Continued)**

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, 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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**12. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**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 fund is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the City Council. All annual appropriations lapse at fiscal year end.

B. Excess of Expenditures Over Appropriations

General fund expenditures and other financing uses exceeded appropriations by \$417,832. However, total revenues and other financing sources also exceeded budgeted amounts by \$435,478. The overage was considered by City management to be the result of necessary expenditures critical to operations and was approved by the council.

Tax Increment Fund expenditures exceeded appropriations by \$2,198. However, total revenues also exceeded budgeted amounts by \$5,705. The overage was considered by City management to be the result of necessary expenditures and was approved by the Council.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

**NOTE 3 DETAILED NOTES ON ALL FUNDS**

A. Assets

**1. Deposits**

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

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

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

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

The City's deposits in banks at December 31, 2010 were entirely covered by federal depository insurance or by pledged collateral held by the bank's agent in the City's name in amounts equal to at least 110% of the amount in excess of the federal depository insurance, as required by *Minnesota Statutes*.

**2. Investments**

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

- Direct obligations or obligations guaranteed by the United States or its agencies.
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency and all of the investments have a final maturity of thirteen months or less.
- General obligations rated "A" or better; revenue obligations rated "AA" or better.
- General obligations of the Minnesota Housing Finance Agency rate "A" or better.
- Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

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

A. Assets (Continued)

**2. Investments (Continued)**

- Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by a least two nationally recognized rating agencies, and maturing in 270 days or less.
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories.
- Repurchase or reverse purchase agreement and securities lending agreements financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

Interest rate risk – Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. Investments are categorized to give an indication of the level of interest rate risk assumed at year-end. Fair market values and maturities as of December 31, 2010 are as follows:

Investment Type	Total Fair Value	12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Minnesota Municipal Money Market Fund Trust	\$ 1,380,454	\$ 1,380,454	\$ -	\$ -	\$ -
Money Market Funds	706,236	706,236	-	-	-
U.S. Treasury Notes	402,646	56,753	58,594	173,126	114,173
U.S. Treasury Bond	52,310	-	-	-	52,310
Federal National Mortgage Association Notes	149,212	47,995	-	56,031	45,186
Federal Home Loan Mortgage Corporation Notes	28,820	-	-	28,820	-
Tennessee Valley Authority Preferred Stock	85,092	-	-	-	85,092
Total	<u>\$2,804,770</u>	<u>\$2,191,438</u>	<u>\$ 58,594</u>	<u>\$ 257,977</u>	<u>\$ 296,761</u>

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

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

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

A. Assets (Continued)

**2. Investments (Continued)**

Credit Risk – As of December 31, 2010, the City invested in U.S. Treasury Notes, U.S. Treasury Bonds, FNMA Notes, FHLMC Notes, and Tennessee Valley Authority Preferred Stock, which were all rated AAA by national rating agencies. The City's money market investments are not rated. The City invests in government bonds, notes, bills, or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, as allowable under *Minnesota Statutes*.

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

Concentration of Credit Risk – Investments in any one issuer (other than U.S. Treasury) that represent 5% or more of total fund investments at December 31, 2010 are as follows:

	Investment Type	Fair Value	Percentage
Federal National Mortgage Association Notes	Federal Agency Securities	\$ 149,212	5%

**3. Restricted and Designated Cash and Investments**

Restricted cash and investments are those restricted by loan covenants, contracts, or other external parties. Designated investments are those designated by the City Council. At December 31, 2010, restricted and designated cash and investments consisted of the following:

Restricted Cash		
Restricted for Debt Service		\$ 455,000
Restricted Investments		
Restricted for Debt Service Covenants		490,072
Designated Investments		
Operations and Maintenance Reserve - CATV		32,912
Central Office Replacement Reserve		216,667
General Building Maintenance Reserve		18,000
Heavy Equipment Reserve		60,667
New Technology Reserve		217,267
Vehicle Reserve		17,955
Total Designated Investments		<u>563,468</u>
Total Restricted and Designated Cash and Investments		<u><u>\$1,508,540</u></u>

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

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

A. Assets (Continued)

**4. Lease Receivable**

The Component Unit (EDA) leases the emergency services center and the public works facility to the City. The EDA issued bonds to construct these facilities. The City makes rental payments to the EDA equal to the principal and interest payments due on the bonds. The leases are treated as capital leases with the corresponding buildings recorded as capital assets of the City. The lease is treated as a capital lease wherein the EDA financial statements reflect a long-term lease receivable and the primary government reflects the emergency services center and public works facility capital assets and related depreciation, as well as a capital lease payable to the EDA. Future minimum lease payments from the City to the EDA total \$3,532,543 as of December 31, 2010 and a current capital lease receivable (principal portion) of \$2,570,000 is reflected on the component unit (EDA) statement of net assets.

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

At December 31, 2010, advances due from/to other funds were as follows:

Receivable Fund	Payable Fund	Amount
Library Fund	General Fund	\$ 61,642
General Fund	Library Fund	61,642

The amount payable to the library fund relates to the joint construction costs of the library/community center expansion. The City agreed that the general fund and library fund would split these costs evenly. The City plans for the General Fund to repay the balance to the Library Fund over the next several years with future park dedication fees revenue.

The amount payable to the general fund relates to the reclassification of negative cash in the library fund.

Due from/to other funds were as follows:

Fund	Due From Other Funds	Due To Other Funds
General Fund	\$ 68,508	\$ -
Capital Fund	-	68,508
Total	<u>\$ 68,508</u>	<u>\$ 68,508</u>

The balances have resulted from working capital loans made from the General Fund which are expected to be collected in the subsequent year.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

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

A. Assets (Continued)

**5. Interfund Receivables, Payables, and Transfers (Continued)**

Interfund transfers for the year ended December 31, 2010, were as follows:

	Transfer In:		
	Primary Government		
	General Fund	TIF Fund	Total
Transfer Out:			
<u>Primary Government</u>			
Communications Fund	\$ 266,989	\$ -	\$ 266,989

Transfers are generally used to move unrestricted revenues to finance various programs the City must account for in other funds in accordance with budgetary authorizations or other stipulations. Each year, the Communications Fund transfers to the General Fund an amount approved by the Crosslake Utility Commission to assist in offsetting the costs of City services. This amount cannot exceed 8% of the gross revenue of the fund's prior year audited financial statements.

**6. Loans Receivable**

The EDA component unit had the following notes receivable as of December 31, 2010:

**Commercial Revolving Loans**

J and N Co Competition BBQ; 120 monthly payments that vary each month, including interest at 5%; commencing April 2001, and ending July 2011; unsecured. \$ 13,033

Butterfield Enterprises, LLC; 120 monthly payments that vary each month, including interest at 5.5%; commencing December 2009, and ending December 2019; secured by personal guarantees. 60,667

Midwest Properties of Crosslake, LLC; 120 monthly payments that vary each month, including interest at 5.5%; commencing December 2008, and ending December 2018; secured by personal guarantee. 63,096

Total Commercial Loans Receivable \$ 136,796

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

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

A. Assets (Continued)

**7. Capital Assets**

Capital asset activity for the Primary Government for the year ended December 31, 2010, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital Assets, Not Being Depreciated				
Land	\$ 726,208	\$ -	\$ -	\$ 726,208
Construction in Progress	-	68,963	-	68,963
Total Capital Assets, Not Being Depreciated:	<u>726,208</u>	<u>68,963</u>	<u>-</u>	<u>795,171</u>
Capital Assets, Being Depreciated				
Buildings	5,209,561	-	-	5,209,561
Improvements Other Than Buildings	665,189	7,397	-	672,586
Machinery and Equipment	2,680,833	125,989	(28,399)	2,778,423
Infrastructure	7,228,608	378,531	-	7,607,139
Total Capital Assets, Being Depreciated	<u>15,784,191</u>	<u>511,917</u>	<u>(28,399)</u>	<u>16,267,709</u>
Less Accumulated Depreciation for				
Buildings	(1,048,773)	(146,234)	-	(1,195,007)
Improvements Other Than Buildings	(319,794)	(33,035)	-	(352,829)
Machinery and Equipment	(1,276,710)	(244,920)	28,399	(1,493,231)
Infrastructure	(2,155,386)	(289,923)	-	(2,445,309)
Total Accumulated Depreciation	<u>(4,800,663)</u>	<u>(714,112)</u>	<u>28,399</u>	<u>(5,486,376)</u>
Total Capital Assets, Being Depreciated, Net	<u>10,983,528</u>	<u>(202,195)</u>	<u>-</u>	<u>10,781,333</u>
Governmental Activities Capital Assets, Net	<u>\$ 11,709,736</u>	<u>\$ (133,232)</u>	<u>\$ -</u>	<u>\$ 11,576,504</u>



**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

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

A. Assets (Continued)

**7. Capital Assets (Continued)**

Capital asset activity for the Primary Government for the year ended December 31, 2010, is as follows:

	Balance	Increases	Adjustments	Balance
<b>BUSINESS-TYPE ACTIVITIES</b>				
Capital Assets, Not Being Depreciated				
Land	\$ 15,367	\$ -	\$ -	\$ 15,367
Construction in Progress	11,238	4,381	-	15,619
Total Capital Assets, Not Being Depreciated	26,605	4,381	-	30,986
Capital Assets, Being Depreciated				
Buildings and Improvements	4,978,365	97,768	(12,000)	5,064,133
Machinery and Equipment	6,607,030	244,082	(26,474)	6,824,638
Communications Infrastructure	6,620,896	16,520	(19,091)	6,618,325
CATV Infrastructure	1,565,326	31,525	(4,308)	1,592,543
Sanitary Sewers	3,080,700	-	-	3,080,700
Total Capital Assets, Being Depreciated	22,852,317	389,895	(61,873)	23,180,339
Less Accumulated Depreciation For				
Buildings and Improvements	(858,618)	(127,193)	12,000	(973,811)
Machinery and Equipment	(3,991,236)	(605,531)	42,906	(4,553,861)
Communications Infrastructure	(1,969,559)	(307,038)	1,536	(2,275,061)
CATV Infrastructure	(1,017,673)	(113,958)	4,308	(1,127,323)
Sanitary Sewers	(454,027)	(85,967)	-	(539,994)
Total Accumulated Depreciation	(8,291,113)	(1,239,687)	60,750	(9,470,050)
Total Capital Assets, Being Depreciated, Net	14,561,204	(849,792)	(1,123)	13,710,289
Business-Type Activities Capital Assets, Net	<u>\$ 14,587,809</u>	<u>\$ (845,411)</u>	<u>\$ (1,123)</u>	<u>\$ 13,741,275</u>

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

Governmental Activities	
General Government	\$ 335,891
Public Safety	119,973
Public Works	168,654
Culture and Recreation	89,594
Total Depreciation Expense - Governmental Activities	<u>\$ 714,112</u>
Business-Type Activities	
Communications	\$ 1,041,795
Sewer	197,892
Total Depreciation Expense - Business-Type Activities	<u>\$ 1,239,687</u>

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

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

B. Liabilities

**1. Long-Term Debt**

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

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

	<u>Range of Interest Rates</u>	<u>Original Issue</u>	<u>Amount Outstanding</u>
<b>BONDED INDEBTEDNESS</b>			
<b>PRIMARY GOVERNMENT</b>			
<b>GENERAL OBLIGATION BONDS</b>			
G.O. Improvement Bonds, Series 2001	3.30-4.55%	\$ 605,000	\$ 120,000
G.O. Bonds, Series 2002	1.85-4.50%	825,000	195,000
G.O. Disposal System Bonds, Series 2003A	2.00-4.60%	2,870,000	2,265,000
G.O. Improvement Bonds, Series 2004A	2.75-3.70%	1,095,000	615,000
G.O. Improvement Bonds, Series 2006B	3.65-4.10%	1,330,000	855,000
<b>GENERAL OBLIGATION REVENUE BONDS</b>			
G.O. Telephone Utility Revenue Bond - 2006A	4.00-5.00%	4,770,000	3,790,000
Total Primary Government General Obligation Bonds		<u>\$ 11,495,000</u>	<u>\$ 7,840,000</u>
<b>COMPONENT UNIT</b>			
<b>REVENUE BONDS</b>			
Public Facility Lease Revenue Bonds, Series 2003A	2.50-4.55%	\$ 3,185,000	\$ 2,445,000
Revenue Refunding Bonds, Series 2004	2.00-4.15%	325,000	125,000
Total Component Unit		<u>\$ 3,510,000</u>	<u>\$ 2,570,000</u>

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

**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, 2010, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>PRIMARY GOVERNMENT</b>					
<b>GOVERNMENTAL ACTIVITIES</b>					
General Obligation Bonds	\$ 2,406,000	\$ -	\$ (621,000)	\$ 1,785,000	\$ 415,000
Deferred Amounts - Issuance Discounts	(23,862)	-	4,722	(19,140)	-
Total Bonds Payable	2,382,138	-	(616,278)	1,765,860	415,000
Capital Leases Payable	2,861,374	-	(182,941)	2,678,433	194,807
Compensated Absences	64,838	65,804	(58,704)	71,938	28,861
Other Postemployment Benefits Payable	19,601	19,363	-	38,964	-
Governmental Activity Long-Term Liabilities	<u>\$ 5,327,951</u>	<u>\$ 85,167</u>	<u>\$ (857,923)</u>	<u>\$ 4,555,195</u>	<u>\$ 638,668</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Bonds Payable					
General Obligation Bonds	\$ 2,375,000	\$ -	\$ (110,000)	\$ 2,265,000	\$ 115,000
Revenue Bonds	4,050,000	-	(260,000)	3,790,000	275,000
Deferred Amounts - Issuance Discounts	(117,175)	-	10,040	(107,135)	-
Total Bonds Payable	6,307,825	-	(359,960)	5,947,865	390,000
Compensated Absences	10,125	4,737	(1,656)	13,206	5,050
Other Postemployment Benefits Payable	22,066	21,676	-	43,742	-
Business-Type Activity Long-Term Liabilities	<u>\$ 6,340,016</u>	<u>\$ 26,413</u>	<u>\$ (361,616)</u>	<u>\$ 6,004,813</u>	<u>\$ 395,050</u>
<b>COMPONENT UNIT</b>					
Bonds Payable					
Lease Revenue Bonds	\$ 2,560,000	\$ -	\$ (115,000)	\$ 2,445,000	\$ 120,000
Revenue Refunding Bonds	160,000	-	(35,000)	125,000	40,000
Deferred Amounts - Issuance Discounts	(3,900)	-	975	(2,925)	-
Component Unit Long-Term Liabilities	<u>\$ 2,716,100</u>	<u>\$ -</u>	<u>\$ (149,025)</u>	<u>\$ 2,567,075</u>	<u>\$ 160,000</u>

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

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

B. Liabilities (Continued)

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

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

General Obligation Bonds			General Obligation Bonds		
	Governmental Activities			Business-Type Activities	
	Principal	Interest		Principal	Interest
2011	\$ 415,000	\$ 63,696	2011	\$ 115,000	\$ 90,865
2012	345,000	48,645	2012	120,000	86,898
2013	310,000	36,590	2013	125,000	82,609
2014	275,000	25,565	2014	130,000	77,985
2015	285,000	14,928	2015	140,000	72,920
2016-2020	155,000	6,355	2016-2020	810,000	273,173
Total	\$1,785,000	\$ 195,779	2021-2024	825,000	77,333
			Total	\$2,265,000	\$ 761,783

General Obligation Revenue Bonds		
	Business-Type Activities	
	Principal	Interest
2011	\$ 275,000	\$ 178,693
2012	285,000	166,593
2013	300,000	153,910
2014	310,000	140,410
2015	325,000	126,305
2016-2020	1,865,000	388,370
2021-2024	430,000	21,500
Total	\$3,790,000	\$1,175,781

Annual debt service requirements to maturity for revenue bonds of the Component Unit are as follows:

	Principal	Interest
2011	\$ 160,000	\$ 104,980
2012	175,000	98,915
2013	175,000	92,179
2014	140,000	85,293
2015	150,000	79,598
2016-2020	875,000	296,411
2021-2024	895,000	83,540
Total	\$2,570,000	\$ 840,916

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

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

B. Liabilities (Continued)

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

Capital Leases

The City has several outstanding capital leases for equipment and buildings and improvements. In 1994, the Primary Government entered into a capital lease agreement as lessee with the EDA Component Unit to finance the construction of the emergency services center. The City entered into a lease agreement as lessee for financing the acquisition of a fire truck in 1996. In 2003, the Primary Government entered into a lease agreement as lessee with the EDA Component Unit for financing the construction of the public works facility. In 2006, the City entered into a lease agreement for financing the acquisition of a Ziegler Challenger Tractor. In 2007, the City entered into a lease agreement for financing the acquisition of a Caterpillar Wheel Loader. 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:

Buildings and Improvements	\$ 3,145,365
Equipment	615,523
Less: Accumulated Depreciation	(887,065)
Total	<u>\$ 2,873,823</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2010, were as follows:

2011	\$ 305,220
2012	306,278
2013	283,521
2014	241,634
2015	245,939
2016-2020	1,171,411
2021-2024	<u>978,540</u>
Total Minimum Lease Payments	3,532,543
Less: Amount Representing Interest	(854,110)
Present Value of Minimum Lease Payments	<u>\$ 2,678,433</u>

Of this balance, \$2,570,000 is owed to the EDA component unit for the financing related to the emergency services center and joint public works facility.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

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

B. Liabilities (Continued)

**2. Risk Management**

The City is exposed to various risks of loss related to: torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The City (primary government) has entered into a joint powers agreement with the League of Minnesota Cities Insurance Trust (LMCIT). The LMCIT is a public entity risk pool currently operating as common risk management and insurance program for Minnesota cities. The City also carries commercial insurance for certain other risks of loss, including employee health insurance. The agreement for formation of the LMCIT provides that the pool will be self-sustaining through member assessments and will reinsure through commercial companies for claims in excess of reserved amounts for each insured event. The pool can make additional assessments to make the pool self-sustaining.

The City has determined that it is not possible to estimate the amount of such additional assessments; however, they are not expected to be material to the financial statements. There were no significant reductions in insurance coverage from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

The City's component unit is covered by the City's commercial insurance to cover losses in the above described risk areas.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

**NOTE 4 PENSION PLANS**

A. Public Employees Retirement Association

Plan Description

All full-time and certain part-time employees of the City of Crosslake are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF) which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, fire-fighters and peace officers who qualify for members by statute are covered by the PEPFF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after 36 months of public service (60 months if first eligible for membership after June 30, 2010). Being vested means you qualify for benefits at the minimum allowable age. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF and GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

**NOTE 4 PENSION PLANS (CONTINUED)**

A. Public Employees Retirement Association (Continued)

Plan Description (Continued)

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree and no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERP and PEPFF. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org), by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

Funding Policy

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERP Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 6%, respectively, of their annual covered salary in 2010. PEPFF members are required to contribute 9.4% of their annual covered salary in 2010. In 2010, the City was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members, 7% for Coordinated Plan members and 14.1% for PEPFF members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2010, 2009, and 2008, were \$99,814, \$94,803, and \$89,577, respectively. The City's contributions to the Public Employees Police and Fire Fund for the years ending December 31, 2010, 2009, and 2008 were \$40,147, \$38,649, and \$33,342, respectively. The City's contributions were equal to the contractually required contributions for each year as set by state statute.



**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

**NOTE 4 PENSION PLANS (CONTINUED)**

B. Crosslake Firemen's Relief Association

Plan Description

All members of the Crosslake Fire Department are covered by a defined contribution plan administered by the Crosslake Firemen's Relief Association (Relief Association). The plan is a single employer retirement plan and is established and administered in accordance with *Minnesota Statutes* Chapter 69.

The Relief Association provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established in accordance with State Statute, and vest after ten years of credited service. Retirement benefits are based on a member's years of service. Benefit provisions can be amended by the Relief Association within the parameters provided by state statutes.

The Relief Association issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by contacting the City's Fire Hall.

Funding Policy

*Minnesota Statutes* Chapter 69.77 sets the minimum contribution requirement for the City of Crosslake and State Aid on an annual basis. These statutes are established and amended by the state legislature. The Association is comprised of volunteers; therefore, members have no contribution requirements. The City's 2010 contribution to the plan was as follows:

State Aid flowed through City to Relief Association	\$ 32,883
Voluntary (non-required) Contribution from City	<u>15,600</u>
Total Contribution	<u>\$ 48,483</u>

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

**NOTE 5 OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

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

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

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

For the year ended December 31, 2010, there were no retirees receiving health benefits from the City's health plan.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

**NOTE 5 OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)**

A. Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board (GASB) Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB cost of 2010, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Annual Required Contribution (ARC):	\$ 40,425
Interest on Net OPEB Obligation	1,875
Adjustment to ARC	<u>(1,261)</u>
Annual OPEB Cost	41,039
Contributions During the Year	<u>-</u>
Increase in Net OPEB Obligation	41,039
Net OPEB - Beginning of the Year	<u>41,667</u>
Net OPEB - End of the Year	<u><u>\$ 82,706</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the year ended December 31, 2010 were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2010	\$ 41,039	\$ -	- %	\$ 82,706
December 31, 2009	41,667	-	-	41,667

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

**NOTE 5 OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)**

**B. Funding Status**

The City currently has no assets that have been irrevocably deposited in a trust for future health benefits. Therefore, the actuarial value of assets is zero. The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
01/01/09	\$ -	\$ 256,196	\$ 256,196	- %	\$ 1,707,490	15.00%

**C. Actuarial Methods and Assumptions**

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of the occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the January 1, 2010 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.50% discount rate, which is based on the estimated long-term investment yield on the general assets of the City using an underlying long-term inflation assumption of 3.00%. The annual healthcare cost trend rate is 9.00% initially, reduced incrementally to an ultimate rate of 5.00% after eight years. The unfunded actuarial accrued liability is being amortized on a closed group basis over an open thirty year period. The remaining amortization period at December 31, 2010 was 28 years.

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010**

**NOTE 6 OPERATING LEASES**

The City subleases 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 sublease revenue is used to pay the debt service to the EDA component unit for the related capital lease. Future minimum lease payments to be received relating to the sublease are as follows:

2011	\$	133,316
2012		135,385
2013		134,523
2014		133,455
2015		134,758
2016-2020		669,195
2021-2024		531,717
Total	\$	<u>1,872,348</u>

## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF CROSSLAKE, MINNESOTA  
 SCHEDULE OF FUNDING PROGRESS OTHER POSTEMPLOYMENT BENEFIT PLAN  
 YEAR ENDED DECEMBER 31, 2010**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
01/01/09	\$ -	\$ 256,196	\$ 256,196	- %	\$ 1,707,490	15.00%

**CITY OF CROSSLAKE, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**YEAR ENDED DECEMBER 31, 2010**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH BUDGET OVER (UNDER)</u>
	<u>ORIGINAL AND FINAL</u>		
<b>REVENUES</b>			
Taxes	\$ 2,134,995	\$ 2,120,578	\$ (14,417)
Licenses and Permits	45,260	55,615	10,355
Intergovernmental	64,250	107,091	42,841
Charges for Services	200,910	347,393	146,483
Fines and Forfeits	15,500	59,528	44,028
Interest	13,000	13,182	182
Donations	2,200	180,438	178,238
Miscellaneous	270,500	28,779	(241,721)
Total Revenues	2,746,615	2,912,604	165,989
<b>EXPENDITURES</b>			
Current			
General Government			
Mayor and Council	30,881	28,442	(2,439)
Administration	302,358	300,033	(2,325)
Elections	5,550	3,286	(2,264)
Audit and Legal	49,000	35,090	(13,910)
Planning and Zoning	271,908	264,167	(7,741)
Other General Government	116,650	101,982	(14,668)
Total General Government	776,347	733,000	(43,347)
Public Safety			
Police	456,040	475,974	19,934
Ambulance	13,736	13,906	170
Fire Protection	69,768	81,798	12,030
Total Public Safety	539,544	571,678	32,134
Public Works			
Engineering	58,000	71,386	13,386
Public Way Maintenance	390,983	402,405	11,422
Total Public Works	448,983	473,791	24,808
Culture and Recreation			
Library	7,700	27,185	19,485
Recreation	352,081	342,312	(9,769)
Total Culture and Recreation	359,781	369,507	9,726
Miscellaneous			
Recycling	32,690	32,390	(300)
Firemen's Relief Association	51,750	49,483	(2,267)
Cemetery	1,810	4,191	2,381
Total Miscellaneous	86,250	86,064	(186)
Debt Service			
Principal	32,941	182,941	150,000
Interest and Fiscal Charges	7,299	118,446	111,147
Total Debt Service	40,240	301,387	261,147
Capital Outlay			
Capital Equipment	364,900	498,450	133,550
Total Expenditures	2,616,045	3,033,877	417,832

See accompanying Notes to the Required Supplementary Information.



**CITY OF CROSSLAKE, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONTINUED)**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**YEAR ENDED DECEMBER 31, 2010**

	<u>BUDGET</u> <u>ORIGINAL AND FINAL</u>	<u>ACTUAL</u>	<u>VARIANCE WITH</u> <u>BUDGET</u> <u>OVER</u> <u>(UNDER)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	\$ 130,570	\$ (121,273)	\$ (251,843)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	-	266,989	266,989
Sales of Capital Assets	-	2,500	2,500
Total Other Financing Sources (Uses)	<u>-</u>	<u>269,489</u>	<u>269,489</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 130,570</u>	<u>148,216</u>	<u>\$ 17,646</u>
Fund Balance - Beginning of Year		<u>1,741,310</u>	
<b>FUND BALANCE - END OF YEAR</b>		<u>\$ 1,889,526</u>	

**CITY OF CROSSLAKE, MINNESOTA  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 TAX INCREMENT FINANCING FUND  
 YEAR ENDED DECEMBER 31, 2010**

	BUDGET ORIGINAL AND FINAL	ACTUAL	VARIANCE WITH BUDGET OVER (UNDER)
<b>REVENUES</b>			
Tax Increments	\$ 33,000	\$ 38,705	\$ 5,705
<b>EXPENDITURES</b>			
Economic Development Current	33,000	35,198	2,198
<b>NET CHANGE IN FUND BALANCE</b>	-	3,507	3,507
Fund Balance - Beginning of Year	-	3,783	(3,783)
<b>FUND BALANCE - END OF YEAR</b>	\$ -	\$ 7,290	\$ (276)

**CITY OF CROSSLAKE, MINNESOTA  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED DECEMBER 31, 2010**

**NOTE 1 LEGAL COMPLIANCE - BUDGETS**

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 fund is adopted on a basis consistent with U.S. generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the City Council. All annual appropriations lapse at fiscal year-end.

B. Excess of Expenditures Over Appropriations

General fund expenditures exceeded appropriations by \$417,832. However, total revenues also exceeded budgeted amounts by \$432,978. The overage was considered by City management to be the result of necessary expenditures critical to operations and was approved by the Council.

Tax Increment Fund expenditures exceeded appropriations by \$2,198. However, total revenues also exceeded budgeted amounts by \$5,705. The overage was considered by City management to be the result of necessary expenditures and was approved by the Council.

## **SUPPLEMENTARY INFORMATION**

**CITY OF CROSSLAKE, MINNESOTA  
 COMBINING BALANCE SHEET  
 ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT  
 DECEMBER 31, 2010**

	<u>REVOLVING LOAN PROGRAM</u>	<u>EDA OPERATING FUND</u>	<u>TOTAL</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ -	\$ 5,282	\$ 5,282
Restricted Cash and Cash Equivalents	292,629	301,698	594,327
Accounts Receivable	791	-	791
Loans Receivable	136,796	-	136,796
Long-Term Lease Receivable	<u>-</u>	<u>2,570,000</u>	<u>2,570,000</u>
 Total Assets	 <u>\$ 430,216</u>	 <u>\$ 2,876,980</u>	 <u>\$ 3,307,196</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Total Liabilities	\$ -	\$ -	\$ -
 Fund Balances			
Reserved for			
Revolving Loan Servicing	430,216	-	430,216
Debt Service	-	306,980	306,980
Long-Term Lease Receivable	<u>-</u>	<u>2,570,000</u>	<u>2,570,000</u>
Total Fund Balances	<u>430,216</u>	<u>2,876,980</u>	<u>3,307,196</u>
Total Liabilities and Fund Balances	<u>\$ 430,216</u>	<u>\$ 2,876,980</u>	<u>\$ 3,307,196</u>

**CITY OF CROSSLAKE, MINNESOTA**  
**RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS**  
**ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT**  
**DECEMBER 31, 2010**

	<u>Fund Level</u> <u>Total</u>	<u>Adjustments</u>	<u>Statement of</u> <u>Net Assets</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 5,282	\$ -	\$ 5,282
Restricted Cash and Cash Equivalents	594,327	-	594,327
Accounts Receivable	791	-	791
Loans Receivable	136,796	-	136,796
Deferred Charges, Net of Amortization	-	1,803 <sup>1</sup>	1,803
Long-Term Lease Receivable	<u>2,570,000</u>	<u>-</u>	<u>2,570,000</u>
Total Assets	<u>\$ 3,307,196</u>	1,803	3,308,999
<b>LIABILITIES</b>			
Accrued Interest Payable	\$ -	42,894 <sup>1</sup>	42,894
Long Term Liabilities			
Due Within One Year	-	160,000 <sup>1</sup>	160,000
Due in More than One Year	<u>-</u>	<u>2,407,075</u> <sup>1</sup>	<u>2,407,075</u>
Total Liabilities	<u>-</u>	<u>2,609,969</u>	<u>2,609,969</u>
<b>FUND BALANCES/NET ASSETS</b>			
Reserved for:			
Revolving Loan Servicing	430,216	(430,216)	
Debt Service	306,980	(306,980)	
Long-Term Lease Receivable	<u>2,570,000</u>	<u>(2,570,000)</u>	
Total Fund Balances	<u>3,307,196</u>	<u>(3,307,196)</u>	
Total Liabilities and Fund Balances	<u>\$ 3,307,196</u>	<u>(697,227)</u>	
Net Assets			
Restricted for Debt Service		264,086	264,086
Unrestricted		<u>434,944</u>	<u>434,944</u>
Total Net Assets of Component Unit (Page 16)		<u>\$ 699,030</u>	<u>\$ 699,030</u>

<sup>1</sup> Long-term liabilities, including bonds payable and related accrued interest, are not due and payable in the current period and, therefore, are not reported in the funds.

**CITY OF CROSSLAKE, MINNESOTA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT  
 YEAR ENDED DECEMBER 31, 2010**

	<u>REVOLVING LOAN PROGRAM</u>	<u>EDA OPERATING FUND</u>	<u>TOTAL</u>
<b>REVENUES</b>			
Miscellaneous			
Lease Revenue	\$ -	\$ 111,148	\$ 111,148
Revolving Loan Interest	7,698	-	7,698
Interest	4,438	4,693	9,131
	<u>12,136</u>	<u>115,841</u>	<u>127,977</u>
<b>EXPENDITURES</b>			
Economic Development			
Professional Services	105	-	105
Other Services and Charges	244	-	244
Debt Service			
Principal	-	150,000	150,000
Interest and Fiscal Charges	-	111,147	111,147
	<u>349</u>	<u>261,147</u>	<u>261,496</u>
<b>NET CHANGE IN FUND BALANCES</b>	11,787	(145,306)	(133,519)
Fund Balances - Beginning of Year	<u>418,429</u>	<u>3,022,286</u>	<u>3,440,715</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 430,216</u>	<u>\$ 2,876,980</u>	<u>\$ 3,307,196</u>

**CITY OF CROSSLAKE, MINNESOTA**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**  
**BALANCES TO THE STATEMENT OF ACTIVITIES**  
**ECONOMIC DEVELOPMENT AUTHORITY COMPONENT UNIT**  
**YEAR ENDED DECEMBER 31, 2010**

	<u>Fund Level Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures/Expenses	\$ 261,496	\$ (150,128) <sup>1</sup>	\$ 111,369
Program Revenues			
Charges for Services	<u>118,846</u>	<u>-</u>	<u>118,846</u>
Net Program Revenue (Expense)	(142,650)	150,128	7,477
General Revenues			
Unrestricted Investment Earnings	<u>9,131</u>	<u>-</u>	<u>9,131</u>
Change in Net Assets (Page 16)	(133,519)	150,128	16,608
Fund Balances/Net Assets			
Beginning of Year	<u>3,440,715</u>	<u>(2,758,294)</u>	<u>682,421</u>
End of Year	<u>\$ 3,307,196</u>	<u>\$ (2,608,166)</u>	<u>\$ 699,030</u>

<sup>1</sup> 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 the governmental funds, and the principal payments on debt are shown as a reduction of the related liability in the statement of net assets.

Bond Principal Payments	\$ (150,000)
Amortization of Bond Issuance Costs	600
Amortization of Bond Discount	975
Net Decrease in Accrued Interest Related to Last Debt Service Payment	<u>(1,703)</u>
Total	<u>\$ (150,128)</u>



## **OTHER REPORT SECTION**

## REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit and each major fund of the City of Crosslake, Minnesota, as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 30, 2011.

The City's basic financial statements include the operations of Crosslake Communications. Our audit, described below, did not include the operations of Crosslake Communications because the component unit engaged for its own separate audit that included the provisions of the *Minnesota Legal Compliance Audit Guide Political Subdivisions*.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the Minnesota Office of the State Auditor pursuant to *Minnesota Statutes* Section 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions and tax increment financing. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, the City complied with the material terms and conditions of applicable legal provisions referred to in the preceding paragraph.

This report is intended solely for the information and use of management, the City Council, and the Minnesota Office of the State Auditor and is not intended to be and should not be used by anyone other than those specified parties.

*LarsonAllen LLP*  
LarsonAllen LLP

Brainerd, Minnesota  
March 30, 2011