

CITY OF GEM LAKE  
RAMSEY COUNTY, MINNESOTA

Financial Statements and  
Other Information

Year Ended  
December 31, 2023

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CITY OF GEM LAKE  
RAMSEY COUNTY, MINNESOTA

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INTRODUCTORY SECTION

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CITY OF GEM LAKE  
RAMSEY COUNTY, MINNESOTA

City Council and Other Officials  
as of December 31, 2023

**CITY COUNCIL**

Gretchen Artig-Swomley  
Leonard Cacioppo  
Laurel Hynes-Amlee  
Ben Johnson  
James Lindner

Mayor  
Councilmember  
Councilmember  
Councilmember  
Councilmember

**OTHER OFFICIALS**

Melissa Lawrence  
Tom Kelly  
Joshua Patrick

City Clerk  
City Treasurer  
Planning Commission Chair

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FINANCIAL SECTION

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**PRINCIPALS**

Thomas A. Karnowski, CPA  
Paul A. Radosevich, CPA  
William J. Lauer, CPA  
James H. Eichten, CPA  
Aaron J. Nielsen, CPA  
Victoria L. Holinka, CPA/CMA  
Jaclyn M. Huegel, CPA  
Kalen T. Karnowski, CPA

**INDEPENDENT AUDITOR'S REPORT**

To the City Council and Management  
City of Gem Lake, Minnesota

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

**OPINIONS**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Gem Lake, Minnesota (the City) as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City as of December 31, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**BASIS FOR OPINIONS**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**RESPONSIBILITIES OF MANAGEMENT FOR THE FINANCIAL STATEMENTS**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for 12 months beyond the financial statements date, including any currently known information that may raise substantial doubt shortly thereafter.

(continued)

## **AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS**

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

(continued)

## **OTHER INFORMATION**

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

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

## **OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2024, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Malloy, Montague, Karnowski, Radosevich & Co., P.A.*

Minneapolis, Minnesota  
June 18, 2024

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BASIC FINANCIAL STATEMENTS

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CITY OF GEM LAKE

Statement of Net Position  
December 31, 2023

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and investments	\$ 961,117	\$ 437,151	\$ 1,398,268
Receivables			
Accounts	15,262	18,877	34,139
Accrued interest	2,943	1,463	4,406
Property taxes	18,163	–	18,163
Special assessments	604,968	–	604,968
Due from other governments	1,682	–	1,682
Prepaid items	120,529	–	120,529
Capital assets			
Not being depreciated	33,780	–	33,780
Depreciated, net of accumulated depreciation	1,568,141	1,193,870	2,762,011
<b>Total assets</b>	<b>\$ 3,326,585</b>	<b>\$ 1,651,361</b>	<b>\$ 4,977,946</b>
<b>Liabilities</b>			
Accounts and contracts payable	\$ 22,260	\$ 41	\$ 22,301
Accrued interest payable	11,527	–	11,527
Due to other governments	4,618	1,656	6,274
Accrued salaries payable	3,046	–	3,046
Deposits payable	19,893	–	19,893
Unearned revenue	8,535	–	8,535
Long-term liabilities			
Amounts due in one year	105,000	–	105,000
Amounts due in more than one year	762,235	–	762,235
<b>Total liabilities</b>	<b>937,114</b>	<b>1,697</b>	<b>938,811</b>
<b>Net position</b>			
Net investment in capital assets	734,686	1,193,870	1,928,556
Restricted for debt service	644,150	–	644,150
Restricted for park improvements	51,829	–	51,829
Unrestricted	958,806	455,794	1,414,600
<b>Total net position</b>	<b>2,389,471</b>	<b>1,649,664</b>	<b>4,039,135</b>
<b>Total liabilities and net position</b>	<b>\$ 3,326,585</b>	<b>\$ 1,651,361</b>	<b>\$ 4,977,946</b>

CITY OF GEM LAKE

Statement of Activities  
Year Ended December 31, 2023

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental activities</b>				
General government	\$ 229,235	\$ 21,370	\$ 27,653	\$ 828
Public safety	146,518	–	23,368	–
Public works	191,910	14,343	–	16,997
Conservation and development	77,993	–	1,292	–
Interest and fiscal charges	31,617	–	–	–
Total governmental activities	<u>677,273</u>	<u>35,713</u>	<u>52,313</u>	<u>17,825</u>
<b>Business-type activities</b>				
Water	49,576	43,910	–	–
Sewer	75,447	58,207	–	–
Total business-type activities	<u>125,023</u>	<u>102,117</u>	<u>–</u>	<u>–</u>
Total	<u>\$ 802,296</u>	<u>\$ 137,830</u>	<u>\$ 52,313</u>	<u>\$ 17,825</u>

General revenues  
 Property taxes  
     General purposes  
     Debt service  
 Franchise fees  
 Grants and contributions not restricted  
 Investment earnings  
 Other  
 Total general revenues

Change in net position

Net position – beginning of year

Net position – end of year

Net (Expense) Revenue and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (179,384)	\$ —	\$ (179,384)
(123,150)	—	(123,150)
(160,570)	—	(160,570)
(76,701)	—	(76,701)
<u>(31,617)</u>	<u>—</u>	<u>(31,617)</u>
(571,422)	—	(571,422)
—	(5,666)	(5,666)
<u>—</u>	<u>(17,240)</u>	<u>(17,240)</u>
<u>—</u>	<u>(22,906)</u>	<u>(22,906)</u>
(571,422)	(22,906)	(594,328)
579,417	—	579,417
84,081	—	84,081
9,299	—	9,299
27,334	—	27,334
38,514	19,521	58,035
3,500	—	3,500
<u>742,145</u>	<u>19,521</u>	<u>761,666</u>
170,723	(3,385)	167,338
<u>2,218,748</u>	<u>1,653,049</u>	<u>3,871,797</u>
<u>\$ 2,389,471</u>	<u>\$ 1,649,664</u>	<u>\$ 4,039,135</u>

CITY OF GEM LAKE

Balance Sheet  
Governmental Funds  
December 31, 2023

	General	G.O. Capital Improvement Plan Bonds Series 2015A	G.O. Capital Improvement Plan Bonds Series 2018A	Street Improvements
<b>Assets</b>				
Cash and investments	\$ 538,457	\$ 67,223	\$ 58,426	\$ 245,377
Receivables				
Accounts	15,262	-	-	-
Accrued interest	1,043	281	215	1,209
Property taxes				
Current	12,352	1,641	143	-
Delinquent	3,519	393	115	-
Special assessments				
Delinquent	720	-	42,305	34,879
Deferred	-	-	366,102	160,962
Due from other governments	1,682	-	-	-
Prepaid items	1,696	69,583	49,250	-
<b>Total assets</b>	<b>\$ 574,731</b>	<b>\$ 139,121</b>	<b>\$ 516,556</b>	<b>\$ 442,427</b>
<b>Liabilities</b>				
Accounts and contracts payable	\$ 22,260	\$ -	\$ -	\$ -
Due to other governments	4,618	-	-	-
Accrued salaries payable	3,046	-	-	-
Deposits payable	19,893	-	-	-
Unearned revenue	8,535	-	-	-
<b>Total liabilities</b>	<b>58,352</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Deferred inflows of resources</b>				
Unavailable revenue	4,968	490	408,531	192,341
<b>Fund balances</b>				
Nonspendable	1,696	69,583	49,250	-
Restricted for debt service	-	69,048	58,775	-
Restricted for park improvements	-	-	-	-
Assigned for capital improvements	-	-	-	250,086
Unassigned	509,715	-	-	-
<b>Total fund balances</b>	<b>511,411</b>	<b>138,631</b>	<b>108,025</b>	<b>250,086</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 574,731</b>	<b>\$ 139,121</b>	<b>\$ 516,556</b>	<b>\$ 442,427</b>

<u>Parks and Playgrounds</u>	<u>Total Governmental</u>
\$ 51,634	\$ 961,117
—	15,262
195	2,943
—	14,136
—	4,027
—	77,904
—	527,064
—	1,682
—	120,529
<u>\$ 51,829</u>	<u>\$ 1,724,664</u>
\$ —	\$ 22,260
—	4,618
—	3,046
—	19,893
—	8,535
<u>—</u>	<u>58,352</u>
—	606,330
—	120,529
—	127,823
51,829	51,829
—	250,086
—	509,715
<u>51,829</u>	<u>1,059,982</u>
<u>\$ 51,829</u>	<u>\$ 1,724,664</u>

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CITY OF GEM LAKE

Reconciliation of the Balance Sheet to the  
Statement of Net Position  
Governmental Activities  
December 31, 2023

Total fund balances – governmental funds	\$ 1,059,982
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of capital assets	2,877,549
Less accumulated depreciation	(1,275,628)
Certain revenues (including taxes and special assessments) are included in net position, but are excluded from fund balances until they are available to liquidate liabilities of the current period.	
	606,330
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Bonds payable	(855,000)
Unamortized bond premiums	(12,235)
Interest on long-term debt is included in the change in net position as it accrues, regardless of when payment is due. However, it is included in the change in fund balances when due.	
	<u>(11,527)</u>
Total net position – governmental activities	<u><u>\$ 2,389,471</u></u>

CITY OF GEM LAKE

Statement of Revenue, Expenditures, and Changes in Fund Balances  
 Governmental Funds  
 Year Ended December 31, 2023

	General	G.O. Capital Improvement Plan Bonds Series 2015A	G.O. Capital Improvement Plan Bonds Series 2018A	Street Improvements
<b>Revenue</b>				
Taxes				
Property taxes	\$ 581,281	\$ 77,408	\$ 6,673	\$ -
Franchise fees	9,299	-	-	-
Special assessments	828	-	58,576	35,378
Intergovernmental	79,647	-	-	-
Licenses and permits	24,208	-	-	-
Fines and forfeitures	902	-	-	-
Charges for services	5,329	-	-	-
Investment earnings	11,146	3,848	2,613	18,240
Facility rental	4,664	-	-	-
Miscellaneous	610	-	-	3,500
<b>Total revenue</b>	<b>717,914</b>	<b>81,256</b>	<b>67,862</b>	<b>57,118</b>
<b>Expenditures</b>				
Current				
General government	198,546	-	-	-
Public safety	146,518	-	-	-
Public works	47,128	-	-	-
Conservation and development	71,894	-	-	-
Capital outlay	33,273	-	-	179,723
Debt service				
Principal	-	65,000	40,000	-
Interest and fiscal charges	-	12,427	21,609	-
<b>Total expenditures</b>	<b>497,359</b>	<b>77,427</b>	<b>61,609</b>	<b>179,723</b>
<b>Excess (deficiency) of revenue over expenditures</b>	<b>220,555</b>	<b>3,829</b>	<b>6,253</b>	<b>(122,605)</b>
<b>Other financing sources (uses)</b>				
Transfers in	-	-	-	20,000
Transfers (out)	(20,000)	-	-	-
<b>Total other financing sources (uses)</b>	<b>(20,000)</b>	<b>-</b>	<b>-</b>	<b>20,000</b>
<b>Net change in fund balances</b>	<b>200,555</b>	<b>3,829</b>	<b>6,253</b>	<b>(102,605)</b>
<b>Fund balances</b>				
Beginning of year	310,856	134,802	101,772	352,691
End of year	<u>\$ 511,411</u>	<u>\$ 138,631</u>	<u>\$ 108,025</u>	<u>\$ 250,086</u>

See notes to basic financial statements



<u>Parks and Playgrounds</u>	<u>Total Governmental</u>
\$ —	\$ 665,362
—	9,299
—	94,782
—	79,647
—	24,208
—	902
—	5,329
2,667	38,514
—	4,664
—	4,110
2,667	926,817
—	198,546
—	146,518
—	47,128
5,349	77,243
—	212,996
—	105,000
—	34,036
5,349	821,467
(2,682)	105,350
—	20,000
—	(20,000)
—	—
(2,682)	105,350
54,511	954,632
\$ 51,829	\$ 1,059,982

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CITY OF GEM LAKE

Reconciliation of the Statement of  
 Revenue, Expenditures, and Changes in Fund Balances  
 to the Statement of Activities  
 Governmental Activities  
 Year Ended December 31, 2023

Total net change in fund balances – governmental funds	\$ 105,350
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.	
Capital outlays	147,503
Depreciation expense	(110,728)
Certain revenues (including taxes and special assessments) are included in the change in net position, but are excluded from the change in fund balances until they are available to liquidate liabilities of the current period.	
	(78,821)
Repayment of bond principal is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position.	
	105,000
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.	
Amortization of bond premiums	1,282
Accrued interest	1,137
	<u>2,419</u>
Change in net position – governmental activities	<u>\$ 170,723</u>

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CITY OF GEM LAKE

General Fund

Statement of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual  
Year Ended December 31, 2023

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Revenue			
Taxes			
Property taxes	\$ 584,697	\$ 581,281	\$ (3,416)
Franchise fees	6,500	9,299	2,799
Special assessments	–	828	828
Intergovernmental	8,012	79,647	71,635
Licenses and permits	29,500	24,208	(5,292)
Fines and forfeitures	600	902	302
Charges for services	1,950	5,329	3,379
Investment earnings	3,000	11,146	8,146
Facility rental	5,000	4,664	(336)
Miscellaneous	300	610	310
Total revenue	<u>639,559</u>	<u>717,914</u>	<u>78,355</u>
Expenditures			
Current			
General government	246,319	198,546	(47,773)
Public safety	149,825	146,518	(3,307)
Public works	104,620	47,128	(57,492)
Conservation and development	80,250	71,894	(8,356)
Capital outlay	75,815	33,273	(42,542)
Total expenditures	<u>656,829</u>	<u>497,359</u>	<u>(159,470)</u>
Excess (deficiency) of revenues over expenditures	(17,270)	220,555	237,825
Other financing (uses)			
Transfers (out)	<u>(20,000)</u>	<u>(20,000)</u>	<u>–</u>
Net change in fund balances	<u>\$ (37,270)</u>	<u>200,555</u>	<u>\$ 237,825</u>
Fund balances			
Beginning of year		<u>310,856</u>	
End of year		<u>\$ 511,411</u>	

CITY OF GEM LAKE

Statement of Net Position  
 Proprietary Funds  
 December 31, 2023

	Business-Type Activities – Enterprise Funds		
	Water	Sewer	Total
<b>Assets</b>			
Current assets			
Cash and investments	\$ 3,691	\$ 433,460	\$ 437,151
Receivables			
Accounts	3,865	15,012	18,877
Accrued interest (charges)	(274)	1,737	1,463
Due from other funds	–	85,458	85,458
Total current assets	<u>7,282</u>	<u>535,667</u>	<u>542,949</u>
Noncurrent assets			
Capital assets			
Infrastructure	734,262	813,678	1,547,940
Less accumulated depreciation	<u>(96,856)</u>	<u>(257,214)</u>	<u>(354,070)</u>
Total capital assets, net of accumulated depreciation	<u>637,406</u>	<u>556,464</u>	<u>1,193,870</u>
Total assets	<u>\$ 644,688</u>	<u>\$ 1,092,131</u>	<u>\$ 1,736,819</u>
<b>Liabilities</b>			
Current liabilities			
Accounts and contracts payable	\$ –	\$ 41	\$ 41
Due to other funds	85,458	–	85,458
Due to other governments	<u>1,656</u>	<u>–</u>	<u>1,656</u>
Total liabilities	87,114	41	87,155
<b>Net position</b>			
Net investment in capital assets	637,406	556,464	1,193,870
Unrestricted	<u>(79,832)</u>	<u>535,626</u>	<u>455,794</u>
Total net position	<u>557,574</u>	<u>1,092,090</u>	<u>1,649,664</u>
Total liabilities and net position	<u>\$ 644,688</u>	<u>\$ 1,092,131</u>	<u>\$ 1,736,819</u>

CITY OF GEM LAKE

Statement of Revenue, Expenses, and Changes in Net Position  
 Proprietary Funds  
 Year Ended December 31, 2023

	Business-Type Activities – Enterprise Funds		
	Water	Sewer	Total
Operating revenue			
Charges for services	\$ 43,910	\$ 58,207	\$ 102,117
Operating expenses			
Operating expenses	28,029	58,128	86,157
Depreciation	21,547	17,319	38,866
Total operating expenses	<u>49,576</u>	<u>75,447</u>	<u>125,023</u>
Operating income (loss)	(5,666)	(17,240)	(22,906)
Nonoperating income (expense)			
Investment earnings (charges)	<u>(4,779)</u>	<u>24,300</u>	<u>19,521</u>
Change in net position	(10,445)	7,060	(3,385)
Net position			
Beginning of year	<u>568,019</u>	<u>1,085,030</u>	<u>1,653,049</u>
End of year	<u>\$ 557,574</u>	<u>\$ 1,092,090</u>	<u>\$ 1,649,664</u>

CITY OF GEM LAKE

Statement of Cash Flows  
 Proprietary Funds  
 Year Ended December 31, 2023

	Business-Type Activities – Enterprise Funds		
	Water	Sewer	Total
Cash flows from operating activities			
Receipts from customers and users	\$ 44,233	\$ 58,929	\$ 103,162
Payments to vendors	(27,517)	(53,692)	(81,209)
Net cash flows from operating activities	<u>16,716</u>	<u>5,237</u>	<u>21,953</u>
Cash flows from noncapital and related financing activities			
Cash received from (paid to) other funds	(15,206)	15,206	–
Cash flows from investing activities			
Interest received (charged)	<u>(4,705)</u>	<u>23,605</u>	<u>18,900</u>
Net change in cash and cash equivalents	(3,195)	44,048	40,853
Cash and cash equivalents – beginning	<u>6,886</u>	<u>389,412</u>	<u>396,298</u>
Cash and cash equivalents – ending	<u>\$ 3,691</u>	<u>\$ 433,460</u>	<u>\$ 437,151</u>
Reconciliation of operating income (loss) to net cash flows from operating activities			
Operating income (loss)	\$ (5,666)	\$ (17,240)	\$ (22,906)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities			
Depreciation	21,547	17,319	38,866
Decrease (increase) in			
Accounts receivable	323	722	1,045
Prepaid items	–	4,458	4,458
Increase (decrease) in			
Accounts payable	–	(22)	(22)
Due to other governments	<u>512</u>	<u>–</u>	<u>512</u>
Net cash flows from operating activities	<u>\$ 16,716</u>	<u>\$ 5,237</u>	<u>\$ 21,953</u>



## CITY OF GEM LAKE

### Notes to Basic Financial Statements December 31, 2023

#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **A. Organization**

The City of Gem Lake, Minnesota (the City) was incorporated in 1959 and operates under the state of Minnesota Statutory Plan A form of government. The City Council is the governing body and is composed of an elected mayor and four councilmembers who exercise legislative authority and determine all matters of policy. The City Council appoints personnel responsible for the proper administration of all affairs relating to the City.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

##### **B. Reporting Entity**

As required by accounting principles generally accepted in the United States of America, these financial statements include the City (the primary government) and its component units. Component units are legally separate entities for which the primary government is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's board, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

Based on these criteria, there are no organizations considered to be component units of the City.

##### **C. Government-Wide Financial Statements**

The government-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all of the financial activities of the City. 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 sales, fees, and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other internally-directed revenues are reported as general revenues.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The government-wide 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 and special assessments are recognized as revenues in the fiscal year for which they are certified for levy. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. However, charges between the City's enterprise funds and other functions are not eliminated, as that would distort the direct costs and program revenues reported in those functions. Depreciation expense is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

### D. Fund Financial Statement Presentation

Separate fund financial statements are provided for governmental and proprietary funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting, transactions are recorded in the following manner:

- 1. Revenue Recognition** – Revenue is recognized when it becomes measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if collected within 60 days after year-end. 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. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. Proceeds of long-term debt and acquisitions under leases and technology subscriptions, when applicable, are reported as other financing sources.

Major revenue that is susceptible to accrual includes property taxes, special assessments, intergovernmental revenue, charges for services, fines and forfeitures, facility rentals, and interest earned on investments. Major revenue that is not susceptible to accrual includes licenses and permits, and miscellaneous revenue. Such revenue is recorded only when received because it is not measurable until collected.

- 2. Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt and other long-term obligations, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as capital outlay expenditures in the governmental funds.

Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements. 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 revenues of the City's enterprise funds are charges to customers for sales and services. The operating expenses for the 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.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Description of Funds

The City reports the following major governmental funds:

**General Fund** – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

**G.O. Capital Improvement Plan Bonds Series 2015A Debt Service Fund** – The G.O. Capital Improvement Plan Bonds Series 2015A Fund accounts for all debt service activity related to the 2015A bond.

**G.O. Capital Improvement Plan Bonds Series 2018A Debt Service Fund** – The G.O. Capital Improvement Plan Bonds Series 2018A Fund accounts for all debt service activity related to the 2018A bond.

**Street Improvements Capital Project Fund** – The Street Improvements Capital Project Fund is used to account for the accumulation of resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities.

**Parks and Playgrounds Capital Project Fund** – The Parks and Playgrounds Capital Project Fund is used to account for the accumulation of resources that are restricted for capital outlays and other costs related to maintaining and improving the City's parks and playgrounds.

The City reports the following major proprietary funds:

**Water Utility Enterprise Fund** – The Water Utility Enterprise Fund accounts for customer water service charges that are used to finance water operating expenses.

**Sewer Utility Enterprise Fund** – The Sewer Utility Enterprise Fund accounts for customer sewer service charges that are used to finance sewer operating expenses.

### E. Cash and Investments

Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

For purposes of the Statement of Cash Flows, the City considers all highly liquid instruments with an original maturity from the time of purchase by the City of three months or less to be cash equivalents. The proprietary funds' portion in the government-wide cash and investment management pool is considered cash equivalent.

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

The City reports all investments at fair value. The City categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Investment pools/mutual funds reporting fair value measurements using NAV – Net Asset Value have no unfunded commitments, the redemption frequency is daily, and no redemption notice is required.

See Note 2 for the City's recurring fair value measurements as of year-end.

### **F. Receivables**

Utility and miscellaneous accounts receivable are reported at gross. Since the City is generally able to certify delinquent amounts to the county for collection as special assessments, no allowance for uncollectible accounts has been provided on current receivables. All receivables are expected to be collected within one year with the exception of deferred special assessments and property taxes receivable.

### **G. Property Taxes**

Property tax levies are set by the City Council by December of each year, and are certified to Ramsey County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become a lien on January 1 and are recorded as receivables by the City on that date. Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Personal property taxes are due in full on May 15. The county provides tax settlements to cities and other taxing districts three times a year; in July, December, and January.

Property taxes are recognized as revenue in the year levied in the government-wide financial statements. In the governmental fund financial statements, taxes are recognized as revenue when received in cash or within 60 days after year-end. Taxes which remain unpaid at December 31, are classified as delinquent taxes receivable, and are offset by a deferred inflow of resources in the governmental fund financial statements.

### **H. Special Assessments**

Special assessments represent the financing for public improvements paid for by benefiting property owners. Special assessments are recorded as receivables upon certification to the county. Special assessments are recognized as revenue in the year levied in the government-wide financial statements. In the governmental fund financial statements, special assessments are recognized as revenue when received in cash or within 60 days after year-end. Governmental fund special assessments receivable which remain unpaid on December 31, are offset by a deferred inflow of resources in the governmental fund financial statements.

### **I. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items are reported using the consumption method and recorded as expenditures/expenses at the time of consumption.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### J. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, street lights, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are capitalized at historical cost or estimated historical cost for assets where actual historical cost is not available. The City defines capital assets as those with an initial, individual cost of \$500 or more with an estimated useful life in excess of five years. Donated assets are recorded as capital assets at their acquisition value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The government reports infrastructure assets on a network and subsystem basis. In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the City chose to include all such items regardless of their acquisition date or amount.

Capital assets are recorded in the government-wide and proprietary fund financial statements, but are not reported in the governmental fund financial statements.

Depreciation on exhaustible assets is recorded as an allocated expense in the Statement of Activities and proprietary funds Statement of Revenue, Expenses, and Changes in Net Position with accumulated depreciation reflected in the government-wide and proprietary funds Statement of Net Position. Since surplus assets are sold for an immaterial amount when declared as no longer needed for city purposes, no salvage value is taken into consideration for depreciation purposes. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Estimated Useful Life</u>
Buildings	40 years
Office equipment	5 to 10 years
Infrastructure	20 to 50 years

Capital assets not being depreciated include land and construction in progress.

### K. Long-Term Liabilities

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. If they are material, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are expensed in the period incurred.

In the governmental fund financial statements, long-term debt and other long-term obligations are not reported as liabilities until due and payable. The face amount of debt issued is reported as other financing sources. Premiums or discounts on debt issuances are reported as other financing sources or uses, respectively. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### L. Net Position

In the government-wide and proprietary fund financial statements, net position represents the differences between assets, deferred outflows of resources, liabilities, and deferred inflow of resources.

Net position is displayed in three components:

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation, reduced by any outstanding debt attributable to acquire capital assets.
- **Restricted Net Position** – Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.
- **Unrestricted Net Position** – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

The City applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available.

### M. Fund Balance Classifications

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.
- **Restricted** – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.
- **Committed** – Consists of internally imposed constraints that are established by resolution of the City Council. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
- **Assigned** – Consists of internally imposed constraints. These constraints consist of amounts intended to be used by the City for specific purposes, but do not meet the criteria to be classified as restricted or committed. In governmental funds, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority.
- **Unassigned** – The residual classification for the General Fund, which also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, it is the City’s policy to first use restricted resources, then use unrestricted resources as they are needed.

When committed, assigned, or unassigned resources are available for use, it is the City’s policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

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

### **N. Budgets and Budgetary Accounting**

Budget amounts are presented on the modified accrual basis of accounting. Each fall, the City Council adopts a General Fund budget for the following fiscal year beginning January 1. The City has established budgetary control at the fund level. Budget appropriations lapse at year-end.

### **O. Risk Management**

The City is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City continues to carry commercial insurance for all risks of loss, including disability and employee health insurance. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage in the current year.

### **P. Use of Estimates**

The preparation of financial statements, in accordance with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

### **Q. Interfund Receivables and Payables**

In the fund financial statements, activity between funds that is representative of lending or borrowing arrangements is reported as either “due to/from other funds” (current portion) or “advances to/from other funds.” All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

### **R. Deferred Outflows/Inflows of Resources**

In addition to assets and liabilities, statements of financial position, or balance sheets, will sometimes report deferred outflows or inflows of resources. These separate financial statement elements represent a consumption or acquisition of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) or an inflow of financial resources (revenue) until then.

Unavailable revenue arises only under a modified accrual basis of accounting and, therefore, is only reported in the governmental funds financial statements. The governmental funds report unavailable revenue from two sources: property taxes and special assessments. These amounts are deferred and recognized as inflows of resources in the period they become available.

## NOTE 2 – DEPOSITS AND INVESTMENTS

### A. Components of Deposits and Investments

Cash and investments at year-end consist of the following:

Deposits	\$ 277,198
Investments	<u>1,121,070</u>
Total	<u>\$ 1,398,268</u>

### B. Deposits

In accordance with Minnesota Statutes, the City maintains deposits at financial institutions which are authorized by the City Council, including checking accounts and certificates of deposit.

The following is considered the most significant risk associated with deposits:

**Custodial Credit Risk** – In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may be lost.

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated “A” or better; revenue obligations rated “AA” or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The City has no additional deposit policies addressing custodial credit risk.

At year-end, the carrying amount of the City’s deposits was \$277,198, while the balance on the bank records was \$280,722. At December 31, 2023, all deposits were fully covered by federal deposit insurance, surety bonds, or by collateral held by the City’s agent in the City’s name.

### C. Investments

The City has the following investments at year-end:

Investment Type	Credit Risk		Fair Value Measurements Using	Interest Risk – Maturity Duration in Years				Total
	Rating	Agency		No Maturity Date	Less Than 1	1 to 5	6 to 10	
Municipal bonds	AA	Moody’s	Level 2	\$ –	\$ –	\$ –	\$ 139,468	\$ 139,468
Municipal bonds	AA	S&P	Level 2	–	–	491,889	–	491,890
Negotiable certificates of deposit	N/R	N/A	Level 2	–	116,057	315,183	–	431,240
Investment pools/mutual funds	Aaa	Moody’s	NAV	58,472	–	–	–	58,472
Total investments				<u>\$ 58,472</u>	<u>\$ 116,057</u>	<u>\$ 807,072</u>	<u>\$ 139,468</u>	<u>\$1,121,070</u>

N/R – Not Rated  
N/A – Not Applicable  
NAV – Net Asset Value



## NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Investments are subject to various risks, the following of which are considered the most significant:

**Custodial Credit Risk** – For investments, this is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer), the City would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City’s investment policy does not further address this risk.

**Credit Risk** – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit the City’s investments to 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 that receive 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 13 months or less; general obligations rated “A” or better; revenue obligations rated “AA” or better; general obligations of the Minnesota Housing Finance Agency rated “A” or better; bankers’ acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with 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; that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers. The City’s investment policy does not further address credit risk.

**Concentration Risk** – This is the risk associated with investing a significant portion of the City’s investments (considered 5.0 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The City’s investment policy states that no more than 5.0 percent of the overall portfolio may be invested in the securities of a single issuer, except for the securities of the United States government, or an external investment pool. The following is a list of investments, which individually comprise more than 5.0 percent of the City’s total investments:

Goldman Sachs Bank	7.4%
Hartford CT	12.8%
Comenity Capital Bank	10.4%
Madison NJ	18.6%
New York City	12.4%
Texas Exchange Bank	20.8%
State of New York	12.5%

**Interest Rate Risk** – This is the risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The City’s investment policy does not further address interest rate risk.

### NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2023 was as follows:

#### A. Changes in Capital Assets Used in Governmental Activities

	Balance – Beginning of Year	Additions	Deletions	Transfers and Completed Construction	Balance – End of Year
Capital assets, not depreciated					
Land	\$ 2,500	\$ –	\$ –	\$ –	\$ 2,500
Construction in progress	–	31,280	–	–	31,280
Total capital assets, not depreciated	2,500	31,280	–	–	33,780
Capital assets, depreciated					
Buildings	907,712	–	–	–	907,712
Office equipment	19,203	–	–	–	19,203
Infrastructure	1,800,631	116,223	–	–	1,916,854
Total capital assets, depreciated	2,727,546	116,223	–	–	2,843,769
Less accumulated depreciation for					
Buildings	(334,833)	(27,336)	–	–	(362,169)
Office equipment	(16,426)	(1,359)	–	–	(17,785)
Infrastructure	(813,641)	(82,033)	–	–	(895,674)
Total accumulated depreciation	(1,164,900)	(110,728)	–	–	(1,275,628)
Net capital assets, depreciated	1,562,646	5,495	–	–	1,568,141
Net capital assets	\$ 1,565,146	\$ 36,775	\$ –	\$ –	\$ 1,601,921

#### B. Changes in Capital Assets Used in Business-Type Activities

	Balance – Beginning of Year	Additions	Deletions	Transfers and Completed Construction	Balance – End of Year
Capital assets, depreciated					
Infrastructure	\$ 1,547,940	\$ –	\$ –	\$ –	\$ 1,547,940
Less accumulated depreciation for					
Infrastructure	(315,204)	(38,866)	–	–	(354,070)
Net capital assets	\$ 1,232,736	\$ (38,866)	\$ –	\$ –	\$ 1,193,870

#### C. Depreciation Expense by Function

Depreciation expense was charged to the following functions:

Governmental activities	
General government	\$ 28,695
Public works	81,283
Conservation and development	750
Total depreciation expense – governmental activities	\$ 110,728
Business-type activities	
Water	\$ 21,547
Sewer	17,319
Total depreciation expense – business-type activities	\$ 38,866

## NOTE 4 – LONG-TERM LIABILITIES

### A. Components of Long-Term Debt

	<u>Original Issue</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Balance – End of Year</u>
Governmental activities					
General obligation (G.O.) bonds					
G.O. Refunding Bonds of 2015A	\$ 775,000	1.25–2.90%	06/17/2015	02/01/2028	\$ 340,000
G.O. Improvement Bonds of 2018A	\$ 660,000	3.00–4.00%	07/12/2018	02/01/2034	515,000
					<u>855,000</u>
Unamortized premiums					<u>12,235</u>
Total governmental activities long-term debt					<u>\$ 867,235</u>

### B. Changes in Long-Term Debt

	<u>Balance – Beginning of Year</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance – End of Year</u>	<u>Due Within One Year</u>
Governmental activities					
G.O. bonds					
G.O. Refunding Bonds of 2015A	\$ 405,000	\$ –	\$ 65,000	\$ 340,000	\$ 65,000
G.O. Improvement Bonds of 2018A	555,000	–	40,000	515,000	40,000
Unamortized premiums	13,517	–	1,282	12,235	–
Total	<u>\$ 973,517</u>	<u>\$ –</u>	<u>\$ 106,282</u>	<u>\$ 867,235</u>	<u>\$ 105,000</u>

### C. Minimum Debt Payments

Minimum annual principal and interest payments required to retire bonds payable are as follows:

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2024	\$ 105,000	\$ 26,301
2025	105,000	23,476
2026	110,000	20,488
2027	115,000	17,270
2028	115,000	13,890
2029–2033	250,000	36,800
2034	<u>55,000</u>	<u>1,100</u>
Total	<u>\$ 855,000</u>	<u>\$ 139,325</u>

### D. Description of Long-Term Debt

**General Obligation Bonds** – The bonds were issued for improvements or projects, or to refund previously issued bonds, which benefited the City as a whole and are, therefore, repaid from ad valorem levies.

### E. Ultimate Responsibility for Debt

All general obligation bonds are backed by the full faith and credit of the City.

**NOTE 5 – INTERFUND BALANCES AND TRANSFERS**

**A. Due To/From Other Funds**

Individual fund receivable and payable balances at December 31, 2023 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Sewer Enterprise	Water Enterprise	<u>\$ 85,458</u>

Interfund receivable and payable balances represent the elimination of negative cash between funds.

**B. Interfund Transfers**

Individual fund transfers during the year ended December 31, 2023 are as follows:

<u>Transfers Out</u>	<u>Transfers In</u> <u>Governmental Funds</u> Street Improvements Capital Project
Governmental funds General	<u>\$ 20,000</u>

During 2023, the City made interfund transfers to provide additional funds for completing upcoming capital projects.

**NOTE 6 – NET INVESTMENT IN CAPITAL ASSETS**

The government-wide Statement of Net Position at December 31, 2023 includes the City’s net investment in capital assets, calculated as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Net investment in capital assets			
Capital assets			
Not being depreciated	\$ 33,780	\$ –	\$ 33,780
Depreciated, net of accumulated depreciation	1,568,141	1,193,870	2,762,011
Less capital-related long-term debt outstanding	<u>(867,235)</u>	<u>–</u>	<u>(867,235)</u>
Total net investment in capital assets	<u>\$ 734,686</u>	<u>\$ 1,193,870</u>	<u>\$ 1,928,556</u>

## **NOTE 7 – COMMITMENTS AND CONTINGENCIES**

### **A. Legal Claims**

The City has the usual and customary type of miscellaneous legal claims pending at year-end. Although the outcome of these lawsuits is not presently determinable, the City's management believes that the City will not incur any material monetary loss resulting from these claims. No loss has been recorded on the City's financial statements relating to these claims.

### **B. Federal and State Funds**

Amounts recorded or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of claims which may be disallowed by the grantor agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

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OTHER REQUIRED REPORTS

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**PRINCIPALS**  
 Thomas A. Karnowski, CPA  
 Paul A. Radosevich, CPA  
 William J. Lauer, CPA  
 James H. Eichten, CPA  
 Aaron J. Nielsen, CPA  
 Victoria L. Holinka, CPA/CMA  
 Jaclyn M. Huegel, CPA  
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INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the City Council and Management  
 City of Gem Lake, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Gem Lake, Minnesota (the City) as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated June 18, 2024.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City’s financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified one deficiency in internal control, described in the accompanying Schedule of Findings and Responses as finding 2023-001, that we consider to be a material weakness.

(continued)

## **REPORT ON COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **CITY'S RESPONSE TO FINDING**

*Government Auditing Standards* requires the auditor to perform limited procedures on the City's response to the finding identified in our audit and described in the accompanying Schedule of Findings and Responses. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### **PURPOSE OF THIS REPORT**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

*Malloy, Montague, Karnowski, Radosevich & Co., P.A.*

Minneapolis, Minnesota

June 18, 2024



PRINCIPALS

Thomas A. Karnowski, CPA  
Paul A. Radosevich, CPA  
William J. Lauer, CPA  
James H. Eichten, CPA  
Aaron J. Nielsen, CPA  
Victoria L. Holinka, CPA/CMA  
Jaclyn M. Huegel, CPA  
Kalen T. Karnowski, CPA

INDEPENDENT AUDITOR'S REPORT  
ON MINNESOTA LEGAL COMPLIANCE

To the City Council and Management  
City of Gem Lake, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Gem Lake, Minnesota (the City) as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 18, 2024.

**MINNESOTA LEGAL COMPLIANCE**

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the contracting – bid laws, depositories of public funds and public investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minnesota Statutes § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

**PURPOSE OF THIS REPORT**

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

A handwritten signature in black ink that reads "Malloy, Montague, Karnowski, Radosevich &amp; Co., P.A." The signature is written in a cursive style and is positioned above a thin horizontal line.

Minneapolis, Minnesota  
June 18, 2024

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CITY OF GEM LAKE

Schedule of Findings and Responses  
Year Ended December 31, 2023

**FINDINGS – MATERIAL WEAKNESS IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

**2023-001 INADEQUATE SEGREGATION OF DUTIES**

**Criteria** – Internal control over financial reporting.

**Condition** – The City of Gem Lake, Minnesota (the City) has limited segregation of duties in a number of areas, including, but not limited to, controls over cash receipts, cash disbursements, utility billing, and payroll.

**Questioned Costs** – Not applicable.

**Context** – The condition applies to multiple areas as noted above.

**Repeat Finding** – This is a current year and prior year finding.

**Cause** – The limited segregation of duties is primarily caused by the limited size of the City’s office staff.

**Effect** – One important element of internal accounting controls is an adequate segregation of duties such that no one individual have responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction. A lack of segregation of duties subjects the City to a higher risk that errors or fraud could occur and not be detected in a timely manner in the normal course of business.

**Recommendation** – We recommend that the City continue its efforts to segregate duties as best it can within the limits of what the City considers to be cost-beneficial.

**Management Response** – There is no disagreement with the audit finding. The City reviews and makes improvements to its internal control structure on an ongoing basis to maximize the segregation of duties in all areas within the limits of the staff available. However, the City does not consider it cost-beneficial at this time to increase the size of its finance department staff in order to further segregate accounting functions.

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