

CITY OF GEM LAKE, MINNESOTA
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2015

CITY OF GEM LAKE
4200 OTTER LAKE ROAD
GEM LAKE, MINNESOTA 55110

**CITY OF GEM LAKE, MINNESOTA
TABLE OF CONTENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2015**

I. FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT	1
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION	4
STATEMENT OF ACTIVITIES	5
BALANCE SHEET – GOVERNMENTAL FUNDS	6
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES	7
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS	8
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES	9
STATEMENT OF NET POSITION – PROPRIETARY FUND	10
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION – PROPRIETARY FUND	11
STATEMENT OF CASH FLOWS – PROPRIETARY FUND	12
NOTES TO BASIC FINANCIAL STATEMENTS	13
REQUIRED SUPPLEMENTARY INFORMATION	
BUDGETARY COMPARISON INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND	28
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION	29
SUPPLEMENTARY INFORMATION	
NONMAJOR GOVERNMENTAL FUNDS	
COMBINING BALANCE SHEET	30
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES	31

II. OTHER REQUIRED REPORTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	32
INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE	34
SCHEDULE OF FINDINGS AND RESPONSES	35

I.

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Honorable Mayor
Members of the City Council and Citizens
City of Gem Lake
Gem Lake, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gem Lake (the City), Minnesota as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Honorable Mayor
Members of the City Council and Citizens
City of Gem Lake

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gem Lake, Minnesota as of December 31, 2015, 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.

Report on Summarized Comparative Information

We have previously audited the City of Gem Lake's 2014 financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, and we expressed unmodified audit opinions on those financial statements in our report dated April 29, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America required that the budgetary comparison information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 operations, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying combining non-major fund financial statements, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Honorable Mayor
Members of the City Council and Citizens
City of Gem Lake

Other Matters (Continued)

Supplementary Information (Continued)

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2016 on our consideration of the City of Gem Lake, Minnesota'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
May 10, 2016

BASIC FINANCIAL STATEMENTS

**CITY OF GEM LAKE, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2015**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 462,297	\$ 412,733	\$ 875,030
Cash with Fiscal Agent	740,503	-	740,503
Taxes Receivable	14,282	-	14,282
Special Assessments Receivable	541,856	3,565	545,421
Accounts Receivable	5,972	22,226	28,198
Due from Other Governments	1,153	-	1,153
Accrued Interest	2,474	2,008	4,482
Prepaid Items	633	2,342	2,975
Capital Assets:			
Capital Assets Not Being Depreciated	94,367	-	94,367
Capital Assets Being Depreciated	1,627,915	617,539	2,245,454
Accumulated Depreciation	(616,522)	(136,800)	(753,322)
Total Assets	2,998,305	923,613	3,921,918
LIABILITIES			
Vouchers and Accounts Payable	20,233	15	20,248
Accrued Interest Payable	13,356	-	13,356
Due to Other Governments	137,410	2,460	139,870
Payroll Taxes and Withholdings	387	-	387
Unearned Revenue	11,300	-	11,300
Long-Term Liabilities:			
Amounts Due Within One Year	745,000	-	745,000
Amounts Due in More than One Year	769,256	-	769,256
Total Liabilities	1,696,942	2,475	1,699,417
NET POSITION			
Net Investment in Capital Assets	366,504	480,739	847,243
Restricted for Debt Service	108,639	-	108,639
Restricted for Park Improvements	39,462	-	39,462
Restricted for Street Projects	3,161	-	3,161
Unrestricted	783,597	440,399	1,223,996
Total Net Position	\$ 1,301,363	\$ 921,138	\$ 2,222,501

See accompanying Notes to Basic Financial Statements.

**CITY OF GEM LAKE, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015**

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
GOVERNMENTAL ACTIVITIES							
General Government	\$ 203,592	\$ 78,516	\$ 8,400	\$ -	\$ (116,676)	\$ -	\$ (116,676)
Public Safety	115,115	-	-	-	(115,115)	-	(115,115)
Public Works	190,676	23,431	-	513,917	346,672	-	346,672
Conservation and Development	50,125	-	-	-	(50,125)	-	(50,125)
Interest and Fiscal Charges	63,102	-	-	-	(63,102)	-	(63,102)
Total Governmental Activities	537,206	101,947	8,400	513,917	87,058	-	87,058
BUSINESS-TYPE ACTIVITIES							
Sewer	50,205	65,286	-	-	-	15,081	15,081
Total Primary Government	<u>\$ 587,411</u>	<u>\$ 167,233</u>	<u>\$ 8,400</u>	<u>\$ 513,917</u>	87,058	15,081	102,139
GENERAL REVENUES							
Taxes:							
Property Taxes, Levied for General Purposes					201,019	-	201,019
Property Taxes, Levied for Debt Service					48,830	-	48,830
Investment Earnings (Loss)					3,350	3,795	7,145
Miscellaneous					2,354	-	2,354
Total General Revenues					<u>264,500</u>	<u>3,795</u>	<u>268,295</u>
CHANGE IN NET POSITION					351,558	18,876	370,434
Net Position - Beginning of Year					<u>949,805</u>	<u>902,262</u>	<u>1,852,067</u>
NET POSITION - END OF YEAR					<u>\$ 1,301,363</u>	<u>\$ 921,138</u>	<u>\$ 2,222,501</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF GEM LAKE, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF DECEMBER 31, 2014)**

	General Fund	G.O. Capital Improvement Plan Bonds Series 2007A	Hoffman Road Fund	Street Improvements Fund	Other Governmental Funds	2015 Total Governmental Funds	2014 Totals
ASSETS							
Cash and Investments	\$ 163,036	\$ 89,784	\$ -	\$ 131,325	\$ 78,152	\$ 462,297	\$ 572,282
Cash with Fiscal Agent	-	740,503	-	-	-	740,503	-
Taxes Receivable	11,424	2,858	-	-	-	14,282	17,176
Special Assessments Receivable	809	-	510,066	-	30,981	541,856	73,180
Accounts Receivable	5,972	-	-	-	-	5,972	8,577
Due from Other Governments	1,153	-	-	-	-	1,153	958
Accrued Interest Receivable	992	255	-	1,011	216	2,474	3,933
Due from Other Funds	126,506	-	-	-	-	126,506	27,122
Prepaid Items	633	-	-	-	-	633	931
Total Assets	\$ 310,525	\$ 833,400	\$ 510,066	\$ 132,336	\$ 109,349	\$ 1,895,676	\$ 704,159
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES							
LIABILITIES							
Vouchers and Accounts Payable	\$ 14,997	\$ -	\$ 5,236	\$ -	\$ -	\$ 20,233	\$ 22,866
Payroll Deductions	387	-	-	-	-	387	-
Due to Other Governments	14,035	-	-	-	-	14,035	3,586
Unearned Revenue	11,300	-	-	-	-	11,300	7,400
Due to Other Funds	-	-	123,375	-	3,131	126,506	27,122
Total Liabilities	40,719	-	128,611	-	3,131	172,461	60,974
DEFERRED INFLOWS OF RESOURCES							
Unavailable Resources	9,282	2,168	510,066	-	29,346	550,862	80,864
FUND BALANCES							
Nonspendable	633	-	-	-	-	633	931
Restricted:							
Debt Service	-	831,232	-	-	35,978	867,210	102,360
Park Improvements	-	-	-	-	39,462	39,462	39,125
Street Projects	-	-	-	-	3,161	3,161	2,893
Assigned:							
Capital Improvements Benefiting Individual Property Owners	-	-	-	132,336	-	132,336	131,209
Unassigned	259,891	-	(128,611)	-	(1,729)	129,551	285,803
Total Fund Balances	260,524	831,232	(128,611)	132,336	76,872	1,172,353	562,321
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 310,525	\$ 833,400	\$ 510,066	\$ 132,336	\$ 109,349	\$ 1,895,676	\$ 704,159

See accompanying Notes to Basic Financial Statements.

**CITY OF GEM LAKE, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2015**

TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS **\$ 1,172,353**

Total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These capital assets consist of:

Buildings	\$	902,232	
Office Equipment		12,895	
Infrastructure		712,788	
Accumulated Depreciation		<u>(616,522)</u>	1,105,760

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

550,862

Some liabilities are not due and payable in the current period and, therefore, are not reported as fund liabilities. Balances at year-end are:

General Obligation Bonds Payable		(1,520,000)	
Unamortized Bond Discounts		5,744	
Accrued Interest on Long-Term Debt		<u>(13,356)</u>	<u>(1,527,612)</u>

TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 1,301,363**

CITY OF GEM LAKE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2015
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED DECEMBER 31, 2014)

	General Fund	G.O. Capital Improvement Plan Bonds Series 2007A	Hoffman Road Fund	Street Improvements Fund	Other Governmental Funds	2015 Total Governmental Funds	2014 Totals
REVENUES							
Taxes	\$ 202,511	\$ 48,830	\$ -	\$ -	\$ -	\$ 251,341	\$ 234,479
Special Assessments	-	-	-	-	42,427	42,427	64,374
Intergovernmental	13,348	-	-	-	-	13,348	3,393
Licenses and Permits	39,222	-	-	-	-	39,222	57,674
Fines and Forfeits	2,182	-	-	-	-	2,182	3,048
Public Charges for Services	12,927	-	-	-	-	12,927	7,616
Miscellaneous:							
Earnings (Loss) on Investments	1,677	481	(750)	1,127	815	3,350	3,068
Other	53,969	-	-	-	-	53,969	21,252
Total Revenues	<u>325,836</u>	<u>49,311</u>	<u>(750)</u>	<u>1,127</u>	<u>43,242</u>	<u>418,766</u>	<u>394,904</u>
EXPENDITURES							
Current:							
General Government	124,999	-	-	-	-	124,999	107,590
Public Safety	115,115	-	-	-	-	115,115	109,973
Public Works	102,228	-	-	-	-	102,228	79,801
Conservation and Development	44,647	-	-	-	-	44,647	50,892
Capital Outlay	-	-	118,856	-	-	118,856	25,967
Debt Service:							
Principal	-	15,000	-	-	-	15,000	15,000
Interest and Fiscal Charges	-	32,904	-	-	-	32,904	33,505
Debt Issuance Costs	-	29,985	-	-	-	29,985	-
Total Expenditures	<u>386,989</u>	<u>77,889</u>	<u>118,856</u>	<u>-</u>	<u>-</u>	<u>583,734</u>	<u>422,728</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(61,153)	(28,578)	(119,606)	1,127	43,242	(164,968)	(27,824)
OTHER FINANCING SOURCES (USES)							
Issuance of Bonds	-	775,000	-	-	-	775,000	-
NET CHANGE IN FUND BALANCES	(61,153)	746,422	(119,606)	1,127	43,242	610,032	(27,824)
Fund Balances - Beginning of Year	<u>321,677</u>	<u>84,810</u>	<u>(9,005)</u>	<u>131,209</u>	<u>33,630</u>	<u>562,321</u>	<u>590,145</u>
FUND BALANCES - END OF YEAR	<u>\$ 260,524</u>	<u>\$ 831,232</u>	<u>\$ (128,611)</u>	<u>\$ 132,336</u>	<u>\$ 76,872</u>	<u>\$ 1,172,353</u>	<u>\$ 562,321</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF GEM LAKE, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL ACTIVITIES
YEAR ENDED DECEMBER 31, 2015**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ 610,032**

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

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

Capital Outlays	\$ 94,367	
Depreciation Expense	<u>(62,626)</u>	31,741

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 unavailable resources in the governmental funds.

Unavailable Resources - December 31, 2014	80,864	
Unavailable Resources - December 31, 2015	<u>550,862</u>	469,998

The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect 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 in the treatment of general obligation bonds and related items is as follows:

Issuance of Bonds Payable	(775,000)	
Repayment of Bond Principal	15,000	
Change in Accrued Interest Payable	250	
Amortization of Bond Discount	<u>(463)</u>	<u>(760,213)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 351,558**

**CITY OF GEM LAKE, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2015**

		Sewer Utility
ASSETS		
Cash and Cash Equivalents	\$	412,733
Customer Accounts Receivable		22,226
Accrued Interest Receivable		2,008
Special Assessments Receivable		3,565
Prepaid Items		2,342
Total Current Assets		442,874
Capital Assets:		
Utility Plant in Service		617,539
Accumulated Depreciation		(136,800)
Net Capital Assets		480,739
Total Assets		923,613
LIABILITIES		
Accounts Payable		15
Due to Other Governments		2,460
Total Liabilities		2,475
NET POSITION		
Net Investment in Capital Assets		480,739
Unrestricted		440,399
Total Net Position	\$	921,138

See accompanying Notes to Basic Financial Statements.

**CITY OF GEM LAKE, MINNESOTA
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2015**

	<u>Sewer Utility</u>
OPERATING REVENUES	
Public Charges for Services	\$ 65,286
OPERATING EXPENSES	
Operating Expenses	37,748
Depreciation	12,457
Total Operating Expenses	<u>50,205</u>
OPERATING INCOME	15,081
NONOPERATING REVENUES	
Interest Revenue	<u>3,795</u>
CHANGE IN NET POSITION	18,876
Net Position - Beginning of Year	<u>902,262</u>
NET POSITION - END OF YEAR	<u><u>\$ 921,138</u></u>

See accompanying Notes to Basic Financial Statements.

**CITY OF GEM LAKE, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2015**

	<u>Sewer Utility</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Utility Customers	\$ 63,441
Cash Payments to Suppliers for Goods and Services	(35,675)
Net Cash Provided by Operating Activities	<u>27,766</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on Investments	<u>4,503</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	32,269
Cash and Cash Equivalents - Beginning of Year	<u>380,464</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 412,733</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	\$ 15,081
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	12,457
Changes in Assets and Liabilities:	
Accounts Receivable	(1,664)
Special Assessments Receivable	(181)
Prepaid Items	(372)
Accounts Payable	15
Due to Other Governments	2,430
Net Cash Provided by Operating Activities	<u><u>\$ 27,766</u></u>

See accompanying Notes to Basic Financial Statements.

CITY OF GEM LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Gem Lake (the City), Minnesota have been prepared in conformity with U.S. generally accepted accounting principles as applied to governmental units by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting policies.

A. Financial Reporting Entity

As required by U.S. generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Gem Lake and its component units. A component unit is a legally separate entity 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 include 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.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) display information about the primary government and its component units. 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.

**CITY OF GEM LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

1. Government-Wide Statements (Continued)

In the government-wide statement of net position, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

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.

2. Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category, governmental and proprietary, are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as separate columns in the fund financial statements. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

**CITY OF GEM LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

2. Fund Financial Statements (Continued)

The City reports the following major governmental funds:

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

G.O. Capital Improvements Plan Bonds Series 2007A – The G.O. Capital Improvement Plan Bonds Series 2007A Fund accounts for all debt service activity related to the 2007A bond.

Hoffman Road Fund – The Hoffman Road Construction Fund accounts for all activity related to the reconstruction activities of Hoffman Road.

Street Improvements Fund – The Street Improvements 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.

The City reports the following major proprietary fund:

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

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.

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. Property and other taxes, licenses, and interest are all considered to be susceptible to accrual. 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.

**CITY OF GEM LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

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 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.

D. Budgets

Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. An annual appropriated budget is adopted for the General Fund. Budgeted expenditure appropriations lapse at year-end.

E. Cash and Investments

Cash and investment balances from all funds are pooled and invested to the extent available in investments authorized by *Minnesota Statutes*. Earnings from investments are allocated to individual funds on the basis of the fund's equity in the cash and investment pool.

The City provides temporary advances to funds that have insufficient cash balances by means of an advance from another fund shown as interfund receivables in the advancing fund in the governmental fund financial statements, and an interfund payable in the fund with the deficit, until adequate resources are received. These interfund payables are eliminated for statement of net position presentation.

Investments are stated at fair value as of the balance sheet date. Interest earnings are accrued at the balance sheet date.

For purposes of the statement of cash flows the Proprietary Fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. All of the cash and investments allocated to the proprietary fund types have original maturities of 90 days or less. Therefore, the entire balance in such fund types is considered cash equivalents.

F. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments. Prepaid items are reported using the consumption method and recorded as an expense or expenditure at the time of consumption. That portion of the relevant funds' balances equal to material prepaid items has been segregated as nonspendable.

**CITY OF GEM LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Property Tax Credits

Property taxes on homestead property (as defined by state statutes) are partially reduced by property tax credits. These credits are paid to the City by the state in lieu of taxes levied against homestead property. The state remits these credits through installments each year. These credits are recognized as revenue by the City at the time of collection.

H. Property Tax Revenue Recognition

The City Council annually adopts a tax levy and certifies it to the County in December (levy/assessment date) of each year for collection in the following year. The County is responsible for billing and collecting all property taxes for itself, the City, the local School District and other taxing authorities. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. Real property taxes are payable (by property owners) on May 15 and October 15 of each calendar year. Personal property taxes are payable by taxpayers on February 28 and June 30 of each year. These taxes are collected by the County and remitted to the City on or before July 15 and December 15 of the same year. Delinquent collections for November and December are received the following January. The City has no ability to enforce payment of property taxes by property owners. The County possesses this authority.

Within the governmental fund financial statements, the City recognizes property tax revenue when it becomes both measurable and available to finance expenditures of the current period. In practice, current and delinquent taxes and State credits received by the City in July, December and the following January are recognized as revenue for the current year. Taxes and credits not received at the year-end are classified as delinquent and due from County taxes receivable. The portion of delinquent taxes not collected by the City in January is fully offset by deferred inflows of resources because it is not available to finance current expenditures. Deferred inflows of resources in governmental activities is susceptible to full accrual on the government-wide statements.

The City's property tax revenue includes payments from the Metropolitan Revenue Distribution (Fiscal Disparities Formula) per *Minnesota Statute 473F*. This statute provides a means of spreading a portion of the taxable valuation of commercial/industrial real property to various taxing authorities within the defined metropolitan area. The valuation "shared" is a portion of commercial/industrial property valuation growth since 1971. Property taxes paid to the City through this formula for 2015 totaled \$3,504. Receipt of property taxes from this "fiscal disparities pool" does not increase or decrease total tax revenue.

**CITY OF GEM LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Special Assessment Revenue Recognition

Special assessments are levied against benefited properties for the cost or a portion of the cost of special assessment improvement projects in accordance with state statutes. These assessments are collectible by the City over a term of years usually consistent with the term of the related bond issue. Collection of annual installments (including interest) is handled by the County Auditor in the same manner as property taxes. Property owners are allowed to (and often do) prepay future installments without interest or prepayment penalties.

Within the fund financial statements, the revenue from special assessments is recognized by the City when it becomes measurable and available to finance expenditures of the current fiscal period. In practice, current and delinquent special assessments received by the City are recognized as revenue for the current year. Special assessments are collected by the County and remitted by December 31 (remitted to the City the following January) and are also recognized as revenue for the current year. All remaining delinquent, deferred and special deferred assessments receivable in governmental funding are completely offset by deferred inflows of resources. Deferred inflows of resources in governmental activities is susceptible to full accrual on the government-wide statements.

Once a special assessment roll is adopted, the amount attributed to each parcel is a lien upon that property until full payment is made or the amount is determined to be excessive by the City's City Council or court action. If special assessments are allowed to go delinquent, the property is subject to tax forfeit sale and the first proceeds of that sale (after costs, penalties and expenses of sale) are remitted to the City in payment of delinquent special assessments. Generally, the City will collect the full amount of its special assessments not adjusted by the City's City Council or court action. Pursuant to State Statutes, a property shall be subject to a tax forfeit sale after three years unless it is homesteaded, agricultural or seasonal recreational land in which event the property is subject to such sale after five years.

**CITY OF GEM LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. 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.

Depreciation on exhaustible assets is recorded as an allocated expense in the statement of activities with accumulated depreciation reflected in the 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 not being depreciated include construction in progress.

Assets	Depreciation Method	Estimated Useful Life
Buildings	Straight-Line	40 Years
Office Equipment	Straight-Line	5 - 10 Years
Utility Systems	Straight-Line	20 - 50 Years
Infrastructure	Straight-Line	20 - 50 Years

K. Long-Term Obligations

In the entity-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bond issue costs are expensed as a current period cost.

In the governmental fund financial statements, bond premiums and discounts, as well as bond issue costs are recognized during the current period. The face amount of the debt issue is reported as on other financing source. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issue costs are reported as debt service expenditures.

**CITY OF GEM LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Net Position/Fund Balance

Net position represents the difference between assets and liabilities in the government-wide and proprietary fund financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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

Nonspendable – portion of fund balances related to prepaid items, inventories, long-term receivables, and corpus on any permanent fund.

Restricted – funds are constrained from outside parties (statute, grantors, bond agreements, etc.).

Committed – funds are established and modified by a resolution approved by the City Council.

Assigned – consists of internally imposed constraints approved by the City Finance Director.

Unassigned – is the residual classification for the General Fund and also reflects the negative residual amounts in other funds.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the City's policy to use restricted first, then unrestricted fund balance.

When an expenditure is incurred for purposes for which committed, assigned and unassigned amounts are available, it is the City's policy to use committed first, then assigned, and finally unassigned amounts.

M. Interfund Transactions

Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures or expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

All interfund transactions are eliminated except for activity between governmental activities and business-type activities for presentation in the entity-wide statements of net position and statements of activities.

**CITY OF GEM LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 2 DEPOSITS AND INVESTMENTS

A. 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 statement of net position and the balance sheet as "Cash and Investments." 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 for deposits 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 in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository.

At December 31, 2015, the carrying amount of the City's deposits were \$156,565, the entire amount of which was insured or collateralized.

At December 31, 2015, the City also had funds deposited in an escrow account per the 2015A refunding bonds escrow agreement. This cash with fiscal agent totaled \$740,503 at year end.

**CITY OF GEM LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

The City may also invest 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 13 months or less.
- General obligations rated “A” or better; revenue obligations rated “AA” or better.
- General obligations of the Minnesota Housing Finance Agency rate “A” or better.
- Bankers’ acceptances of United States banks eligible for purchase by the Federal Reserve System.
- Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by a least two nationally recognized rating agencies, and maturing in 270 days or less.
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories.
- Repurchase or reverse purchase agreement and securities lending agreements financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
- Any security which is an obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service (ii) enrolled in a credit enhancement program pursuant to *Minnesota Statute* §126C.55

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The City’s investment policy doesn’t specifically address custodial credit risk.

**CITY OF GEM LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City's investment policy doesn't specifically address interest rate risk. Information about the sensitivity of the fair values of the City's investments to market interest rate risk fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

Type	Total	12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Negotiable Certificates of Deposit	\$562,025	\$421,012	\$100,301	\$ -	\$40,712
Wells Fargo Prime Investment Fund	165,254	165,254	-	-	-
Total	<u>\$ 727,279</u>	<u>\$ 586,266</u>	<u>\$ 100,301</u>	<u>\$ -</u>	<u>\$ 40,712</u>

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City's investment policy doesn't specifically address credit risk. The following chart summarizes year-end ratings for the City's investments as rated by Moody's Investors Services:

Type	Credit Quality Rating	Amount
Government Money Market Mutual Funds	NR	\$ 165,254
Negotiable Certificates of Deposit:		
Santander Bank CD	NR	175,000
GE Capital Bank CD	NR	246,012
Goldman Sachs Bank CD	NR	141,013
Total Negotiable Certificates of Deposits		<u>562,025</u>
Total		<u>\$ 727,279</u>

NR = Not Rated

CITY OF GEM LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

The City places no limit on the amount that the City may invest in any one issuer. The following is a list of investments which individually comprise more than 5% of the City's total investments:

Type	Amount	Percentage
Government Money Market Mutual Funds	\$ 165,254	22.72%
Negotiable Certificates of Deposit		
Santander Bank CD	175,000	24.06%
GE Capital Bank CD	246,012	33.83%
Goldman Sachs Bank CD	141,013	19.39%

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ -	\$ 94,367	\$ -	\$ 94,367
Capital Assets Being Depreciated:				
Buildings	902,232	-	-	902,232
Office Equipment	12,895	-	-	12,895
Infrastructure	712,788	-	-	712,788
Total Capital Assets Being Depreciated	1,627,915	-	-	1,627,915
Accumulated Depreciation:				
Buildings	(154,583)	(22,947)	-	(177,530)
Office Equipment	(8,744)	(1,242)	-	(9,986)
Infrastructure	(390,569)	(38,437)	-	(429,006)
Total Accumulated Depreciation	(553,896)	(62,626)	-	(616,522)
Net Capital Assets - Capital Activities	<u>\$ 1,074,019</u>	<u>\$ 31,741</u>	<u>\$ -</u>	<u>\$ 1,105,760</u>

Depreciation expense was charged to the governmental functions as follows:

General Government	\$ 24,189
Public Works	38,437
Total Depreciation - Governmental Activities	<u>\$ 62,626</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Sewer Utility				
Capital Assets Being Depreciated:				
Infrastructure	\$ 617,539	\$ -	\$ -	\$ 617,539
Less: Accumulated Depreciation	(124,343)	(12,457)	-	(136,800)
Net Capital Assets - Sewer Utility	<u>\$ 493,196</u>	<u>\$ (12,457)</u>	<u>\$ -</u>	<u>\$ 480,739</u>

**CITY OF GEM LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 CITY INDEBTEDNESS

City indebtedness at December 31, 2015 is composed of the following:

	Issue Date	Final Maturity Date	Interest Rate	Original Issue	Balance 12/31/15
Governmental Activities:					
General Obligation Bonds:					
2007A Capital Improvement Bonds	06/20/2007	02/01/2028	4.00-4.50%	\$ 850,000	\$ 745,000
2015A Refunding Bonds	6/17/15	2/1/2028	1.25-2.90%	775,000	775,000
Total General Obligation Bonds				1,625,000	1,520,000
Unamortized Bond Discount				(25,111)	(5,744)
Total				<u>\$ 1,599,889</u>	<u>\$ 1,514,256</u>

The following is a schedule of changes in City indebtedness for the year ended December 31, 2015:

	Balance 12/31/14	Additions	Reductions	Balance 12/31/15	Due Within One Year
Long-Term Debt					
Governmental Activities					
General Obligation Bonds					
2007A Capital Improvement Bonds	\$ 760,000	\$ -	\$ 15,000	\$ 745,000	\$ 745,000
2015A Refunding Bonds	-	775,000	-	775,000	-
Unamortized Bond Discount	(6,207)	-	(463)	(5,744)	-
Total Long-Term Debt	<u>\$ 753,793</u>	<u>\$ 775,000</u>	<u>\$ 14,537</u>	<u>\$ 1,514,256</u>	<u>\$ 745,000</u>

All long-term bonded indebtedness outstanding at December 31, 2015 is backed by the full faith and credit of the City, including special assessment bond issues.

Minimum annual principal and interest payments required to retire long-term debt are as follows:

Year Ending December 31,	Principal	Interest	Total
2016	\$ 745,000	\$ 32,355	\$ 777,355
2017	60,000	31,755	91,755
2018	60,000	30,430	90,430
2019	65,000	28,380	93,380
2020	60,000	26,214	86,214
2021-2025	320,000	95,206	415,206
2026-2030	210,000	25,738	235,738
Total	<u>\$ 1,520,000</u>	<u>\$ 270,078</u>	<u>\$ 1,790,078</u>

**CITY OF GEM LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 4 CITY INDEBTEDNESS (CONTINUED)

Description and Restrictions of Long-Term Debt

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

General Obligation Refunding Bonds – In 2015 the City issued General Obligation Crossover Refunding Bonds to refund the 2007A General Obligation Bonds. The City will be responsible for the February 2016 payment after which the crossover will occur and the escrow will be responsible for the remaining principal and interest payments of the 2007A bond, resulting in a defeasance of the bond. The refunding resulted in a net present value cash savings of \$41,908.

NOTE 5 STEWARDSHIP COMPLIANCE AND ACCOUNTABILITY

Deficit Fund Balances

The City has deficit fund balances at December 31, 2015 as follows:

	Fund Balance
	Deficit
GO Improvement Bonds Series 2004A	\$ 1,729
Hoffman Road Fund	128,611

The City intends to fund these deficits through future tax levies, transfers from other funds, and various other sources.

Excess of Expenditures Over Budget

As of December 31, 2015, the General Fund had expenditures in excess of its appropriations of \$331,932 by \$55,057. These expenditures in excess of appropriations were funded by greater than anticipated revenues.

NOTE 6 INTERFUND BALANCES AND ACTIVITIES

Due To/From Other Funds

Individual fund receivable and payable balances at December 31, 2015 are as follows:

	Interfund Receivable	Interfund Payable
Governmental Activity:		
General Fund	\$ 126,506	\$ -
GO Improvement Bonds 2004A	-	3,131
Hoffman Road Fund	-	123,375
	\$ 126,506	\$ 126,506

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

**CITY OF GEM LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 7 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 carries commercial insurance for all risks of loss, including disability and employee health insurance.

There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

NOTE 8 FUND BALANCES

Certain portions of fund balance are restricted to provide for funding on certain long-term liabilities or as required by other outside parties. Restricted, Committed and Assigned fund balances at December 31, 2015, are as follows:

- A. **Restricted for Debt Service** – This represents amounts which are restricted for future debt payments.
- B. **Restricted for Park Improvements** – Represents amounts which are received through park dedication fees and are restricted for park acquisitions and improvements.
- C. **Restricted for Street Projects** – Represents amounts which are received from special assessments and are restricted for street projects.
- D. **Assigned for Capital Improvements Benefitting Individual Property Owners** – Represents amounts which are assigned by the City to finance future road improvement projects benefitting individual property owners.

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON INFORMATION**

CITY OF GEM LAKE, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 204,655	\$ 204,655	\$ 202,511	\$ (2,144)
Intergovernmental	5,809	5,809	13,348	7,539
Licenses and Permits	26,600	26,600	39,222	12,622
Fines and Forfeits	3,500	3,500	2,182	(1,318)
Public Charges for Services	5,100	5,100	12,927	7,827
Miscellaneous:				
Interest	5,070	5,070	1,677	(3,393)
Other	1,198	1,198	53,969	52,771
Total Revenues	<u>251,932</u>	<u>251,932</u>	<u>325,836</u>	<u>73,904</u>
EXPENDITURES				
General Government	122,479	122,479	124,999	(2,520)
Public Safety	116,483	116,483	115,115	1,368
Public Works	53,650	53,650	102,228	(48,578)
Conservation and Development	39,320	39,320	44,647	(5,327)
Total Expenditures	<u>331,932</u>	<u>331,932</u>	<u>386,989</u>	<u>(55,057)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (80,000)</u>	<u>\$ (80,000)</u>	(61,153)	<u>\$ 18,847</u>
Fund Balance - Beginning of Year			<u>321,677</u>	
FUND BALANCE - END OF YEAR			<u>\$ 260,524</u>	

See accompanying Note to Required Supplementary Information.

**CITY OF GEM LAKE, MINNESOTA
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2015**

STEWARDSHIP COMPLIANCE AND ACCOUNTABILITY - BUDGET

The General Fund budget is legally adopted on a basis consistent with U.S. generally accepted accounting principles. Actual expenditures exceed budgets during 2015 by \$55,057. These over expenditures were funded by greater than anticipated revenues.

SUPPLEMENTARY INFORMATION

**CITY OF GEM LAKE, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	Capital Projects Funds		Debt Service Funds		Total Nonmajor Funds
	Parks and Playground Fund	Scheuneman Road Fund	G.O. Improvement Bonds Series 2004A	G.O. Improvement Bonds Series 2006A	
ASSETS					
Cash and Investments	\$ 39,274	\$ 3,147	\$ -	\$ 35,731	\$ 78,152
Special Assessments Receivable	-	-	10,333	20,648	30,981
Accrued Interest Receivable	188	14	(96)	110	216
Total Assets	\$ 39,462	\$ 3,161	\$ 10,237	\$ 56,489	\$ 109,349
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Due to Other Funds	\$ -	\$ -	\$ 3,131	\$ -	\$ 3,131
DEFERRED INFLOWS OF RESOURCES					
Unavailable Resources	-	-	8,835	20,511	29,346
FUND BALANCES					
Restricted:					
Park Improvements	39,462	-	-	-	39,462
Street Projects	-	3,161	-	-	3,161
Debt Service	-	-	-	35,978	35,978
Unassigned	-	-	(1,729)	-	(1,729)
Total Fund Balances	39,462	3,161	(1,729)	35,978	76,872
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 39,462	\$ 3,161	\$ 10,237	\$ 56,489	\$ 109,349

**CITY OF GEM LAKE, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGE IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED DECEMBER 31, 2015**

	<u>Capital Projects Funds</u>		<u>Debt Service Funds</u>		Total Nonmajor Funds
	Parks and Playground Fund	Scheuneman Road Fund	G.O. Improvement Bonds Series 2004A	G.O. Improvement Bonds Series 2006A	
REVENUES					
Special Assessments	\$ -	\$ 153	\$ 24,160	\$ 18,114	\$ 42,427
Earnings (Loss) on Investments	337	115	49	314	815
Total Revenues	337	268	24,209	18,428	43,242
EXPENDITURES					
Capital Outlay	-	-	-	-	-
NET CHANGE IN FUND BALANCES	337	268	24,209	18,428	43,242
Fund Balance - Beginning of Year	39,125	2,893	(25,938)	17,550	33,630
FUND BALANCE - END OF YEAR	<u>\$ 39,462</u>	<u>\$ 3,161</u>	<u>\$ (1,729)</u>	<u>\$ 35,978</u>	<u>\$ 76,872</u>

II.

OTHER REQUIRED REPORTS

**INDEPENDENT AUDITORS' 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**

Honorable Mayor and
Members of the City Council
City of Gem Lake, Minnesota

We have audited, in accordance with the 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, each major fund, and the aggregate remaining fund information of City of Gem Lake, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise City of Gem Lake's basic financial statements, and have issued our report thereon dated May 10, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Gem Lake's internal control over financial reporting (internal control) to determine the 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Responses, we identified a deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency finding number 2015-001 described in the accompanying Schedule of Findings and Responses to be a material weakness.

Honorable Mayor and
Members of the City Council
City of Gem Lake

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 determination of financial statement amounts. 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 of Gem Lake's Response to the Finding

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 result 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 communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
May 10, 2016

INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor, Members of the
City Council, and Citizens
City of Gem Lake, Minnesota

We have audited, in accordance with the 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, each major fund, and the aggregate remaining fund information of the City of Gem Lake, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 10, 2016.

The *Minnesota Legal Compliance Audit Guide for Cities* promulgated by the State Auditor pursuant to Minn. Stat. §6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with tax increment financing because the City did not have any tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Gem Lake, failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, except as described in the Schedule of Findings and Recommendations as item 2015-002. 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 of Gem Lake's noncompliance with the above-referenced provisions.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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



CliftonLarsonAllen LLP

Minneapolis, Minnesota
May 10, 2016

**CITY OF GEM LAKE
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2015**

MATERIAL WEAKNESS

2015-001: Limited Segregation of Duties

Condition: Due to the small size of the City's staff, there is by definition a lack of segregation of the accounting functions that is necessary to ensure adequate internal accounting control. While we realize this scenario is common for small entities, we are required to report this issue and to advise that a concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control perspective.

Criteria: Generally, a system of internal control contemplates separation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

Effect: The City is unable to maintain segregation of incompatible duties.

Cause: The condition is due to a limited number of personnel involved in receipt and disbursement processes.

Recommendation: Controls should be reviewed periodically and consideration given to improving the segregation of duties. In making this review, it is important to consider the benefit derived as weighed against the cost of the improvements.

Management Response:

Management has decided, due to the small size of the City's staff, that the additional costs of implementing the necessary controls outweigh the benefits that would be derived.

**CITY OF GEM LAKE
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2015**

OTHER ITEM FOR CONSIDERATION – MINNESOTA LEGAL COMPLIANCE

2015-002: Broker Certification

Criteria: *Minnesota Statute* §118A.04, Subd. 9, requires that, a government entity shall provide annually to the broker a written statement of investment restrictions which shall include a provision that all future investments are to be made in accordance with Minnesota Statutes governing the investment of public funds..

Condition: Neither the City nor its broker were able to provide documentation a broker certification form was completed before any trading activity was conducted during fiscal year 2015.

Effect: The City is not in compliance with the *Minnesota Statute* requiring a broker certification statement each year.

Cause: The City has provided broker certifications in the past but missed updating it for fiscal year 2015.

Recommendation: We recommend City management implement a process to trigger the annual submission of the broker certification statements so as to ensure they are properly providing them on an annual basis, before any trade activity occurs each fiscal year.

Management Response:

City management is aware of this requirement and will continue to monitor the requirement to ensure the statements are provided in all future years.