

CITY OF GEM LAKE, MINNESOTA
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2016

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

**CITY OF GEM LAKE, MINNESOTA
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YEAR ENDED DECEMBER 31, 2016**

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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, 2016, 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, Minnesota

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, 2016, 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 2015 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 May 10, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 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 nonmajor 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, Minnesota


Other Matters (Continued)

Supplementary Information (Continued)

The combining nonmajor 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 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
June 20, 2017

BASIC FINANCIAL STATEMENTS

**CITY OF GEM LAKE, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2016**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 565,337	\$ 39,256	\$ 604,593
Taxes Receivable	21,317	-	21,317
Special Assessments Receivable	491,601	3,253	494,854
Accounts Receivable	6,828	15,970	22,798
Due from Other Governments	856	-	856
Accrued Interest	498	1,207	1,705
Prepaid Items	926	2,526	3,452
Internal Balances	(397,252)	397,252	-
Capital Assets:			
Capital Assets Being Depreciated	2,046,271	617,539	2,663,810
Accumulated Depreciation	(682,481)	(149,257)	(831,738)
Total Assets	2,053,901	927,746	2,981,647
LIABILITIES			
Vouchers and Accounts Payable	8,954	-	8,954
Accrued Interest Payable	7,033	-	7,033
Due to Other Governments	3,065	-	3,065
Payroll Taxes and Withholdings	484	-	484
Unearned Revenue	11,300	-	11,300
Long-Term Liabilities:			
Amounts Due Within One Year	60,000	-	60,000
Amounts Due in More than One Year	715,000	-	715,000
Total Liabilities	805,836	-	805,836
NET POSITION			
Net Investment in Capital Assets	593,813	468,282	1,062,095
Restricted for Debt Service	181,785	-	181,785
Restricted for Park Improvements	39,872	-	39,872
Restricted for Street Projects	3,194	-	3,194
Unrestricted	429,401	459,464	888,865
Total Net Position	\$ 1,248,065	\$ 927,746	\$ 2,175,811

See accompanying Notes to Basic Financial Statements.

**CITY OF GEM LAKE, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016**

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	
GOVERNMENTAL ACTIVITIES							
General Government	\$ 157,813	\$ 39,305	\$ 8,572	\$ 799	\$ (109,137)	\$ -	\$ (109,137)
Public Safety	119,793	-	-	-	(119,793)	-	(119,793)
Public Works	79,690	20,778	-	25,480	(33,432)	-	(33,432)
Conservation and Development	51,122	-	-	-	(51,122)	-	(51,122)
Interest and Fiscal Charges	34,842	-	-	-	(34,842)	-	(34,842)
Total Governmental Activities	443,260	60,083	8,572	26,279	(348,326)	-	(348,326)
BUSINESS-TYPE ACTIVITIES							
Sewer	42,720	45,117	-	-	-	2,397	2,397
Total Primary Government	<u>\$ 485,980</u>	<u>\$ 105,200</u>	<u>\$ 8,572</u>	<u>\$ 26,279</u>	(348,326)	2,397	(345,929)
GENERAL REVENUES							
Taxes:							
Property Taxes, Levied for General Purposes					224,896	-	224,896
Property Taxes, Levied for Debt Service					69,261	-	69,261
Investment Earnings (Loss)					(377)	4,211	3,834
Miscellaneous					1,248	-	1,248
Total General Revenues					<u>295,028</u>	<u>4,211</u>	<u>299,239</u>
CHANGE IN NET POSITION					(53,298)	6,608	(46,690)
Net Position - Beginning of Year					<u>1,301,363</u>	<u>921,138</u>	<u>2,222,501</u>
NET POSITION - END OF YEAR					<u>\$ 1,248,065</u>	<u>\$ 927,746</u>	<u>\$ 2,175,811</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF GEM LAKE, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF DECEMBER 31, 2015)**

	General Fund	G.O. Capital Improvement Plan Bonds Series 2007A	Hoffman Road Fund	Street Improvements Fund	Other Governmental Funds	2016 Total Governmental Funds	2015 Totals
ASSETS							
Cash and Investments	\$ 220,556	\$ 118,845	\$ -	\$ 132,932	\$ 93,004	\$ 565,337	\$ 462,297
Cash with Fiscal Agent	-	-	-	-	-	-	740,503
Taxes Receivable	16,541	4,776	-	-	-	21,317	14,282
Special Assessments Receivable	-	-	475,361	-	16,240	491,601	541,856
Accounts Receivable	6,828	-	-	-	-	6,828	5,972
Due from Other Governments	856	-	-	-	-	856	1,153
Accrued Interest Receivable	565	243	(943)	393	240	498	2,474
Due from Other Funds	1,464	-	-	-	-	1,464	126,506
Prepaid Items	926	-	-	-	-	926	633
Total Assets	\$ 247,736	\$ 123,864	\$ 474,418	\$ 133,325	\$ 109,484	\$ 1,088,827	\$ 1,895,676
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES							
LIABILITIES							
Vouchers and Accounts Payable	\$ 8,954	\$ -	\$ -	\$ -	\$ -	\$ 8,954	\$ 20,233
Payroll Deductions	484	-	-	-	-	484	387
Due to Other Governments	3,065	-	-	-	-	3,065	14,035
Unearned Revenue	11,300	-	-	-	-	11,300	11,300
Due to Other Funds	-	-	397,252	-	1,464	398,716	126,506
Total Liabilities	23,803	-	397,252	-	1,464	422,519	172,461
DEFERRED INFLOWS OF RESOURCES							
Unavailable Resources	10,348	2,849	468,851	-	15,751	497,799	550,862
FUND BALANCES							
Nonspendable	926	-	-	-	-	926	633
Restricted:							
Debt Service	-	121,015	-	-	50,667	171,682	867,210
Park Improvements	-	-	-	-	39,872	39,872	39,462
Street Projects	-	-	-	-	3,194	3,194	3,161
Assigned:							
Individual Property Owners	-	-	-	133,325	-	133,325	132,336
Unassigned	212,659	-	(391,685)	-	(1,464)	(180,490)	129,551
Total Fund Balances	213,585	121,015	(391,685)	133,325	92,269	168,509	1,172,353
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 247,736	\$ 123,864	\$ 474,418	\$ 133,325	\$ 109,484	\$ 1,088,827	\$ 1,895,676

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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, 2016**

TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS \$ 168,509

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	1,131,144	
Accumulated Depreciation	<u>(682,481)</u>	1,363,790

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. 497,799

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	(775,000)	
Accrued Interest on Long-Term Debt	<u>(7,033)</u>	<u>(782,033)</u>

TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 1,248,065**

CITY OF GEM LAKE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED DECEMBER 31, 2015)

	General Fund	G.O. Capital Improvement Plan Bonds Series 2007A	Hoffman Road Fund	Street Improvements Fund	Other Governmental Funds	2016 Total Governmental Funds	2015 Totals
REVENUES							
Taxes	\$ 223,118	\$ 69,261	\$ -	\$ -	\$ -	\$ 292,379	\$ 251,341
Special Assessments	799	-	65,938	-	14,383	81,120	42,427
Intergovernmental	9,796	-	-	-	-	9,796	13,348
Licenses and Permits	34,108	-	-	-	-	34,108	39,222
Fines and Forfeits	3,210	-	-	-	-	3,210	2,182
Public Charges for Services	5,705	-	-	-	-	5,705	12,927
Miscellaneous:							
Earnings (Loss) on Investments	1,701	943	(5,024)	989	1,014	(377)	3,350
Other	17,084	-	-	-	-	17,084	53,969
Total Revenues	<u>295,521</u>	<u>70,204</u>	<u>60,914</u>	<u>989</u>	<u>15,397</u>	<u>443,025</u>	<u>418,766</u>
EXPENDITURES							
Current:							
General Government	134,037	-	-	-	-	134,037	124,999
Public Safety	119,793	-	-	-	-	119,793	115,115
Public Works	37,508	-	-	-	-	37,508	102,228
Conservation and Development	51,122	-	-	-	-	51,122	44,647
Capital Outlay	-	-	323,988	-	-	323,988	118,856
Debt Service:							
Principal	-	745,000	-	-	-	745,000	15,000
Interest and Fiscal Charges	-	35,421	-	-	-	35,421	32,904
Debt Issuance Costs	-	-	-	-	-	-	29,985
Total Expenditures	<u>342,460</u>	<u>780,421</u>	<u>323,988</u>	<u>-</u>	<u>-</u>	<u>1,446,869</u>	<u>583,734</u>
NET CHANGE IN FUND BALANCES	(46,939)	(710,217)	(263,074)	989	15,397	(1,003,844)	610,032
Fund Balances - Beginning 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>
FUND BALANCES - END OF YEAR	<u>\$ 213,585</u>	<u>\$ 121,015</u>	<u>\$ (391,685)</u>	<u>\$ 133,325</u>	<u>\$ 92,269</u>	<u>\$ 168,509</u>	<u>\$ 1,172,353</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, 2016**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (1,003,844)

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	\$ 323,989	
Depreciation Expense	<u>(65,959)</u>	258,030

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, 2015	550,862	
Unavailable Resources - December 31, 2016	<u>497,799</u>	(53,063)

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:

Repayment of Bond Principal	745,000	
Change in Accrued Interest Payable	6,323	
Amortization of Bond Discount	<u>(5,744)</u>	<u>745,579</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (53,298)

**CITY OF GEM LAKE, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2016**

	Sewer Utility
ASSETS	
Cash and Cash Equivalents	\$ 39,256
Customer Accounts Receivable	15,970
Accrued Interest Receivable	1,207
Special Assessments Receivable	3,253
Due From Other Funds	397,252
Prepaid Items	2,526
Total Current Assets	459,464
Capital Assets:	
Utility Plant in Service	617,539
Accumulated Depreciation	(149,257)
Net Capital Assets	468,282
Total Assets	927,746
LIABILITIES	
Accounts Payable	-
NET POSITION	
Net Investment in Capital Assets	468,282
Unrestricted	459,464
Total Net Position	\$ 927,746

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, 2016**

	Sewer Utility
OPERATING REVENUES	
Public Charges for Services	\$ 45,117
OPERATING EXPENSES	
Operating Expenses	30,263
Depreciation	12,457
Total Operating Expenses	42,720
OPERATING INCOME	2,397
NONOPERATING REVENUES	
Interest Revenue	4,211
CHANGE IN NET POSITION	6,608
Net Position - Beginning of Year	921,138
NET POSITION - END OF YEAR	\$ 927,746

See accompanying Notes to Basic Financial Statements.

**CITY OF GEM LAKE, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2016**

	<u>Sewer Utility</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Utility Customers	\$ 51,685
Cash Payments to Suppliers for Goods and Services	<u>(32,922)</u>
Net Cash Provided by Operating Activities	18,763
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Interfund Loans	(397,252)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on Investments	<u>5,012</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(373,477)
Cash and Cash Equivalents - Beginning of Year	<u>412,733</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 39,256</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	\$ 2,397
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	12,457
Changes in Assets and Liabilities:	
Accounts Receivable	6,256
Special Assessments Receivable	312
Prepaid Items	(184)
Accounts Payable	(15)
Due to Other Governments	<u>(2,460)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 18,763</u></u>

See accompanying Notes to Basic Financial Statements.

CITY OF GEM LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016

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, 2016**

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, 2016**

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, 2016

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 accounting principles generally accepted in the United States of America. 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, 2016**

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 2016 totaled \$5,100. 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, 2016**

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, 2016**

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, 2016**

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, 2016**

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, 2016, the carrying amount of the City's deposits was \$251,772, the entire amount of which was insured or collateralized.

**CITY OF GEM LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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, 2016**

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:

Investment Type	Total	Maturity Duration in Years				Rating
		Less Than 1	1 to 2	2 to 5	5 to 10	
Negotiable Certificates of Deposit	\$ 354,000	\$ 100,000	\$ 214,000	\$ 40,000	\$ -	Not Rated
Money Markets	3,087	3,087	-	-	-	Aaa/AAA
	<u>\$ 357,087</u>	<u>\$ 103,087</u>	<u>\$ 214,000</u>	<u>\$ 40,000</u>	<u>\$ -</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 does not specifically address credit risk.

**CITY OF GEM LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. 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:

Investment Type	Amount	Percentage
Negotiable Certificates of Deposit:		
Goldman Sachs Bank CD	\$ 140,000	39.21%
Capital One Bank CD	214,000	59.93%

Fair Value Measurements

The City uses fair value measurements to record fair value adjustments to certain asset and liabilities and to determine fair value disclosures.

The City follows an accounting standard which defines fair value, establishes framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the City has categorized its investments, based on the priority of inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quotes and prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities.

Level 2 – Financial assets and liabilities are valued based on quoted prices for similar assets or inputs that are observable, either directly or indirectly, for substantially the full term through corroboration with observable market data.

Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset.

CITY OF GEM LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Fair Value Measurements (Continued)

The levels of investments at December 31, 2016 are as follows:

Investment Type	Level 1	Level 2	Level 3	Total
Negotiable Certificates of Deposit with Maturities at Purchase of Greater Than 1 Year	\$ -	\$ 354,000	\$ -	\$ 354,000
	<u>\$ -</u>	<u>\$ 354,000</u>	<u>\$ -</u>	<u>354,000</u>
Investments Measured at Amortized Cost				3,087
				<u>\$ 357,087</u>

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ 94,367	\$ 323,988	\$ (418,355)	\$ -
Capital Assets Being Depreciated:				
Buildings	902,232	-	-	902,232
Office Equipment	12,895	-	-	12,895
Infrastructure	712,788	418,356	-	1,131,144
Total Capital Assets Being Depreciated	<u>1,627,915</u>	<u>418,356</u>	<u>-</u>	<u>2,046,271</u>
Accumulated Depreciation:				
Buildings	(177,530)	(22,047)	-	(199,577)
Office Equipment	(9,986)	(1,243)	-	(11,229)
Infrastructure	(429,006)	(42,669)	-	(471,675)
Total Accumulated Depreciation	<u>(616,522)</u>	<u>(65,959)</u>	<u>-</u>	<u>(682,481)</u>
Net Capital Assets - Capital Activities	<u>\$ 1,105,760</u>	<u>\$ 676,385</u>	<u>\$ (418,355)</u>	<u>\$ 1,363,790</u>

Depreciation expense was charged to the governmental functions as follows:

General Government	\$ 23,290
Public Works	42,669
Total Depreciation - Governmental Activities	<u>\$ 65,959</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Sewer Utility				
Capital Assets Being Depreciated:				
Infrastructure	\$ 617,539	\$ -	\$ -	\$ 617,539
Less: Accumulated Depreciation	(136,800)	(12,457)	-	(149,257)
Net Capital Assets - Sewer Utility	<u>\$ 480,739</u>	<u>\$ (12,457)</u>	<u>\$ -</u>	<u>\$ 468,282</u>

CITY OF GEM LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 4 CITY INDEBTEDNESS

City indebtedness at December 31, 2016 is composed of the following:

	Issue Date	Final Maturity Date	Interest Rate	Original Issue	Balance 12/31/16
Governmental Activities					
General Obligation Bonds:					
2007A Capital Improvement Bonds	06/20/2007	02/01/2028	4.00-4.50%	\$ 850,000	\$ -
2015A Refunding Bonds	06/17/2015	02/01/2028	1.25-2.90%	775,000	775,000
Total				<u>\$ 1,625,000</u>	<u>\$ 775,000</u>

The following is a schedule of changes in City indebtedness for the year ended December 31, 2016:

	Balance 12/31/15	Additions	Reductions	Balance 12/31/16	Due Within One Year
Long-Term Debt					
Governmental Activities:					
General Obligation Bonds:					
2007A Capital Improvement Bonds	\$ 745,000	\$ -	\$ 745,000	\$ -	\$ -
2015A Refunding Bonds	775,000	-	-	775,000	60,000
2007A Unamortized Bond Discount	(5,744)	-	(5,744)	-	-
Total Long-Term Debt	<u>\$ 1,514,256</u>	<u>\$ -</u>	<u>\$ 739,256</u>	<u>\$ 775,000</u>	<u>\$ 60,000</u>

All long-term bonded indebtedness outstanding at December 31, 2016 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:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 60,000	\$ 16,505	\$ 76,505
2018	60,000	15,755	75,755
2019	65,000	14,828	79,828
2020	60,000	13,765	73,765
2021	60,000	12,640	72,640
2022-2026	330,000	41,452	371,452
2027-2028	140,000	4,060	144,060
Total	<u>\$ 775,000</u>	<u>\$ 119,005</u>	<u>\$ 894,005</u>

**CITY OF GEM LAKE, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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 was responsible for the February 2016 payment and after, the crossover occurred 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 a deficit fund balance at December 31, 2016 as follows:

	Fund Balance Deficit
Hoffman Road Fund	\$ (391,685)
G.O. Improvement Bonds 2004A	(1,464)

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

NOTE 6 INTERFUND BALANCES AND ACTIVITIES

Due To/From Other Funds

Individual fund receivable and payable balances at December 31, 2016 are as follows:

	Interfund Receivable	Interfund Payable
Governmental Activity:		
General Fund	\$ 1,464	\$ -
Hoffman Road Fund	-	397,252
Other Governmental Funds	-	1,464
Business-Type Activity:		
Sewer Fund	397,252	-
	\$ 398,716	\$ 398,716

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, 2016**

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, 2016 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, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 225,026	\$ 225,026	\$ 223,118	\$ (1,908)
Special Assessment	-	-	799	799
Intergovernmental	10,950	10,950	9,796	(1,154)
Licenses and Permits	26,525	26,525	34,108	7,583
Fines and Forfeits	3,000	3,000	3,210	210
Public Charges for Services	5,719	5,719	5,705	(14)
Miscellaneous:				
Interest	1,950	1,950	1,701	(249)
Other	700	700	17,084	16,384
Total Revenues	<u>273,870</u>	<u>273,870</u>	<u>295,521</u>	<u>21,651</u>
EXPENDITURES				
General Government	129,300	129,300	134,037	(4,737)
Public Safety	122,270	122,270	119,793	2,477
Public Works	60,200	60,200	37,508	22,692
Conservation and Development	42,100	42,100	51,122	(9,022)
Total Expenditures	<u>353,870</u>	<u>353,870</u>	<u>342,460</u>	<u>11,410</u>
NET CHANGE IN FUND BALANCE	<u>\$ (80,000)</u>	<u>\$ (80,000)</u>	(46,939)	<u>\$ 33,061</u>
Fund Balance - Beginning of Year			<u>260,524</u>	
FUND BALANCE - END OF YEAR			<u>\$ 213,585</u>	

See accompanying Note to Required Supplementary Information.

**CITY OF GEM LAKE, MINNESOTA
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2016**

STEWARDSHIP COMPLIANCE AND ACCOUNTABILITY - BUDGET

The General Fund budget is legally adopted on a basis consistent with accounting principles generally accepted in the United States of America.

SUPPLEMENTARY INFORMATION

**CITY OF GEM LAKE, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	Special Revenue	Capital Projects	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	\$ 39,754	\$ 3,186	\$ -	\$ 50,064	\$ 93,004
Special Assessments Receivable	-	-	8,835	7,405	16,240
Accrued Interest Receivable	118	8	-	114	240
Total Assets	<u>\$ 39,872</u>	<u>\$ 3,194</u>	<u>\$ 8,835</u>	<u>\$ 57,583</u>	<u>\$ 109,484</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Due to Other Funds	\$ -	\$ -	\$ 1,464	\$ -	\$ 1,464
DEFERRED INFLOWS OF RESOURCES					
Unavailable Resources	-	-	8,835	6,916	15,751
FUND BALANCES					
Restricted:					
Park Improvements	39,872	-	-	-	39,872
Street Projects	-	3,194	-	-	3,194
Debt Service	-	-	-	50,667	50,667
Unassigned	-	-	(1,464)	-	(1,464)
Total Fund Balances	<u>39,872</u>	<u>3,194</u>	<u>(1,464)</u>	<u>50,667</u>	<u>92,269</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 39,872</u>	<u>\$ 3,194</u>	<u>\$ 8,835</u>	<u>\$ 57,583</u>	<u>\$ 109,484</u>

**CITY OF GEM LAKE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2016**

	Special Revenue	Capital Projects	Debt Service Funds		Total Nonmajor Funds
	Parks and Playground Fund	Scheuneman Road Fund	G.O.	G.O.	
			Improvement Bonds Series 2004A	Improvement Bonds Series 2006A	
REVENUES					
Special Assessments	\$ -	\$ -	\$ 162	\$ 14,221	\$ 14,383
Earnings (Loss) on Investments	410	33	103	468	1,014
Total Revenues	410	33	265	14,689	15,397
EXPENDITURES					
Capital Outlay	-	-	-	-	-
Total Expenditures	-	-	-	-	-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	410	33	265	14,689	15,397
OTHER FINANCING SOURCES					
Transfers In	-	-	0	-	-
NET CHANGE IN FUND BALANCES	410	33	265	14,689	15,397
Fund Balance - Beginning of Year	39,462	3,161	(1,729)	35,978	76,872
FUND BALANCE - END OF YEAR	\$ 39,872	\$ 3,194	\$ (1,464)	\$ 50,667	\$ 92,269

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, 2016, 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 June 20, 2017.

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.

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 entity'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 did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2016-001 and 2016-002, that we consider to be material weaknesses.

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

Compliance and Other Matters

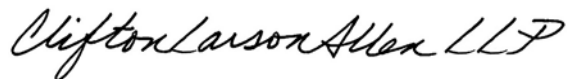
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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
June 20, 2017



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, 2016, 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 20, 2017.

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 items 2016-003, 2016-004, and 2016-005. 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 responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

CliftonLarsonAllen LLP

Minneapolis, Minnesota
June 20, 2017

**CITY OF GEM LAKE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2016**

MATERIAL WEAKNESS

2016-001: 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, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2016**

MATERIAL WEAKNESS (CONTINUED)

2016-002: No Utility Billing Reconciliation Performed

Condition: As the City transitions more responsibility to others, it was noted a formal reconciliation of utility billings and collections are not being performed to account for total billings and receipts into the City's general ledger system.

Criteria: Management is responsible for having adequate controls and processes in place to ensure all activity that is not created and/or generated by the general ledger system is sufficiently reconciled to subsidiary systems. These could be accomplished through periodic review of billing registers, receipts, and system activity. This process should also include a reconciliation process in which all of the activity in the subsidiary system is entered into the general ledger and key account balances and totals are traced to the supporting reports/schedules of the subsidiary system.

Effect: The City may find unexplained variances in utility revenue and receivables.

Cause: The City is working through identifying and establishing controls and processes as some duties are separated out among different individuals.

Recommendation: We recommend City management establish a process to reconcile the utility system to the general ledger at least quarterly to coincide with the utility billing process which occurs on a quarterly basis.

Management Response:

Management is exploring ways to provide a reconciliation between systems.

**CITY OF GEM LAKE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2016**

OTHER ITEM FOR CONSIDERATION – MINNESOTA LEGAL COMPLIANCE

2016-003: Prompt Payment of Local Government Bills

Criteria: *Minnesota Statute* §471.425, Subd. 2, requires Cities to pay each vendor obligation according to terms of the contract or, if no contract terms apply, within the standard payment period unless the municipality in good faith disputes the obligation. For municipalities who have governing boards which have regularly scheduled meetings at least once a month, the standard payment period is defined as within 35 days of the date of receipt.

Condition: The City paid one invoice outside of the 35 days as defined by the Minnesota Statute. The invoice was paid approximately 3 months after it was dated.

Effect: The City is not in compliance with the *Minnesota Statute* requiring prompt payment of local government bills.

Cause: The City paid invoice outside of the 35 days as defined by the Minnesota Statute.

Recommendation: We recommend City management closely monitor payment of invoice to ensure that they are paid in a timely manner.

Management Response:

City management is aware of this requirement and will continue to monitor the requirement to ensure that payment continue to be made as required.

2016-004: Annual Report of Outstanding Obligations

Criteria: *Minnesota Statute* §471.70, on or before February 1st each year, it shall be the duty of the principal accounting officer of each municipality to report to the auditor of each county in which such municipality is situate, the total amount of outstanding obligations, and the purpose for which issued as of December 31 of the preceding year.

Condition: The City did not submit to Ramsey County the Outstanding Obligations as of February 1 2017. It was submitted on February 9, 2017.

Effect: The City is not in compliance with the *Minnesota Statute* requiring the submittal of the Outstanding Obligations as of February 1 of each year.

Cause: The City has provided the Outstanding Obligations report in the past but did not submit report by the deadline for 2016.

Recommendation: We recommend City management implement a process to trigger the submission of the Outstanding Obligations report prior to the February 1 deadline each year.

Management Response:

City management is aware of this requirement and will continue to monitor the requirement to ensure the Outstanding Obligations report is submitted prior to the deadline.

**CITY OF GEM LAKE, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED DECEMBER 31, 2016**

OTHER ITEM FOR CONSIDERATION – MINNESOTA LEGAL COMPLIANCE (CONTINUED)

2016-005: Out of State Travel Policy

Criteria: *Minnesota Statute* §471.661, requires the governing body of each statutory or home rule charter city, county, school district, regional agency, or other political subdivision, except a town, must have on record a policy that controls travel outside the state of Minnesota for the applicable elected officials of the relevant unit of government.

Condition: The City does not have a travel policy.

Effect: The City is not in compliance with the *Minnesota Statute* requiring a travel policy.

Cause: The City has not developed a travel policy.

Recommendation: We recommend the City develop a travel policy.

Management Response:

City management is aware of this requirement and will work toward developing a travel policy.