

**CITY OF GEM LAKE, MINNESOTA**  
**FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**  
**YEAR ENDED DECEMBER 31, 2019**

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

**CITY OF GEM LAKE, MINNESOTA  
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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 and each major fund of the City of Gem Lake (the City), Minnesota as of and for the year ended December 31, 2019, 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 and each major fund of the City of Gem Lake, Minnesota as of December 31, 2019, 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 2018 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 July 31, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 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.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2020 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City of Gem Lake's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
August 28, 2020

## **BASIC FINANCIAL STATEMENTS**

**CITY OF GEM LAKE, MINNESOTA  
STATEMENT OF NET POSITION  
DECEMBER 31, 2019**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and Investments	\$ 984,319	\$ 216,986	\$ 1,201,305
Taxes Receivable	22,300	-	22,300
Special Assessments Receivable	922,080	6,896	928,976
Accounts Receivable	12,648	19,231	31,879
Due from Other Governments	2,506	-	2,506
Accrued Interest	1,253	209	1,462
Prepaid Items	1,050	2,826	3,876
Internal Balances	(233,627)	233,627	-
Capital Assets:			
Capital Assets Not Being Depreciated	2,500	-	2,500
Capital Assets Being Depreciated	2,483,860	1,537,630	4,021,490
Accumulated Depreciation	(883,278)	(226,598)	(1,109,876)
Total Assets	3,315,611	1,790,807	5,106,418
<b>LIABILITIES</b>			
Vouchers and Accounts Payable	28,584	7	28,591
Accrued Interest Payable	15,969	-	15,969
Due to Other Governments	7,157	25,731	32,888
Payroll Taxes and Withholdings	769	-	769
Unearned Revenue	9,400	-	9,400
Long-Term Liabilities:			
Amounts Due Within One Year	90,000	-	90,000
Amounts Due in More than One Year	1,177,363	-	1,177,363
Total Liabilities	1,329,242	25,738	1,354,980
<b>NET POSITION</b>			
Net Investment in Capital Assets	335,719	1,311,032	1,646,751
Restricted for Debt Service	749,099	-	749,099
Restricted for Park Improvements	45,317	-	45,317
Unrestricted	856,234	454,037	1,310,271
Total Net Position	\$ 1,986,369	\$ 1,765,069	\$ 3,751,438

See accompanying Notes to Basic Financial Statements.



**CITY OF GEM LAKE, MINNESOTA  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2019**

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	
<b>GOVERNMENTAL ACTIVITIES</b>							
General Government	\$ 168,165	\$ 50,867	\$ 9,172	\$ 385	\$ (107,741)	\$ -	\$ (107,741)
Public Safety	85,725	-	-	-	(85,725)	-	(85,725)
Public Works	110,651	83,772	-	56,382	29,503	-	29,503
Conservation and Development	97,789	-	-	-	(97,789)	-	(97,789)
Interest and Fiscal Charges	38,960	-	-	-	(38,960)	-	(38,960)
Total Governmental Activities	501,290	134,639	9,172	56,767	(300,712)	-	(300,712)
<b>BUSINESS-TYPE ACTIVITIES</b>							
Sewer	56,516	65,428	-	-	-	8,912	8,912
Water	55,212	37,538	-	-	-	(17,674)	(17,674)
Total Primary Government	<u>\$ 613,018</u>	<u>\$ 237,605</u>	<u>\$ 9,172</u>	<u>\$ 56,767</u>	(300,712)	(8,762)	(309,474)
<b>GENERAL REVENUES</b>							
Taxes:							
Property Taxes, Levied for General Purposes					379,392	-	379,392
Property Taxes, Levied for Debt Service					73,702	-	73,702
Grants and Contributions Not Restricted for a Particular Purpose					13	-	13
Investment Earnings					18,095	8,886	26,981
Miscellaneous					2,500	-	2,500
Transfers					(151,229)	151,229	-
Total General Revenues					<u>322,473</u>	<u>160,115</u>	<u>482,588</u>
<b>CHANGE IN NET POSITION</b>					21,761	151,353	173,114
Net Position - Beginning of Year					<u>1,964,608</u>	<u>1,613,716</u>	<u>3,578,324</u>
<b>NET POSITION - END OF YEAR</b>					<u>\$ 1,986,369</u>	<u>\$ 1,765,069</u>	<u>\$ 3,751,438</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF GEM LAKE, MINNESOTA**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2019**  
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF DECEMBER 31, 2018)

	General Fund	G.O. Capital Improvement Plan Bonds Series 2007A	G.O. Capital Improvement Plan Bonds Series 2018A	Hoffman Road Fund	Schueneman Road Fund	Street Improvements Fund	Parks and Playground Fund	2019 Total Governmental Funds	2018 Totals
<b>ASSETS</b>									
Cash and Investments	\$ 512,263	\$ 123,535	\$ 60,603	\$ -	\$ 426	\$ 241,993	\$ 45,499	\$ 984,319	\$ 881,138
Taxes Receivable	18,621	3,667	12	-	-	-	-	22,300	7,892
Special Assessments Receivable	630	-	578,741	335,793	-	6,916	-	922,080	1,024,314
Accounts Receivable	12,648	-	-	-	-	-	-	12,648	12,741
Due from Other Governments	2,506	-	-	-	-	-	-	2,506	1,722
Accrued Interest Receivable	681	151	59	-	11	295	56	1,253	341
Due from Other Funds	2,647	-	-	-	-	-	-	2,647	-
Prepaid Items	1,050	-	-	-	-	-	-	1,050	991
Total Assets	<u>\$ 551,046</u>	<u>\$ 127,353</u>	<u>\$ 639,415</u>	<u>\$ 335,793</u>	<u>\$ 437</u>	<u>\$ 249,204</u>	<u>\$ 45,555</u>	<u>\$ 1,948,803</u>	<u>\$ 1,929,139</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>									
<b>LIABILITIES</b>									
Vouchers and Accounts Payable	\$ 26,646	\$ 850	\$ 850	\$ -	\$ -	\$ -	\$ 238	\$ 28,584	\$ 37,048
Payroll Deductions	769	-	-	-	-	-	-	769	641
Due to Other Governments	7,157	-	-	-	-	-	-	7,157	11,441
Unearned Revenue	9,400	-	-	-	-	-	-	9,400	8,600
Due to Other Funds	-	-	-	233,627	2,647	-	-	236,274	317,094
Total Liabilities	<u>43,972</u>	<u>850</u>	<u>850</u>	<u>233,627</u>	<u>2,647</u>	<u>-</u>	<u>238</u>	<u>282,184</u>	<u>374,824</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>									
Unavailable Resources	11,807	1,601	579,340	334,184	-	6,916	-	933,848	991,780
<b>FUND BALANCES</b>									
Nonspendable	1,050	-	-	-	-	-	-	1,050	991
Restricted:									
Debt Service	-	124,902	59,225	-	-	-	-	184,127	143,575
Park Improvements	-	-	-	-	-	-	45,317	45,317	31,978
Street Projects	-	-	-	-	-	-	-	-	55,668
Assigned:									
Capital Improvements Benefiting Individual Property Owners	-	-	-	-	-	242,288	-	242,288	216,634
Unassigned	494,217	-	-	(232,018)	(2,210)	-	-	259,989	113,689
Total Fund Balances	<u>495,267</u>	<u>124,902</u>	<u>59,225</u>	<u>(232,018)</u>	<u>(2,210)</u>	<u>242,288</u>	<u>45,317</u>	<u>732,771</u>	<u>562,535</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 551,046</u>	<u>\$ 127,353</u>	<u>\$ 639,415</u>	<u>\$ 335,793</u>	<u>\$ 437</u>	<u>\$ 249,204</u>	<u>\$ 45,555</u>	<u>\$ 1,948,803</u>	<u>\$ 1,929,139</u>

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, 2019**

**TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS** \$ 732,771

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:

Land	\$ 2,500	
Buildings	902,232	
Office Equipment	17,900	
Infrastructure	1,563,728	
Accumulated Depreciation	<u>(883,278)</u>	1,603,082

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. 933,848

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	(1,250,000)	
Unamortized Bond Premium	(17,363)	
Accrued Interest on Long-Term Debt	<u>(15,969)</u>	<u>(1,283,332)</u>

**TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES** \$ 1,986,369

**CITY OF GEM LAKE, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2019**  
**(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED DECEMBER 31, 2018)**

	General Fund	G.O. Capital Improvement Plan Bonds Series 2007A	G.O. Capital Improvement Plan Bonds Series 2018A	Hoffman Road Fund	Schueneman Road Fund	Street Improvements Fund	Parks and Playground Fund	2019 Total Governmental Funds	2018 Totals
<b>REVENUES</b>									
Taxes	\$ 370,729	\$ 73,120	\$ 582	\$ -	\$ -	\$ -	\$ -	\$ 444,431	\$ 465,702
Special Assessments	385	-	71,978	50,999	-	-	-	123,362	93,624
Intergovernmental	16,759	-	-	-	-	-	-	16,759	15,187
Licenses and Permits	96,742	-	-	-	-	-	-	96,742	50,362
Fines and Forfeits	1,769	-	-	-	-	-	-	1,769	1,145
Public Charges for Services	21,817	-	-	-	-	-	-	21,817	48,650
Miscellaneous:									
Earnings (Loss) on Investments	11,698	2,090	(386)	(2,782)	1,012	5,654	809	18,095	2,348
Other	6,737	-	-	-	-	-	-	6,737	21,107
Total Revenues	<u>526,636</u>	<u>75,210</u>	<u>72,174</u>	<u>48,217</u>	<u>1,012</u>	<u>5,654</u>	<u>809</u>	<u>729,712</u>	<u>698,125</u>
<b>EXPENDITURES</b>									
Current:									
General Government	151,038	-	-	-	-	-	-	151,038	148,709
Public Safety	85,725	-	-	-	-	-	-	85,725	80,122
Public Works	54,687	-	-	-	-	-	-	54,687	71,983
Conservation and Development	79,091	-	-	-	-	-	17,720	96,811	139,529
Capital Outlay	5,493	-	-	-	58,890	-	-	64,383	541,567
Debt Service:									
Principal	-	65,000	-	-	-	-	-	65,000	60,000
Interest and Fiscal Charges	-	16,252	25,580	-	-	-	-	41,832	71,987
Total Expenditures	<u>376,034</u>	<u>81,252</u>	<u>25,580</u>	<u>-</u>	<u>58,890</u>	<u>-</u>	<u>17,720</u>	<u>559,476</u>	<u>1,113,897</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	150,602	(6,042)	46,594	48,217	(57,878)	5,654	(16,911)	170,236	(415,772)
<b>OTHER FINANCING SOURCES (USES)</b>									
Transfers In	-	-	-	-	-	20,000	30,250	50,250	81,024
Transfers Out	(50,250)	-	-	-	-	-	-	(50,250)	(81,024)
Issuance of Bonds	-	-	-	-	-	-	-	-	660,000
Bond Premium	-	-	-	-	-	-	-	-	19,227
Total Other Financing Sources (Uses)	<u>(50,250)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,000</u>	<u>30,250</u>	<u>-</u>	<u>660,000</u>
<b>NET CHANGE IN FUND BALANCES</b>	100,352	(6,042)	46,594	48,217	(57,878)	25,654	13,339	170,236	264,085
Fund Balances - Beginning of Year	394,915	130,944	12,631	(280,235)	55,668	216,634	31,978	562,535	298,450
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 495,267</u>	<u>\$ 124,902</u>	<u>\$ 59,225</u>	<u>\$ (232,018)</u>	<u>\$ (2,210)</u>	<u>\$ 242,288</u>	<u>\$ 45,317</u>	<u>\$ 732,771</u>	<u>\$ 562,535</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, 2019**

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** \$ 170,236

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	\$ 66,883	
Depreciation Expense	(74,069)	
Transfer of Capital Asset	<u>(151,229)</u>	(158,415)

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, 2018	991,780	
Unavailable Resources - December 31, 2019	<u>933,848</u>	(57,932)

The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences is as follows:

Repayment of Bond Principal	65,000	
Change in Accrued Interest Payable	1,590	
Amortization of Bond Premium	<u>1,282</u>	<u>67,872</u>

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** \$ 21,761

**CITY OF GEM LAKE, MINNESOTA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2019**

	Sewer Utility	Water Utility	2019 Totals
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 216,986	\$ -	\$ 216,986
Customer Accounts Receivable	18,151	1,080	19,231
Accrued Interest Receivable	209	-	209
Special Assessments Receivable	6,896	-	6,896
Due From Other Funds	245,231	-	245,231
Prepaid Items	2,826	-	2,826
Total Current Assets	490,299	1,080	491,379
Capital Assets:			
Utility Plant in Service	813,678	723,952	1,537,630
Accumulated Depreciation	(191,696)	(34,902)	(226,598)
Net Capital Assets	621,982	689,050	1,311,032
Total Assets	1,112,281	690,130	1,802,411
<b>LIABILITIES</b>			
Accounts Payable	7	-	7
Due to Other Governments	13,483	12,248	25,731
Due to Other Funds	-	11,604	11,604
Total Liabilities	13,490	23,852	37,342
<b>NET POSITION</b>			
Net Investment in Capital Assets	621,982	689,050	1,311,032
Unrestricted	476,809	(22,772)	454,037
Total Net Position	\$ 1,098,791	\$ 666,278	\$ 1,765,069

See accompanying Notes to Basic Financial Statements.

**CITY OF GEM LAKE, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION**  
**PROPRIETARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2019**

	<u>Sewer Utility</u>	<u>Water Utility</u>	<u>2019 Totals</u>
<b>OPERATING REVENUES</b>			
Public Charges for Services	\$ 65,428	\$ 37,538	\$ 102,966
<b>OPERATING EXPENSES</b>			
Operating Expenses	40,451	42,688	83,139
Depreciation	16,065	12,524	28,589
Total Operating Expenses	<u>56,516</u>	<u>55,212</u>	<u>111,728</u>
<b>OPERATING INCOME</b>	8,912	(17,674)	(8,762)
<b>NONOPERATING REVENUES</b>			
Interest Revenue	<u>8,981</u>	<u>(95)</u>	<u>8,886</u>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	17,893	(17,769)	124
<b>CAPITAL CONTRIBUTIONS AND TRANSFERS</b>			
Capital Contributions	<u>20,886</u>	<u>130,343</u>	<u>151,229</u>
<b>CHANGE IN NET POSITION</b>	38,779	112,574	151,353
Net Position - Beginning of Year	<u>1,060,012</u>	<u>553,704</u>	<u>1,613,716</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 1,098,791</u>	<u>\$ 666,278</u>	<u>\$ 1,765,069</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF GEM LAKE, MINNESOTA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED DECEMBER 31, 2019**

	<u>Sewer Utility</u>	<u>Water Utility</u>	<u>2019 Totals</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash Received from Utility Customers	\$ 59,105	\$ 36,458	\$ 95,563
Cash Payments to Suppliers for Goods and Services	(73,749)	(30,535)	(104,284)
Net Cash Provided (Used) by Operating Activities	<u>(14,644)</u>	<u>5,923</u>	<u>(8,721)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Interfund Loans	89,297	(5,830)	83,467
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest on Investments	<u>9,318</u>	<u>(93)</u>	<u>9,225</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	83,971	-	83,971
Cash and Cash Equivalents - Beginning of Year	<u>133,015</u>	<u>-</u>	<u>133,015</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u><u>\$ 216,986</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 216,986</u></u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Operating Income (Loss)	\$ 8,912	\$ (17,674)	\$ (8,762)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation	16,065	12,524	28,589
Changes in Assets and Liabilities:			
Accounts Receivable	(2,744)	(1,080)	(3,824)
Special Assessments Receivable	(3,579)	-	(3,579)
Prepaid Items	(528)	-	(528)
Accounts Payable	(41,283)	(63)	(41,346)
Due to Other Governments	8,513	12,216	20,729
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (14,644)</u></u>	<u><u>\$ 5,923</u></u>	<u><u>\$ (8,721)</u></u>
<b>NONCASH TRANSACTIONS</b>			
Capital Contribution from Governmental Activities	<u><u>\$ 20,886</u></u>	<u><u>\$ 130,343</u></u>	<u><u>\$ 151,229</u></u>

See accompanying Notes to Basic Financial Statements.



**CITY OF GEM LAKE, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

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

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.

**CITY OF GEM LAKE, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

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

**B. Basic Financial Statements (Continued)**

1. Government-Wide Statements (Continued)

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.

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.

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

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

**Schueneman Road Fund** - The Schueneman Road Construction Fund accounts for activity related to the reconstruction activities of Schueneman 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.

**CITY OF GEM LAKE, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

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

**B. Basic Financial Statements (Continued)**

2. Fund Financial Statements (Continued)

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

The City reports the following major proprietary funds:

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

**Water Fund** – The water fund accounts for customer water service charges that are used to finance water 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.

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.

**CITY OF GEM LAKE, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

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

**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.

**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.

**CITY OF GEM LAKE, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

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

**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 2019 totaled \$7,098. Receipt of property taxes from this "fiscal disparities pool" does not increase or decrease total tax revenue.

**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.

**CITY OF GEM LAKE, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

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

**I. Special Assessment Revenue Recognition (Continued)**

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.

**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.

**CITY OF GEM LAKE, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

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

**J. Capital Assets (Continued)**

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 to 10 Years
Utility Systems	Straight-Line	20 to 50 Years
Infrastructure	Straight-Line	20 to 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.

**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.

**CITY OF GEM LAKE, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

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

**L. Net Position/Fund Balance (Continued)**

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.

**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.



**CITY OF GEM LAKE, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 2 DEPOSIT AND INVESTMENT (CONTINUED)**

**A. Deposits (Continued)**

*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, 2019, the bank balance of the City’s deposits was \$632,718; the entire amount of which was insured or collateralized.

**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.

**CITY OF GEM LAKE, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

**NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)**

**B. Investments (Continued)**

- 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.

***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	
Negotiable Certificates of Deposit	\$ 584,252	\$ 175,976	\$ -	\$ 408,276	Not Rated
Money Markets	8,222	8,222	-	-	Aaa/AAA
Total	\$ 592,474	\$ 184,198	\$ -	\$ 408,276	

***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, 2019**

**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:

Goldman Sachs Bank CD	\$ 41,025	6.92 %
Comenity Bank	121,254	20.47
HSBC CD	245,997	41.52
Enerbank CD	175,976	29.70

***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, 2019**

**NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)**

**B. Investments (Continued)**

***Fair Value Measurements (Continued)***

The levels of investments at December 31, 2019 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	\$ -	\$ 584,252	\$ -	\$ 584,252
Investments Measured at Amortized Cost				8,222
Total				<u>\$ 592,474</u>

**NOTE 3 CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
<b>Governmental Activities</b>					
Capital Assets Not Being Depreciated:					
Land	\$ -	\$ 2,500	\$ -	\$ -	\$ 2,500
Construction in Progress	561,531	58,890	-	(620,421)	-
Capital Assets Being Depreciated:					
Buildings	902,232	-	-	-	902,232
Office Equipment	12,895	5,493	(488)	-	17,900
Infrastructure	1,094,536	-	-	469,192	1,563,728
Total Capital Assets Being Depreciated	<u>2,009,663</u>	<u>5,493</u>	<u>(488)</u>	<u>469,192</u>	<u>2,483,860</u>
Total Capital Assets	<u>2,571,194</u>	<u>66,883</u>	<u>(488)</u>	<u>(151,229)</u>	<u>2,486,360</u>
Accumulated Depreciation:					
Buildings	(244,571)	(22,497)	-	-	(267,068)
Office Equipment	(12,785)	(608)	488	-	(12,905)
Infrastructure	(552,341)	(50,964)	-	-	(603,305)
Total Accumulated Depreciation	<u>(809,697)</u>	<u>(74,069)</u>	<u>488</u>	<u>-</u>	<u>(883,278)</u>
Net Capital Assets - Capital Activities	<u>\$ 1,761,497</u>	<u>\$ (7,186)</u>	<u>\$ -</u>	<u>\$ (151,229)</u>	<u>\$ 1,603,082</u>

Depreciation expense was charged to the governmental functions as follows:

General Government	\$ 23,105
Public Works	50,964
Total Depreciation - Governmental Activities	<u>\$ 74,069</u>

**CITY OF GEM LAKE, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 3 CAPITAL ASSETS (CONTINUED)**

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
<b>Business Type Activities</b>					
Capital Assets Being Depreciated:					
Infrastructure	\$ 1,386,401	\$ -	\$ -	\$ 151,229	\$ 1,537,630
Less: Accumulated Depreciation	(198,009)	(28,589)	-	-	(226,598)
Net Capital Assets - Business-Type Activities	<u>\$ 1,188,392</u>	<u>\$ (28,589)</u>	<u>\$ -</u>	<u>\$ 151,229</u>	<u>\$ 1,311,032</u>

Depreciation expense was charged to the proprietary funds as follows:

Water	\$ 16,065
Sewer	<u>12,524</u>
Total Depreciation - Business-Type Activities	<u>\$ 28,589</u>

**NOTE 4 CITY INDEBTEDNESS**

City indebtedness at December 31, 2019 is composed of the following:

	Issue Date	Final Maturity Date	Interest Rate	Original Issue	Balance 12/31/19
<b>Governmental Activities</b>					
General Obligation Bonds:					
2015A Refunding Bonds	06/17/2015	02/01/2028	1.25-2.90%	\$ 775,000	\$ 590,000
2018A Improvement Bonds	07/12/2018	02/01/2034	3.00-4.00%	660,000	660,000
Total General Obligation Bonds				1,435,000	1,250,000
Unamortized Bond Premium				19,227	17,363
Total				<u>\$ 1,472,872</u>	<u>\$ 1,267,363</u>

The following is a schedule of changes in City indebtedness for the year ended December 31, 2019:

	Balance 12/31/18	Additions	Reductions	Balance 12/31/19	Due Within One Year
<b>Long-Term Debt</b>					
<b>Governmental Activities:</b>					
General Obligation Bonds:					
2015A Refunding Bonds	\$ 655,000	\$ -	\$ 65,000	\$ 590,000	\$ 60,000
2018A Improvement Bonds	660,000	-	-	660,000	30,000
Unamortized Bond Premium	18,645	-	1,282	17,363	-
Total Long-Term Debt	<u>\$ 1,333,645</u>	<u>\$ -</u>	<u>\$ 66,282</u>	<u>\$ 1,267,363</u>	<u>\$ 90,000</u>

All long-term bonded indebtedness outstanding at December 31, 2019 is backed by the full faith and credit of the City, including special assessment bond issues.

**CITY OF GEM LAKE, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

**NOTE 4 CITY INDEBTEDNESS (CONTINUED)**

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>
2020	\$ 90,000	36,165	\$ 126,165
2021	95,000	34,065	129,065
2022	105,000	31,659	136,659
2023	105,000	29,029	134,029
2024	105,000	26,301	131,301
2025-2029	490,000	86,424	576,424
2030-2034	260,000	26,600	286,600
Total	<u>\$ 1,250,000</u>	<u>\$ 270,243</u>	<u>\$ 1,520,243</u>

**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 the escrow is responsible for the remaining principal and interest payments of the 2007A bond, resulting in a defeasance of the bond.

General Obligation Improvement Bonds – In 2018, the City issued General Obligation Improvement Bonds for improvements and projects which benefitted the entire city.

**NOTE 5 STEWARDSHIP COMPLIANCE AND ACCOUNTABILITY**

**Deficit Fund Balances**

The City has deficit fund balances at December 31, 2019 as follows:

	Fund Balance
	<u>Deficit</u>
Hoffman Road Fund	\$ (232,018)
Scheuneman Road Fund	(2,210)

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

**CITY OF GEM LAKE, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

**NOTE 6 INTERFUND BALANCES AND ACTIVITIES**

**Due To/From Other Funds**

Individual fund receivable and payable balances at December 31, 2019 are as follows:

	Interfund Receivable	Interfund Payable
Governmental Activity:		
General Fund	\$ 2,647	\$ -
Capital Projects Fund - Scheuneman Road	-	2,647
Hoffman Road Fund	-	233,627
Business-Type Activity:		
Sewer Fund	245,231	-
Water Fund	-	11,604
Total	\$ 247,878	\$ 247,878

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

**Interfund Transfers**

Individual fund transfers at December 31, 2019 are as follows:

	Transfer In	Transfer Out
Governmental Activity:		
General Fund	\$ -	\$ 50,250
Street Improvement Fund	20,000	-
Parks and Playgrounds Fund	30,250	-
	\$ 50,250	\$ 50,250

During 2019, the City made routine interfund transfers for various reasons including to fund negative fund balances as well as provide additional funds for completing upcoming capital projects.

**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.

**CITY OF GEM LAKE, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**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, 2019 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 received from special assessments and are assigned for capital improvements 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, 2019**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 385,088	\$ 385,088	\$ 370,729	\$ (14,359)
Special Assessments	-	-	385	385
Intergovernmental	29,135	29,135	16,759	(12,376)
Licenses and Permits	36,050	36,050	96,742	60,692
Fines and Forfeits	2,000	2,000	1,769	(231)
Public Charges for Services	5,700	5,700	21,817	16,117
Miscellaneous:				
Interest	2,000	2,000	11,698	9,698
Other	4,900	4,900	6,737	1,837
Total Revenues	<u>464,873</u>	<u>464,873</u>	<u>526,636</u>	<u>61,763</u>
<b>EXPENDITURES</b>				
General Government	176,304	176,304	151,038	25,266
Public Safety	95,825	95,825	85,725	10,100
Public Works	77,769	77,769	54,687	23,082
Conservation and Development	64,725	64,725	79,091	(14,366)
Capital Outlay	-	-	5,493	(5,493)
Total Expenditures	<u>414,623</u>	<u>414,623</u>	<u>376,034</u>	<u>38,589</u>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</b>	50,250	50,250	150,602	100,352
<b>OTHER FINANCING USES</b>				
Transfers Out	-	(50,250)	(50,250)	-
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 50,250</u>	<u>\$ -</u>	100,352	<u>\$ 100,352</u>
Fund Balance - Beginning of Year			<u>394,915</u>	
<b>FUND BALANCE - END OF YEAR</b>			<u>\$ 495,267</u>	

See accompanying Note to Required Supplementary information.

**CITY OF GEM LAKE, MINNESOTA  
 NOTE TO REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED DECEMBER 31, 2019**

**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. The legal level of budgetary control is at the department level. The following is a listing of expenditures that exceeded budgeted appropriates.

	<u>Final Budget</u>	<u>Actual</u>	<u>Excess</u>
General Fund:			
Conservation and Development	\$ 64,725	\$ 79,091	\$ (14,366)
Capital Outlay	-	5,493	(5,493)

**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 and each major fund of the City of Gem Lake, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City of Gem Lake's basic financial statements, and have issued our report thereon dated August 28, 2020.

***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 2019-001, 2019-002, and 2019-003, 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  
August 28, 2020



CliftonLarsonAllen LLP  
CLAconnect.com

## 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, and each major fund of the City of Gem Lake, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 28, 2020.

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 2019-004. 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, insofar as they relate to accounting matters.

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  
August 28, 2020

**CITY OF GEM LAKE, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2019**

**MATERIAL WEAKNESS**

**2019-001: 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. During our audit procedures, we noted a lack of segregation of duties with regards to adjusting journal entry approval, counting of cash receipts, second review of capitalized assets, review of debt balances and reconciliations, and reviews of cash and investment reconciliations.

**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, 2019**

**MATERIAL WEAKNESS (CONTINUED)**

**2019-002: 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. It was also noted that because of this, the 4<sup>th</sup> Quarter Utility billing was not booked in the current year activity.

**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, 2019**

**MATERIAL WEAKNESS (CONTINUED)**

**2019-003: Material Audit Adjustments**

**Condition:** During our audit procedures, we identified several material audit adjustments that needed to be posted to the City's general ledger in order to arrive at the correct year-end balances. These include adjustments to beginning fund balances, accounts receivable, special assessment receivables and revenues, and deferred inflows of resources.

**Criteria:** Management is responsible for having adequate controls and processes in place to ensure that all year-end balances are reconciled, accurate, and free from material misstatements.

**Effect:** The likelihood of a material misstatement in the year-end financial statements increases when the City does not have procedures in place to identify errors in final general ledger balances.

**Cause:** The City does not have the appropriate procedures and/or personnel in place to properly reconcile year-end balances.

**Recommendation:** We recommend City management work with the finance personnel to ensure there are appropriate procedures in place to reconcile and review all year-end balances to ensure they are free from material misstatements.

**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, 2019**

**OTHER ITEM FOR CONSIDERATION – MINNESOTA LEGAL COMPLIANCE**

**2019-004 Claims and Disbursements – Delegation of EFT Authority**

**Criteria:** *Minnesota Statute* §471.38, Subd. 3 and 3a, requires the City to enact a plan containing policy controls for delegating authority to make an ETF and getting documentation of the electronic transactions.

**Condition:** It was noted that the City has not enacted a plan for delegating authority and implementing controls over electronic funds transfers.

**Effect:** The City is not in compliance with the *Minnesota Statute* requiring the requirement to enact a plan for controls over the electronic funds process.

**Cause:** The City was not aware of the specific requirements of the statute.

**Recommendation:** We recommend the City to develop procedures and controls over EFTs and also add the annual delegation of authority to its list of items that are formally approved each year.

**Management Response:**

The City will work to develop these procedures and ensure this annual delegation of authority is done moving forward.